



Empowered lives.
Resilient nations.



Malaysia Human Development Report 2013

Redesigning an Inclusive Future



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*Empowered lives.
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Foreword

Since the introduction of the New Economic Policy in 1970, Malaysia has been a global leader in recognising the need for inclusivity in economic and social policy, as well as in the implementation of policies to achieve greater horizontal (or group) equality. The NEP had twin objectives:

- “to reduce and eventually eradicate poverty”; and
- “to accelerate the process of restructuring Malaysian society to correct economic imbalance so as to reduce and eventually eliminate the identification of race with economic function” (Second Malaysian Plan 1971-1975).

In both objectives, Malaysia has been outstandingly successful. Absolute poverty has been reduced radically to less than five per cent, while inequality between the three major ethnic groups has been greatly reduced and different types of jobs are much more evenly spread

across them. These achievements have been accompanied by a high growth rate over many decades, despite some blips associated with international financial fluctuations. This performance deserves recognition and respect; Malaysia’s success on the three fronts – growth, poverty reduction and improvements in horizontal equality – over a prolonged period is one of the best in the world.

Yet success ushers in new problems, as this report documents. New inequalities have emerged, including regional inequalities and experiences of marginalization amongst some segments of minority groups, while old inequalities, though substantially ameliorated, persist—women, for example, continue to experience disadvantages in many aspects of their lives. Policies intended to reduce group inequalities have generated increasing resentment among some groups and, in some cases, have widened differentials within groups. Relative poverty, meanwhile, continues to be a problem. Moreover, the current global





environment of slow world growth, as well as the enhanced development of countries that compete with Malaysia in world markets, is making it increasingly difficult to sustain growth.

Inclusive growth – growth that benefits poorer people more than proportionately – must remain the overriding objective of policy. To achieve this, new policies may be needed, many of which are documented in this Human Development Report. Decentralised growth may achieve better regional balance. Higher minimum wages would contribute to poverty reduction and an enhanced share of wages in national income. Tax reform also has a role to play, including towards the taxation of multinational companies' profits. Education is key to both growth and distribution; increased quality and extended access, with particular attention to the education of relatively deprived groups, would help increase social mobility and reduce inequality while increasing the country's competitiveness

in high productivity activities. The law too has a major role to play in reducing discrimination. And further promotion of policies to promote national cohesion is needed.

Malaysia is a complex multiethnic and multi-religious society. Its ability to avoid violent political conflict in contrast to many of its neighbours has stood out even amidst its formidable social and economic achievements. Success in inclusive growth provided the foundation of this vital political success. For this reason – as well as the imperative of seeking a just society – it is essential that Malaysia continues to prioritise inclusive growth and social cohesion, and moves forward with the second generation policies that are needed to support this.

Frances Stewart
Professor Emeritus of Development
Economics, University of Oxford.

Preface

The national development vision as outlined in the Second Malaysia Plan (1971-1975) was an ambitious and noteworthy economic growth agenda commendable for its foresight, equity and inclusiveness. The Plan outlined bold steps towards the creation of a dynamic and just society amidst socioeconomic challenges faced by this relatively new independent nation. The Plan acknowledged the various socioeconomic inequalities and disparities which could potentially impede national progress, and underlined the importance of social integration as well as equitable distribution of income and opportunities for national unity and progress.

The New Economic Policy (NEP) outlined in the Plan incorporated a two-pronged approach: first, “to reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians irrespective of race”; and second to “accelerate the process of restructuring Malaysian society to correct economic imbalance so as to reduce and eventually eliminate the identification of race with economic function.”

Malaysia’s implementation of the NEP between 1971 and 1990 through national programmes of growth with redistribution and the subsequent National Development Policy (1991-2000) and National Vision Policy (2001-2010) has resulted in remarkable strides in eradicating poverty and reducing inequalities in the country. However, pockets of poverty, urban vulnerable groups, gender inequalities, spatial disparities and coordination of government programmes at the local levels are among some of the remaining challenges that continue to require

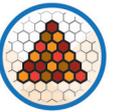
attention in walking the last mile of equitable and inclusive growth in the country.

Faced with these challenges, the Malaysian government continued to embrace the inclusiveness agenda in its New Economic Model (2010-2020), which outlines a triangular platform consisting of high income, sustainability and inclusiveness. The Tenth Malaysia Plan (2011-2015) also places a strong focus on broadening the ability of Malaysians to participate in and benefit from economic development.

As Malaysia moves forward into the 11th Malaysia Plan (2016-2020) and towards attaining Vision 2020, it is an opportune time for all Malaysians to acknowledge, review and discuss the excellent progress made thus far and deliberate on the remaining challenges, as well as new issues and trends which have emerged as Malaysia walks its last mile to developed nation status in 2020.

In line with facilitating a national dialogue on the inclusive growth approach in Malaysia over the span of four decades, the United Nations Development Programme (UNDP) in Malaysia has commissioned this independent and nationally-owned report titled the *Malaysia Human Development Report – Redesigning an Inclusive Future* (MHDR).

This *Report* provides an independent assessment of Malaysia’s growth and development policy choices and implementation in its quest to achieve developed country status by 2020. The *Report* is framed by a paradigm that integrates inclusive growth as a core element of its analysis and policy



Acknowledgements

This *Report* is the product of a collaborative effort not only amongst the authors but also of academics, civil society activists and others who participated in three consultation seminars. A Special Seminar in August 2012, followed by a Work-in-Progress Seminar in March 2013 provided inputs to the Inception Report and early drafts of this project, guiding the background paper writers in exploring, evaluating and envisioning Inclusive Growth, the theme of this first Human Development Report for Malaysia. A Public Consultation Seminar in July 2013 helped us in getting feedback on the first full draft of the *Report*. To all these contributors, we owe a debt of gratitude.

We also owe an incalculable intellectual debt to scholars and researchers who have written and provided ideas and examples for us to build on regarding the theme of Inclusive Growth, as evidenced by the long list of citations we referred to, that have enabled us to incorporate several innovative models and analytical approaches to this Malaysian Study.

To this end, we have been provided with the largest set of unprocessed data as well as unpublished statistics from government agencies and institutions, in particular the Malaysian Statistics Department, that had not been accessible

to non-official entities before. This had enabled us to analyse the development experience of this country over the last 40 years since the implementation of the New Economic Policy in 1971 on a deeper level. In the process we hope to have been able to set the record straight and to separate myth from the reality regarding the impact of the policy. We would like to record our sincere thanks to all the government officials who had extended the team so much cooperation and assistance with regards to the data.

We would also like to record our thanks to the sponsors of this project, the Economic Planning Unit and the United Nations Development Programme, for the commitment and cooperation extended to us to successfully complete the *Report*. We are particularly grateful for the degree of independence given to the team in conducting its work, independence not normally accorded to such officially-sponsored research.

Last but not least, we the authors express our appreciation and thanks for the excellent work of our research support team, independent editors and the peer reviewers who have contributed to make this *Report* better. Any errors and weaknesses in this *Report* that remain are very much our responsibility.



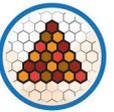
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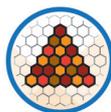


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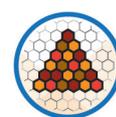
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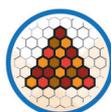
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List of Abbreviations

ADB	Asian Development Bank	MDG	Millennium Development Goal
AIM	Amanah Ikhtiar Malaysia	MHDR	Malaysia Human Development Report
APR	Annual Progress Report	MOE	Ministry of Education
ASB	Amanah Saham Bumiputera	MOF	Ministry of Finance
ASNB	Amanah Saham Nasional Berhad	MOHE	Ministry of Higher Education
BNM	Bank Negara Malaysia	MOHR	Ministry of Human Resource
CSO	Civil Society Organisation	MPGN	National Wages Consultation Council
DOS	Department of Statistics	MPI	Multidimensional Poverty Index
EPF	Employees Provident Fund	NDP	National Development Policy
EPU	Economic Planning Unit	NEM	New Economic Model
ETP	Economic Transformation Programme	NEP	New Economic Policy
FDI	Foreign Direct Investment	NKEAs	National Key Economic Areas
GDP	Gross Domestic Product	NKRAs	National Key Result Areas
GNI	Gross National Income	NVP	National Vision Policy
HDI	Human Development Index	OECD	Organization for Economic Co-operation and Development
HDR	Human Development Report	PEMANDU	Performance Management and Delivery Unit
HIS	Household Income Survey	PLI	Poverty Line Income
ICU	Implementation and Coordination Unit	PNB	Permodalan Nasional Berhad
IDB	Islamic Development Bank	PNS	Perbadanan Nasional Berhad
IG	Inclusive Growth	PTPTN	Perbadanan Tabung Pendidikan Tinggi Nasional
ILO	International Labour Organization	SPM	Malaysian Certificate of Education
IMF	International Monetary Fund	UN	United Nations
JHEOA	Jabatan Hal Ehwal Orang Asli	UNDESA	United Nations Department of Economics and Social Affairs
JPA	Jabatan Perkhidmatan Awam	UNCTAD	United Nations Conference on Trade and Development
KPI	Key Performance Indicator	WB	World Bank
KWAPM	Kumpulan Wang Amanah Pelajar Miskin		
LFS	Labour Force Survey		
LTH	Lembaga Tabung Haji		
MARA	Majlis Amanah Rakyat Malaysia		

Executive summary

Introduction

1. For decades, Malaysia generated economic growth, transformed its profile from a primary goods producer to a manufacturing exporter, reduced income poverty and inequality, raised education and health attainments, and moderated ethnic disparities. Growth has been sustained and shared through consecutive implementation of the three core development policies which began with the New Economic Policy (NEP), followed by the National Development Policy (NDP) and National Vision Policy (NVP). However, socioeconomic progress has slowed down since the 1997 Asian financial crisis. Notably, contemporary Malaysia sees persisting inequalities, especially of regional, gender and ethnic dimensions, and lagging development of human capability, of institutions fostering inclusiveness and of effective governance. Social exclusion, barriers to social mobility and economic insecurity stand in tension against the objective of greater inclusiveness woven through all development visions and plans.

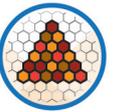
2. The international context lends further perspective to the slowdown in the country's progress. Malaysia's Human Development Index (HDI) score has continuously climbed, but has slowed since the 1990s, somewhat stalling the catch-up process in terms of broader socioeconomic development. The nation is expanding the capabilities of its people on the whole, as reflected in the average income, education and health outcomes that constitute the HDI. However, Malaysia has yet to break through to the upper strata of countries

with very high human development levels, low income inequality, social inclusiveness and equitable opportunities and outcomes.

Inclusive growth in Malaysia

3. This document – Malaysia's first Human Development Report – elects Inclusive Growth as its theme. We define inclusive growth as comprising equitable distribution of benefits of economic growth and of social spending across distinct income groups and the poor irrespective of their group membership; robust generation of broadly accessible opportunity for economic participation and safeguards for the vulnerable; and inclusion of citizens in policy formulation and implementation, towards minimising social exclusion and increasing social cohesion. In accordance with the breadth of inclusive growth, we adopt a multidisciplinary and multidimensional approach encompassing economic, social, political and legal elements, highlighting regional, gender, ethnic and aspects of relative deprivation.

4. Malaysia's growth from 1971 to 2012 meets the inclusive criteria outlined above to a considerable degree, although the inclusiveness of policy formulation may be open to question. The evidence includes reduction in poverty rates, high growth rates for low-income households, reduced inequality on a national scale and between regions, diminished interethnic and intraethnic disparities, robust and resilient growth driven by private investments, and lessened unemployment across all ethnicities.



productivity, international trade, foreign capital and government expenditure, coupled with prudent management of the external debt position, have cumulatively supported Malaysia's economic performance through this period. However, a growth diagnostic analysis of the Malaysian economic profile confirms that low-productivity labour and total factor productivity are the crucial binding constraints to sustainable economic growth.

11. But overcoming these constraints only goes part of the way to fostering inclusive growth for Malaysia. In fact, to understand this we have to go beyond growth performance to cover the role of institutions, in particular shortcomings in coordination and dynamism in both the public and private sectors. The roles of small and medium enterprises (SMEs) and the informal economy are critical to inclusive growth in Malaysia.

A New Economic Paradigm: decomposing household purchasing power

12. This *Report* also detects economic vulnerabilities of the average Malaysian. Our decomposition of a purchasing power model shows that most of the lower income households' purchasing power is attributable to disposable income from wages and self-employment incomes, with almost minimal contribution from wealth income or income transfer. The pattern is similar when broken down by ethnicity and strata. It is also revealing that the lower income groups undertake debt for

consumption purposes, and middle and higher income groups use debt as asset generating instruments, with the bulk of credit generated by the financial system accruing to the middle and higher income groups.

13. There are several policy options available to reduce inequality. The *Report* has undertaken several simulations in response to policy interventions, and has found that imposition of a minimum wage potentially improves inequality, based on the changes in the Gini coefficient, by about seven per cent, while compulsory secondary education stands to reduce inequality by up to four per cent. Government transfers, depending on the amount, tend to have marginal effect on overall inequality.

14. Rationalisation of subsidies have impacts at several levels. When shifting to an equity-based scheme in place of the current consumption-based system, our policy simulations show that equity-based subsidy targeting have implications not just on income distribution but also on the cost to government and therefore savings in government expenditure.

Relative poverty and multidimensional deprivation

15. This *Report* explores perspectives beyond income-centric and absolute income thresholds of poverty. In line with growing international norms and conventions, we acknowledge the relevance and usefulness of shifting thinking and measurement from absolute income poverty and a predetermined poverty line to relative deprivation and poverty lines referenced to the median.





We find that setting the relative income poverty line as a proportion – such as 0.50 – of median income provides a simple and effective way to capture inclusiveness, with lower poverty rates corresponding with increasing density of households near the median. We further incorporate the multiple dimensions of household deprivation in addition to income, including living conditions and access to social services, in mapping exercises that visualise relative deprivation and account for differences between Sabah, Sarawak and Peninsular Malaysia.

16. Among our key findings, we observe that the head of household's education, gender and ethnicity correspond with household income. Relative household income deprivation is more acute among households headed by persons with less formal education, especially if attaining primary schooling or less, underscoring the importance of education to inclusive growth. Women-headed households and Bumiputera minorities of Sabah and Sarawak, as well as the Orang Asli of Peninsular Malaysia, are also more heavily concentrated in lower strata, indicating lack of inclusion of these distinct groups in reaping gains of growth and development.

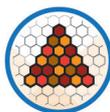
17. Consideration of human capability draws out some insight into the state of inclusive growth. Development attainments across our range of indicators show East Malaysia trailing the Peninsular. Crucially, Sarawak lags behind the Peninsular by much greater margins than suggested by the state's rather low official poverty rate. We also observe that rural areas of Sabah and Sarawak are, in capability terms, even further behind rural Peninsular Malaysia, compared to the corresponding urban-to-urban disparities.

Educational inequality continues to be salient, not just in terms of access and enrolment but also quality of schooling. Our findings raise important implications for policies to uplift capacities, improve outcomes, and provide social protection for the relatively deprived and vulnerable.

Decentralised growth and sustainability

18. Malaysia, being a federation of states, has until recently been ruled from the centre in pursuit of growth and development. The nation went through typical stages physically and socially such as industrialisation, urbanisation, education development and middle class formation. It is suggested that a new inclusive development strategy is introduced by adopting a bottom-up approach of decentralised growth. This would create urban agglomerations by concentrating activities to produce the necessary economic density for rapid and inclusive growth. It was found that per capita GDP growth is accompanied by increased urbanisation, but it would also lead to the spread of economic activities to rural areas. It is interesting to note that a decentralised growth strategy has never been fully tested in this country.

19. Besides addressing environmental sustainability, including the utilisation of natural resources, the chapter seeks fiscal sustainability at the federal level and improvements in the fiscal capacity of states to achieve decentralised and inclusive development in Malaysia.



of accessibility and need for both the reorientation and improvement in the quality of education. Disparity in attainment remains exceedingly high. In the PISA 2012 creative problem solving test, in which Malaysia ranked 39th out of 44 participating countries, with 50.5% considered low achievers (scoring below level 2 out of a maximum 6). Rural minorities, especially Orang Asli and Sabah and Sarawak Bumiputeras, are presumably among the most acutely lagging. While schooling enrolment and completion rates remain priorities, deficiencies in quality of schooling demand robust action, especially for communities that may become further marginalized if unable to actively participate in Malaysia's quest to become an advanced economy and society (OECD 2014).

25. This study highlights that one of the implications of the continued poverty among ethnic minorities is the high incidence of "statelessness", particularly those living in the interior of Sabah, Sarawak and Peninsular Malaysia. With all these impediments, ethnic minorities are thus said to be lagging far behind the Malays, Indians and Chinese in enjoying the fruits of Independence.

Institutional issues

26. There are institutional issues underlying and influencing the issue of inclusive growth. On fiscal federalism, this study affirms that the absence of decentralised public fiscal allocation has become a point of contention. With excessive centralisation, especially on public fiscal allocation, local aspirations are much more difficult to achieve, giving rise to a "one-size-fits-all" prescription from the centre (federal).

27. This study argues that the implementation of the Government Transformation Programme (GTP) may help the country improve its level of competitiveness and delivery of public services. However, a delivery system for public services will only be effective machinery if it is built upon a good procurement policy, accountability and transparency that can minimise wastage and leakages in public expenditures.

28. The *Report* emphasises that the current mechanism for redistributing income is weak and subject to leakages and wastage, while the contribution of the private sector to private delivery of public goods are imperative and can play a key role in mitigating the social costs that can arise from private development.

29. Finally, the study informs that the rising number of civil society organisations (CSO) over the past two decades and their active role in the decision-making process has accumulatively allowed the marginalised and the less fortunate to actively participate in the socioeconomic development of the country. In this regard, the government has also played its role in providing better access and facilities to less fortunate parts of society, particularly the disabled, as to enable this group to be independent, productive and valued contributors.

30. We assert that these institutional issues need to be addressed in the institutional reform process—mainly to support improvement in income distribution, raise the share of wages in relation to profits in national value-added income as well as to provide social safety nets for the poor and marginalised groups in Malaysia.

Implications of the legal framework

31. Our inclusiveness framework also discusses a number of constitutional and legal issues either directly or indirectly that influence inclusivity. These include Article 153 of the Constitution, and legal protection of women, children, indigenous people, workers and disabled peoples' rights. Overall, Malaysia has significant laws to promote and regulate rights and issues related to the less fortunate and vulnerable people including women, indigenous people, workers as well as the disabled people. There have been several cases testing the application of these laws and their assurance of equality in various issues.

32. However, there are serious limitations that needs to be carefully assessed and improved over time. A cautionary approach should be taken when using Article 153 to establish affirmative action policies and laws. The provision and protection of women's equal treatment also requires firm and sustained judicial support. In addition, there is a need for the legislative affirmation of the child's right to education regardless of the status of their nationality.

33. The rights of indigenous peoples as espoused by the United Nations Declaration on the Rights of Indigenous Peoples 2007 (UNDRIP) is not given the weight of law either legislatively or judicially, especially in the area of native land rights. This needs particular attention in Sabah and Sarawak, along with Malay reserve land issues in the Peninsular.

34. On workers' rights, this study emphasises that the power of workers to defend their rights and to improve their lot is curtailed to the point of uselessness. On

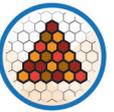
the rights of the disabled, where Malaysia is party to Convention on the Rights of Persons with Disabilities 2007 (CRPD) and via the Persons with Disabilities Act 2008 (PWDA), there are a number of issues that need to be carefully assessed. Specific provisions for affirmative action such as quotas should be weighed as options in areas such as education and employment as to ensure equitable access for this particular group of society.

35. As to the rights of children, the *Report* recommends that a National Plan Against Child Poverty should be prepared, coordinating efforts and initiatives between government and non-government bodies under a common set of targets; a multi-sectoral approach, consistent with the multidimensional character of child poverty and deprivation, should be promoted, addressing not only household income but child wellbeing.

36. This study emphasises that the concept of equality has moved beyond mere "formal equality" into "substantive equality" where equality has to be contextualised, drawing upon values such as human dignity, distributive justice and equal participation.

Institutional and policy reforms

37. There are several policy reforms recommended in this *Report* to address and strengthen the strategy of inclusive growth and promote inclusive development in Malaysia. The statistical findings and arguments raised in the various chapters in this *Report* point to the urgent need to strengthen as well as introduce new concepts of growth and development, and to place multidimensional perspectives





and objectives at the forefront of policy, in order to achieve the goals of inclusive growth and thus attain better quality of life for all Malaysians. Malaysia is a complex country to govern and manage politically, economically and socially, but with balanced development and pragmatic policies it has been able to make considerable advances towards inclusive development in terms of a fairer share in the benefits of economic performance.

38. The first focus of policy towards achieving the goals of inclusive growth is economic growth itself. Malaysia needs to recover its potential GDP growth rate which was achieved during the era of high-speed growth in the late and early 1990s in order to strengthen the basis for the redistributive policies it has adopted since implementation of the NEP. Two classes of crucial reforms for inclusive growth are required in the area of fiscal and tax policy. First is the needed adjustments to the tax revenue base and a fairer sharing of the tax burden, and second is the rationalisation of tax expenditures including government transfers and the subsidy structure.

39. Several areas in labour market reforms are called into question, arising from the data and arguments presented in this *Report*. One important issue is equality of opportunity and fairness of employment practices in the labour market. In view of proven discriminations and, as asserted by the World Bank, rigidities in the structure of the labour market, it is time to introduce legislation that promotes equal opportunity and fair employment practices. Likewise, it is appropriate that the country adopt a reasonable minimum wage policy to ensure fair compensation relative to

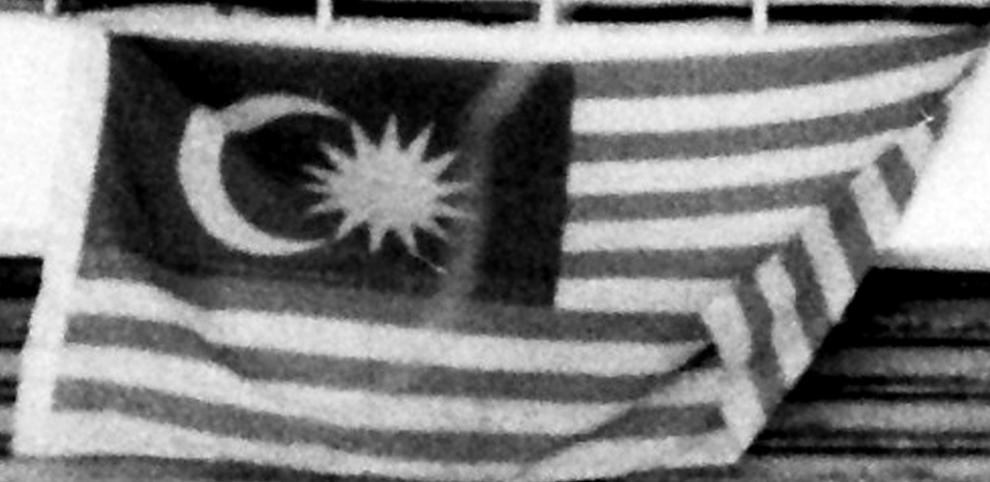
living costs, even if it is not automatically indexed to the inflation rate but instead adjusted periodically over time; this should be implemented if the goal of inclusive growth is to be achieved.

40. There is an urgent need for social policy reform: social safety net provisions should be broadened and strengthened to ensure the economic security of vulnerable groups at the margins of society, including unemployment insurance. The creation of a Social Inclusion Commission to facilitate the conducting of research and the drafting of policies to reduce marginalisation and encourage inclusivity may be an idea worth exploring.

41. Educational provisions to improve access to quality education, qualifications of teachers and extended school facilities in rural areas as well as for the urban poor in low-cost housing estates, and in Sabah and Sarawak, should be the focus of educational policy reform to achieve inclusive growth that will have far-reaching consequences for the welfare of the poor and their improved life chances.

42. Another important dimension of social policy is access to affordable housing, not just for the poor who are provided for through public and low-cost housing programmes, but even more so for the middle class who have to go through the housing market.

43. Finally, in order to achieve the goals of inclusive growth and development in Malaysia, courageous leadership and strong political will are important prerequisites to undertaking institutional reforms relating to the media, freedom of information, the judicial system and the institutions of integrity.



Chapter 1

Inclusive Growth: Meaning, Importance and Timeliness



Chapter 1

Inclusive Growth: Meaning, Importance and Timeliness

1.1 Global setting and the Malaysian context

Malaysia's remarkable achievements in economic growth, poverty reduction and moderation of ethnic disparities, and its transformation from a primary commodities producer to a major world manufacturing exporter have put this small country on the world map. Its performance from 1971, under the NEP, until the 1997-98 Asian financial crises in particular shone the global spotlight on its national programme of growth with redistribution, or growth with equity, as well as its more contentious programmes, including privatisation. The post-Asian crisis era has seen steady but less spectacular growth, increasing concerns regarding the challenge of breaking out of the so-called "middle income trap" (Aiyar et al., 2013). While some inequalities between groups and regions continue to be bridged, disparities continue to persist, and questions remain over continuing forms of social exclusion, economic insecurity and barriers to social mobility.

Patterns and trends in inequality around the world also underscore the importance of inclusive growth and having policy options to achieve them. Recent data show contrasting trends across countries and regions and point out the importance of looking at income disparities between the uppermost extremities and the rest. The 1980s and 1990s were largely characterised by rising inequality in most countries in the world and in the majority of countries in all regions (UNCTAD, 1997). However, the approximately post-2000 period has witnessed a variety of experiences, with

inequality rising in major economies such as the United States and China, and declining in considerable portions of Africa and Latin America (UNCTAD, 2012). Furthermore, robust growth has been sustained in many countries that narrowed inequality, raising important policy implications for complementarities of inclusiveness and productivity in the contemporary world, which is seeing new disputes in the configuration of state and market, and in the dual pursuit of equity and efficiency.

The Malaysian federal government has gone to significant lengths in embracing the inclusiveness agenda. The New Economic Model (NEM) outlined a triangular platform consisting of high income, sustainability and inclusiveness, in order to launch subsequent phases of transformation. Inclusiveness is simply defined as "enabling all communities to fully benefit from the wealth of the country", which translates into growth that is "pro-poor" and "concerned not only with the level but also the effect of persistent inequality on economic growth and poverty alleviation" (NEAC, 2010, p.89-90). The Tenth Malaysia Plan (2011-2015) stipulated 10 major items on its agenda, two of which correspond with inclusive growth: equality of opportunity and safeguarding of the vulnerable, and inclusive development alongside concentration on urban growth poles and high density clusters (Malaysia, 2010).

The issues of inequality and inclusion have also been taken up recently by various scholars and organisations. Faaland, Parkinson and Saniman (1990) provide an overview of Malaysia's successes in growth and redistribution, specifically over the NEP's 1971-1990





timeline. More recently, the World Bank's (2010) *Malaysian Monitor: Inclusive Growth* broadly outlined the theme, making three principal proposals: 1) Increasing economy-wide income-earning opportunities; 2) Promoting investment in human capital and 3) Providing social protection for the poor and vulnerable. *Affirmative Action, Ethnic Inequalities and Social Justice*, a volume on the NEP, broadly argues that Malaysia's pursuit of reducing horizontal inequalities, predominantly between ethnic groups, has come at significant expense of national integration and economic efficiency (Gomez and Saravanamuttu, 2012).

Khoo Khay Jin's (2012) chapter in *Policy Regimes and the Political Economy of Poverty Reduction in Malaysia* highlights regional and spatial unevenness beneath the remarkable reduction in the national poverty rate. He presents income disparity ratios suggesting that the problem of inter-ethnic disparities is "principally an issue of urban-rural differentials and secondarily of inter-ethnic urban differentials", and questions whether social policy should remain focused on inter-ethnic inequalities or shift to the broader

Inclusiveness remains lacking in Malaysian society, economy and polity.

"social inequality, while still addressing ethnic parity where it remains urgent, such as with the 'other Bumiputera'" (Khoo 2012, p.84 & 93). Ragayah (2012) points out the hazards of unequal income distribution on social cohesion, and the possibility that structural inequalities may entrench unequal opportunity across generations, making reference to widening inequality since 1990—although

official household income statistics do not clearly bear this out.

These assessments and recommendations, while varying in approach and conclusion, share a common perspective: inclusiveness remains lacking in Malaysian society, economy and polity. Much progress has been made in narrowing income gaps between groups, yet overall household income inequality remains high, and segments of society may be excluded from actively participating and receiving an equitable share of benefits. International evidence suggests that the country's socioeconomic development and capability expansion relative to other countries has remained static for almost two decades, and the momentum of progress has waned. Malaysia's Human Development Index (HDI) score has increased, but at a slower pace in the 2000s than in preceding decades (Figure 1.1). Performance has also plateaued, compared to both developmentally similar and more advanced countries. As noted in Figure 1.1, Malaysia's HDI registered flatter growth in the past decade, relative to the average HDI of countries classified as attaining high human development as well as those of very high human development. Based on consistent time series data, average annual HDI growth slowed down from 1.21% in 1980-1990 to 1.15% in 1990-2000 and subsequently to 0.64% in 2000-2012. Lack of progress in HDI, and thus equality, is hazardous, as a study has shown that a lack of progress in human development will have a negative impact on economic growth and development (Boozer, Ranis, Stewart and Suri, 2003)¹. The link between inclusiveness and economic growth will be discussed in more detail in Chapter 2.

¹Boozer, Ranis, Stewart and Suri, 2003. "Paths to Success: The Relationship Between Human Development and Economic Growth", Working Paper 874. Economic Growth Center, Yale University.



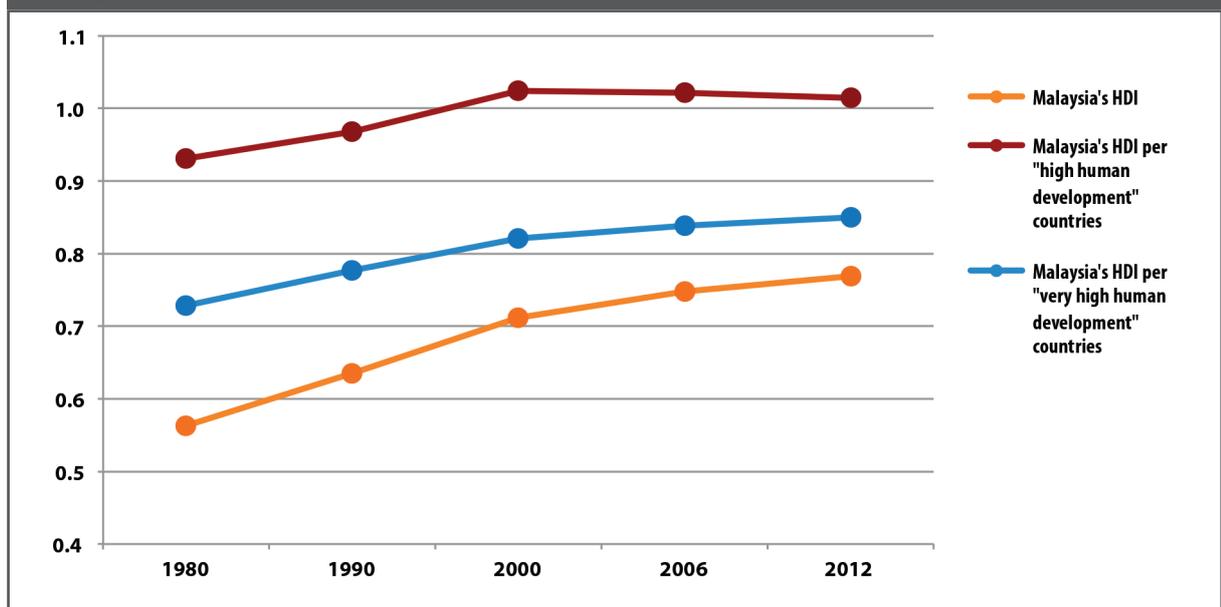
Inclusive growth resonates with particular relevance and timeliness, and constitutes the theme for this inaugural *Malaysia Human Development Report* (MHDR). We conceptualise the term more broadly and systematically than in existing national discourses, and surveying global and local literature and considering country contexts has led us to define inclusive growth as comprising:

1. Equitable distribution of benefits of economic growth and of social spending across distinct groups and to the poor irrespective of their group membership;
2. Robust generation of broadly accessible opportunities for economic participation and safeguards for the vulnerable; and
3. Inclusion of the people in policy formulation and implementation.

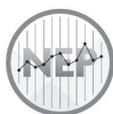
This *Report* expounds on the current states and future possibilities of inclusive growth for Malaysia, in line with the above definition. We evaluate Malaysia's track record, with particular attention paid to aspects of development previously overlooked or underemphasised. We formulate a new perspective – the New Economic Paradigm – as a template for future policy that goes beyond existing frameworks in integrating inclusive growth as a core element. Looking forward, we then consider constraints on the prospects for change, and factors that will make our recommendations feasible and effective.

We formulate the New Economic Paradigm as a template for future policy that goes beyond existing frameworks in integrating inclusive growth as a core element.

Figure 1.1: Malaysia's Human Development Index: score and relative position



Source: UNDP (<http://hdrstats.undp.org/en/indicators>).
 Note: There are four categories of human development: very high, high, medium and low. The values are based on consistent indicators, methodology and time-series data, thus showing real changes in values and ranks over time reflecting the actual progress countries have made.



1.2 Researching inclusive growth

1.2.1 Approach

The empirical portions of this *Report* will evaluate Malaysia's record of growth and development, with a view to critically examine the form and extent of its inclusiveness. A few principles guide this appraisal.

First, in acknowledgment of the manifold forms of inclusion and exclusion, our approach must be multidimensional. Importantly, we provide insights into wealth inequality, differences in quality of social services and pay particular attention to vulnerable and excluded groups. While economic issues are imperative, advocating an inclusive growth agenda demands analysis and policy that go beyond economics and adopt a more multidisciplinary understanding of human development. Thus, on poverty, we go beyond the familiar absolute poverty line approach in locating the problem. We consider household deprivation in a multidimensional framework, and map statistical indicators to show patterns of inequality precluded when data are compressed into single figures or composite indices. In keeping with the theme of inclusive growth, however, we focus on empirical, institutional and policy outcomes and implications of economic growth, and provide some overviews – but not necessarily in-depth analyses – of human development outcomes, especially in education and health.

Second, the principle of inclusiveness further warrants relative measures of development and deprivation to complement assessments based on absolute benchmarks or thresholds. In particular, relative incomes

and relative poverty must be given increasing attention, and instead of mean levels, medians and other thresholds should be referenced (Stiglitz, Sen and Fitoussi, 2009). In the Malaysian context, the boundaries of exclusion must be widened beyond ethnic groupings—although these remain important in view of inadequacies and adversities arising from decades of ethnicity-based political organisation and policy formulation. Various contemporary works, as well as established scholarship on Malaysian political economy, have emphasised the multiplicity in inequality dimensions, especially in spatial, regional, gender, educational and occupational terms, that are vital for identifying development problems and devising solutions.

Third, the qualitative characteristics of economic growth matter as much as the basic rate of growth. Hence, we propose a notion of robust growth to take primacy over high growth. Undoubtedly, robust growth implies a reasonably high rate as well as resilience in the face of change and fluctuation. However, the paramount importance of inclusiveness in participation demands considerations beyond rapid growth—which, if pursued for its own sake, can perilously bias policies toward unproductive expenditures and accumulation. Practically, robust growth translates into growth that is driven by increasing productivity and greater inclusion of society. Our analysis looks for ways to raise the pace of growth by utilising more fully parts of the labour force trapped in low-productivity activities or completely excluded from the growth process. Robust growth is also predicated on spatial, environmental and social sustainability. We therefore give due consideration to issues of sustainable growth, even as we maintain focus on inclusive growth.



1.2.2 Data sources

This *Report* assembles, computes and analyses development indicators from a wide range of sources, as the breadth of inclusive growth as a subject matter and policy theme necessitates broad engagement. We gather inputs from designated background papers and solicit feedback through workshops and discussion with civil society, government and academia.

Evaluation of inclusive growth predominantly relies on official secondary data obtained from Malaysian government surveys and publications. These sources offer nationally representative samples of a range of socioeconomic variables and consistency of format that permits observing change over time.

Raw data of a few national surveys were made available for this *Report* and the data cut-off year was set at 2012. The main data sources and the main information derived from them are as follows:

- The Household Income Survey (HIS), conducted twice in five years on a large sample, informs household income, personal wages and earnings, educational attainment and other aspects of socioeconomic development. The availability of such variables makes the HIS a major data source for this *Report*.
- The Household Basic Amenities Survey, performed concurrently with the HIS and hence obtaining the same sample, contains data on living conditions and access to basic utilities and provisions.
- The annual Labour Force Survey (LFS) enquires on workforce participation, employment status

and personal attributes of the working age population (15-64 years).

- The National Health and Morbidity Survey (NHMS) enabled us to evaluate access to health services.

Official statistical publications and annual reports also served as important references, notably:

- The Yearbook of Statistics, a comprehensive compendium of summary statistics.
- The Labour Force Survey Reports, which report descriptive statistics of the LFS.
- Annual reports of government agencies or government-linked investment funds.

Data were also provided by government departments on an ad hoc basis in response to requests made specifically for this *Report*. A full list is provided in Appendix A.

The methods for utilising and analysing these data are suited to the issues at hand. Descriptive statistics, econometrics and other statistical analyses are employed to assess inclusiveness in the Malaysian economy and society.

1.3 Overview of chapters

This *Report* is arranged in three parts. The first part analyses inclusive growth, while the second considers dimensions of inclusion and exclusion. The third proposes how we may secure inclusive growth for human development.

In Part 1, Chapter 2 presents the conceptual framework for this *Report* and





situates inclusive growth in the Malaysian context. We define inclusive growth and discuss its foundations in Malaysia from legal, political and development policy angles. Additionally, this chapter discusses the evolution of policy from the NEP to NEM and outlines a New Economic Paradigm based on the decomposition of household capability as the basic unit of analysis and policy targets. The chapter will also make the case that the study of Inclusive Growth and its policy implications cannot be addressed meaningfully by taking an exclusively economic approach—analysis and policy need to move away from income-centric measurements and targets towards social processes and social policy implications, especially in dealing with poor and vulnerable groups.

Chapter 3, on growth and imbalances in Malaysia from 1970-2010, involves a critical review of the historical record of Malaysia's development experience and policy development over the four decades since the implementation of the NEP. The chapter will be based on officially published reports and the Five-Year Plans, as well as secondary data analysis where available. We critically examine achievements, limitations and omissions of Malaysia's NEP, an early version of Inclusive Growth policies through its three-pronged strategy of Growth, Poverty Eradication and Restructuring Society.

Chapter 4 explores social mobility in Malaysia. We survey available studies on the emergence and expansion of the middle class in Malaysia's development, and analyse policy interventions and social processes that enhance social mobility. We also conduct statistical analyses to capture income profiles of mobility by cohort, finding those that can be classified

as the NEP generation – born between 1945 and 1960 – to have experienced greater upward income mobility and, by extension, broader middle class expansion. Case studies of four groups show variation in form and magnitude of social mobility, drawing attention to the broad range of inter-generational experiences, with some communities generally seeing upward mobility and others not moving at all.

In Part 2, Chapter 5 focuses on the analysis of Malaysia's economic growth performance and the implications of inclusiveness. In particular, we examine the major variables contributing to growth, of the national economy in terms of its global positioning as a small, open, resource-rich economy. Besides analysing the issues underlying national competitiveness, the chapter adopts a growth diagnostic approach to identify the possible binding constraints against the future growth of the economy, and to determine the critical intervention that can ensure inclusive growth as Malaysia drives towards developed nation status. The key element is the decline in potential growth due to low investment in the public and private sector. Besides productivity issues, the small and medium enterprise sector (SMEs) including the informal sector is identified as a key focus of policy intervention for inclusive growth.

Chapter 6 assesses and discusses inequalities and imbalances in income and other socioeconomic variables. This chapter will involve a statistical analysis of income distribution and its components using the New Economic Paradigm as a conceptual framework. We decompose household purchasing power fourfold – wealth effects, disposable income, transfers and leverage – and evaluate the

constituents' distribution across social and spatial categories. As expected, inequalities in wealth and disposable income correspond with ethnic, locational and socioeconomic factors. We also simulate the effects of social and labour market interventions geared toward bridging disparities, specifically minimum wage, universal secondary education and social grant transfers. Our investigations find support for the inequality-reducing impacts of these policy measures.

In Chapter 7, we grapple with issues of deprivation and exclusion in a multidimensional framework. Income poverty continues to be a key aspect of deprivation, but we expand beyond the traditional absolute poverty line approach by conceptualising and measuring relative poverty, benchmarked to a proportion, such as 0.50, of median income. Lower relative poverty corresponds to increasing gravitation of incomes toward the median, which is in line with inclusive growth. The usefulness of measuring deprivation in relative terms is also corroborated by our observation that, as household income increases, living conditions and human capabilities improve on a continuum, and not with a clear cut-off point marking an escape from poverty. The chapter also conducts mapping exercises to summarise and visually present the multiple dimensions of deprivation and capability. We note that considerable disparities persist between Sabah and Sarawak, relative to Peninsular Malaysia, with rural areas of East Malaysia particularly lagging behind. We also observe that capability deprivation, in the form of lower educational attainment, is most marked among Bumiputera minorities.

Chapter 8 considers the spatial economy and environmental sustainability of Malaysia, with an emphasis on regional policy and corridor development. Regional development and urbanisation have been an integral part of development policy and its differential impacts on regional economic growth, income and incidence of poverty. The persistence of inter-state disparities and urban-rural imbalances means that regional development policy – in terms of infrastructure development, investment and fiscal federalism in the distribution of natural resources – will be key to human development in Malaysia. No less important is the issue of environmental sustainability and the protection of our biodiversity for future generations and distressed groups. Policies relating to urbanisation, housing and sustainable energy and water supply are also important issues for human development. A balanced and environmentally and financially sustainable spatial economy is thus integral to the country's inclusive future.

Chapter 9 addresses women and development, with particular focus on Malaysia's persistently low women's labour force participation rate, inequalities in employment and earnings, vulnerable conditions of women in the informal economy and forms of gender discrimination. While recent years have seen rising educational attainment among women and growing efforts to increase women's labour participation, gender disparities prevail in employment and income, and women constitute some of the most excluded and vulnerable in society. A more inclusive future for Malaysia entails legal frameworks, policy designs and social norms that promote and safeguard gender





On the whole, the infrastructure for achieving inclusive growth involves the government, private sector and CSOs working together to ensure fairness and social justice for all.

equality in status and opportunity, and fairness in socioeconomic outcomes.

Chapter 10 explores exclusion and inclusion of ethnic minorities, particularly Bumiputera minority groups of Sabah and Sarawak and the Orang Asli of Peninsular. On average, these communities bear higher income poverty, lagging access to basic amenities and public services, and socioeconomic disadvantages with regards to educational advancement, economic participation, ownership and upward mobility. Beyond these issues of access, opportunity and development outcomes, fundamental policy questions

also arise on the balance between ethnic minority integration into the mainstream development process and the preservation and protection of their native rights, culture and identity, including customary land rights. Fuller inclusion of ethnic minorities in Malaysia's development will be a cornerstone to realising national development and cohesion.

In Part 3, Chapter 11 provides a critical overview of institutional issues pertinent to inclusive growth strategies for Malaysia, including the issues of fiscal federalism, governance and integrity in the public delivery system, and the role of the private sector and civil society organisations (CSOs). We focus on access to official service providers, quality of

governance, transparency and integrity in securing participation, and equitability in sharing in the benefits from development. Our observations suggest the need for institutional reforms to address market and institutional failures; specifically, weaknesses in the fiscal redistributive system must be addressed. On the whole, the infrastructure for achieving inclusive growth involves the government, private sector and CSOs working together to ensure fairness and social justice for all.

Chapter 12 will hone in on the implications of the legal structure and its operation on inclusivity of the society. It will look into the effectiveness of the law in protecting rights of the special groups, particularly of women, children, indigenous people, workers and the disabled, and discuss the constitutional provision of Article 153 which allows preferential treatment to Malays in Peninsular Malaysia and natives of Sabah and Sarawak. The chapter will also tackle the concept of "substantive equality", as opposed to "formal equality" and how equality of opportunities can be ensured in the growth process for all.

Chapter 13 concludes this *Report* with a summation of our main themes, arguments and findings, and outlines policy recommendations for deepening and sustaining inclusive growth in Malaysia. This chapter summarises all the findings in the above chapters and identify the key issues in order to arrive at policy interventions to achieve inclusive growth and human development in Malaysia as the country seeks to achieve developed nation status by 2020.



Chapter 2

Conceptual and Policy Framework



Chapter 2

Conceptual and Policy Framework

2.1 Conceptualising inclusive growth

In the development process, inclusive growth is understood as both a means as well as an outcome. Commentaries on the inclusive growth approach take a longer-term perspective, with the emphasis on productive employment rather than direct income redistribution as a means of increasing incomes for excluded groups. Inclusive growth conveys a range of meanings, warranting some consideration of its conceptualisation as articulated in both global and Malaysian contexts. Four perspectives will be highlighted and discussed from a survey of international and Malaysian sources to inform this *Report's* definition of inclusive growth.

2.1.1 Inclusive growth is both process and outcome

Undoubtedly, we pursue inclusive growth as both a means and an end, for its mechanisms as well as its results. It is commonplace to articulate policy formulation and implementation as two stages in development processes, with analyses of policy contents and outcomes as reference points. A more inclusive process, however, begins earlier, with the equitable and active participation of society in setting priorities and designing measures, and the incorporation of such inputs to policymaking. As proposed by the International Policy Centre for Inclusive Growth (IPC-IG), Brasilia: "Inclusive growth is both an outcome and a process. On the one hand, it ensures that everyone can participate in the growth process, both in terms of decision-making for organising the growth progression as well as participating in the

growth itself. On the other hand, it makes sure that everyone shares equitably the benefits of growth. Inclusive growth implies participation and benefit sharing. Participation without benefit sharing will make growth unjust and sharing benefits without participation will make it a welfare outcome"¹.

2.1.2 Inclusive growth alleviates poverty and fosters equity among groups

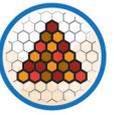
Socioeconomic need constitutes the most basic and important demarcation of exclusion and inclusion. Households and individuals in poverty, especially within an expanding economy, are excluded from receiving the benefits of growth. Inclusive growth overlaps considerably with pro-poor growth, owing to the centrality of poverty alleviation under the former's rubric. At the same time, inequity in participating in and benefiting from economic growth between population groups – identified according to gender, race, ethnicity, region or other category – poses major challenges for socioeconomic inclusion, political stability and holistic development policy.

In a similar vein, Stewart (2010, p.3) defines inclusive growth as "growth in which the benefits are well distributed across distinct groups and to the poor irrespective of their group membership." Accordingly, the following are critical criteria for qualifying inclusive growth:

1. Dissemination of the benefits of economic activity and public sector

A more inclusive process begins with the equitable and active participation of society in setting priorities and designing measures, and the incorporation of such inputs to policymaking.

¹International Policy Centre for Inclusive Growth (IPC-IG), "Inclusive Growth". Accessed on November 20, 2012 from <http://www.ipcundp.org/pages/newsite/menu/inclusive/whatisinclusivegrowth.jsp?active=1>





provisioning fairly to all major groups in society; and

2. Redistribution of these benefits towards the poor, irrespective of their group membership.

2.1.3 Inclusive growth entails economic participation, social protection and national integrity

In the same manner that human development encompasses economic, social and political advancements, inclusive growth requires making gains across these spheres. Thus, an inclusive growth agenda provides broad and sustained economic participation, protects the vulnerable and needful and fosters meaningful citizenship and political equality.

The Asian Development Bank's Strategy 2020 describes inclusive growth based on three pillars²:

- High, sustainable growth to create and expand economic opportunities;
- Broader access to these opportunities to ensure that members of society can participate and benefit from growth; and
- Social safety nets to prevent extreme deprivation.

The European Commission's analogous Europe 2020 platform declared: "Inclusive growth means a high-employment economy delivering economic, social and territorial cohesion³."

Perceptibly, salient points in these pronouncements – in particular, high growth in Asia and high employment in Europe – reflect general policy priorities of the regions for the

foreseeable future. Setting it against the country's development record, likewise, can enhance the pertinence and efficacy of Malaysia's vision of inclusive growth.

2.1.4 Inclusiveness potentially feeds back into countries' growth paths

To a large extent, growth precedes inclusive participation and distribution. However, while equity in realising the benefits of growth follow from production, which provides the incomes to be allocated, the two potentially – though not necessarily – interact in a mutually feeding loop. More equitable growth outcomes may in turn spur and sustain further economic growth. Malaysia's New Economic Model offered a definition of inclusive growth as "pro-poor" and "concerned not only with the level but also the effect of persistent inequality on economic growth and poverty alleviation". The causal channels through which inclusiveness affects economic growth, however, are not clearly specified. Indeed, the strategic thrusts for inclusive growth include programmes for promoting growth that are rather disjointed from redistributive programmes (NEAC, 2010, p.89-90).

Positive effects of inclusiveness in economic growth are more aspirational and highly contingent on supportive factors, whereas inclusive outcomes can more decisively be facilitated out of growth scenarios. Hence, we frame inclusive growth preponderantly with growth as a premise and inclusiveness as an outcome. However, the relationship in the other direction – specifically, more inclusiveness and robust economic growth – cannot be denied as a development objective, and

²Asian Development Bank. "Inclusive Growth." Accessed on November 20, 2012 from <http://www.adb.org/themes/poverty/topics/inclusive-growth>.

³European Commission. Europe 2020. Accessed from http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/priorities/inclusive-growth/index_hr.htm

to some extent requirement, in order to sustain development. Hence, while the effects of inclusiveness on growth do not feature in the definition, their implications are undeniably important.

2.1.5 Inclusive growth defined

In view of the approaches and conceptualisations above, and mindful of Malaysia's condition, inclusive growth in this *Report* constitutes:

- Equitable distribution of benefits of economic growth and of social spending across distinct groups and to the poor irrespective of their group membership;
- Robust generation of broadly accessible opportunity for economic participation and safeguards for the vulnerable; and
- Inclusion of citizens in policy formulation.

The case for inclusive growth fits any situation where inclusiveness is lacking. Economies and societies structures, past and present, have been characterised by various structures of inequality and exclusion. Capitalist economies are defined by ownership, power and livelihood disparities between capitalists and workers, which are instrumental to the system's functioning and are internally reproduced. Capitalist systems are inherently unequal and exclusionary, and lack impetus to foster more inclusiveness. Orthodox economic theory, in giving primacy to allocation of resources through competitive market mechanisms as the overriding basis for production and consumption, discounts the possibility

that markets are characterised by power, asymmetries and structural barriers to mobility, which perpetuates inequality and exclusion.

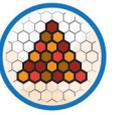
The stress on the process of exchange, based on an amoral stance toward initial endowments and deference to price signals and willing buyers and sellers, assumes away the difficult problems of persistent inequality and precludes grounds for redressing unequal opportunity and access (UNCTAD, 2012, p.31-32). The case for inclusive growth is, in a sense, timeless.

2.2 The growth-inequality-poverty nexus

Nonetheless, inclusive growth resonates at the turn of the 20th century and in the wake of the 2008 Global Financial Crisis. Neoliberalism and market fundamentalism, exposed by the 1997 Asian financial crisis as flawed and detrimental, have been further discredited as ideological premises for pursuing development in the wake of the global financial crisis and growing cognisance of increasing or persistently high inequality, economic insecurity and vulnerability of the poor to shocks and downturns.

While recent trends in the global economy have bred these conditions, some systemic roots run deeper. Stiglitz (2012) offers a framework for outlining

Neoliberalism and market fundamentalism have been further discredited in the wake of the global financial crisis and growing cognisance of increasing or persistently high inequality, economic insecurity and vulnerability of the poor to shocks and downturns.





the problems arising from high inequality. High inequality corresponds with sluggish or negative real wage growth, which attenuates consumption growth and cause aggregate demand deficiency as well as spurring debt accumulation. Situations of high inequality also tend to correspond with concentration of power and “rent-seeking” behaviour, which diverts resource away from productive activities and long-term interests. Markets are never devoid of rents, and strategic allocation of rents can play an effective role in development. However, when elites overpoweringly exert influence over policies, the economic system begins to revolve around securing their interests, saliently through deregulation and privatisation, tax breaks and subsidies, and the promotion of short-term interest and financial gains over long-term improvements in real productivity.

The post-2000 period has witnessed a variety of experiences, with inequality rising in major economies like the United States and China, and declining inequality in much of Africa and Latin America.

Financialisation and labour market “flexibilisation” – among the mainstays of neoliberalism – are factors that have further decoupled finance from the real economy, widened gaps between management and the workforce,

and promoted economic insecurity as a premise for setting policy.

Persistence of inequality across generations entails diminishment of social channels of upward mobility and notions of fairness. Chronic social exclusion of poor communities – in terms of access to and quality of education, health and infrastructure, job opportunities and democratic voice – confounds their capability

to move upward, and raises questions about the fairness of the system. More generally, societies may experience widening mistrust of institutions and a sense of despondency toward the status quo and the prospects of positive change.

Patterns and trends in inequality around the world also underscore the importance of inclusive growth and offer policy options for achieving it. The 2010 World Social Situation Report highlighted that, while income poverty has declined over the past decades, the number of under-nourished persons in the world has substantially increased (UNDESA, 2010). We focus on within-country inequality, as opposed to between-country disparities, which are associated with a broader and more complex set of factors. Over the long term, some of the most outstanding economic performers have sustained both robust growth and declining levels of inequality, most saliently South Korea and Taiwan (Birdsall, Ross and Sabot, 1995). From the 1980s to 2005, inequality increased in 59 out of 114 countries with available data, or 51.7% of the total, and decreased in 40 (35.1%) (UN DESA, 2010).

Recent data, however, show contrasting trends across countries and regions, highlighting the importance of looking at income disparities between the uppermost extremities and the rest. The 1980s and 1990s were largely characterised by rising inequality in most countries of the world and in the majority of countries in all regions (UNCTAD, 1997). However, the approximately post-2000 period has witnessed a variety of experiences, with inequality rising in major economies like the United States and China, and declining inequality in much of Africa and Latin America (UNCTAD, 2012).

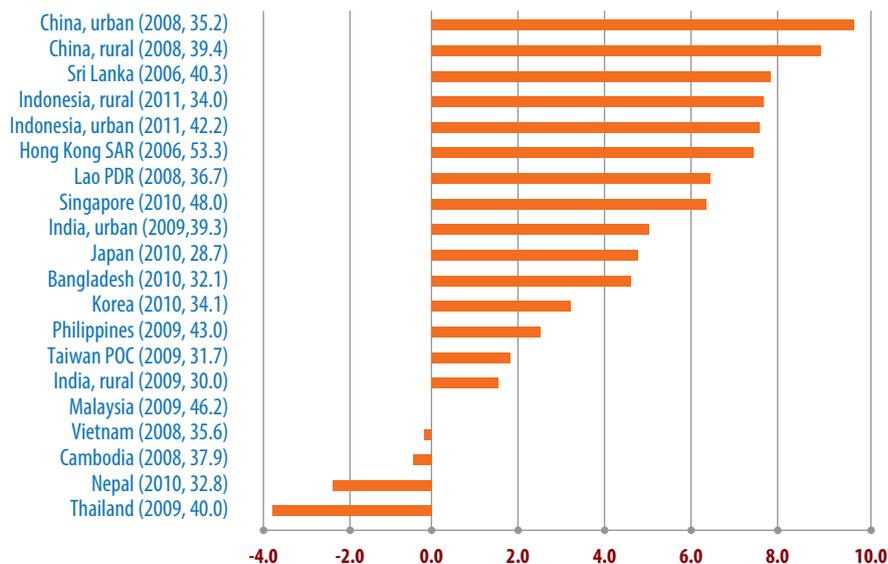
Furthermore, growth has been sustained in many countries that also narrowed inequality. Growth does have an impact on poverty reduction, but those in the neighbourhood of the poverty line are vulnerable to cyclical growth, and new forms of poverty emerge even during the expansionary phases of an economy.

A study of Latin American countries (Lustig, N, Luis F. Lopez-Calva and E. Ortiz-Juarez, 2013) showed that economic growth does have impact on income distribution in the first decade of the millennium, especially in Brazil, Argentina and Mexico. In Brazil, for instance, they found that “During 2002-2009, the income of the bottom 10% grew at almost seven per cent per year, nearly three times the national average (2.5%), while that of the richest 10% grew only at 1.1% a year. Depending on the poverty line, between 50% and 60% of the decline in extreme poverty can be attributed to the reduction

in inequality. For the same reduction in extreme poverty, Brazil’s overall per capita income would have needed to grow an extra four percentage points per year” (Barros et al., 2010). This result was largely attributed to increasing skills premium and progressive government transfers.

Even the International Monetary Fund (IMF), in a recent paper by the institution’s economists, studied how pro-poor and inclusive Asia’s recent growth has been, and what factors have been driving these outcomes (Balakrishnan, Steingberg and Murtaz, 2013). It found that while poverty has fallen across the region over the last two decades, inequality has increased, dampening the impact of growth on poverty reduction (Figure 2.1). As a result, relative to other emerging and developing regions and to Asia’s own past, the recent period of growth has been both less inclusive and less pro-poor. Their analysis suggested a number of policies that could

Figure 2.1:
Asia: change in Gini index, last two decades (in Gini points, since 1990)



Source: World Bank; national authorities and IMF staff calculations.

Note: For Malaysia the official Gini coefficient in 2009 is 44.1 (income-based), or 34.7 (consumption-based).





Cross-country correlations are clouded in data problems and undoubtedly hide welfare impacts, making them potentially deceptive for development policy.

help redress these trends and broaden the benefits of growth in Asia. These include fiscal policies to increase spending on health, education and social safety nets; labour market reforms to boost the labour share of total income; and reforms to make financial systems more inclusive.

At the same time, many countries, especially advanced economies, recorded growing concentration of income and wealth in the top one per cent or even higher, and the increasing power of finance. The Global Financial Crisis has renewed the world's attention

on functional distribution – wage and profit shares of national income – with concerns that declining wage shares and expanding profit shares correspond with the skewing of economic conditions toward serving short-term financial interests. Inclusive growth warrants attention to the balance of power between elites and masses, and between financial and productive economies.

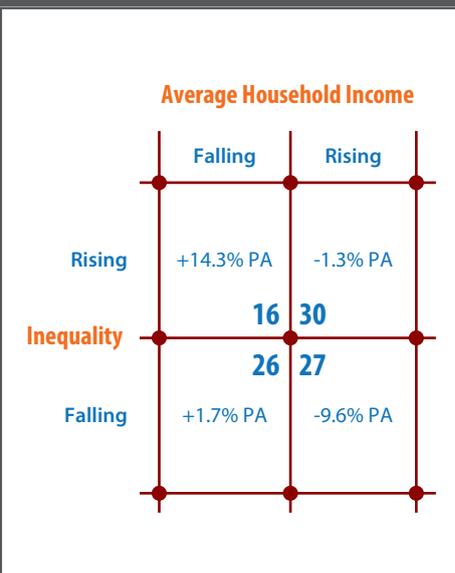
The available evidence suggests that the poor in developing countries typically do share in the gains from rising aggregate affluence, as well as in the losses from aggregate contraction (Ravillion, 2001). But there are large differences between countries in how much poor people share in growth, and there are diverse impacts among the poor in a given country. Cross-country correlations are clouded in data problems and undoubtedly hide welfare impacts, making them potentially deceptive for development policy

and highlighting the need for deeper micro empirical work on growth and distributional change. Only then will we have a firm basis for identifying the specific policies and programmes that are needed to complement growth-oriented policies.

In a cross-country study of 99 countries, Ravillion observed some patterns of poverty elasticities in different growth and inequality regimes (as shown in Figure 2.2, the countries are divided into four groups, with the number in each shown in the centre of the table). In the countries in which inequality is rising with growth in average living standards, poverty is falling on average. But it typically falls at a much slower rate than in countries experiencing more equitable growth. The median rate of decline in the proportion of the population living below US\$1/day among countries with both rising average income and rising inequality was 1.3% per year.

In contrast, the median rate of poverty reduction was seven times higher (at

Figure 2.2: Poverty elasticities in different growth and inequality regimes



Source: Ravillion, 2001.

about 10% per year) among the countries that combined growth in average living standards and falling inequality. It also mattered greatly among contracting economies what was happening to inequality: when inequality was rising while average living standards fell, the poverty rate was rising by a dramatic 14% per year on average. With falling inequality, the poverty rate rose by less than two per cent.

Ravallion (2001, p.1809) concluded that “(On) balance, the existing evidence using cross-country growth regressions appears to offer more support for the view that inequality is harmful to growth than the opposite view, which was the prevailing view in development economics for decades. That does not imply, however, that any reduction in inequality will enhance growth; indeed, it can have the opposite effect if it comes at the expense of other factors that are also known to matter to growth. Reducing inequality by adding further distortions to external trade or domestic economy will have ambiguous effects on growth and poverty reduction.”

It is clear then that the relationship between growth and income distribution is not always straightforward in its impact on poverty reduction. While poverty reduction and growth holding income inequality constant is positively correlated, the impact of income distribution policies can go both ways on both growth and poverty reduction. The interaction between these policy variables is mediated through socioeconomic and political processes that are still not properly understood. The Tenth Malaysia Plan Targets (2011-2015), for instance, has made explicit the objectives of the New

Economic Model: 1) Reduce the incidence of poverty from 3.8% in 2009 to two per cent in 2015; 2) Increase the mean income of the bottom 40% households from RM1,440 in 2009 to RM2,300 in 2015; 3) Improve overall income inequality by reducing the Gini coefficient from 0.441 in 2009 to 0.420 in 2015; and 4) Increase the percentage of bottom 40% households with SPM qualification and above from 30% in 2009 to 45% in 2015.

But these remain targets; the impact of economic growth and its development programmes on the nexus of growth-income distribution-poverty remain cloaked in mystery. At best, we have to rely on the experiences of specific country cases.

2.3 Inclusive growth in Malaysian development policy, 1970-2010

Inclusive growth, defined as the achievement of economic growth with distribution as the twin objectives of development policy, has been adopted throughout Malaysia’s economic history since 1970 as can be seen in Table 2.1. The policies adopted with different emphasis on the two goals can be grouped into 15-year periods as alternating between emphasis on growth and distribution. Beginning with introduction of the World Bank report in 1955, the emphasis on a *laissez fair* process of development was adopted, with industrial diversification and rural development being adopted under an import substitution regime through the First and Second Malaya Plan. After the May 13th incident in 1969, the NEP was introduced in 1970 with growth



Table 2.1:
Growth and redistribution policies in Malaysia, 1970-2015

Period	Policy Emphasis	Growth Rate
1955-1970	Growth	6.5%
1971-1985	Distribution	6.7%
1986-2000	Growth	7%
2001-2015	Distribution	5%
2016-2030	Sustainable and inclusive growth	5-6% (target)

Note: The period 1955-1970 includes Singapore (until 1965) and Sabah and Sarawak (from 1963 onwards).

as policy while emphasising redistribution to restructure Malaysian society and reduce poverty regardless of race. It was implemented beginning with the Second Malaysia Plan 1971-1975.

This state-driven development policy was continued until the recession of 1985. Before this recession, Malaysia experienced relatively high GDP growth rate per annum of 6.5%. From the Fifth Malaysia Plan (1986-1990), the NEP was adjusted to accommodate a liberalised economic environment with respect to foreign investment in order to recover from the recession and place Malaysia back in its development path. In 1990, the NEP was replaced by the New Development Policy (NDP) for the next two five-year Malaysia Plans, which saw a 10-year period of high growth until the Asian financial crisis of 1997. From 2000 until the 2008 Global Financial Crisis in the advanced western countries, with Malaysia facing competition from other developing countries in the region, the country faced a relative period of slower growth due to lower investment inflow and crisis in its traditional markets in

the west. It was never able to achieve full recovery to its potential growth path of the past 30 years.

This is the approach adopted in the Malaysian Government's NEM and implemented through the Economic Transformation Programme (ETP) and the Tenth Malaysia Plan in country's quest to achieve developed status by 2020. It represents an extension of the "growth with redistribution" strategy adopted in the 1970s and 1980s, but adapted in the 1990s to a market-led development process that, in combination with state programmes, had contributed to a rise in per capita income and a dramatic reduction of poverty in Malaysia.

Malaysia's achievements are a matter of record, as shown in Figure 2.3 for the said 40-year period from the launch of the NEP, with respect to real GDP per capita, incidence of poverty, Gini coefficient, and average real wages. Real GDP per capita is seen to have steadily increased over the period while the incidence of poverty has dramatically declined from 49% of total households in 1970 to 1.7% overall. The Gini coefficient further declined from 0.51 in 1970 to 0.43 in 2012, a drop of 15%, while the average real



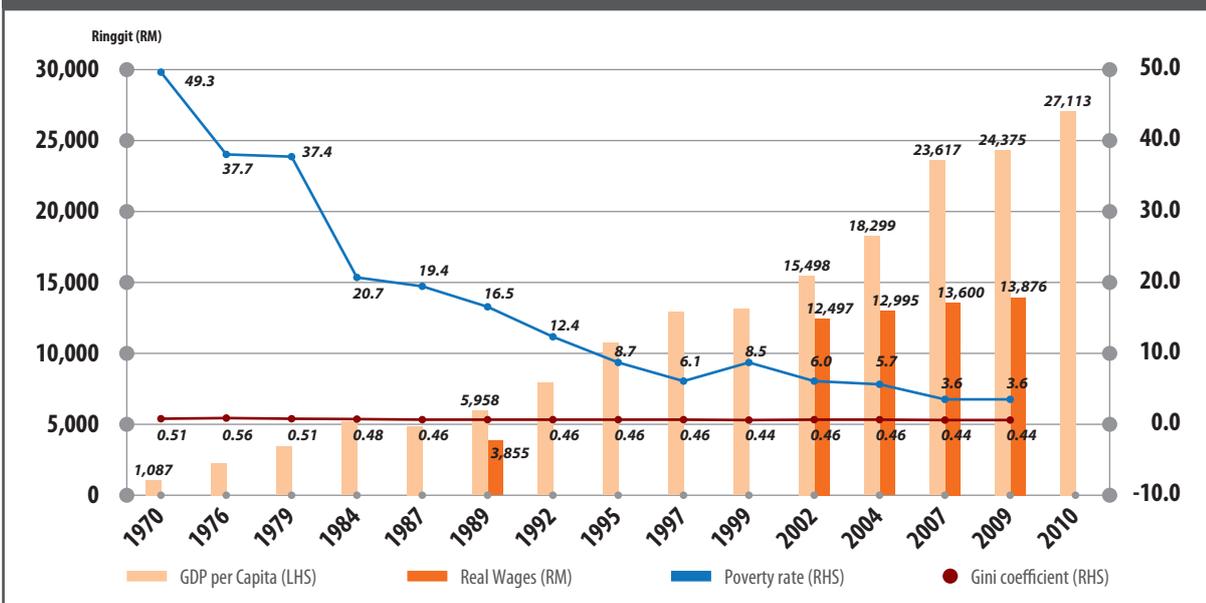
wages have grown at a much slower pace from 2002 after nearly tripling from 1989 to 2002. It is significant to note in IMF Figure 2.1 concerning inequalities in Asia that the Gini index hardly moved for Malaysia over the last two decades since the 1990s. However, the correlation between these averages need to be analysed from the point of view of the underlying factors where much remains to be fully understood. This is especially true in the area of human development. Nonetheless the analysis could be further complicated by the current state of the world economy that open emerging countries like Malaysia have to contend with.

The NEM (Figure 2.4) has a three-pronged objective of achieving high income, inclusiveness and sustainability. To achieve the first objective, the NEM has a headline target of achieving US\$15,000-US\$20,000 GNI per capita by 2020 that requires an average growth rate of at least six per cent annually.

Such a hard target however is simply not feasible for the other two dimensions of inclusiveness and sustainability. The NEM has defined inclusiveness as “enabling all communities to fully benefit from the wealth of the country” and sustainability as “meeting present needs without compromising future generations” (NEAC, 2009, p.10).

The MHDR seeks to expand on the dimension of inclusiveness in the NEM by considering the entire income distribution rather than just the bottom 40%, and in the Tenth Malaysia Plan by strengthening the analytical and enabling framework for policymaking in support of the goal of enabling all communities to fully benefit from the wealth of the country (emphases ours). The relationship between high income and inclusiveness is not always so straightforward. GNI per capita does not reflect distributive inequalities and increases in GNI do not necessarily result in better living standards.

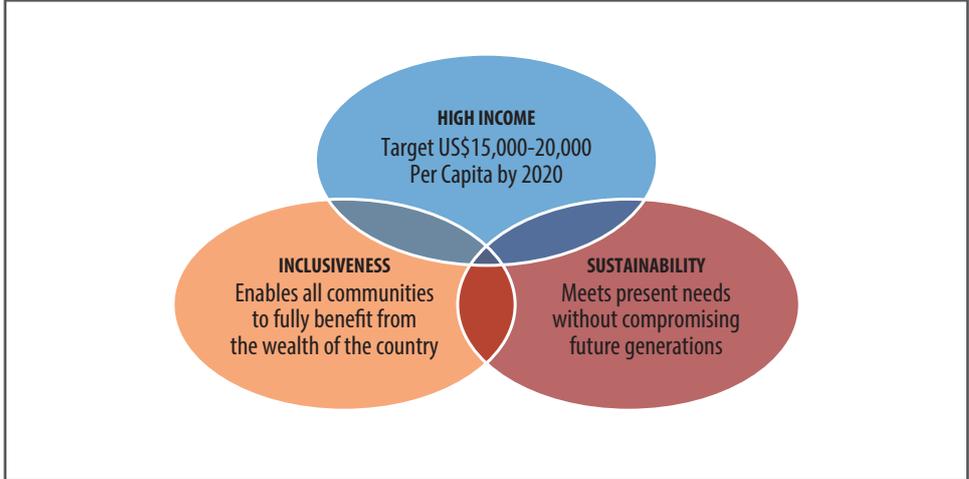
Figure 2.3:
GDP per capita, poverty rate, real wages and Gini coefficient, Malaysia 1970-2010



Source(s): Economic Planning Unit and Household Income Survey, 1989-2012.



Figure 2.4:
The New Economic Model (NEM)

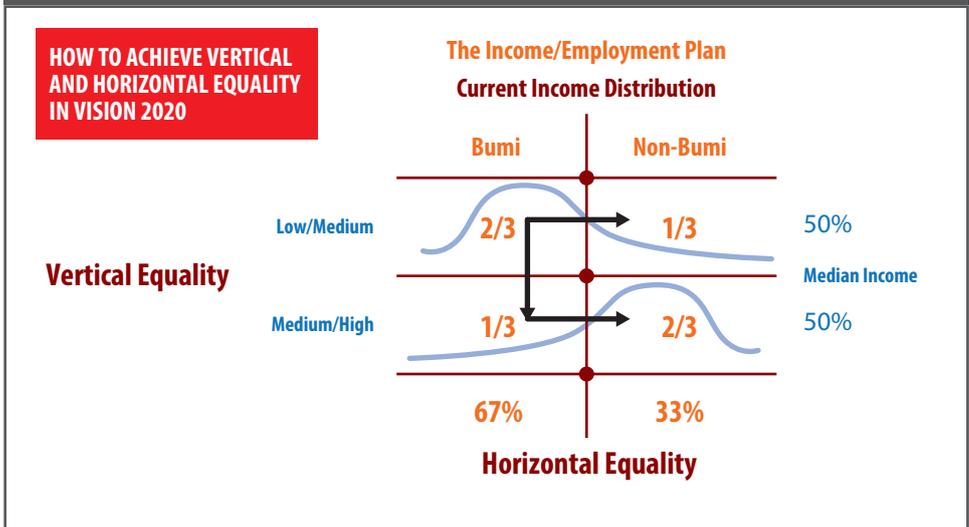


The issue of income distribution, which is not adequately treated in the NEM but made explicit in the Tenth Malaysia Plan targets, can be handled in a Frances Stewart framework for vertical and horizontal equality in development policy (see Figure 2.5 below). In the diagram, vertical equality was ramified by using the median income to divide the income groups into two, above 50% and below 50%; and horizontal equality by dividing between the Bumiputera and Non-Bumiputera groups (this can be further

split into further subgroups). The between group ethnic income distribution is shown for the two (vertical) income groups, which shows the Bumiputera lower income group to be roughly two-thirds of this income class, while two-thirds of the upper income group is represented by Non-Bumiputeras.

In the 1950s and 1960s, much development focus was on infrastructure and poverty eradication programmes (represented by the top horizontal arrow). With the introduction of the NEP in the

Figure 2.5:
The income/employment policies to achieve vertical and horizontal equality In Malaysia



1970s and 1980s, specific affirmative action programmes were introduced to restructure society so that economic activities are not biased in terms of ethnicity and geographic location due to urban-rural disparities, under a regime of accelerated economic growth (represented by the downward-pointing arrow). The post-1998 crisis period was however more concerned with the establishment of a Bumiputera industrial business community with emphasis on privatisation and promotion of private sector investment (represented by the bottom horizontal arrow). The success and shortcomings of policies of horizontal and vertical equality will be the focus of analysis in subsequent chapters of this *Report*.

The *Report* will also emphasise the dynamics of inclusive growth as both an outcome and a process. Substantively, the process and outcome warrant distinct conceptual and empirical attention, as well as analyses of the interaction between them. The analysis looks for ways to raise the pace of growth by fully utilising parts of the labour force trapped in low-productivity activities or completely excluded from the growth process.

The Malaysian case over the 40-year period of 1970 to 2010, constituting a secular trend of reduction in income inequalities and in poverty reduction, is clearly observable. The growth that has accompanied these distributive and welfare developments has also largely been largely resilient through periods of economic crisis, from which the Malaysian economy has recovered buoyantly. Statistical evidence for this will be presented in greater detail in the next chapter of this *Report*.

2.4 Towards a New Economic Paradigm to analyse inclusive growth in the Malaysian context

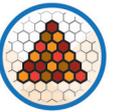
The Sen, Stiglitz and Fitoussi (SSF) Commission on Measurement of Economic Performance (also known as the Stiglitz Commission), sponsored by the French government, emphasised that economic growth alone is insufficient to ensure sustainable decline in income inequalities.

They concluded that performance measures should be more broad-based than the usual GDP/GNI indicators, and should also include other measurements that capture the multidimensional impacts of the growth experience.

The Stiglitz Commission concluded with the following message and recommendations: 1) Look at income and consumption rather than production; 2) Consider income and consumption jointly with wealth; 3) Emphasise the household perspective; 4) Give more prominence to the distribution of income, consumption and wealth; and 5) Broaden income measures to non-market activities.

The Stiglitz Commission particularly points out that the importance of wealth measures and disaggregation of economic performance to the household level would better capture the development impact of economic growth. The Latin American

The post-1998 crisis period was however more concerned with the establishment of a Bumiputera industrial business community with emphasis on privatisation and promotion of private sector investment.





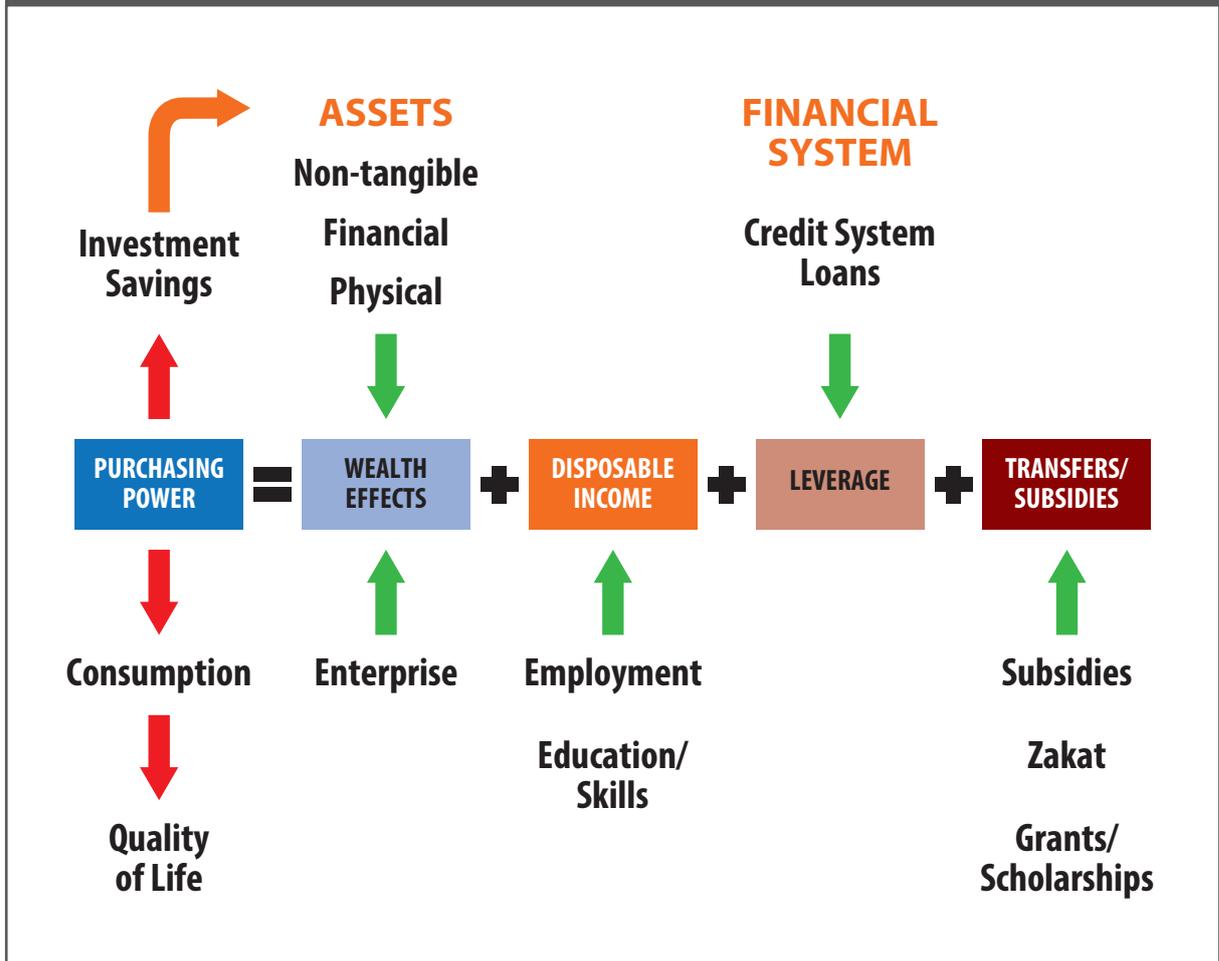
study by Lustig et al. also emphasised the importance of passive income (e.g., profits, dividend, rent and etc.), or wealth effects in general.

In this *Report*, we introduce a new conceptual framework, dubbed the New Economic Paradigm, which decomposes household capability (or purchasing power) into four components; wealth effects, disposable income, leverage and transfers. This framework informs our analysis of data in this *Report* and enables us to better grasp the policy intervention and their impacts on inclusive growth in Malaysia.

The four components of the New Economic Paradigm are illustrated in Figure

2.6 below which combines not necessarily additively into the household's purchasing power. Wealth effects are essentially derived from tangible assets such as land, property, buildings; financial assets including stocks and shares, savings, and equity in private enterprise including sole-proprietorships; and intangible assets such as skills, educational qualifications and patents. Disposable (household) income is represented by after tax income derived from salaries, wages, bonuses, remittances and other forms of remuneration from enterprise, summed over all household members actively employed. Leverage on the other hand includes personal consumption and business loans as well as loans from both banking and

Figure 2.6:
The New Economic Paradigm



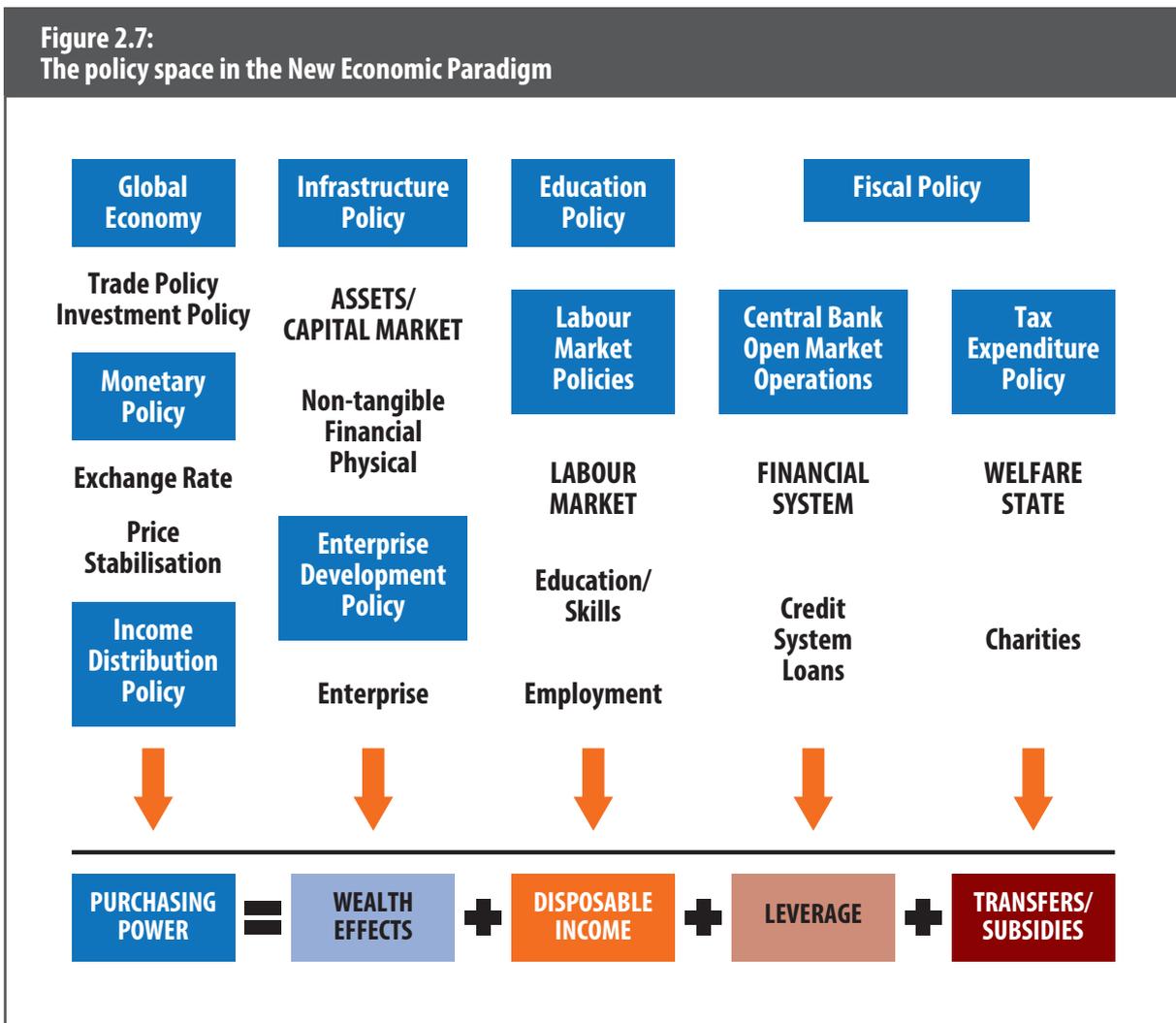
non-bank financial institutions including cooperatives, credit associations and other informal channels of microfinance. Finally, transfers are tax-financed or charitable contributions to the household in the form of grants, scholarships, subsidies, tax allowances, donations and other income-based welfare contribution in both cash and kind, and contributions from other safety net contributions such as unemployment insurance.

Figure 2.7 also demonstrates the possible relationships among social and economic processes at the household level underlying the impact of labour skill premiums through more pervasive education levels of the workforce and the

impact of positive transfers in the three Latin American countries studied by Lustig et al. (2013). As another illustration, failure of the prevailing credit system is the inability to satisfy loan demands from the SME and poor sectors of the economy that cannot access formal credit channels or do not have sufficient collateral (essentially asset based financial or physical) against which to borrow.

If the SME sector does not have access to external funds for investment, the capacity to raise investment per worker and thereby productivity and income from wages and self-employment, the economic status of the bottom 50% of households will seriously be impaired.

Figure 2.7:
The policy space in the New Economic Paradigm





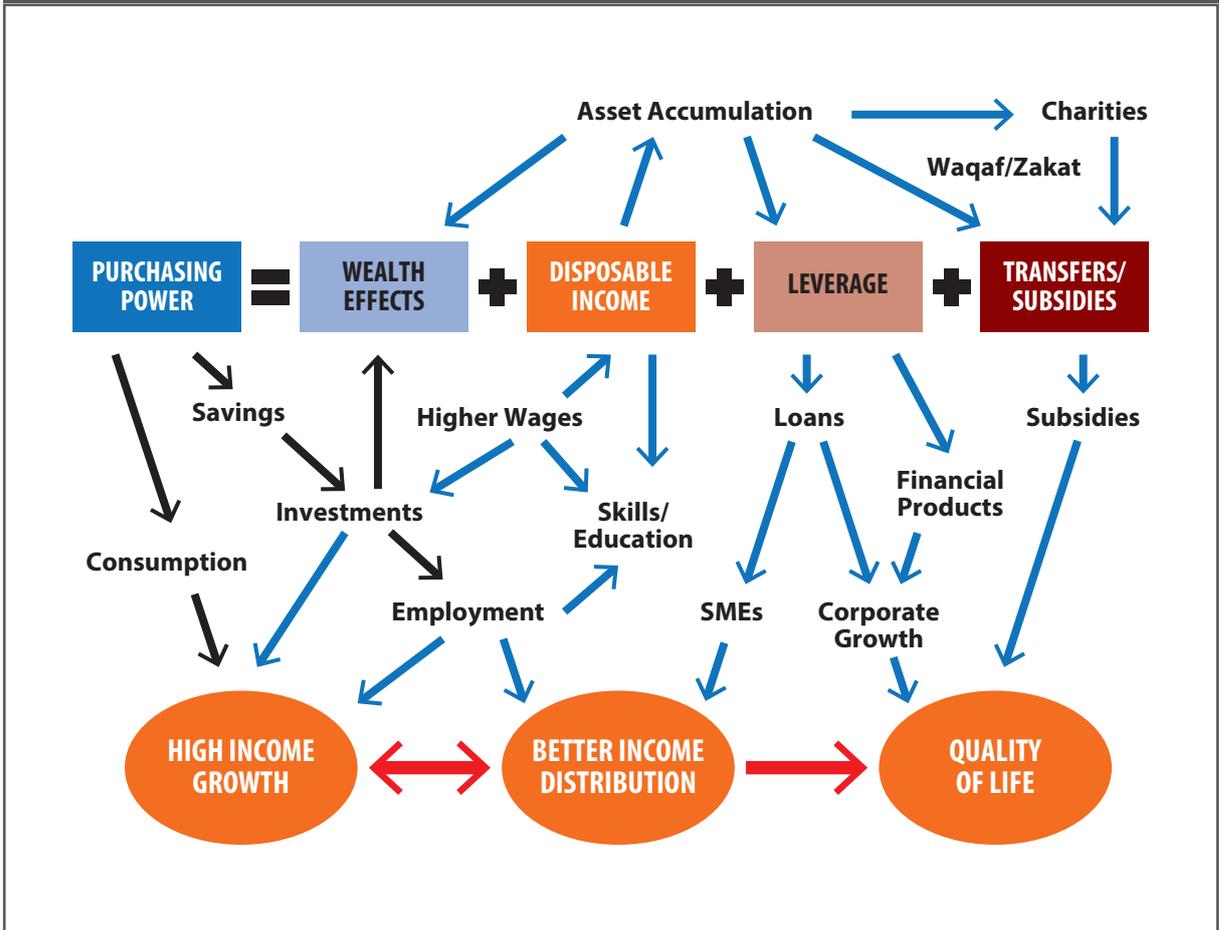
As suggested by the Stiglitz Commission, the New Economic Paradigm we offer above as conceptual and policy framework for inclusive growth must incorporate productive as well as consumption capabilities at the household level and linked to wealth and their distribution in order to properly translate income performance at the national level into its impact on the standards of living and quality of life of the population. This can be heuristically illustrated in Figure 2.9 which shows a stylised income distribution profile of households according to income class consumption power when decomposed according to the four categories of

wealth effects (passive income), disposable income, leverage and transfers at the household level.

The share of total purchasing power among income classes is depicted in the vertical stacked bar on the left of the diagram, while the decomposition of purchasing power by income class can be read off the right scale, with the order of the graphs following the class ranking. The vertical sum of each purchasing power component over the four income classes should add up to 100%.

The search for new economic thinking, in the wake of the Global Financial Crisis of 2008 and the revolt

Figure 2.8: Processes according to decomposition of household capital capabilities in the outcome space of the New Economic Paradigm



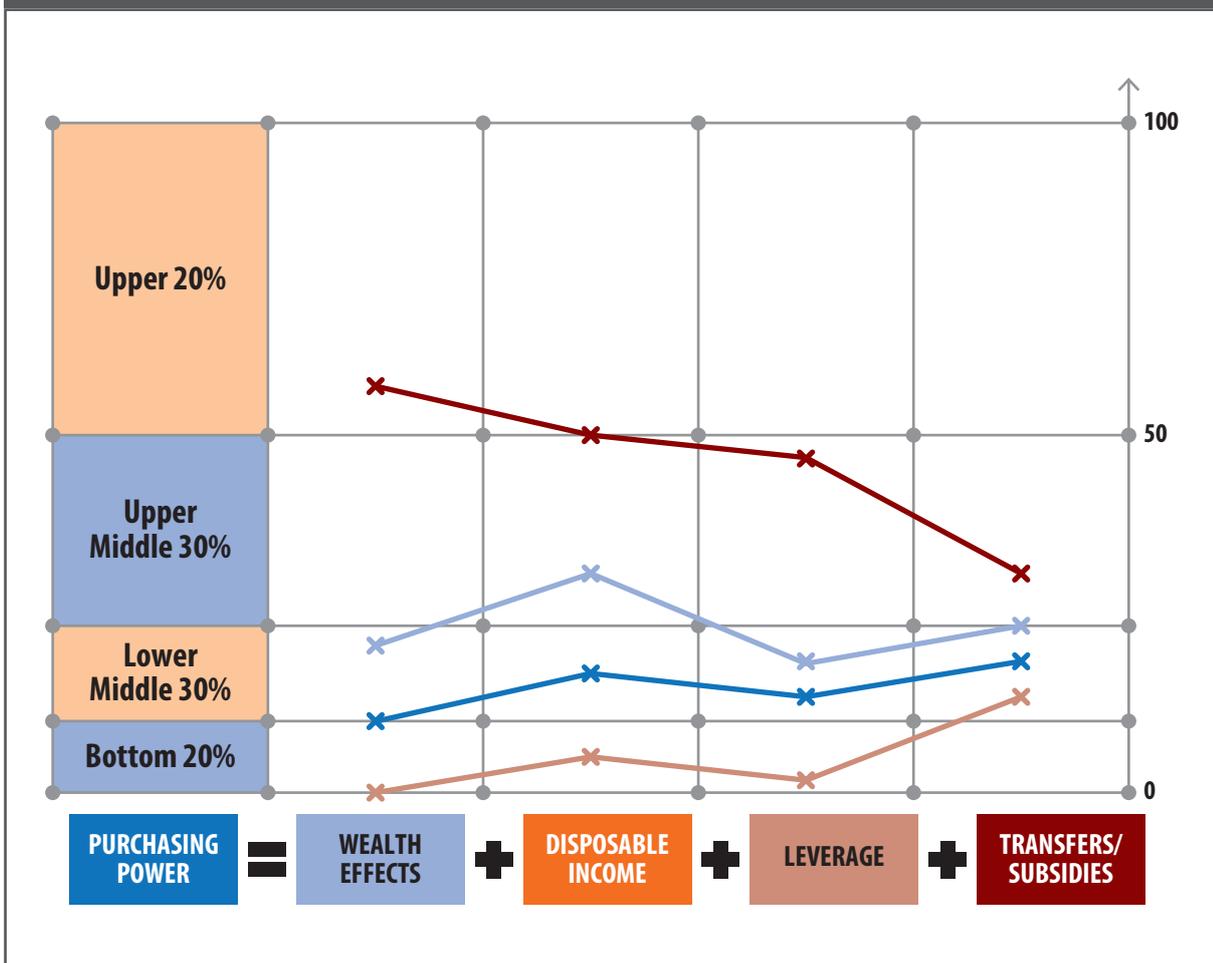
against the Washington Consensus in development policy, enables us to explore and redefine traditional concepts and links between macro- and micro-economic foundations of development policy. There is also renewed concern and disquiet regarding the imperialism of economic ideas in development thinking, and a shift towards other social science contributions in development policymaking process (Fox, 2013).

In this *Report*, we recognise the need to go beyond a purely economic articulation of development processes and policy, as such an approach will not capture the full dynamics of social processes that link between growth,

inequality and poverty. In this regard the household approach, which encompasses the kinship structure and processes, and social organisation of production, asset accumulation and allocation, and consumption in the household economy, play an important role in the development experience and the multidimensional facet of the quality of life of its members. At this level, three units of analysis may be recognised: 1) The individual member of the household as agent; 2) the household unit itself; and 3) The generation (as represented by the head of household) as a unit of analysis.



Figure 2.9:
Stylised share of purchasing power by components and income class (%)





2.5 A Social Mobility Model for Malaysia

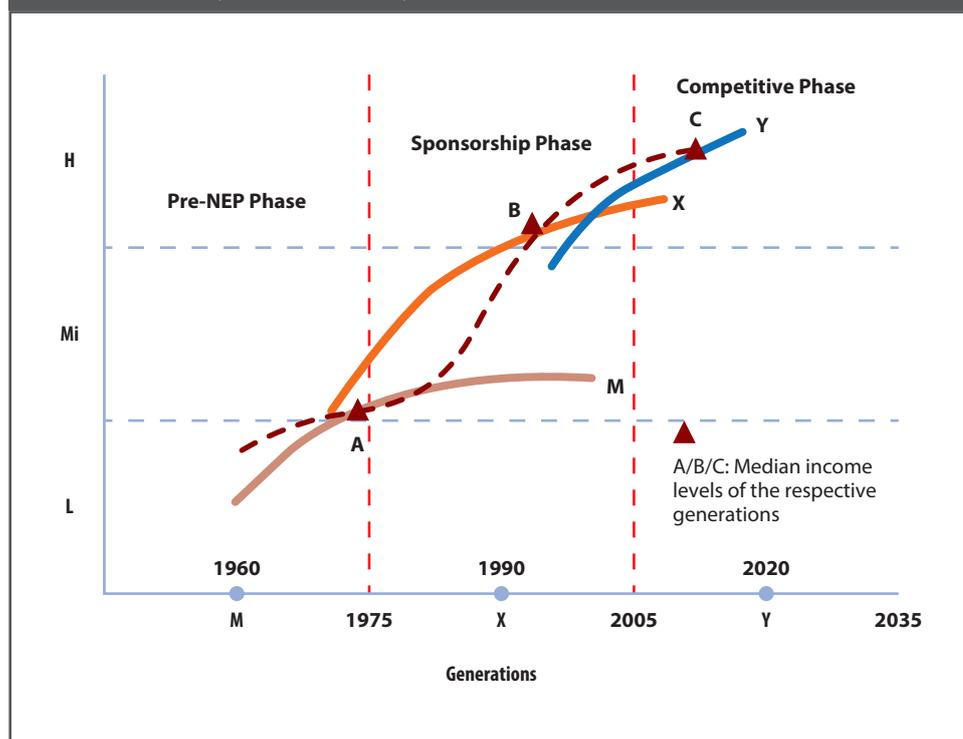
The third level i.e. generational analysis is particularly interesting in light of Birdsall's suggestion that inclusive growth is concerned with "the expansion of the middle class" and that policies concerning macroeconomic stability, business development and social policies such as education and government transfers contribute to the wellbeing and living standards of the lower income classes. This study adopts a model of social mobility relevant to the Malaysian case as shown in Figure 2.10, which will serve as a basis to explain the Malaysian development experience and its social impact.

The model recognises the evolution of three generations of Malaysian society since the end of the war in 1945: The M

Generation (Merdeka = Independence) which is equivalent to the Baby Boomer generation in the western nomenclature; the X Generation; and the Y Generation. The periodisation is consistent with the phasing of development policy beginning with the NEP in 1970.

This model shows the median income trends of the respective cohort over the three periods. It is suggested that the period between 1970 to 2000 covering the X Generation, dubbed the "sponsored" period on account of the social engineering programmes under the NEP, represent the most rapid expansion of the Malaysian middle class, and that the next two decades coinciding with the Y Generation as they come into maturity will be a slower period of upward mobilisation the account of liberalisation and a competitive era post-Asian financial crisis and the 2008 Global Financial Crisis. The long S-shaped trend line combines the median income

Figure 2.10:
A Social Mobility Model for Malaysia



of all three generations by year of birth, intended to describe the 65-year transition from 1945 to the present.

In Chapter 4, some statistical evidence of this generational transition in median income according to age cohorts will be provided.

This approach will basically show how the poor and vulnerable attend the problem of social mobility against the background of rapid economic development. The rapid changes in the labour market brought about by export-oriented industrialisation since the 1970s created vast employment opportunity for the unskilled and semi-skilled. This largely explains the shift from employment in the primary sector to modern sectors. It also explains why rapid internal migration coincides with the period of accelerated economic transformation. Though the transformation can be explained in statistical terms, the conduit that bridges the vast transformation and the identified group can be best understood by observing the identified group's social and economic organisation.

The main question posed above will resonate closely in the Malaysian case where social development and intergeneration income mobility is clearly evident as shown in other parts of this *Report*. How does this development correspond to certain poor and vulnerable groups, and more specifically how did these groups experience upward mobility over time even though some subsection among them remain vulnerable? The focus on these groups is not from the statistical strength but on the social and economic processes at the meso- and micro-level that conditions their mobility pattern. By observing the problem of coexistence of

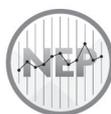
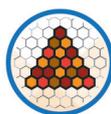
the two opposite categories of mobility, the studies undertaken can provide agency dimension of the problems and efforts of the families within their constraints and limitations. We will also be able to better appreciate the analytical line of poverty and how people move up and down the line within their lifetimes and across generations.

In adopting such an approach, we also move away from the common approach that normally compares regional disparities, such as the urban-rural divide or inter-ethnic comparisons in explaining social mobility processes. Instead, we attempt to establish intra-group dynamics in the given context. And as mentioned earlier, instead of focusing on the entire strata of the selected community, the focus will be limited on the two categories and their social mobility trajectory. This approach will give us an idea on the total range of mobility outcome at the meso-level of the selected groups.

So what are the social and economic processes involved in the “selectivity” that allows or hinders social mobility of the members of the group? Why do disparities exist within the groups and intra-household, in response to the opportunity structure? By posing the question in this manner we hope to explain the existing micro dynamics, especially from a social dimension, and at the same time raise issues useful for policy purposes in dealing with the poor and vulnerable. The subject

The rapid changes in the labour market brought about by export-oriented industrialisation since the 1970s created vast employment opportunity for the unskilled and semi-skilled.





of the poor and vulnerable attended through selected case studies also avoids the problem of blanketing the poor and vulnerable as an undifferentiated mass.

Using the conceptual framework as outlined in this chapter, we then analyse social mobility processes by accounting for the particularistic, without compromising the generalistic nature of the case. The unit of analysis and the categories of respondents will be tailored to best explain mobility processes from a multidimensional approach. Second, a number of national case studies will be provided in Chapter 4 of this *Report* to illustrate the Malaysian experience in social mobility, the process of “middle classisation” and the vulnerabilities of the poor and lower income groups to the uneven impacts of growth. The conclusions of these findings, as well as our recommendations, will be outlined in Chapter 13.

2.6 Conclusion

The discussion in this chapter, which involves searching the current literature on inclusive growth, is aimed at conceptualising a new analytical and policy framework relevant to the Malaysian case, which we dubbed the New Economic Paradigm. This new framework will inform our analysis of official statistics on economic performance and its quality of life dimension as well as the formulation of new development policies and programmes. The chapters in Part 3 of this *Report* will discuss different aspects of this framework in order to understand the issues of inclusion and exclusion in the development process going forward from the NEM currently being implemented in the ETP and the GTP. From this analysis and policy framework, we hope to define new initiatives to address the issues of inclusive growth in Malaysia.



Chapter 3

*The NEP, Growth and
Imbalances in Malaysia,
1970-2012*



Chapter 3

*The NEP, Growth and
Imbalances in Malaysia,
1970-2012*

3.1 Outline

This chapter will provide a review of the historical record of Malaysia's inclusive policy over the past four decades since the implementation of the NEP in 1970. The purpose of this chapter is to analyse whether the economic policy during this period has been inclusive. The analysis will be undertaken within the framework of inclusive growth as defined in the preceding chapter. The next section will examine the three key characteristics of inclusive growth within the framework of the objective of the NEP i.e. poverty eradication and restructuring of society. It will be followed by the analysis of the remaining challenges of the NEP for the period of 1970-2012. Before concluding, the chapter will explore new dimensions of inclusiveness, moving beyond the standard measure of income and poverty as recommended by Sen, Stiglitz and Fitoussi (2009).

3.2 Pro-poor policy

3.2.1 Poverty

The NEP was introduced with the primary objective of attaining national unity, via the dual prongs of eradication of poverty regardless of race, and acceleration of social restructuring to reduce and eventually eliminate of the identification of race with economic function. It was introduced after the 13 May 1969 racial riots, of which socioeconomic imbalances among the different ethnic groups and the lack of educational opportunities among the Malays – inadequately redressed legacies of the colonial British – was diagnosed as main causes (Ungku Aziz et al., 1987; Jomo, 2004; NOC, 1969; Tunku,

2004). The first prong, the eradication of poverty, is of interest in this section given that pro-poor policy is a hallmark of inclusive growth.

Under the NEP, the Malaysian government has established a 20-year time frame to equalise economic opportunity for all Malaysians by eliminating the identification of economic function with race. The restructuring objective of the NEP was designed to enable the Bumiputeras increase their share of corporate assets from 4.3% in 1970 to 30% by 1990, in comparison to 40% for non-Bumiputeras and 30% for foreigners. To achieve these objectives, the government designed and implemented the NEP, NDP and NVP as affirmative action policies to give effect to the special rights and privileges of the Bumiputera by initiating a variety of protective policies, such as subsidies, quotas, scholarships and licensing and trade concessions.

One of the key features of the NEP was that it was predicated upon a rapidly growing economy. This was deemed necessary so as to, inter alia: 1) Provide increased employment or economic opportunities for the poor and other disadvantaged groups to enable them to get out of the poverty trap and participate in mainstream economic activities; and 2) Ensure that distribution did not take place from the reallocation of existing wealth but from expanding and identifying new sources of wealth. The NEP strategy was designed to offset Bumiputeras' historical disadvantage in relation to non-Bumiputeras (Abdul Rahman Embong, 1996; Ishak Shari, 1995; Malaysia, 1984; Mehmet, 1988; Snodgrass, 1980). The underlying principle of these policies is a betterment of the Bumiputera communities while striking an optimal balance between

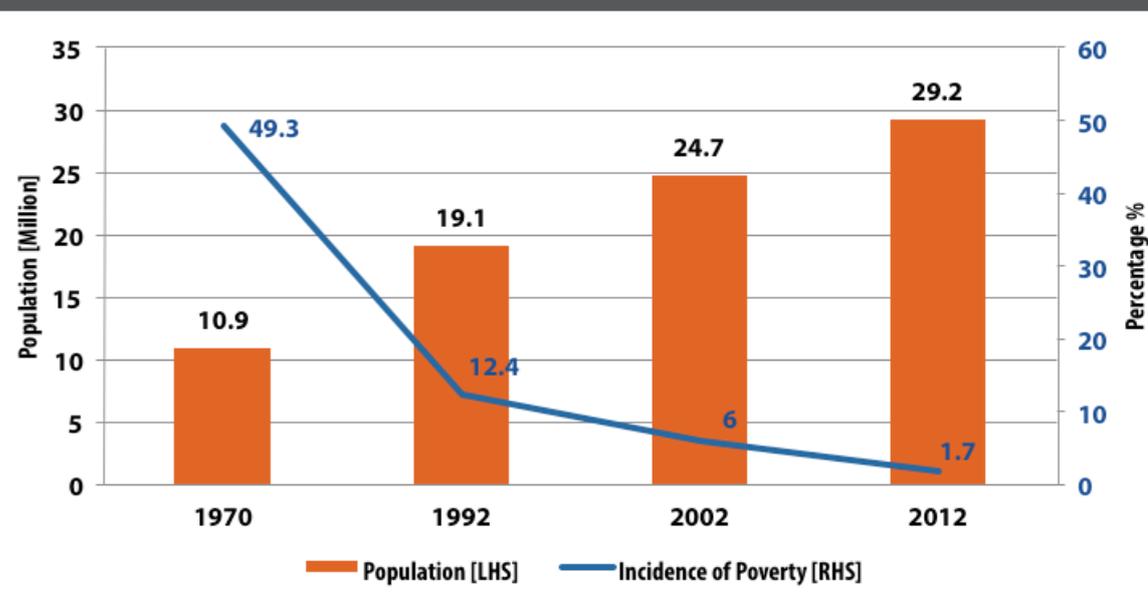




the goals of economic growth and equity. An analysis of these policies reveals that non-economic areas such as education, culture and religion were implemented together with affirmative development policies.

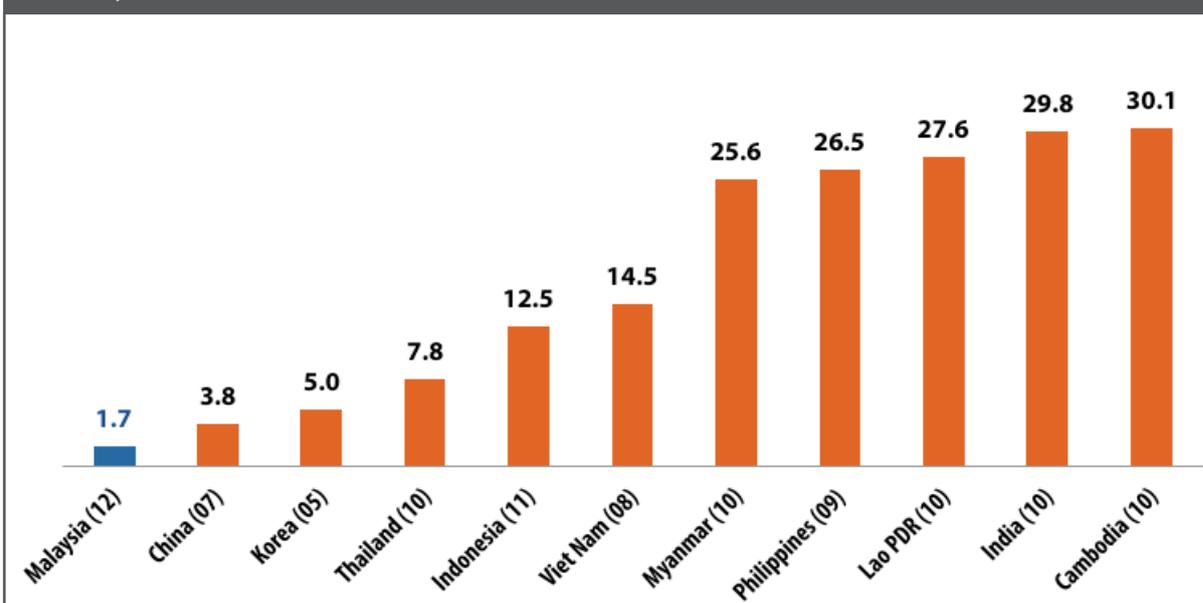
To reduce poverty, the government focuses on raising income levels and increasing employment opportunities for all Malaysians irrespective of race. The second prong of the NEP strategy was to

Figure 3.1:
Population and incidence of poverty, 1970-2012



Source: Economic Planning Unit.
Note: Year 1970 refers to Peninsular Malaysia only.

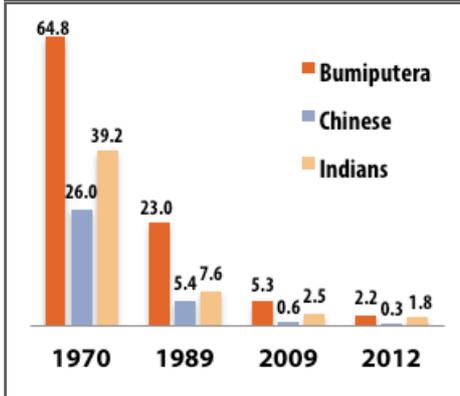
Figure 3.2:
Poverty rate in selected Asian countries (%)



Source: ADB.
Note: In parentheses, the latest available year.

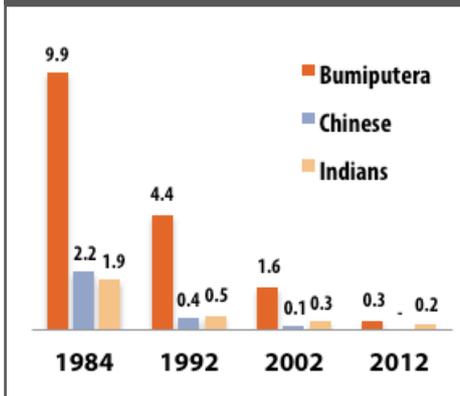


Figure 3.3:
Poverty rate by ethnic groups



Source: Economic Planning Unit.
Note: Year 1970 refers to Peninsular Malaysia only.

Figure 3.4:
Hardcore poverty rate by ethnic groups



Source: Economic Planning Unit.
Note: Year 1970 refers to Peninsular Malaysia only.

be achieved through the promotion of Bumiputeras in educational attainment, upward occupational mobility, in ownership of the corporate sector and the creation of the Bumiputera Commercial and Industrial Community (BCIC). To achieve this, it was envisaged that the government will “participate more directly in the establishment and operation of a wide range of productive enterprises” (Malaysia, 1971, p.7).

The development agenda of Malaysia during the NEP can be regarded as pro-poor; data from official sources have

shown that Malaysians have become less poor since the introduction of NEP. Despite an increase in population by nearly three times since 1970, there are fewer people living in poverty than there were more than four decades ago (Figure 3.1). While almost half of the population was in poverty in 1970, the poverty rate has since dropped dramatically to 16.5% in 1990, and 1.7% in 2012. Compared to other selected countries, the official poverty rate in Malaysia is considered among the lowest in the region (Figure 3.2).

The reduction of poverty was evident across all ethnic groups (Figure 3.3). Among Bumiputeras, the poverty rate decreased from 65% in 1970 to slightly more than two per cent in 2012, meaning that millions have been removed from poverty. Thus, the notion that the policy benefited small groups of people is factually incorrect¹. The

same rapid reduction occurred among the Chinese and the Indians, where the poverty rates dropped to about 0.3% and 1.8% respectively in 2012. Hardcore poverty was also reduced significantly for all ethnic groups, with almost total eradication among all the ethnic groups. Among the Chinese, there has been zero incidence of hardcore poverty, while for the Bumiputeras and the Indians, the numbers are quite insignificant, at 0.3% and 0.2% respectively (Figure 3.4). The success of poverty

Despite an increase in population by nearly three times since 1970, there are fewer people living in poverty than there were more than four decades ago.

The notion the policy benefited small groups of people is factually incorrect.

¹For instance, Ramon Navaratnam argues that NEP benefited only 1,000 families (Tony Pua 2011, p.44)



Table 3.1:
Income growth by income class and ethnicity

	Average Annual Growth* (1970- 1989)	Average Annual Growth* (1989- 2009)	Average Annual Growth* (1970- 2012)
Top 20%			
Malaysia	7.58%	6.29%	6.91%
By Ethnicity			
Bumiputera	8.95%	7.13%	7.86%
Chinese	7.26%	5.81%	6.61%
Indian	6.76%	6.37%	6.82%
Middle 40%			
Malaysia	8.54%	6.53%	7.54%
By Ethnicity			
Bumiputera	9.40%	7.09%	8.19%
Chinese	8.21%	5.78%	7.07%
Indian	8.38%	6.10%	7.31%
Bottom 40%			
Malaysia	9.41%	6.35%	7.89%
By Ethnicity			
Bumiputera	10.12%	6.69%	8.40%
Chinese	8.43%	5.64%	7.13%
Indian	8.45%	5.57%	7.02%

Source: Economic Planning Unit, authors' calculations.
Note: In nominal terms.

eradication is acknowledged by the World Bank where it stated, "The NEP contributed to poverty reduction and helped provide opportunities to poor household." (World Bank, 2013c, p.47).

The successful economic development witnessed in the past decades resulted in the eradication of hardcore poverty via an increase in household income for the population; From 1970-2012, the average household income grew by 7.3% annually. Comparison by income class shows that the bottom 40% of income earners enjoyed the highest income growth (Table 3.1). In the same period, the growth rate for the bottom 40% was 7.9%, higher than the 6.9% registered for the top 20% and the 7.5% for the middle income households. If we decompose the growth rate by ethnicity, the growth rate fits the objectives of a pro-poor strategy: the growth rate for the period of 1970-2012 is the highest among

the poor of all ethnic groups, followed closely by the middle 40% of income earners (except for the Indians), while the rich saw the slowest income growth. In fact, the growth rate for the poor was at its highest during the official period of the NEP (1970-1990), where it grew by more than 9.41%, or higher than 7.5% registered by the rich. The argument that the policy benefited only Bumiputeras, or only rich Bumiputeras at the expense of poor Bumiputeras and the non-Bumiputeras is factually and empirically incorrect². Data shows that the poor Bumiputeras' income growth from 1970-2012 was 8.4%, higher than the 7.9% growth rate registered for rich Bumiputeras.

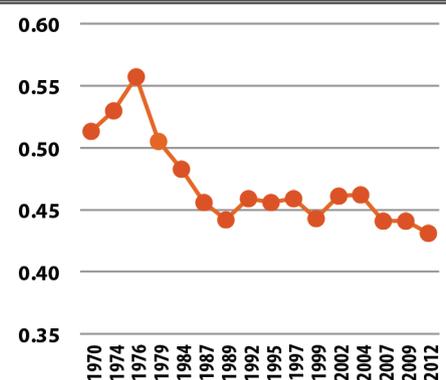
3.2.2 Inequality

However, does this significant increase in income, especially among the poor, and drastic reduction in poverty mean that

²See for instance James Chin (2009), Terence Gomez (2013) and Wan Saiful (2011) who argued that the NEP only benefited rich Bumiputeras, or Bumiputeras at the expense of other ethnic groups.

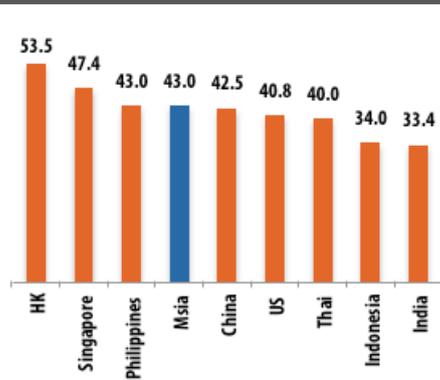


Figure 3.5:
Malaysia: Gini coefficient



Source: Economic Planning Unit, UNDP HDR 2013, except for Malaysia (2012 HIS).

Figure 3.6:
Gini: selected countries (latest survey)



Source: Economic Planning Unit, UNDP HDR 2013, except for Malaysia (2012 HIS).

Malaysia has become a more equitable place? Is Malaysian income more evenly distributed today than it was in 1970? Available evidence of the national distribution of income indicates a steady decline in inequality; the Gini coefficient dropped by about 16% from 0.51 in 1970 to 0.43 in 2012.

Compared to other selected economies, the level of inequality in Malaysia does not seem as high. Contrary to claims that inequality in Malaysia is the highest in the region, data shows otherwise; inequalities among Malaysia's neighbours are in fact much higher (Figure 3.6). Among the ethnic groups in Malaysia, inequality is the highest among the Indians, at 0.443, followed closely by the Bumiputera and the Chinese, both at 0.42 (Figure 3.7). However, the reduction of inequality is most pronounced among the Bumiputera where inequality dropped by 9.7% during the period of 1970 to 2012, followed closely by the Chinese at 9.4% and the Indians at 6.1%. Inequality within urban and rural areas declined more sizeably, dropping by about 23% among

urban households and 19% among rural households during the same period (Figure 3.8). These reductions in household income inequality should temper arguments or perceptions that inequality in Malaysia has risen³.

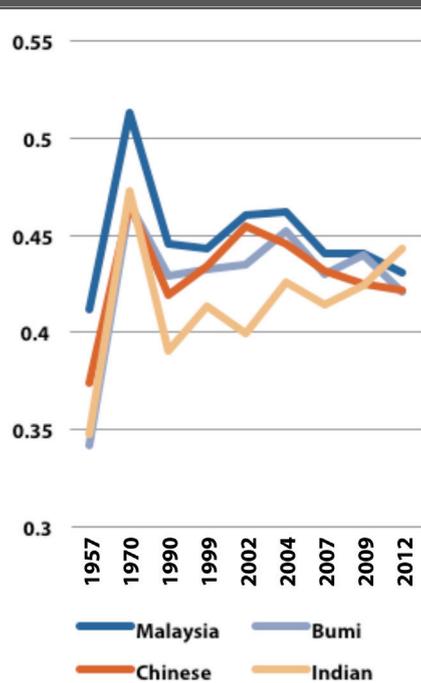
However, the method of measuring inequality using the Gini coefficient index fails to capture the dynamics in inequality within each ethnic group, nor the contribution of the ethnic component to overall inequality. Using the Theil Index of Malaysian households' income profiles, analysis shows that the between-ethnic group component has been decreasing steadily since 1970, and its contribution to overall inequality in 2009 is now minimal at about four per cent. This implies two things: the policy has managed to reduce between-group inequality, and the overall inequality is currently almost entirely contributed within each

Among the ethnic groups in Malaysia, inequality is the highest among the Indians, followed closely by the Bumiputera and the Chinese.

³See Gomez, E. T. and Saravanamuthu, J. (2013) who argue that NEP caused problems such as intra-Bumiputera wealth disparities as well as urban-rural spatial inequalities. ADB (2013) also wrongly stated that income inequality within the Bumiputera community has worsened considerably.

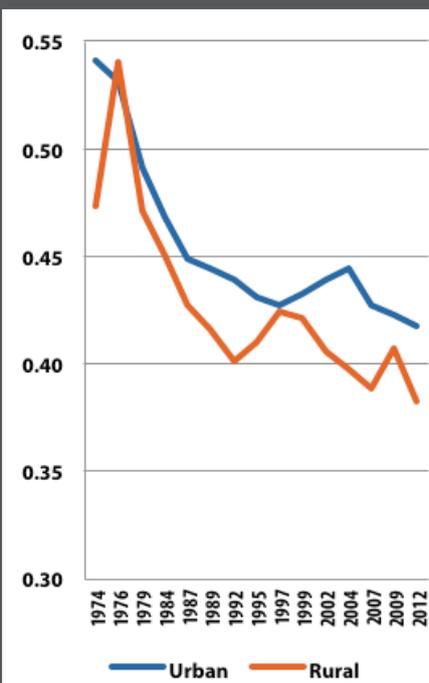


**Figure 3.7:
Gini by ethnic group**



Source: Economic Planning Unit.

**Figure 3.8:
Gini by location**



Source: Economic Planning Unit.

group itself. If the analysis include strata and gender – along with ethnicity – the within group contribution to inequality is about 90% of total inequality. This means that even if disparity between groups i.e. gender, strata or ethnicity is eliminated, inequality will still remain due to within group inequalities.

How about the income gap between groups and strata? Data show that there has been tremendous reduction in income gap in between the relatively higher income Chinese versus the non-Chinese, and between urban and rural households (Figure 3.9 & 3.10). For instance, the income gap between the Bumiputeras and the Chinese has been reduced by about 50% from 2.16 in 1957 to 1.43 in 2012, while the income gap between the Bumiputeras and the Indians decreased by 33%, with

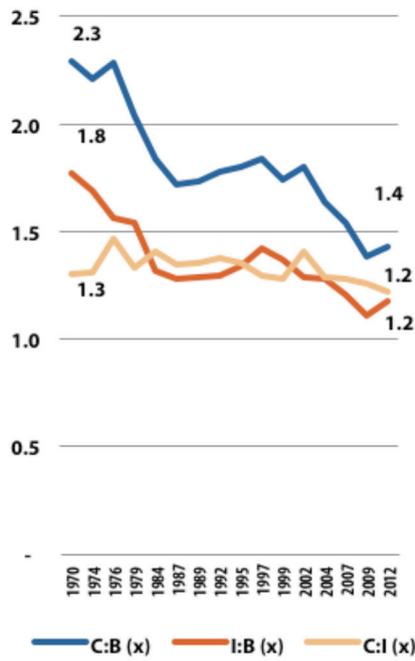
the current income disparity standing at 1.17. Nonetheless, there is slight increase in income gap between the Bumiputeras and the non-Bumiputeras for the period of 2009-2012—where the income gap between the Bumiputeras and the Chinese increased by 5.1%, while with the Indians, the gap jumped by 6.4% during the same period. The income gap between the urban and rural household, meanwhile, also saw a reduction by about 15% from 2.14 in 1970 to 1.86 in 2012.

3.2.3 Growth shared across distinct groups

Another key characteristic of inclusive growth is that the benefit of economic growth must be equally shared by everyone. Malaysia's economic progress and development benefited all groups

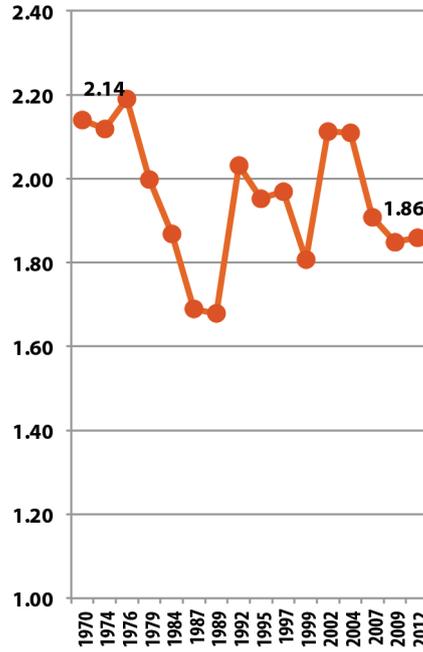


Figure 3.9:
Income disparity between ethnic groups



Source: Economic Planning Unit.
Note: B : C is Bumiputera : Chinese; B : I is Bumiputera : Indian; C : I is Chinese : Indian

Figure 3.10:
Income gap by location (rural-urban)

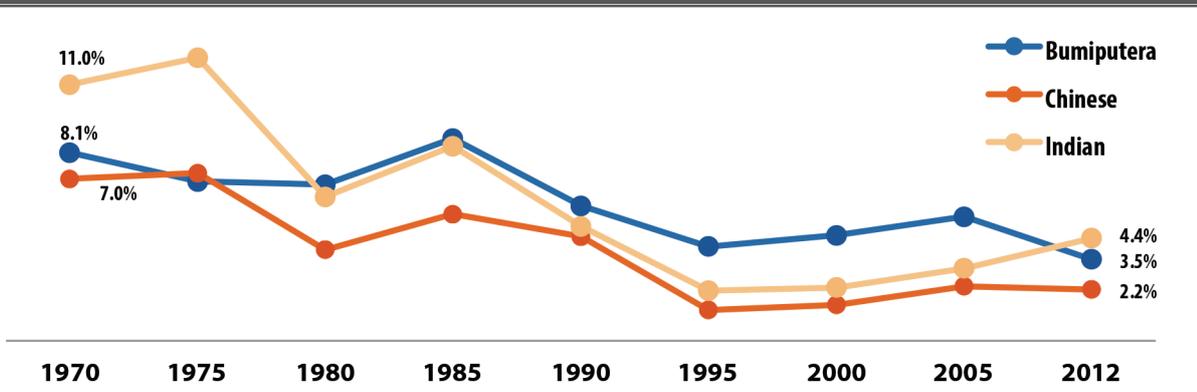


Source: Economic Planning Unit.

almost equally. For instance, the compounded annual income growth rate for the Bumiputera household from 1970-2012 is 8.1%, which is not significantly different from the Indians at seven per cent or the Chinese at 6.8%. The increase in income for all

groups is contributed by a high level of employment; the unemployment rate for all ethnic groups reduced significantly, from about 11% in 1970 to three per cent in 2012 for the Indians, from seven per cent to 2.2% for the Chinese, and from eight per cent to 3.5%

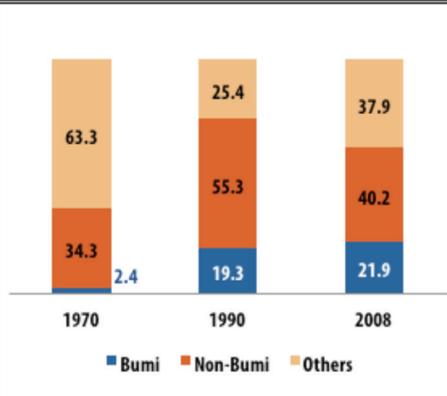
Figure 3.11:
Unemployment rate by ethnicity, 1970-2012



Source: Various Malaysia Plans, Department of Statistics.



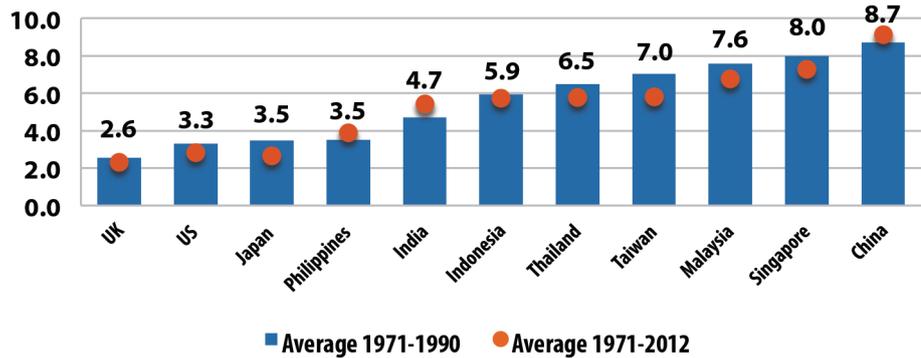
Figure 3.12:
Ownership of equity by groups



Source: Economic Planning Unit.
Note: nominees companies are assigned "Others".

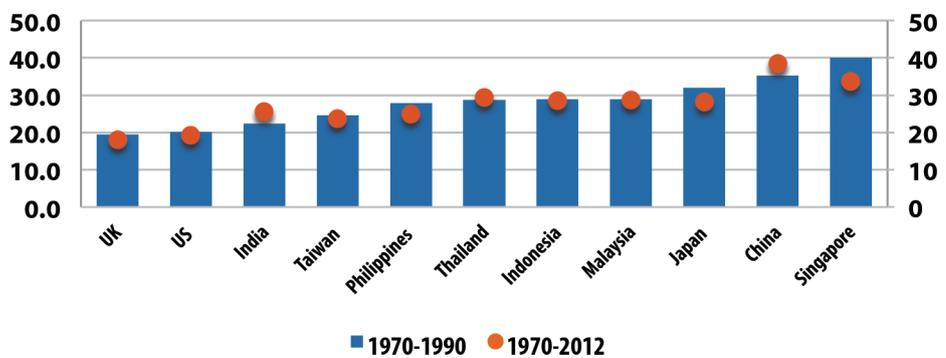
for Bumiputeras respectively (Figure 3.11). Additionally, the period saw an increase in asset ownership across all ethnic groups, largely at the expense of non-residents in the 1970s and 1980s (Figure 3.12). For instance, the equity share of Bumiputeras increased from 2.4% in 1970 to about 20% in 1990, with the share of non-Bumiputera climbed higher to 55.3% from 34.3% during the same period. Towards 2011, however, non-Bumiputera share declined while the Bumiputera share continued to grow, to 23.5%. Meanwhile, the share of

Figure 3.13:
Average GDP growth (%)



Source: IMF World Economic Outlook Database, October 2012.

Figure 3.14:
Average investment to GDP (%) in selected countries



Source: IMF World Economic Outlook Database, October 2012.

non-residents was shaved by half from slightly less than two-thirds of total equity ownership in 1970 to about one-quarter in 1990. Subsequently, the share of equity held by foreigners increased.

3.2.4 Robust and resilient growth

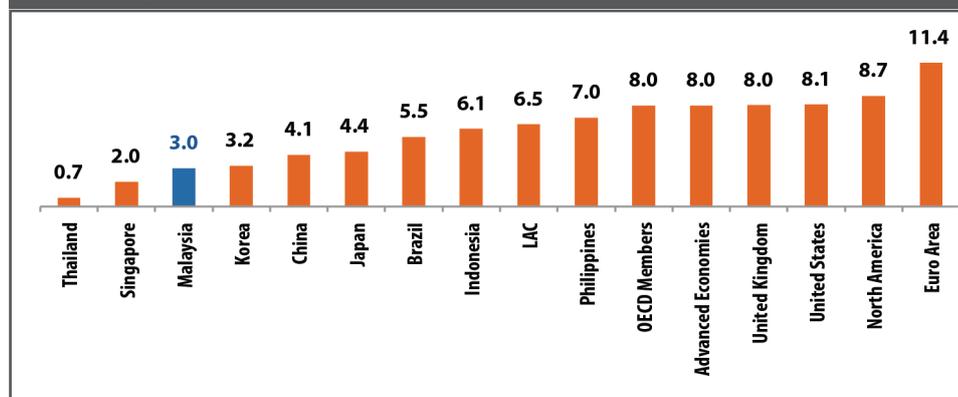
The robust rate of decline of inequality and poverty befits taking a closer look at some of its main drivers. Key among them is high and sustainable economic growth—another pre-requisite and characteristic of inclusiveness. Malaysia's economic growth rate was resilient; it registered a 7.6% growth rate during the period of 1970-2012 (household income grew by 7.3% during the same period), which is among the highest in the region (Figure 3.13). In fact, compared to comparable non-homogenous countries such as South Africa and Sri Lanka, Malaysia has performed exceptionally well, even better than many of its neighbours that did not pursue affirmative action-type economic policy. This implies that Malaysia's inclusive policy at worst has done no harm to the economy.

The resilient economic growth was supported by robust investment activities, with an average investment ratio to the GDP of about 30% during the period of 1970-1990, and remains at almost the same level even if the measurement is stretched longer to 2012. The high and stable investment to GDP ratio registered is also similar to its neighbours (Figure 3.14); in fact, the net FDI inflows into Malaysia were not only positive but also among the highest in the region during 1970-1990. This suggests that the policy did not retard investment, repudiating disparaging claims that the level of investment in Malaysia remained low because of restrictions imposed by economic policy post 1970⁴.

The high and sustainable growth rate supported by robust investment activities has created new job opportunities; as a result the unemployment rate has been falling from 7.4% in 1970 to about three per cent in 2012. Cross-country comparisons show that the unemployment rate in

Malaysia's inclusive policy at worst has done no harm to the economy.

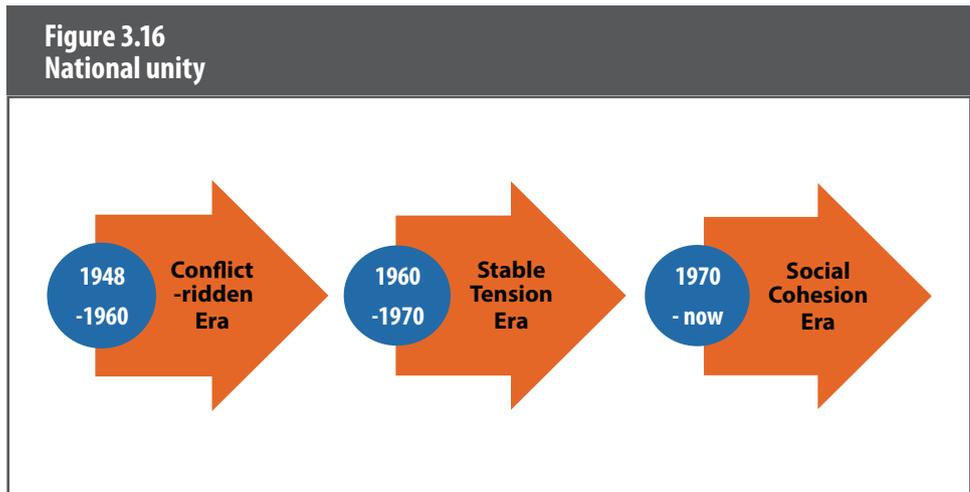
Figure 3.15:
Unemployment rate in selected countries, 2012



Source: IMF database except Latin American countries (ILO) and North America (World Bank).

⁴See for instance Gomez, E. T. and Saravanamuthu, J. (2013) who stated (wrongly) that the level of investment in Malaysia remain low, and Ramon Navaratnam (2011) argues that the NEP and its remains are one of the main reasons for the decline in foreign and domestic investment in Malaysia.





Malaysia is relatively low compared to the regional economies, and even lower than many developed economies (Figure 3.15). For instance, unemployment rates in OECD countries and high income countries in 2012 are about eight per cent, more than double Malaysia's.

In sum, the Malaysian development progress from 1970 to 2012 considerably bears the hallmarks of inclusiveness. Benefits of economic growth have been distributed across distinct groups and to the poor regardless of group membership, and opportunities for socioeconomic participation have been increasingly accessible. It is a rather impressive

achievement for the country considering that the total cost for poverty eradication and restructuring of society is rather small, at about RM98.7 billion out of total expenditure of RM2,398 billion between the period of the Second Malaysian Plan and the Ninth Malaysian Plan. In other words, the total allocation to poverty is equivalent to about 4.1% of total expenditure of the Malaysian government from 1970 to 2010, while the share of restructuring of society equals to about one per cent, although other factors may also play a role in contributing to the impressive reduction of poverty and restructuring of society.

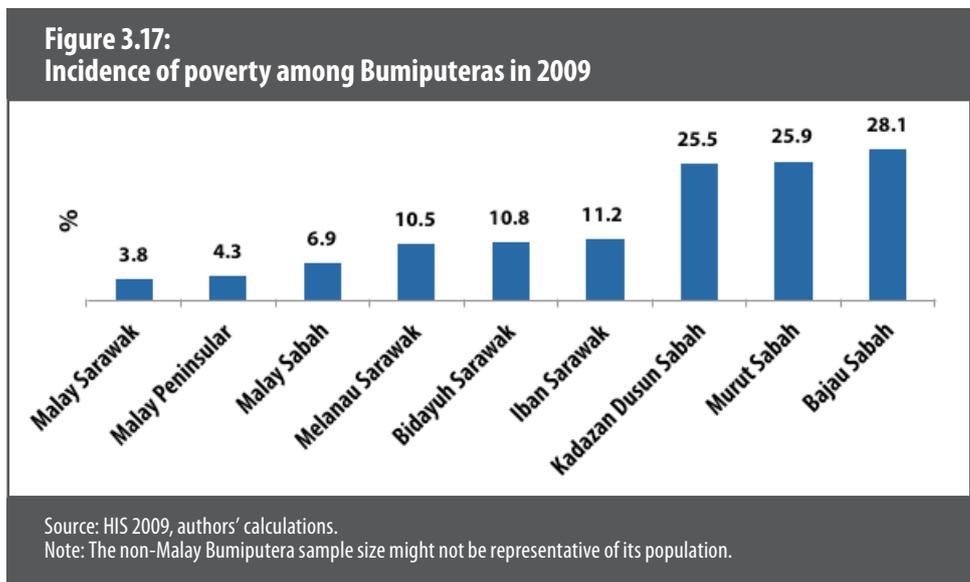
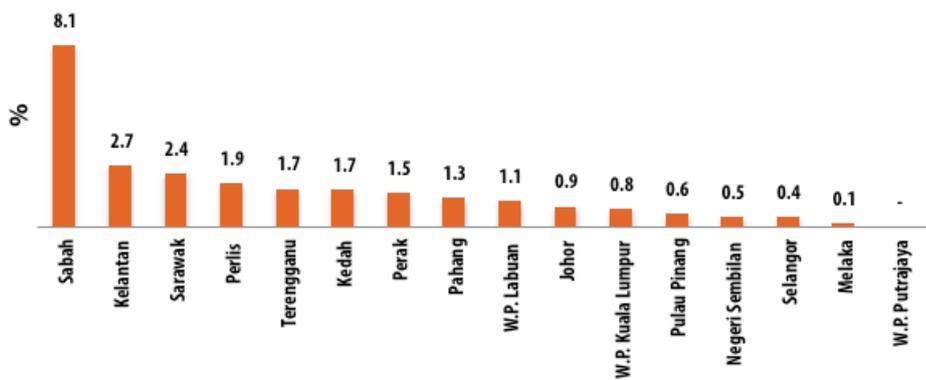


Figure 3.18:
Poverty rate by state in Malaysia, 2012



Source: Economic Planning Unit.

Unique to Malaysia, inclusive growth policy was designed with the ultimate objective of national unity. And to a certain extent, it worked, given that the policy has created social and political stability “...which was an important component of Malaysia’s intangible capital that allowed long-term productive investments to be undertaken” (World Bank, 2013c, p.47). There has been an improvement in stability – from the conflict-ridden era during the period of 1948 to 1960, to the stable tension era from 1960 to 1970, and the social cohesion era that began at the start of the NEP in 1970 (Shamsul, 2004), followed by the social cohesion era post 1969 racial riot (Shamsul, 2010). The shift from stable tension to social cohesion is one of the key factors – if not the key factor – for breeding a conducive and stable environment for businesses and investments.

3.2.5 Challenges remain

Although there has been great and unprecedented progress in the reduction of extreme poverty since 1970, there is however heterogeneity in poverty level

by groups, especially among Bumiputeras. For instance, although the poverty rate for Bumiputeras in 2009 is 5.3%, the poverty rate for the Kadazan Dusun and Murut in Sabah are four times higher at about 25% (Figure 3.17). Chapter 10 in this *Report* elaborates on the state of poverty and lagging development among Bumiputera minorities. Disparity in poverty rate among states also shows skewed distribution; the poverty rate in Sabah, at 8.1% is significantly higher than the state with the lowest poverty rate i.e. Malacca, at 0.1% (Figure 3.18).

In addition, if poverty is measured using the relative poverty rate⁵ (defined as less than half of the median income), as suggested in the NEM, about 20% of Malaysian households are considered poor (Figure 3.19).

Among ethnic groups, the relative poverty rate has climbed since 1989, with the current highest relative poverty rate

Unique to Malaysia, inclusive growth policy was designed with the ultimate objective of national unity. And to a certain extent, it worked.



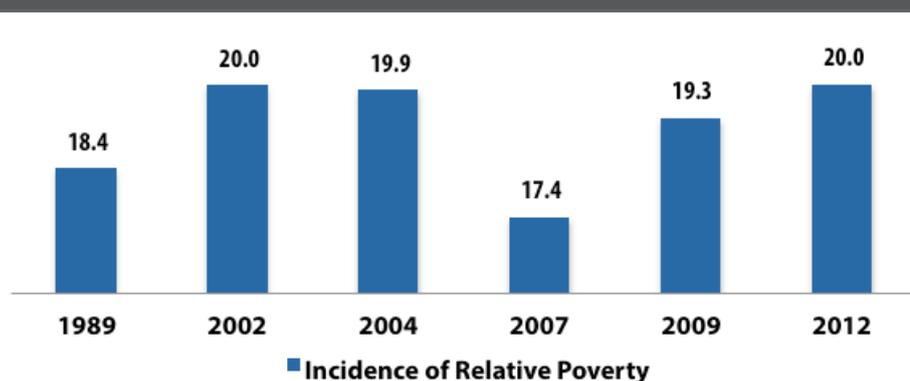


among the Malays at 19.1%, followed by the Chinese at 17.9% (Figure 3.20). The lowest relative poverty rate is registered for the Others, at 13%. Relative poverty rate registered in urban and rural households has remain stagnant since 1989, where the rate for the urban households in 1989 was 18.2%, almost identical to 18.3% in 2012 (Figure 3.21). Among rural households, however, it has improved from 17.2% to 14.6% during the same period. This is in contrast to the normal convention of measuring poverty using the poverty line income, where the official data show

the poverty rate decreasing for all ethnic groups, as well as among the urban/rural areas. Measurement of poverty using relative measurement indicates mixed result.

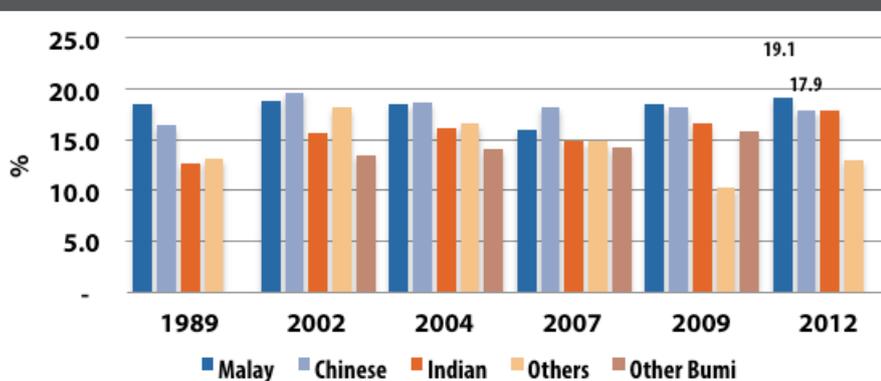
Additionally, despite the fact that household income for all groups has been increasing since 1970, income disparity has remained unchanged from 1990. For instance, the relative income gap between the rich (top 20%) and the poor (bottom 40%) in 1989 was about seven times, and it remained at identical levels in 2012 (Figure 3.22). The relative gap between

Figure 3.19:
Incidence of relative poverty in Malaysia, 1989-2012



Source: Household Income Survey, various years, authors' calculations.

Figure 3.20:
Relative poverty in Malaysia by ethnicity 1989-2012

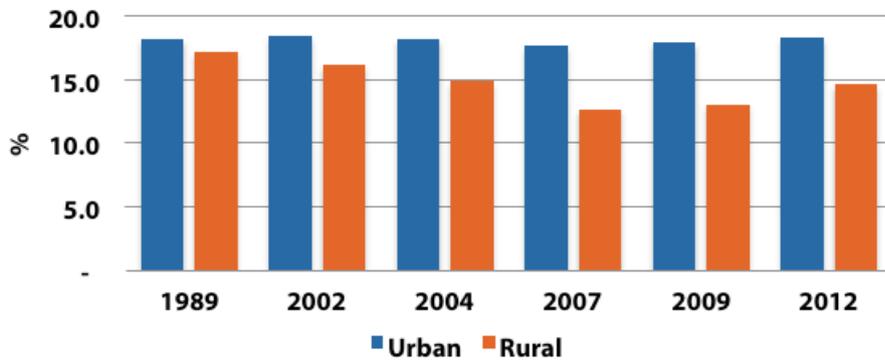


Source: Household Income Survey, various years, authors' calculations.

⁵Relative income poverty is measured here using the OECD definition, where the poverty rate is the ratio of the number of people who fall below the poverty line and the total population; the poverty line is here taken as half the median household income.



Figure 3.21:
Relative poverty in Malaysia by strata 1989-2012



Source: Household Income Survey, various years, authors' calculations.

the urban and rural also has stagnated during the same period, at about 1.8 times. Incidentally, the gap in 2012 is the same as in 1957, the year Malaya obtained its independence from the British (Figure 3.23). Thus, overall inequality, measured by Gini, although dropping steadily from 1970 until the official expiration of NEP, has been on a slight rollercoaster and has remained at almost the same level since. Although inequality has remained stagnant in the past two decades, regional comparisons show that with the exception

of Vietnam, Cambodia, Nepal and Thailand, which registered slight reduction in Gini coefficient, inequality has increased across most of the region during the same period (Balakrishnan, Steinberg and Syed, 2013). Therefore, addressing the stagnation of progress in reducing inequality is a key challenge moving forward, given that stagnation or an increase in inequality would dampen the impact of growth on poverty reduction.

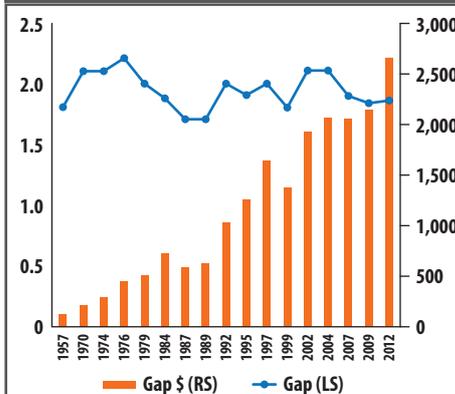
While we acknowledge that using other measures such as income share, income

Figure 3.22:
Income gap between top 20% & bottom 40%, in ratio and absolute terms



Source: Economic Planning Unit, authors' calculations.

Figure 3.23:
Income gap between urban and rural household, in ratio and absolute terms



Source: Economic Planning Unit, authors' calculations.



ratio and Gini coefficient have shown an improvement in income disparity, the income gap between the top 20% and bottom 40% of households when measured in absolute terms, has actually increased during the period of 1970 to 2012 (Figure 3.24). For instance, the income gap between the rich and the poor jumped 13 times from

If the income gap between the top 20% and bottom 40% of households is measured in absolute terms, it has actually increased during the period of 1970 to 2012.

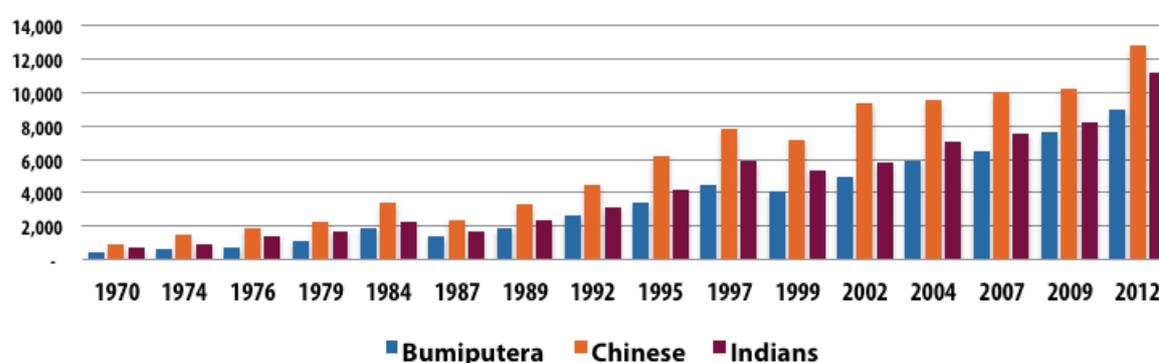
RM659 in 1970 to RM10,312 in 2012. The absolute gap between the urban and rural also widened, from RM228 in 1970 to RM2,262 in 2012, an increase by about 11 times. In terms of ethnicity,

the highest gap in absolute terms was registered among Bumiputeras, where the income gap jumped by nearly 20 times compared to 11 times for the Chinese and the Indians during the period of 1970 to 2009. Importantly, the widening gap appears to have come from increased income disparities within the groups, be it ethnic, strata or gender.

3.3 Other dimensions of inclusiveness

While the focus for the past four decades has been almost exclusively on reducing poverty and closing the income gap between ethnic groups, new priorities have emerged, requiring new approaches to reflect these changes. Following Stiglitz, Sen and Fitoussi (2008), new measurements of inclusiveness must not only focus on income, but also wealth and consumption. In addition, the average measures of income, consumption and wealth should be accompanied by indicators that reflect their distribution. In addition, the new dimension of inclusiveness must also simultaneously consider non-economic indicators such as social stratifications, education, health and employment opportunities. The next few sections will address several of these dimensions, specifically income distribution, wealth, wages and employment opportunities.

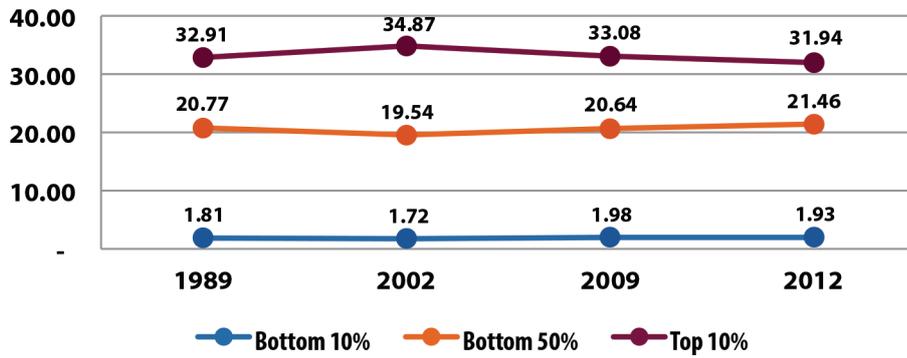
Figure 3.24:
Gap in absolute terms between top 20% and bottom 20% (in Ringgit Malaysia)



Source: Economic Planning Unit, authors' calculations.



Figure 3.25:
Income share distribution, 1989-2012



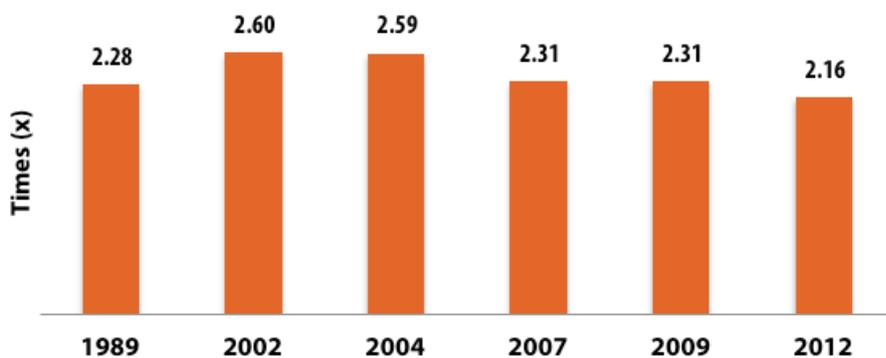
Source: Household Income Survey, various years, authors' calculations.

3.3.1 Income distribution

It is important that in tackling inequality, equal attention must be paid to both the poorest as well as the richest. Analysis on income distribution shows that the income share that accrued to the top one-tenth of the population in 2012 at 32% is higher than the income share controlled by the bottom half at 21.5%, and the gap between them has remained steady for the past three decades (Figure 3.25). In other words, the share of the poor and middle class has not improved during the same period.

Alternatively, we can also measure the progress of inequality by looking at the Palma ratio. Using the Palma ratio – the ratio of the top 10% of the population's share of income, divided by the poorest 40% of the population share of income – gives us an alternative measure of inequality. The choice of cut-off decile of top 10% and bottom 40% is due to the fact that, although the middle class tends to capture around half of the national income in many countries with different income levels, the other half is shared unequally between the top 10% and bottom 40%. In

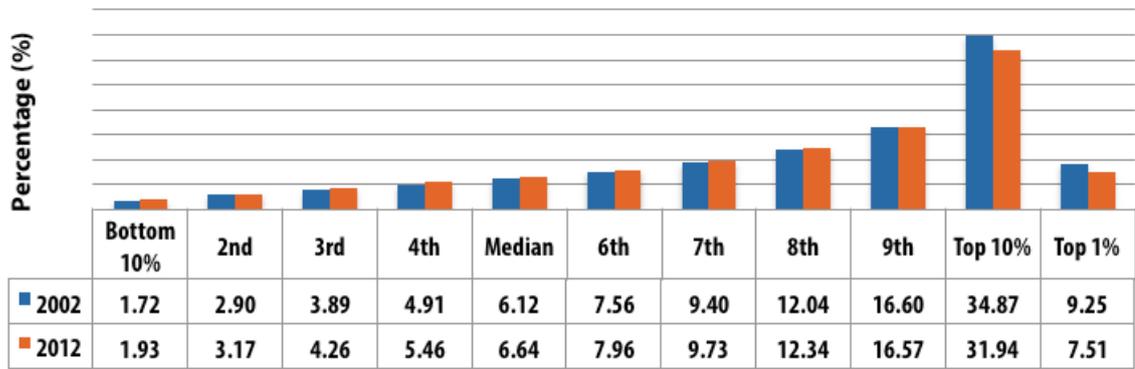
Figure 3.26:
Ratio of income distribution share of top 10% to bottom 40%, Malaysia, 1989-2012



Source: Household Income Survey, various years, authors' calculations.

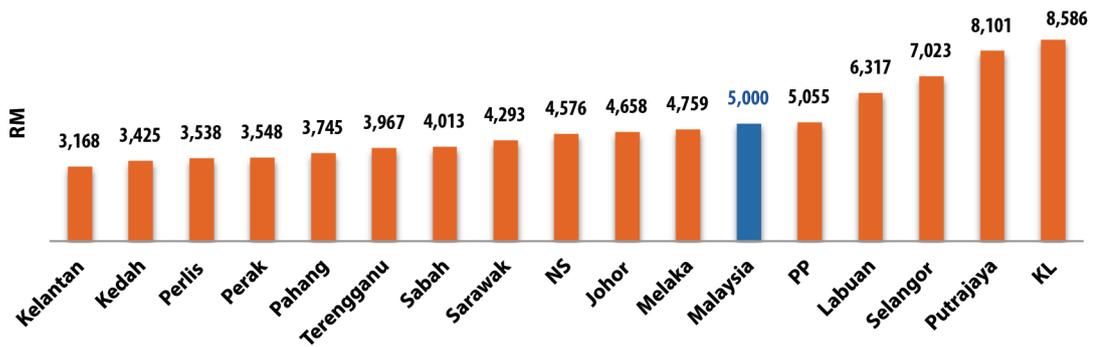


Figure 3.27:
Income distribution share by decile, Malaysia, 2002 & 2012



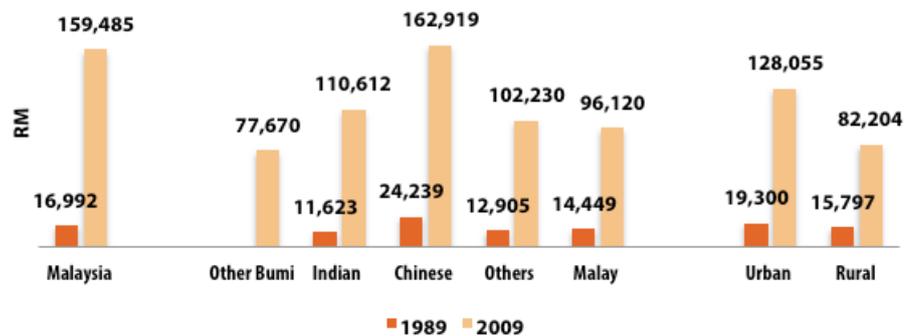
Source: Household Income Survey, various years, authors' calculations.

Figure 3.28:
Average household monthly income by state 2012



Source: Economic Planning Unit.

Figure 3.29:
Mean wealth per capita by ethnicity and strata



Source: Household Income Survey, various years, authors' calculations.

more equal societies this ratio would be one or below, meaning that the top 10% would not receive a larger share of the national income than the bottom 40%. In very unequal societies, the ratio may be as high as seven. Therefore, looking at the Palma ratio will give another insight to the extent of inequality in Malaysia.

Using data from HIS 2012, the analysis shows that the ratio of income distribution of the top 10% to the bottom 40% in 2012 is about 2.16 times—not quite alarming but identical to the ratio in 1989 (Figure 3.26 & 3.27). Breaking this down by ethnicity, the ratio is the highest among the non-Malay Bumiputeras at 1.24, followed by the Malays, Chinese, Indians and Others at 0.54, 0.52, 0.48 and 0.45 respectively. In terms of strata, the ratio is much less, at 0.48 for the urban and 0.38 for the rural.

There is also heterogeneity in average household income by state (Figure 3.28). The gap between the state with the highest average monthly household income (Kuala Lumpur) and the poorest (Kelantan) stands at about RM5,418. In other words, the richest state has about 2.7 times more income than the poorest. It should be noted that this is an improvement over 1976, where the same ratio stood at 3.9.

3.3.2 Asset inequality

Asset ownership is another new indicator that can reveal the level of inclusiveness in a particular society. Ownership of assets is a powerful enabler in social and economic progress, and the lack of it can seriously impede economic and socio-mobility. Following Muhammed's (2011) approach and methodology in generating wealth distribution and inequality using HIS data, our analysis shows that the median⁶ wealth per capita in Malaysia for the year 2009

was RM113,644, and registered a 10% compounded growth during the period of 1989 to 2009. As with income, Chinese has the highest wealth per capita at about RM163,000, followed by the Indians at about RM110,612 (Figure 3.29). The Malays on the other hand have slightly more than half (55%) of the Chinese wealth, while Others have 53% of the Chinese. Compared to the Malays, the average wealth per capita of non-Malay Bumiputeras is 87% of the Malays, or about RM78,278.

In terms of strata, those living in the urban areas would have about 55% more than the average wealth per capita of the rural Malaysian, with the latter having an average wealth of RM82,204. Almost all groups – ethnic and strata – enjoy higher wealth compared to two decades ago, with the highest compounded growth for Indians at 12%, with the Chinese, Others and Urban Malaysians registering 10% growth in average wealth. The Malays meanwhile registered a slightly smaller growth, at 9.5%, while rural Malaysians experienced the slowest growth in wealth accumulation at 8.6%.

However, from the strata angle, we see marginal improvements in the Malaysian wealth Gini. The Gini coefficient of wealth per capita for urban dwellers has only reduced from 0.54 in 1989 to 0.50 in 2009, while for rural citizens, wealth per capita inequality has reduced more significantly from 0.48 to 0.38. Not surprisingly, the Gini coefficient for median wealth per capita for Malaysia in 2012 was 0.81, higher than the Gini for income at 0.43, although still lower than the average in the Asia Pacific and the world at 0.89 and 0.9 respectively (Figure 3.30).

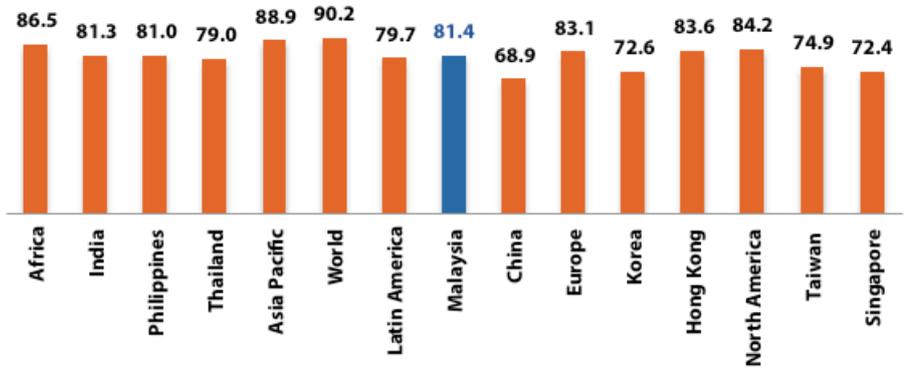
The richest state has about 2.7 times more income than the poorest.

⁶Wealth is defined by wealth per capita, consisting of property value and value of financial assets derived from extrapolating dividend and interest incomes from savings. Value of the financial assets of the household is divided with number of household member and added to the value of property assets, to arrive at a wealth per capita number.



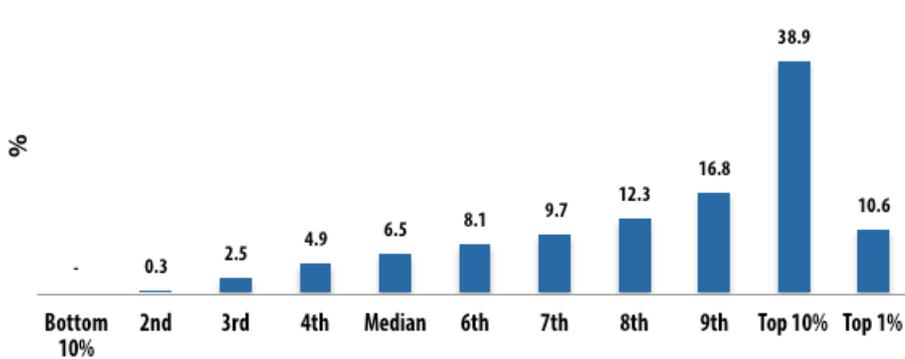


Figure 3.30:
Gini coefficient on median wealth per adult, 2012



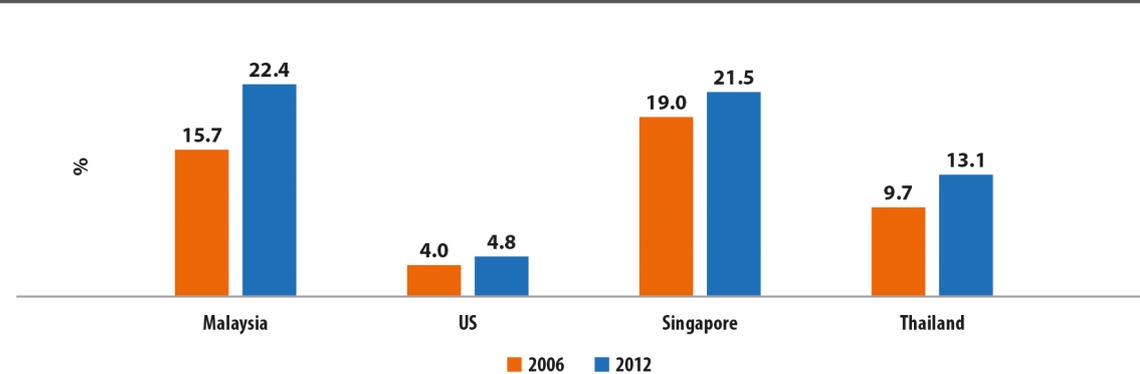
Source: Credit Suisse Global Wealth Outlook 2012.

Figure 3.31:
Wealth distribution share by decile, 2009



Source: Household Income Survey 2009, authors' calculations.

Figure 3.32:
Total wealth of top 40 richest to GDP



Source (GDP): World Bank, Department of Statistics Singapore and US Bureau of Economics.
Note: GDP at current prices (USD), Malaysia and Thailand GDP for year 2012, US and Singapore year 2011.



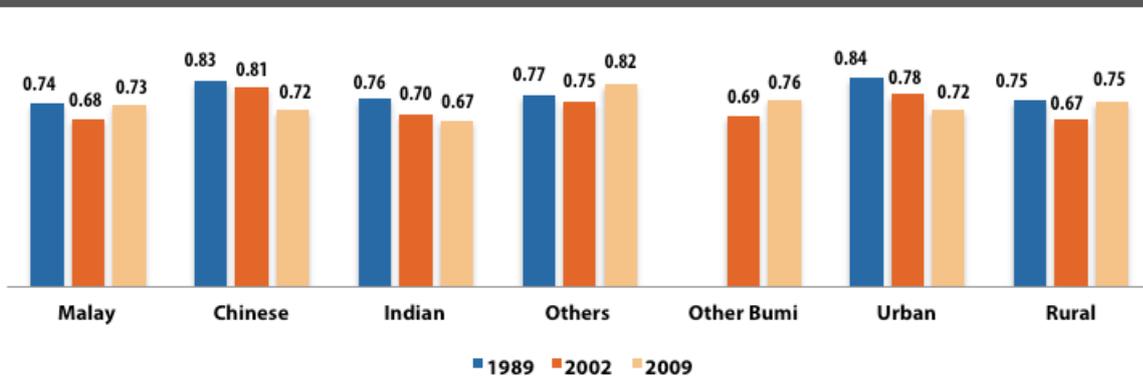
The distribution of wealth is extremely skewed. The specific methodology to calculate wealth that is employed by this report provides an indication of the concentration of wealth in the higher deciles and hence, the policies focused on the bottom 40% continues to be relevant and can be strengthened moving forward. The extreme concentration of wealth is evident when compared to the size of the economy (Figure 3.32). The total wealth of the richest 40 Malaysians is equivalent to 22% of the country’s GDP, an increase from 15.7% in 2006. In relative terms, Malaysia’s 40 richest individuals are in fact much wealthier than the top 40 richest individuals from the United States, Singapore or Thailand.

If the distribution of wealth is broken down to its components i.e. financial assets and property assets, the inequality of the former is more extreme compared to the latter. The financial asset inequality by groups shows that inequality in financial assets is equally high across all ethnicities and strata, although it is slightly higher among the Others, at a Gini coefficient of 0.82 (Figure 3.33). It has however decreased

marginally in the past two decades for all ethnicities and strata, although among the Others and the rural Malaysians the inequality rate has climbed. The analysis using household data shows that 53% of Malaysian households has no financial assets, with rural households having the highest number of those without any financial assets (63%), compared to urban households (45%). If we dissect the distribution of financial asset, analysis from HIS 2009 shows that about 88% of household reported zero earnings from savings, with nearly 90% and 86% of the rural and urban households respectively have zero savings. Our analysis excludes forced savings i.e. savings in the Employees Provident Fund (EPF) as we are interested in precautionary savings given that households do not have access to forced savings in case of immediate income shock or fiscal emergencies. The figure on financial investment, derived from dividend income earned, shows that about 57%

The policies focused on the bottom 40% continues to be relevant and can be strengthened moving forward.

Figure 3.33:
Financial assets: Gini coefficient



Source: Household Income Survey, authors’ calculations.



of Malaysian households reported zero earnings from investment, with the figure for urban households at 50%, and rural households at 66%.

The low savings among Malaysian households, although quite alarming, is not unexpected. Although Malaysia has a relatively high gross national savings rate, the bulk of the savings is from the corporate sector, with a small contribution from the households. Latest available data from Department of Statistics (DOS) on the distribution and use of income and capital accounts shows that in 2009, households contributed about 2.2% to national gross savings, while the corporate sector (non-financial and financial corporations) accounts for about 91%, while the remaining comes from the government sector (DOS, 2013, Chart 4). The gross national savings rate, as percentage of Gross National Income, in 2009 stood at 31.6% (BNM 2011, Table 1.2a). Among ethnic groups, about 57% of non-Malay Bumiputeras and 55% of Malays have no financial assets, with the figure for the Chinese and Indians at 45% and 44% respectively. In other words, roughly one out of two Malays, non-Malay Bumiputeras, Chinese and Indians have no immediate liquid financial assets, making them vulnerable in the event of an income or employment shock.

Apart from low household precautionary savings or financial assets, there is also a stark gap in compulsory savings among Malaysians. Data from EPF shows that as at end of 2013, about one-fifth of Malaysians who are nearing retirement age (between the ages of 51-55) have less than RM 20,000 in savings, while nearly 70% of those at the age of 54 have savings less than RM 50,000. In other words, assuming a monthly expenditure

of RM 900 per month, the savings of the former could sustain their basic lifestyle for 1.8 years, while for the latter, the figure stands at 4.6 years. Given that average life expectancy in Malaysia is 72.6 years (male) and 77.2 (female), majority of Malaysians would be without any savings for more than a decade after retirement. The low amount of savings is not surprising, as a majority of Malaysians earn low wages. The monthly wage distribution from EPF shows that in 2013, one-third or 2.1 million active members earn less than RM 1,000, slightly more than three-fourth (76.8%) earn less than RM 3,000, and about 90% earn less than RM 5,000 per month. As expected, the inequality in compulsory savings is rather extreme, where the top 1.7% of depositors in EPF has more savings than the savings of the entire bottom 57% combined.

The high level of financial inequality in Malaysia should not be surprising. The distribution of the Amanah Saham Bumiputera⁷ (ASB) for 2012 showed that although the average investment equalled RM14,096, about 74% of unit holders have an average investment of RM611. In other words, their share is equivalent to 3.2% of the total deposit into the ASB (Table 3.2). Strikingly, the share of the top 0.2% is much higher—2.4 times than the share of the entire bottom 74%. Looking at it differently, these top 0.2% depositors with an average investment of RM692,087 have 1,132 times the financial assets more than the bottom 74% combined, and their share of the fund size is more than double than the bottom 74% of depositors. It is worth noting that 30% of the total fund size in ASB is financed via borrowings, as data from Bank Negara Malaysia shows that loan amount outstanding for purchase of ASB units as of 31 December 2011 amount to

⁷Amanah Saham Bumiputera is a unit trust scheme open only for Bumiputeras.



Table 3.2:
ASB distribution 2005 and 2012

ASB Distribution Profile			
As of 31 December 2005			
Size of holdings (units)	% of unit holders	Average Account Size (RM)	% of value (RM)
5,000 and below	79.9%	497	5.4%
5,001 to 10,000	6.4%	5,789	5.0%
10,001 to 50,000	9.8%	18,229	24.2%
50,001 to 100,000	1.9%	64,628	16.2%
100,001 to 150,000	0.8%	112,167	12.7%
150,001 and above	1.1%	250,910	36.4%
ASB Distribution Profile			
As of 31 December 2012			
Size of holdings (units)	% of unit holders	Average Account Size (RM)	% of value (RM)
5,000 and below	73.7%	611	3.2%
5,001 to 10,000	5.7%	6,676	2.7%
10,001 to 50,000	12.8%	22,599	20.5%
50,001 to 500,000	7.7%	121,068	65.9%
500,001 and above	0.2%	692,087	7.7%

Source: PNB Annual Report 2008, 2012, authors' calculations.

RM28.8 billion (total fund size in 2011: RM 95.9 billion).

The distribution pattern of the Amanah Saham Nasional Berhad is another significant indicator of wealth distribution, considering that the fund constitutes about half of the mutual funds market share in Malaysia. The annual reports in 2005 and 2012 of the ASB both reveal significant differences between the top account holders and the bottom majority. In 2005, almost 80% of account holders (approximately 4.7 million account holders) account for only 5.4% of the asset value, while the top 1.1% (approximately 63,000 accounts) alone hold 36.4% of the assets

under ASB management. The picture barely changes in 2012; the share of the bottom 80% increased slightly to 5.9%, with their average investment increased from about RM500 in 2005 to RM611 in 2012, translating into a compounded growth rate of four per cent during the period. The extreme distribution of financial assets can be seen from the share of the top depositors; the top 0.2% of account holders hold more than the value of assets held by the bottom 80% in 2012. Not surprisingly, the same extreme distribution pattern is replicated in another premier investment avenue for Bumiputeras i.e. Tabung Haji. The top 0.1% of investors in Tabung Haji



Table 3.3 :
Distribution of Tabung Haji depositors, 2012

Tabung Haji Distribution Profile	As of 31 December 2012		
	Size of holdings (units)	% of unit holders	Average value (RM)
5,000 and below	87.1%	566	11.3%
5,001 to 10,000	4.9%	7,042	7.8%
10,001 to 50,000	6.8%	19,766	30.7%
50,001 to 500,000	1.2%	113,082	30.6%
500,001 and above	0.1%	1,403,442	19.6%

Source: Lembaga Tabung Haji, authors' calculations.

has an average investment of nearly RM1.4 million, while the bottom 87% has an average investment of RM567, translating

into a gap of nearly 2,500 times. In other words, the share of the top 0.1% of depositors in Tabung Haji which is about 20%, is nearly the same

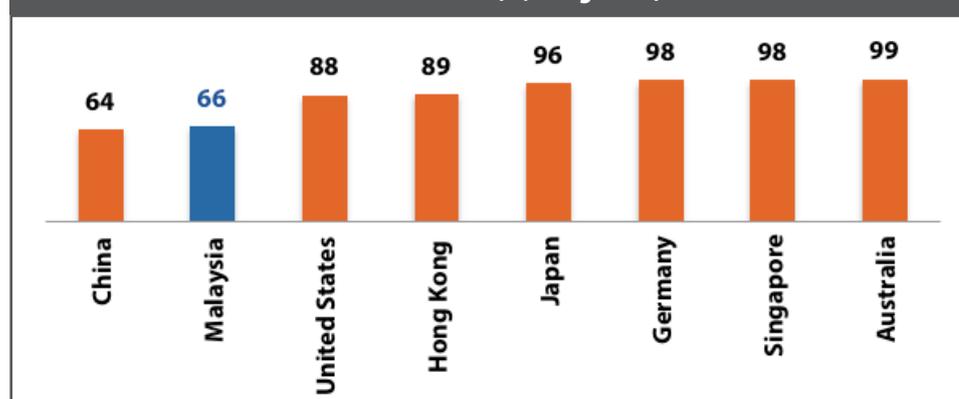
as the share of the bottom 92% combined. In comparison, the income gap between the average household income of top 0.1%

and the average household income of the bottom 87% is only 21 times.

The unequal distribution in financial assets may have contributed to the lack of financial inclusion, indicated by the access to financial accounts. It is important to pay close attention to the level of financial inclusion as it is a prerequisite for poverty reduction and social cohesion. The data on financial inclusion in Malaysia shows that only about 66% of Malaysians above the age of 15 have accounts at a formal financial institution⁸. This is much lower compared to developed economies such as

Only about 66% of Malaysians above the age of 15 have accounts at a formal financial institution.

Figure 3.34:
Account at a formal financial institution (% of age 15+)

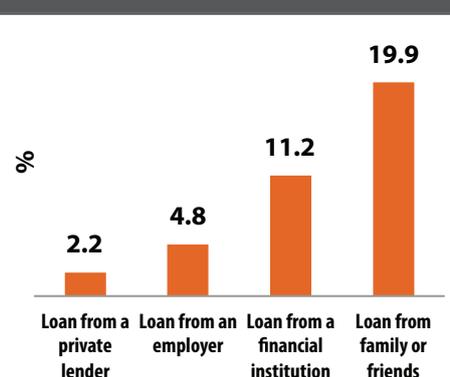


Source: WB Financial Inclusion database.

Note: Financial institution refers to bank, credit union, microfinance institution, or another financial institution such as a cooperative.

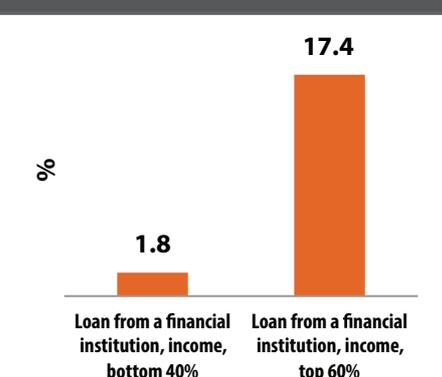


Figure 3.35:
Malaysia: Source of Individual borrowing, 2011



Source: WB Financial Inclusion database.
Note: Financial institution refers to bank, credit union, microfinance institution or another financial institution such as a cooperative.

Figure 3.36:
Malaysia: loan from financial institutions by income, 2011



Source: WB Financial Inclusion database.
Note: Financial institution refers to bank, credit union, microfinance institution or another financial institution such as a cooperative.

Singapore and Australia which have nearly 100% of its population having a financial account (Figure 3.34). Despite the fact that Malaysia is generally regarded as having well-developed equity and debt markets – 165% and 97% respectively relative to GDP in 2011 – about one-third of Malaysians still do not have any kind of banking or financial account. Among the bottom 40%, the figure is much higher (50%); in other words, one out of two low-income Malaysians do not have any financial accounts. Access to formal credit (or lack thereof) may also be the reason for the absence of

financial assets; only 11% of Malaysians borrowed from financial institutions in 2011, whereas nearly 27% borrow from other sources such as family members, employers or a private lender (Figure 3.35). The breakdown by income class shows that less than two per cent of the bottom 40% of income earners borrow from formal financial institutions compared to 17.4% from the top 60% of income earners (Figure 3.36). The lack of financial assets, especially for the bottom 40%, severely limits their ability to borrow, invest, save and improve their economic opportunities.

Box Article 3.1: Affordable housing in Malaysia

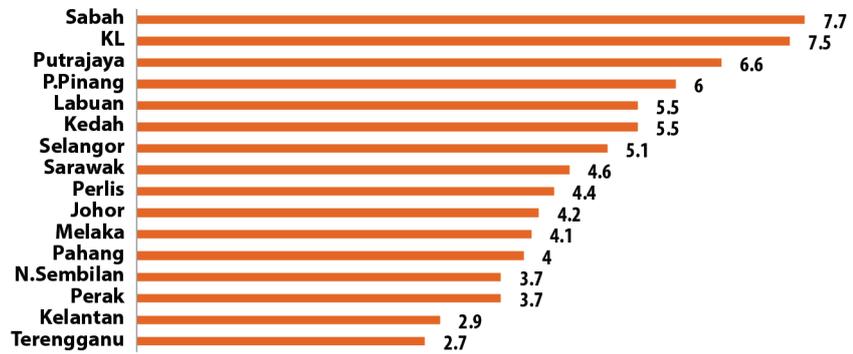
How affordable are residential properties in Malaysia? Anecdotal evidence suggests that property prices are now beyond the reach of the average Malaysian, with rising prices contributing to the increase in household indebtedness. Household debt in Malaysia has nearly doubled from 47% of GDP in 2000 to 83% in 2012, and housing loans make up

half of household indebtedness. The federal government has responded by establishing PR1MA to develop affordable housing for middle-income households (those earning between RM2,500 and RM7,500) in key urban centres offering properties between RM100,000 and RM400,000. However, standard calculations in measuring housing affordability show that the

⁹Data from Bank Negara Malaysia shows that percentage of Malaysian population with savings/deposit account in 2013 is 91.5%.



**Figure 1:
Affordability ratio**

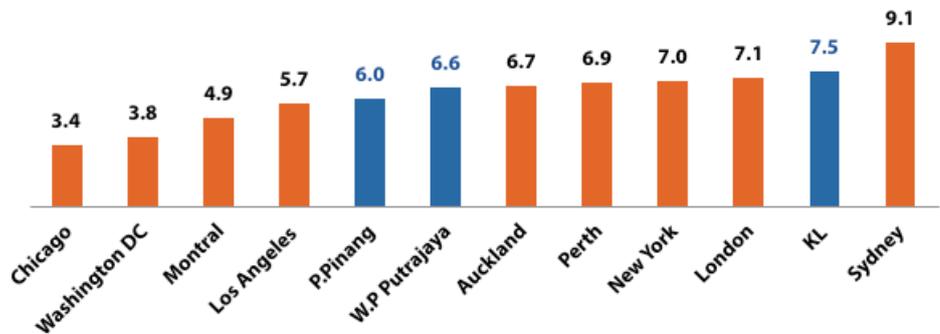


price offered is insufficient in making housing affordable.

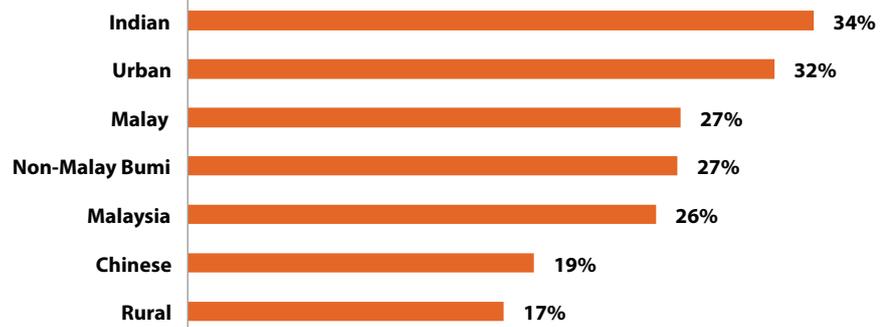
The World Bank suggests using house affordability index—housing is considered affordable if the house price does not exceed three times the annual household income. By

this measurement, the property prices quoted by PR1MA remains unaffordable; households earning a minimum of RM2,500 a month can only afford property below RM90,000, while those earning up to RM7,500 a month can only afford property costing

**Figure 2:
House affordability index, selected cities 2009**



**Figure 3:
Malaysian household with zero property asset, by race and strata**



less than RM270,000. Breakdowns by state reveal that, with the exception of Terengganu and Kelantan, residential properties are considered unaffordable (Figure 1). Seven states have an index of more than 5, meaning that residential properties in these states are considered severely unaffordable. Interestingly, comparing to other cities around the world, it is relatively more expensive to own a residential property in Penang, Putrajaya and Kuala Lumpur (Figure 2).

Housing unaffordability also means that the average Malaysian will face difficulties in purchasing a house. Data from income survey shows that about 26% of Malaysians have no property assets; breakdowns by location reveal that nearly one-third of urban Malaysians do not have any property asset, compared to just 17% of the rural household (Figure 3). Among the ethnic groups, 34% of Indians do not have property assets; with the Chinese having the lowest percentage

of household without any property ownership. More troubling is that about half of households in Kuala Lumpur has no property assets, while Putrajaya – the government administration centre – has the highest number of households without home ownership. Only one in ten of households in Putrajaya, mainly comprising civil servants, have some form of property ownership.

Statistical evidence suggests that owning a residential property in Malaysia is becoming more challenging, meaning that there will be less reliance on property as means of savings for retirement. A lack of assets may impede social mobility given that property assets can be used as collateral for education and business ventures, an important instrument in facilitating upward income mobility. The unaffordability of property in Malaysia is a major challenge, one which policymakers and stakeholders must urgently respond to¹.

Sources: Demographia (6th Annual Demographic International Housing Affordability Survey 2010); Ministry of Finance's Valuation & Property Services Department (Property Market Report 2009); Bank Negara's Annual Report (2012).

Notes: Affordability index refers to median house price divided by gross annual median household income, except for Malaysia where the average house price is used instead of median due to data unavailability.

¹There are programmes to assist the poor and low income households to own houses. Among others are Program Perumahan Rakyat (PPR), Program Bantuan Rumah (PBR), Perumahan Mampu Milik and Skim Rumah Pertamaku. In the 2014 Budget, The Government has increased the real property gains tax to 30% to avoid speculation in the industry and to enable genuine to purchase houses.

3.3.3 Wage inequality

Another new dimension of inequality which requires close attention is wages. If the priority before is to ensure full employment, the new challenge is to ensure that wage growth is equally shared. For instance, there is a significant gap between the remuneration of the top employee i.e. the CEO and the average worker (Figure 3.37). Their disparity ratio,

although having reduced slightly from 114 times in 1990 to about 100 times in 2009, has in fact jumped from RM272,800 to nearly RM1.7 million during the same period in absolute terms. In other words, the average Malaysian wage earner has to work 98 years to obtain the same earnings of an average CEO in 2011. When compared to selected countries, the disparity ratio in Malaysia is about double





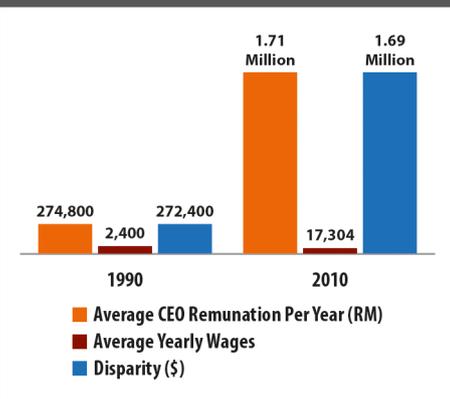
than that of Singapore, although much less than the United Kingdom or the United States where the average CEO makes about 188 and 233 times more than the average worker respectively (Figure 3.38).

The average Malaysian wage earner has to work 98 years to obtain the same earnings of an average CEO in 2011.

The lower wage growth for low income wage earners and the large gap between the CEO and the average worker

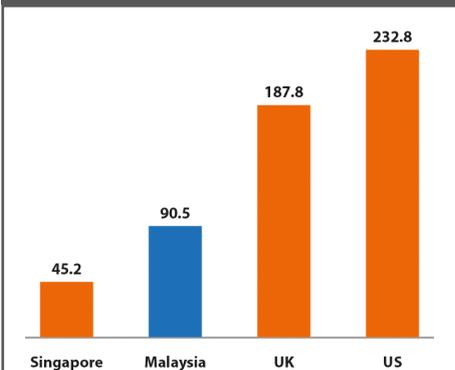
occur in an environment of stagnant wage share of national income. It has decreased slightly from 33.8% in 1970 to 32.9% in 2012, while the operating surplus (or corporate profits) has increased from about half of the national income to nearly two-thirds during the same period (Figure 3.39). Compared to other countries, Malaysia's share of wages is considered low; Singapore's share is 42.3%, Korea 50.6%, and the United Kingdom 62.6% (Figure 3.40). The declining share of wages

Figure 3.37: Disparity between CEO & average Malaysian wages



Source: Malaysian Business Magazine various issues, Household Income Survey, ILO Global Wage Database (2011), CIMB (2012), Hay Group 2012, High Pay Center 2012, Rexrode, C. and Condon, B, 2012.

Figure 3.38: Ratio of average CEO salary to average worker's salary for selected countries, 2011



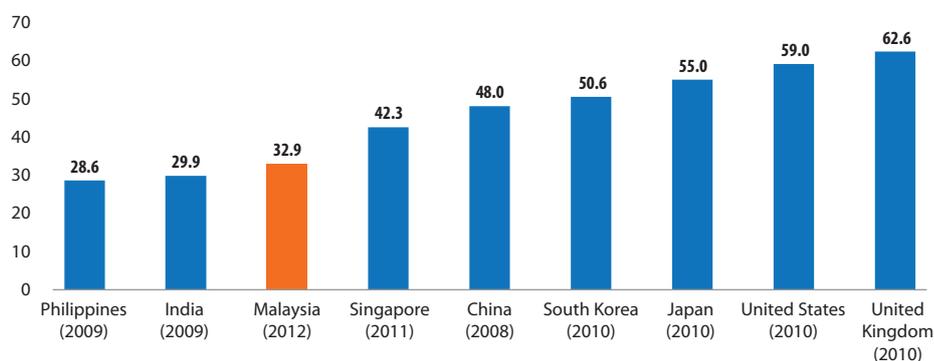
Source: Malaysian Business Magazine various issues, Household Income Survey, ILO Global Wage Database (2011), CIMB (2012), Hay Group 2012, High Pay Center 2012, Rexrode, C. and Condon, B, 2012.

Figure 3.39: GDP income: share of wages to national income (%)



Source: Department of Statistics 2010 & 2014.

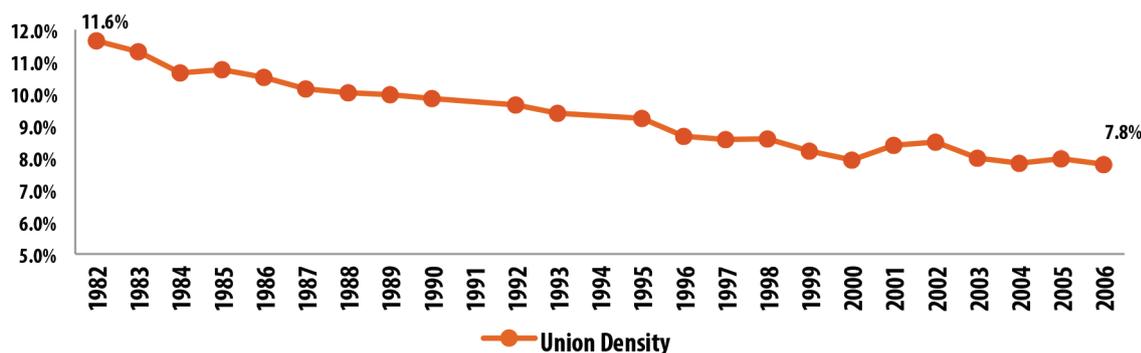
Figure 3.40:
Selected countries: share of wages in national income



Source: ILO Global Wage Database (2011) except Malaysia (Department of Statistics) and Singapore (Department of Statistics).

Note: The wage share refers to unadjusted wage share, which excludes earnings from self-employment.

Figure 3.41:
Malaysia: union density



Source: Ministry of Human Resources Statistics, various years.

in Malaysia is perhaps due to the dilution of workers' bargaining power (Figure 3.41). Union density has dropped by about 40% since 1982; currently only eight per cent of Malaysian workers belong to a union.

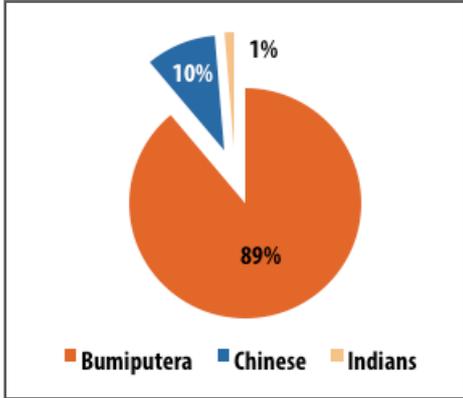
3.3.4 Employment

Another dimension of inclusiveness that needs to be addressed, particularly in a non-homogenous society such as Malaysia, is the labour force. In 2012, the distribution of the labour market shows that the majority of the Malaysian workers are engaged in the private

sector, equivalent to about 85% of the labour force and 10.7 million people. Civil servants meanwhile constitute about 10% of the labour force, with those in GLCs comprising about five per cent. There is a stark contrast in the distribution of labour force in these two sectors when looking at ethnicity; the public sector is overwhelmingly populated by Bumiputeras, while non-Bumiputeras focus on the private sector. The unequal distribution is further complicated by perceptions of bias in the private sector which seem to favour the Chinese, with

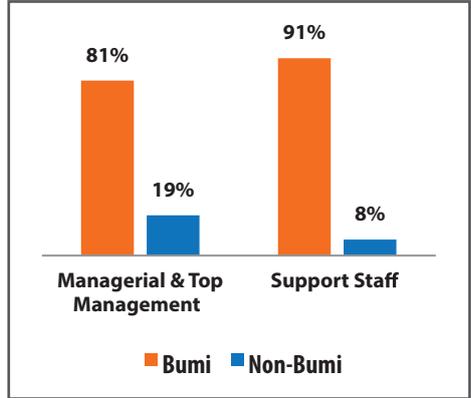


Figure 3.42:
Ethnic composition in the civil service, 2012 (%)



Source: Public Services Department.

Figure 3.43:
Ethnic composition in civil service, by level, 2012



Source: Public Services Department.

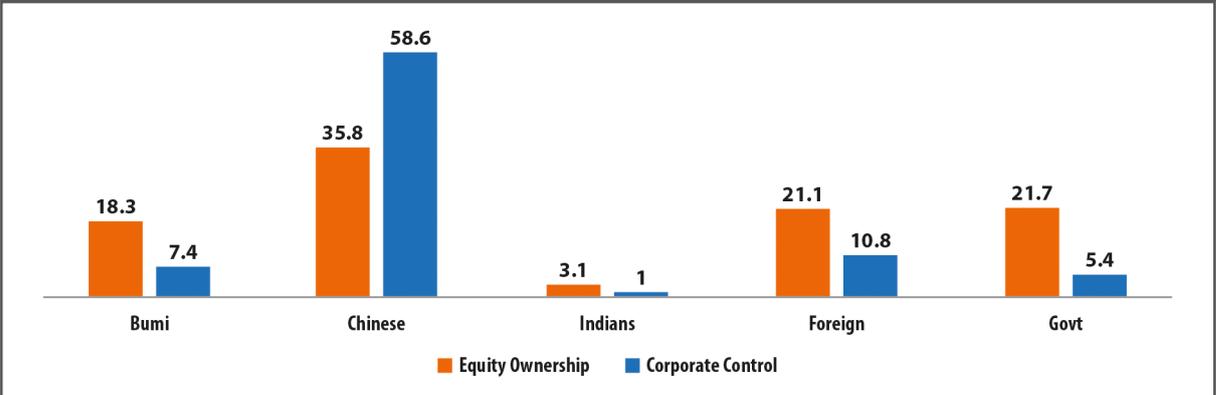
the public sector widely assumed to favour Bumiputeras.

Criticisms of favouritism in the public sector arose partly due to the fact that Bumiputeras form the majority of the public sector; data in 2012 reveals that Bumiputera made up almost 88.9% of total employees in the public sector, with the Chinese at 9.8% and Indians at 1.3% (Figure 3.42). About eight out of 10 officers in the top management and professional and nine out of 10 of support staff are Bumiputeras, with minimal

representation by the non-Bumiputeras at both levels (Figure 3.43).

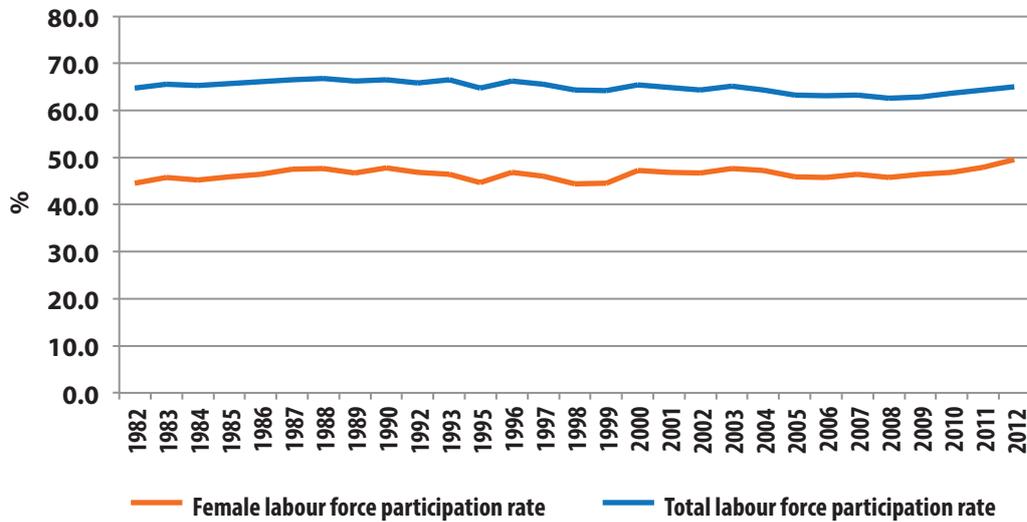
On the other hand, there are also claims of bias in the Chinese-controlled private sector, particularly in the recruitment or promotional exercises in Chinese-owned businesses. Data in 2005 shows that the Chinese control nearly 60% of the companies listed in the stock market (Figure 3.44). There is empirical evidence suggesting the existence of labour market discrimination against non-Chinese Malaysians in the

Figure 3.44:
Corporate control by ethnicity (%), 2005



Source: Norkhairul & Chakravarty, 2011.

Figure 3.45:
Malaysia: total against female labour force participation rate, 1982-2012



Source: Department of Statistics.

private sector. Snodgrass (1980) finds that companies that were headed by the Chinese normally would not employ non-Chinese, a conclusion that is concurred by CMI (2005) who argues that non-Chinese face hurdles in entering the private labour market, and those who participated in it are being discriminated against in the form of denied advancement and lower wages or earnings. Wage analysis shows that income for Bumiputeras is lower than the Chinese – ranging from 20% to 40% – despite having the same key characteristics in terms of education, experience, industry and occupation (Faaland, Parkinson & Saniman, 2003, Milanovic, 2006).

The apparent pro-Chinese bias is not limited to remunerations or promotions, but also exists in hiring. A recent study reveals that a Malay job applicant will find it harder to be employed in the

private sector even if they were similarly qualified compared to Chinese applicants. A field experiment by Lee & Muhammed (2012) sent fictitious Malay and Chinese applicants of comparable quality to real job openings – specifically in engineering and accounting/finance entry-level positions – and recorded whether one group is more likely to be called for interview than the other. They concluded that Malay candidates face differential treatment when applying for jobs

compared to Chinese. Between two comparable resumes, the probability of a Malay applicant being called for an interview is 16.7 percentage points lower

The probability of a Malay applicant being called for an interview is 16.7 percentage points lower than that of a Chinese applicant with comparable qualifications.



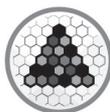
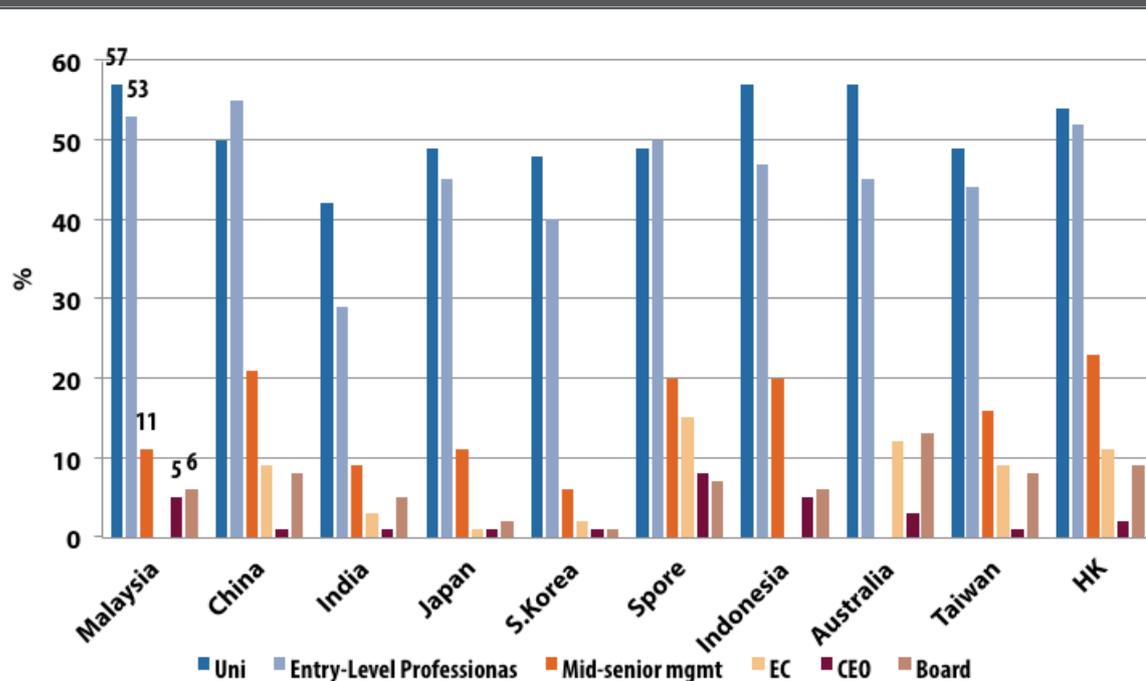


Figure 3.46:
Women's share in university and select occupations (%)



Source: McKinsey and Company 2012, Exhibit 4.

than that of a Chinese applicant with comparable qualifications. Interestingly however, preference for Malay applicants can still be found, to varying extents, among Chinese-controlled, foreign-controlled and Malay-controlled companies.

With regards to gender, there has been minor improvements in the female labour participation rate since the early 1980s. Women's participation in the labour force has increased from 45% in 1982 to about 50% in 2012 (Figure 3.45). Nonetheless, compared to other countries in the region, Malaysia has relatively one of the lowest female participation rates in the labour force (Figure 3.46), despite having one of the highest female tertiary penetration rates. Clearly, policies for inclusiveness in terms of economic participation of women such as availability of quality

childcare, effective advancement opportunities and a celebration of diversity need to be further considered. Chapter 9 in this *Report* delves specifically into gender issues looking at women as both participants and beneficiaries of Malaysia's development process.

3.4 Conclusion

Malaysia has made great strides in reducing poverty and income inequality through sustained and rapid economic and investment growth since 1970, barring a few recessionary episodes as a result of global contagion. New realities indicate that there are other forms of inequality – especially within ethnic groups and strata – that need to be addressed. Disparities in wealth, asset ownership, wages and

employment could compromise the objective of an inclusive growth policy and vitiate meritocratic access, should opportunities increasingly correspond with socioeconomic background. It is vital to reduce inequality, especially between ethnic groups; when wealth and inequality are clearly associated with distinct ethnic groups, the resulting

ethnic inequality hampers development by generating hatred, social immobility, envy, a sense of unfairness and, eventually, conflict. As a result, it will create obstacles to Malaysia's nation building and unity. Prioritising the need to address inequality is thus paramount to foster a development framework that is inclusive across multiple dimensions.





Chapter 4

Social Mobility in Malaysia



Chapter 4

Social Mobility in Malaysia

4.1 Going beyond the economic approach to human development in inclusive growth

Unlike developed economies, social mobility processes in developing economies are often interjected with a nation-building project – a post-colonial burden – where the distribution exercise is often politically organised as state policies. In hindsight, the doctrine of “distribution with growth”, adopted in government development planning around the world in the 1960s, continues to be the development mantra for present day Malaysia. Though the doctrine of “pro-poor growth” of the 1990s is increasingly seen as flawed idea, the role of the state in managing distribution has enjoyed unprecedented endorsement from economist and policymakers. On this threshold, our case study, Malaysia, makes a good choice – a rapidly industrialising country with a multiethnic composition and a strong state with well-defined economic distribution policies – and has proven successful, while acknowledging new and remaining challenges, both in terms of growth and distribution.

In this chapter, we explore theoretical and methodological issues significant to the understanding of inclusive growth from a broader angle, which includes social cohort analysis, case studies of the household approach in the analysis of social mobility, and human development. In section two, the theoretical and methodological issues are discussed. In section three, we present the results of a statistical analysis of the Social Mobility

Model for Malaysia presented in Chapter 2. In section four we present a review of why some have managed to escape social reproduction while others remain trapped, from a theoretical and social analytical perspective of poverty and vulnerabilities, and their implications on social mobility. In section five, the framework for the selected case studies for this *Report* is presented. Section six considers the four national case studies of social mobility in Malaysia. Finally, in the concluding section we summarise the essence and purpose of a sociological approach at the macro and household levels, and indicate policy issues associated with social mobility, social reproduction and vulnerabilities of the poor and other minorities.

4.2 Conceptual background

What will then be the best indicators of national development, and what’s the best way to capture them? It is in the context of this question that the call to look beyond the standard approach of income and economic growth in explaining development was introduced (Stiglitz, Sen and Fitoussi, 2009). Social development indicators were presented as best measures of poverty and wellbeing. The call to move beyond economic indicators was crystallised when Mahbub ul Haq’s Human Development Index (HDI) was institutionalised as an alternative way of measuring wellbeing. The HDI retains its focus on income but includes two other key components, namely health and education. The shift in orientation in the discipline also marks changes in the reference to the category “poor” to a multidimensional concept – “socially





excluded” – affirming the move away from a material to social dimension of deprivation. In the same vein, the call to look beyond economic growth as reflected in the gross national product (GNP) has increasingly captured the attention of scholars and policymakers. While it was acknowledged that economic growth is the key to improving lives, it has certain limitations; it was widely opined that other indicators should be included to capture a better image of national wellbeing.

The demand to move beyond economic indicators continues to develop in various directions. Economists and sociologists increasingly recognise that income, while

Income, while remaining the best proxy of mobility, is often limited in explaining the nature of inequality and how it is transmitted across generations.

remaining the best proxy of mobility, is often limited in explaining the nature of inequality and how it is transmitted across generations. Calls for closer collaboration between economists

and sociologists in devising new methods and analysis are also frequently heard. The need for a more comprehensive method of studying mobility and to move away from “unidimensional” to “multidimensional” indicators has inspired a range of new scholarships on poverty and inequality (Sen, 1992; Stephen & Nussbaum 1993; Grusky & Fields, 2006; Grusky & Kanbur, 2006).

This development also resulted in the waning influence of methodological rigidity in policymaking circles among international organisations. Institutions such as the World Bank began to include case study inputs in what traditionally used to be the domain of econometrics. In fact, the World Bank

also commissioned various researches to obtain qualitative data as part of its country report endeavours, and this has proven to be immensely successful in complementing quantitative data. The inclusion of the case study method also revealed new dynamics at the micro level in our understanding of the poor. For instance, drawing from the works of Chambers (1992, 1993), a range of scholars including those who are associated with the World Bank begin to reveal the “coping mechanism” of poor households. It was demonstrated that poor households developed survival skills within their own individual or collective initiatives, and resources as means to “escape poverty”. In this pursuit, income is only one among other resources (Narayan, 2007; 2009a; 2009b; 2010; Bebbington et. al., 2004; Grootaert, et. al., 2004). This understanding proved to be very useful in drafting policies in empowering the poor and eradicating poverty.

In fact it was the relational approach of the case studies that also reveals another key component of social development among the poor and vulnerable – the “social capital”. The social capital was even dubbed “the missing link” in social studies (quoted from the World Bank by Harriss, 1997, p.930). Social capital, however, is seen as difficult if not impossible to measure directly through surveys (Collier, 2002). It is however not only tenable but highly useful in qualitative research. The focus on social capital also gained currency among those using the political economy approach. They too focused on household strategies to “cope” with or “adapt” to urban living by developing various household survival mechanisms— although they argue that vulnerability still remains among the poorest categories.

In these instances, the diminishing function of social capital was also revealed (Gonzalez, 1994; 2007; 2009). The function of social capital can thus be seen as offering differing results in different groups and strata. And upon closer observation, social capital not only reveals the bridging factor between opportunity structures and households but also reveals the facilitating factor that structures the movement of people at various levels—regional, inter-state and international. In other words, apart from “coping” and “adapting” to existing economic conditions, social capital also serves as a medium of mobility.

Given this background, we argue that the social mobility approach through the case studies method will be able to provide the “agency” dimension of social development. It will allow us to seek new dimensions by differing from the standard measures of economic mobility—income and expenditure— as long employed by economists. Generally, social mobility studies, especially the variables-oriented approaches, are about social movements, which are generally analysed from social origin to social destination. These movements indicate how open or fluid the social and economic systems are. Studies using large datasets usually measure movement through occupational scales, either as class or status groups. Weber’s distinction of “status” and “class” (and Marxist “class”) underlies the diverse concepts of occupations. Occupations are divided into clusters, and the clusters are used either as reflection of class or status, depending on the theoretical orientation. Major research of recent times on social mobility also includes cultural and social capital apart from the usual economic capital in their survey questions to enhance the multidimensional approach (Savage

et.al., 2013). The case study method normally delves into the specific site with limited respondents and focuses on the social and economic organisation of inequality. The various capitals and the complex web of interaction informed by material and non-material reasoning underlies the process at the micro level. Movement, or lack of it, and the facilitating conditions will be the central focus.

Movements or mobility are specified in precise terms. Social mobility literature¹ informs us of two types of upward mobility: first, the type that mostly happens at the middle range of the class stratum, generally referred to as mid-range mobility, or an upward movement above one’s station. Mid-range mobility may occur within a lifetime or across generations—intra-generation or intergeneration. Second, a generally smaller type but evidently significant, is the long-range mobility—intergenerational upward movement from the lowest stratum to the highest of class hierarchy under certain economic conditions. Social mobility studies also closely observe cases of stagnation or “social reproduction”, especially among the poorest sectors as a critical form of mobility (or lack of it). Cases of declining or downward movement among those from better-off social and economic positions are also captured in social mobility studies.

4.3 Statistical analysis of the Social Mobility Model for Malaysia

In Chapter 2, we presented a stylised model of social mobility for Malaysia in order to undertake an intergenerational analysis of the Merdeka generations, the

¹For consistencies in applying terminology, we will borrow from J.E. Goldthorpe’s social mobility studies (1980; 1992).



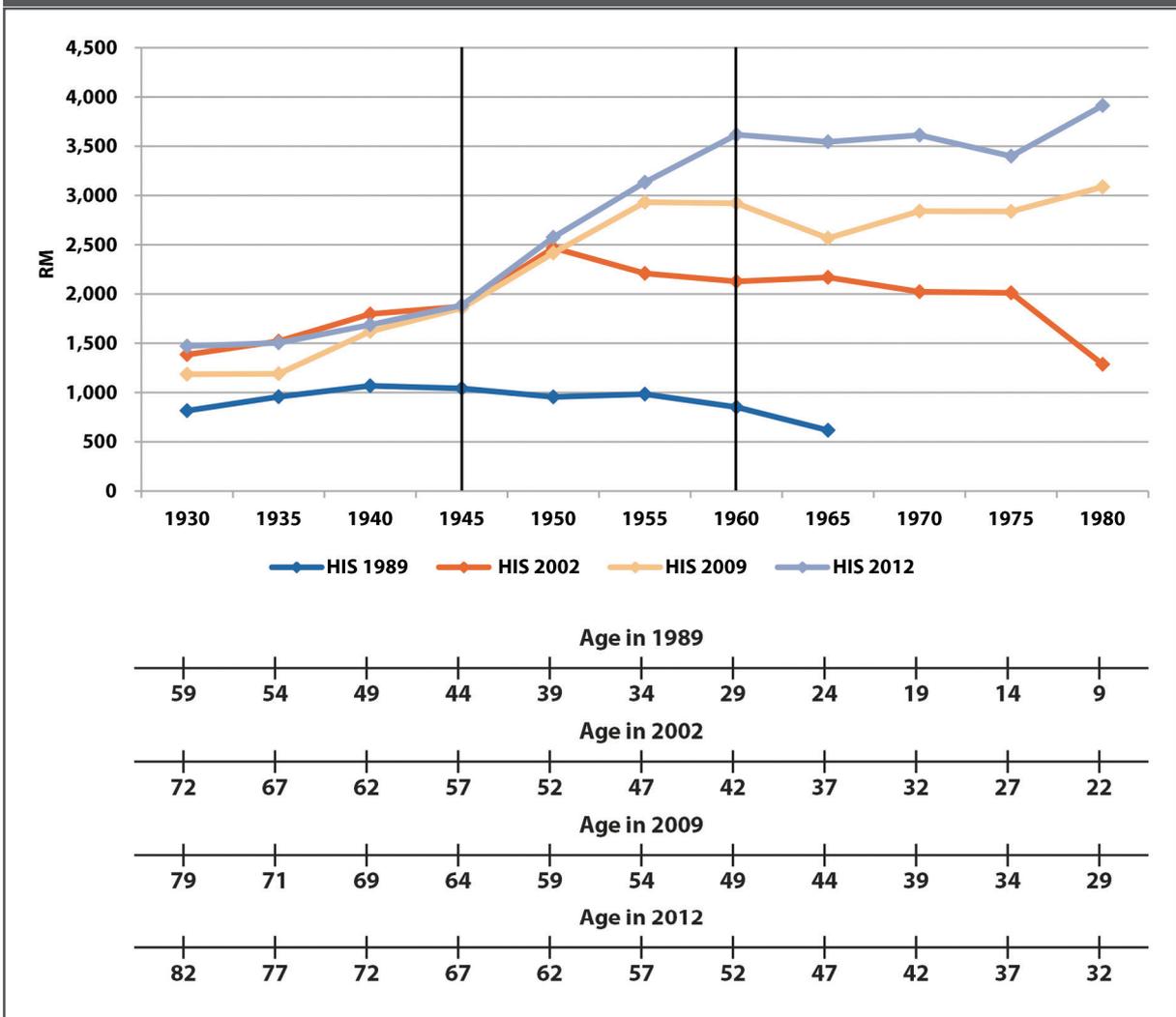


X Generation and the Y Generation, showing the trajectory of median income by the age cohort of said generations (Figure 2.10). The model also shows the S-shaped median income trend line over the three generations according to age-of-birth cohorts.

There is no direct statistical evidence available to us on the median income profile of previous years except the Household Income Survey (HIS) for 1989, 2002 and 2009. Median income profile using this dataset is charted for cohorts by year of birth. The classification of generations in Figure 4.1 coincide with

the age cohort by birth during the start of their entry into the labour force, which is approximately 30 years after they enter the labour force going forward for another 30 years to define one generation. Thus, as will be seen from Figure 4.2 below, the Merdeka Generation were born between 1930 and 1945 (for convenience's sake to mark the separation between the pre- and post-war eras), while the Sponsored (NEP) Generation coincides with those born between 1945 and 1960, and the X Generation coincides with those born between 1960 to 1975.

Figure 4.1:
Generational median income profiles by age cohorts, 1930-1975



Source: Household Income Survey, 1989, 2002 and 2009; authors' calculations.

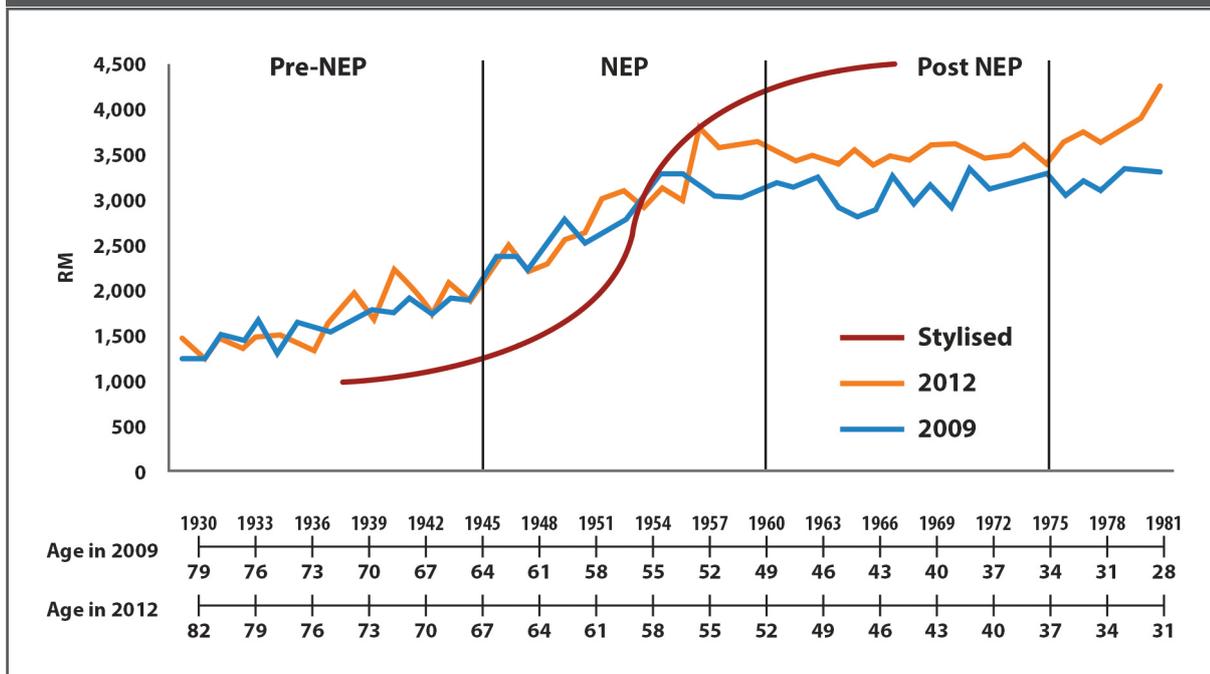
In Figure 4.1 we mark this conversion of year of birth to the current (whether 1989 for that year's HIS 1989, 2002, 2009 and 2012) age of the three generations. Thus, those born in 1930 for the 1989 HIS median income data would have been 59 years old, for the 2002 HIS the person will be 72, for the 2009 HIS survey the person born in 1930 would have been 79 years old, and for the 2012 HIS survey the person will be 82. So for the X-axis showing the year of birth of the age cohort we add four age lines, one for each of the four HIS surveys, in order to read-off the age of the generational cohort respectively.

The median income has increased from 1989 to 2012 (Figure 4.1). The sponsored NEP generation which are those born during the period of 1945 to 1960 experienced increase of income throughout the period of 1989 to 2012. In 2002, their median income had increased from below RM1,000 to above RM2,000. The median salary continue to

increase to above RM2,500 in the 2009 except for those born in 1945 as they were at the age of retirement. The median income of those born in 1955 and 1960 continue to increase to the level of RM3,000 and above in 2012. The figure shows that the median income of the sponsored NEP generation increased by more than twofold throughout their careers, except for those born in 1945. It is instructive to note, however, that those born in 1980 and entered the job market just a few years after the 1997 financial crisis suffered a decline in median income profile for 2002, compared to those born five years earlier. But while this groups has "suffered" as much as the older pre-NEP cohort have, they have exhibited better performance and recovered better than they did in 2009 and 2012, perhaps reflecting the better economic performance with the pump-priming action of the government then.

In Figure 4.2, we show the stylised

Figure 4.2:
Generational median income stylised trend curve and the actual median income trend 2012

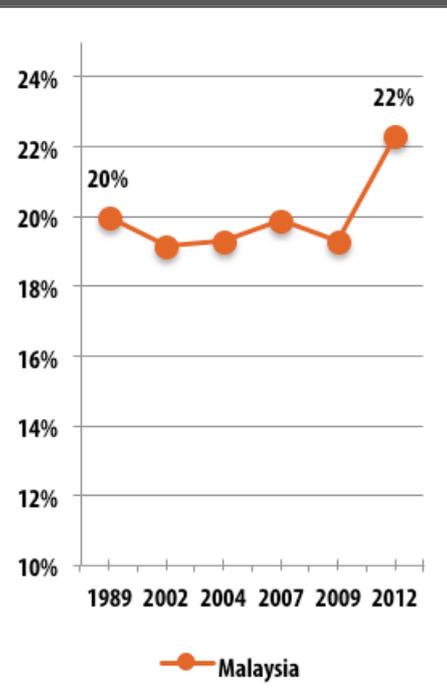


Source: Household Income Survey, 1989, 2002, 2009 and 2012; authors' calculations.



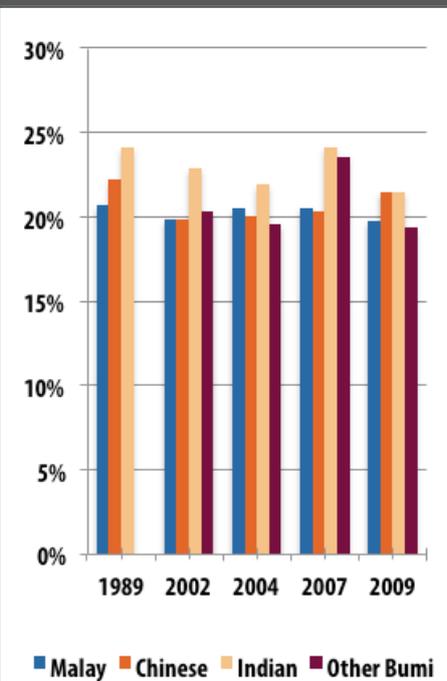


Figure 4.3:
Malaysia: middle class population, 1989-2012



Source: Household Income Survey, various years, authors' calculations.

Figure 4.4:
Middle class population by ethnicity, 1989-2009



Source: Household Income Survey, various years, authors' calculations.

S-shape trend line of median incomes by age of the head of household in the generation, taken from Figure 2.10 in Chapter 2, and plot the results of statistical computation of the actual median income trend line by the age of the cohort in 2009 (according to the HIS 2009 data). It is interesting to note that the results of this analysis of the median income profiles of 2009 earnings for the age cohorts, despite the absence of contemporaneous income data, form a similar pattern to the stylised trend curve in Figure 4.1.

As can be seen from Figure 4.2, the growth of the NEP middle class is the most rapid compared to the earlier generation according to median income of heads of household in 2009. The post-NEP generation shows a higher level of median income of the head of household defining the class of that household which, though higher is

more variable and flatter. This corresponds with the more competitive environment for household income generation as represented by salary of the head of the household for this post-NEP generation. When we analyse the 2012 income slice, the post-NEP generation experienced an increase in their median income as compared to 2009. In addition, the three-year difference in median income profile produce a much more jagged trend reflecting greater uncertainty since the 2008 Global Financial Crisis. Factors that may explain this situation include globalisation, higher education levels of the younger generation and structural ethnic and class differentiation, as will be discussed in subsequent chapters.

In contrast to the aforementioned profiles, however, the size of middle class has shown little improvement since the 1990s (Figures 4.3 and 4.4). Using the

definition of households with incomes falling within the 20% range from the median income, the percentage of sampled middle class Malaysians out of the total sample population has hovered around 19% since 1989. However, a marked rise in the middle class size to 22% had occurred between 2009 and 2012. Breaking this down by ethnicity, we see a similarly consistent trend of 20-21% of middle class Malays, 20-22% of middle class Chinese and 19-20% of middle class non-Malay Bumiputeras. It has been consistently higher at 22-24% of middle class Indians.

4.4 Why have some escaped and others remain trapped in social reproduction?

Understanding social mobility in complex contexts such as Malaysia offers critical insights into the structural forces at work, agency role and state intervention, directly from the basic unit of a social group—the family. Our limited concern here is to study the patterns of social mobility in terms of occupational movements across two generations, both upwards and downwards, especially among the bottom 40% of the population since the early 1970s. In this period, Malaysia experienced rapid social and economic development. Other parts of this *report* have demonstrated that Malaysia's track record in economic growth has been very impressive.

This however doesn't dismiss the fact that some sections of society do not benefit from this rapid development and vulnerability remains a pressing

concern among certain sections of the poor. The importance of addressing the precariousness of circumstance of this category of individuals is well recognised in inequality and poverty literature.

What is the nature of the structures and processes that reproduce poverty and exclusion? What is the best way to study this category and capture their vulnerability?

The annual survey data can explain incidents of poverty over the years by stating the figures based on the poverty line or other measures, but it would not be able to explain the vulnerability of the given poor, how many existing poor have managed to escape the poverty line and how many new poor have slipped under the poverty line. This is even true when comparison is made with data from several years past. More importantly, we would not know if the vulnerability is permanent, transitory or simply a volatile phenomenon through the aggregated national data.

By using the case study method, the vulnerable group would not be treated as a mass of undifferentiated poor, though statistically it may not be representative. The case study method would also allow us to observe the process that leads to the vulnerable stage. The conventional approach to study this problem, however, would typically explain the social reproduction of the "working class" children by attributing it to their surroundings and their family, and would explain why material and non-material deprivation

Vulnerability remains a pressing concern among certain sections of the poor.





causes class reproduction. While it is useful to understand processes that lead to social reproduction, conventionally the methods usually drift away from the question of upward mobility. Upward mobility would normally be explained more with psychological factors of achievement and less from the sociological dimensions of structures and processes. Macro studies, on the other hand, would explain the structural changes, especially the expansion of service class employment as an explanation of intergenerational mobility, particularly the creation of the new middle class.

Given the policy dimension and applied nature of this exercise, we will instead attempt to focus on the social processes that create differentiation among the poor and vulnerable. This chapter will focus on socioeconomic groups that have been classified as “poor and vulnerable” by the various Malaysia Five Year Plans. We focus on selected groups identified by state authorities and focus on the intra-group trans-generation changes—how and what forms of change occurs between two generations of the poor and vulnerable, particularly against a background of rapid socioeconomic changes. In order to understand the social processes better, the intergenerational mobility category among the same socioeconomic group will be closely studied (together with the social reproduction category). This will give us a broader picture of the social processes that conditions and pave ways for the differentiation.

For a detailed explanation on the conceptual framework for the case studies, please refer to Appendix C.

4.5 Four national case studies of social mobility in Malaysia

For each of the case studies, the analysis will be divided into three categories. The categories are intrageneration, intergenerational and social reproduction. For each of the categories, serious attention will be given on the “shocks” and “crisis” and how it creates and sustains the conditions of vulnerability. The fluctuations of their position within lifetime experiences will be recorded for analysis. At the same time, the strengths and limitations of coping mechanisms and adaptation, the constraints on the resources of the poor and the function of reciprocal exchange will be analysed in how it operates within the families of the intergenerational and social reproduction category.

The focus is on the lifetime changes experienced by the parents’ generation of the intergenerational and social reproduction categories. Closely observing the parents’ generation will reveal the initial processes leading to differentiation and/or existing differences exacerbated by the socioeconomic transformation. The case should focus on the changing structure of employment, household income and wage polarisation (generated locally or externally), changes or shifts in the various forms of capital in origin and other locally relevant factors. The intrageneration changes are directly related to social mobility propensity of the parents’ generation and in turn would usually have major impact on their children’s mobility chances.

The intergenerational mobility category is defined as those who have experienced “long range mobility” in the Goldthorpe Class Schema. The long range is the intergenerational leap from the bottom of the class structure to the new middle class position, commonly referred to as the service class. This is usually seen as the prized social mobility leap. The focus on this category will be, first, on the socioeconomic status of the parents, and second the intra-family decision-making process on the identification and selection of prospective upwardly mobile candidate(s), and on how limited resources mobilised around the potential “investment”. The social mobility fate of other siblings will also be recorded for analysis on the “strategising” effort of the families.

Similar to the intergenerational category, the social reproduction will also focus on socioeconomic status in origin. The intra-family decisions and possession of various resources in terms of social capital will be also be analysed. Where the distributions of resources are uneven and selective, the chances of the social reproduction category will be closely analysed. The fluctuation of conditions that contribute to vulnerability will be closely observed.

4.5.1 Case studies

Case 1: FELDA settlers

The Federal Land Development Authority (FELDA), a state authority, created land schemes in the post-war period to turn peasants into settlers for cash crop production in a large-scale land development scheme. This state-sponsored land development approach has ensured that settlers entering the land scheme

would experience drastic social mobility within the same generation. They socially moved from poverty to middle class status as their oil palm or rubber lands matured for harvesting. However, possessed social capital as reflected in their generally low levels of education and motivation to work does act as a constraint to their social mobility. This limited social capital of the family would put greater constraints on the second generation family as gaining better education and migration out of the FELDA scheme to work elsewhere became their only salvation in life.

State sponsorship of land, subsistence allowances, agricultural inputs and production supervision are the determinants behind the drastic social change among the FELDA settlers. To address the social dislocation they experienced as they moved from traditional villages to a large scale land development scheme, socio-cultural inputs were also provided so as to reconstruct a communal life in this new environment and in which these settlers are strangers to each other. But a failure to plan effectively for the second generation of new economic opportunity within the proximity of this land scheme, located far away from urban growth centres, have placed great constraints on their chances of experiencing as rapid a pace of social mobility as the previous generation. As free citizens who command considerable political power, their criticism of the political status quo has influenced the government to redefine the development approach, and strategies were undertaken to uplift the second generation of FELDA settlers with alternative options so that they, too, and future generations, could experience social mobility. Please refer to Appendix D on new programmes and incentives implemented for the FELDA settlers.





Case 2: Indian plantation workers

The patterns of social mobility among Indian plantation workers studied show that they are in the category of low mobility, followed by the no mobility group and a small percentage found to have moved to the moderate mobility category.

The patterns of social mobility among the Indian plantation labour are determined by the social capital of the family as well as structural factors. The social capital in the plantation life pertaining to the Indian subculture and Tamil language are not conducive to preparing them for mainstream society. Migration out of the plantation and family support are crucial to experiencing possible mobility. Often, it is the individuals in the second generation that would be able to migrate to an urban location, followed by their second generation acquiring the education and skills needed to break them away from the inherited poverty of their parents.

Case 3: Coastal fishermen

The patterns of social mobility among the coastal community of fishermen in Terengganu are observed to be fluid and dynamic. The study shows that 63% of those who experienced upward social mobility were involved in businesses, followed by the administrative group and deep sea fishermen at 19% each. The social groups that experienced continuously high vertical social mobility are from the administrative and business groups at 50% each. Of social groups that experienced downward social mobility, the bulk came from coastal fishermen at 87% and manual labour workers at 13%. Those who experienced consistently downward

mobility are the coastal fishermen at 61%, the manual labour workers at 29% and itinerant businesspersons at 11%.

Development has transformed Malaysia from an agrarian society to an industrial one. Under such a social transformation, education and skills have become the passport to employment: those who possess a commercial ethos, adaptable to market culture and are technologically savvy will survive. It is also noted that the combination of the three factors of education, occupation and income would allow the respondents studied to own assets and accumulate savings. The psychological makeup of the individual is also pertinent, as those who possess a high level of self efficacy and an inner drive to achieve would experience upward social mobility and be able to maintain it, compared to those who experienced downward mobility and continually move downwards. Upward and continuously upward social mobility individuals have a strong need for change, an unblemished desire to work and an aggressive attitude towards increasing their educational and skill levels in order to forge ahead. The study also indicates that respondents who participated in the community and belong to religious elites, apart from their seniority in age, are respected with a higher social status, even though they may not necessarily be wealthy. This indicates that the social status criteria in a traditional Malay society still prevails in the coastal community studied.

Case 4: Urban poor

The urban poor among Indians, Malays and the Chinese exhibit similar patterns of social mobility. The majority of the

three ethnic groups are categorised in the moderate mobility level, followed by low and no mobility. Only a small percentage of the respondents are found in the high mobility category. However, the percentage of Chinese in the high mobility level is quite significant compared to the Indians and Malays. The study also shows that there is a high percentage of Chinese who have a high level of human capital, social capital and structural factors, compared to Indians and Malays.

For each of these ethnic groups, the study finds that the percentage of respondents categorised as experiencing no mobility declines as the level of human capital, social capital and structural factors increases. On the other hand, the percentage of respondents categorised under moderate mobility increases as the level of human capital, social capital and structural factors increases. These observations implies that the higher the level of these three variables (human capital, social capital and structural factors), the greater the chances one has of being in moderate or high social mobility. In other words, those categorised as moderate or high social mobility will generally have high level human capital, social capital and structural factors. Thus, the study shows that human capital, social capital and structural factors may be important factors that could constrain or promote social mobility, for all three of the major Malaysian ethnic groups—Indian, Malay and Chinese.

It is also interesting to discover that there are notable differences between objective and subjective measures of social mobility. A relatively higher percentage of respondents is categorised in the no mobility and high mobility categories

when social mobility is measured based on the objective measure, compared to the subjective measure. On the contrary, a relatively lower percentage is recorded for low mobility and moderate mobility when social mobility is measured objectively.

Our findings show that the percentage of respondents categorised as having a high level is the highest for all the three variables, followed by moderate and low levels. Nonetheless, it is interesting to note that the percentage of respondents with low level of structural factors is significantly large compared to those with low human capital and social capital.

4.6 Conclusion

The Malaysian case study of inclusive growth shows that state sponsorship through human resource development, institutional and infrastructural amenities has brought tremendous social change and transformation to the nation. Education and skills training are regarded as the key to social mobility. The educational process should be embedded with motivational content based on local knowledge so as to develop an individual's self-efficacy.

Multiple-layer growth centres are needed to link villages to urban growth centres so that employment opportunities and structures can be expanded. Migration from rural to urban should be encouraged and institutional support for individuals

Human capital, social capital and structural factors may be important factors that could constrain or promote social mobility, for all three of the major Malaysian ethnic groups—Indian, Malay and Chinese.





and families from economic backwater areas should be provided.

Appropriate institutional support needs to be planned as gender and marriage are found to have an influence in uplifting the social mobility of a family within a generation as a result of their combined family income. This needs to be given special focus as women are increasingly represented in educational institutions and the workplace in the past decades.

But it is clear that more research into the inner mechanisms at the household and family level is necessary in order to understand their implications for social reproduction of poverty and intergenerational mobility, and to offer more useful policy insights. Among the issues to be explored include:

Changes in “kampung” (origin)

One of the most prominent characteristics observed at the local community level in all the case studies is economic and spatial transformation: how changes in socioeconomic status occur at the community level as a result of the changing occupation status of its members, remittance, income from non-local employment, state intervention policies and other factors. And how these changes create new forms of local level differentiation or magnify existing differences within the selected groups. Focus on this impact will be narrowed towards the intergenerational mobility and social reproduction category.

Intergeneration changes in occupation and income

An occupation can reflect one's class

position. Changes in the structure of the labour market and educational system create vast changes in the occupation structure, especially among the poor and the vulnerable. While the focus of the study is on intergenerational social movements, the study also reveals intergenerational changes in occupation structure. Changes in occupation not only transform the income structure but also the status at the local level. What happens to the families that experience intergeneration occupational mobility and how does it corresponds to the social mobility prospects of those in the intra-generational and social reproduction category?

Gender roles and social mobility

Evidence from the macro data has clearly shown that economic development, mainly through industrialisation, created employment opportunities for the unskilled and semi-skilled, with preference for female employment. The same is true for other sectors. How does employment status, which often results in migration and rising living standards, impact gender roles, especially in the pursuit of social mobility? And how does it affect the unequal distribution of resources and power within the household?

The meaning of poverty and upward mobility

What does it mean to escape poverty among the selected groups? And what does it mean to experience upward mobility? The perceptions of the poor, who is the stakeholder, is critical if policy interventions are to be considered. Furthermore, when this question is considered from the perspectives of the

poor and the vulnerable themselves, it may differ from the conventional approach of food poverty line or absolute income employed by poverty analysts. Important perspectives on poverty such as the characteristics of the various deprivations in terms of source, forms, nature and intensities may come to light, as well as the weaknesses of present development programmes. Along those lines, the stakeholders have their own idea of what constitutes social mobility. The notion (and idea) of successes, accomplishments and achievements that are often expressed in concrete form by the subject under the study not only represents the meaning but also motivation of being upwardly mobile.

Migration as a medium of social mobility

Labour migration is normally seen as a medium for social mobility among the poor and vulnerable. Migration, however, cannot be reduced to individuals motivated by income differentials between their origin and destination. Instead, migration, when approached from network perspectives, reveals communal ties that connect origin and destination on a social and symbolic level. It combines the macro processes to micro processes, for instance changes in the labour market that creates new employments to micro processes where kinship groups and the community decide on the member to be sent for employment. And the integral aspect binding the actors in origin and destination are mutual obligations and reciprocal exchange. The movement between origin and destination are not limited to migrants but also resources, goods and ideas. This process normally creates further migration and is capable of changing the socioeconomic landscape in

both the origin and destination. It is critical to observe migration among the selected groups in explaining social mobility processes.

New forms of inequality

Vulnerable categories within the selected socioeconomic groups include single parent households (single mothers), the disabled, the elderly, children and so on. Their vulnerability can be triggered by various types of shocks and crises, for instance income, health, housing, educational and others. The vulnerability of these individuals can also be enhanced by ethnicity, age, gender and other specific conditions.

On the other hand, by following the life course or domestic cycle method, we can observe different phases of an individual or family life that can create vulnerability, especially among the poor. This operates largely outside the macro structures of inequalities. For instance, during the “nesting” period, children would be with their parents and children that have grown into adulthood would be involved in productive exercises, which would help the parents economically compared to when they finally leave the nest. These factors should also be taken into account in analysing vulnerable categories as they often enter vulnerability at different stages of their domestic lives.

Vulnerable categories and life course analyses

The rapid changes in the socioeconomic structures, while bringing many benefits and eliminating old inequalities, would also introduce new forms of inequality. This should be accounted while analysing how old problems are solved through





Household debt is a new form of liability that plagued the urban poor, and in many instances the rural poor as well.

the expansion of the economy. These problems can normally be witnessed when we observe changes intergenerationally. For instance, household debt is a new form of liability that plagued the urban poor, and in many instances the rural poor

as well. The biggest form of household debt is housing debt that normally organised in long-term tenure. The housing debt causes serious problems

among the poor and vulnerable who normally end up paying larger amounts for longer tenures thanks to the occasional default, resulting in compounded interest through exorbitant fees and other penalty chargers. Consequently, their interest rates (Base Lending Rate) are raised above the existing market rates. Other forms

of rampant household debts such as car loans, house renovation loans, credit card loans and other loans from financial institutions have similar consequences. The problem of household debts among the poor and vulnerable may also turn into debt bondage when it is obtained from informal moneylenders.

In other cases, the new forms of inequalities may not be totally novel; it may simply be old forms given a new shape. This can be observed with the gendered dimension of poverty. Despite changes in gender roles, old inequalities may persist not just at the domestic level but also in the labour market. For instance, intra-household disparities in access, consumption and other entitlements may reveal domestic power structures that affect mobility opportunities, not only for women but children and elders within the unit.



Chapter 5

Analytics of Inclusive Growth in Malaysia



Chapter 5

Analytics of Inclusive Growth in Malaysia

5.1 Analysing growth, diagnosing constraints

In this chapter, the analysis of inclusive growth for the country as a whole is located within a growth analytic framework as well as its diagnosis. This follows a non-traditional approach to understanding the underlying causes of Malaysia's economic performance in the 40 years since 1970 with the introduction of the New Economic Policy. The story of Malaysia's economic development as an open, resource-rich country that diversified into industries in the post-1970 years is now a matter of record from the data that will be presented in this chapter. This economic performance was not without its ups and downs. But overall, in terms of inclusive growth, defined by the triangular nexus of growth-income distribution-poverty as explained in Chapter 2 as its central thesis, the Malaysian economic growth has shown a positive impact on poverty eradication over the years in question, at least as defined by the official Poverty Line Income (PLI).

At issue is the direction of impact of growth on income distribution measurable by such indexes as the Gini coefficient, which is specific to countries but has been shown to be deviating from the traditional Kuznets's Curve, which in turn has been shown to be diverging again for the advanced countries, including the United States. In the Malaysian case, the Gini has shown a secular but stubborn decline since the 1990s as discussed in Chapter 3. These observations need to be explained by a growth analytics approach in the traditional way, but later in this chapter we will be supplemented by a

growth diagnostic approach to identify possible binding constraints and new policy initiatives to overcome them.

This chapter will thus be organised in the following manner: the next section will cover growth analytics, looking at possible determinants of GDP which will be defined by a growth formula specific to the Malaysian case; the second section looks at a growth analytic approach to inclusive growth based on the growth analytics of the previous section; and the third section will look at the SME sector and the informal economy as part of an inclusive growth diagnostic treatment of the underlying factors in search of the binding constraints for Malaysia going forward from 2010. The final section will discuss the minimum wage policy a crucial institutional interventions as part of policy implications that will contribute to the corpus of inclusive growth policies, to be developed in the rest of this *Report*, culminating in Chapter 13 where policy recommendations will be made.

5.2 Growth analytics of Malaysia in the post-NEP period

As evident in Figure 5.1, Malaysia's economic performance since 1970 is punctuated by four crisis episodes: the 1975 world commodity crisis as a result of the OPEC episode; the 1985 recession due to a crisis in export markets as a result of the United States anti-inflation recession in 1982; the 1998 Asian financial crisis; and finally the 2008 Global Financial Crisis. The economy showed credible real GDP growth per annum from 1970 to the first recession of 1985 at an average rate





of 4.5% per annum. This is followed by a period of recovery from 1987 through the high-speed era averaging nine per cent from 1989 to 1997. The growth performance moderated during the post-Asian financial crisis period of 1998 right up to the 2008 crisis from which Malaysia has not fully recovered, from whence the growth trend averaged four to five per cent per annum since.

In terms of GDP, it has increased by 80 times from RM12 billion in 1970 to RM941 billion in 2012 in current prices, while Gross National Income per capita more than tripled from RM1,070 in 1970 to RM3,703 in 1984, and quadrupled again from that point to RM13,939 in 2000 and a further two times to RM30,856 by 2012 (Figure 5.2).

This historically weaker performance in the post-1998 period is reflected in the

decline of potential GDP growth rate per annum, from a high of approximately eight per cent per annum to a lower average of five per cent per annum as shown in Figure 5.3. Fiscal easing in 2009 and 2010 has raised this potential growth rate to above five per cent, though whether this is sustainable in the long term remains questionable.

This is reflected in the profile of gross capital formation, which doubled from 25% in 1988 to 50% in 1997 during the high-speed era while dropping to a little below 25% during the next 10 years (see Figure 5.4). This drop is the result of a lower rate of private investment over the latter period. The rate of private investment at the beginning of the Ninth Malaysia Plan (2006-2010) was in negative territory, requiring a shift in policy to encourage the role of the private sector in economic

Figure 5.1:
Economic growth crisis

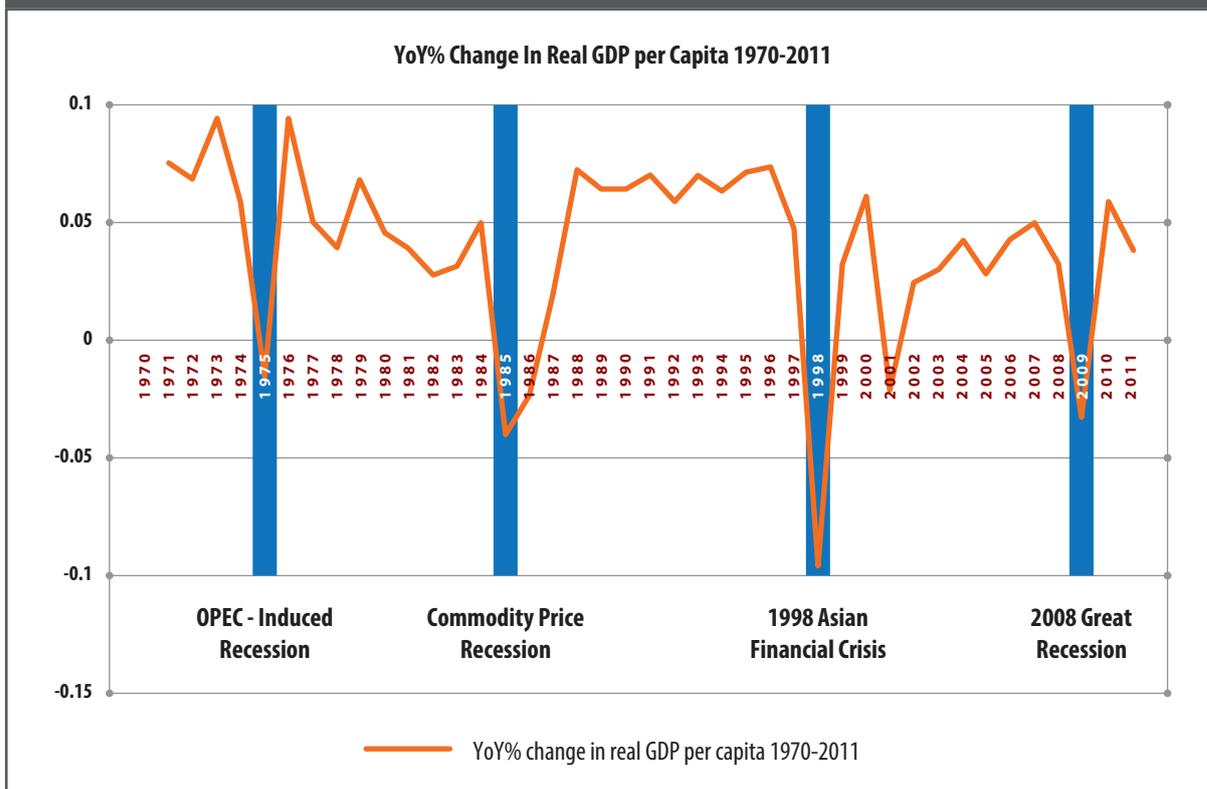
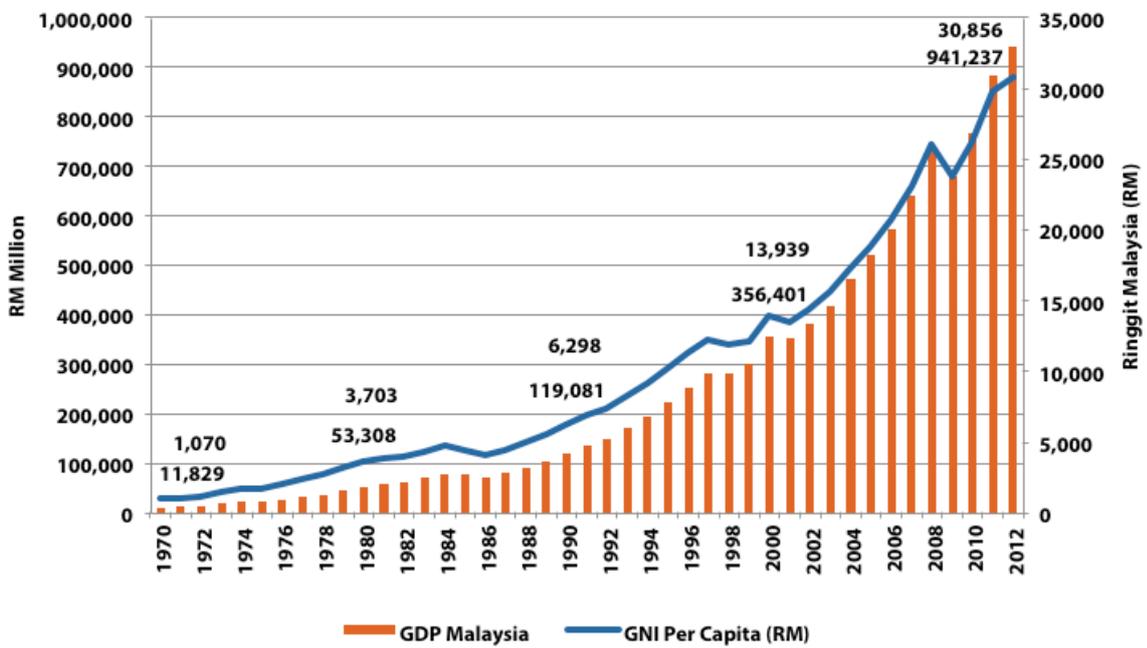


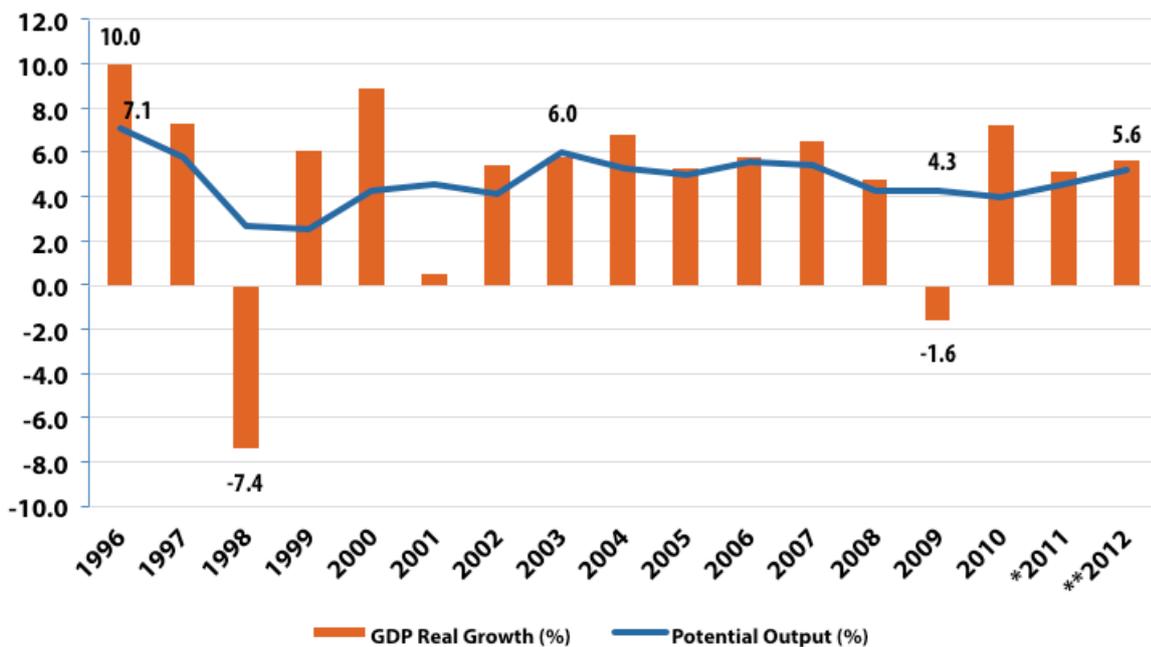


Figure 5.2:
GDP & GNI per capita, 1970-2012



Source: Department of Statistics, Malaysia.

Figure 5.3:
Gross Domestic Product (GDP) real growth and potential output, 1996-2012



Source: Department of Statistics & Bank Negara Malaysia.



The lack of investment from both local and foreign investors was partly due to the increasing cost of doing business, which has been going up since 1998.

growth in the country. Government fiscal deficit also remained high at around five to six per cent of GDP for the period, funded largely by borrowing and some tightening of the federal budget. The lack of investment from both local and foreign investors was partly due to the increasing cost of doing business, which has been going up since 1998. The government responded by establishing a private sector panel called PEMUDAH (Special Task Force to Facilitate Business), whose main objective is to simplify and streamline regulations and procedures.

It appears that the average GDP growth rate for the period was sustained largely by the shift of Malaysia's exports towards emerging markets in Asia, especially China, and the maintenance of government spending. Foreign sector contribution remains a significant presence in terms of net foreign assets (both direct and portfolio), steadily rising back to roughly 53.8% of the GDP in 2012 from its lowest ever point during the economic recession of 1985, particularly after the change in the foreign investment code when the NEP formally ended in 1990 (Figure 5.5). But the rate of private investment, despite ample resource balances, has not been able to reach its pre-crisis levels. The Islamic Development Bank (IDB) has identified this as a major problem for the Malaysian economy: in its growth diagnostic analysis of the country in 2012 this constitutes the major bottleneck to the country's future performance, as will be discussed later on.

The main driver of Malaysia's economic growth, which has remained an open resource-rich economy, is international trade as shown in Figure 5.6 on Import and Export from 1970 to 2010. The percentage of total trade to GDP during the period rose from 70% of GDP in 1970 to a peak of 190% in 2000, then subsided to 139% in 2012. Total trade in nominal terms breached RM1 trillion for the first time in 2008, while the country retains an export surplus throughout the period. The composition of exports has also diversified over the 40-year period, from agriculture-based products to incorporating up to 32% of manufactured goods in 2000. The trade pattern has also diversified from an over-weening dependence on advanced industrialised countries in the earlier part of the period to Asia, especially China and ASEAN. The latter should expand even more with the introduction of the ASEAN Free Trade Area (AFTA) in 2015.

Finally, the role of productivity in Malaysia's economic growth performance cannot be denied. The Ninth Plan gave a total factor productivity (TFP) target of 35% as a source of GDP growth. Even at this stage in 2008 it is considered low for a middle-income country such as Malaysia, compared to a minimum contribution of 60% to growth in the more advanced economies. In Figure 5.7, it is seen that labour productivity has been steadily rising from 1972 to 1992. It then accelerated to RM2,250 in 2004, after which it began to fluctuate. Wages has not kept up with labour productivity—in fact, they began to diverge seriously from the point of economic recovery from 1996 to 2010. Labour's inability to maintain its compensation relative to its productivity is possibly one reason why real wages



Figure 5.4:
Real GDP per capita growth and % of investment to GDP

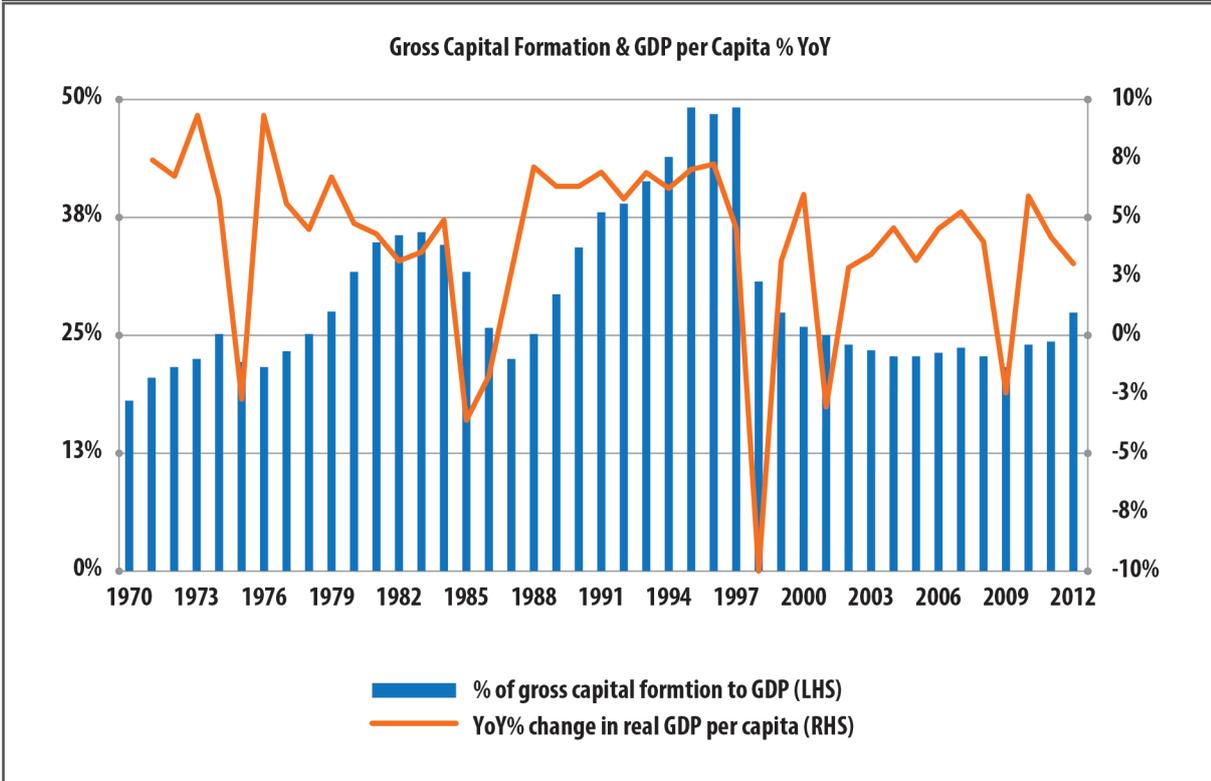
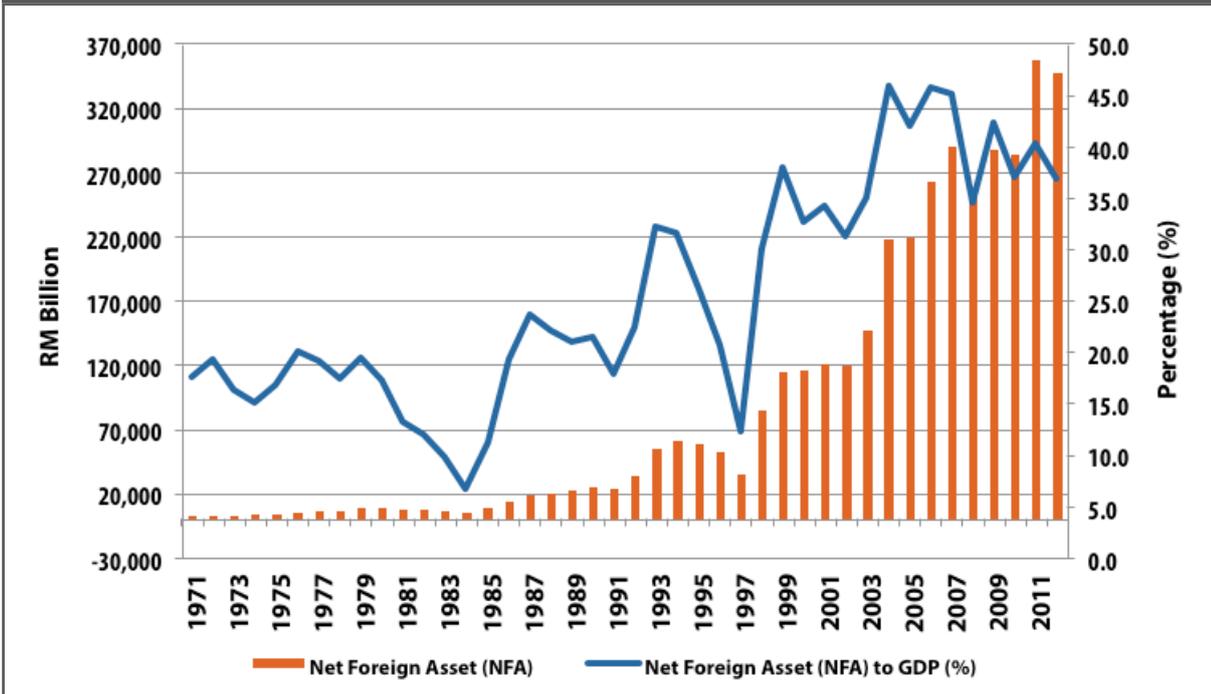


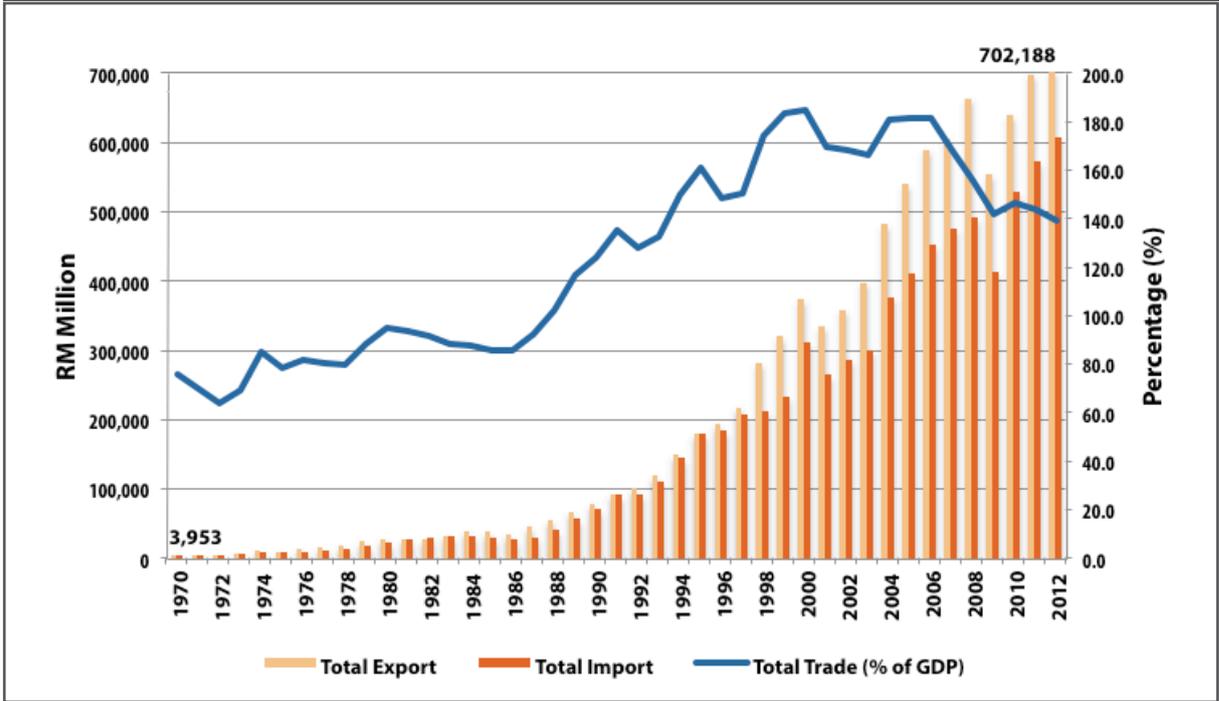
Figure 5.5:
Net foreign assets absolute amount and its percentage (%) to GDP, 1971-2012



Source: World Bank (Online Database) & Economic Planning Unit, Malaysia.

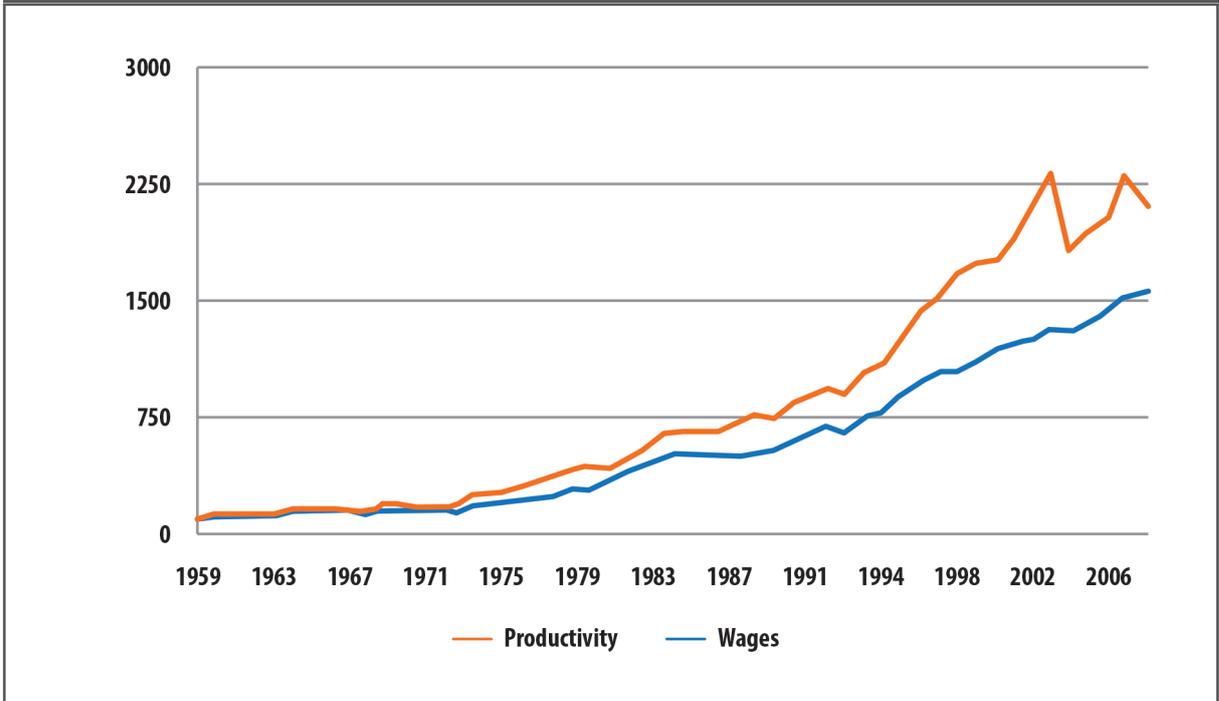


Figure 5.6:
Export, import and total trade (% of GDP, 1970-2012)



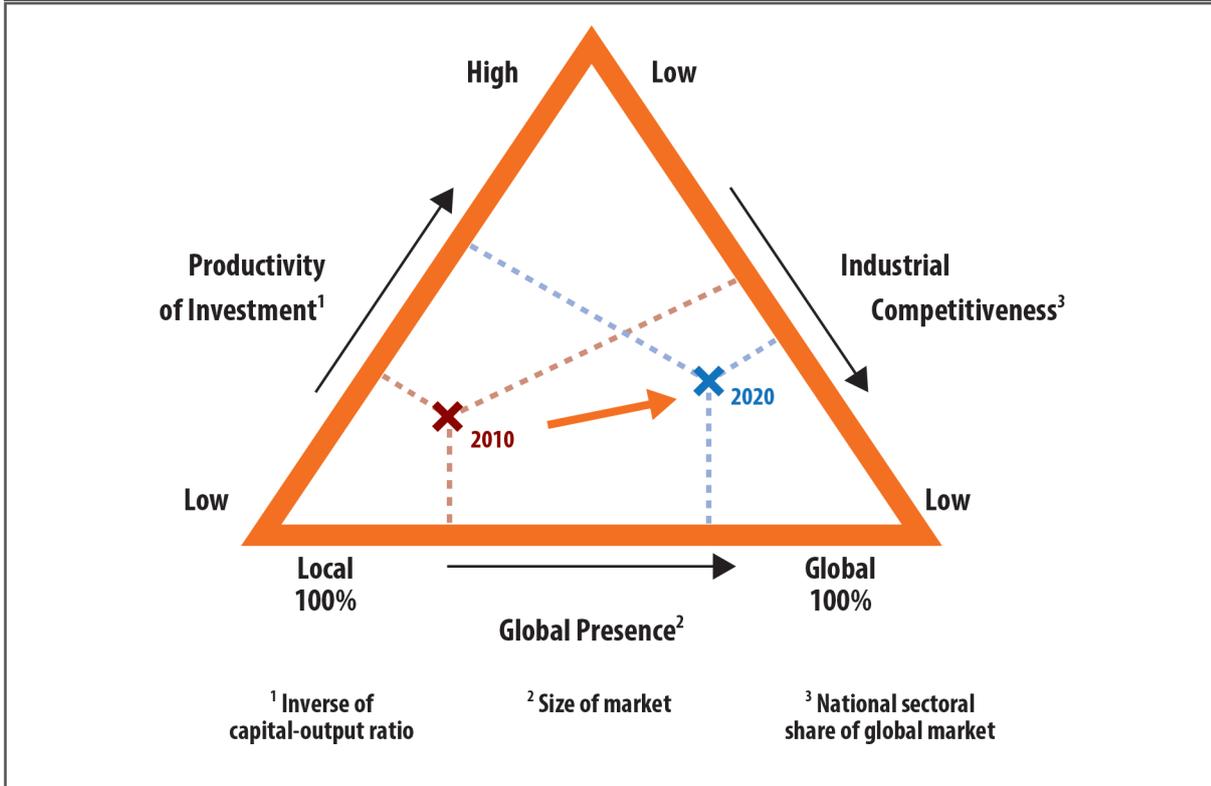
Source: Treasury and Bank Negara Malaysia (BNM).

Figure 5.7:
Productivity versus wages, 1959-2009



Source: Department of Statistics Malaysia.

**Figure 5.8:
National Competitive Model**



have been stagnant or declining after the financial crisis throughout the period of financialisation leading to the Global Financial Crisis of 2008. Part of the explanation of the latter may be due to the presence of a large foreign labour community in the country working in plantations, construction, domestic services and even manufacturing in the free trade zones, thus maintaining, whether deliberately or by default, a low wage regime to enable Malaysia to remain competitive in foreign investments (see Box Article 5.1). This lower share of labour in national value-added production has led to the need to introduce minimum wage legislation into the labour market, as will be discussed later, as the economy drives towards developed status by 2020.

From the discussion of the factors influencing the economic performance

of the country for the past 40 years, one could envisage that Malaysia's national competitiveness in the world economy is a function of three crucial factors, namely 1) the investment rate and the productivity of investment (ICOR), 2) its degree of international trade as given by the ratio of total trade to GDP, and 3) the composition of its export product mix which reflects the demand of its goods and services in the world economy (as a measure of its industrial competitiveness).

This three-factor national competitiveness model is shown in Figure 5.8, where the productivity of investment should reflect the level of technology, innovation and entrepreneurship incorporated into the framework. The arrow indicates the direction of the path of growth up to 2020, which is the desired trajectory to achieve developed country status as the





underlying force for inclusive growth. This includes improvements in its rating as a good destination for international business.

While it is expected that maintenance of the current export-led growth model with an open trading regime and foreign participation in the economy is crucial for Malaysia's growth prospects, a review of the sources of earlier economic growth reveals that the residual total factor productivity is the key to influencing the differences in overall growth performance. Thus the third factor involves entrepreneurship, innovation and efficiencies. On the other

side of the coin are corruption and wastage, critical bottlenecks in a growth performance as they undermine the value-added growth of the Malaysian economy.

Nonetheless, in designing a more inclusive future for the Malaysian economy, a growth model that continues to exhibit persistent income inequalities and its ethnic, social and political consequences needs to be examined more critically as part of the new development policy debate in the country, requiring another look at the role of the state and affirmative action policy. This is the subject of subsequent chapters of this study on inclusive growth.

Box Article 5.1: Whither foreign workers?

Popular discourse pertaining to foreign workers (FWs) is often placed in the context of the negative while under-emphasising the positive brought about by FWs to the Malaysian economy and society. While a number of issues such as larger amounts of remittance outflows to destination countries are a concern, policy that treats FWs as an immigrant population instead of productive labour tends to regulate their movement instead of maximising their freedom and developing mechanisms that can integrate them into society, and therefore FWs will not be able to optimise their potential.

Foreign worker policy: 20 years of implementation

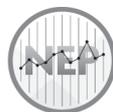
Malaysia has an unbounded and short-term foreign worker policy with no specific timeframe for its implementation, hence discourages an effective policy evaluation. Malaysia has a dual objective in achieving its short-

term policy: Malaysia must encourage legal employment among foreign workers, but at the same time combat the influx of undocumented FWs.

After 20 years of implementation (traced back at least to 1992), the number of legal FWs rose from 532,723 in 1993 to 1,573,061 in 2011, while the number of undocumented FWs also increased to almost two million (estimate). This short-term strategy tends to be counterproductive by producing more undocumented FWs than legal workers.

Remittance and levy

One of the critical concerns in hiring large numbers of FWs is on the outflow of remittances. Figure 1 shows constant increases of remittance outflows from Malaysia to their countries of origin (from 2008 to 2012), making the country a net exporter of remittances. This is also reflected in the increase in the number of FWs in Malaysia.



is to prevent statelessness and undocumented statuses due to unlawful marriages.

- To expedite the implementation of the minimum wage for all FWs in all sectors without any irrelevant exclusion.
- To review the strategy of “outsourcing” FWs and government-to-government strategy in the process of recruitment and placement of FWs.
- To situate migration policy within the context of development, with the aim of reducing poverty and strengthening gender equality.
- To review laws, policies and practices that perpetuate incidence of forced labour and any form of exploitation.
- To promote a positive image of FWs in line with their economic contribution.

Source(s): Azizah Kassim 2012; BNM Financial Stability and Payment System Report, 2012.
Note: Article contributed by Andika Abdul Wahab.

5.3 A growth diagnostic analysis for Malaysia to achieve inclusive growth

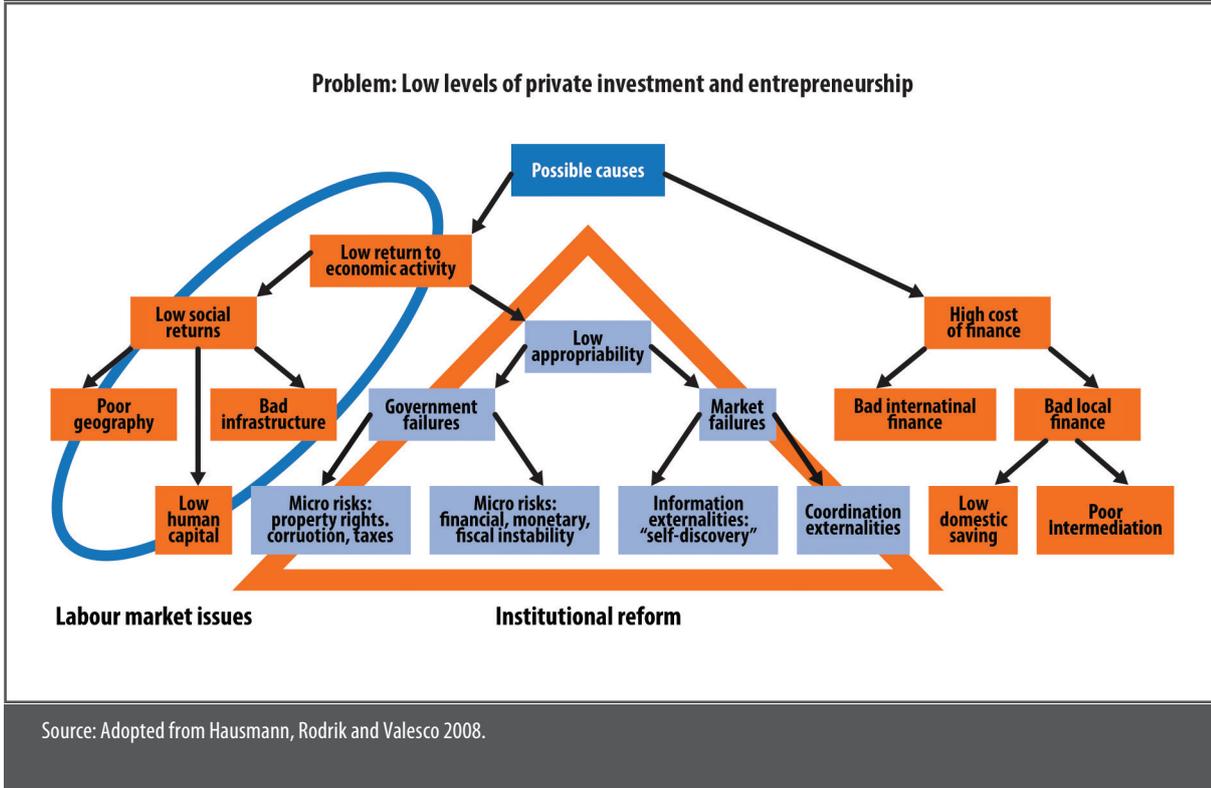
In the growth diagnostic approach to identify the binding constraints that hamper economic growth, a decision tree is usually utilised in the form of the diagram shown in Figure 5.9 (Rodrik, 2010). Using this approach, policy reform will then be carried out in a prioritised manner, taking into account the country’s contractual realities (Habermann and Padrutt, 2011). Harbemann and Padrutt quoted Rodrik (2007) who asserts that there are first-order economic principles which are present in all success stories, such as “a semblance of property rights, sound money, fiscal solvency (and) market-oriented incentives”. Most importantly, there are an infinite number of orthodox and/or heterodox policy designs and institutional frameworks

that can potentially implement these principles: the principles themselves “come institution-free” (Rodrik, 2007, p.29). In reality, this may not be the case especially for a country like Malaysia, as we will discuss in this section later on.

The Hausmann-Rodrik-Velasco model (HRV) usually identifies low investment and entrepreneurship as the major problem facing developing countries, and as shown in decision tree in Figure 5.9 below, three classes of binding possible constraints are identified, namely, 1) low return to economic activity due to a) low social returns to investment and b) low appropriability; and 2) high cost of finance.

In Figure 5.9, we see that the HRV decision tree is demarcated to isolate the triangle which encompasses a series of institutional reform issues as the locus of interventions to remove the major binding constraint. The circled left side of the tree refers to a set of issues in relation to the Malaysian context which largely runs the gamut of labour market problems that need to be solved in an integrated manner

Figure 5.9:
Hausmann-Rodrik-Velasco growth diagnostic decision tree



if Malaysia is to overcome its next most important constraint.

The World Bank report for Malaysia (*Malaysian Economic Monitor 2012*) identified labour market rigidities as a major constraint on its economic performance. Another major constraint is the problem of untargeted subsidies, which relates to the institutional reform triangle of Figure 5.9.

The elaboration of the hierarchy of causes, if fine-tuned to remove these two binding constraints, will be crucial to the strategies of inclusive growth in Malaysia. It should be noted that we have left out the right most-hand side of the HRV decision tree referring to the high cost of finance as not to be crucial nor a binding constraint on itself to the matter of inclusive growth. Malaysia does not face a liquidity constraint at

this point in its economic activities; instead is it facing a distortion through either government or market failures in the allocation of capital resources. This of course does not mean that such problems will not become a future constraint, especially if the government, political parties, private sector and CSOs fail to undertake the necessary institutional reforms.

The contribution of labour productivity is one of the most significant in driving growth. In a sources of growth analysis over the 1989 to 2007 period, the World Bank had identified the contribution of labour productivity to be important to Malaysia's economic

The contribution of labour productivity is one of the most significant in driving growth.



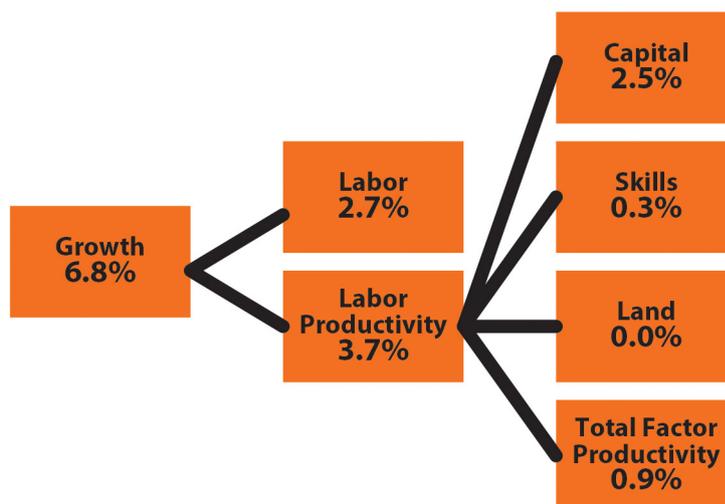
growth in recent times (World Bank & Malaysian Economic Monitor, 2008), as shown in Figure 5.10 and 5.11.

From Figure 5.10, the World Bank report calculated the contribution of labour and capital to growth (averaging 6.5% over the 1989-2007 period) account for 2.7% and 2.5% respectively. That constitutes 81.5% of the growth rate; the residual 18.5% is made up of TFP (0.9%) and skills (0.3%). More ominously, the report concluded that productivity gains have slowed down over the period over all sectors except agriculture, as shown in Figure 5.11. Does agriculture then offer the best value-added growth for the immediate future? Whatever the case is, a reversal of the decline in TFP in all sectors, services and industry (manufacturing) is imperative for the future growth prospects of the country.

What this implies is that residual TFP is the vital factor in influencing the difference in the overall growth performance. Thus the “third factor”, involving entrepreneurship, innovation, efficiencies and on the opposite side corruption and wastage, are the critical bottlenecks in growth performance, as they undermine value-added growth of the Malaysian economy.

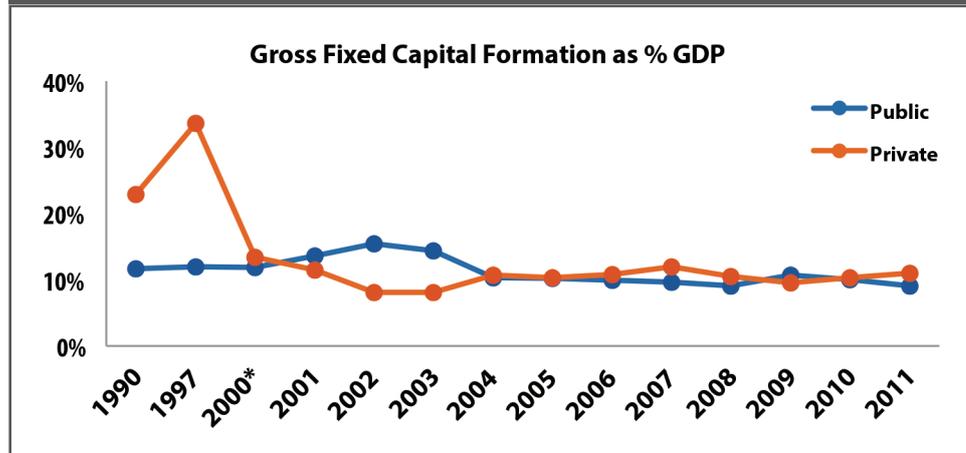
This latter conclusion is confirmed by the direct application of the growth diagnostics approach adopted by the IDB to identify Malaysia’s binding constraints to higher economic growth (Islamic Development Bank, 2012). The IDB report identified low investment as the main problem facing Malaysia, and found that the level of private investment appears to be the binding constraint to Malaysia’s sustainable

Figure 5.10:
Growth in recent history has been driven by capital and labour accumulation



Source: World Bank (2008).
Note: Period is 1987-2007; figures are growth contributions.

Figure 5.12:
Rate of public and private investment, Malaysia, 1990-2010



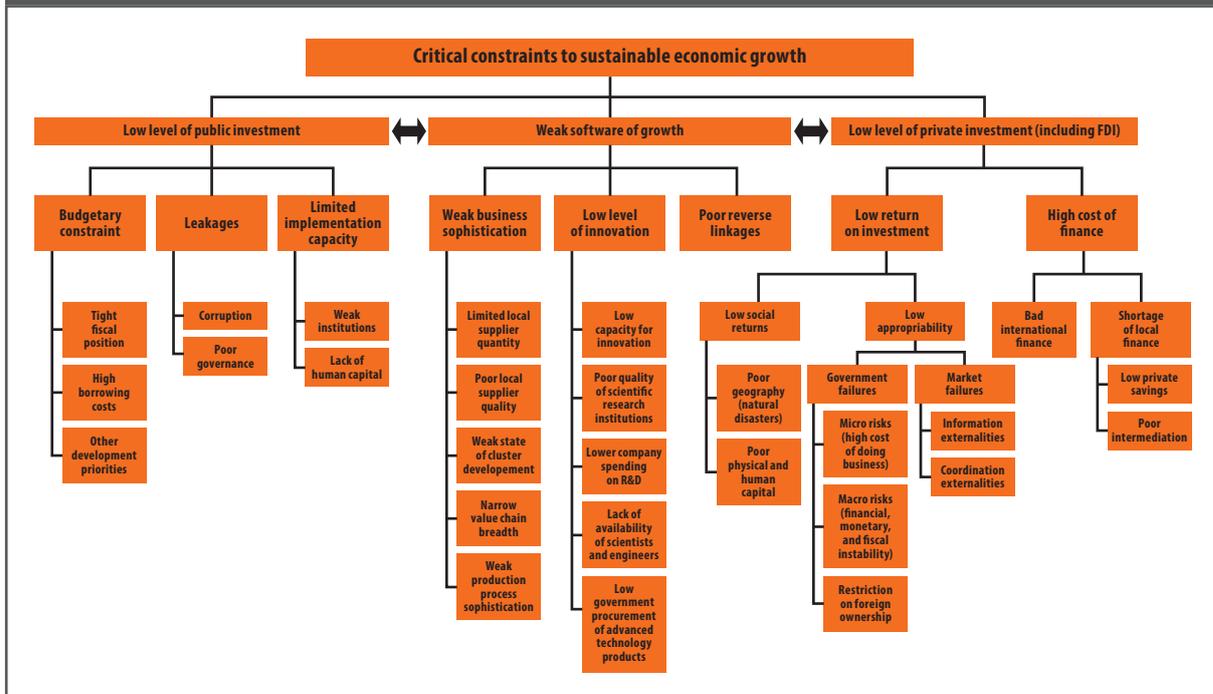
Source: Ministry of Finance,
Note: *Investment and GDP at current prices, rebased for 2000 onwards.

activities. Finally, the IDB study found low labour productivity to be a major growth constraint, thus confirming the major conclusion of our growth analysis.

While the growth diagnostic analysis undertaken by IDB confirms that low labour

and TFP are the crucial binding constraints to sustainable economic growth for Malaysia, fixing these issues would not be sufficient enough to ensure inclusive growth. As will be further analysed in subsequent chapters in this Report, we

Figure 5.13:
IDB's diagnostic tree for Malaysia



Source: IDB Group MCPS Team (2012): An Extended Version of Growth Diagnostic Framework of Hausmann, Rodrik, and Velasco (2005).

have to go beyond growth performance per se to cover the role of institutions, in particular institutional failures in both public and private sectors, as part of the software issues covered in the IDB analysis.

In the case of inclusive growth analysis, the problem that needs to be solved is the scale up of quality employment ability and entrepreneurship. Addressing weaknesses in innovation and entrepreneurship, as well as institutional shortcomings are essential to increase quality value-added growth in the Malaysian economy. A possible decision tree for inclusive growth analysis in Malaysia will look something like Figure 5.14.

The structure of the issues and hierarchy of causalities is self-evident,

though not exhaustive. We recognise three categories in the overall product and labour market: the corporate sector, the SME sector and the informal sector, although the informal sector can be subsumed under the SME sector. Each has its own problems as stated in the figure, with entrepreneurship and innovation being common to all three sectors.

The major binding constraint under the corporate sector line concerns issues in the labour market, highlighted in the World Bank Report (Malaysian Economic Monitor, 2012) as associated with labour

Addressing weaknesses in innovation and entrepreneurship, as well as institutional shortcomings are essential to increase quality value-added growth in the Malaysian economy.



Figure 5.14: Inclusive growth diagnostic decision tree for Malaysia

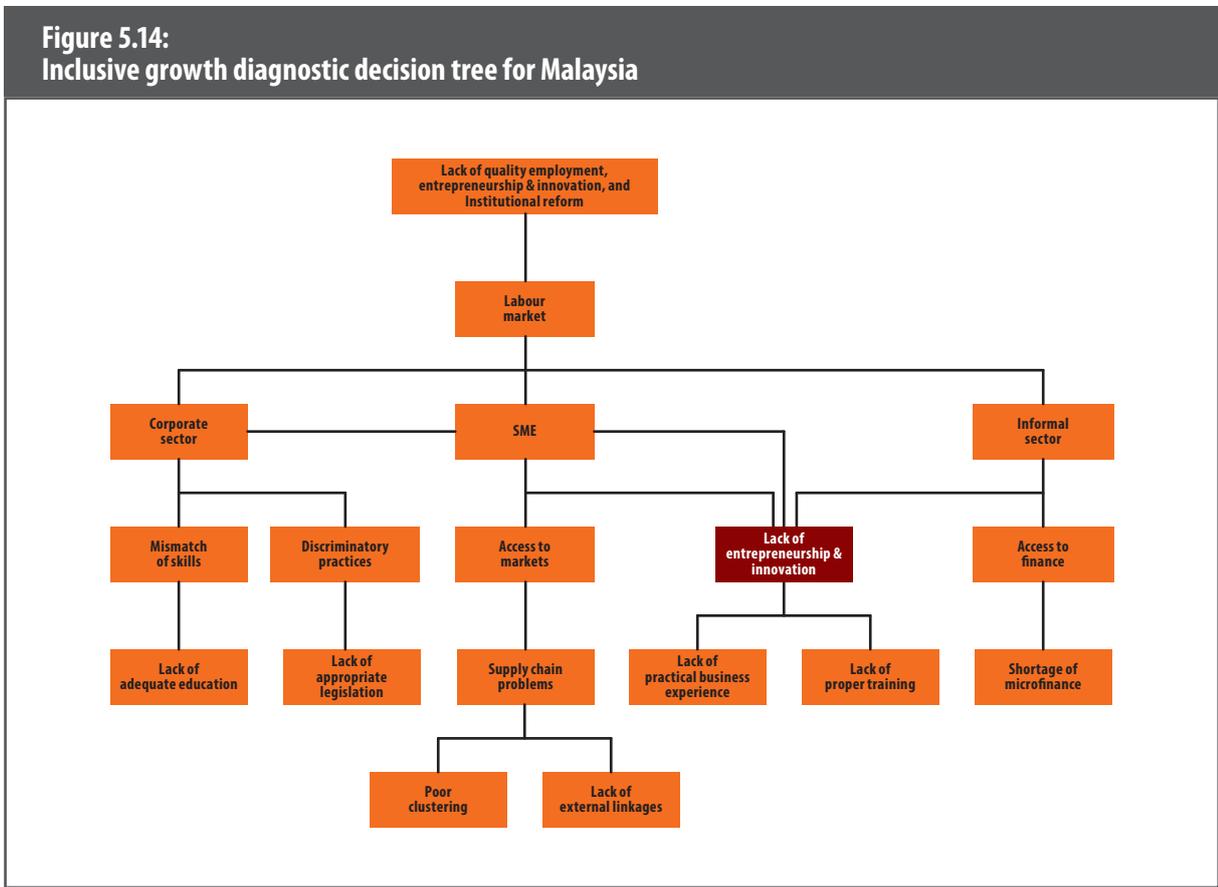
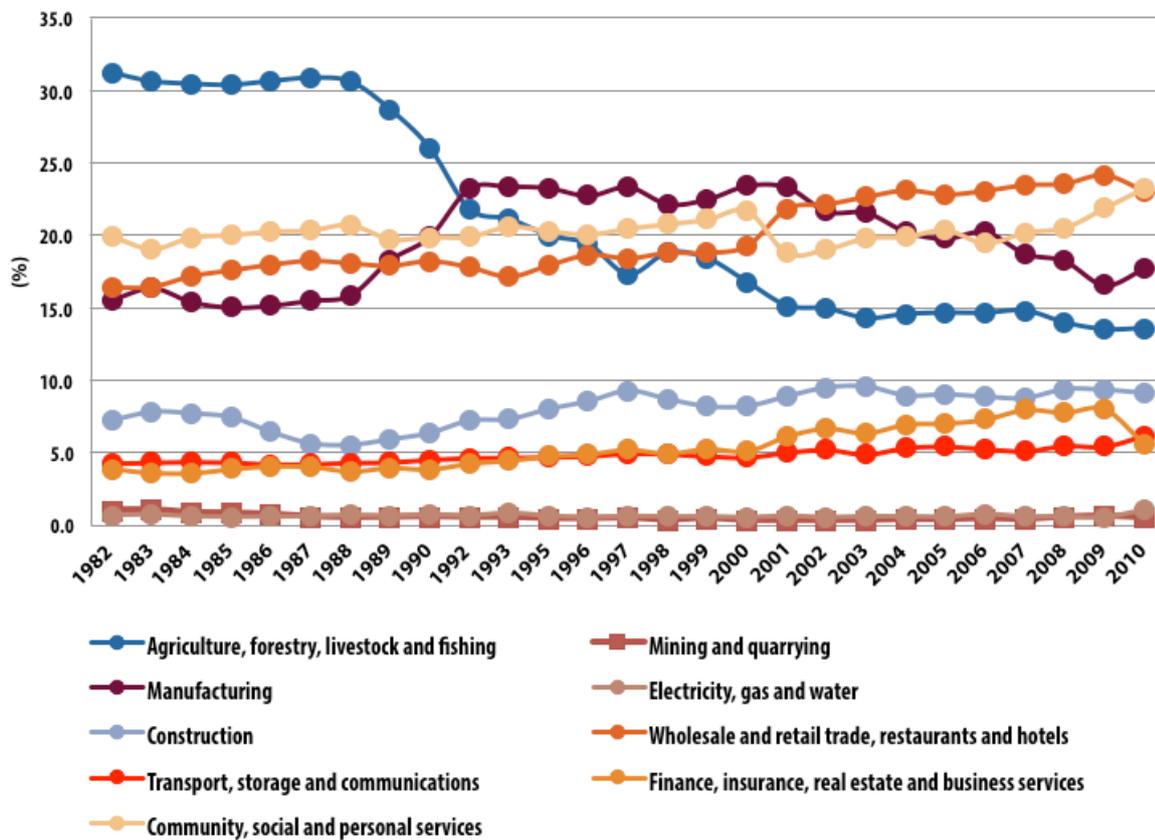


Figure 5.15:
Malaysia: employment by sector, 1982-2010



Source: Department of Statistics, Malaysia.

Note: Data for 1982-2000 – Industry classified according to the Malaysia Industrial Classification (1972); Data from 2001-2009 classified according to Malaysia Standard Industrial Classification (MSIC 2000) and; Data for year 2010 according to the Malaysia Standard Industrial Classification (MSIC 2008).

total informally employed women), human health and social work (24%) and food and accommodation (19%). In contrast, men are highly concentrated in construction (42% of total informally employed men) and motor repair and trade (22%). Occupationally, 43% of male informal workers are classified as craft workers, 21% as service and sales workers and 19% as elementary workers. Among female workers, 56% are classified as service and sales, 27% craft, and 8% elementary. In sum, men are predominantly engaged in construction, including skilled and manual labour, and in motor repair, which involves varying skill levels, while women are occupied in

services, especially food, and home-based manufacturing, which offer minimal scope for skills development.

It is in the above context that the integration of SMEs and the informal sector into Malaysia's inclusive growth strategy is to be clarified. The low wage compensation levels in these sectors contribute significantly to the value-added growth problem, which sees low and stagnant real wages as a share of gross national income as crucial policy issues regarding inclusive growth in Malaysia.

This section discusses Malaysian SMEs in three parts. The first part profiles the SME from census data, the second part





discusses the necessary instruments that will allow the SME sector to contribute effectively to the growth process, and part three describes the SMEs' role in enhancing industrialisation.

5.4.1 Profile of Small and Medium Enterprises (SME) 2010

This section summarises the profile of SMEs as reported by the Economic Census conducted in 2011 for the year 2010, covering all sectors.

Small and Medium Enterprises (SMEs) consist of enterprises or companies that provide manufacturing services with individual annual sales turnover not exceeding RM25 million and individually employing not

SMEs employed 3.7 million workers, the majority of whom are in services sector, contributing up to 52.7% of total employment.

more than 150 full-time employees. In 2010 there were 645,136 SMEs, representing 97.3% of total business establishment, the majority of which are in the services sector (90%) while manufacturing and construction sectors constitute the remaining 10%. SMEs contributed RM507.1

Some 19.7% of SMEs were owned by women, mostly engaging in the services activities and operating as microenterprises.

billion of gross value of output and RM213.9 billion of value-added output, or 28.5% and 30.2% respectively. This is considered a small contribution relative to the total number of establishments wherein medium-sized enterprises were the main contributor.

SMEs employed 3.7 million workers, the majority of whom are in services sector, contributing up to 52.7% of total employment.

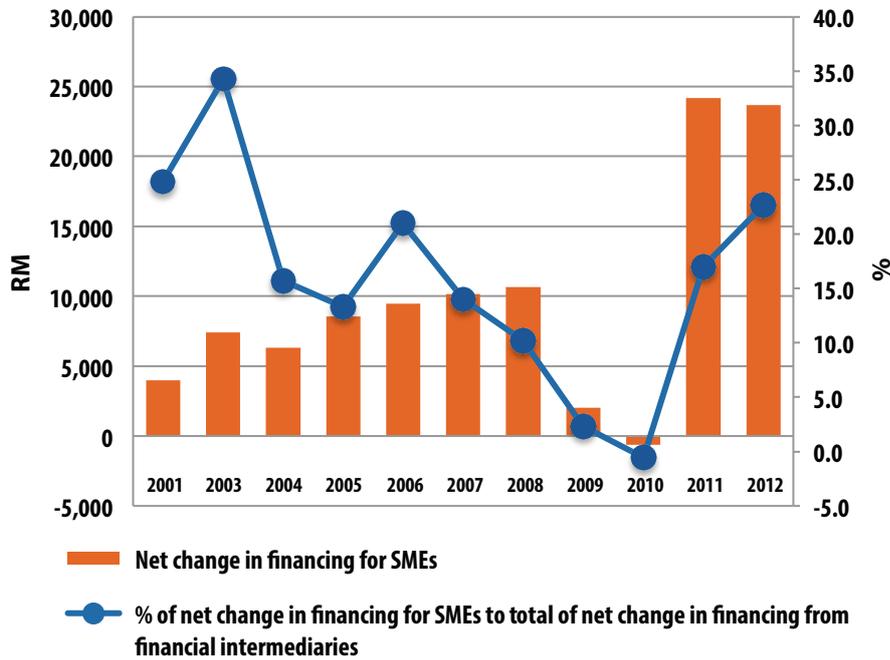
Small-scale enterprises employed the highest proportion (40.1%) of the total number of workers, averaging 11 workers per establishment, while microenterprises employed three workers per enterprise and medium-scale enterprises 43 workers. Three-quarters of the total number of workers employed were on full-time employment.

Salary and wages paid by SMEs amounted to RM54.7 billion. The average annual wage per worker in the mining and quarry sectors was the highest at RM22,759, followed by manufacturing at RM19,569 and services at RM18,323. Some 19.7% of SMEs were owned by women, mostly engaging in the services activities and operating as microenterprises.

More than half of SMEs have access to financing from either their own internal funding or a shareholders fund. Some 21.9% of funding sources were from financial institutions comprising banks, micro-credit institutions and development finance institutions. Other sources include grants from government agencies and cooperatives, making up 28.5%.

Figure 5.16 shows that the net change in financing for SMEs have been declining as a share of total net change in financing from intermediaries, falling from a high of 34% in 2003 to a negative share in 2010, except for a brief uptake between 2005 and 2006. This trend was only recently reversed in 2011 and 2012. Medium-scale enterprises and larger corporations obtained the larger share of their funding from financial institutions including the stock market, whereas small-scale enterprises and microenterprises obtained their financing from own internal sources and government grants schemes (See Box Article 5.2). If the SME sector is to play a bigger role in inclusive growth, the allocation of capital is necessary, either through the market or through government intervention.

Figure 5.16:
Net change in financing for SMEs



Source: Bank Negara, various years.

Box Article 5.2: Financial inclusion and the informal sector

There seems to be too many agencies in the SME Development Council, with 14 ministries and 75 agencies supporting SME development. Unfortunately, the Ministry of Housing and Local government is not one of them. Furthermore, the multiplicity of agencies is very top heavy and the informal economy would not really benefit from their initiatives. There is little coordination to affect the informal economy, coordination externalities being an important institutional constraint to Malaysia's inclusive growth strategy.

There is a need to get one of these agencies to focus on micro businesses. SME Corp is seeking to do this but are being drawn to focus on bigger players.

Perbadanan Nasional Berhad (PNS) which has been mandated in the 2013 Budget to undertake this task, too has other priorities.

This task assigned to PUNB is necessary to reduce the size of the informal sector from 32% to 15% by 2020, as indicated in the SME Master Plan. The real target is shifting the informal sector into the formal zone before 2020. There does not appear to be a clear road map to achieve this target, or a lead agency that will drive this agenda in partnership with the other agencies.

This review focuses on four of these initiatives. On the positive side these are good programmes targeting the informal sector such as access to credit





issues and capacity building. But there appears to be a lack of coordination or collaboration among the agencies.

The largest and most established of these agencies is Amanah Ikhtiar Malaysia (AIM) which now services 328,333 borrowers. The second programme reviewed is by Yayasan Tekun National (Tekun) with a reach of 241,350. The third is the Skim Pembiayaan Mikro which has benefitted more than 71,000 people, and the fourth programme examined is the Pemandu's 1Azam, with its various schemes targeting the poor with a reach of 57,793. Finally, there is Tukar (the small retailer transformation programme) which was launched in 2011. While Tukar is an innovative project, its current reach of 1,087 is too small to make significant impact for a federal government project.

Amanah Ikhtiar Malaysia (AIM)

AIM was first established as a pilot-action research project in 1986. In 1981 it was incorporated as a microfinance institution (MFI). The study by Prof. Siwar Chamhuri and Dr. Ben Quinones indicates that "Malaysia produces solid evidence that microfinances are indeed an effective tool for poverty alleviation" (p.191), and that the "average monthly income of clients increased by 90%". However, they also indicate that the MFI is "not financially viable", and noted that the biggest challenge was "to translate the bankability of their clients into the bankability" of the MFI (p.199).

Institutions such as AIM and Tekun were established to provide access to credit, which was seen as one

major hurdle for the poor especially in the informal sector whom were termed "unbankable" due to their lack of collateral or documentation, thus barring their access to formal financial institutions. AIM has become a bridge from informality into formality through grouping the borrowers, credit discipline and savings mobilisation, targeting primarily women.

Today, AIM has 328,333 borrowers and as of December 2012 had lent a total of RM8,201,128,533. Of these, 54% were allocated to micro shops/stalls, 21% to agriculture, nine per cent to services, eight per cent to micro cottage industries, four per cent to fishery and another four per cent to animal husbandry. The loan size ranges from RM500 to RM50,000.

Initially AIM operated only in rural areas, but since 2009 it extended its operations to the urban areas, catering to the urban poor. A majority of their borrowers fall in the informal sector category and face many difficulties in securing low authority licenses, and are vulnerable to corrupt enforcement officials.

AIM has also extended its services beyond the Bumiputera community. As of April 2010, there are 2,054 Indian women borrowers with a cumulative loan profile of RM9.4 million.

AIM's group and grassroots focus has had a tremendous impact. Institutionally it has grown very large and therefore can easily establish a micro finance bank rather than the current arrangement of simple loans disbursements. Its strong grassroots base and dedicated borrowers who have moved up the socioeconomic

ladder have now reached their potential and can themselves be a good source of savings mobilisation.

In countries like the Philippines and Indonesia there have been more creative dimensions which have enabled microcredit NGOs to evolve into MFIs. Here they have recognised the potential of the informal sector and sought to reorganise financial institutions to adapt to a new consumer base at the grassroots level.

Yayasan Tekun National

Tekun was established in 1998 and differs from AIM in a number of ways. First, AIM focuses on groups, while Tekun focuses on individuals. Second, while AIM works solely with the poor, Tekun also works with the non-poor in micro enterprises. And third, AIM works only with women, while Tekun mostly deals with male borrowers.

From 1998 to January 2013, Tekun has lent out RM2,461,816,300 to 241,350 borrowers in 14 states including Kuala Lumpur. Like AIM, this is a significant number of people involved in micro businesses. Loan sizes range from RM500 to RM50,000.

While Tekun began as a microcredit programme specifically addressing the needs of the Bumiputera community, in 2008 it opened its doors to Indian borrowers. From 2008 to 2013, out of an allocation of RM114.5 million, RM53.3 million has been allocated to 5,379 Indian borrowers.

Tekun has experienced poor repayment rates compared to AIM, and there has also been many complaints of political patronage and that Tekun has deviated from its purpose of focusing

on micro businesses.

Skim Pembiayaan Mikro

Skim Pembiayaan Mikro was established in 2006 to provide financial assistance to microenterprises, featuring quick approvals and disbursements of loans with minimal documentation and no collateral required. Currently, there are 10 participating financial institutions under this scheme. Loan sizes range from RM1,000 to RM50,000.

According to the SME Annual Report 2011/2012, the coverage of this scheme has increased 14.3% from the end of 2010 to the end of 2011. This success was partly due to the addition of 250 access points during this period. In the second quarter of 2012, 37% of SMEs with access to external financing applied for micro-financing under this scheme.

In 2012, Skim Pembiayaan Mikro introduced more flexible micro-financing products to address the financing needs of microenterprises due to irregular or seasonal cash flows. These products allow microenterprises to leverage on financing in times of need.

1Azam (Pemandu)

The 1Azam programmes which began at the end of 2010 address the issue of the very poor in Malaysia. Its objective is to move the people out of poverty through productive, income generating activities. Entrepreneurship is seen as one vehicle for poverty alleviation.

As of 31 December 2011, a total of 63,147 poor households have participated in one of the four Azam programmes, namely Azam Tani





(agricultural and agro based activities), Azam Niaga (small businesses), Azam Kerja (job matching and placement) and Azam Khidmat (services and self-employment).

The programmes are aimed at “making economic opportunities available... so that they become self-sustaining.” 1Azam set out to lift low-income households out of poverty through employment, entrepreneurship and agricultural activities and services.

While the report offers some case studies it does not provide much information on the impact of the 1Azam programme on the 63,147 households.

While these are laudable dimensions and target specifications of the NKRA, the 2011 Pemandu report also indicates that there are still 324,875 unverified backlog cases registered in the e-Kasih directory. Therefore, the targets reached now are low and does not fully meet the maximum need and demand.

Furthermore, its efforts appear to be very top down and agency-specific rather than people- and community-focused. Much more needs to be done to increase its outreach through community-based approaches, and to avoid being too much agency-dependent.

Tukar

Tukar is another economic empowerment initiative of the GTP which was launched in 2011. The report recognised that there are 50,000 sundry shops in the country, 10% of which are targeted to be transformed into modern outlets to maximise their wealth creation potential. Pemandu envisions that this transformation will contribute RM5.56

billion to the GNI and create 51,540 new jobs by 2020.

This is an impressive plan which recognises the potential of the micro business and the informal sector and taps into it for wealth creation. The strategy is to “modernise the premises of traditional retailers (total renovation), upgrading the premises (changing the arrangements of product display), encouraging cooperative involvement in the retail business, and establishing local distribution centres”. There is a maximum loan of RM60,000 and the repayment is over 15 years at three per cent per annum. There is also training and monitoring with the support of private sector consultants.

However, its current outreach and target set is too low. Recent figures released by Pemandu indicate the participation of 1,087 retail outlets beginning from 2011. Of 568 outlets, 80% are Malays, 14% Indians and five per cent Chinese.

The 2013 federal budget in recognised the needs and potential of the informal sector, and indicated that “there are 1.5 million hawkers and small businesses operating traditionally, and without fixed income”.

The government introduced two new schemes. The first is an insurance coverage scheme for registered hawkers with the Companies Commission, for which the federal government has allocated RM16 million a year. The second is a soft loans and business transformation programme through PNS.

However, there is no reference to this on the PNS website (www.pns.com.my), and in any case PNS might

not be the best vehicle for this as they are focused on the franchising industry. Most hawkers might prefer to have access to something like the Tukar programme, not just for sundry shops but also in other types of micro business.

There would thus seem to be a strong case for the consolidation of all programmes of financial inclusion in

order to improve access to credit for the informal sector if the goal to reduce it to 15% of the economy. Without such consolidation, the informal should instead be given every encouragement possible to continue providing business and employment opportunities for the lower income groups, something that the informal sector has had success in over the years.

Note: This article draws heavily from Jeyasooria, D. (2013) "Informal Sector" (Background Paper Number 4).

In summary, judging from the high proportion of business establishment represented by SMEs, its importance cannot be understated. Malaysian SMEs feature predominantly in service activities operating as microenterprises in Klang Valley and are sole proprietors and partnerships. But from the perspective of gross value of output and value-added contribution, SMEs play a rather small role. The exceptions to this are the medium enterprises, which is small in proportion to the total number of SMEs. However, SME contribution to job creation is fairly significant as compared to medium-scale enterprises. Wage rates vary by sectors. Access to funding from financial institution is somewhat limited. While micro and small enterprises generally source funding internally, medium enterprises are dependent on financial institutions. SMEs will not be able to reach their potential unless the their constraints are adequately addressed.

5.4.2 Policy discussion: developing SMEs as an engine of growth and innovation

Malaysian SMEs contribute a small proportion to GDP compared with benchmark countries in the Asia Pacific region, indicating a low level of productivity

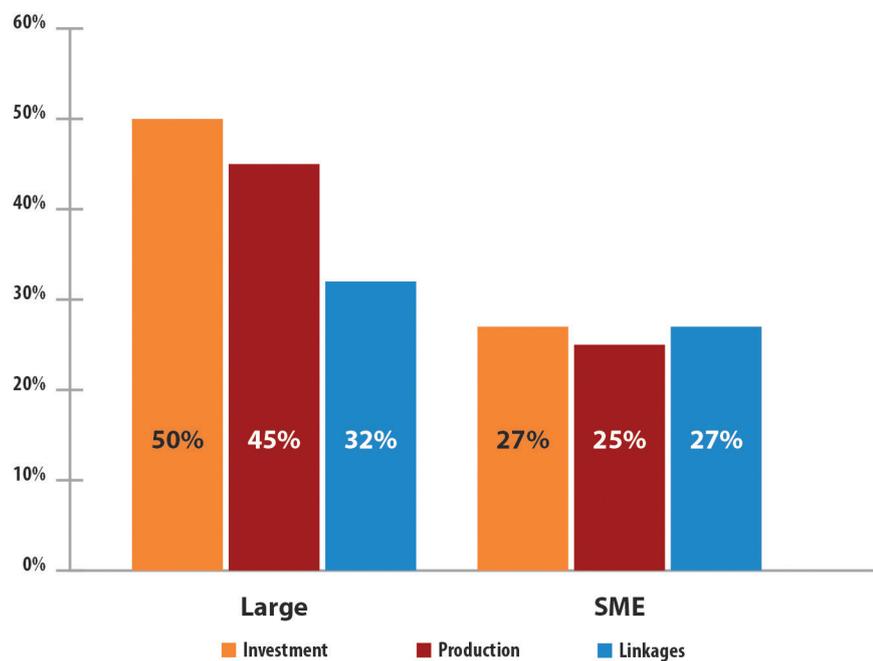
that needs serious enhancement through structural reform. The World Bank (2013) provided survey results that show the differences between larger companies and SMEs in their share of technology capability activities in investment, production and linkages, indicating a lesser effort on the part of the latter (Figure 5.17). The situation among the SMEs have to be much improved if the sector is to play a more significant role in Malaysia's inclusive growth strategy, especially in providing higher-valued jobs and enhanced labour productivity in the future.

The following measures may thus be considered in bringing about reform: reducing regulatory costs, building capacity and technological capabilities, supporting the creation of an entrepreneurial culture, strengthening support systems and enhancing access to financing. SME Corp Malaysia has been given the responsibility to act as the central coordinating agency and is required to deliver SME development targets. In order

Malaysian SMEs contribute a small proportion to GDP compared with benchmark countries in the Asia Pacific region.



Figure 5.17:
Share of technology capability activities being undertaken, %



Source: World Bank (2005 and 2009c).

Note: Investment: activities such as project preparation and technology identification. Production: activities such as process and product improvement. Linkages: activities such as knowledge and technology transfers.

to reduce regulatory costs that can spur entrepreneurial activity, SMEs should be subjected to easier regulation on registration of business and employment requirements.

To circumvent the lack of skilled labour, employees in SMEs that supply products and services to MNCs and large companies must be given hands-on training to upgrade their knowledge and skills, and they must be provided with courses in management, finance, marketing and ICT applications by government-recognised training institutions. The government must also collaborate with trade and industry associations to develop medium-term training maps and undertake industry-related training, engage foreign trainers and experts to assist in obtaining training in areas which are not available locally, and foster links with training centres

abroad via government-to-government cooperation. However, there are currently too many overlapping training programmes in various government agencies and departments, and many training centres offer courses that are practically useless. This will need to be dealt with before overseas collaborations can be undertaken.

To stimulate entrepreneurship, the government must enhance the SME-University Internship Programme by assigning the students to a business for two to three months to gain work experience and update their knowledge of current business practices. To strengthen support systems for the increasing acceptance of SME products and services and developing branding capabilities, the government must establish training collaboration with universities and introduce certified SMEs

scheme. Certified SMEs must receive benefits on the basis of innovation and commercialisation achievement such as tax deduction for R&D activities and priority in government procurement.

The government realises that the key requirements for SME growth is access to financing, and as a result a large number of the SMEs are receiving good access to financing, as approval rates and the total amount extended is increased. In order to enhance access to financing, the development of the venture capital and private equity industry must be accelerated. Special financing schemes by development financial institutions and other participating institutions must be provided to SMEs in new growth areas apart from financial support in the form of preferential rate loans or hybrid grant loans. For this, the Working Capital Guarantee Scheme (WCGS) for SMEs was reintroduced. The government has also set up financial help desks at trade associations and chambers of commerce to assist SMEs. In addition, financial institutions are encouraged to adopt SME Competitive Rating for Enhancement (SCORE), a diagnostic tool for rating SME performance at the firm level, as a complementary tool to assess the credit worthiness of SMEs.

Unless its structural problems are dealt with, Malaysian SMEs will continue to be stuck with unfavourable low value-added contributions to GDP compared with benchmarked East Asian countries. As mentioned earlier, some of the initiatives that have to be taken include reducing the regulatory costs, supporting the creation of an entrepreneurial culture, strengthening support systems and enhancing access to financing for SMEs.

Networking is imperative in today's fiercely competitive business environment, creating many agents that allow for alliances between industry players to facilitate exchanges of information and create new partnerships in the following areas: License and Permit, Financing, Advisory and Consultancy Services, Training and Development Programme, Business Opportunities and Business Premise.

Rapid economic growth in the past would arguably not be repeated, especially in the manufacturing sector. However, rapid growth in other sectors such as services and infrastructure

in the future is still possible with appropriate government intervention. The manufacturing sector's contribution in terms of the number of SMEs, jobs created, gross output and fixed capital formations is quite significant in the past. But more important is its organic contribution in the areas of job creation, enhancing national savings through less dependence on foreign exchange, promoting a more equal wealth distribution and local skills and talents, and enhancing technology transfer and inter-industrial technological linkages, as has been identified by the IDB.

A structural shift towards manufacturing activities in the SME sector will enhance both its value-added and employment contributions, which are more labour intensive as reflected by substantially low capital-labour ratio relative to that of MNCs. Although it is

Unless its structural problems are dealt with, Malaysian SMEs will continue to be stuck with unfavourable low value-added contributions to GDP compared with benchmarked East Asian countries.





As the Malaysian economy becomes more integrated globally, its SMEs have no choice except to be globally competitive.

easier to start a SME, as discussed above an SME would have lower productivity compared to large-scale enterprises. Empirical data shows that source of funds to initiate an SME normally comes from owners and/or relatives and partners, implying that SMEs encourages not only the activity of domestic savings and

investments, thus increasing their rates, but also the mobilisation of domestic saving and investment funds. This is important for a developing country

where a domestic saving fund is critically needed to take the economy off from the low-level development trap, which is not the case with Malaysia as an emerging economy. The World Bank has in fact dubbed Malaysia's problem as getting out of "the middle-income trap", which the government's new economic model is supposed to address. The MHDR for Malaysia, however, enjoins that in a high middle-income economy like Malaysia, the SME may become the instrument to prevent domestic savings from fleeing the country.

Income distribution will be more evenly dispersed through the greater participation of SMEs compared to MNCs, as the former will normally pay lower salaries to a large number of workers than the latter, which tended in the past to result in a "labour aristocracy" when compared to local employment. The shift to cheaper foreign labour as exhibited by current MNCs and local companies perhaps explains the situation. But averaging wages down through expanding SMEs

is not ideal method of achieving better income distribution—raising minimum wages would be much more preferable. Furthermore, in addition to higher labour intensity in their operations, SMEs are also the biggest employer of workers, which tends to narrow income distribution. But because of lower labour productivity, SMEs would not be able to pay higher wages to employees unless measures are taken to upgrade their production techniques. As the Malaysian economy becomes more integrated globally, its SMEs have no choice except to be globally competitive as well. Therefore, SMEs can be viewed as a good instrument to achieve high-wage, high-income economy with a more equitable income distribution in order to achieve the goals of inclusive growth.

The SME sector provides a platform for training, skill upgrading and entrepreneurial development in a neighbourhood environment, especially for those who only possess basic secondary and vocational academic qualification. In SMEs, workers are expected to multitask, which enables them to explore their full potential.

SMEs can help strengthen the economy's production structure by enhancing inter-industrial technological linkages, bridging the rest of the domestic economy's production network with the MNCs, which are traditionally an industrial enclave. Past industrial development and growth was contributed largely by increasing returns to inputs while very little role was played by technical change. The phenomenon of rapid manufacturing growth helped compensate for the limited contribution of TFP growth to total value-added growth, together with improvements in both backward

and forward linkages in the economy. This problem of low TFP contribution becomes more critical as the economy became more export-oriented 1980s and subsequently more intensive in the use of human-capital.

The challenge will be on the SME sector to address the problems mentioned earlier in order to allow them to contribute to manufacturing growth in a significant manner. Foreign large-scale firms could remit a proportion of profits earned from Malaysian operations to either parent or other countries, especially where the investment rate of returns is higher, thus leading to capital outflow abroad. SME may do similar things but its possibilities may be somewhat limited. Although large-scale manufacturers contributed significantly in the advancement of the manufacturing sector, MNCs have disappointed when it came to technology transfers.

SMEs establish technological linkages with the large-scale enterprises, MNCs. This will enhance inter-sectoral backward and forward linkages through the output of SME that is purchased by large-scale enterprises to be used as inputs, and vice versa, in the domestic production network.

5.5 Conclusion

This chapter has discussed the analytics of growth performance in the Malaysian economy in the post-NEP period. In section three, the Hausmann-Rodrik-Velasco (HRV) growth diagnostic was introduced in order

to identify the potential binding constraint in Malaysia's future growth performance. While the standard interpretation of the HRV growth diagnostic framework is aimed at prioritising possible economic policy reforms to achieve growth, a growth diagnosis more specific to the Malaysian case is necessary.

The results of this analysis show the importance of productivity of labour and total factor productivity in explaining Malaysia's growth performance. As a potential binding constraint, the IDB analysis confirms this conclusion as a causal factor contributing to low returns to public and private investment in the country. The section concludes with a reformulation of the decision tree to accommodate the issue of inclusive growth which is the focus of this MHDR *Report*, in which the structure and performance of the SME sector is the potential locus of issues of inclusive growth constraints.

The structure and attributes of the SME sector in Malaysia including the informal sector was discussed as a crucial strategic intervention to address its role as binding constraints to Malaysia's inclusive growth strategy. Minimum wage intervention in this regard is simulated in Chapter 6 below to consider its implication in the growth of the SME sector. This, and related policies towards the development of entrepreneurship, innovation and value-added growth in the SME sector, is critical to defining the path of the strategies of inclusive growth to be developed in the rest of the *Report*.





Chapter 6

Income Inequalities and Other Imbalances in Malaysia



Chapter 6

Income Inequalities and Other Imbalances in Malaysia

6.1 Income decomposition and policy impact analysis

The objective of this chapter is two-fold. First, the chapter will provide an overview of the distribution and components of the New Economic Paradigm that we introduced in Chapter 2. This approach decomposes the life capital of a household in terms of purchasing power into four components: wealth effects from asset-ownership, disposable income, access to credit and transfers. The second objective is to suggest strategies for increasing purchasing power capabilities amongst Malaysians with the aim of improving interethnic, inter-gender and interregional income distribution, as well as income distribution between the rich and the poor. By seeking to understand the impact of redistributive policies on the purchasing power of Malaysians, this analysis should enable policymakers and their advisors to formulate more robust economic and social policies and programmes to improve distribution and reduce imbalances in Malaysia.

The structure of this chapter is as follows: we will first explain the New Economic Paradigm model as outlined in Chapter 2, followed by the descriptive analysis of the model. We then estimate how much of a distribution impact intervention policies can have, focusing on intervention in the labour market, education attainment and fiscal transfers. The summary of the findings concludes this chapter.

6.2 The New Economic Paradigm

The New Economic Paradigm is used to analyse inclusive growth in the Malaysian context. It decomposes individual capability (or purchasing power) into four components: wealth effect, disposable income effect, effect of access to credit and effect of transfers. The analysis relied heavily on 2009 Household Income Survey (HIS) data in order to generate the New Economic Paradigm model. These four components are derived from the HIS and are defined as follows:

The **wealth effect** (to purchasing power) is defined as the sum of the annual returns from the financial assets and real estate assets. Financial assets are in turn the sum of savings and investment assets, of which savings and investment are derived from interest and dividend earned. Property asset refers to ownership of residential property. This is derived from the imputed rent of an owner-occupied house and rent from houses or other property.

Disposable income is represented by after-tax income, derived from salaries or wages from paid employment plus self-employment minus tax.

Transfers are tax-financed or charitable contributions in both cash and kind to individuals in the form of grants, scholarships, subsidies, tax allowances, donations and other income based welfare contribution, and contributions from other safety net contributions such as unemployment insurance.

Leverage or credit financing includes personal consumption and business loans as well as loans from both banks and non-bank financial





institutions, including cooperatives, credit associations and other informal channels of microfinance. However, we are unable to incorporate leverage into our model as the survey data does not capture this component. Nonetheless, available official data show that majority of household financing is captured by high-income household, while lower income and rural households depend on family members and friends as the main source of financing. Detailed analysis is elaborated in Box Article 6.1.

6.2.1 Descriptive analysis

The summary of the composition of purchasing power is shown in Table 6.1, which shows the median of each

than the poor, and 18 times the median Malaysian. The wide gap is reflected in the relatively high Gini coefficient; the inequality in purchasing power for Malaysian individuals in 2009 stands at 0.4531, which is nearly equivalent to the Gini of income (0.441).

The analysis reveals, as expected, that the purchasing power for the relatively poorer consist almost entirely of wages and self-employment income, with both wealth effect and transfers constituting just three per cent of the total purchasing power (Figure 6.1). Among the rich and super-rich, the wealth effect has a higher contribution to purchasing power

Table 6.1:
Purchasing power by income class

RM	Disposable Income	Wealth Effect	Transfers	Total
Bottom 40%	6,000	65	150	6,215
Median	7,200	100	150	7,450
Middle Class	13,672	1,718	326	15,716
Top 10%	46,900	6,820	230	53,950
Top 1%	117,200	19,770	400	137,370

Source: Household Income Survey 2009, authors' calculations.

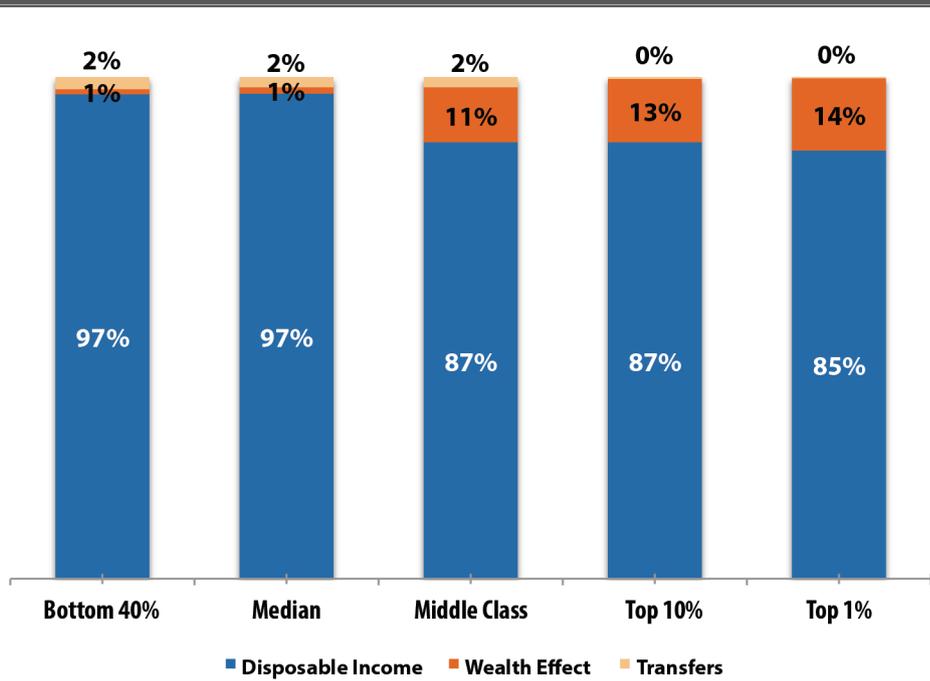
component to total purchasing power by quantile. The median purchasing power among the poor i.e. the bottom 40% is RM6,215, which is about 12%

that of the rich (the top 10%). The super-rich i.e. the top one per cent, meanwhile, has purchasing power amounting to RM137,370, which is 22 times greater

at about 13% and 14% respectively, while disposable income contributed the rest. Unsurprisingly, the share of transfers to the total purchasing power of the rich is practically zero. In effect the result shows that Malaysia as a society exhibits a two-class social stratification, distinguished by those with assets and those without assets. This means that an asset-based strategy is crucial for inclusive growth, including housing for all and financial inclusion approaches.

The super-rich i.e. the top one percent has 22 times more purchasing power than the poor, and 18 times the median Malaysians.

Figure 6.1:
Share of purchasing power components, by income class



Source: Household Income Survey 2009, authors' calculations.

Box Article 6.1 Leveraging: a tale of two classes

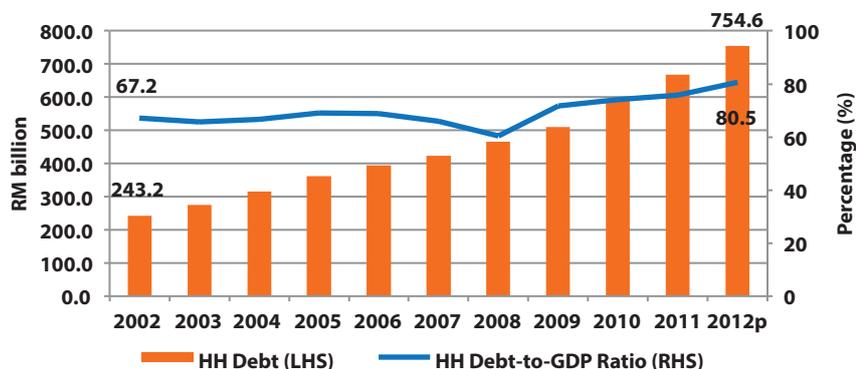
The household credit exposure in the banking sector has increased by more than twofold over the past decade from RM243.2 billion in 2002 to RM754.6 billion in 2012, which is equivalent to an increase in debt to GDP ratio from 67.2% to 80.5% in the same period (Figure 1). In 2012, about 43.9% of household income is for debt repayment, which is an increase from 39.1% in 2006 (Bank Negara Malaysia, 2010 and 2012b). This is a cause for alarm, as the rule of thumb suggests that the optimal debt repayment ratio should be kept within 30% and not to exceed 40%. The high indebtedness of Malaysian households, which is higher than optimum level, means

that they are sensitive to income shocks and interest rate adjustments. The lower income group, with lower savings capacity and higher leverage position at about 4.4-9.6 of annual income (as compared to 2.3-3.3 of middle and upper income group), are most vulnerable to these shocks (Bank Negara Malaysia, 2011). Importantly, they will remain in a leverage-vicious cycle due to the nature of credit.

There is heterogeneity in debt accumulation among the income groups, specifically consumption purposes for the lower income group and as an asset-generating instrument for the middle and upper income groups.



**Figure 1:
Household debt and household debt to GDP ratio**



Source: BNM Financial Stability and Payment Systems Report, 2012

Note: HH Debt: Comprises household loans outstanding in banking system, Bank Simpanan Nasional, Bank Kerjasama Rakyat Malaysia Berhad, insurance companies

According to the Bank Negara Financial Stability and Payment Systems Report in 2011, individuals with a monthly income of less than RM3,000 spend a larger percentage of their income on food and consumption, while taking out a loan to purchase vehicles and other uses. The usage of leverage for asset accumulation is minimal among the lower income group; data from Global Findex show that only 3.7% of those in the bottom 40% took out a loan in the past year to buy a home compared to nearly 20% of the middle and upper income group. The vulnerability of the lower income is evident by the fact that the single biggest usage of credit among the lower income group is for emergencies and health purposes. The higher income group meanwhile uses leverage to generate assets as credit is used to purchase properties and securities.

Similar patterns occurs within the strata, where those living in rural areas are more likely to borrow for health

and emergency purposes (13.4%) while those in urban areas are more likely to borrow to purchase a home (19.5%). Thus, urbanites and those with higher income are more likely to leverage on financing to accumulate assets, whereas those living in rural areas or have lower income have a higher tendency to use loans for personal purposes.

In Malaysia, the bulk of financing by the financial system accrues to the middle and upper income group, where nearly 47% of outstanding debts are attributed to borrowers with a monthly income above RM5,000 (Bank Negara, 2011). In comparison, according to Global Findex, those earning below RM3,000 and living in urban area comprise only 13% of total banking system loans. Interestingly, about one-quarter of the lower income group turn to their family and friends for financing while only about two per cent borrow from financial institutions. Lower income and lower expected future earnings as well as the inability to secure collateral

for borrowing are major constraints for the lower-income to borrow.

Over time, with the majority of lower income and rural households using financing for non-asset generation i.e. for personal use and consumption, compared with the higher income groups that use leverage to accumulate assets, the wealth gap will continue to widen. This will not change as long as the latter group continues to enjoy better access to financing compared to the poor or

the rural. In order for Malaysia to be fully financially inclusive, greater effort has to be exerted towards enabling the lower income groups and those in rural areas to have access to credit. The establishment of microcredit agencies that provide credit facility to the poor is laudable. Moreover, a good support system of debt management and financial literacy should be implemented in tandem with access to credit to maintain a safe debt level for households.

Sources: BNM Financial Stability and Payment Systems Report, 2010, 2011 and 2012 and World Bank Global Financial Inclusion (Global Findex) Database, 2013.
Note: Article contributed by Wan Ya Shin.



Ethnicity

Analysis by ethnicity shows that at every class level, the Chinese have higher purchasing power compared to other ethnic groups, with the Other Bumiputera having the least (Table 6.2). The breakdown of purchasing power tells the same story; the Other Bumiputeras have the least in disposable income and wealth effect at every level, while the Chinese have the highest. Interestingly, income transfers to the Other Bumiputeras are higher compared to Malays and Indians; among the poor, Other Bumiputeras enjoy 25% more in term of transfers than the Malays and Indians. The data also suggest homogeneity in the purchasing power gap; the super-rich, regardless of ethnicity, has about 18 to 20 times more purchasing power than the bottom 40%, although the gap is much higher among the Indians at 22 times. The inequality – measured by Gini coefficient – is highest among Indians at 0.4498 followed by Other Bumiputeras at 0.4425, Malays at 0.4404 and the Chinese at 0.4369.

The analysis of the contributions of each component of purchasing power by ethnicity reveals a similar general pattern: disposable income contributes the most to purchasing power, more so for the relatively poor, while the rich has a higher share of the purchasing power originating from wealth effects as compared to the poor (Figure 6.2).

Breakdown by components shows that among the relatively poor (bottom 40%) of the population, as expected, non-Malay Bumiputeras enjoy higher contribution from transfers at three per cent, compared to individuals of other ethnicities. At the median purchasing power, Bumiputeras in general also enjoy higher contributions from transfers: two per cent for Malays and three per cent for Non-Malay Bumiputeras, compared to one per cent for the Chinese and Indians.

Among the rich, the wealth effect share as part of purchasing power is highest among Malays compared to other ethnic communities. While the share of wealth effect is 13% of the purchasing power of the top one percent non-Malay Bumiputeras,

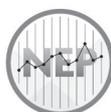


Table 6.2:
Purchasing power and its components, by ethnicity and class

MALAY				
RM	Disposable Income	Wealth	Transfers	Sum
Bottom 40%	6,000	30	100	6,130
Median	6,948	100	150	7,198
Middle Class Mean	12,574	1,552	331	14,456
Top 10%	42,000	4,900	200	47,100
Top 1%	102,756	18,000	300	121,056
OTHER BUMIPUTERA				
Bottom 40%	4,400	12	125	4,537
Median	5,040	54	144	5,238
Middle Class Mean	8,698	1,246	520	10,464
Top 10%	35,086	4,000	300	39,386
Top 1%	75,660	9,315	400	85,375
CHINESE				
Bottom 40%	9,580	196	150	9,926
Median	10,410	250	150	10,810
Middle Class Mean	18,667	2,513	270	21,450
Top 10%	60,000	10,454	300	70,754
Top 1%	154,320	24,150	600	179,070
INDIAN				
Bottom 40%	6,000	50	100	6,150
Median	7,200	100	100	7,400
Middle Class Mean	12,223	1,947	218	14,389
Top 10%	49,680	6,760	150	56,590
Top 1%	118,400	17,757	200	136,357

Source: Household Income Survey 2009, authors' calculations.

At the median, the urban Malaysian would have at least 43% more purchasing power than the rural Malaysian, and the gap widens as income class increases.

Chinese and Indian, its share is 15% of the purchasing power of the top one per cent Malays. This is not surprising, as we have seen in Chapter 3 where the gap between

the rich and poor Malay in terms of financial assets is very high. However, among the poor, the share of wealth effect for Malays and non-Malay Bumiputeras is zero, while it is two per cent for the Chinese and one per cent for Indians.

Strata: urban/rural

Analysis by strata or location exhibits a similar pattern: the purchasing power of the urban and rural poor consist entirely of disposable income; those residing in the rural areas have lower purchasing power compared to their urban counterparts; and there is a wider gap between the rich and the poor in the urban areas compared to the rural (Table 6.3).

At the median, the urban Malaysian would have at least 43% more purchasing power than the rural Malaysian, and the gap widens as income class increases. For instance, the gap between urban and rural poor (bottom 40%) is about 51%,



Figure 6.2:
Share of purchasing power components by ethnicity

Figure 6.2.1:
Share of purchasing power components among the Malays, by class

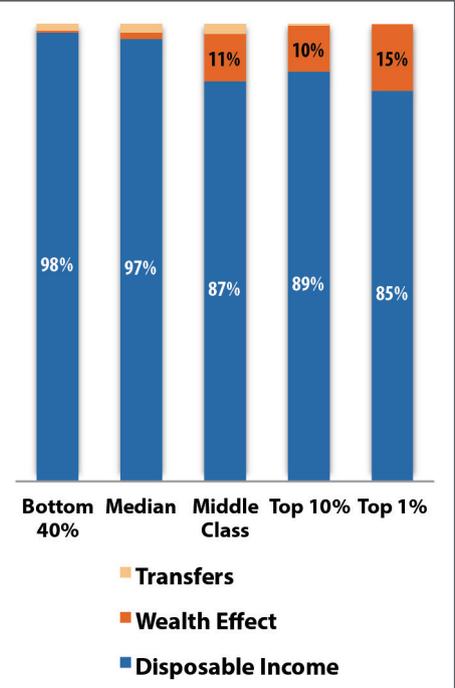


Figure 6.2.2:
Share of purchasing power components among the non-Malay Bumis, by class

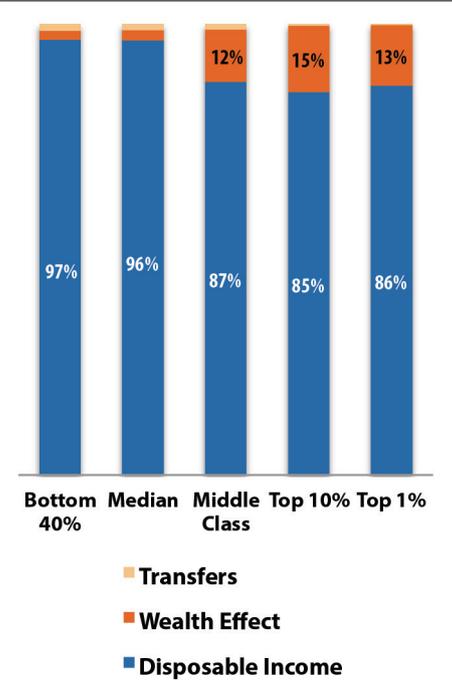


Figure 6.2.3:
Share of purchasing power components among the Chinese, by class

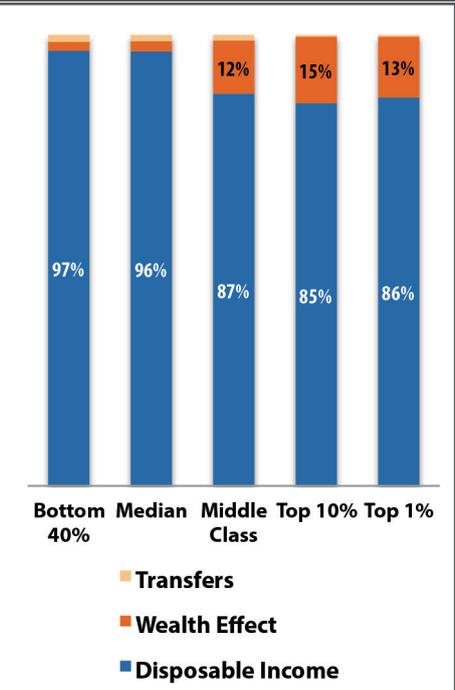
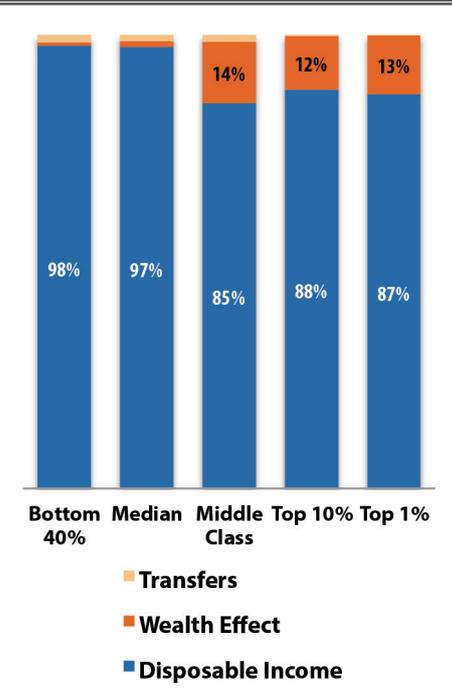
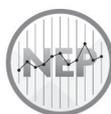


Figure 6.2.4:
Share of purchasing power components among the Indians, by class



Source: Household Income Survey 2009, authors' calculations.



The bottom 40% individuals in rural areas experience absolutely no wealth effect; their disposable income contributes 98% to their purchasing power.

and this gap increases to 60% among the top 10% and further increases to 85%

among the top one per cent. The gap between urban and rural occurs in each purchasing power component, although it is much higher in wealth effect than in disposable income.

For instance, the disposable income of an urban dweller on average is almost twice that of a rural dweller among top 10% and one per cent, but the gap in the wealth effects and transfers nearly tripled.

The data also reveal that the unequal distribution in purchasing power is more extreme among urbanites compared to the rural folks. For instance, the purchasing power gap between the rich (top 10%) rural and the poor (bottom 40%) rural is about 8.1 times or about RM35,000, which is lower compared to those in urban areas where the rich-poor

gap is nearly RM56,500 or equivalent to 8.6 times. The inequality is thus much higher in the urban compared to the rural; the Gini coefficient for the urban is 0.4478, compared to 0.4300 for those living in rural areas.

The contribution of each component of purchasing power by strata is shown in Figure 6.3: disposable income contributes most to purchasing power among both urban and rural poor, while the rich has a higher share of their purchasing power coming from the wealth effects—although it is more pronounced among the urban rich compared to the rural rich. Interestingly, the bottom 40% individuals in rural areas experience absolutely no wealth effect; their disposable income contributes 98% to their purchasing power while the balance comes from transfers. In comparison, the wealth effect of the rural rich (top 10%) and super rich (top one per cent) is lower around nine to 10%, compared to the urban rich at 13-15%.

Table 6.3:
Purchasing power and its components, by strata and class

	URBAN			
	Disposable Income	Wealth	Transfers	Sum
Bottom 40%	7,200	99	100	7,399
Median	8,400	128	100	8,628
Middle Class Mean	15,823	2,030	243	18,096
Top 10%	55,000	8,616	230	63,846
Top 1%	135,525	24,150	480	160,155
	RURAL			
Bottom 40%	4,800	-	100	4,900
Median	5,860	63	100	6,023
Middle Class Mean	9,287	1,284	457	11,028
Top 10%	36,000	3,770	200	39,970
Top 1%	77,751	8,720	300	86,771

Source: Household Income Survey 2009, authors' calculations.



Figure 6.3:
Share of purchasing power components by location

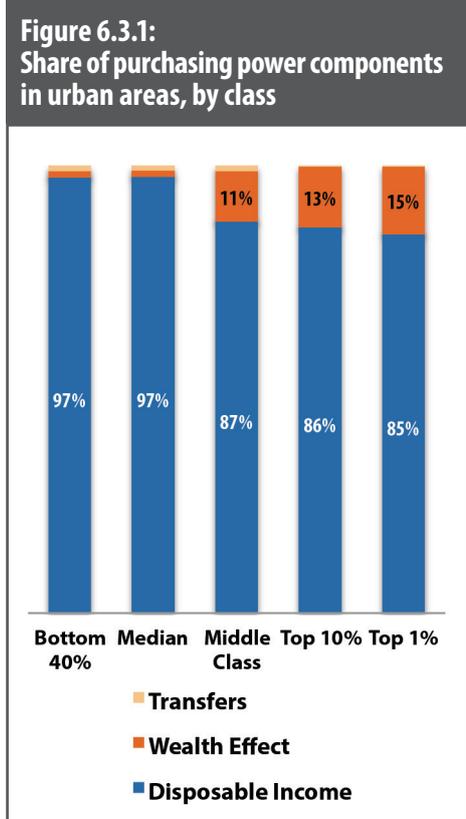
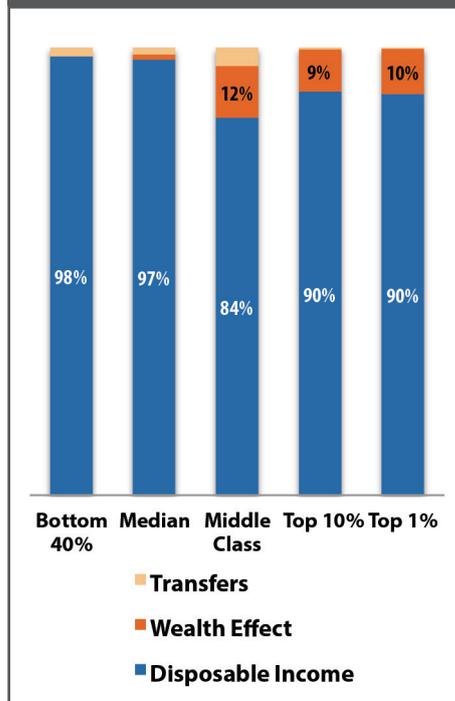


Figure 6.3.2:
Share of purchasing power components in rural areas, by class



Source: Household Income Survey 2009, authors' calculations.

Educational attainment, employment status, occupation and gender

For the remaining variables, namely educational certification, activity status, industry, age group, marital status and gender, our analysis will focus only on the median purchasing power of the middle class—that is, those with household income within 20% of the median national income, in order to get an idea of the magnitude of differentials in purchasing power. The results are shown in Figure 6.4.

The analysis of purchasing power, based on educational attainments, shows as expected that the higher the education level of the individual, the higher the purchasing power. Those with the highest educational qualification, degree holders, have a median

purchasing power of RM37,200, which is 2.5 times more than that of a SPM certificate holder, and 5.3 times more than that of individuals with no formal education. The highest “return” on education occurred from those with college/diploma to degree-level education, where the median purchasing power jumps by 55%, while those with lower secondary education (PMR) who obtained secondary qualification (SPM) saw their purchasing power increasing the lowest at just 13%. The return on education is consistent with the recent study by the OECD, where it shows that people with tertiary education can expect 55% more on average in OECD countries than a person without tertiary education, and those who have not completed secondary education earn 23% less than those who have¹.

¹Refer to Organisation for Economic Co-operation and Development (OECD), 2012. *Education at a Glance*. Paris: OECD Publishing.

Figure 6.4:
Median purchasing power for selected variables amongst the middle class

Figure 6.4.1:
Median purchasing power, by educational certification

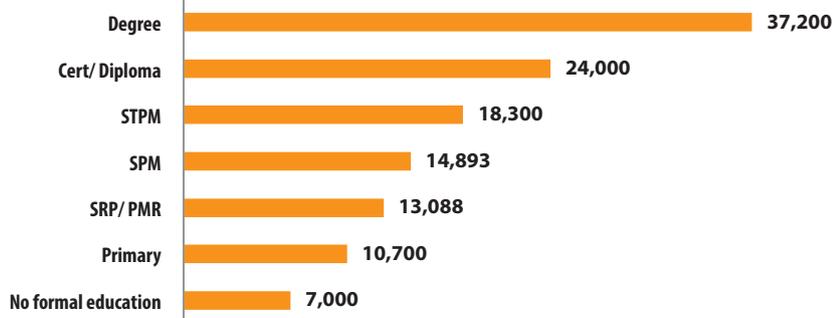


Figure 6.4.2:
Median purchasing power, by occupation

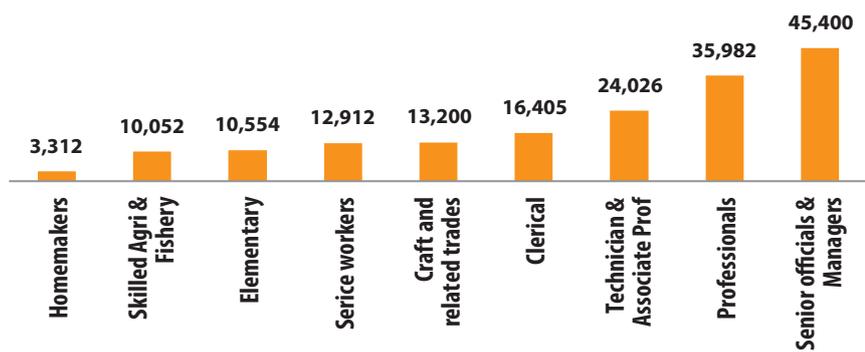


Figure 6.4.3:
Median purchasing power, by employment status

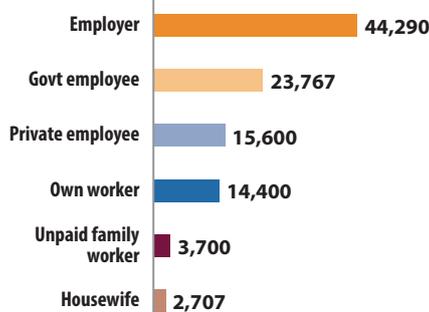
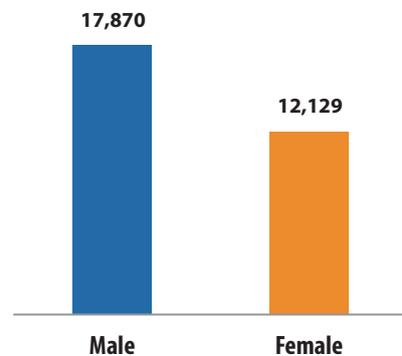


Figure 6.4.4:
Median purchasing power, by gender



Source: Household Income Survey 2009, authors' calculations.



The median purchasing power wealth based on the occupation level showed that purchasing power is highest for senior officials and managers, who have a median amount of RM45,400 which is about a quarter more than professionals, double that of technicians and associate professionals, and 4.5 times more than agricultural workers. The distribution of median purchasing power by occupation is to be expected, as those who have higher posts earn higher income, which in turn enabled them to accumulate wealth and thus have even greater purchasing power.

If the analysis is done by employment status, that is, whether the respondent is an employer or an employee in the private sector or as a government employee, the data show that being an employer would bring the highest amount in purchasing power while being a housewife would mean the person has the least purchasing power. At the median level, an employer usually has about RM44,290 in purchasing power, which is 16.4 times higher than a housewife. Interestingly, those working in a public sector would have higher purchasing power than those of private sector, at the ratio of 1:1.52.

Analysis by gender shows that at the median, purchasing power of a woman would hover around RM5,741 less than that of a man. This is consistent with multiple studies showing that women usually would have fewer assets and lower wages compared to men.

6.3 Determinants of purchasing power

The preceding analysis gives us a direct correlation between purchasing power and individual characteristics

such as location, ethnicity, occupation, employment status, gender and education. However, the correlation is limited because it did not isolate the marginal contributions of each individual factor. In other words, we need to discover what are the respective determinants of purchasing power at the different levels of distribution are—holding other variables constant².

The quantile regression method is used to produce the results. Our model is specified as follows: the dependent variable is (log) of purchasing power while the explanatory variables are ethnicity, activity (e.g. employer or employee), education level, age, location, occupation, gender, marital status and industry (e.g. public sector vs. private sector)³. The results are shown in Appendix Table B6.1.

Consider first the effect of education. As expected, each additional level of certification obtained is associated with higher purchasing power, and in the present case a minimum of 25% higher compared to those without formal education. For instance, among the median, if a person has a degree, he would have 98% more in purchasing power

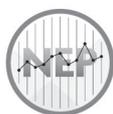
compared to those without education, *ceteris paribus*. Even having basic education is literally worth it: among the poor (bottom 20%), an individual with primary education and secondary education can expect to have at least

Among the bottom 20%, an individual with primary education and secondary education can expect to have at least 23% and 35% more in purchasing power respectively, compared to those without any formal education.

²We use the 2009 Household Income Survey data in undertaking this analysis. Quantile regression estimation is used as it helps to alleviate some of the usual and main statistical problems: when dealing with wealth or income studies, particularly on sensitivity to outliers and non-normal error distributions.

³Thus, our purchasing power function has the following form:

$\ln PP_{\theta} = \beta_0 + \beta_{eth}(ethnicity) + \beta_{gen}(gender) + \beta_{str}(strata) + \beta_{mar}(marital\ status) + \beta_{edu}(education) + \beta_{act}(activity) + \beta_{age}(age) + \beta_{occ}(occupation) + \beta_{ind}(industry) + \epsilon$
where, $\ln PP_{\theta}$ represents the natural logarithm of purchasing power per capita at each quantile θ , β_0 the intercept, and each β are respective coefficients of each independent variables. The coefficient β will vary depending on which particular quantile is being estimated.



**If a person is a female
– with all other
characteristics being the
same as the male – her
purchasing power will be
at least 33% lower.**

23% and 35% more in purchasing power respectively, compared to those without any formal education. The results also show that even having lower or secondary education certification (instead of not being educated at all) amongst the lower percentile groups has a larger positive impact on purchasing power than at the higher percentile groups. This shows that education is a key factor in increasing purchasing power for the poor and a significant factor in social mobility.

As expected, if one is an employer, their purchasing power would be much higher compared to being an employee.

Among employees in the top quantile (top 10%), being a government servant would mean 56% less purchasing power than if one is an employer. However, among the bottom quantile (bottom 10%), government servants would have just one per cent less than an employer. At every quantile, being a private sector employee would mean lower purchasing power when compared to a government employee, except among those in the top one per cent.

The residential location of the individual also has an effect on purchasing power. Overall, at the median level, a rural individual has 12% less purchasing power compared to an urban individual, holding other things constant. The premium of residing in an urban area increases as purchasing power increases. In other words, the gap between a rural resident and an urban resident is higher amongst the rich compared to the poor.

This could be explained by the lower income and wealth effects of rural inhabitants compared to urban dwellers.

Ethnic differences show that being a Bumiputera, *ceteris paribus*, result in having a significantly lower purchasing power compared to a non-Bumiputera. Being a Chinese and Indian – at the median level – would result in an increase in purchasing power of 30%, and six per cent respectively compared to being Malay, despite the latter having the same characteristics as the Chinese or Indians in terms of education level, gender, job level, industry, age, marital status and the location that they reside in. The gap is quite constant at every level regardless of purchasing power. Within the Bumiputera community, Malays would normally have a higher purchasing power compared to non-Malay Bumiputeras, except among the super-rich, where the latter would have six per cent more purchasing power, *ceteris paribus*. Occupation status also matters if one wants greater purchasing power. As expected, a white collar worker would have higher purchasing power than the blue collar worker. The significant returns from an occupation, primarily for white collar workers, is almost a mirror image of returns on education: the higher the post one occupies, and the more educated one becomes, the greater the purchasing power.

Age, independent of other characteristics, is also an important determinant of purchasing power. Our age profile shows that the additional increase in age will result in an increase of about one to two per cent in purchasing power.



If a person is female – with all other characteristics being the same as the male – her purchasing power will be at least 33% lower. The “female handicap” is higher amongst the poor, where a woman can expect at least 54% less in purchasing power compared to the rich (top 10%) where the handicap decreased to 33%. This could be explained by the fact that the woman, on average, has lower income compared to men. Given that the majority of purchasing power is made of disposable income from employment, this explains the wide gap in purchasing power between the genders.

The analysis finds that marital status also affects purchasing power. Interestingly, a widow, *ceteris paribus*, would have higher purchasing power compared to married, single or divorced individuals. However, among the super-rich (top one per cent), it is interesting to note that, *ceteris paribus*, a separated individual would have 13% higher purchasing power than a married individual, although the effect is statistically weak.

6.4 Policy intervention

The objective of this section is to analyse the impact of policy intervention on purchasing power on several policy measures, and to quantify the effects of some of these policy interventions onto the life capital of individuals, using the proxy of purchasing power. Specifically, the following interventions are undertaken: introducing minimum wage, increasing educational attainment to minimum secondary education and implementing transfers via Bantuan Rakyat 1Malaysia (BR1M)⁴.

6.4.1 Policy simulation: minimum wage

The minimum wage legislation which was passed by Parliament in 2012 and came into effect on 1 January 2013, stated that a minimum wage of RM900 will be imposed for an employee in the private sector (refer to Box Article 6.2). This will have an impact on roughly 3.2 million workers in the private sector – including foreign workers – other than those in the domestic service sectors (i.e. maids and gardeners).

Box Article 6.2: Minimum wage policy

In line with the NEM, Malaysia is now committed to introducing a national minimum wage policy for the first time ever in its history. First announced by the Prime Minister in his October 2010 budget speech, the Minimum Wages Order 2012 was gazetted on the 16 July 2012 and commenced on 1 January 2013 for all employers who employ more than five employees and employers who carry out professional

activity. Employers may also apply to the National Wage Consultative Council (MPGN) for a delay of commencement; for those who employ fewer than six workers the commencement date was set at 1 July 2013. The Order shall not apply to a domestic servants as defined under Section 2 of the Employment Act 1955 (Act 265), Section 2 of the Sabah Labour Ordinance (Chapter 67) and Section 2 of the Sarawak Labour

⁴Access to credit is omitted in this regression analysis because of data unavailability.



Ordinance (Chapter 76). Examples of domestic servant include cook, house-servant, child's nurse, gardener, washerwoman, watchman and driver.

Would this create unemployment and affect economic growth? In Malaysia, wage is determined virtually by the interplay of market forces, which are undermined by several elements of imperfection such as price controls, subsidies and influx of unskilled migrant workers. All these elements have significantly depressed the real wage growth. It is desirable to put in place a more comprehensive country-wide minimum wage policy to correct these imbalances as a way forward to the second-best solution to the labour market.

The slower growth of wages relative to labour productivity (wage rate increases by about 2.6% annually compared to labour productivity rate of 6.7%) in the Malaysian economy shows a situation of depressing wages, especially those of low skilled workers. This is a clear sign of inefficiency in the labour market. Low wage is a phenomenon in Malaysia as statistics from National Employment Returns 2009 show that about 33.8% of private sector workers earned wages less than RM700 per month, well below the 2009 poverty line income of RM800 per month. But it has to be noted that poverty line income is measured for a household, which may have more than one member of the household earning an income. There was also regional disparity in poverty line income, RM763, RM1,048 and RM912 for West Malaysia, Sabah and Sarawak respectively. Malaysian Productivity Corporation

statistics show that nearly 70% of total employment in the manufacturing sector is unskilled, one-quarter of it is made up of migrant workers and that their labour productivity is not only much higher than wage levels, driven by rapid increases in capital intensity, but also grew much faster from 1996 to 2009. A similar trend of large disparities between labour productivity and wage rates were also present in the services subsectors such as computers, ICT, communications, hotels and hospitality from 2000 to 2009.

Results of empirical studies found that there is enough evidence to show that minimum wage may cause little unemployment especially among teenagers working in small enterprises. However, the results also suggest that as long as the minimum wage is not set too high a level, minimum wage can benefit the group that it is intended to help, by raising both their wages and employment levels. As the policy is backed by legislation, it calls for strict enforcement mechanisms, whereby more attention is needed towards documenting and assessing the implementation and compliance with minimum wage legislation.

A computable general equilibrium analysis conducted by the World Bank concludes that a minimum wage rate set at below RM1,000 per month (or RM4.88 per hour) in total compensation or RM900 per month (or RM4.33 per hour) in base compensation would not significantly affect firms, employment, foreign direct investment and migrant worker inflow into the country. Discriminatory sectoral impact on establishment was observed where

the labour intensive sector like textile, apparel, leather and leather products would be the most affected, while the agriculture, forestry, fishing, health and social works were the least affected. Similarly, although teens and senior citizen workers are the most affected, its impact on employment (in terms of jobs losses) will be negligible, ranging between 0.4% and 0.7% if set at RM900 and RM1,000 respectively. Similarly, its impact on investment would be a meagre 0.05%. Assuming that there will be substitution to local workers from migrant workers, demand for the latter will be reduced by 0.6-0.8% in the first year of implementation; the impact will be bigger in later periods.

On implementation of the minimum wage, while workers are concerned with ensuring that terms and conditions of their employment service are maintained as per their collective agreement and that the proposed rate must be tied to cost of living, employers on the other hand are more concerned with their ability to pay, especially among SME employers. Hence, some

have requested delays to buy them time to prepare for the new wage environment. While the minimum wage rate is set on the basic wages, there are many occupations where wages are paid not on the basis of basic wages, but rather on the total compensation where their final earnings are somewhat higher.

Additional input is gravely needed on labour market segmentation by region and sector of the economy, particularly those pertaining to productivity differential and the extent of informality. Pragmatically, the government has decided, as proposed by the MPGN, a dual rate minimum wage system, one for Peninsular Malaysia and another for Sabah and Sarawak. In setting the rate, the MPGN fundamentally considers elements of the basic needs of the people (as measured by poverty line income and the employee's ability to pay for the labour services as measured by the median wage); in addition to changes in the general price level, the labour productivity and labour market conditions.

Note: This article draws substantially from Zakariah Abdul Rashid (2013) "Wages, Labour Market and SME growth in Malaysia" (Background Paper Number 3).

To analyse how effective minimum wage is in increasing purchasing power, we ran two simulation exercises by imputing a minimum salary of RM900 (or RM10,800 annually) to all sampled individuals earning less than the minimum wage. Quantile regression pre- and post-intervention is then conducted against all explanatory variables to measure the impact on distribution.

Our findings (Appendix Table B6.2) show that there is a strong positive

impact, especially amongst the poor, in increasing their purchasing power. For instance, among the poor (bottom 10%), those with tertiary education will have their premium drop from 109% to 85% compared to individuals without education, and the gap decreases at every quantile. The gap in employment status will also see significant reduction; the purchasing power gap among the bottom 10% of those working as private employees is slashed from 27% gap pre-intervention





to just ten per cent post-intervention. The imposition of minimum wage will also reduce the purchasing power by occupation status; with the poor (bottom 20%), there is minimal gap in purchasing power among blue-collar workers when comparing to elementary workers, in contrast to double-digit premiums if minimum wage is not imposed. The impact is also positive among the urban-rural divide, where post-intervention will result in rural individuals at the median level, having seven per cent less than their urban counterpart, compared to 12% pre-intervention. The gap between the ethnic groups will also see a significant reduction. For instance, among the poor (bottom 40%), the Chinese premium gap will reduce from 30% to 19% compared to Malays, *ceteris paribus*. There is also positive impact on the gender gap, where among the bottom 10% the minimum wage would reduce the gap by more than half, from 54% pre-intervention to 22% after the intervention.

The simulation exercise also indicates a significant reduction in overall inequality. Post-intervention, the Gini coefficient is reduced by about 7.6% to 0.4254 from 0.4603, if there is no minimum wage legislation.

6.4.2 Policy simulation: education

Here, we aim to analyse the impact of education on purchasing power. Specifically, we would like to see how obtaining a secondary education can affect purchasing power; in order to do this we assign the return on secondary education attainment to individuals who have primary or no education. This is a rather radical and tricky reform for

two important reasons. One, we are assuming that those who do not have secondary education will have it. Second, the return on education calculation is likely to be biased upwards; as more and more individuals obtain secondary education, the return will likely to be reduced. Nonetheless, the exercise is not intended to suggest exact implications to reduction inequality, but as a rough comparison to the status quo, made under the assumptions that everything else is constant and equal.

As Appendix Table B6.3 (refer to Appendix) shows, the education reform has positive implications to inequality and does increase purchasing power. For instance, before the reform, the purchasing power gap of the degree holders – at the median – would be 98% higher than an individual with no education. After the reform, the gap is reduced by nearly half to 50%. This implies some degree of reduction in the purchasing power gap between the less educated and the more educated.

There is also positive, if marginal, impact on occupation activity, where the purchasing power gap between white collar and the blue collar workers narrows after the reform. For instance, the gap – among the bottom 20% – between elementary workers and professionals is reduced to 65% from 66% before the reform. Interestingly, the reform in education also has almost no significant impact on the ethnic purchasing power gap, especially between the Malays and the Chinese, and for the Other Bumiputera community. Nonetheless, there is slight positive impact among women, where the gap with the men reduces. For instance, among the bottom 10%, the

male premium narrows to 53% from 54% previously.

Nonetheless, the reform has an impact on overall inequality in Malaysia, although the reduction is not as large as the introduction of minimum wage. The reform in secondary education suggests that inequality will be reduced to 0.4413, or about 4.1% compared to pre-reform figures. However, the estimated impact on inequality is likely to be overestimated, as explained earlier. In interpreting the analysis, one must bear in mind that this is an indicative rather than conclusive result. Nonetheless, we are confident that there will be positive impact in ensuring that those without education is given the opportunity to have at least a minimum secondary education.

6.4.3 Policy simulation: income transfers

The third simulation is aimed at calculating the impact of income transfers on the purchasing power distribution given that the government has announced the possibility of consistent annual income transfers via BR1M. In this simulation, we intervene by adding onto the existing transfer payment receipts by each sampled individual who qualify for BR1M; specifically, households with income of less than RM3,000 (intervened at individual household levels) will see an additional RM500 into their purchasing power, and unmarried single individuals earning salaries less than RM3,000 will see an increment of RM250.

The result of the simulation exercise is shown in Appendix Table B6.4 (refer to appendix). Overall, there is an improvement in purchasing power distribution across the income class,

with marked improvement among the poor. For instance, among the poor (bottom 10%), the gap between those with educational attainment and those without shows a decline; without reform, an individual with secondary education will have about 54% more in purchasing power compared to individuals without education; holding all other constant, the reform will reduce the gap to 50%. Nonetheless, there is also marginal improvement when we compare with occupational status. For instance, amongst the relatively poor (bottom 10%), the premium of a professional over an elementary worker reduces from 65% to 62% after the additional transfers payment. It is interesting to note that income transfers have tepid effects on purchasing power gaps amongst ethnic and strata groups; the Chinese and Indian as well as urban premium in purchasing power terms is reduced by one to two percentage points across all quantiles.

Nonetheless, the targeted income transfers to low-income Malaysians would see reductions in inequality, although the impact is much less compared to the previous two interventions. Our analysis shows that the Gini coefficient will be reduced slightly by 0.8%, to 0.4566 from 0.4603 before the transfer. However, if the transfer is further increased to RM1,200 for households with an income of RM3,000 and below, and to RM600 for single individuals with salaries of RM3,000 and below as announced in the government's 2013 general election manifesto, the reduction in purchasing power inequality will be more substantially reduced to 0.4510, or about two per cent compared to purchasing power before the income transfer.



**Box Article 6.3:
Malaysia's subsidy rationalisation: alternative schemes**

Malaysia's subsidy allocation had been exposed to strong censure for the past several years due to its allegedly unfair distribution and potential to reinforce greater inequality between groups of different classes. This has led to a call for subsidy rationalisation and reform that was emphasised in the Economic Transformation Programme (ETP), 2010 with the central idea of ensuring that the subsidies reach the poor and disadvantaged groups.

The current subsidy's distribution shows that although the low income group makes up the largest percentage of total household (32%), only 10% of total expenditure are attributed to them, with the smaller high income group registering a higher share of expenditure. The analysis using 2004 Household Expenditure Survey reveals the unequal distribution of subsidies; based on the application of the current Government Oil Subsidy Scheme for

Households (GOSSH), high income and upper-high income groups benefit the most (RM11,159 million) in subsidies, whereas the low-income group enjoy just three per cent of that amount. Gas subsidies also benefit the rich more than the poor; in fact the biggest beneficiary of gas subsidy are private companies and billionaires who own an Independent Power Producer (IPP). Since 1997, the cumulative gas subsidy to the IPP totalled RM62.4 billion [1], much higher than the subsidies for non-power sectors including industrial, commercial, NGV and residential users combined.

Alternatives to the current subsidy scheme

The need to reform the current government's oil subsidy scheme is a subject of great urgency. Any alternative scheme to be adopted should be responsible for fairer

**Figure 1:
Alternative subsidy scheme**

Scheme	Total Subsidy	Allocation of Subsidy	Prices
Current	Remain (RM13.5b)	No intervention. Consumption-based Low: 2% Low-Mid: 4% Upper-Mid: 11% High: 24% Upper-High: 58%	Remain 
Scheme 1	Remain (RM13.5b)	Intervention. Equity-based Low: 10% Low-Mid: 10% Upper-Mid: 25% High: 30% Upper-High: 25%	Remain 
Scheme 2	Reduced by 10% (RM12.1b)	Intervene: Equity-based with Government Savings Low: 15% Low-Mid: 15% Upper-Mid: 30% High: 25% Upper-High: 15%	Increase HH total oil Exp by 2% 



allocation towards high and upper-high income groups compared to current scheme and Scheme 1.

Though Scheme 1 and 2 are both principally equity-based approaches, there are distinctions. Scheme 2, for instance has the potential to reduce 10% of total subsidy allocation compared to current scheme and Scheme 1. This means that it does not only offer transitions in subsidy allocation from upper-high and high income groups to lower income groups, but presents a reduction in the overall government subsidy allocation, leading to greater government savings. Scheme 2 also offers a two per cent increment in total household oil expenditure that is not projected either in the currently employed scheme or in Scheme 1.

How does it work?

In applying these two schemes, it proposes the Tiered Subsidy Scheme (TSS) system, where vehicle users are divided into two tiers according to income groups. The first tier consists of the low-income group owning vehicles below 1600cc, and the second tier represented by the high income group with vehicles above 1600cc. The principle calculation for TSS is dependent on tiers and levels of consumption (normal, average and extreme). For instance, the low-income group (tier 1) will pay a discounted price (lower) for their normal usage whereas the high income group (tier 2) will be subsidised up to their normal usage. Higher prices will be charged for usage

above the normal range while a tax rebate will be imposed on users with extreme usage.

For systematic application and to prevent abuses, TSS can be implemented by issuing a petrol “smartcard”, with the cooperation the Department of Transportation (JPJ) and the Ministry of Domestic Trade and Consumer Affairs (KPDNKK). A Prepaid feature can be built into the smartcard to allow relevant agencies and future implementing partners to determine the level of consumption and assign rewards according to the user’s eligibility.

Advantages of TSS

The government is the only “supplier” of subsidies. This monopolistic power allows the government to segment the market into tiers. The rationale is to ensure subsidies are allocated on equitable basis that reach the targeted group.

Application of the TSS offers a number of advantages. First, it has the potential to lead to fiscal savings through reductions in total subsidies to be paid by government. In fact, the government’s subsidy burden can be forecasted in advance and capped at a pre-determined level, meaning that there would be no uncertainty when it comes to fiscal expenditure. Second, TSS is also viewed as an initiative to encourage “green” and efficient behaviour amongst users through a reward-penalty scheme. And third, cooperation with JPJ and KPDNKK through a petrol smartcard will create an efficient subsidy scheme and prevent abuses and wastages.

Source: [1] World Bank (2013) Malaysia Economic Monitor: Harnessing Natural Resources. Washington DC: World Bank, Table 7.
Note: This article draws heavily from Kamal Salih and Nurazlan Abdul Ghani, paper for National Price Council, Malaysia, 2008.



6.4.4 Policy simulation: minimum wage, education and income transfers

Taking all policy reforms into account, a final simulation is conducted to quantify the impact of all three reforms simultaneously. Firstly, we made all monthly wages and salaries at least RM900, and all those eligible are accorded with BR1M on top of their existing transfers incomes, as per the distinct separate simulations earlier above. Subsequently, we impose a return to secondary education, the quantum of which is also based on our statistical regressions at every decile group of purchasing power, onto the post-BR1M and post-minimum wage purchasing power of individuals in the sample.

The result of the simulation exercise is shown in Appendix Table B6.5. There is marked improvement in the purchasing power gap and overall inequality; the overall Gini coefficient is reduced by 7.4% from 0.4603 before the intervention to 0.4264 post-intervention.

The analysis shows improvement in every category, albeit with different effects:

Education: Post-intervention, we see a reduction in purchasing power gap between individuals with tertiary education and the rest, especially for those in the lower quantile. For instance, among the bottom 10%, the gap between those with the highest and lowest educational attainment will be reduced significantly from 109% to 47%, and at the median the gap drop from 98% to 45%. Even among the rich (top 10%), there will be improvement where the gap will narrowed to 54% from 104%.

Strata: Post intervention, we see a

significant reduction in urban and rural purchasing power gap, especially for the bottom and middle quantiles. For example, amongst those at the bottom 10%, the urban premium dropped to eight per cent compared to 10% pre-intervention, while at the median it dropped to nine per cent from 12%.

Ethnicity: The analysis shows a reduction in purchasing power gap across all ethnic groups, especially among the lower and middle income group. Post-intervention, holding other variables constant, the Chinese premium over the Malays – among the bottom 20% – fell to 21% from 30%. At the median level, pre-intervention shows that, *ceteris paribus*, the Chinese to be about 30% better off than the Malays, but post-reform the figure dropped to 24%. By looking at purchasing power as such, this strongly suggests that the aim of the Tenth Malaysian Plan to reduce the ethnic economic gap will be achieved. There is, however, minor improvement for Other Bumiputeras post-intervention. Pre-intervention, among the bottom 40%, Other Bumiputeras will have about 10% less in purchasing power compared to Malays, but this is only reduced to nine per cent after the policy intervention. The Indian premium, when compared to the Malays, will also be reduced. For instance, among the bottom 10%, pre-intervention shows that Indians will have about eight per cent greater purchasing power compared to Malays, but this is nearly eliminated after intervention where the gap is only about one per cent.

Gender: Holding all other characteristics constant, without any intervention, a woman – at the median – would have 38% less purchasing



power compared to a man with similar characteristics. Post-intervention, the male premium is reduced to 30%. The impact is more pronounced for the lower income group where the gap drops from 54% to 35% for the bottom 10%, and from 39% to 31% for the bottom 40%.

6.5 Conclusion

By using the Household Income Survey Data of 2009, we chart an overview of the current state of inequality using a

purchasing power concept. Our findings show that there are wide gaps in purchasing power among income class, strata, ethnicity and gender. The

decomposition of purchasing power indicates that among the lower and middle income groups, wages and disposable income contribute almost 100% to purchasing power, while among the upper class wealth effect plays a meaningful role in strengthening their purchasing power.

Our findings indicate that policy reform in the labour market, education and income transfers can make inroads into inequality. The simulation exercises suggest that these policies can reduce inequality significantly. In particular, reforms in the labour market that ensure every worker enjoys a minimum salary of RM900 will reduce inequality by almost eight per cent. Our result also suggests that that basic reforms in education – by ensuring everyone has at least secondary education – can reduce inequality by about four per cent. Finally, our simulation exercise on income transfers suggest that by transferring a minimum of RM500 to lower income groups, inequality will drop by about one per cent. If all these reforms are taken simultaneously, our analysis shows that inequality will be reduced by seven per cent to about 0.4264.

These findings could be helpful to policymakers in designing policies on variables that respond better to purchasing power. It can help increase purchasing power for the poor and the middle class, and speed up their social mobility.

By transferring a minimum of RM500 to lower income groups, inequality will drop by about one per cent.



Chapter 7

Deprivation and Capability: Household and Personal Aspects



Chapter 7

Deprivation and Capability: Household and Personal Aspects

7.1 Thinking shift

The pursuit of inclusive growth necessitates a view of poverty beyond the deficiency of basic needs and a shift towards thinking in terms of exclusion and relative deprivation. In line with the manifold aspects of inclusion and exclusion, poverty and deprivation must also be framed as a multidimensional problem and not merely a shortfall of income. Malaysia's record in reducing absolute income poverty constitutes an undeniable, remarkable achievement. At the same time, and in line with the global shift towards more dynamic approaches to the problem of deprivation, the importance of framing household poverty in relative terms has been more widely accepted and practised. We therefore make the case for increasing emphasis on relative poverty, with reference to a fraction of median income. We also note how variations in the contribution of earned income to household income and in the number of income earners complicate the relationship between low household income and working poverty. Earnings inequality, as a closer reflection of capability, must be emphasised in the context of inclusive growth. This also shifts focus to the personal level, where earnings is more relevantly analysed instead of the household. Additionally, due attention must be given to household-earned income as well as personal earnings.

This chapter surveys prevailing spatial dimensions of deprivation – between states and regions – that are of particular social and policy importance, and profile head of household characteristics and living conditions corresponding with household income. Persistent disparities

between Peninsular Malaysia and East Malaysia and between urban and rural areas, as well as gender, are placed in the spotlight, heeding Khoo's (2012) and Ragayah's (2008) exhortations to probe the dimensions of inequality that have been largely overshadowed by ethnicity. We examine deprivation primarily with reference to these spatial categories. We observe, as expected, that deprivation decreases on a continuum as income rises, without a clear demarcation below and above the absolute poverty line. We also observe that households receiving below half of median income generally exhibit significantly more socioeconomic deprivation, underscoring the case for increasing policy focus on relative deprivation.

We proceed to map human capability in Malaysia. This is more suitably assessed at the personal level, due to omission of multiple household members of varying age, gender, education attainment, labour force participation and occupational position when using the household as the unit of analysis and assuming the head as representative of the household. We compile and present profiles of education and economic participation across Peninsular Malaysia, Sabah and Sarawak, with particular attention to lagging capability development among Bumiputera minorities. Sabah, as the state with the highest official income poverty rate, accordingly registers relatively lesser socioeconomic attainments. However, we also observe starkly lower human capability in Sarawak and thus a major need for bridging gaps vis-à-vis the Peninsular, although the state's rather low official poverty rate suggests only a minor catch-up. Regional differences in educational





attainment underscore the importance of closing quantitative, as well as qualitative, gaps across regions and between urban and rural areas. The chapter concludes with a discussion of policy implications.

7.2 Absolute poverty: income-based and multidimensional approaches

The account of Malaysia's development has predominantly viewed poverty as income deprivation relative to an absolute threshold. Specifically, official accounts have tracked progress with references to poverty as captured in the headcount ratio, subject to a fixed poverty line. Notwithstanding these limitations, Malaysia has achieved a remarkable

progress record, with poverty falling from 49.3% in 1970 to 23% in 1989 and 1.7% in 2012. Poverty rates within ethnic groups, states and in both urban and rural areas have declined, reflecting steady

and widespread income growth among the lowest income households, although the norm of computing poverty for Bumiputeras as one homogenous entity omits variation within this expansive and diverse category. Higher poverty rates in Sabah and Sarawak capture disparities between the majority Bumiputera Malays who are predominantly in Peninsular

Malaysia, and Bumiputera minorities in the two East Malaysian states. Nonetheless, poverty reduction, deriving from robust economic growth, low unemployment, structural change and industrialisation, urbanisation and extensive redistributive programmes and expenditures, would be found under any consistently applied poverty line and group categorisations, although the rate of progress may differ.

However, notable limitations and omissions remain. First, the general critiques of absolute poverty measurements apply. The binary framework, with households below or above an income threshold respectively classified as poor and non-poor, discounts variations in household characteristics and experiences. Since 2005, Malaysia has employed a method that goes beyond referencing household income to the poverty line and accounts for variation in cost of living and household size, across state and urban or rural location. Based on these variables, a poverty line is calculated for each sampled household and its poverty status is gauged accordingly. Notwithstanding these improvements, poverty line measures, being hinged to a standardised basket of basic goods, are inescapably exposed to questions regarding the veracity of this determination of subsistence living. The process, abiding with the axiom of hierarchical needs, begins with minimal food requirements, followed by non-food items. However, the latter have been found to be widely underestimated (UN DESA, 2010). This may be true especially in urban areas, where Malaysia's poverty line is perhaps more questionable (Khuo, 2012). Other areas of omission, especially intra-household inequalities and access

Poverty rates within ethnic groups, states and in both urban and rural areas have declined, reflecting steady and widespread income growth among the lowest income households.



Table 7.1:
Income sources and characteristics of absolute poor households, 2009 (average per region and overall Malaysia)

Characteristics	Malaysia	Peninsular Malaysia	Sabah	Sarawak
Gross Income	RM935	RM877	RM988	RM958
Earned Income (A)	RM594	RM588	RM618	RM531
Number Of Income Earners (B)	1.21	1.12	1.24	1.40
Income Per Earner (A ÷ B)	RM493	RM526	RM498	RM380
Household Size	6.44	6.43	6.51	6.22
Head Of Household Age	46.7	47.6	45.7	46.8

Source: Household Income Survey, 2009. Author's calculation.

to non-market goods as highlighted by Ravallion (1996), underscore the need for current poverty evaluations to be supplemented with further data.

Second, household income poverty has been inadequately evaluated for its relationship with the labour market. Aggregated gross household income obscures differences in contribution of earned income from different labour market sources (paid employment, income from self-employment) and other sources such as property income, current transfers and others, as well as variation in household size and head of household characteristics, suggesting a more nuanced analysis needs to be made. A snapshot of income sources and characteristics of Malaysia's poor households points out some important information omitted from analyses thus far (Table 7.1). The difference in average income of poor households across Peninsular Malaysia, Sabah and Sarawak derives from differentials in poverty

line income. The poor of Sabah and Sarawak, in accordance with higher cost of living, register higher income. This is counterintuitive to the East Malaysian states' relatively lower economic development. However, isolating earned income, which as expected contribute the bulk of household income, reveals another picture. After accounting for variations in the number of income earners – which is higher in Sabah and especially Sarawak – we obtain lower income per earner within households in these states.

Third, Malaysia's income-based poverty measurement, versus consumption-based alternatives, also charts underexplored territory. While income data marks an improvement over output-based data such as GDP per capita, as argued in Stiglitz, Sen and Fitoussi (2009), and while Malaysia's Household Income Survey provides a consistent series of nationally representative snapshots, there is a



continual lack of consumption-based data of matching frequency, which can supplement the income-based evaluations of inclusiveness, if not generate information more pertinent for evaluating material wellbeing.

Strikingly, Malaysia's lower poverty rate compares to many countries with substantially higher income and lower inequality, raising questions on the suitability and plausibility of Malaysia's poverty line. In the late 2000s, poverty in the OECD, measured at roughly 11% on the whole, substantially exceeded that in Malaysia. Even the esteemed equitable economies of the Nordic region, Finland, Sweden, Norway and Denmark, reported poverty at around eight per cent, while Japan and Korea put their figures at 15-16%. Aligning measurement to international norms will certainly raise – possibly steeply – the poverty line and subsequently the poverty rate. This need not negate Malaysia's success story in reducing poverty over time. However, a one-off recalculation is most probably unacceptable given the attendant imperative to recalculate poverty lines across the historical trajectory, perhaps all the way to 1970—an onerous task¹. In view of these circumstances, efforts to broaden the concept of poverty and place increasing emphasis on relative poverty are arguably more fruitful at this juncture.

Indeed, the shift towards a multidimensional conception and measurement of poverty has progressed internationally and is underway in Malaysia, with the adoption of the Multidimensional Poverty Index. This acknowledges that poverty in capability, and in material wellbeing besides income, should be expressly accounted for, and

not be ascribed secondary importance or merely assumed to derive strongly and directly from income poverty, such that income serves as a proxy for wellbeing. One who is both income and capability poor is worse off than another who is income poor but not capability poor. Omitting the capability aspect precludes such differentiation.

Multidimensional indicators of development stem from the premise that higher income, although a main constituent of human capability and freedom, does not singularly equate with these ultimate objectives. While income undeniably correlates with wellbeing and capability, the exclusion of non-income variables is unreasonable and unnecessary even in practical terms, in light of the increasing availability of national survey data that allows for broader evaluation.

The multidimensional approach is well established in evaluating development in the form of composite indicators. The most well-known and influential of these, the Human Development Index, comprises income, education and health indicators, which are broad yet highly informative and widely available across the world. Disparities between income-based and HDI-based rankings, reflecting the quantity, equitability and efficacy of investment in education and health, are highly instructive in highlighting situations where income levels do not translate commensurately into human development. Growth cannot be assumed to deliver development. The Malaysian Quality of Life Index (MQLI) has ventured to fill this space and shed light on the nation's development

¹Thailand's endeavour in recalculating the poverty line and applying it retrospectively is notable. This exercise in 2013 revised the poverty rate from 8.1% to 19.1% for 2009, and from 14.8% to 35.3% for 1996.

experience across various aspects. The MQLI is an amalgam of 42 indicators under 11 components at the national level, and five components with 13 indicators at the state level for within-country comparisons.

Multidimensional poverty measurement, extending beyond income to broader needs, provisions and capabilities, draws on the same precepts as development indices. The UNDP introduced the Human Poverty Index in 1997, with longevity, knowledge and decent living standard as the principle components (UNDP 1997). In practice, the HPI referenced deprivation in survival (percentage not expected to live to 40 years), adult illiteracy rates and indicators of economic provisioning (access to water, access to health services, underweight children). Bourgignon and Chakravarty (2003) approach multidimensional poverty as a failure to meet “minimally acceptable” levels of monetary and non-monetary requisites for subsistence living, arguing that a shortfall in any one constitutes a state of poverty. Alkire and Foster (2011) propose an approach, adopted as the Multidimensional Poverty Index, which was published for the first time in the *2010 Human Development Report* (UNDP 2010b) and is being applied to Malaysia.

Poverty measurement remains a contentious field. UN DESA’s (2010) *Report on the World Social Situation* incisively rejects a poverty line approach, stressing the persistent problem of pre-determining cut-off points which remains, regardless of the singular income dimension or a multidimensional framework. In place of the monetary-based approach, the *report* advocates universalism: basic rights and social provisions, with emphasis on social exclusion as an overarching framework. UN

DESA further highlighted the multiplicity of deprivations and hence the need for broad social analysis, while also giving weight to the problem of vulnerability, thus shifting away from viewing poverty as a static condition and recognising flux and mobility in households’ states of deprivation.

Recognising the strengths, limitations and complementarities of different approaches, this chapter continues with an application of relative deprivation, as well as multidimensional mappings of human capability.

7.3 Relative deprivation

7.3.1 Household income

Absolute poverty measures will continue to be pertinent, especially for targeting certain transfers and allocating social assistance. However, inclusive growth demands information on the shapes and degrees of exclusion and inclusion. The case for centring relative deprivation in development perspectives and policies grows increasingly compelling, furthermore as Malaysia strives to foster an advanced economy and mature society.

Establishing thresholds to mark relative deprivation is still necessary, although less strictly than in an absolute deprivation framework. Normative and practical considerations enter the fold. It is desirable that parameters correspond with a household that is representative of the general material wellbeing of members of a society. Median income, the level at which half of households have less and the other half have more, suits this purpose very well. Mean income, susceptible to be inflated by high outliers, is less appropriate





When mean income grows faster than median income, driven by rapid growth in the upper strata, inequality tends to rise.

for benchmarking relative deprivation as a whole. However, the relative movement of mean and median generally correspond with changes in distribution, with the latter demonstrating a capacity to account for the effects of inequality on the common household. When mean income grows faster than median income, driven by rapid growth in the upper strata, inequality tends to rise. The Malaysia Plans, Malaysia's official development documents and principal sources of income statistics, have

neither centrally nor consistently reported median household income.

However, the relative levels of median and mean household income can be computed

from less prominent official sources (DOS, 2012). We observe that episodes of rising inequality, where the Gini coefficient increases (1999 to 2002), saw the median per mean income ratio decline (Figure 7.1). In other words, mean income growth exceeded median income growth. Whenever inequality was falling or static, the median-mean ratio increased—specifically from 0.681 in 2002 to 0.706 in 2009. Thus, median income, especially when juxtaposed alongside the mean, provides an appropriate and effective indication of inclusive growth, and in turn serves as a reasonable benchmark for relative deprivation.

The NEM invested a new policy commitment to relative poverty, in the form of a focus on the “bottom 40%” (NEAC, 2010). The concept and demarcation, however, lacked a clear direction and purpose, although its

stratification of society into the top 20%, middle 40% and bottom 40% provided for some comparability across time. Most importantly, the bottom 40% constitutes a static measure and detracts from analysis of dynamics in the shape of distribution, as discussed above.

It follows from the efficacy of median income in representing material resources of the common household that the relative deprivation threshold can be set as a proportion of the median level. Half of median income presents a natural place to mark the relative poverty line. However, other thresholds, whether at 40% or 60% of the median, may also be computed and tracked over time (Garroway and de Laiglesia, 2012). Clearly, simplicity and flexibility work to the concept's advantage, whereas absolute poverty measures hinge on a complex evaluation of what constitutes a minimal standard of living. A fixed proportion, whether the bottom 40% or 20%, inadequately accounts for dynamics in the shape of distribution and possibilities that incomes may converge toward the middle, which is desirable for inclusive growth. For 2009, Malaysia's relative poverty at varying proportions of the median would be: 11.5% for the threshold at 0.40 of the median (or RM1,132), 19.3% for 0.50 of the median (RM1,415) and 26.4% for 0.60 of the median (RM1,680). This compares with the absolute poverty rate of 3.8% at the poverty line of RM800². Concurrently, 66.6% of households received income below the mean, RM4,025.

Measuring relative deprivation based on a fraction of median income lends other angles for assessing progress, identifying households for social assistance, framing policies and setting a particular growth

²Poverty lines by region are, respectively, RM763 for Peninsular Malaysia, RM912 for Sarawak and RM1,048 for Sabah.

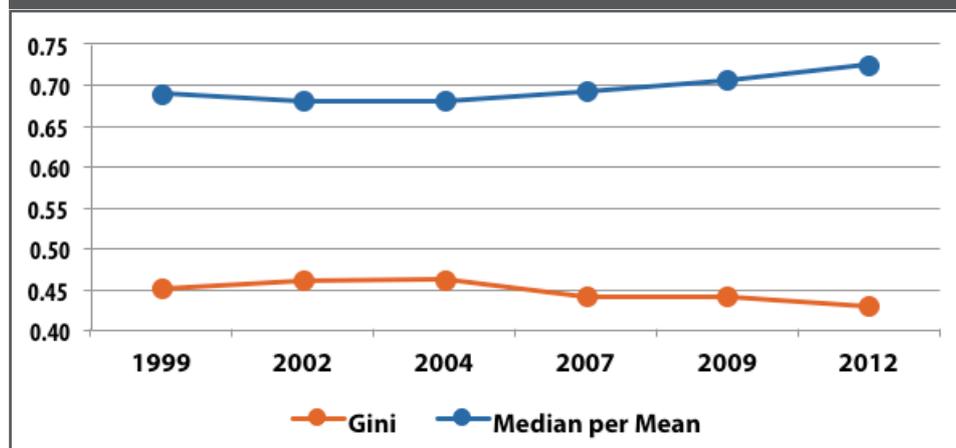
path. While median income is fixed at the middle point, the share of households earning less than half the median can change, based on the pattern of income distribution. A decline in this ratio corresponds with an increasing share of households receiving income closer to the median. Moreover, median-based measurement is in line with the transition from welfare transfers for the absolute poor towards inclusion and growth. Such a transition, we propose, is a basic feature of inclusive growth.

Importantly, the case for relative income deprivation also derives from its correspondence with deprivation in capability and in living conditions. Profiling various household characteristics corresponding with income, we find that rising income lowers relative deprivation, and that crossing the absolute poverty line does not mark a cut-off point. We disaggregate households, sorted from the poorest to richest according to sets of categories. This chapter's presentation of such figures are based on two per cent income brackets, that is, starting with the profile of the poorest

two per cent of households, then the two per cent with the next highest income, and so on, until the richest two per cent.

First and foremost, we consider the educational attainment of the head of household. As shown in Figure 7.2, the lower the household income, the lesser the educational attainment of the head of household. The educational profile rises as income grows—notably, on a continuum, and not drastically turning at any particular threshold. We situate the official national poverty line and various income lines in order to visualise relative deprivation based on these benchmarks. Passing the poverty line does not correspond with a substantial improvement in attainment. We can discern a steeper rise in the bottom eight per cent or so, with the share of heads with only primary schooling or less dropping from around 85% to just above 63%, and subsequently declining less robustly as income continues to grow. Interestingly, the proportion of heads of households with only primary level education falls from above to below 50% at about the half median mark. Primary

Figure 7.1:
Household income: median per mean and Gini coefficient



Sources: Ragayah 2008, Department of Statistics 2009, Household Income Survey 2012.



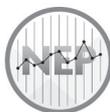
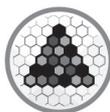
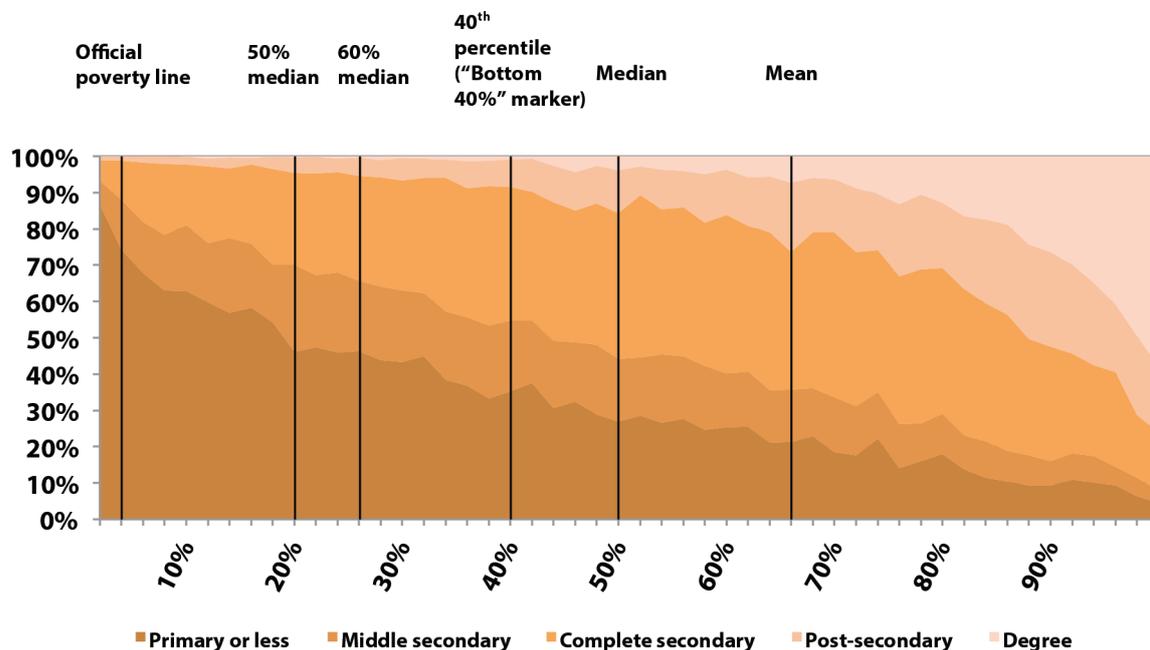


Figure 7.2:
Highest education certificate of head of household by household income (poorest to richest)



Source: Household Income Survey 2009, authors' calculations.

Female-headed households are concentrated at the lower end of the household income distribution, forming more than half of the poorest two per cent of households.

schooling or less would fundamentally constrain opportunities and can serve as

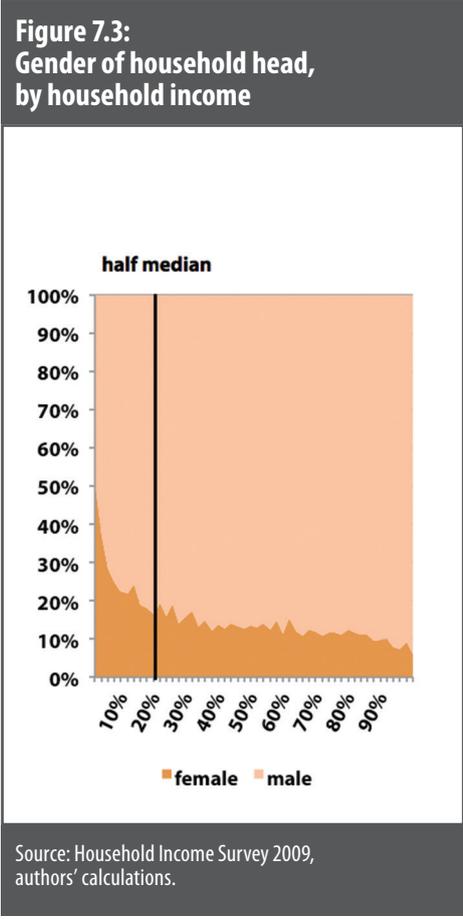
a clear indicator of relative deprivation. The educational profile of households thus underscores the utility of referencing a proportion of the median as a cut-off point for assessing relative poverty, and the unsuitability

of the mean which is evidently propped up by the incomes of highly educated, and less representative, households.

Gender, spatial and ethnic dimensions are highly consequential to inclusiveness, both from a normative standpoint upholding equal access to capability

as well as the broader, negative social ramifications of persistent exclusion, discrimination and inequality between groups. We next present distributional profiles of households, sorted from the poorest to the richest segments, with regards to demographic, geographic and socioeconomic variables (Figures 7.3-7.10). For simplicity's sake, we apply 0.50 of median income as a relative poverty marker, but our findings will clearly hold at other conventional thresholds, whether 0.40 or 0.60.

Female-headed households are concentrated at the lower end of the household income distribution, forming more than half of the poorest two per cent of households (Figure 7.3). As income increases, this share quite steeply drops until the 10th percentile, then gradually diminishes before plateauing at 11-13%



above the 40th percentile. Notably, the share of female-headed households is below 10% among the richest one-tenth. Gender disparities and exclusion are starkly evident and will be discussed in more detail in Chapter 9.

Spatial inequities are encapsulated in the share of households in urban and rural areas of Sabah, Sarawak and Peninsular Malaysia across varying income levels (Figure 7.4). Rural areas in all three regions comprise a disproportionately higher share of the lowest income households. The problem is more acute in Sabah, where 53% of households earn below half the national median, followed by Sarawak (39%) and the Peninsular (34%). This picture is consistent with the higher official poverty rates computed for the East Malaysian states: 32.8% for rural Sabah and 5.3%

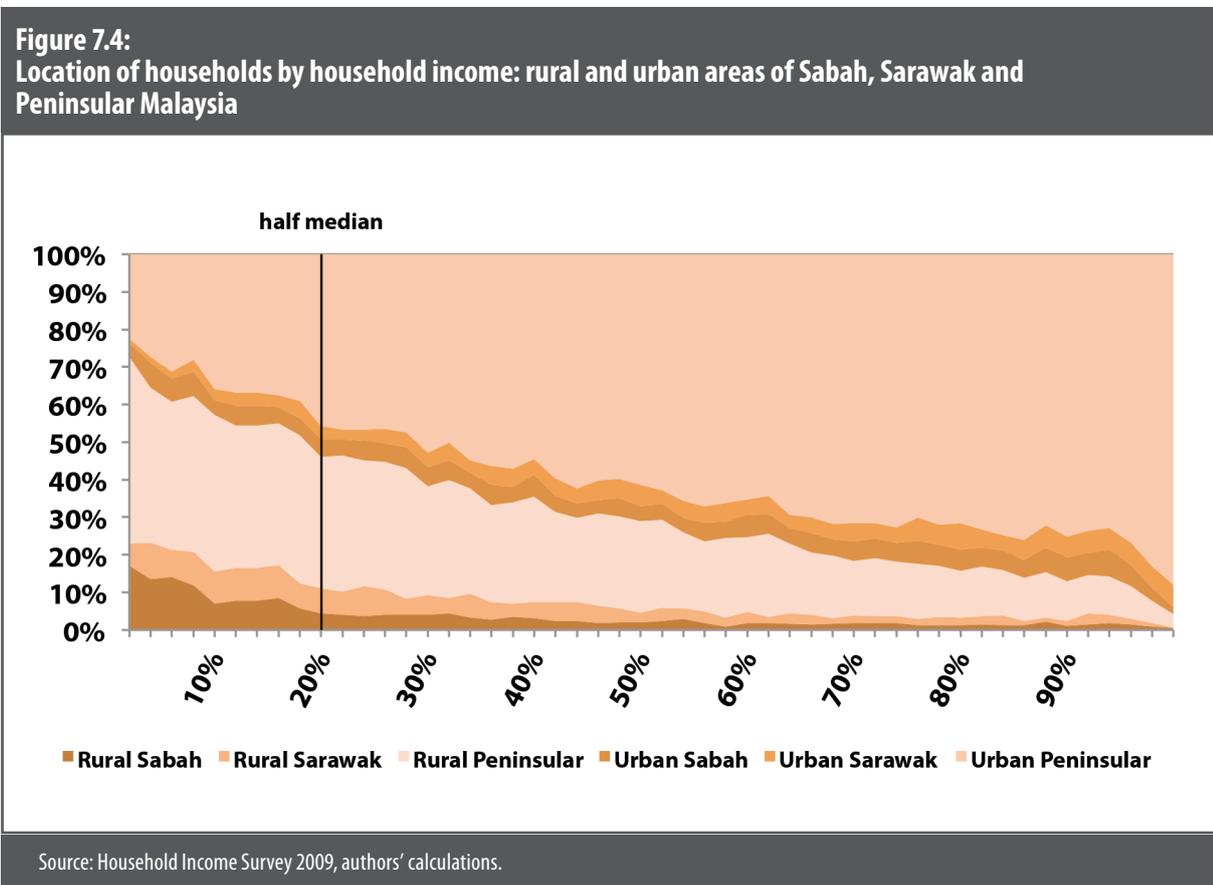
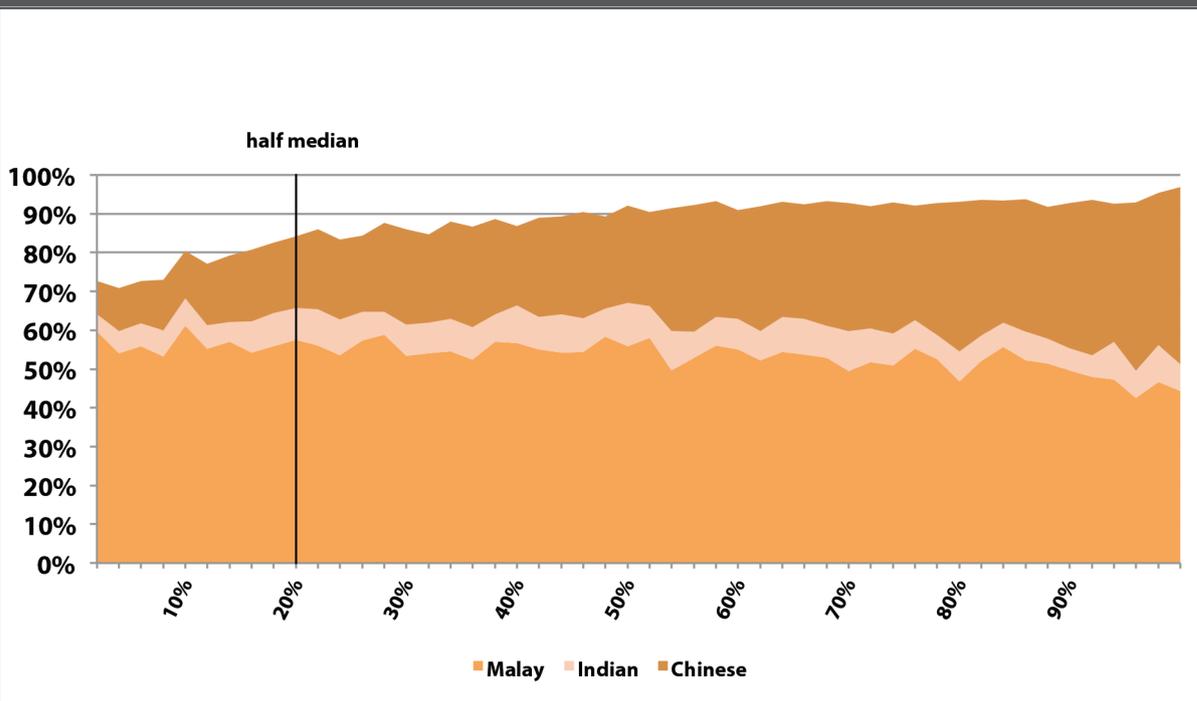




Figure 7.5:
Ethnicity of head of household by household income: Malay, Chinese and Indian



Source: Household Income Survey 2009, authors' calculations.

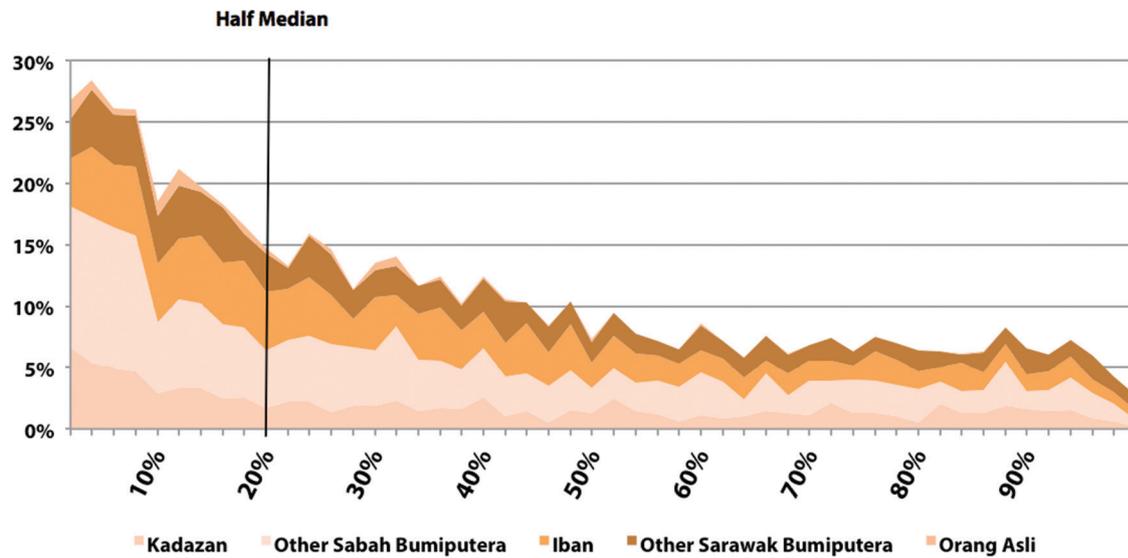
for Sarawak, compared to 2.1% for the Peninsular, which translates to 43.3% of Malaysia's poor households being in Sabah and 11.8% in Sarawak—although only 8.3% of Malaysia's households reside in Sabah and 8.5% in Sarawak. Notably, households in urban Sabah and especially urban Sarawak areas are present in all strata, including the topmost. Poverty line differentials – with the less advanced East Malaysia states imputing higher poverty lines – certainly contribute to the disparity in poverty rates.

The ethnic composition of households across the income range constitutes another aspect of the inclusion/exclusion dynamic. Malaysia's official sources have tracked household income according to the three main Bumiputera, Chinese and Indian groups, and traced interethnic inequality over time. One shortfall of

these available indicators is, again, the homogenisation of everyone classified under the Bumiputera banner. We have also not been presented the ethnic profile across the full distribution. Thus, we compute the share of ethnic groups from the poorest to richest households (Figures 7.5 and 7.6). Malay presence is quite proportionate on the whole, except for noticeably underrepresentation in the highest income regions, while Indian households are evenly distributed at all levels. Chinese households account for a substantially smaller share of the lowest income households and see their proportion steadily increase as we ascend the income scale.

Bumiputera minority groups are most disproportionately concentrated in the low-income regions (Figure 7.6). We profile the two largest Bumiputera

Figure 7.6:
Ethnicity of head of household by household income: Bumiputera Minorities



Source: Household Income Survey 2009, authors' calculations.

minority groups in Sabah and in Sarawak, the Kadazan and Iban respectively, while merging the rest due to their small sample. The Orang Asli of Peninsular Malaysia also appear few times in the survey, consistent with their proportion of the population. However, we include the group here in view of their acute situation. The income poverty rate for the Peninsular Orang Asli was officially put at an astounding 50% in 2009. More in-depth considerations of the community's situation confirm the multiple deprivations the community faces (Rusaslina, 2012).

In this snapshot we see that the Orang Asli, Kadazan and other Sabah Bumiputera households are particularly concentrated in the lowest income regions, and their share consistently declines such that they occupy a tiny sliver at the highest income levels. The same can be said,

though to a lesser extent, of the Iban and Sarawak Bumiputerans. Emphatically, disparities across Sabah, Sarawak and Peninsular Malaysia – and between urban and rural areas – constitute primary challenges for inclusive growth. The composition of household income of these groups also shows the predominant contribution of earned income to gross income, and important differences across groups. Notably, median incomes of Orang Asli lag by the largest margin, and earned income in Sarawak's Bumiputera groups is notably low, although supplemented relatively more by other income sources

Disparities across Sabah, Sarawak and Peninsular Malaysia – and between urban and rural areas – constitute primary challenges for inclusive growth.





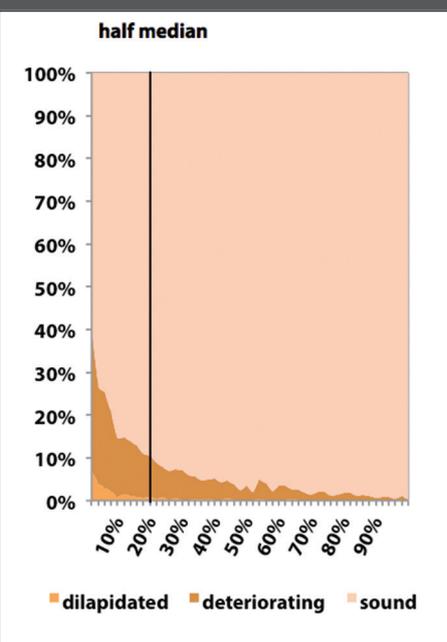
(See Appendix Figures B7.1 and B7.2). Differences between states within the Peninsular also prevail, but are arguably less severe and pressing.

7.3.2 Household living conditions

It is reasonable to assume that relative deprivation in living conditions correspond with household income, but this relationship is not automatic. It is ultimately an empirical issue. Malaysia's Basic Amenities Survey, appended to the Household Income Survey, provides data on living quarters that we can plot against household income. The condition of living quarters is visually and subjectively evaluated by survey enumerators. We find that the lowest income households are much more likely to occupy houses whose condition can be described as deteriorating (Figure 7.7). A small section is considered dilapidated, but this share becomes negligible above the 10th percentile. A house's type of toilet impacts on hygiene and material comfort. The proportion of flush toilets increases with income (Figure 7.8). Pour toilets comprise the majority at the lowest income levels, while "Other" types are also present but are basically absent above the half median line. Notably, the half median income line, much more than the absolute poverty line, marks a reasonably dependable cut-off point, with these deprivations substantially lower on the upside.

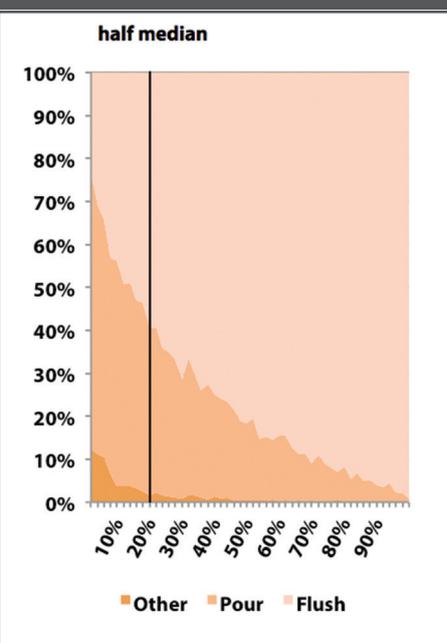
Public provisions, capturing both household access to services and the socio-political empowerment of communities, are also pertinent to our consideration of living conditions. Piped and treated water, the most basic of necessities, bears direct consequences on health and wellbeing.

Figure 7.7:
Condition of living quarters by household income

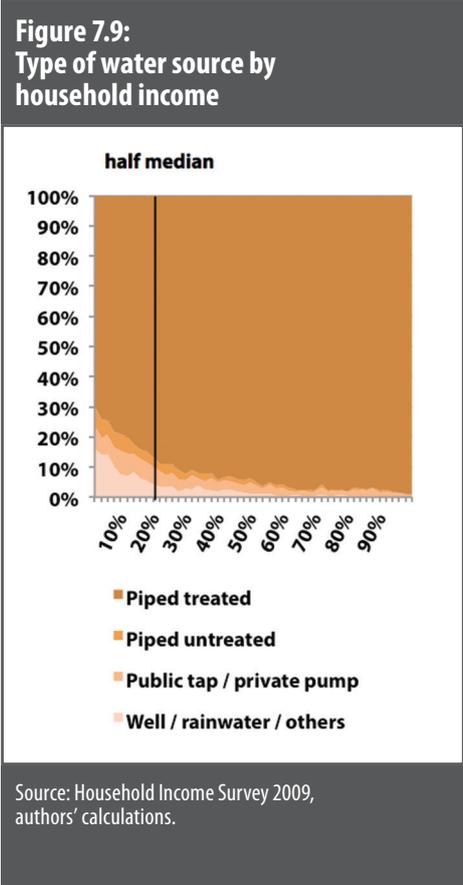


Source: Household Income Survey 2009, authors' calculations.

Figure 7.8:
Type of toilet by household income

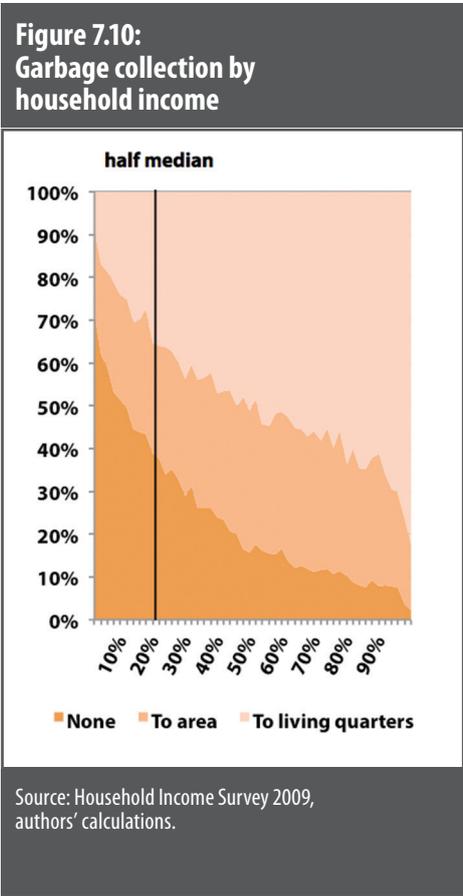


Source: Household Income Survey 2009, authors' calculations.



A lack of reliable and convenient garbage disposal detracts from quality of life. A lack of piped and treated water, as well as garbage collection, amount to major deprivations. Of course, the extent and equitability of these provisions are also a function of distance; remote areas, with relatively lower income, are harder to service.

However, the correspondence with income is stark. Figure 7.9 portrays low-income households obtaining water from wells, public taps, or piped but untreated sources. These proportions, especially for well-drawn water, decline as income rises. Garbage collection is more sharply associated with income, with the share of households enjoying this service at the place of residence increasing continuously from the poorest to the richest (Figure 7.10). About 70% of the poorest households have no garbage collection.



To obtain a composite snapshot of living conditions – while continuing vital spatial distinctions – we map living and health conditions for Peninsular Malaysia, Sabah and Sarawak. We are unable to narrow the geographic scope due to the absence of data at more disaggregated levels (See Appendix Table B7.1 for a list of data sources). For standardisation across different scale of numbers, each statistic is computed as a ratio of the overall Malaysia average. We opted for this method, instead of normalisation based on maximum and minimum values as used to derive the Human Development Index, as well as the Thailand Human Development Report's (2009) instructive Human Achievement Index³. This is due to the lack of variation stemming from three observations, which would merely yield one scoring 0, another scoring 1 and a third in between.

³Thailand's Human Development Report (2009) obtained data of 40 indicators at the provincial level (76 provinces).



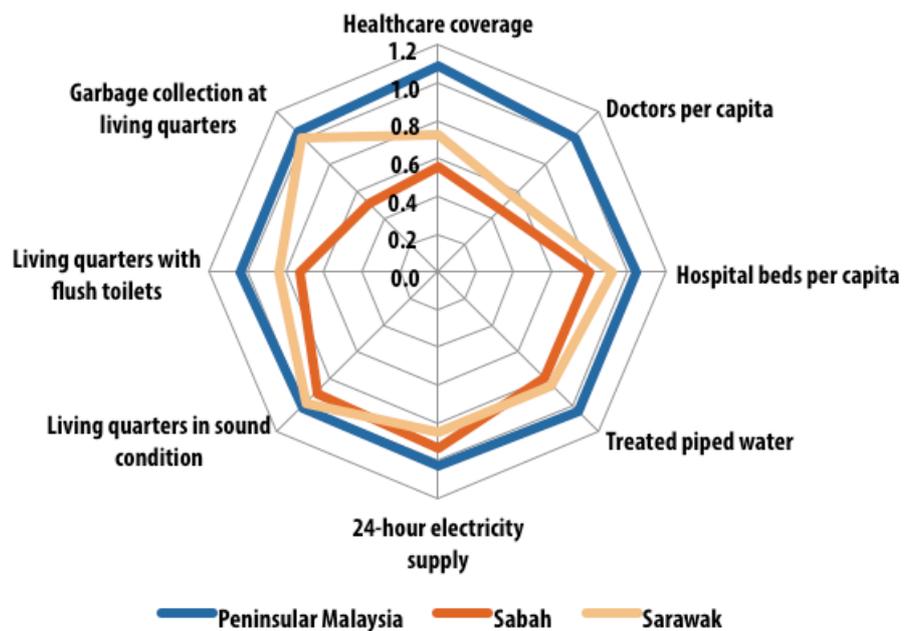
Average health insurance coverage and access to health personnel and facilities are exceptionally lower in Sabah and Sarawak.

This map of living conditions assembles descriptive statistics extracted from the raw data of the Household Income Survey of 2009 and the National Health and Morbidity Survey of 2011, as well as figures reported in the Yearbook of Statistics. A number of these indicators – specifically, health facilities – are also incorporated into the MQLI, for the same reason of availability at the regional level. The picture that emerges shows the all-encompassing disparity between Peninsular Malaysia versus East Malaysia, while revealing some interesting points of differentiation.

Living conditions in the Peninsular exceed those of Sabah and Sarawak across

all parameters being compared, including both private purchases such as living quarters, and public provisions such as electricity, water and garbage collection, and access to health personnel, which comprises a public-private mix (Figure 7.11). Sarawak fares relatively better than Sabah in all measures except for electricity, while a higher proportion of households in Sabah receive 24 hour supply. This may be a function of Sarawak’s greater land area and larger distances of communities for power lines to cover—however, garbage collection services have greater reach in that state. Average health insurance coverage and access to health personnel and facilities are exceptionally lower in Sabah and Sarawak. Lower income households generally depend more heavily on public health services. Malaysia’s public

Figure 7.11: Household living conditions and access to health services



Sources: See Appendix Table B7.1.

health expenditure, low by international yardsticks, enters the picture here (Chan, 2012). Equitable access to health services, as well as basic utilities, are highly pertinent to inclusiveness and quality of life. More broadly, social protection and workplace regulation are instrumental to safeguarding the wellbeing of the deprived, vulnerable, and marginalised, and for fostering a just, healthy and dynamic society (Box Article 7.1)

7.4 Human capability

7.4.1 Educational attainment

Malaysia has steadily grown and developed human capabilities, reflected in shifts in the educational and occupational composition of the population and workforce. Young people are the main beneficiaries of increased opportunities to pursue diploma or degree level study. Enrolment in tertiary education, as a percentage of the 20-24-year-old population, burgeoned from 25.2% in 2000 to 39.8% in 2010. The share of tertiary educated people in the employed population rose from 3.6% in 1980 to 13.9% in 2000 and 24.2% in 2010, while those who only have primary schooling dropped from 43.6% in 1980 to 26.4% in 2000 and 16.7% in 2010.

This growth in higher formal qualifications corresponds with an increasing proportion of workers in occupations demanding more skills, knowledge and expertise. The changing occupational profile is less striking than in education but still broadly indicative of expanding capabilities in society. Managers and professionals accounted for 15.6% of employed persons in 2011, up from 13.5% in 2000. The share of technicians has declined slightly, while that of clerical and

service workers – which largely demand post-secondary qualifications – rose from 24.3% in 2000 to 30% in 2011, by about the equivalent margin as the proportional decline in low-skills production and agricultural workers, from 39.5% in 2000 to 33.2% in 2011. Notably, machine operators and elementary workers in 2011 comprise a quarter of the employed population. The distribution of the low-skill industrial and agricultural occupations across regions and genders warrants exploration in the interest of inclusive growth.

We proceed to survey and synthesise outcomes associated with capabilities. Subjective evaluations of wellbeing, which as pointed out by Stiglitz, Sen and Fitoussi (2009) could shed further light on the subject, are unavailable. The degree of inclusiveness in attaining human capabilities is most appropriately evaluated not that the household level, but at the personal level. We first consider the educational attainment of adults—the population aged 21 or above. As shown in Figure 7.12, sizeable disparities hold between Peninsular Malaysia and East Malaysia, with Sarawak registering the lowest educational profile. Urban and rural disaggregation accentuates the disparities, with rural Sarawak, where 64% of adults have only primary schooling or less, lagging starkly behind the rest (See Appendix Figures B7.3 and B7.4). Thus, while Sarawak registers lower household poverty rates and better living conditions on average than Sabah, the state's human development at the personal level lags further behind.

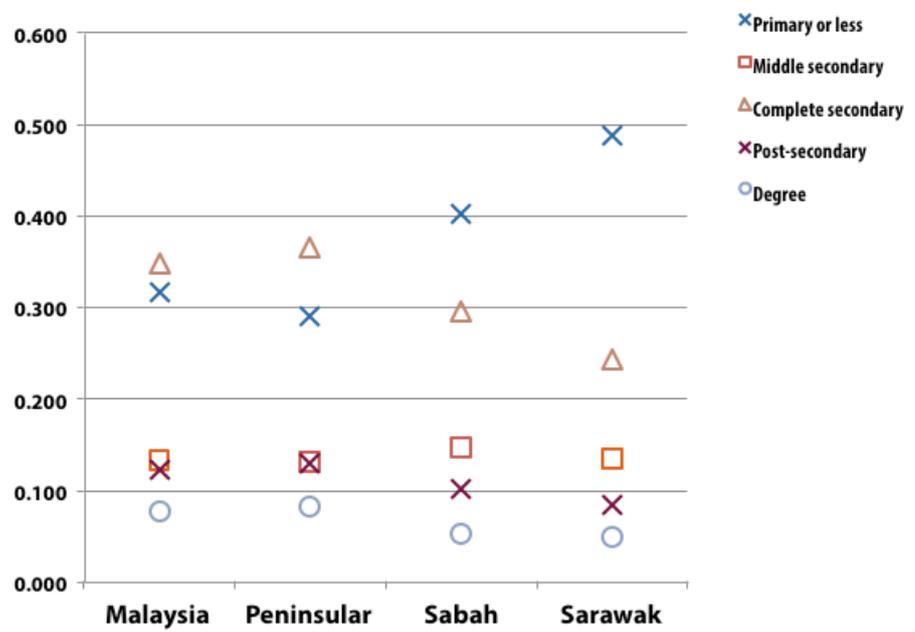
The regional gaps lead us to probe these outcomes according to ethnic groups (Figures 7.13 and 7.14). On the Peninsular, Malay educational attainment is marginally above the rest. Orang Asli show markedly low results⁴. The Indian community is

⁴While the Orang Asli subsample in the Household Income Survey is very small, the exceedingly low education attainment – with 63% of the group's labour force having no schooling or only primary schooling – is not surprising. The Orang Asli secondary school completion rate of 30% falls far below the national average of 72% (Ministry of Education 2013, p. 4-21).



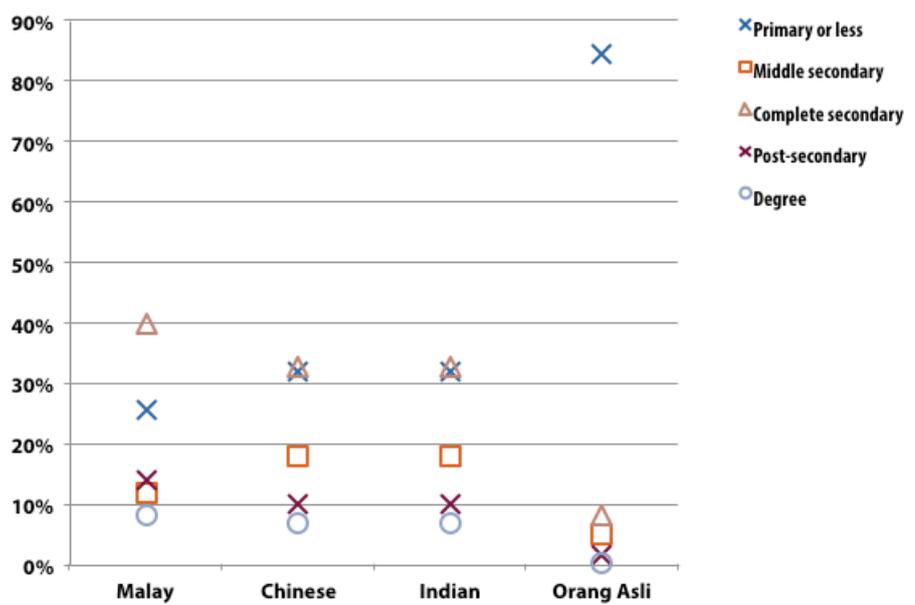


Figure 7.12:
Educational attainment of adult population



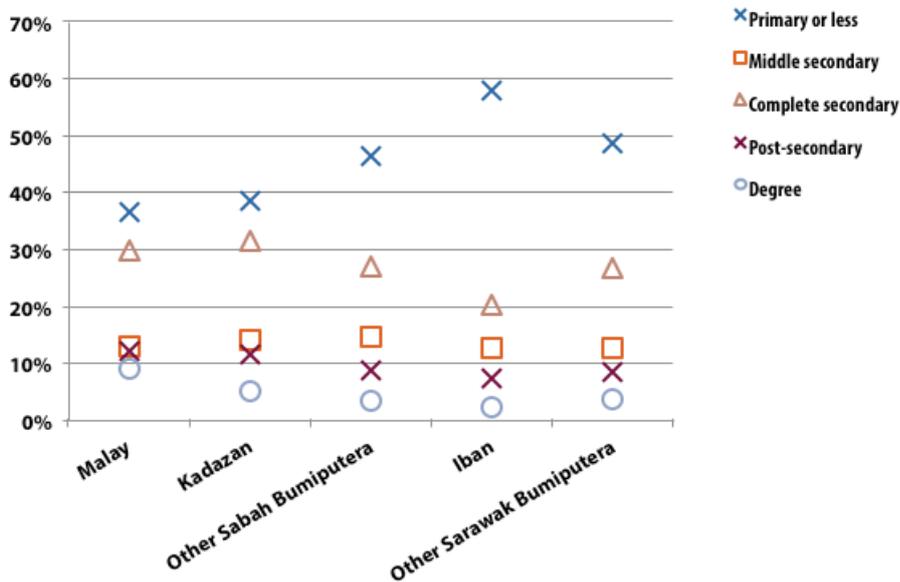
Source: Household Income Survey 2009, authors' calculations.

Figure 7.13:
Educational attainment by ethnicity: Peninsular Malaysia



Source: Household Income Survey 2009, authors' calculations.

Figure 7.14:
Educational attainment by ethnicity: Bumiputera in Sabah and Sarawak



Source: Household Income Survey 2009, authors' calculations.

largely not excluded from accessing formal education, exhibiting attainment levels on par with the Chinese community. However, this does not preclude the reality that socioeconomic development segments of the Indian population are lagging behind, especially in urban areas. In Sabah and

Sarawak, we note considerable gaps between the Malays and Bumiputera minorities. Clearly, within the Bumiputera grouping, inequitable access to and completion of schooling, extending to disparities in tertiary achievement, are issues in need of policy attention and socio-political commitment.

Box Article 7.1: Social protection and work security

Social protection contributes to inclusive growth by providing access to income security, access to basic services and opportunities to individuals with limited assets and capabilities (Handayani, 2010). The range of necessary and possible interventions is very broad and varies across countries, including old age income programmes, pensions, healthcare insurance, public social services, cash transfers, work and wage regulations,

unemployment insurance and other institutions.

The Employees Provident Fund (EPF) and Social Security Organisation (SOCSO) are Malaysia's principal social protection institutions for private sector workers, who comprise 90% of employment, and their dependents (See Appendix Table 7.3 for an overview of all programmes). The EPF provides for old age income through mandatory employee and employer





contributions to personal accounts, while SOCSO offers protection against the risk of employment injury, invalidity and death for workers earning below RM3,000 per month, on the “once-in-always-in” principle. Employees in the public sector may opt to participate in the EPF instead of the government pension scheme – although few do – but they are excluded from SOCSO membership. The public pension scheme accounts for a major portion of old age income, given the sector’s substantial one-tenth share of employment. There are no mandatory social protection schemes for the self-employed and informal sector workers in Malaysia. However, voluntary participation in the EPF by the self-employed is allowed on a voluntary basis through the EPF’s 1Malaysia Retirement Savings scheme introduced in January 2010 (EPF, 2010, p.80).

Public health services are substantially subsidised by the government through tax revenue, alleviating financial burdens and facilitating access to healthcare for middle-income and especially low-income households. Health insurance coverage, however, affects the accessibility of major health treatment. Calculations from the 2006 National Health and Morbidity Survey show that 80.2% of households with income between RM500 and RM999 do not have coverage, whether through government guarantee, employer-provided insurance or privately purchased insurance, compared to 5.5% of households with income above RM5,000 (Appendix Table 7.2). Undoubtedly, the public health system is available for any Malaysian, insured or otherwise, at highly subsidised rates. However, an arguably underfunded system and gravitation

toward private healthcare adversely impact accessibility and quality of health services for the majority (Chan, 2013; Chee, 2008).

There are a number of cash transfer programmes targeted at the poor as well as assistance for small businesses and the self-employed, including the Bantuan Wargamas for the elderly, e-Kasih, 1Azam, and 1Care programmes. The government also subsidises various essential consumer items such as food and petrol, and provides one-off cash transfer assistance such as BR1M. While considerable in amount, the effectiveness of these basically unconditional transfer programmes in fostering social inclusion and generating productive capacity remains unclear.

In the labour market, the Employment Act (1955) provides some degree of protection through stipulating the benefits for termination and layoffs but, importantly, there is no formal scheme for protection against the risk of unemployment as well as a lack of systematic incentives for employing disabled or special needs persons, or for retaining senior workers beyond retirement. There are also no universal assistance schemes for family and child benefits and no formal provisions for maternity, except for paid maternity leave of 60 days in the private sector as stipulated by the Employment Act (applicable to workers earning below RM2,000 per month) and 90 days in the public sector.

In comparison to various Asian countries, Malaysia’s social protection demonstrates significant breadth of coverage, but lacks depth in terms of adequacy of provision and efficacy of administration (ADB, 2011). EPF

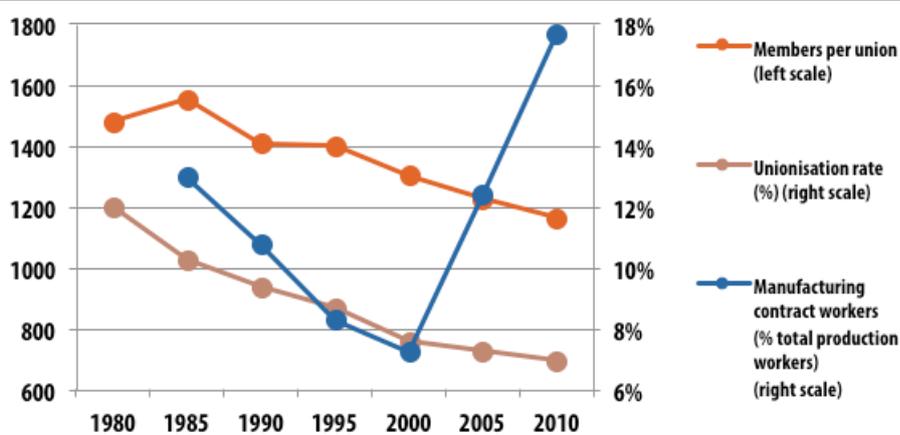
membership illustrates the contrasting profile of greater achievement of breadth over depth. Its membership in 2011 represented about half of the labour force. But with 70% of EPF contributors having RM150,000 or less at the time of retirement, the accumulated savings of the vast majority is inadequate to sustain livelihoods through advanced years.

Malaysia's official disposition toward workers and labour market institutions has placed emphasis on increasing flexibility and curtailing security, precluding possible synergies between social security, representation and productivity (NEAC, 2010). Minimum wage was implemented in 2013 in acknowledgment of unacceptably low wages in the labour market. However, the vast majority of bargaining over wages and conditions occurs outside of worker organisation. Unionisation rate has continuously declined in recent decades and the average size of unions has continuously shrunk. Growth in membership is also disproportionately found in the public sector, which does

not engage in collective bargaining. In the private sector, only 4.9% of workers were unionised in 1985, and 3.6% in 2005.

Malaysia seeks to break out of a low-wage and low-productivity cycle but its labour regime has largely militated against greater worker representation and work security, and drifted toward increased utilisation of contract labour and entrenched dependence on low-skill foreign workers. The officially documented number of foreign workers burgeoned from 870,000 in 2000 to 1.8 million in 2005 and 2.3 million in 2011, the vast majority of whom are low skilled. The actual number, including undocumented workers, is closer to four million, according to government estimates (Bernama, May 17, 2012). Contract labour, moreover if they are foreign migrant workers, are more vulnerable and less likely to be trained due to their transient terms of employment. These conditions arguably inhibit progress toward a "high road" of high productivity, dynamic up-skilling and mutually enhanced opportunity and security.

**Figure 1:
Unions and contract labour**



Sources: Authors' calculations from Malaysian Trades Union Congress, Yearbook of Statistics, and Annual Survey of Manufacturing Establishments.

Notes: This article draws substantially from Soh (2013), "Social Safety Net" (Background Paper Number 6).





7.4.2 Mapping capability

Next, we perform some composite human capability mapping, along the lines of the living conditions illustrated above (Figure 7.15). Education and labour market outcomes feature most prominently in view of the importance of educational access and quality on people's capacities to lead empowered lives, obtain basic needs, exercise freedoms and expand choices. We report the educational attainment of adult populations of the three regions, relative to the overall Malaysia average, at secondary, post-secondary and university degree levels. We refer to average school examination scores as a proxy for quality of schooling. Across these education metrics, Peninsular Malaysia outperforms Sabah which in turn registers higher scores than Sarawak except for school exam scores, in which both states find parity. This reflects, at a very general level, disparities in quality of schooling, which is increasingly consequential for accessing tertiary education and facilitating upward mobility.

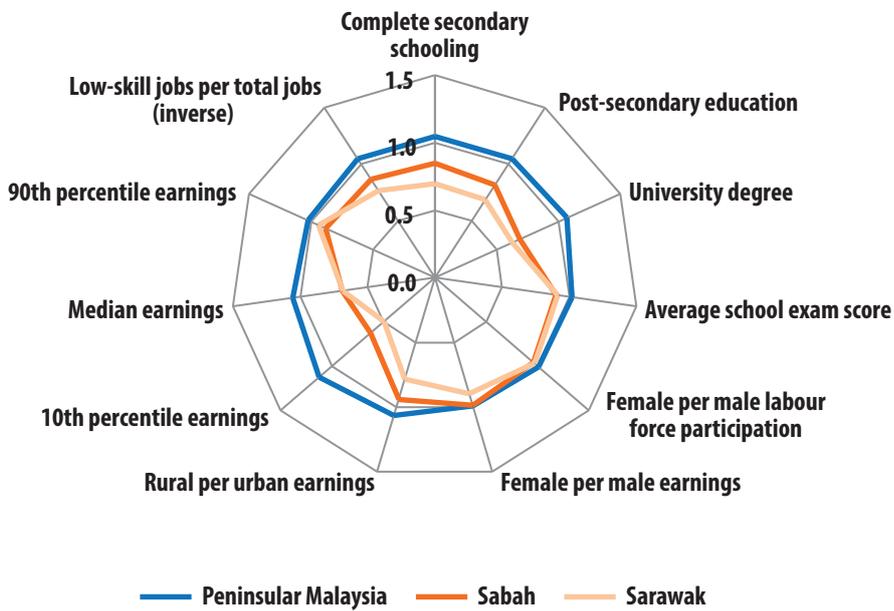
In the labour sphere, we consider the female-male and rural-urban gaps within the three regions. There is no significant variation in the gender gap in labour force participation and earnings. It should be noted that a value of one here denotes equivalent levels of gender disparity across the regions—it does not signify equality between men and women. We include a score for the share of low skill jobs, as an indication of the quality of work. Since a higher value on the original ratio equates with a value-reducing outcome, we apply its inverse. The skill composition of jobs is lower in Sabah and Sarawak to Peninsular Malaysia.

In terms of monthly earnings, disparities between groups and between the regions are instructive. The rural-urban gap is larger in Sarawak, followed by Sabah and then Peninsular Malaysia. This suggests that urban areas of Sabah and Sarawak lag behind urban areas of the Peninsular to a lesser extent than the corresponding relationship within rural areas, consistent with our earlier finding that urban households of East Malaysia are represented across the income spectrum, including the topmost levels. Accordingly, the gap between earnings at the 90th percentile of each region – the level at which 90% earn less – is smaller than the gap at the median or the 10th percentile. Indeed, disparities between Peninsular Malaysia and the other states are greatest at the 10th percentile, followed by the median, then the 90th percentile. The lowly paid workers of Sabah and Sarawak are behind their counterparts in Peninsular Malaysia to a greater extent than better paid workers.

Distinct differences between urban and rural economies compel us to map capability separately (Figures 7.16 and 7.17). The range of indicators narrows, as some data are unavailable at urban/rural breakdowns. As expected, we find the capability gap between the Peninsular and East Malaysia to be lesser on the whole within urban areas. Peninsular scores are, across the board, slightly above 1.0, and the figures for Sabah and Sarawak are all above 0.6. In terms of educational attainment, Sabah and Sarawak lag behind the Peninsular but do not vary much between them. The earnings gap is largest at the 10th percentile, followed by the median, then the 90th percentile. The urban working poor in Sabah and Sarawak



Figure 7.15:
Human capability map: Peninsular Malaysia, Sabah, Sarawak



Sources: See Appendix Table B7.1.
Notes: 1) All scores per overall Malaysia mean or overall Malaysia percentile; 2) Low skill jobs include agricultural workers, elementary worker, and operators and assemblers.

trail their counterparts on the Peninsular more significantly than middle or upper rung earners. The skill composition of jobs and the gender gap in earnings also vary minimally across regions.

Dynamics in rural areas substantially differ. Educational attainment is sizeably lower in Sarawak. The earnings disparity between Sabah and Sarawak relative to the Peninsular is outstandingly high at the 10th percentile, and considerably at the median as well. Again, Sarawak fares worse than Sabah, notwithstanding the considerably lower official poverty rate for Sarawak. However, the gap at the 90th percentile becomes conspicuously narrow, suggesting that the rural rich across all the areas are not far apart in earnings. Regional disparities in female-male earnings differentials and in the share of low skill jobs also demonstrate

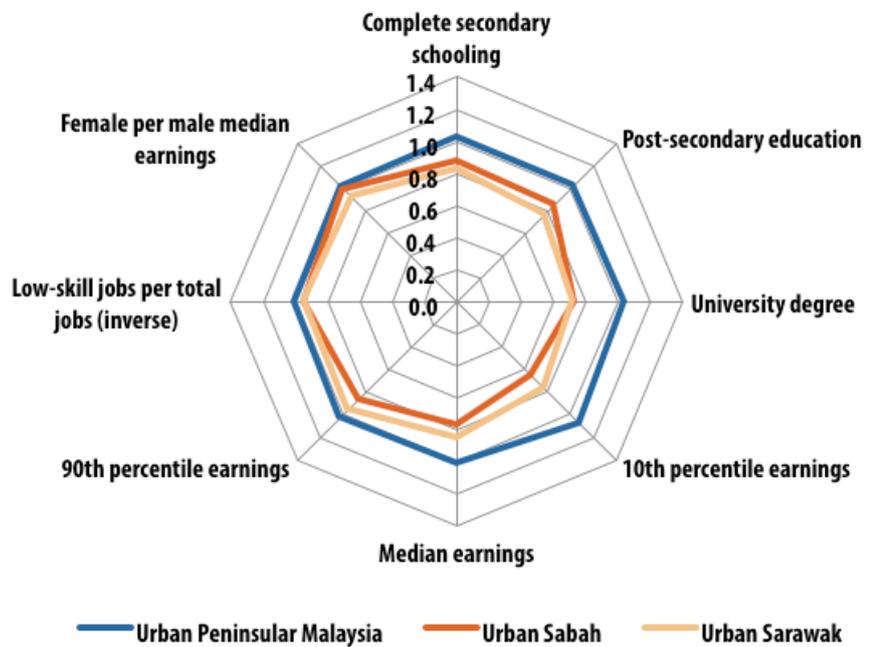
that rural areas of Sabah and Sarawak lag behind rural areas of Peninsular Malaysia by bigger margins than the corresponding figures observe for the urban areas. The situation of agricultural workers and operators of small scale agriculture or rural microenterprises warrant particular attention, as well as problems associated with native land ownership and alienation (Aeria, 2012).

Provisioning of education and health, and dependency on public and private funds, affects the equitability of access and attainment of human capabilities. The issue merits a brief overview. Lower income households generally rely on

The earnings disparity between Sabah and Sarawak relative to the Peninsular is outstandingly high.

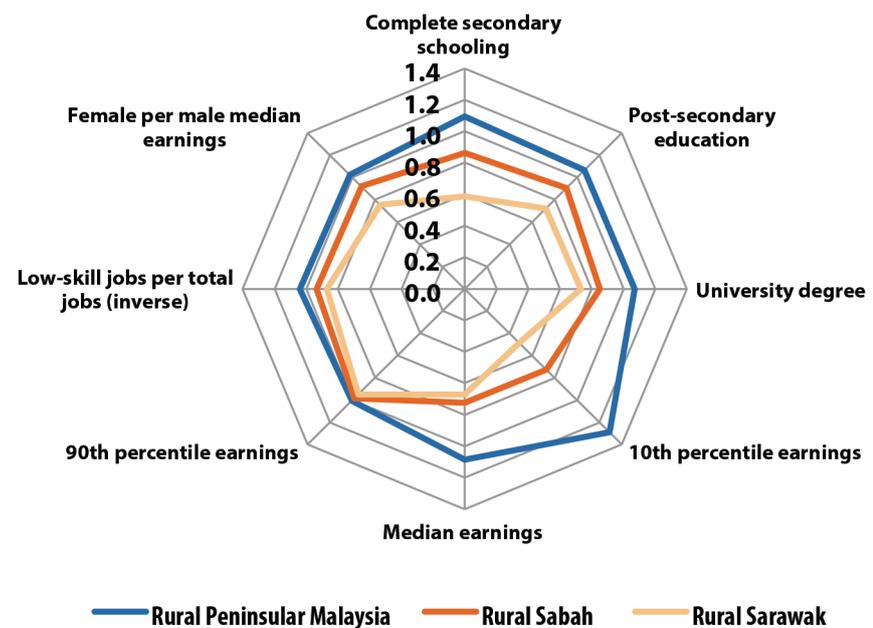


Figure 7.16:
Human capability map: urban areas of Peninsular Malaysia, Sabah, Sarawak



See Appendix Table B7.1.
Notes: 1) All scores per overall urban Malaysia mean or overall urban Malaysia percentile; 2) Low skill jobs include agricultural workers, elementary workers and operators and assemblers.

Figure 7.17:
Human capability map: rural areas of Peninsular Malaysia, Sabah, Sarawak



Sources: See Appendix Table B7.1.
Notes: 1) All scores per overall rural Malaysia mean or overall Malaysia rural percentile; 2) Low skill jobs include agricultural workers, elementary workers and operators and assemblers.

the public provision of social services. Malaysia has maintained a respectable record in public social spending. Federal government expenditure figures, based on the five-year Malaysia Plans, show broadly sustained and mildly increasing operating and development expenditure, especially from the 1980s (Appendix Figures B7.6 and B7.7). From 1991 to 2010, education and training constituted 22-25% of operating expenses, while health accounted for six to eight per cent. The efficiency and effectiveness of this spending, however, warrants scrutiny in view of concerns over quality of public education and health services. Among expenditure designated as development expenditure, education, training and health show an upward trend over time, even tracing back to the 1970s. However, health services remain a minor share, comprising 4.8% of the most recently completed Malaysia Plan (Ninth), 2005-2010.

The efficacy of these expenditures – efficiency of delivery and amounts that actually arrive to designated recipients – remains largely unexamined. Widespread concerns over education quality for instance raise questions on the targeting and monitoring of education spending. Data on higher education and health funding also indicate increasing dependency on private sources. The National Higher Education Loan Fund's (PTPTN) loan data are illustrative. In subsidised public education, we observe no clear trend over time, with approved loans relative to enrolment averaging 29% between 2002 and 2011 in public institutions. At the same time, loans for study in private institutions increased markedly from 6.4% in 2002 to about

16% over 2005-2010, then rose again to 20.7% in 2011. This raises concerns over accessibility of higher education to children from low-income households.

7.5 Conclusion

In this chapter, we discussed the importance and timeliness of shifting towards relative deprivation as a guiding principle for economic and social policy. The concept and measurement of income poverty in an absolute framework – referenced to pre-determined poverty line income (PLI) – remains pertinent, especially for evaluating households' ability to meet basic needs and for targeted social assistance, but is clearly inadequate for assessing inclusiveness. We make the case for systematic conceptualisation and evaluation of relative deprivation, complemented by multidimensional considerations of absolute poverty, of which efforts are officially in progress.

Relative deprivation, referenced to median household income, constantly and directly focuses on problems of exclusion and inclusion. We adopt 0.50 of median income as a reference threshold. The consistent application of this simple and powerful method of measuring relative poverty is more important than the exact threshold. There is no inherent reason to attribute more veracity to 0.50, versus 0.60 or 0.40 of the median. Indeed, all of these can be computed and relative poverty compared over time and space with reference to various thresholds. The efficacy of benchmarking a proportion of the median level for evaluating relative poverty is corroborated by our findings, in which households with income below half the median exhibit substantially





lower living standards, in terms of both privately acquired and publicly provided goods and necessities. Declining poverty, measured by the population share falling below a fraction of median income, also corresponds with gravitation of incomes toward the middle, consistent with the objectives of inclusive growth. Our analysis of household income finds that gender, ethnic and spatial disparities remain, with Bumiputera minorities in Sabah and Sarawak particularly overrepresented in low-income segments. Regardless of poverty measure, poverty is most acute in the rural areas of Sabah and Sarawak, drawing attention to issues of economic opportunity and land alienation (Aeria, 2012; Rusaslina, 2012). We also highlighted the limitations of referring to gross household income, as has been the practice, which omits important data regarding household earned income, which is in turn more closely linked to human capabilities.

Some policy implications arise. Transfer-based programmes that target low-income households, most notably e-Kasih and BR1M, can help alleviate financial burdens to some extent, but should not be thought of as poverty eradication since the transfers are one-off, transient, and has no impact on capabilities. Public provision of health facilities and utilities remain lacking in some areas, and while schooling access and enrolment have reached high levels, schooling quality increasingly impacts on completion of secondary schooling, continuation to post-secondary education and, subsequently, employment and earnings prospects. Programmes oriented around income generation, especially the various employment, credit

and commercial assistance schemes under 1Azam and microcredit through AIM, warrant continuation and effective implementation (See Box Article 5.2).

This chapter also explored aspects of human capability in Malaysia, providing an overview of educational attainment and multidimensional mapping. In terms of basic education, Malaysia has attained fairly broad access, although important disparities between groups warrant urgent attention, especially the Orang Asli of the Peninsular and the Bumiputera minorities of East Malaysia. Education quality impacts on upward mobility and is, arguably, increasingly consequential toward participating in and benefiting from economic growth (Box Article 7.2). Particular attention to the developmental needs of children from marginalised communities and households is also needed (Box Article 12.1).

Our capability mapping highlights areas in which Sabah and Sarawak are lagging behind, particularly in educational attainment and personal earnings. Importantly, we find the earnings gaps between rural areas of Sabah and Sarawak relative to rural Peninsular Malaysia to be larger than corresponding comparisons of urban areas. Larger disparities between low earning workers of East Malaysia compared to their counterparts on the Peninsular, and nearly equal earnings levels among top earners across all regions, reinforce the assessment that capability deprivation is concentrated in rural areas. Additionally, human capability in rural Sarawak ranks lower than in rural Sabah, suggesting that the considerably lower official income poverty rate of Sarawak may not be capturing important aspects of socioeconomic development.

Box Article 7.2: Education quality: achievements, deficiencies and inequalities

While Malaysia has continually expanded schooling provisions, there is growing concern towards the declining quality of Malaysia's education institutions and the implications on mobility and inclusiveness. Primary schooling was made legally compulsory in 2003. Public school enrolment reached 94% in 2011 and total enrolment is presumably at or close to 100% after including private and other schooling options. Enrolment rates have also risen in secondary schooling, reaching 86% at the middle secondary level (ages 12-14) and 78% at the upper secondary level (ages 15-16) in 2011. Attrition from the schooling system constitutes a major challenge, particularly in rural areas where socioeconomic development is generally lower and private schooling a more limited option. Attrition is also higher among boys than girls, even after accounting for technical and vocational streams, reflecting systemic problems in educating and retaining male students.

Malaysia has maintained relatively high education spending, although a considerable proportion of schools, particularly in rural areas, suffer from lack of access to basic infrastructure and facilities or deteriorating conditions (Siti Zaleha 2013, p.29). This raises questions on the efficacy and integrity of public expenditure in education.

Shortcomings in academic performance have animated public discourses and received official acknowledgement in the Malaysia Education Blueprint 2013-2025 released in September 2013, which reported Malaysia's lagging scores in international standardised tests. The

Trends in Mathematics and Science Study (TIMSS), in particular, provides a means of tracking progress in teaching these basic subjects.

Malaysia's eighth grade TIMSS performance is highly instructive. In mathematics, the share attaining high performance dropped from 36% in 1999 to 18% in 2007 and 12% in 2011, while in science the figures were 24% in 1999, 18% in 2007, and 11% in 2011. These falling trends, however, apparently diverge from Malaysia's middle secondary assessment (PMR), in which the proportion scoring A in 2008 and 2011 was sustained at 30% in mathematics, and increased from 17% to 26% in science. As noted in the Blueprint, the orientation of TIMSS towards comprehension instead of mere content makes it a more credible and relevant benchmark for high income nation aspirants.

Tertiary education enhances capability, boosts income and facilitates mobility. Various challenges in employment of Malaysian graduates underscore the problems in the education system. Employer surveys repeatedly note deficiencies among graduates in English proficiency, technical and communication skills, work attitude, and other positive attributes (World Bank, 2005; World Bank, 2009; Jobstreet 2011 survey, cited in the Blueprint). As increasing portions of the population access tertiary education, quality differences at this level naturally grow in significance.

The capacity of domestic tertiary institutions to narrow schooling gaps is wanting – indeed, tertiary education may widen gulfs, such as between overseas and





domestic degree holders – and constitutes an urgent area of need. A long-term decline in the earnings premium for holding diploma- or degree-level qualifications captures both the effects of the increased share of workers with these qualifications as well as deterioration in education quality (Appendix Figure 7.5). The standard and quality of local education from basic to higher levels require an overhaul to be equivalent to or better than internationally recognised standards of education.

Disparities in education outcomes, according to location, gender and school type, are highly pertinent to inclusive growth. National examinations, for their standardised form and national coverage, help shed light on education inequalities within the nation. As reported in the Blueprint, urban-rural gaps in average school scores remained stable at 8-10 percentage points across 2004 to 2011 for SPM, but declined from eight percentage points in 2004 to about four percentage points in 2011 for UPSR. Gaps between states are worryingly high; Sabah, Sarawak and Perlis record the lowest average school scores in both UPSR and SPM in 2011. The dire conditions of Sabah and Sarawak especially demand policy attention and public resources.

Importantly, socioeconomic development and gender correlate with school performance. Schools with a larger share of students benefiting from the poor student's trust programme (KWAPM), perform weaker than other schools less dependent on this aid. Private schools using the national curriculum scored six percentage points higher than public schools in SPM. Alongside the higher

attrition of boys from schooling, gender gaps also exist in grade point averages; female students are outperforming male peers by increasing margins at all levels.

Another aspect in the education system concerns school type, which bears consequences for academic attainment and national integration. National schools do not reflect the national ethnic composition, especially at primary level, where enrolment comprises 94% Bumiputera, three per cent Indian and one per cent Chinese. Gravitation of non-Bumiputera to Mandarin-medium and Tamil-medium schools have increased, with the percentage of Chinese attending vernacular schools rising from 92% in 2000 to 96% in 2011, and correspondingly for Indians, 47% in 2000 to 56% in 2011. Differentials in national exam performance between vernacular and national schools have narrowed in recent years, according to official sources. Of course, these trends, plotted from national examination results, only explain a fraction of the fragmentation problem in the schooling system.

Solutions to these manifold, complex and deep-seated education problems and dilemmas demand comprehensive reforms, political courage and societal participation. The problems stem from a multiplicity of factors, including the schooling system but also family, community and school governance. The potentiality of teachers and lecturers, participation of parents, communities and institution leaders must be harnessed, and autonomy and freedom cultivated, to arrest the education system's systemic decline, and only then can it be reversed.

Note: This article draws on Siti Zaleha Sani (2013), "Education and Inclusive Growth" (Background Paper Number 5).



Chapter 8

A Spatial Economy of Malaysia and Environmental Sustainability



Chapter 8

A Spatial Economy of Malaysia and Environmental Sustainability



The patent process is painstakingly slow; local patents are often successfully registered only after they are registered abroad.

chief export market. However, the United States faces its chronic twin, budget and current account deficits, and such a model cannot be expected to be sustainable. Consequently, in light of higher volatility in the export market, a policy shift towards driving Malaysia's economy by domestic demand have often been mentioned. Mohamed Ariff (quoted in Quah, 2009) however, argued that the present "export-led growth strategy is not an option, but a must for the country" and "domestic demand is no substitute for external demand" (Kok, 2009). Not only is Malaysia's

population small when compared to Indonesia, India and China, foreign economic interest have located in Malaysia due to the country's vast trade linkages; if

trade is deemphasised, so will foreign economic interest. Kok's position is that if deindustrialisation were to occur in Malaysia, it would be for the wrong reasons. The country's economic development continues to be driven by investments and imported technology and designs when efficiency and manufacturing standards form the nation's competitive advantage.

Policymaking can shape development in different ways. In the Klang Valley, the economic evolution process has been disguised. Huge infrastructure investments and the government's targeting of industries and businesses have made it difficult to tell what evolved out of market forces and what came from policy prescriptions. On the other hand, in the case of Penang, its success is more clearly attributed to the free trade zone

that emerged out of the government's export-oriented manufacturing strategy. MNCs were able to source more and more components locally—first the less critical components like packaging materials and then later subcontracting components production. These created depth and scope in the country's industrial organisation. Today, innovation is also taking place among many local firms. But the patent process is painstakingly slow; local patents are often successfully registered only after they are registered abroad.

A recent report² from the McKinsey Global Institute showed that an advancing economy will result in a fall in the manufacturing share of the total gross domestic product. For China and the Republic of Korea, the share is 25-35%, but for the United States, Canada, France and the United Kingdom, the manufacturing share is only about 10%. The nature of the businesses is broadly classified as manufacturing activities are diverse. The bulk is "global innovation for local markets" (34% of US\$10.5 trillion global total manufacturing value-added) followed by "regional processing" (28% of total), then "energy and resource intensive commodities" (22%), "innovative global technologies" (nine per cent) and "labour intensive tradeables" (seven per cent).

Such shares in the total value in manufacturing are, sector-wise, less clear-cut. In industrial statistics for Malaysia, which should be true for most other countries as well, the numbers are clearly demarcated by their sector origins. However, for manufacturing giants, such as Intel and Motorola, diversification from fabrication to higher value-added activities such as R&D and designing has been taking place, and it has

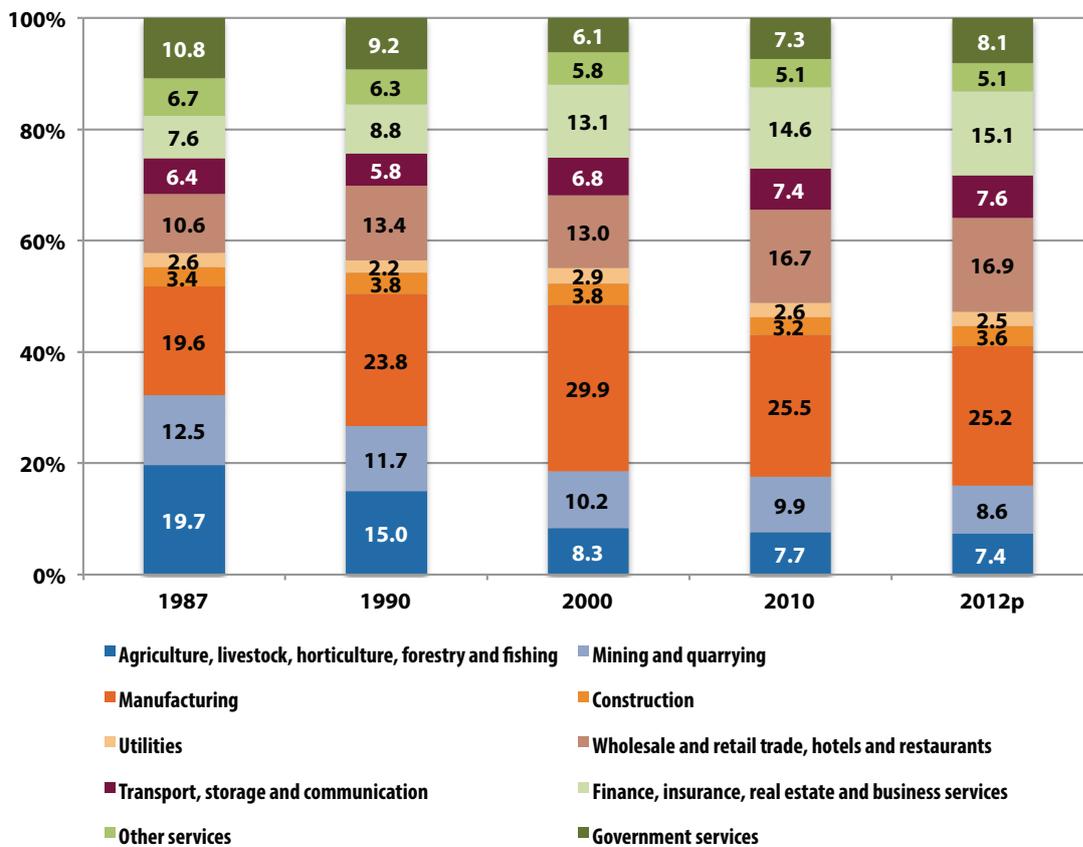
²See Manyika et al. (2012, p.66).

become harder to distinguish between manufacturing and services; a third to half of total employment in manufacturing is service rather than actual production. Output numbers based on sector origins therefore do not completely reveal the evolutionary process as an economy advances. Regrouping statistics based on the nature of work and needed skill-sets will show more clearly how technological transformations are occurring.

Manufacturing in Malaysia, however, is at a crossroads. The manufacturing share of the GDP was 23.8% in 1990, which then rose to 29.9% in 2000, but fell to 25.5% in 2010 and further down to 25.2% in 2012 (Figure 8.1). Even though the

manufacturing share of total employment increased in the 1990s from 20% in 1990 to 28% in 2000, this share has plummeted in the new millennium. The manufacturing share of employment had declined to 20% by 2005, and 18% in 2011. While the decline of manufacturing suggests that Malaysia is evolving into a tertiary stage economy, this evolution involves more than mere changes in the contributions of these sectors to GDP, but also involves transformation within sectors, particularly manufacturing. In today's industrialised economies, manufacturing's share of employment in the overall economy fell as a result of rising productivity levels, hence the need for fewer workers to

Figure 8.1:
GDP by sector (%), 1987-2012



Source: Ministry of Finance and Department of Statistics, Malaysia.
Note: Figures for 2012 are preliminary figures.





maintain industrial output and not due to falling demand for manufactured goods from abroad as Malaysia is currently experiencing. Falling demand results in a slowdown in manufacturing output and productivity, preventing full employment and in turn created inefficiency in resource utilisation. The term being used is negative deindustrialisation associated with stagnating real incomes and rising unemployment.

60% of Malaysia's GDP is made up

The NEP, introduced in 1971, involved modernising the rural sector but this has come at the cost of a retreating agricultural sector.

of consumption, which would put the country within the ranks of a maturing economy. However, exports are nearly as much as the entire GDP. In terms of

employment, the external sector is the larger income earner.

There are reasons to accommodate structural change. The face of manufacturing is changing and Malaysia, which was a keen player as a cheap and efficient centre, has lost its edge and is caught in the middle of this change. Exports will still drive the world's economy but the market will be more diversified and specialised. Services, which used to be treated as a non-tradable sector, is emerging as an export earner as services is a high value-added earner. Required skill levels are much higher, suggesting prospects for higher income earnings in the labour force.

In Malaysia's economic performance of the last 40 years, interstate disparities and urban-rural imbalances led to the pursuit of "balanced growth" across the country as the main thrust of regional

development implemented by the five-year Malaysia Plans. These plans provide the basis for decentralised fiscal spending (fiscal federalism) on infrastructure development, investment and the utilisation of natural resources to achieve rapid economic growth in the country. Urbanisation has been a key ingredient of income growth and distribution. The NEP, introduced in 1971, involved modernising the rural sector but this has come at the cost of a retreating agricultural sector. Originally making up more than 40% of the economy, it has been reduced to less than 10% today.

This is being redressed under current policies to develop modern and high value-added agriculture. This is carried out through the application of biotechnology while at the same time incorporating the important issues of environmental sustainability and the protection of the country's rich biodiversity for future generations. These, and policies relating to housing and sustainable energy and water supply, help create a balanced and environmentally viable spatial economy in Malaysia integral to the human development future of the country.

Beginning with the Tenth Malaysia Plan, regional development has focused on cities as the new engines of growth which have proven successful from experiences worldwide. The emergence of cities has been accompanied by keener citizenship participation in development policy, suggesting that decentralisation would be an inevitable outcome of governance in Malaysia's future. How federal-state relationships will be shaped to produce vibrant and liveable cities presents a challenge that will require debate and dialogue in the years to come.

Regional development authorities, due to the spatial extent of their development areas are also given a coordinating role with state and local governments in the same area. A hierarchical structure emerged, under which spatial development is coordinated under the 1976 Town and Country Planning Act (Act 172). The Act was amended in 2001 to include the National Physical Plan (NPP) that comes under the purview of the Federal Town and Country Planning Department. The first NPP was approved in 2005 but is subject to five-year reviews in conjunction with the five-year Malaysia Plans. The 2010 NPP-2 that describes the current national spatial strategy as “concentrated decentralisation” was approved in August 2010. NPP-2 also extended its scope to address environmental issues: climate change, protection of biodiversity, green and new technology, as well as sustainable tourism, including the various goals stated in the six national key result areas (NKRA) under the ETP³.

NPP-2 strategies are: 1) focus development along potential growth corridors (e.g. urban and industrial development, agriculture, tourism, transportation network, infrastructure and urban services); 2) focus on urban development in selected urban conurbations and key urban areas; 3) spread development to lagging and non-urbanised regions; and 4) provide access to ecotourism and agricultural resources. There is also a “selective concentration” strategy that gives special focus to rapidly growing major conurbations such as Kuala Lumpur, George Town, Johor Bahru and Kuantan.

Amending the Town and Country Act to incorporate the NPP and giving additional planning development and coordination powers to the Federal Town and Country Planning Department has produced a clear hierarchy. The act established the National Planning Council⁴, chaired by the Prime Minister with the Deputy Prime Minister as deputy chairperson, and the ministers for the following portfolios: town and county planning, local government, housing, finance, land, federal territories and chief ministers from all the states plus not more than seven members to be appointed by the Prime Minister⁵. With physical planning directed at regions that extends beyond the boundaries of a single state, a critical role played by the council is the creation of regional planning committees⁶ chaired by an appointee of the Prime Minister, six federal government representatives, not more than four government representatives from each of the affected states and the presidents of the affected local authorities. The secretary the regional planning committee would be appointed by the Director General of the Federal Town and Country Planning Department.

Thus, starting at the bottom at the local authority level, these are integrated up to the state level. Next, the states are merged to form planning regions, which then come together to constitute the NPP. The workings of the National Planning Council and the Regional Committee create the link between the local authority representation in the regional planning committee and the Prime Minister who chairs the council. The Prime Minister, legally, has authoritative power right down to the local level on the ground. Note also the strong presence of federal

³Reduction of crime rate, widening access to affordable and quality education, raising the living standard of the poor, improving infrastructure in rural areas, improving public transport, introducing outcome-based approach into public sector programmes; see <http://www.epu.gov.my/html/themes/epu/html/RMKE10/img/pdf/etp.pemandu.gov.my>.

⁴Part II, Section 2A (1) Town and Country Planning Act, 1976.

⁵One minister may likely hold more than one of these portfolios such that the actual number of ministers in the council are fewer.

⁶Part IIA, Section 6A (1) through (3) Town and Country Planning Act, 1976.





participation in both the national and regional planning platforms. The NPP, however, is applicable only to Peninsular Malaysia. There is a separate planning system for Sabah and Sarawak.

8.2 Evolving regional and state-level growth strategy⁷

The popular model for development during the post war years centred on building industrial capacity and to diversify away from agriculture to expand the scope and opportunities for international trade (Chenery, H., Moisis S. & Elkington, H., 1975).

Regional growth became a formal component of development planning in the Third Malaysia Plan 1976-1980 because of the need to address regional inequality through “more intensive efforts to improve the relative positions of the lowest income states over time” (Second Malaysian Plan, 1970, p.625). Spatial consideration was limited to ensuring balanced growth so that equitability goals are not neglected. The strategy was based on regional growth centres that integrate with the surrounding hinterland, bringing industries, services and urbanisation to rural areas. This “balanced regional development” strategy would continue as a key national development objective for the next 35 years into the fourth and fifth plans to create better balance in the standard of living and quality of life between regions (Third Malaysian Plan, 1975, p.355).

The Sixth Malaysia Plan 1991-1995, however, did not have a chapter on regional

development. All that was mentioned was a one-and-a-half page, five-paragraph section entitled “Regional Development Strategies”. The regional development chapters resumed in the Seventh Malaysia Plan 1996-2000 and continued through to the Ninth Malaysia Plan 2006-2010.

By the Tenth Malaysia Plan 2011-2015, however, an entirely different approach to regional development was adopted. The previous Plans were conspicuously top-down, but were careful not to neglect balanced growth by regions. The Tenth Plan, on the other hand, appeared to be a bottom-up design that can “focus growth in areas with the highest potential for economic impact” by building urban agglomerates, corridors and clusters (Tenth Malaysian Plan 2010, p.116). These corridors, delineated based on social and economic activities, are less familiar structures compared to formal administrative units such as the nation, states and towns that are clearly divided territories, governed by their own authorities defined under the Federal Constitution.

By definition, however, the Tenth Malaysia Plan is a federal plan with very central decision-making processes. The federal government appointed dedicated regional development authorities to oversee the development of the respective corridors. But the size of the region each agency had to handle can be larger than Malaysian states, making authoritative power complicated. Technically, development of physical space comes under the control of the local authority subject to town and country planning procedures; local authorities in Malaysia are legally defined under the 1976 Local Government Act (Act 171), and

⁷Refer to Huan Chiang, 2009, 8-15.

“the promotion, development and control of local government throughout the Federation” is a constitutional provision⁸. The legal basis, however, for the emergence of the various newly formed regional authorities was secured through acts of Parliament: the 2007 Iskandar Regional Development Authority Act (Act 664), the 2008 Northern Corridor Implementation Authority Act (Act 687) and the 2008 East Coast Economic Region Development Council Act (Act 688), empowering them to give direction, policies and strategies for the development of their respective regions. Together, these three regional authorities oversee 60% of the entire geographical area in Peninsular Malaysia.

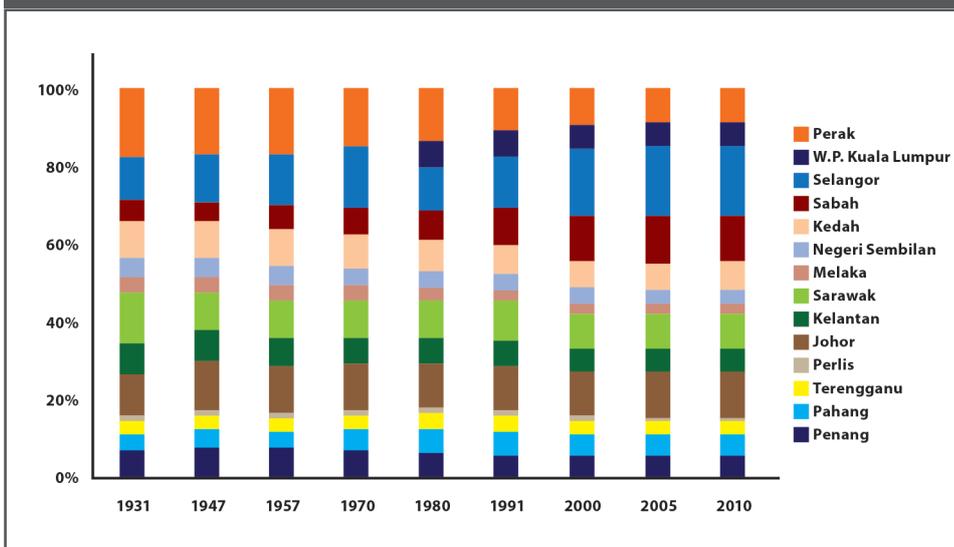
The new strategy for regional development based on corridors aims to create urban agglomerates, concentrating activities to produce the necessary economic density for rapid growth. The rest of the corridor will serve as a hinterland integrating with the city in the centre. It is a two-pronged strategy: build a

city centre and facilitate centre-periphery linkages. The design, while giving emphasis to the urban centre does not leave out development potential at the periphery. Growth can spread out more evenly across the state and country.

Looking back at the past 80 years, the proportion of people living in the different states in Malaysia has not changed significantly. State-to-state migration did not occur as frequently in the past. But balanced growth have kept economic opportunities somewhat equitable, allowing the different states to hold on to their population numbers, but not their origins. Today, as shown in Figure 8.2, the population distribution in Malaysia across the different states say little about the proportions between people born in the state and out-of state migrants.

The only exceptions are in the Klang Valley, where the population share of Selangor state together with Kuala Lumpur (since 1980) has increased, and in Perak, where the share has fallen. Social mobility

Figure 8.2:
Share of state population in Malaysia, 1931-2010



Source: Chan, H. C. (2010).

⁸Refer to Paragraph 95A (5), Chapter 7, Federal Constitution. Op.Cit.





is accompanied by a lot of spatial mobility. Cross-border labour movements and investments from state to state and from nation to nation are both more socially acceptable as well as more prospective due to liberal immigration laws.

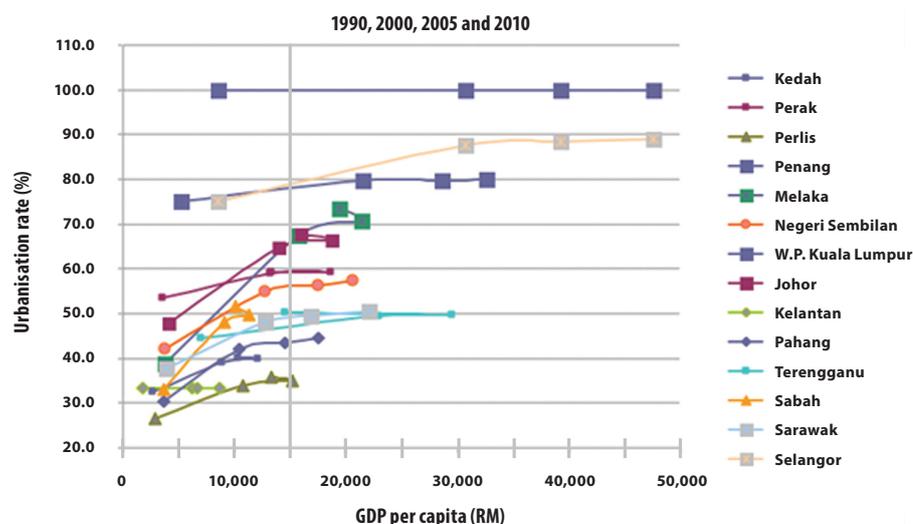
Per capita GDP growth is accompanied by increased urbanisation as shown in Figure 8.3. Highly urbanised states like Penang and Selangor have much higher GDP per capita. There is less urbanisation in Johor, Negeri Sembilan, Malacca and Pahang. Over the past 20 years, these states saw significant increases in their urbanisation rates as their GDP per capita grew. Rise of GDP over time tends to come from urbanisation. How this has occurred across different states is shown in Figure 8.3. Drawing a vertical line at, say, RM15,000, the rate of urbanisation of each state tells us how much of the GDP is earned between rural and urban economic activities. In the case of Perlis it is about 35% compared to around 60% for Johor, 80% for Penang and Selangor and 100%

for Kuala Lumpur. These number show that with more urbanisation there is higher GDP per capita, but the link between them is not the same from state to state.

A federation is comprised of many independent state economies that form a union to become a larger bloc. For example, in the European Union, different sovereignties have transferred the task of economic management to a central body, such as the European Central Bank. Failure to do so, as in the case of Greece where local priorities deviated from the collective, the ensuing “tug-of-war” either threatens the legitimacy of the entire union or the long-term sustainability of a local economy pushed to the brink by external priorities.

In Malaysia, Bank Negara centrally undertakes economic management on behalf of all the different states that no longer remain as complete economies (except for Sabah and Sarawak) on the demand side. The relevant demand components, consumption, government

Figure 8.3:
Urban consequence of GDP per capita growth



Source: Chan, H. C. (2011).

spending, investments and exports-imports of the different states, are not given consideration in economic policy (fiscal, monetary and trade) prescriptions to address their twin goals: real economic growth and economic stability. Although individual states have their own state economic planning units (Unit Perancang Ekonomi Negeri or UPEN) their role is mainly to oversee development investment proposals by the private sector for approval by state ministers (the State Exco) and to coordinate public (fiscal) investment projects in their respective states.

Malaysia's national accounts are centrally assembled by the DOS in the Prime Minister's Department from which the GDP numbers are calculated. From the Third through the Fifth Malaysia Plans that encompassed the period of 1976 to 1990, there were dedicated chapters on regional development within which the state equivalent of the national GDP numbers (the correct term is gross regional product or GRP) were officially reported according to broad sectors of the economy: agriculture, mining, manufacturing, construction, utilities and services. The technique that was used to obtain GRP numbers was devised by a consultant engaged by the EPU that used a disbursement formula which apportioned national GDP numbers for each sector into their individual state contributions (Turgoose, 1980).

A wide range of information was used to determine the apportioning formula: population, employment, productivity, land area, survey statistics of manufacturing industries, etc. From these data items, one quickly observes

that state GRP estimates would be supply side (potential GRP) numbers. From the sixth to the eighth Plans covering the period of 1991 to 2005, the state GRP numbers were given without their sector breakdowns. Strangely, no GRP numbers were reported for the Ninth Malaysia Plan. By the Tenth Malaysia Plan, the state-by-state GRP numbers along with broad sector breakdowns were publically disclosed once again.

Regardless of how useful state GRP numbers are, a question arises: Would disaggregating the national economy into the different states be more meaningful if we refer to states as people rather than places? Should the concern be on the income levels of people across states or should it be where, in terms of location, production is being carried out? In other words, are we concerned with state equivalent of the GNP or the GDP?

GNP is the measure for national income. But how does one measure state income? Income is comprised of factor payments: profits, wages, interest and rent. The GNP is GDP net of factor payments abroad i.e. subtracting profits, wages, interest and rent to non-nationals participating in Malaysia's economy and adding similar payments to Malaysian nationals earning these from economies all over the world. GNP numbers are important because per capita income, which is a measure of economic welfare and changes over time, is GNP divided by population, not GDP divided by population as it is commonly mistaken.

When we consider state income, in the GNP sense our concern is not whether there is more production output located, say in Kelantan than Terengganu, but whether workers in Kelantan are earning more



The EPU used a study published by Khazanah (Kharas, Zeufack and Majeed, 2010) as an input for the Tenth Plan, which includes among several thrust areas the development of vibrant liveable cities in Malaysia. Urbanisation, measured as a percentage of people who live in urban areas, is the process in which more and more of the total population live and work in towns. In Malaysia, towns are gazetted areas with 10,000 or more people.

A bottom-up approach to building individual cities will inevitably require more direct interactions between the government and the people rather than remotely managed from Putrajaya. It is clearly stated that “greater collaboration and cooperation with local authorities” via a consultative approach with the voice of citizens and businesses for important input would be pursued (Tenth Malaysian Plan, 2010, p.252). The new model for fiscal federalism will have to be about how government ministries spend their allocations locally in fulfilment of their respective functions under the Federal Constitution, which can be tailored to the specifics of the respective locations. Instead of using the traditional one-size-fit-all approach, it is necessary to better understand needs at different locations and then tailor the design solutions accordingly. Decentralised government and, more importantly, the people, must be given their say.

Turning cities into engines of growth requires a bottom-up approach where people, culture, livelihoods and urban space can be integrated into one harmonious whole. The Tenth Malaysia Plan 2010-2015 noted that Malaysia’s biggest city, Kuala Lumpur is already eight times larger than the next largest

urban centre, Johor Bahru. Yet a key development strategy of the Plan is to further develop Kuala Lumpur in preference over other cities, as Kuala Lumpur lags behind other vibrant liveable cities around the world, in terms density, quality of life, creativity and innovation as well as talent attraction, among others.

When economic growth is focused on to a single point rather than spread out across a region, economic density quickly escalates. It becomes possible to achieve economies of agglomeration—buyers and sellers, workers, production capacities, communication and transport networks, and supporting amenities, all located close to one another. Similar evidence of rapid growth is found all over the world where economic output per square kilometre is the highest. To put Kuala Lumpur on the map is, therefore, to put Malaysia on the map. The idea is to build a compact, efficient, vibrant, liveable and attractive city that places emphasis on quality of life; public interest principles centred on culture, communities and neighbourhoods; a rakyat-centred public transport system that ensures mobility, accessibility, and seamless connectivity; and sensibility towards sustainability over use of materials, resources and energy. This new regional development model in Kuala Lumpur, if successful, can then be similarly replicated in the other urban centres in the country, transforming them into vibrant, interconnecting cities as viewed by the NPP, which can then form

Instead of using the traditional one-size-fit-all approach, it is necessary to better understand needs at different locations and then tailor the design solutions accordingly.





a hierarchy of cities and hinterlands as described in the National Urbanisation Policy (NUP).

Focusing on the development of a hierarchy of cities is relevant to the theme of inclusive growth not just in terms of maximising productivity per square kilometre, but also in terms of efficiency and cost of delivery of public services and the minimizing of externalities such as traffic congestion and other environmental impacts. Until the mid-1970s, efficient public delivery had led to a reduction in the number of local governments. This has since given way to the desire to encourage greater citizen participation in public administration and services delivery. A study conducted by the Council of Europe¹¹ found that restructuring of local governments over the past few decades had occurred in a combination of ways. Previously, efficiency was improved by reducing the number of local governments and make them bigger to achieve scale economies, provide bigger funding so that the scope of local government services could be increased or, in contrast, transferring the task of delivery of some local government services to regional or the federal government. This last option was commonly seen as less viable in most countries observed because of the trend towards decentralisation, following the widespread belief that large local governments have a negative impact on citizen participation. More recently, however, the preference has been towards maintaining the basic structures of existing local governments while making various technical adjustments (including liberalisation and privatisation) to allow for pooling competencies and resources.

In most of the countries studied, more

than half of the municipalities govern less than 1,000 people. In France and Greece, for example, the proportion is nearly 80% of all the local governments. On the other side of the equation, all the local governments in the United Kingdom oversee more than 10,000 people, and a relatively high proportion of them oversee more than 100,000 people. Germany, Turkey, Spain and Italy also have a large number of local governments overseeing more than 100,000 people.

During the early 1970s, local authorities (city councils, town councils, municipalities and rural district councils) in Malaysia numbered in the hundreds. There was no critical mass and the small number of staff did not allow for the wide range of professional competency needed to run local government. In response, an attempt was made to group smaller adjacent councils into a larger authority called the Lembaga Pengurus Kerajaan Tempatan (LPKT or local government management authority) as an interim measure until the passing of the 1976 Local Government Act (Act 171), when the number of local governments in Malaysia was brought down to just under 100. Since then, the number of local authorities has grown to 144.

With the formal regrouping of local governments under Act 171, the 1976 Town and Country Planning Act (Act 172) was also passed, requiring local governments to produce their respective structure plans to provide a basis for development control. The structure plan, to be produced by all local authorities as prescribed under Act 172, is a written statement describing the strategic policies and actions for sustainable, social and economic development by providing a framework

¹¹Council of Europe (1995). *The Size of Municipalities: Efficiency and Citizen Participation. Local and Regional Authorities in Europe No. 56*, Strasbourg.

¹²See http://www.townplan.gov.my/english/service_dev_sp.php

**Table 8.1:
Structure plans as of August 2007**

	Completed	Gazetted
Perlis	2	2
Kedah	12	11
Penang	5	2
Perak	12	10
Selangor	14	10
N. Sembilan	10	8
Melaka	4	4
Johor	18	16
Pahang	12	11
Terengganu	11	11
Kelantan	15	14
Kuala Lumpur	1	1
TOTAL	116	100

Source: http://www.townplan.gov.my/english/service_dev_sp.php

These are natural resources; when they are related to various activities, issues and problems as well as responses and solutions also mentioned in the Constitution, the common connecting link between them will be the words “environmental management”. The relevant list of words is shown in Table 8.2.

Implementing policies and procedures to protect natural resources used to be the responsibility of individual government agencies, as they carry out functions relevant to their portfolios. The Division of the Environment was only established later in April 1975 before being upgraded to form the Department of Environment (DOE) under the Ministry of Science, Technology and the Environment (MOSTE).

Treating the environment as a development issue began with Chapter XI of the Third Malaysia Plan 1976-1980, which spelt out the various goals connected to the impact of human

and development activities on the environment: a clean and healthy environment, minimal impact of growing population and its activities, and emphasis on prevention and conservation rather than curative measures. Henceforth, in the Fourth Malaysia Plan 1981-1985, the absence of a chapter on the environment was conspicuous. This was rectified when a chapter on the environment reappeared in Chapter IX of the Fifth Malaysia Plan 1986-1990 and in subsequent five-year Plans.

Legislation for environmental protection and pollution controls have been around in Malaysia for a few decades since the passing of the 1974 Environmental Quality Act (Act 127) (Maizatun, 2011). Since its introduction, its scope and strategies have undergone many amendments to accommodate new measures in the face of the complexities of environmental issues. In 1987, the Environmental Quality (Environmental Impact Assessment) Order

¹⁸See Abu Bakar (1998, p.11-27)

was implemented. Through amendments to Section 34, activities listed must be subjected to environmental impact assessments (EIA) as of 1 April 1988. The Environmental Quality (Industrial Effluent) Regulation 2009 Amendment on the 1974 Environmental Quality Act was gazetted in October 2009, replacing the previous industrial effluents regulations of 1979 (See Appendix Table B8.1 for the Fifth Schedule and Appendix Table B8.2 for the Seventh Schedule of the 2009 Regulation).

The most recent amendment was tabled by the former Natural Resources and Environment Minister, Datuk Douglas Uggah Embas, and passed as the 2012 Environmental Quality (Amendment) Act (Act A1441) which provides for, among other things, rewards for informers whose information led to the detection of offences under a new section (Section 49B), stipulating the rewards provisions. The amendment also provides for the

protection of an informer's identity, unless overruled by the court if justice cannot be served without disclosing the informers. The amendment also incorporated Subsection 51(1) which grants the minister the power to make regulations on environmental impact assessments¹⁹. The new legislation would allow consultants registered with the DOE to carry out studies and prepare EIA reports, and increased the penalty from RM100,000 to up to RM500,000 for serious breaches of environmental laws.

In 1998, Malaysia introduced the National Biodiversity Policy with the aim of becoming a "world centre of excellence in conservation, research and utilization of tropical diversity by the year 2020" through sustainable resource utilisation for continued progress and socioeconomic development. The policy is based on a set of principles covering a wide range of issues: 1) conservation ethics i.e. the

Table 8.2:
Malaysian constitutional terms relevant to the environment

Resource	Activity	Issue/Problem	Response/Solution
Wild animals	Animal husbandry	Obnoxious trade	Planning
Wild birds	Shipping	Dangerous trade	Protection
Turtle	Navigation		Control
	Fisheries		Rehabilitation
Riparian rights	Mining		
Parks	Industry		
Lands	Drainage/Irrigation	Dangerous machinery	
Agriculture		Poisons	
	Works and power	Silt and soil erosion	
Forest		Dangerous drugs	Sanitation and medicine
Public Health			

Source: Abu Bakar Jaafar (1998), p.14, Op.Cit.

¹⁹See "Amendment to Environmental Quality Act 1974 tabled", Malay Mail, 19 April 2012, Bernama.



protection. As of 1992, the land that comes under protection includes 2.14 million hectares of national and state parks, wildlife sanctuaries, turtle sanctuaries and wildlife reserves. A further 3.15 million hectares of natural forest falls within the Permanent Forest Estate and 14.05 million hectares of land are protected as water catchment areas. By the end of 1994, the surrounding marine waters of 38 offshore islands have been gazetted as marine parks: one in Sarawak, three in Sabah and one state park in Terengganu which also protects coastal and marine ecosystems.

These conservation efforts remain inadequate. Several important natural habitats such as wetlands (mangrove forests and peat and freshwater swamps) are underrepresented in the existing protected areas despite their ecological importance in regulating the hydrological regime, supporting fisheries and unique flora and fauna, and as resting places for migratory birds. Limestone and quartz hills, for example, remain unprotected. Furthermore, the terrestrial aspects (how land and air interfaces and interacts as a biosphere) are inadequately treated in the conservation effort. Conservation efforts also tends to be targeted at large animals and to some extent birds, giving less emphasis to the conservation of individual species of plants, insects and both marine and freshwater fish. Conservation is also given low priority in existing land-use policies, resulting in competition for land utilisation and development. Regional and international cooperation is also insufficient in addressing ecological conservation and management, and there is inadequate transfer of environmental friendly technologies for more widespread application across the globe.

The 15 Strategies Listed under the National Biological Diversity Policy

- Improve the scientific knowledge base.
- Enhance sustainable utilisation of the components of biological diversity.
- Develop a centre of excellence in industrial research in tropical biological diversity.
- Strengthen the institutional framework for biological diversity management.
- Strengthen and integrate conservation programmes.
- Integrate biological diversity considerations into sector planning strategies.
- Enhance skills, capabilities and competencies.
- Encourage private sector participation.
- Review legislation to reflect biological diversity needs.
- Minimise impacts of human activities on biological diversity.
- Develop policies, regulations, laws and capacity-building on bio-safety.
- Enhance institutional and public awareness.
- Promote international cooperation and collaboration.
- Exchange information.
- Establish funding mechanisms.

Environmental legislation in Malaysia tends to be sectorised. For example, the 1985 Fisheries Act 1985 deals mainly with the conservation and management of fishery resources, which is separate from the 1972 Protection of Wild Life Act for the protection of wildlife, and





the 1984 National Forestry Act 1984 for the management and utilisation of the nation's forest resources. There is still no specific legislation to protect endangered species from the destruction of their natural habitat. The responsibilities of conservation and management are shared between federal and state authorities following the Federal, Concurrent and State lists found in the Ninth Schedule of the Federal Constitution. While the protection of wild animals, wild birds and national parks falls under the legislative authority of both the federal and state governments, other matters such as forest and agriculture fall under the legislative authority of individual states, in accordance with the Concurrent List. The Concurrent and State lists are also different in the case of Sabah and Sarawak.

Since some laws are federal legislations and some are state enactments, the legislative structure for environmental protection suffers from a lack of integration, since not all legislations apply uniformly across Peninsular Malaysia, Sabah and Sarawak. For example, the 1974 Environmental Quality Act and the 1985 Fisheries Act are both federal legislations and applicable to Peninsular Malaysia, Sabah and Sarawak. However, many other relevant enactments such as those covering native peoples' rights, forestry, protected areas and wildlife are only specific to either Peninsular Malaysia, Sabah or Sarawak (refer to Table 8.3).

Historically, land matters came under the jurisdiction of the respective state governments which were therefore empowered to enact laws and regulations for forest management. The coordination of a common approach to forest management was facilitated through the

National Forestry Council (NFC) which was established by the National Land Council (NLC) in 1972. Since then, the NFC has been at the helm of harmonization of policies between Federal and State Governments in respect of forest management, particularly to ensure continuing Sustainable Forest Management (SFM). The NFC is chaired by the Deputy Prime Minister and its membership comprises the Chief Ministers of the 13 states, along with representation by the heads of all forestry departments in Peninsular Malaysia, Sabah and Sarawak as well as relevant Federal Ministers responsible for Natural Resources and the Environment. In 1978, the NFC formulated the National Forestry Policy (NFP) by consolidating existing forestry policies of the various states. The NFP, which contains a significant number of salient provisions to ensure SFM, was subsequently approved and adopted by the NLC. Since then, several common policies and procedures have evolved at federal and state levels to reflect SFM requirements and international best practices, including the the commitments of the United Nations Conference on Environment and Development (UNCED) on SFM.

Given that Malaysia ratified the Convention on Biological Diversity on 24 June 1994, it is thus required of the nation to incorporate, as a national policy, a set of commitments under the treaty and report to the Conference of Parties. This includes measures being taken and their effectiveness in implementing the provisions and objectives of the convention. While national policy reaffirms the sovereign rights of states to conserve and sustainably utilise their biological resources, strategies, plans and programmes must be devised accordingly.

²¹ Now known as the International Plant Genetic Resources Institute (IPGRI).



Table 8.3:
List of relevant legislations

Federal	Environmental Quality Act 1974
	Fisheries Act 1985
	Pesticides Act 1974
	Plant Quarantine Act 1976
	Customs (Prohibition of Exports)(Amendment) (No.4) Order 1993
Peninsular Malaysia	Waters Act 1920
	Taman Negara (Kelantan) Enactment 1938
	Taman Negara (Pahang) Enactment 1939
	Taman Negara (Terengganu) Enactment 1939
	The state parks from the above three
	Enactments constitute Taman Negara
	Aboriginal Peoples Act 1954
	Land Conservation Act 1960
	National Land Code 1965
	Protection of Wildlife Act 1972
	National Parks Act 1980
	National Forestry Act 1984
	Sabah
Forest Enactment 1968	
Fauna Conservation Ordinance 1963	
Sarawak	National Parks Ordinance 1956
	Wildlife Protection Ordinance 1958
	Forests Ordinance 1954
	Natural Resources Ordinance 1949 as amended by Natural Resources and Environment (Amendment) Ordinance 1993
	Public Parks and Greens Ordinance 1993
	Water Ordinance 1994



Since 1978, Malaysia has been party to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), as well as a member of the World Conservation Union (IUCN), which controls trade of flora and fauna between countries. Malaysia has also ratified the United Nations Framework Convention on Climate Change on 13 July 1994 and the Convention on Wetlands of International Importance Especially as Waterfowl Habitat (RAMSAR Convention) on 10 November 1994. Malaysia is also a participant in the International Board for Plant Genetic Resources Regional Committee for South-East Asia (IBPGR/RECSEA)²¹. In 1993, Malaysia became a member of the Food and Agriculture Organization of the United Nations (FAO) Commission on Genetic Resources for Food and Agriculture.

Based on the earlier discussion on the environment, pollution standards and biodiversity, it is meaningful to consider the many ways to look at sustainable development. Following the appointment of the Bruntland Commission (the World Commission on Environment and Development), *Our Common Future* was published in 1987, in which sustainable development was defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (United Nations 1987). The concept was endorsed at the 1992 Earth Summit in Rio de Janeiro²². Meeting today’s development needs becomes a balancing act weighing both the desire to enhance current living standards and the conservation goals aimed at guaranteeing future living standards.

Over the years, Malaysia has actively

participated in multilateral efforts in preserving the global environment. In compliance with the 1994 Framework Convention on Climate Change (UNFCCC), Malaysia has submitted its first and second national communications describing the country’s mitigating efforts²³. In January 2013, Zakri Abdul Hamid, the Prime Minister’s Science Advisor, was appointed to head the United Nation’s Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES), which has 102 nations as members²⁴. The background to Malaysia’s role in the global environmental debates is discussed in Rozali (1998).

While sustainable development is commonly given strong environmental emphasis, economic growth is the more widely accepted measure for success across the world. Governments tend to pursue short-term goals to appear relevant to the electorate. Society wants to see living standards improve before worrying about future circumstances. This means that to get the environment right (over the long term), we must first get our economics right. In this regard, environmental sustainability and economic sustainability appear synonymous. The former can only be effective as a global effort. Economic sustainability will be more relevant within the nation’s borders.

Aggregate GDP growth is a necessary but not sufficient indication of better living standards. At an early stage, the economy has to redistribute income to ensure that the poor can meet their basic needs. With more people in the middle class as the economy grows, the challenge is instead to achieve balance in the consumption of private and public goods; the latter being increasingly important with large numbers

²¹The United Nation’s Conference on Environment and Development (UNCED), 3-14 June 1992. In 2012, the United Nations Conference on Sustainable Development known as Rio+20 was also held in Rio de Janeiro on June 20-22 2012.

²²See <http://unfccc.int/resource/docs/natc/maln1.pdf> and <http://unfccc.int/resource/docs/natc/maln1.pdf>

²⁴The announcement can be viewed at http://www.google.com/hostednews/afp/article/ALeqM5gh5evg1s2w7Np_U1Qy5lZx8ELJHQw?docId=CNG_e3f6f2ed8fe1a7b34ff6e813d2936a55.31. For more information on Malaysia’s country profile in connection to its role in the Convention on Biodiversity (CBD), see <http://www.cbd.int/countries/profile/default.shtm?country=my>

agglomerated in cities, poised with much potential as an engine for further growth. This means that the public sector, how large it should be in the economy, the kind of public goods it supplies and how it is best financed, will formulate the critical issues to be debated and decided on as a social choice. How successfully the nation can pursue sustainable development will depend on getting the right answers to these questions.

8.5 Conclusion

Successful implementation of Malaysia's five-year development Plans have brought the nation to its current stage of vibrancy and wealth. But along the way, it has found obstacles in its path to growth, obstacles that will require bold solutions in order to evolve into the developed nation it aspires to be.

First, government-led growth has to give way to bottom-up, decentralised growth. In this regard, making cities the engines of growth as alluded to in the Tenth Malaysia Plan 2010-2015 is the correct policy direction. Still, refocusing growth onto cities is insufficient without decentralised models of growth to replace the traditional one-size-fit-all strategies.

Second, as a federation of states Malaysia is automatically poised for growth. But decades of centralised decision-making have not allowed the process of fiscal federalism to be fully tested and experienced. Relegation of powers to the centre have not allowed the concept of state-federal relationships to be fostered in order to facilitate bottom-up growth.

Third, export-oriented industrialisation has been a major form of foreign exchange earnings, making Malaysia an integral part of the international division of labour a.k.a.

globalisation. Lately, the services sector has outpaced industries, suggesting the possibility of domestic-led growth. This is misleading, because foreign participation in the local economy is very visible, to the point where trade-related activities remain the chief source of employment. For this reason, the evolution into services will not mean a departure from trade. Instead, the skill-sets required for trade will eventually move away from so-called perspiration industries into inspirational activities.

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Fourth, cities as engines of growth are not merely a manifestation of urban functional designs and implementations of town planning. Cities are complex ecologies upon which people, culture, knowledge, beliefs, aspirations and hopes are focused. Such a multidimensional free-for-all must not be curtailed if the city is to be allowed to grow. Therefore, the divide between the individual and the collective, or the private and the public sectors, needs to be critically balanced so that the people can pursue their aspirations while living in close proximity with one another.

Finally, such a balancing act can be seen from the notion of market failure—where free enterprise leaves various problems or issues in its wake. These include a deteriorating natural environment, poverty, the failure to deliver of basic services such as health and education, traffic congestion and other infrastructure limitations. It is in these aspects that the public sector i.e. the government can perform its critical role.





Chapter 9

Women and Inclusive Growth in Malaysia



Chapter 9

Women and Inclusive Growth in Malaysia

9.1 Persisting inequality, bounded inclusion

Since the early 1990s, the Malaysian government has substantively recognised the importance of women to national development. The Sixth Malaysia Plan (1991-1995), for the first time in planning history, included a standalone chapter entitled “Women in Development”. Prior to this, women had already been contributing to growth, initially as farmers and labourers in the rural economy, and then as assembly line workers in newly established electronics and textile and garments factories. The latter signalled the first time Malaysian women entered the workforce in large numbers, a trend that has continued till today. But from 1990 onwards, the proportion of women in manufacturing began to decline as more and more women migrated to jobs in wholesale and retail trade, hotels, and restaurants as well as the financial services sector (UNDP 2005; Thambiah 2010).

Evidence from other countries demonstrates the importance of women’s work – paid and unpaid – not only in fuelling growth¹ but, more critically perhaps, in keeping many households out of poverty. While similar studies do not exist for Malaysia, the fact that the government has continued to actively woo women to participate in the economy emphasises the crucial role they play. Certainly, other countries have understood that households and nations prosper when women’s access to economic and financial resources improve (Heintz, 2006; Kabeer, 2009, 2012).

What is less clear is how women have participated in the processes of development, and how they have benefited from the ensuing economic growth. Few would dispute the success of Malaysia’s prolonged and relatively high rates of growth, particularly up to the 1990s, or its continued annual growth of five to seven per cent in spite of the recent slowdown in the global economy. Nevertheless, as with other countries in Asia there have been concerns about the unevenness of this growth and the fact that it has led to rising income inequality. It is also clear that this has adversely impacted certain groups in society, some more so than others (UNDP, 2010; Klassen, 2010; Gomez and Saravanamuttu, 2013).

This chapter evaluates the involvement of Malaysian women in national growth and the extent to which they have been rewarded for their efforts. It takes as its starting point the definition of “inclusive growth” forwarded at the outset (see Chapter 1) i.e. that there should be equality of opportunity – and access to this opportunity – to participate in the economy, and that the benefits of growth must be equitably distributed. From here, it will argue that while the government may encourage women to contribute to growth, there are structural impediments that prevent many from maximising their productive potential, including discriminatory practices and the absence of secure employment.

Consequently, it is no surprise that despite some gains, women in Malaysia as a whole still occupy the bottom of the employment hierarchy and, accordingly, continue to lag behind men where remuneration is concerned. In addition, many are found performing work that

¹Alexander (1999, p.31), for example, argues that it was women’s cheap labour that gave Southeast Asia’s export industries a “competitive edge” in the global market.





It is no surprise that despite some gains, women in Malaysia as a whole still occupy the bottom of the employment hierarchy.

often falls short of the international standards of “decent work”. The fact that “economic growth does not automatically translate into widely shared gains” has

been recognised by a team of experts from bodies like the ILO, UNCTAD, UN DESA and the WTO (2012, p.6). Instead, it rightfully points out that “policy choices

matter.” The chapter then concludes by outlining several recommendations for strategic change, while noting the biggest challenge that still remains: having the political will to execute programmes that have been conceived.

Before proceeding, a word on the limitations of this study is necessary. Where possible, the authors have sought national examples to illustrate their arguments. However, these efforts have been hampered due to the lack of access to official data, in particular time-series data, that allow for more accurate analyses to be made. To make up for this, the authors have relied on other sources of information or extrapolated conclusions based on the experiences of other countries in which relevant data are publicly available or even downloadable for free.

9.2 Women in Malaysia's development

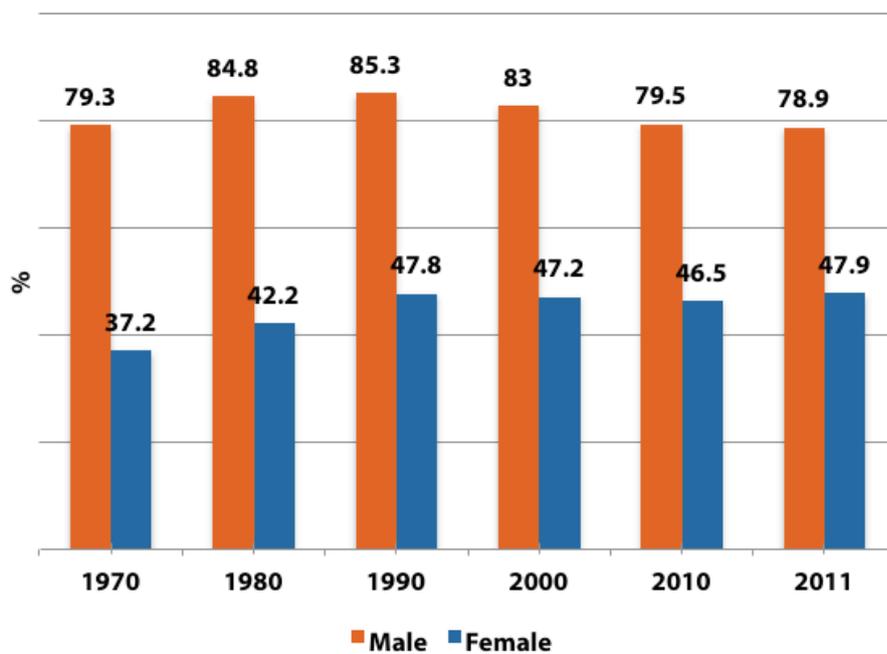
In 1970, the female labour force participation rate stood at 37.2%. After Malaysia adopted a development model that emphasised export-led growth –

which had a direct impact on women who, as a source of cheap and “pliable” labour, were actively targeted to fill jobs that had been created in the electronics and textile and garments industries – this rate grew by five per cent over the next 10 years, and continued to expand till 1990 when it stood at 47.8% (See Figure 9.1). Following this initial increase in economic opportunities for women, there has been little change since. The figure has hovered below the 50% mark for the last two decades, a situation that continued in 2011 and 2012 where the figure stood, respectively, at 47.9% and 49.5% (compared to the male labour force participation rate of close to 80%).

This low female labour force participation rate in Malaysia has been a source of curiosity. Even though there has been increases in the female labour force participation rate for the last two decades, the rate is still below the 50% mark. The rate is also well below the overall labour force participation rate of Malaysia, despite the fact that the gap with men has decreased over time. For instance, in 1970 men were more than twice as likely to be found in the formal labour force compared to women, but by 2011, this disparity had narrowed due to the rise in the female labour force participation rate. Even so, a gap clearly remains. For another, it is also unusually low compared to other countries in the region. In 2011, Thailand registered 69.9%, Singapore 62.9% and Indonesia 53.3%.

Equally worrying is the persistently low rate which, in spite of various government pronouncements and proposals, has never succeeded in going past the 50% mark. Among these measures include:

Figure 9.1:
Labour force participation rates by gender (Malaysia), 1970- 2011



Source: Ministry of Women, Family and Community Development cited in Ng, 2011, p.19; Labour Force Survey Reports, various years.

- The legalisation of **flexi-work**. In 1998, the Employment Act 1955 was amended so that women could “integrate career with household duties” (Eighth Malaysia Plan, p.567).
- In the same year, the government introduced **60-day maternity leave** for women in the public sector, up to a maximum of five children. This has since been increased to 90 days (Budget 2011). The 90-day fully-paid maternity leave has also been implemented by local banks under the collective agreement between the Malayan Commercial Banks Association and the National Union of Bank Employees in August 2010. Nevertheless, their counterparts in the private sector are still only entitled to 60 days maternity leave.
- Tax deductions to employers who provide **childcare facilities** for their female workers.
- Plans were put in place to assist women wishing to (re)enter the job market by providing **training and retraining programmes** (e.g. through the Majlis Amanah Rakyat (MARA), Agricultural Entrepreneurs Development Programme, Program Inkubator Kemahiran Ibu Tunggal (I-KIT), Jejari Bestari, the Purple DNA project, 1Azam, etc.).
- Women in the rural areas were offered **extension services** (e.g. initial capital grants, equipment, training on product processing and economic empowerment) to help them begin income-generating activities.





- Several **funds** including but not limited to women-only initiatives (e.g. the Women Entrepreneurs Fund, the Small Entrepreneur Fund, Yayasan Tekun National, micro-credit schemes under Amanah Ikhtiar Malaysia (AIM), Bank Simpanan Nasional and Bank Pertanian Malaysia, Tabung Perolehan Teknologi untuk Wanita (TAF-W), Agronita) were created to make it easier for those wanting to enter business to obtain loans.
- **Laws** were also reformed to improve working conditions for women (e.g. the adoption of provisions relating to sexual harassment in the Employment Act in 2011 to complement the pre-existing Code of Ethics for the Prevention of Sexual Harassment at the Workplace in 1999, and the amendment to Article 8(2) of the Federal Constitution to prohibit discrimination on the basis of gender) (Eighth Malaysia Plan, 2011, p.558-67).

While the government can be commended for these measures, what it has in place are at best steps in the right direction. Claims that its training programmes and credit facilities (to the tune of millions of ringgit) have reached thousands of women may be true but their actual impact remains uncertain. If anything, the consistently low female labour force rate would suggest that these efforts have had limited practical impact, or have yet to achieve their intended outcome. Indeed, many of these initiatives appear to be ad-hoc and one-off programmes. Moreover,

training offered under programmes like I-KIT, Jejari Bestari and the Purple DNA project do little to help women break out of gender stereotyped roles by limiting their skills development to areas like tailoring, beauty, embroidery, crafts, childcare, food processing and tourism.

The idea that women bear the responsibility of care work – as opposed to men sharing this – is also underlined by the flexi-work and home-based work policies. Again, even though it was recognised as early as the Ninth Malaysia Plan that these measures have increased the number of women in the informal economy and that these women deserve social protection to overcome illness, disability and job insecurity (p.304), there is little evidence of this desired outcome, especially for unskilled women, home-based or contract workers. Similarly, even though childcare facilities have improved, much more needs to be done, particularly in the private sector, to ensure that there are sufficient, affordable and quality services in place². This will ensure that all women, not just those who can pay, are able to leave their children in a care facility while they are at work.

Current legislative measures too may appear commendable but have thus far been less effective in practice. The Public Service Department has issued Guidelines in Handling Sexual Harassment in the Workplace in the Public Services in 2005. More generally, however, sexual harassment measures have been criticised as containing “significant limitations” as they do not provide adequate remedies for women who have been harassed³.

²There are around 2.5 million children in the 0-4 year old age bracket (2010 estimates) but only 1,457 official childcare centres in the country (as indicated on the website of the Department of Welfare), and another 2,077 day care centres that are not registered (Tenth Malaysia Plan 2010, p.180). This situation is clearly inadequate and in need of rectification.

³By 2011, only 1,671 employers had adopted the voluntary Code of Ethics, while the Labour Department received and investigated a mere 300 cases since the code was introduced in 1999 (Malaysian NGO CEDAW Alternative Report Group, 2012).



Even the extent of protection for women workers under Article 8(2) of the Federal Constitution has been suspect, as seen in the outcome of several cases where women have challenged discriminatory aspects of their employment terms and lost⁴.

The low labour force participation rate also means that out of the 9,555,700 women of working age in 2011, only 4,575,300 were in the labour force. The remaining 4,980,400 – almost five million women, almost double that of men (2,009,900) – who could be gainfully employed were officially considered as not “working” or not looking for a job. This figure is perplexing: where are the women? Far from lying idle, Anja Franck (2012), who conducted an in-depth study on women’s informal employment in Penang, has argued that official data fails to portray the true picture of women’s work. According to her, women may go statistically “missing”, but this does not mean that they are not working. Instead, as others have similarly argued (see Ghosh, 2002; Pearson, 2007; cited in Franck, 2012), in the course of a woman’s lifetime it is more probable that she ends up as a productive agent in both formal and informal spaces, at home and in the work place.

Indeed, recently published official data on the informal economy⁵ in Malaysia, as well as other sources, help shed light on the pervasiveness of this phenomenon (See Chapter 5 above;

and Jessree and Mohamad, 2006). For one, it is estimated that the majority of the world’s workers are found in various forms of informal employment relationships (Heintz, 2006; Razavi, 2009; Kabeer, 2012). A study by the DOS has also acknowledged the role the informal economy plays in employment creation, production and income generation in developing nations, specifically that it contributed 13% of Malaysia’s GDP in 2005 (Nazaria Baharudin et al., 2011).

Others have attempted to calculate the contribution of those performing informal work by looking at the “own account” (i.e. those who operate their own farms, businesses or trade without paying others to work for them) and “unpaid family work” (i.e. those who do not get paid but work on farms, businesses or trade) categories in the Labour Force Survey. It is important, however, to remember that this method excludes other groups of informal labour such as those who perform waged-work, piece-rated home-based work or even work that is stigmatised and illegal like sex work. As such, it only captures a partial snapshot of the types of work arrangements in the country. Moreover, there is a serious problem of underestimation, under-

Sexual harassment measures have been criticised as containing “significant limitations” as they do not provide adequate remedies for women who have been harassed.

⁴Three cases are worth highlighting here:

- Beatrice Fernandez, a female flight attendant with the national carrier, Malaysian Airlines (MAS) who challenged her termination when she was pregnant with her third child as being unconstitutional. She lost when the court ruled that discrimination on the basis of gender was permissible on certain grounds (e.g. in private enterprises since the Constitution only covered state and public authorities).
- Eight women workers at Guppy Plastics Industries who were forced to retire at 50 while their male counterparts were allowed to work till 55. Their right to employment was denied when the High Court and Court of Appeal overturned the decision of the Industrial Court that their termination was a form of gender discrimination.
- Noorfadilla Ahmad Saikin, a government teacher who lost her job because she was pregnant. Despite getting a favourable judgment in 2011 – the High Court ruled that this was discriminatory and went against CEDAW, the United Nations Convention on the Elimination of All Forms of Discrimination Against Women, which Malaysia is party to, as well as unconstitutional – the government challenged this decision (ibid.) It eventually withdrew this appeal in June 2013 (“Landmark High Court ruling upheld”, *The Star*, 28 June 2013).

⁵This term “informal economy” is endorsed by the International Labour Organization (ILO) and is preferred to that of the “informal sector” because it rightfully brings under the spotlight the key feature of such work i.e. “labour relations that are not governed by formal economic regulations and/or basic legal and social protections” (cited in Razavi 2009:16). As such, anyone who performs informal work in either or both formal and informal enterprises falls under this definition (Franck, 2012, p.29).

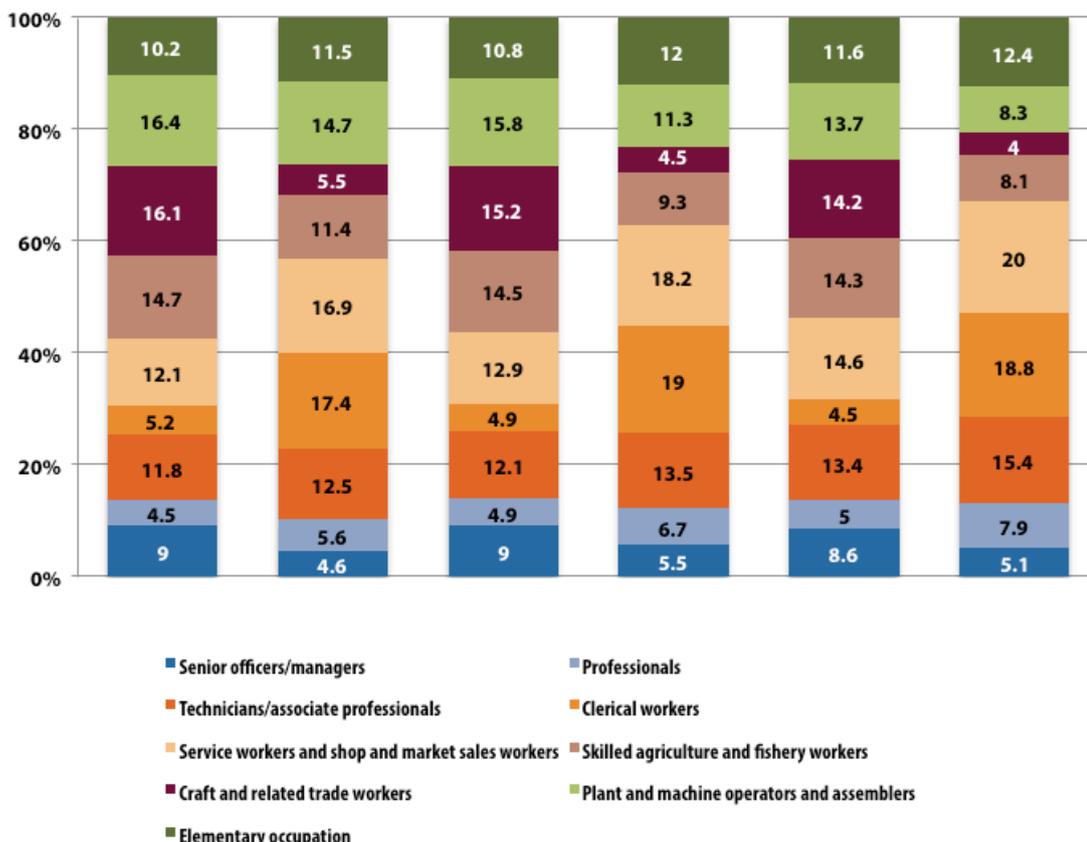


recording and underreporting (Franck, 2010). If this is taken into account, the numbers could certainly be significantly higher.

Apart from their work in the regulated labour market and in the informal economy, Malaysian women also contribute to the wider economy through their reproductive roles, such as childcare, cooking, cleaning, and caring for the sick and the elderly. In 2011, 48.4% of those outside the labour force gave “housework” as the reason why they did not seek formal employment. Of this, 66.9% were women, while only 2.6% were men (Perangkaan Wanita, Keluarga dan Masyarakat, 2012, p.14). Time-use surveys compiled by the UNDP for 2007

also reveal that women in six countries in the “medium and low development” category spent a daily average of 3:13 hours cooking and cleaning, versus 0:24 hours for men. They also spent 44 minutes in a day caring for family members, while men spent a mere 10 minutes (UNDP, p.342). It has been argued that the more time women spend on unpaid non-market activities, and the more they interrupt their work life to perform reproductive work, the more likely they are to have their earnings potential compromised (Heintz, 2006, p.11). It has also been estimated that care work could account for 10-39% of GDP if given a monetary value (UN OHCHR, n.d.).

Figure 9.2a:
Employment distribution by occupation and gender (by percentage)



Source: Department of Statistics, Malaysia; Sixth Malaysia Plan (1991-1995), Labour Force Survey 2007, Ministry of Women, Family and Community Development 2010, cited in Ng (2011, p.20-21).

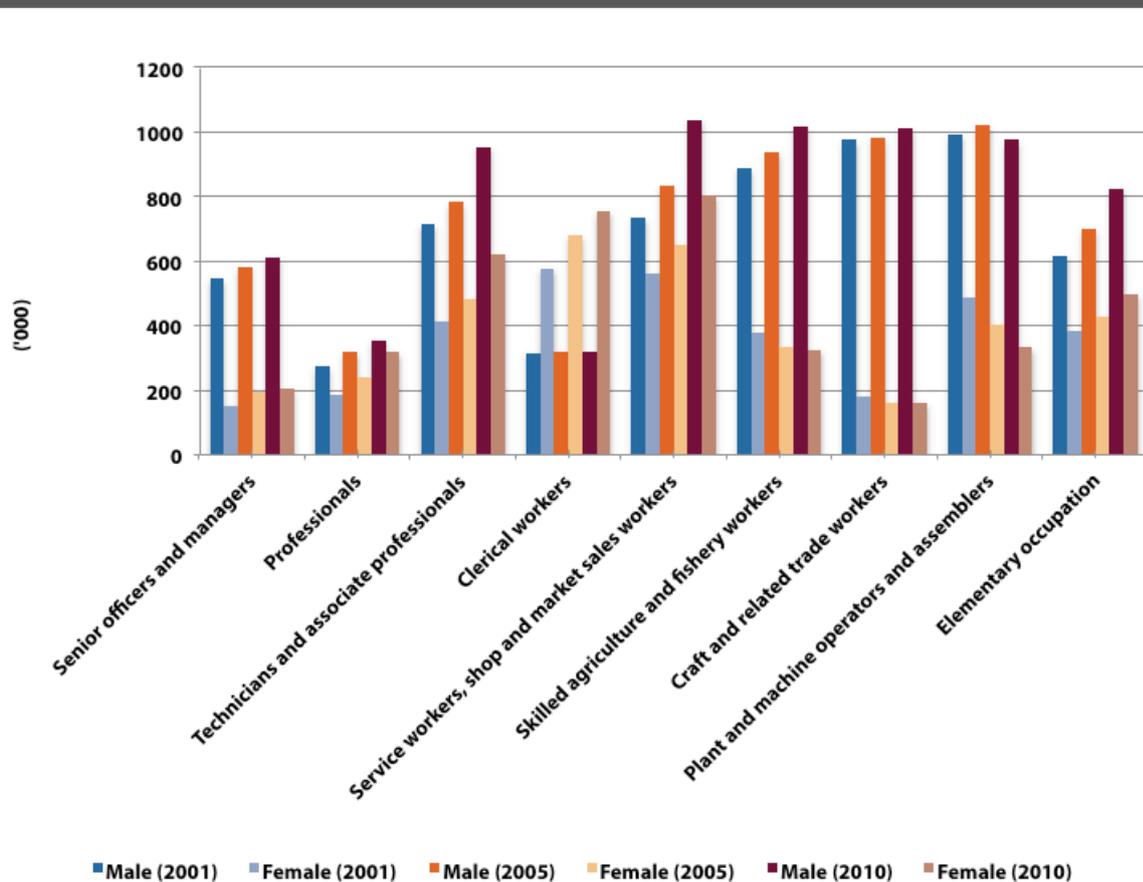
Though such work is unpaid and unrecognised in the country's official statistics, its extensive societal benefits have been well established. For example, Naila Kabeer (2009, p.9) has said that reproductive work is a "public good" because it "nurtures future generations of workers, parents and citizens and contributes to collectively agreed development goals." She also explains that the reason why it continues to remain unvalued is because "economic growth theories take labour as a given factor of production rather than a resource that has to be produced through the care work carried out by women, most often on an unpaid basis." This view is shared by Shahra

Razavi (2009, p.13), who argues, "aid work, whether formal or informal, does not produce growth and social development on its own. The other essential ingredient, often overseen and taken for granted by policy actors, is the care and reproduction of human beings", much of which is performed by women for free.

9.3 "Benefits" from growth

The preceding account laid out how women have boosted national wealth. This section will look at how they have benefited from growth. For example, for their efforts, do they have access to the

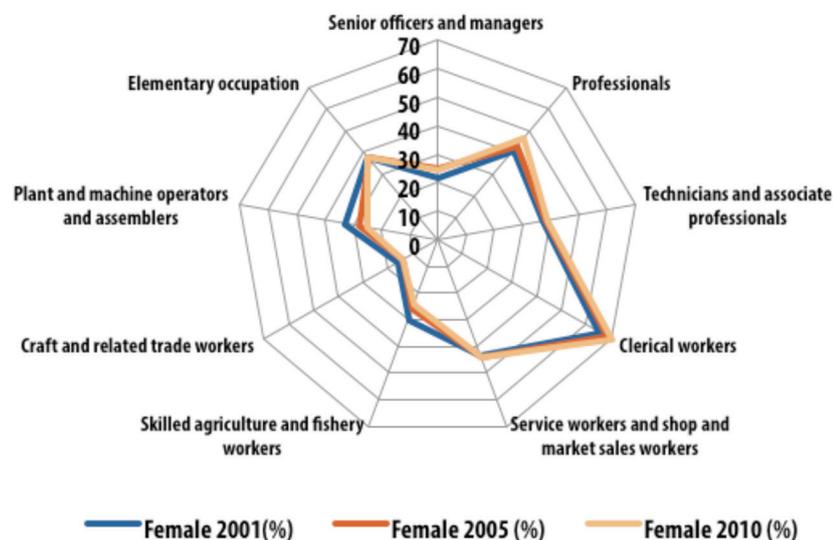
Figure 9.2b:
Employment distribution by occupation and gender (by number employed)



Source: Department of Statistics, Malaysia; Sixth Malaysia Plan (1991-1995), Labour Force Survey 2007, Ministry of Women, Family and Community Development 2010, cited in Ng (2011, p.20-21).



Figure 9.2c:
Employment distribution by occupation and gender (inter-gender proportions)



Source: Department of Statistics, Malaysia; Sixth Malaysia Plan (1991-1995), Labour Force Survey 2007, Ministry of Women, Family and Community Development 2010, cited in Ng (2011, p.20-21).

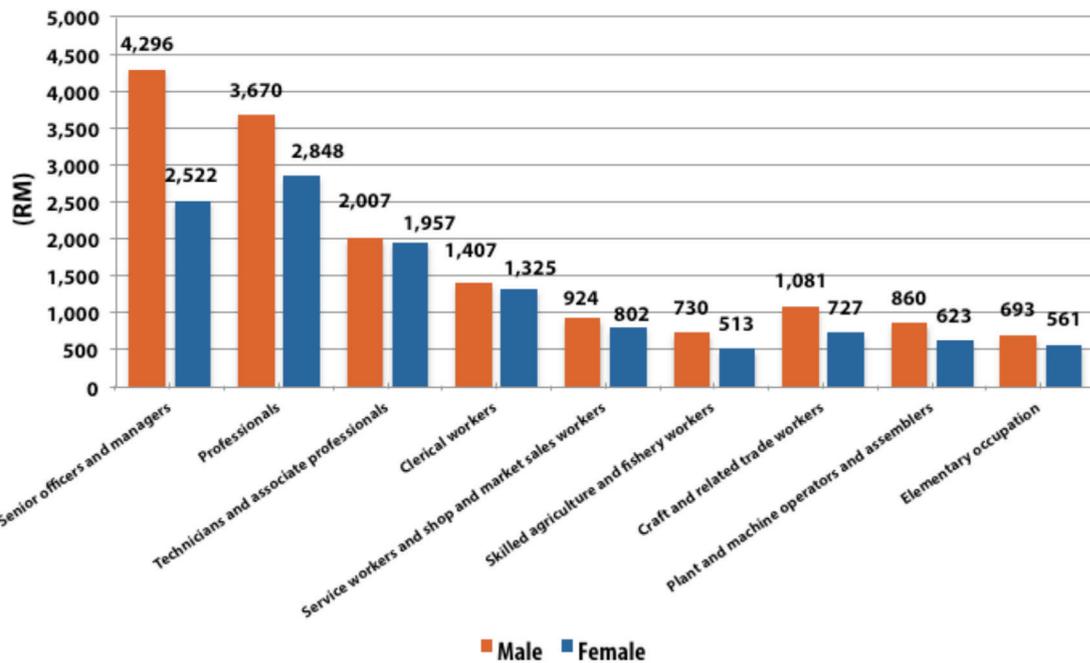
same jobs as men? Do they get paid the same or better? How vulnerable are their livelihoods? How easy is it for them to improve their lot?

The first indicator is women's location in the occupational hierarchy (see Figures 9.2a, 9.2b and 9.2c). For all their contributions, are women equally represented as men in the best jobs (i.e. where they have greater autonomy, decision-making powers and ability to climb up a career ladder)? The first thing to note from Figure 9.2a is that even though occupational segregation by sex has declined in the last 10 years, it still prevails in some occupations. For example, women are far more likely to be found in services (20%) and clerical (18.8%) jobs, while they continue to lag behind men at the top-end of the job spectrum i.e. as senior officers and managers (5.1%

versus 8.6%). This disparity becomes more glaring when these percentages are viewed in absolute terms. As seen in Figure 9.2b, in 2010 there were over 600,000 men who occupied the post of "senior officers and managers" while just over 200,000 women were in the same category.

Similarly, Figure 9.2c demonstrates that in 10 years women's share within the "senior officers and managers" bracket grew by a mere three per cent. It should also be noted that within this occupational group women fare better in the public sector, where they held 27.7% of top management posts in 2012 (Perangkaan Wanita, Keluarga dan Masyarakat, 2012, p.82), compared to the private sector where they comprised a mere 6.1% of corporate directors and seven per cent of CEOs in the largest 100 companies in the

Figure 9.3:
Average monthly basic wage by occupation and gender in Malaysia



Source: Ministry of Human Resources, Laporan Penyata Guna Tenaga, 2008.

country in 2008 (Tenth Malaysia Plan 2010, p.178-79). Even so, these “achievements” are much less impressive when viewed in numerical terms (752 versus 1,966 men), and the fact that there are more women (53%) than men in this field.

Even though their numbers in the professional and associate professional categories appear to be on the rise as well, evidence shows that even within these categories they remain clustered into certain occupations traditionally associated with women i.e. teaching and nursing. Again, it is important to note that while the percentage of women “technicians and associate professionals” has grown within women in the formal economy (from 12.5% in 2001 to 15.4% in 2010), they are still far outnumbered by men in this category (954,000 for men versus 619,000 for women). Within the

manufacturing sector, women are also often found in labour-intensive jobs that are commonly perceived as low-skilled (Ng, 2011, p.19).

The second indicator is wage differentials between men and women. Does the notion of equal pay for equal work apply? What stands out from Figure 9.3 is how, across all formal jobs, men make more money than women. This is the case whether it is for higher-end or lower-end occupations: nowhere do men and women receive the same pay for the same category of employment.

There is wage discrimination purely on the basis of one’s gender but rationalised

There is wage discrimination purely on the basis of one’s gender but rationalised as the inherently inferior qualifications of women.





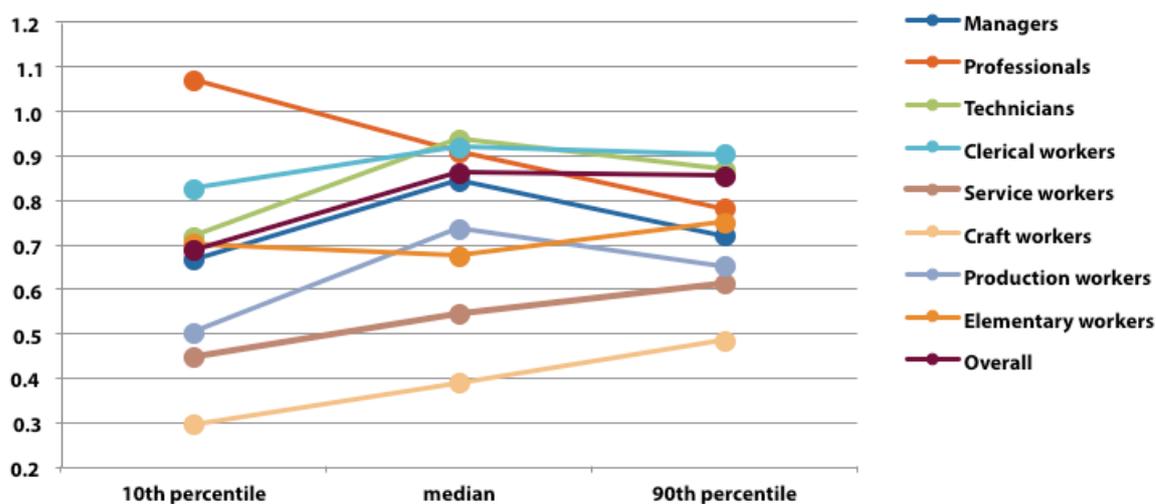
as the inherently inferior qualifications of women. The disparity is greatest at the top-end jobs i.e. senior officers and managers, where in 2008, the difference was RM1,774. However, even for occupations where women dominate, such as services and clerical work, men still earn a higher wage for doing similar work. The 2010 Asia Pacific Human Development Report stated that Malaysian women who work earn only US\$0.42 for every US\$1 earned by men—also the lowest among all ASEAN member states. This situation is not altogether surprising given that globally, women are recorded as earning 16.5% less than men (Kabeer, 2009, p.30).

Figure 9.4, which depicts the gender earnings gap within occupational categories, confirms that women on the whole earn less than men across all occupations. However, it refines the picture by comparing what women (and men) at the bottom, middle and top of their respective occupational groupings

earn. It shows that, as a whole, the gap is wider at the lower end of earnings, and roughly equal at the middle and upper regions; the female per male earnings ratio for all occupations is 0.69 at the 10th percentile, compared to 0.86 at the median and at the 90th percentile. It also shows that patterns in female-male earnings ratios vary across occupational groupings. Thus, while the gender wage gap for craft, service and production workers at the 10th percentile is the most biased against women, the situation is reversed for professionals i.e. women make more than men at the lower-end of this occupational group.

While this may appear to contradict the data in Figure 9.3 – which showed that unequal remuneration was worst at the top-end of the occupational hierarchy – the fact is the gender gap among professional women also increases as they climb up the earnings scale. Put differently, among the highest

Figure 9.4: Female : male earnings ratio at 10th percentile, median and 90th percentile, within occupation group



Source: Household Income Survey 2009, authors' calculations.

paid professionals who generally hold high qualifications and work in high productivity sectors, women’s earnings actually lag behind that of their male counterparts by larger margins than at the lower occupational levels. These findings suggest that the capacity for upward mobility to narrow the earnings gap is limited and possibly systemically inhibited, most obviously in professional positions.

In contrast, the gender gap declines as earnings increases in a number of occupations, notably craft workers and service workers. Importantly, the level of disparity is also largest in these two groups and the bigger margin at the bottom may be due to relatively higher proportion of part-time work among low-earning female craft and service workers. The ratios presented are for monthly earnings; we do not have access to data to compute hourly earnings. Nonetheless, monthly earnings reflect the spending afforded by employment, and the gender

disparities we observe indicate the great lengths Malaysia still has to traverse in fostering inclusive growth for women⁶.

In the informal economy, where the vast majority of workers are not covered by the Employment Act 1955, the situation is even less rewarding for women. As pointed out earlier, the lack of legal regulation means that informal work in general is rarely “contracted” on secure or certain terms, be it for those in high-end or low-end jobs. There are no sick or maternity benefits, annual leave, EPF, social security or overtime claims. Work has little or no long-term security. Besides having a weak bargaining position when negotiating their contracts, these women also have little legal recourse should their employers subsequently renege on any agreements. This is the case even for those who are more highly skilled and are in a better position to enjoy the flexibility and higher salary that may be offered with such jobs. For women with fewer skills – and these make



Figure 9.5:
Gender segmentation of the informal economy



Source: Chen, Vanek and Carr, 2004 cited in UNDP, 2010, p.62.

⁶No doubt, if figures for contract or casual labour within these occupations are taken into account, the gender wage gap would be even greater.



up the majority of women in the informal economy – employment is unstable and of low quality, wages are suppressed, working hours long and irregular, and no long-term social safety net in place. They are typically left to the whims of their employers (Heintz, 2006; UNDP, 2010; Kabeer, 2009, 2012). Among these women, those who are transgendered and work in the sex industry are confronted with additional challenges, given the stigma and discrimination they are subjected to for not conforming to dominant gender “norms”.

It is worth noting that informal employment includes a range of labour relationships and employment statuses (e.g. self-employed, part-time waged

workers, home-based workers, etc.). While both men and women are found in the informal economy, a global study has shown that there is a gender hierarchy which places men at the top of the chain,

usually as “employers” and “own account operators”, and women at the bottom as “industrial outworkers and homeworkers” (see Figure 9.5). The gender segmentation in informal employment also means that there are wage inequalities, where on the whole men enjoy better remuneration than women even though both are working within the same (vulnerable) economy. More importantly, male workers have greater opportunities to avoid lower-end informal employment because they

are better connected and more mobile. Unlike women, they have the means to build their capacity to move to a higher level (UNDP, 2010, p.62).

One other measure of whether or not growth has been inclusive for women is in their ability to re-enter the formal labour force. Though studies on women’s labour force participation rates in Malaysia are hard to come by, the government has recognised an unusual phenomenon where even those who are better educated than men tend to leave their jobs at a fairly young age “due to family and personal commitments” (Tenth Malaysia Plan 2010, p.178). More worrying is how few of these women have been able to return to the labour force when they eventually decide to. According to a report conducted with over 800 Malaysian women, 93% had considered going back to work but 63% found it difficult to do so (The Star, 3 March 2013). For taking time out of their careers to perform their reproductive and care obligations – the same report states that 65% of women cite raising a family as the reason why they leave, while 38% say they do so in order to care for a family member – they are penalised by employers who regard them as “less committed” than their colleagues who do not leave. There are no comparable studies for women who perform less-skilled jobs, but with even fewer opportunities than their more highly qualified counterparts, it is likely that their fate is little different.

This disjuncture between women’s contributions to the economy and what they reap in return warrants an explanation, which can be found in the penultimate section of this chapter.

For taking time out of their careers to perform their reproductive and care obligations they are penalised by employers who regard them as “less committed” than their colleagues who do not leave.

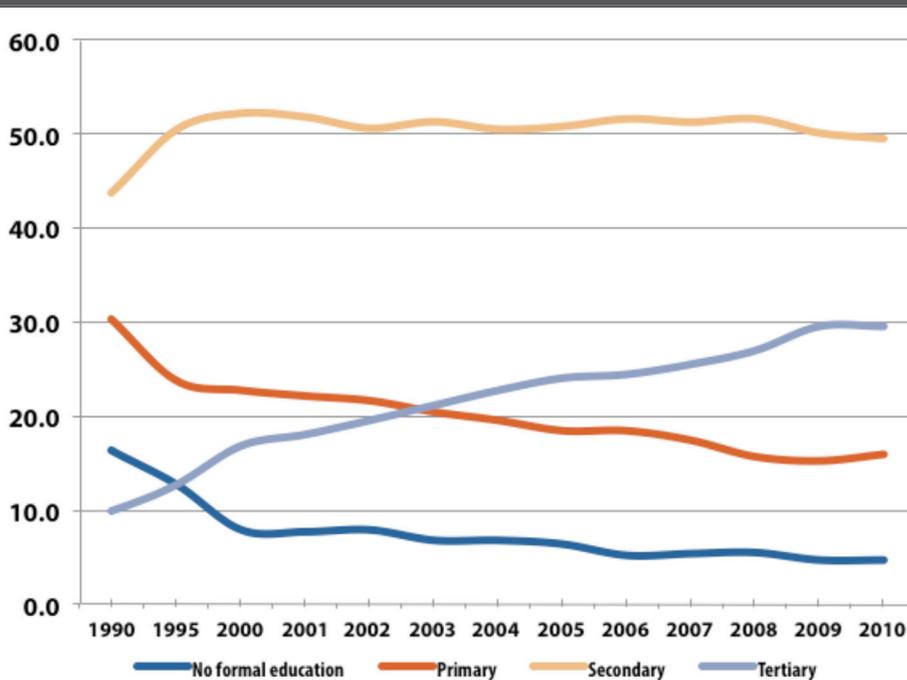
9.4 Why have women lost out on growth?

To understand what hinders growth from being “inclusive” to women, one needs to first take a step back and make sense of the overall employment options that the market currently offers. In this regard, the persistence and growing size of the global informal economy need problematising. Despite modernisation and its attendant advances, progress has not been followed by more and better quality employment for all. Few have the option of choosing “decent work”, which a high-level expert team has identified as “the most critical component of inclusive growth” (ILO et. al., 2012, p.7) and defined as:

Work that is productive and delivers a fair income, security in the workplace and social protection for families; better prospects for personal development and social integration; freedom for people to express their concerns, organise and participate in the decisions that affect their lives; and equality of opportunity and treatment for all women and men (cited in Kabeer, 2009, p.27).

Instead, the world has not been able to eliminate work practices that rely on labour that is casualised, temporary or with minimal contractual obligations. Such workers have little protection because neither these jobs nor the employment relationships governing them are legally recognised, much less regulated. Importantly, while there is an assumption that the size of the informal economy

Figure 9.6:
Percentage distribution of employed female persons by educational attainment in Malaysia (1990-2010)



Source: Labour Force Survey, various years.





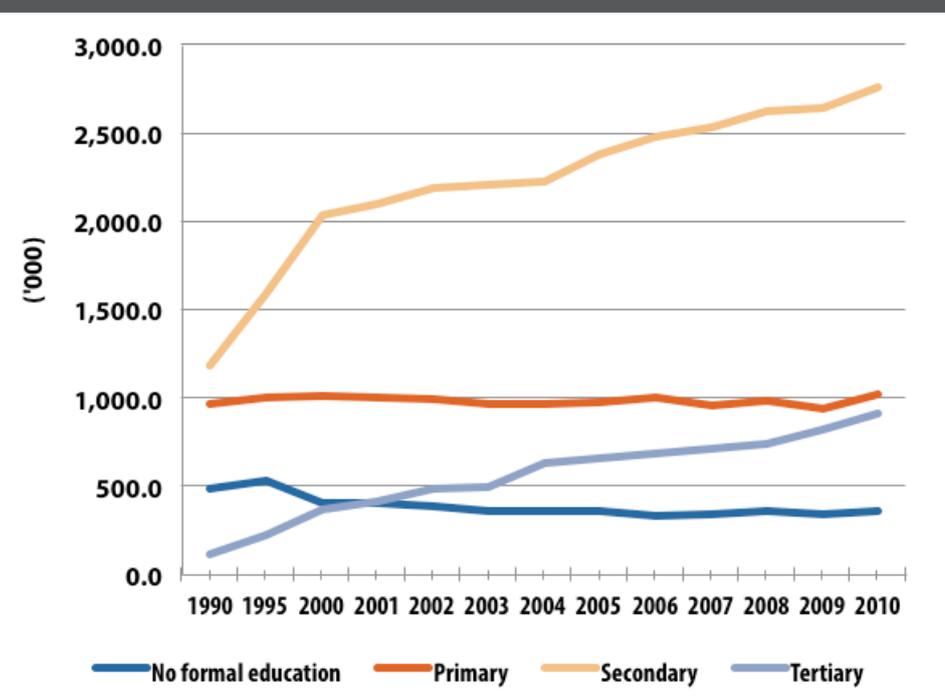
corresponds to the “backwardness” of a nation – that there is an inverse correlation between “progress” and informal employment – the reality is that opportunities for formal employment and “decent work” have diminished even with economic development. This shrinking size of regular, salaried and quality jobs could explain why women’s improved tertiary education levels in countries like Malaysia are not reflected in higher labour force participation rates (Heintz, 2006, p.20-22)⁷.

The next set of figures gives some insight into the relationship between women’s labour force participation rates and their educational levels. Figure 9.6 shows how even though those who have attained secondary education continue to form the bulk of employed females

(49.5% in 2011), women with tertiary qualifications show an upward trend, growing from 9.8% (1990) to 30.6% (2011). However, the number of women with tertiary education outside the labour force is also on the rise (Figure 9.7). This suggests an increasing enrolment of women in fields of study that do not meet the needs of the formal labour market. Alternatively, it could also mean that there is a certain degree of labour market rigidity towards women’s participation in the formal economy. Both these observations raise causes for concern.

The next set of data corroborates the argument that the gender dimension of deprivation pertains more to opportunity – or rather, the lack of – than capability. As seen in Figure 9.8 in 2011, women constituted close to or just over

Figure 9.7:
Number distribution of female persons outside labour force by educational attainment in Malaysia, 1990, 1995, 2000-2010



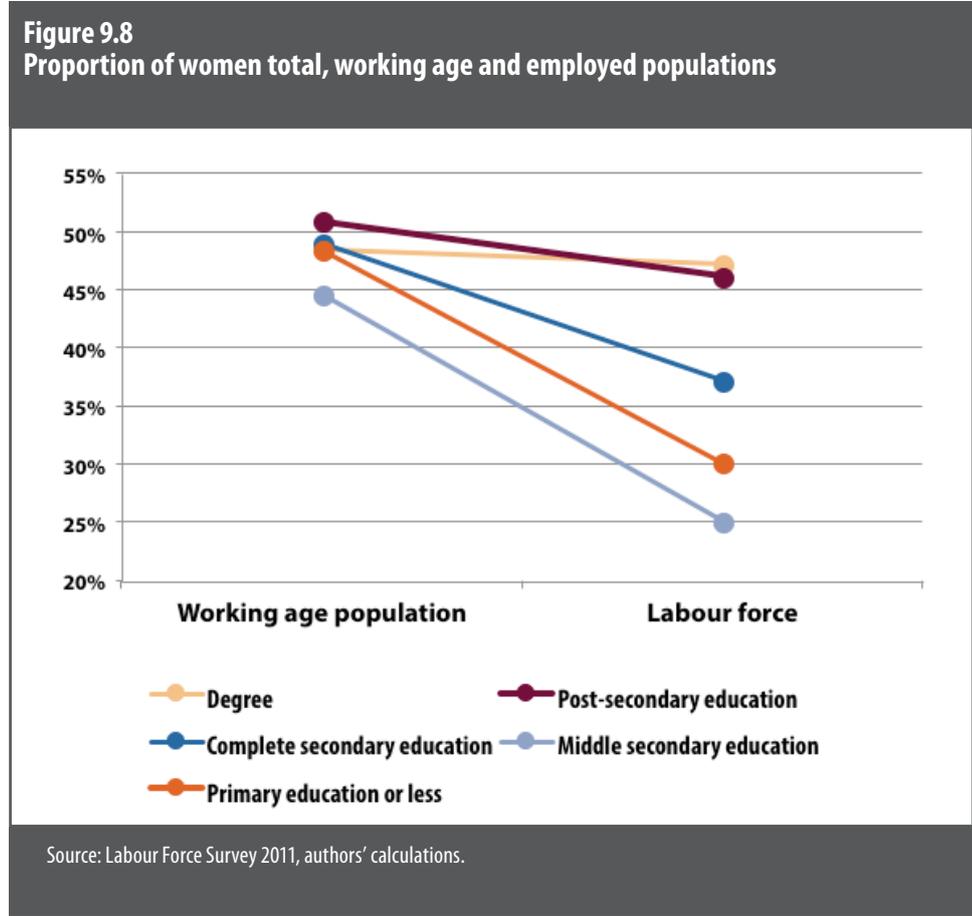
Source: Labour Force Survey Report, various years.

⁷See for example the case of India cited in Kaber (2012, p.22).

half of the population holding secondary or post-secondary certification, or a university degree. However, within the labour force, they comprised only 24% of workers with middle secondary schooling, 30% with primary schooling or less, and 37% with complete secondary schooling. Less formally-educated women evidently tend to withdraw from the formal labour market, while the share of women in the post-secondary or degree qualified labour force is higher at 46%. Indeed, post-secondary education, and especially degree-level qualifications, should sustain women’s labour force participation. However, gender discrimination in the workplace means that many women with such qualifications eventually drop out of the workforce.

To shed light on the relationship between formal qualifications, labour participation and occupational attainment, Figure 9.9 displays the proportion of women according to education level within occupation groups. Taking the category with the highest representation of women as an example, we note that 74% of post-secondary or higher qualified workers in clerical jobs are women. This is higher than the share recorded for workers with secondary education or less, where women are 67%. Having post-secondary education therefore corresponds with greater access and opportunities for

Gender discrimination in the workplace means that many women with such qualifications eventually drop out of the workforce.



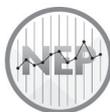
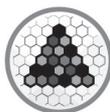
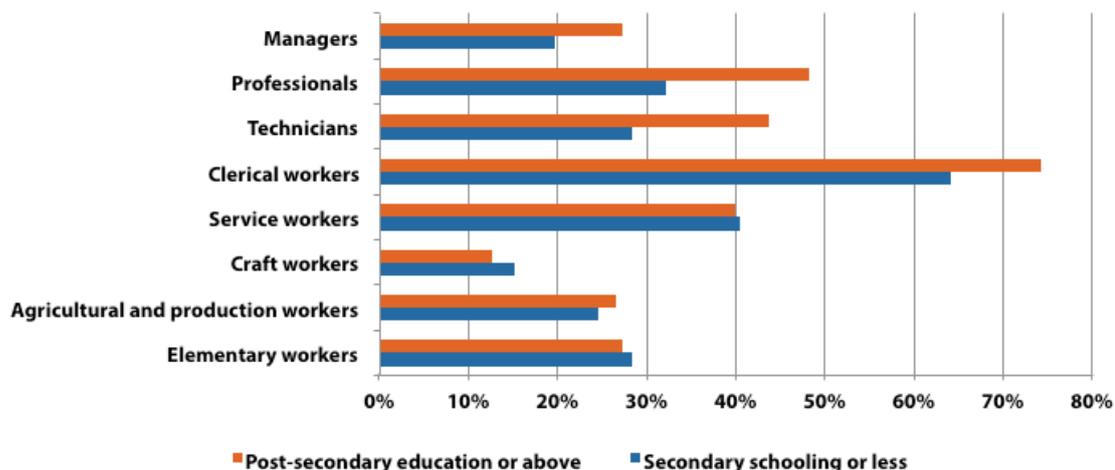


Figure 9.9:
Proportion of women among occupations, by educational attainment



Source: Household Income Survey 2009, authors' calculations.

women in clerical occupations. However, it does not augur well for the nation if disproportionate numbers of highly qualified women are taking on clerical jobs. At the very least, it indicates a mismatch of valuable human resources. But this picture is also telling because it implies the possibility that not enough high-end jobs are being generated.

Acquiring post-secondary education makes a bigger difference for women in technical and professional positions. Women make up 48% of professionals with post-secondary qualifications, compared to 32% of professionals without. This looks good, except that females have been outnumbering males in tertiary institutions across the nation for at least 10 years (Perangkaan Wanita, Keluarga dan Masyarakat, 2012, p.36), and one would expect them to also outnumber male professionals with the same qualifications. Yet they do not. Similarly, the data show that men with secondary schooling or less have a greater chance than

their female counterparts of becoming professionals. Both these observations suggest that the market demands more from women to succeed in professional or technical jobs. Furthermore, even though higher education increases women's opportunities in management, their overall representation remains conspicuously low.

In the other occupation categories, women's share of the employed does not vary much with education, but the substantial underrepresentation reflects the withdrawal of women with less formal education from the labour market, consistent with the patterns in Figure 9.8.

While more research is needed to understand these observations, one answer lies in the dominant economic and trade liberalisation model adopted by governments like Malaysia. This, it is argued, requires the "deregulation of markets, downsizing (of) the public sector, privatisation and changes in distribution of income away from labour to capital" and has contributed to downward pressure on

wages and the increase in informal working arrangements (ILO et al., 2012, p. 8; Kabeer, 2009, p. 25). The government's own role in perpetuating the informalisation of labour needs to be highlighted. In the 1990s, it was responsible for casualising hundreds of formal jobs at the lower-end of public services, such as cleaners and security personnel. Furthermore, in 2008, it was reported that around 20,000 government employees were hired on a contractual basis (Xavier, 2008).

As mentioned, the earliest decision to open up the economy to foreign capital began with the shift from import-substitution to export-led industrialisation. This opened the floodgates for Malaysian women, in particular young Malay women, to enter the formal labour force in large numbers and presented them with a degree of bargaining power they previously did not possess. However, some of the main conditions of their employment were low wages, vulnerable working conditions and the denial of their right to organise. After all, these factories were established by capital fleeing higher labour costs in their countries of origin and relocating labour-intensive aspects of their operations to cheaper countries like Malaysia. The apparent win-win agreement between the government and foreign capital – and the growth that this fuelled – thus came on the backs of these “docile” and “nimble-fingered” women workers (Ng, Maznah and Tan, 2006, p.106).

Today, despite the obvious shortcomings, not least being a nation that is “still trapped in a low value-added, low wage and low productivity structure” (*The Sunday Star*, 3 January 2010 cited in Ng, 2011, p.17), the Malaysian economy has yet to fully abandon this type of neo-

liberal, market-led growth model. At best, women have been targeted as resources to be mobilised for the collective good. The Ninth Malaysia Plan (2006-2010, p.295), for example, spoke of wanting to “ensure more participation of women in national development” and accordingly proposed to equip them with “necessary skills and knowledge to be competitive and versatile”.

The Tenth Malaysia Plan (2011-2015, p.180) continued this thrust by reiterating the focus on “increasing women’s participation in the labour force”. This insistence is likely because it has been estimated that the GDP stands to grow by almost three per cent if the female labour force participation rate can be raised to over 70% (UNDP, 2010, p.45). The government has thus identified different ways to support women in achieving this goal, such as increasing the number of community-based nurseries and day care centres under the Welfare Department, extending assistance to marginalised women (e.g. widows, single mothers and those with lower incomes), and offering them skills re-training programmes. It has even recognised the elimination of all forms of discrimination against women as a key strategy.

Although it is still too soon to determine the full impact of the latest development plan on women’s employment, it is unlikely that the existing picture will change substantially for the following reasons. The first relates to the assumption underlying all development plans since women were first explicitly included: that women are valuable only because of their potential contributions to the nation’s wellbeing. Accordingly, the proposals forwarded





have been skewed towards facilitating their participation, either by improving women's abilities and skills, providing what are deemed as relevant training and education opportunities, extending financial assistance, or enacting laws and policies in the name of protection.

While these are crucial steps to take, as a whole this approach fails to highlight the root of the problem, because it is merely about adding women into development, while ignoring the range of women seeking employment, and as such inadequately addresses their needs. Indeed, as we have

Just because women can join the labour market does not mean that they enjoy the same rewards as their male counterparts.

illustrated, just because women can join the labour market does not mean that they enjoy the same rewards as their male counterparts, have the same

opportunities to gain skills or work under equal conditions as men (Nilmi, 2009, p.17). According to Sahabat Wanita, a local women workers NGO, many women end up with contractual or home-based work because they have been made redundant from their existing jobs, such as in the plantation or electronics sector. This means that they are already in their late 30s or 40s, an age group some would consider too old to re-skill, what more if they only have limited command of the English language, or other skills that the market demands. These women have few work options, except as lowly paid cleaners or piece-rated workers (Balleza, 1999).

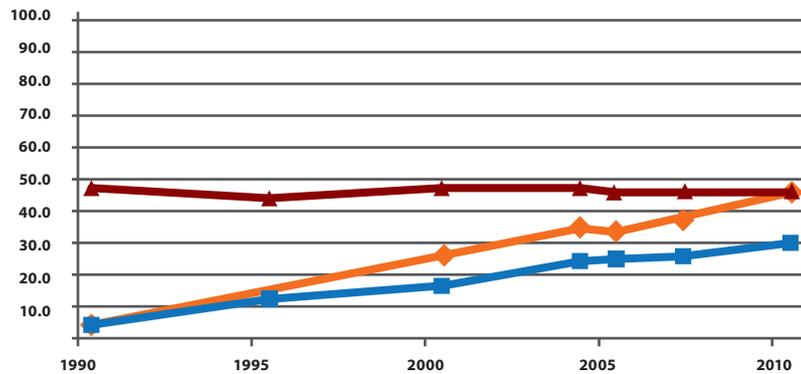
Even if existing government policy will benefit some women in the long run, the government is not paying sufficient attention to the root problems relating to

women's employment. As noted earlier, the idea of offering working women the option of flexible hours, telework or part-time employment is premised on a belief that women need this to effectively juggle both family-nurturing and nation-building responsibilities. The fact that the same "opportunity" is not extended to men is problematic. At the end of the day, one of the greatest barriers to women's equal participation in the economy is the belief that the burden of responsibility for the family lies solely in their hands. Until society accepts that men and women have an equal role in the household performing domestic work and care responsibilities, women will continue to find it difficult not only to participate in the labour market, but also to remain actively involved over their lifetime.

This could be another reason why even when women currently dominate tertiary enrolment in Malaysia, this has not been followed by an overall improvement in their access to economic opportunity, as evident in the gender gap in earnings (Nilmi, 2009, p.18). Education may be one strategy towards women's empowerment but gender discrimination affects even those who are educated. Certainly, as the data in Figure 9.10 and 9.11 reveal, the rise in the number of women with tertiary qualifications over the last 20 years has had little bearing on the female labour force participation rate. This lack of correlation between the level of educational attainment and the labour force participation rate is also repeated in the case of male workers. It is also noteworthy that the female labour force is now more educated than the male labour force. Exactly how this will impact gender equality in employment remains to be seen.



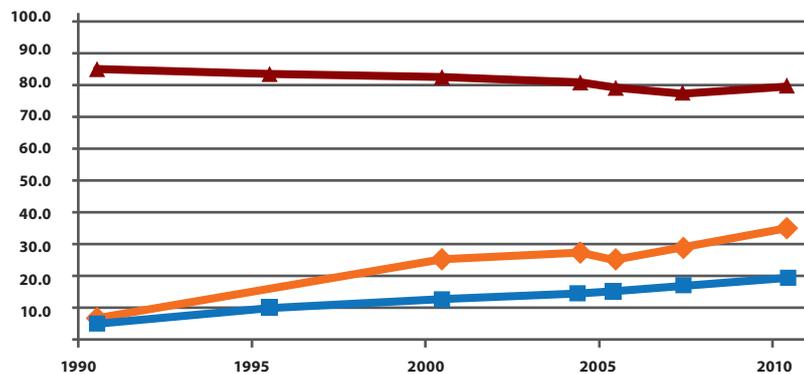
Figure 9.10:
Tertiary education and labour force participation, female



	1990	1995	2000	2004	2005	2007	2010
School enrolment, tertiary, female (% female population, official age group corresponding to tertiary education)	5.5		26.5	35.0	33.2	37.4	45.4
% of female labour force with tertiary education (% of female labour force)	6.0	12.7	16.7	23.0	24.4	25.9	31.1
Labour force participation rate (% of female population)	47.8	44.7	47.2	47.2	45.9	46.4	46.5

Source: World Development Indicators (2012), Labour Force Survey Report (various years).

Figure 9.11:
Tertiary education and labour force participation, male



	1990	1995	2000	2004	2005	2007	2010
School enrolment, tertiary, male (% male population, official age group corresponding to tertiary education)	7.5		25	27.6	25.5	28.8	35.2
% of male labour force with tertiary education (% of male labour force)	5.3	10.2	12.4	15.7	16.2	17.1	20.3
Labour force participation rate (% of male population)	85.3	84.3	83.0	80.9	80.0	79.0	79.5

Source: World Development Indicators (2012), Labour Force Survey Report (various years).



So long as it continues to rollback its role in regulating labour markets, does not expend social expenditure or actively discourages workers from organising, it is hard to see how the rights of women workers can be upheld

It is no accident that women end up occupying the positions that they do in the labour market. Cultural and social norms impose gender-specific constraints that have an overwhelmingly adverse impact on female labour force participation patterns. For instance, women having to submit to the authority of male family members when deciding how to spend their time, societal expectations of the sort of work women should or shouldn't take on, as well as less visible forms of gender

discrimination such as old boys' networks and sexual harassment (Kabeer, 2012).

The traditional gender division of labour and gender stereotypes mean that more women may opt out of formal employment due to pressures to

take up reproductive roles at home. Of course, there are some women who are in the position to opt for jobs that offer them flexible hours since this means greater compatibility with their family responsibilities. But there are also women who are forced to quit full-time formal employment just to survive. For instance, as they cannot afford childcare, they "end up struggling with job and income insecurity and a real risk of marginalisation in the labour market..." (UNDP, 2010, p.62). In other words, their "choice" to take up informal work is the default option.

Similarly, middle class women, particularly those working in the public sector, may be better placed to access

existing government childcare support. Women who are not as skilled – thus earning less – may not be able to avail themselves of such opportunities. These are the same women who would take on any job, even the ones that are the least empowering, to reconcile their domestic responsibilities and their need for steady income (Kabeer, 2012, p.21). This implies that alongside a gender wage gap that may be closing for some women, there is growing inequality among women workers, where those with higher qualifications and are better placed to reap the benefits of growth are leaving those less qualified behind.

Finally, in relation to its objective of empowering women and eliminating discrimination against them, a wide scope remains for introducing laws and policies to institutionalise formal equality. Article 8 of the Federal Constitution, which prohibits discrimination on the basis of gender, has not translated into de facto equality for women as evident in the cases taken up in court to test the government's seriousness in upholding the rights of women workers. On the other hand, women's groups have previously highlighted that there are still a host of other laws that either need amending, such as the Islamic Family Law, or enacting, such as the proposed Sexual Harassment Act. However, the government has shown little interest in both. So long as it continues to rollback its role in regulating labour markets, does not expend social expenditure or actively discourages workers from organising, it is hard to see how the rights of women workers can be upheld.

9.5 Recommendations

At the centre of an inclusive growth strategy is the need to generate widespread productive employment, which enables economic growth to reduce both poverty and inequality. In this context, macroeconomic and structural policies can play a key role in the creation of sustainable growth and productive employment, while social and labour market policies play a vital supporting role by enabling equal access to these new economic opportunities. An employment-centred macroeconomic strategy for development will require active fiscal policies complemented by monetary and financial policies that support the medium-term objective of creating decent and productive employment (Heintz, 2006; McKinley, 2009).

At one level, the challenge for Malaysia is not so much in introducing the right policies – as seen earlier, some of the groundwork has already been done – but in ensuring that such policies are adequately implemented, consistently monitored and regularly evaluated. Legislators and policymakers appear to understand the importance of removing discriminatory barriers to women's participation in the labour market, but they need to do much more to translate these into reality on the ground. Importantly, greater vigilance is required to ensure that programmes and services introduced to benefit women reach all women.

Towards this end, the following measures are recommended:

1) Promote the creation of decent and productive employment

Markets need to be encouraged to provide security of livelihoods by

generating sufficient and quality jobs that can meet the basic needs of the majority of the world's working population, women included (Kabeer, 2009, p.69). Presently, part-time work opportunities in Malaysia are on the rise, especially since the introduction of the Part Time Regulations 2010 in the Employment Act. While this has tended to raise female market participation by drawing on the latent workforce of housewives, single mothers, university students and retirees, these jobs can also entail a wage penalty, poor social security coverage, low job tenure and little training. Where this happens, it risks marginalising women further. The formalisation of employment and security of productive employment for all, including women, should thus be a long-term objective. In the interim, measures should be installed in the form of social safety nets to ensure that the market does not exploit those outside the formal economy.

2) Expand accessible and quality childcare services

More childcare centres should be established across the nation covering the following age groups: below four years of age (infant and toddler care); four to six years old (early childcare and education) and seven to 12 years old (before and after school facilities inside or near schools). The government needs to investigate ways to establish a childcare industry that is trustworthy, affordable and easily accessible. This may require pumping in more public expenditure, a move that has usually been resisted due to the cost involved. One way of overcoming this is to increase the revenue derived from income tax. Although this may be unpopular initially, the long-term





benefits of such a move – as seen in countries with the best childcare policies in the world – are worth these short-term setbacks. Alternatively, the government can offer childcare subsidies but limit this to mothers who are employed or actively looking for employment. From the perspective of stimulating female labour force participation, this is preferable to unconditional and lump sum child benefits, which can have a negative impact on female participation in the market. Exceptions can, however, be made on grounds of horizontal equity across different family types and to reduce child poverty. This option still requires an injection of government funds, which in turn also requires an increase in taxes.

3) Ensure that women workers are remunerated fairly and equally

This recommendation is tied to the introduction of a “decent” or minimum wage. After a delay of more than 10 years, the government finally introduced a minimum wage for all workers on 1 January 2013. The rate of RM900 per month was set for those working in the Peninsular, while those in Sabah, Sarawak and Labuan are to receive RM800 a month. Apart from the fact that this amount has been contested by labour groups as being unrealistic, insisting that it should be set at a minimum of RM1,500 per month, some employers (generally SMEs) have also been exempted from paying migrant workers this wage until the end of the year. Permanently excluded from this scheme are contract or home-based workers, many of whom are women in the lower-end spectrum of jobs. Given that they too contribute to the nation’s wellbeing and growth, the minimum wage should be extended to them as well. At

the very least, steps must be taken in the private sector to bring women’s wages on par with that of their male counterparts, as is practiced in the public sector.

4) Provide appropriate skills development and facilitate education-to-work transitions

There is a strong link between education and employment outcomes. Over the last few decades, this process has changed from a largely sequential one, in which education preceded job acquisition, to a lifelong interaction between learning and work. In many countries, educational systems suffer from gaps in access, quality and curriculum relevant to the demand for skills in the labour market. As this chapter has illustrated, there appears to be an additional gap in Malaysia: a mismatch between human capital, particularly involving highly educated women, and market needs. In addition, there are too few re-entry points to adult education systems, which allow workers to constantly upgrade their skills. There needs to be a paradigm shift in education from sequential and standardised schooling to the promotion of creativity, innovation and flexibility. Encouraging creative thinking and skills building can help young women to participate in the rapidly changing and globally interconnected labour markets.

5) Continue to support women in the rural and agricultural sectors, as well as those in micro, small and medium enterprises

These areas have great potential to create employment, generate further growth and help eradicate poverty. As such, credit facilities for women should be expanded, accompanied by training programmes that offer a range of skills,

not limited to areas which are traditionally identified as “women’s work”. Women should also be given land rights. These should be complemented by efforts to help women in poorer communities form self-help community-based groups or cooperatives which will allow them to access pooled savings, credit and education and training opportunities. Furthermore, value can be added to current activities conducted by women in the agricultural sector by enabling them to move into higher value-activities.

6) Reform labour laws and all laws that discriminate against women

Currently, women workers are greatly underrepresented as organised labour. This is partly to do with the nature of their employment (as contractual workers, they are not allowed to unionise), as well as the patriarchal set up of existing workers’ groups, all of which has hindered their ability to demand for better wages and working conditions. The government needs to introduce and implement a legal framework that addresses gender discrimination where hiring, promotion and pay is concerned, as well as take stricter measures against sexual harassment at work. These measures must go hand-in-hand with other legal reforms to counter discrimination against women.

7) Improve the collection of and access to data

The experiences of a large percentage of workers who remain outside the world of regulated economic activities and protected employment relationships need to be captured more accurately in Malaysia’s statistics. This will enable the phenomenon of women in the informal economy to be better monitored and understood, a necessary precursor to

additional policy recommendations. On the whole, however, data pertaining to women and women workers should be made freely available. Except for matters to do strictly with the nation’s security, laws that prohibit the freedom of information should be repealed.

But none of these recommendations will mean anything without political will. As noted, while the ruling administration has taken strides in the right direction, it lacks measures to ensure successful implementation of its own initiatives. For this to change, there must be a concerted effort at coordination. However, while the Ministry of Women, Family and Community Development is meant to play this role, its lack of clout amongst other governmental ministries and agencies has hampered its effectiveness. This point was recognised during the administration of Abdullah Ahmad Badawi when he set up the Cabinet Committee on Gender Equality in 2005. Under his leadership, the Committee was meant to advise the Cabinet on policies as well as to monitor activities relating to women and development. Unfortunately, this body has had little success, and in 2009, under current Prime Minister Najib Abdul Razak, its status was downgraded (Ng, 2011, p.10). The lack of political will to establish a proper governance structure that can streamline and rationalise complex policy initiatives relating to women’s participation in the workforce is a major stumbling block that needs immediate rectification.

9.6 Conclusion

There is no doubt that the role women, be it in the labour market or at home are important for the development of the nation. Women’s involvement in the





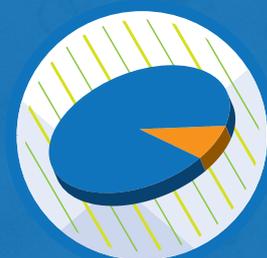
labour market has increased throughout the years since the formation of Malaysia but never surpassed the 50% mark. The issue of gender wage gap between men and women still persist. Furthermore, women are still more concentrated at the bottom of the work hierarchy. Throughout the years, the government had planned many policies and law reforms for the

development of women, but consistent implementation, monitoring and evaluation are needed to ensure that these policies are translated into actual results. From this study, we hope that the measures recommended will enable women to be more included in the growth of the economy and maximise their potential for the good of Malaysia.



Chapter 10

Bumiputera Minorities and Development Process in Malaysia



Chapter 10

Bumiputera Minorities and Development Process in Malaysia

This chapter focuses on Bumiputera minorities and the development process in Malaysia, following up on various issues raised earlier in this *Report*. We critically examine the role and impact of government policies, such as the NEP, NDP and NVP on Bumiputera minorities. We then identify and discuss the factors that have led to their lagging socio-development. The discussion is guided by the following questions: Who are Malaysia's ethnic minorities? What is their socioeconomic status? What are the policies put in place by the government to develop their societies? And what has been the impact of these development policies?

10.1 Classification of ethnic minorities

To contextualise this discussion, one needs to provide the ethnic classifications used in Malaysia. The classification of ethnicity in Malaysia has attracted much controversy, partly due to the politicisation of ethnicity; there is much vagueness in meaning and permeability in the boundaries of ethnicity as defined in the country. There is a lot of discrepancy in defining who is "indigenous", "Orang Asal", "ethnic minority" and "Bumiputera", and who is not. This discrepancy is an ongoing part of a larger process of identifying who is considered Bumiputera as it is a political category denoting "special rights" to entitlements associated or guaranteed special privileges. These preferential policies include quotas for admissions to government educational institutions, qualification for public scholarships, positions in government and ownership of businesses.

There are several ethnic classifications used in Malaysia. The terms "Orang Asal", "natives", and "indigenous people" are often used interchangeably. These terms are often used to refer to the Orang Asli of Peninsular Malaysia and the natives of Sabah and Sarawak, who are also recognised as such by the Federal Constitution and relevant state laws.

For Sabah, Article 161A(6)(b) of the Federal Constitution provides for a person to be considered a native of Sabah if the following criteria are fulfilled: 1) a citizen of Malaysia; 2) is the child or grandchild of a person of a race indigenous to Sabah; and 3) was born either in Sabah or to a father domiciled in Sabah at the time of the births. According to Sabah Interpretation (Definition of Native) Ordinances (2)(1),7 a "native" refers to any person who is indigenous to Sabah, one of whose parents or ancestor is indigenous to Sabah and living as a member of a native community, and any Malaysian citizen who is a member of a people indigenous to Sarawak, Brunei, Indonesia, Philippines, Peninsular Malaysia or Singapore.

As for Sarawak, Article 161A (7) of the Federal Constitution of Malaysia and Section 3 of the Sarawak Interpretation Ordinance (Cap. 1, 1958 Ed.) state that the indigenous peoples of Sarawak are made up of the Sea Dayak, Land Dayak, Bukitan, Bisayah, Dusun, Sea Kadayan, Kalabit, Kayan, Kenyah (including Sabup and Sipeng), Kajang (including Sekapan, Kejaman, Lahanan, Punan, Tanjong and Kanowit), Lugat, Lisum, Malay, Melanau, Murut, Penan, Sian, Tagal, Tabun and Ukit.

In Sabah and Sarawak, the indigenous groups can be either Muslim or non-Muslim. In Peninsular Malaysia, the





indigenous people include the Orang Asli, the Portuguese-descended population of Malacca and the Thais of Kedah and Kelantan. In the Malaysian context, the Malays, Chinese and Indians respectively comprise the major population groups.

The Orang Asli of Peninsular Malaysia is theoretically classified as “Bumiputera” along with the Malays and the natives of Sabah and Sarawak. The Orang Asli, literally the “original people”, present a unique situation amongst Bumiputeras. They are the aboriginal tribal groups found in the interior of the Peninsular and are also referred to as the “pribumi” to distinguish them from the Malays.

The Bumiputera classification is political rather than constitutional. The Malaysian Constitution does not use the term “Bumiputera”.

The Orang Asli are not covered under Article 153 of the Federal Constitution, which provides for the “special rights” of the Malays and the natives of Sarawak and Sabah. Instead,

they are covered under Article 8(5) (c) of the Malaysian Constitution which provides for the “protection”, wellbeing and advancement of the aboriginal people. The Orang Asli, however, have special legislations that concern them, some of which include:

- Act 134, Aborigines Act 1954 (revised 1974).
- Aborigines Administration Policy 1961.
- The National Land Code 1965.
- Land Conservation Act 1960.
- Protection of Wildlife Act 1972, National Parks Act 1980.

In 1950, colonial authorities established the Department of Aborigines during the Emergency, primarily to win the loyalty of the Orang Asli. In 1954, the British colonial government enacted the Aboriginal Peoples Act, which gave the department control over all matters concerning the Orang Asli and subsequently came to be known as the Department of Orang Asli Affairs (JHEOA). Today, this department has been renamed as Jabatan Kemajuan Orang Asli (JKOA). The Aboriginal Peoples Act 1954 also provides for the establishment of the Orang Asli Reserve Land.

Another classification commonly used in Malaysia is the “Bumiputera”, which was introduced to refer to the Malays and indigenous people of Sabah and Sarawak. It recognises the “special position” of the Malays as provided for in the Federal Constitution of Malaysia, particularly Article 153. The Bumiputera classification is political rather than constitutional. The Malaysian Constitution does not use the term “Bumiputera”; it defines only “Malay” and “Aborigine” (Article 160(2)), “natives” of Sarawak (161A(6)(a)), and “natives” of Sabah (Article 161A(6)(b)). When the Bumiputera classification was first used, it divided Malaysians into Bumiputeras and non-Bumiputeras (Indians and Chinese). This classification has been widely adopted in official documents, and most ethnic-based statistics are classified using this Bumiputera and Non-Bumiputera classification.

There had been a lack of distinction between the Malay-Muslim Bumiputeras as compared to the non-Malay Muslim Bumiputeras. The aborigines of Peninsular Malaysia and the natives of Sabah and Sarawak were classified together with the economically-advanced Malay-Muslim



Bumiputeras, giving the impression that the Bumiputera is a homogenous group.

It was only in 2000 when a new classification was introduced, namely the “Bumiputera Minorities” which takes into consideration the heterogeneous nature of the Bumiputera community. The term “Bumiputera Minority” was introduced in Malaysia’s Third Outline Perspective Plan (2000-2010) to refer to the “special attention” to be given to the natives of Sabah and Sarawak and the Orang Asli of Peninsular Malaysia. This classification, however, is not without its own problems; they are based on Peninsular Malaysia’s more homogenous ethnic makeup, with the majority Malays classified as Bumiputeras and the Chinese and Indians as non-Bumiputeras. In Sarawak and Sabah, the majority of them are non-Malay-Muslims. Clearly, there is a strong need for policymakers to understand and appreciate the heterogeneity of Sabah and Sarawak. This reclassification of the Bumiputera into Bumiputera Minority reflects the change in ideology and political economy of Malaysia during the Second Outline Perspective Plan (OPP2) period.

For discussion purposes, this chapter uses the classification “ethnic minorities” to refer to the Bumiputera minorities of Sabah and Sarawak and the Orang Asli of Peninsular Malaysia.

10.2 Population distribution

Looking at the Population Census, it is evident that Sabah and Sarawak are more heterogeneous as compared to Peninsular Malaysia. Unlike Peninsular Malaysia where the Malays are the

majority, there is no one major ethnic group in Sabah or Sarawak. For example, Sarawak is the largest state in Malaysia and has more than seven major ethnic groups and 40 sub-ethnic groups, each with their own distinct language, culture and lifestyle.

Table 10.1 shows the total number and distribution of population in Malaysia. In addition to Malays, Chinese and Indians who occupy 50.4%, 22.9% and 6.8% respectively, there are about 3.8% who can be classified as ethnic minorities. The distribution of population in Sabah shows that the largest ethnic minorities are the Kadazan Dusun (17%), Bajau (14%) and Other Bumiputera (14%) (Figure 10.1). Whereas in Sarawak, the Iban is the largest group at 29%, followed by the Chinese (25.4%) and the Malays (22.2%) (Figure 10.2).

Table 10.2 summarises the population of the Orang Asli in Malaysia between 1993 to 2010. According to the latest available data, there were 308,015 Orang Asli in 2010. The majority of them live in Pahang, Perak and Selangor.

10.3 Government policies

An analysis of government policies reveals that there was more focus on the Bumiputera Minorities in Sabah and Sarawak after the implementation of the OPP2, and even more so in the Tenth Malaysia Plan as compared to earlier development documents. There is, however, specific policy statements regarding the administration of the Orang Asli of Peninsular Malaysia. The government, through JHEOA, introduced in 1961 an important policy



document entitled “Statement of Policy Regarding the Administration of the Orang Asli of Peninsular Malaysia”. The document has several “broad principles” that assure the Orang Aslis of their wide-ranging rights (Appendix Box B10.1).

Prior to OPP2, there had been no specific policies for ethnic minorities. With the implementation of OPP2, the government introduced various programmes to develop

Bumiputera society which can be classified as general development (infrastructure, land development, education, health) and planned development (specifically targeted for the ethnic minorities).

For the Orang Asli, Table 10.3 shows that the programmes were classified into three major categories, namely 1) Arranged Placement, 2) Economic and 3) Social. The Malaysian government’s assistance to the Orang Asli focuses

Table 10.1:
Malaysia – total population by ethnic groups, 2010

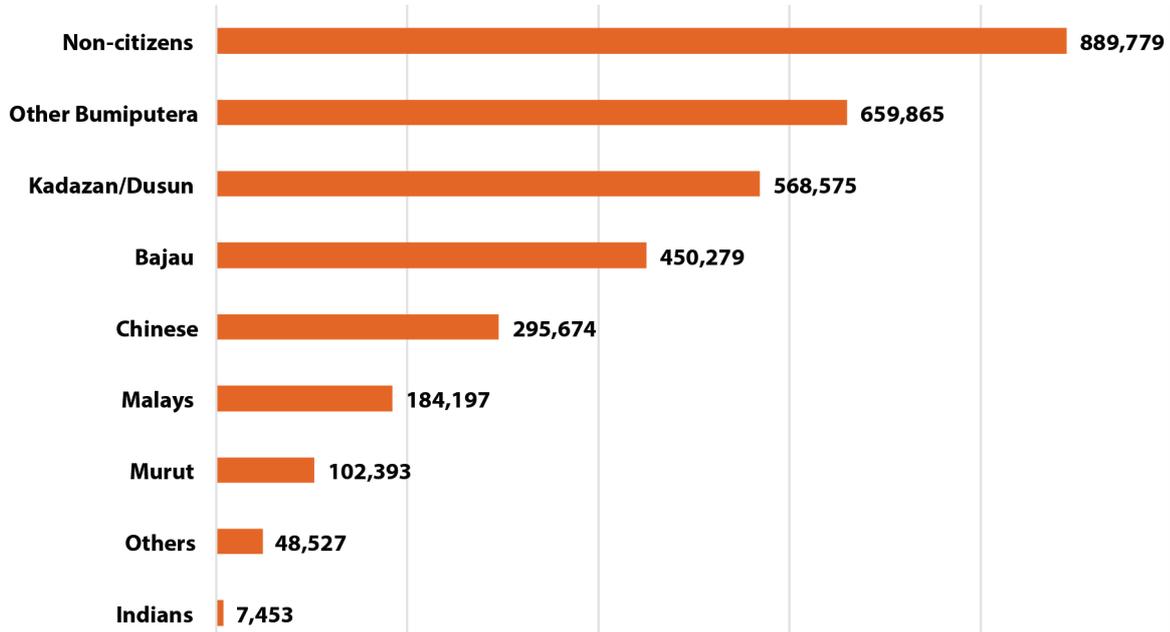
Ethnic	Peninsular Malaysia	Sabah	Sarawak	Total	Percentage (%)
Malays	13,439,410	184,197	568,113	14,191,720	50.1
Chinese	5,519,316	295,674	577,646	6,392,636	22.6
Indians	1,892,963	7,453	7,411	1,907,827	6.7
Others	131,720	48,527	9,138	189,385	0.7
Kadazan*		568,575	-	568,575	2.0
Bajau*		450,279	-	450,279	1.6
Murut*		102,393	-	102,393	0.4
Iban*		-	713,421	713,421	2.5
Bidayuh*		-	198,473	198,473	0.7
Melanau*		-	123,410	123,410	0.4
Other Bumiputera*		659,865	156,436	1,175,237	4.1
Non-Citizens	1,313,908	889,779	117,092	2,320,779	8.2
Total	22,297,317	3,206,742	2,471,140	28,334,135	100

Source: Population Distribution & Basic Demographic Characteristics, 2010. DOS.

Note: *are the ethnic minorities of Sabah and Sarawak, and the Orang Asli of Peninsular Malaysia.

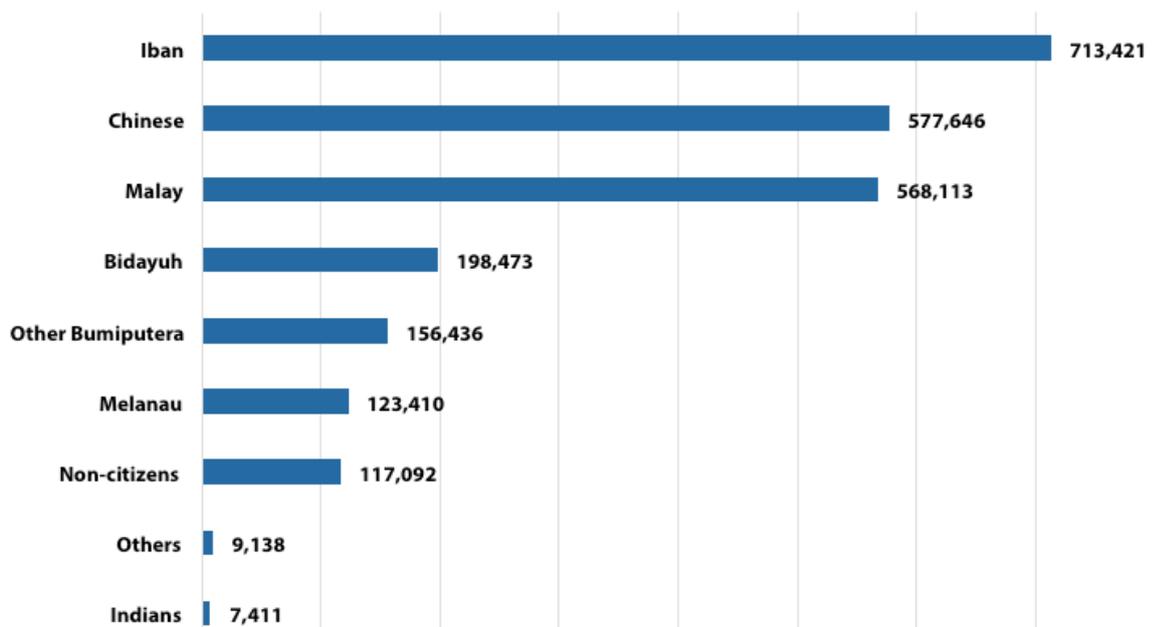


Figure 10.1:
Sabah ethnic's population, 2010



Source: Implementation and Coordination Unit (unpublished).

Figure 10.2:
Sarawak ethnic's population, 2010



Source: Implementation and Coordination Unit (unpublished).



Table 10.2:
Population of Orang Asli, 1993-2010

No.	State	Year						General Population 2010 ('000)
		1993	1998	2000	2003	2004	2010	
1	Johor	8,141	9,961	8,274	10,924	11,396	51,602	3,348,283
2	Kedah	NA	NA	288	232	232	4,155	1,947,651
3	Kelantan	6,389	6,843	9,472	10,654	9,918	16,105	1,539,601
4	Melaka	851	947	1,107	1,251	1,408	9,093	821,110
5	N. Sembilan	6,425	7,322	7,196	7,624	8,248	18,083	1,021,064
6	Pahang	35,106	42,057	47,707	54,293	55,734	73,413	1,500,817
7	Penang	NA	NA	512	NA	NA	6,140	1,561,383
8	Perak	26,496	37,360	40,229	47,587	47,945	63,809	2,352,743
9	Perlis	NA	NA	33	NA	NA	967	231,541
10	Selangor	10,818	11,185	16,860	14,161	14,161	62,657	5,462,141
11	Terengganu	506	444	619	668	681	1,991	1,035,977
12	W.P. Kuala Lumpur	NA	NA	576	NA	NA	NA	1,674,621
13	W.P. Labuan	NA	NA	NA	NA	NA	NA	86,908
14	Sabah	NA	NA	NA	NA	NA	NA	3,206,742
15	Sarawak	NA	NA	NA	NA	NA	NA	2,471,140
Total		116,119	132,873	147,412	149,723	149,723	308,015	28,334,135

Source: Population Distribution & Basic Demographic Characteristics, 2010. DOS.

Note: Population Distribution and Basic Demographic Report 2010 does not segregate Orang Asli from the umbrella concept of "Other Bumiputera" in Peninsular Malaysia but it technically refers to Orang Asli.

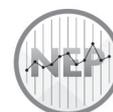
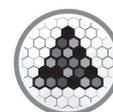


Table 10.3:
Development programmes for the Orang Asli, 2008

Programmes	Details
Arranged Placement	Resettlement Re-Groupment (Rancangan Pengumpulan Semula RPS) Village Restructuring (PSK) Natural Disaster Projects New Village Plan (RKB) Land Development
Economic Development	State Economic Development Programme s Expansion Programmes (Course) Entrepreneur Guidance Programmes State Land Development Phase Business Space Construction Programmes Village Tourism
Social Development	Poor Housing Programmes Head of Tribal Housing Infrastructure and Public Facilities Programme s Health and Medicine Family and Society Development HEOA Administrative Facilities Mental Development Programme s

Source: JHEOA (unpublished).

on the provision of education and skills training, infrastructure facilities, electricity and water supply. In addition, the government implemented new land development projects, resettlement and re-groupment schemes, also known as Rancangan Pengumpulan Semula (RPS). These schemes are aimed

at eradicating poverty or to at least reduce the number of hardcore poor among the Orang Asli; to modernise their way of life through the provision of social services and basic facilities; and to regroup and reorganise the Orang Asli in suitable centres in their traditional areas.



These programmes and projects were targeted to reduce the number of poor Orang Asli heads of household from 13,642 to 3,410 by the end of the Tenth Malaysia Plan period in 2015. Until 2012, the government had developed 166 farms totalling 23,945 hectares. Additionally, 2,320 hectares of Orang Asli land have been cultivated with cash crops such as maize, sweet potato, banana, pineapple and lemongrass. Furthermore, 2,200 Orang Asli heads of household have been provided with agricultural inputs with an allocation of RM6.6 million. Recognising the importance of education, the government built 212 kindergartens and 93 schools for Orang Asli children; two skills training centres had been set up in Paya Bungor, Pahang, and Damansara Damai, Selangor to train 150 Orang Asli youths every year. The “Tok Batin”, or headman, and members of the Village Development Committee are given leadership courses as part of a capacity building scheme.

In the case of Sabah and Sarawak, the programmes were designed to develop their Bumiputera societies, with the assumption that the effects would “trickle down” and make a similar impact on ethnic minorities. It was only after 2000 when attempts

were made to develop programmes specifically targeting the ethnic minorities of Sabah and Sarawak. Data provided by the Implementation and Coordination Unit (ICU) of the Prime Minister’s Department revealed that the programmes and projects (Table 10.4) were meant to

improve the wellbeing of the ethnic minorities and strengthen their traditional institutions of “Mahkamah Anak Negeri”, or Native Courts.

After more than three decades of NEP, NDP and NVP implementation, the key question is: What have been the impacts of these development policies on ethnic minorities? To answer this question, it is necessary to take a closer look at areas such as poverty reduction, employment and rights to development.

10.4 Meeting the targets but missing the people

This section analyses the impact of government policies on the socioeconomic development of Malaysia’s ethnic minorities. The discussion begins by analysing the impact of the policies on poverty alleviation, followed by employment, education and the health status of ethnic minorities.

In terms of poverty, World Bank studies have shown that Malaysia has succeeded in reducing poverty. Direct government intervention coupled with rapid economic growth has brought about a reduction in Malaysia’s incidence of poverty from 49.3% in 1970 to 1.7% in 2012 (Figure 10.3).

Although Malaysia has succeeded in reducing its incidence of poverty, poverty rates vary markedly among Malaysia’s diverse communities, with ethnic minorities having the highest incidences. They are also classified as vulnerable groups. According to the Tenth Malaysia Plan, the vulnerable group refers to households categorised as the bottom 40%, with a focus on women, youth and indigenous communities.

It was only after 2000 when attempts were made to develop programmes specifically targeting the ethnic minorities of Sabah and Sarawak.



Table 10.4:
Development programmes/project for ethnic minorities in Sabah, 2013

No.	Programmes and Projects for Sabah
1	Building of training institutes for Native Courts (ILAM)
2	Aquaculture project
3	Infrastructure
4	Handicraft training
6	Native Courts
No.	Programmes and Projects for Sarawak
1	Improve the quality of life of Bumiputeras
2	Generate income
3	Improve the institutional capacity of the Native Courts
4	Improve the quality of life of the Penans

Source: Adapted from Implementation and Coordination Unit (unpublished).

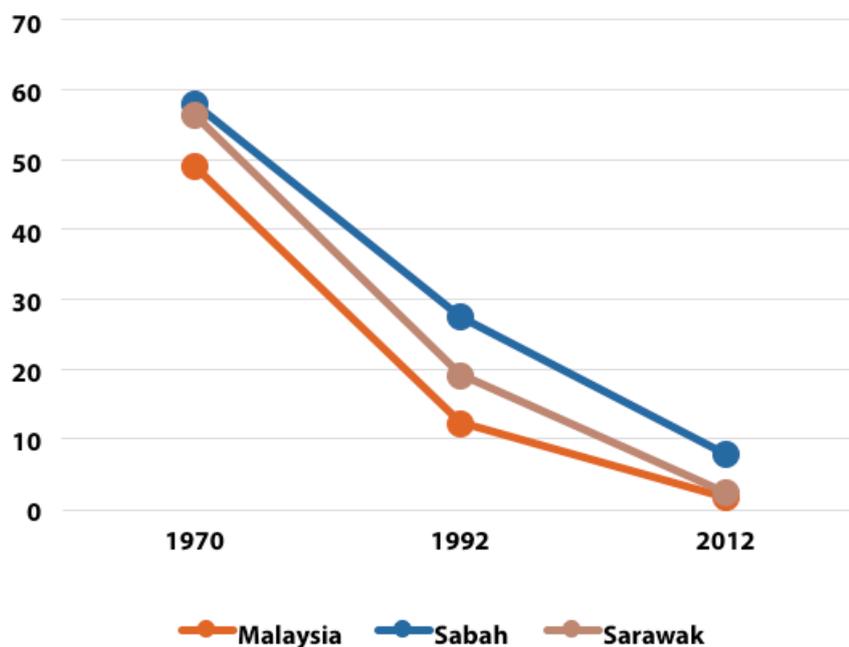
Rapid economic development as experienced by Malaysia in general and Sabah and Sarawak in particular appears to have “missed” these ethnic minorities. Sabah has about 10% of the Malaysian population, yet the poverty rate of Sabah is the highest at 8.1%, a challenge of which Government has taken note and has made effort to respond through specific programmes to increase the income and quality of life in Sabah. The World Bank Human Development Sector Director (East Asia and Pacific Region) stated that “Whatever poor people remaining in

Malaysia, many of them are here in Sabah, and most of them live in the rural areas (many involving ethnic) groups such as the Rungus, Suluk and Orang Sungai. According to the statistics, their numbers remain very high.”

Based on data provided by the Statistics Department, it is the Murut (56.1%) who have the highest incidence of hardcore

Sabah has about 10% of the Malaysian population, yet the poverty rate of Sabah is the highest at 8.1%.

Figure 10.3:
Incidence of poverty Malaysia, Sabah and Sarawak, 1970, 1990 and 2012 (%)



Source: Economic Planning Unit.

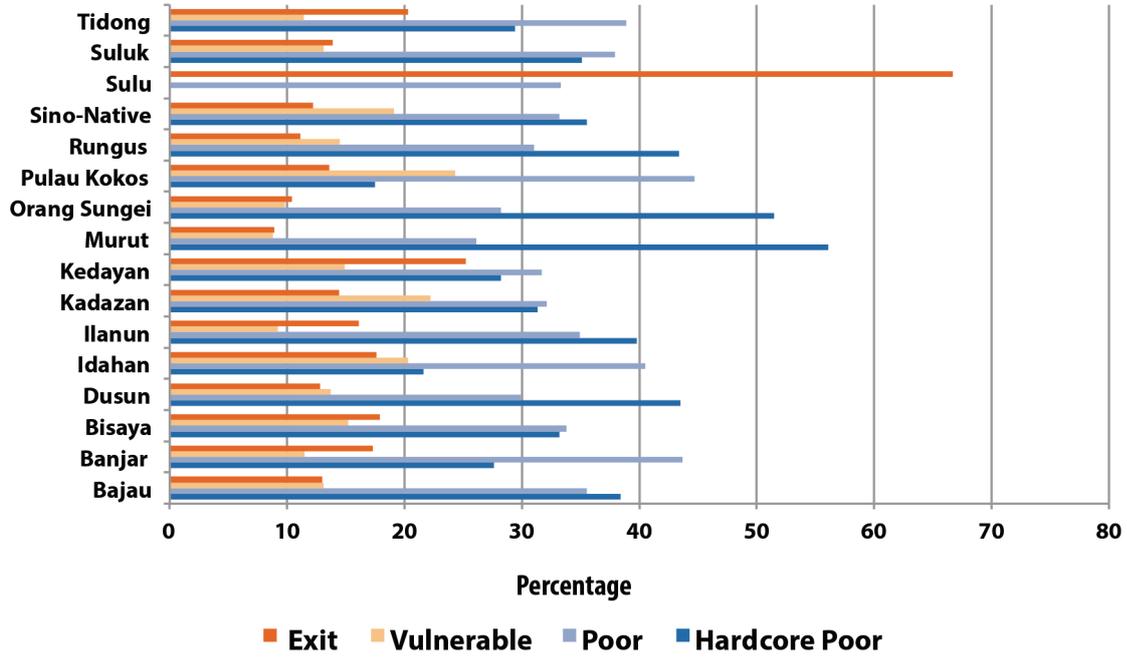
poverty in Sabah (Figure 10.4). This data concurs with earlier research made by Wilfred Tanggau and Geoffrey Tanakinjal (2000). In Sarawak, the incidence of hardcore poverty is highest among the Penans. These data revealed that poverty among ethnic minorities are much higher than the national average, and many of them are vulnerable to economic fluctuations. In the absence of social safety nets, they can easily fall below the poverty line.

In the case of Orang Asli, a study by Zainal Abidin (2003) reveals that they have a high incidence of poverty at 76.9%. This is in stark contrast to the concurrent 5.6% poverty rate at the national level. This study also revealed that a third of the Orang Asli community (35.2%) fall under the “hardcore poor” category, 25 times the national average of 1.4%.

Other sources show marked positive trends in poverty alleviation among ethnic minorities as reflected by a huge reduction in their incidence of poverty (Figure 10.6) between 1990 and 2008, as well as the number who manage to “exit” poverty in Figure 10.4 and Figure 10.5. These statistics, from the e-Kasih database of registrants for social assistance, shed very rare light on income conditions of minority groups at highly disaggregated levels. Some of the findings, notably the exceptionally high poverty rate in the Penan community, lend plausibility to the data. However, the selective nature of the data – deriving from household participation in e-Kasih and probable referrals within villages and localities, instead of random sampling – warrant treating these findings with care and prudence. We treat these poverty statistics as more indicative than conclusive.

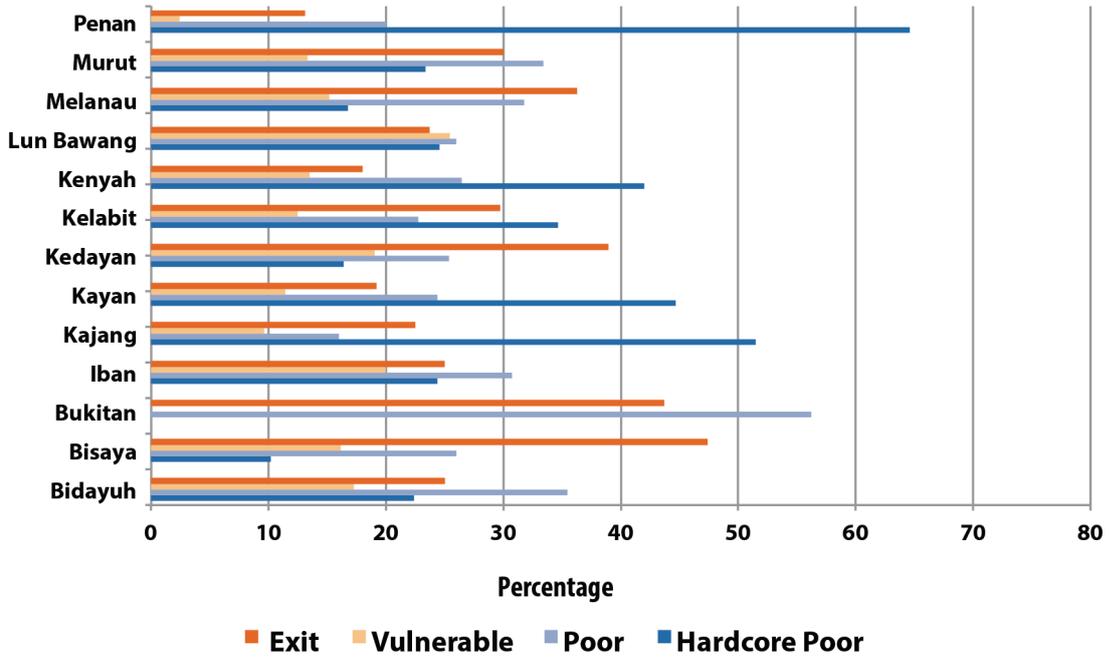


Figure 10.4:
Sabah ethnic groups by poverty status, 2013



Source: Adapted from e-Kasih, Implementation and Coordination Unit (unpublished).
 Note: Those who were classified as “exit” are those who were once classified as poor in the e-Kasih database, but have earned income above the poverty-line.

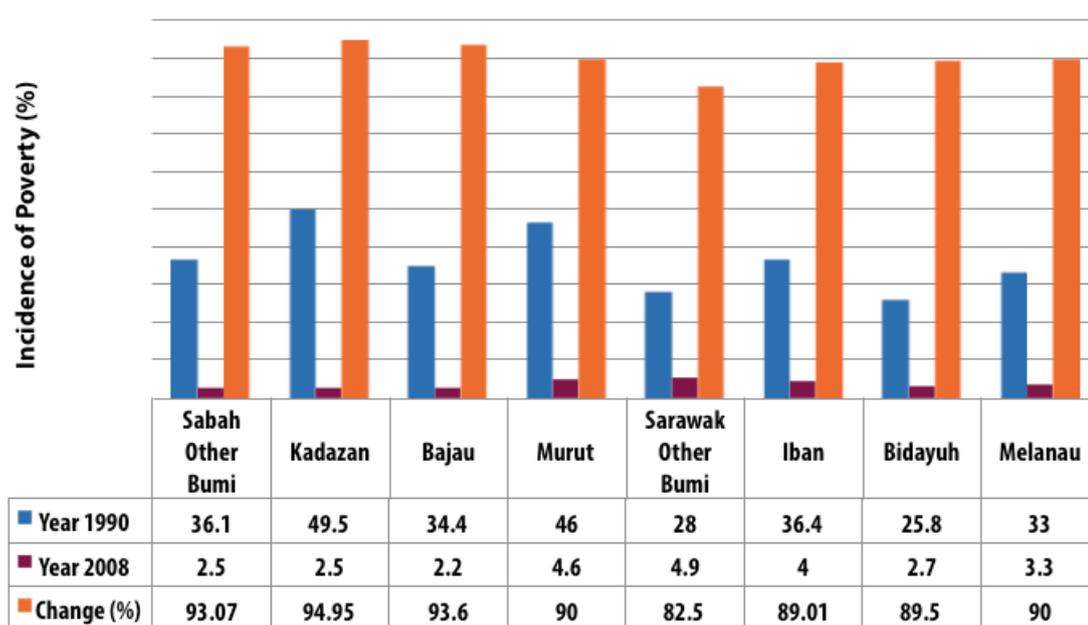
Figure 10.5:
Sarawak ethnic groups by poverty status, 2013



Source: Adapted from e-Kasih, Implementation and Coordination Unit (unpublished).



Figure 10.6:
Incidence of poverty by ethnic minorities in Sabah and Sarawak, 1990 and 2008 (%)



Source: Data for the incidence of poverty in 1990 was calculated from MAPEN II (2001: Table 2.46) Unpublished. Data for the incidence of poverty in 2008 was based on e-Kasih's database of voluntary registrants (as of 4 March, 2013).

One major implication of poverty is the high incidence of “statelessness” among ethnic minorities, particularly those living in the interior of Sabah, Sarawak and Peninsular Malaysia. Many of them do not register the birth of their children due to ignorance and high cost of travel in the rural areas. The time and cost involved in registering birth and national identification cards can be substantial for ethnic minorities who lack cash income and are living below the poverty line. The cost, have forced many ethnic minorities to ignore these responsibilities. As a result, many ethnic minority children are without official documents, thereby jeopardising the future and security of their children as Malaysian citizens. Without these identity cards, the ethnic minorities would have limited access to basic healthcare, education and public services.

A major objective of the NEP and subsequent policies is employment restructuring. These policies predicted that there would be a decline in Bumiputera employment in the primary sector and an increase in the share of Bumiputera employment in secondary and tertiary employment. Since the NEP, there has been a tremendous growth in public sector employment. Wong (1983) estimated that the total number of employees in the Malaysian public sector grew by an average of about five per cent per year from 1970 to 1987, suggesting that the public sector is the country's biggest employer. The NEP period saw the creation of new employment opportunities in statutory bodies, which represent the government's direct participation in economic activities. One of the main objectives of these statutory



bodies was to increase Bumiputera participation in business management. As a result, management level posts were increasingly created within these statutory bodies to absorb as many qualified Bumiputeras as possible.

Between 1970 and 1985, three quarters of new public service jobs went to Malays. Among bureaucrats holding the most senior government posts, 80% were Malays and 6.3% were Chinese (Ling et al., 1988; Malaysia, 1986, p.102). While there is no data available for Sarawak and Sabah, an examination of the list of senior government officers in the state and statutory bodies reveals a similar trend. It is only in the police, armed forces and resident/district offices do we see a better representation of other ethnic groups. It is safe to say that very little has changed since the NEP period.

According to Public Service Department (PSA) data, as of 2012, there are 1,365,232 public servants, of whom 88.9% or 1,213,732 were Bumiputeras,

9.8% (133,298) non-Bumiputeras and 1.3% (18,202) unidentified. Overall, 0.2% or 2,942 public servants were in higher management positions (pengurusan tertinggi); 24.4% (333,135) in middle management, categorised as management and professional positions; (pengurusan dan profesional) and 75.4% (1,365,232) of public servants in as support positions (kumpulan sokongan).

Data provided as of June 2005 revealed that there were only 7.8% or 69,828 public servants made up of "Other Bumiputera". Malays recorded the highest portion with 77.04% (899,250 public servants) followed by the Chinese at 9.37% (84,295). Indians, at 5.12% (46,054) make up a marginally smaller portion than ethnic minorities, followed by other races at 0.7% (6,337).

The latest statistics (Table 10.5) show that 6.5% of Bumiputeras from Sabah and 4.9% from Sarawak are hired in federal departments, which is lower than their population share (Sabah at 11% and Sarawak at 8.7%).

Table 10.5:
Numbers and percentages of appointment of staffs from Sabah and Sarawak per total in federal departments, 2007-2009

Ethnic	Year		
	2007	2008	2009
Bumiputera Sabah	1,472 (4.9%)	1,683 (4.1%)	2,170 (6.5%)
Bumiputera Sarawak	1,215 (4.0%)	2,096 (5.1%)	1,631 (4.9%)

Source: Adapted from Implementation and Coordination Unit (2013) (unpublished).



There has been an increase in the recruitment of Bumiputera minorities from Sabah and Sarawak in recent years, and the overall number of the Other Bumiputera in the civil service is representative relative to the population. Emphasis in the future, now should aim to strengthen representation at the management and professional levels. If not properly addressed, these imbalances can lead to increased racial polarisation and perceived discrimination in our civil service.

The government have made steps to address this imbalance in Malaysia's civil service. One is through the formation of the Special Review Commission on Civil Service Transformation in 2012; the Commission proposed to lower the qualification requirements for Dayaks and other non-Malay natives. This recommendation, however, was not well-received in the state; many did not agree that the quality of the civil service should be compromised by lowering the entry requirements.

Malaysia's ethnic minorities continue to dominate the lower rung of the nation's economic ladder. Recent data (EPU Household Income Data 2009) reveal that the majority of ethnic minorities continue to work in low-income sectors. The majority of them are self-employed compared to Malays, Chinese and Indians who are mostly employees in the government or private sector. These ethnic minorities are mostly employed in the primary sector: agriculture and fishing (See Appendix Tables B10.3 and B10.4). Unlike the Malays, Indians and Chinese, ethnic minorities are mostly concentrated in economic sectors that require low-level skills and promise low

economic returns. Their low involvement in modern urban sectors, coupled with high economic returns, is indirectly due to their low levels of education and limited skills.

The core problem is that the ethnic minorities' level of education and training is low in terms of quantity and quality compared to average levels in Malaysia. Also, many job opportunities are hardly accessible as ethnic minorities usually live in remote areas. JHEOA reports that in 2007, 5,592 out of 24,826 Orang Asli in the labour force are in agriculture, 3,206 are in handicraft production and 2,046 are in livestock. Very few of them are in modern sectors such as trade and cement laying.

Another important aspect is the educational achievement and status of ethnic minorities. In order to prepare Bumiputeras for employment in the modern sector, the government made massive investments into the development of human resources. This was done through an expanded system of higher education and scholarships for tertiary education at both local and overseas universities. Did ethnic minorities benefit from the vast expansion in foreign university openings and government scholarships? To answer this question, one must examine the ethnic minorities' educational attainment.

From a development perspective, education is treated as a means to enhance a person's earning capacity in order to reduce poverty and produce efficient human capital. The human rights approach acknowledges the fact that education enables economically and socially marginalised adults and children



to lift themselves out of poverty and participate in their communities. This approach also believes that education is an end in itself rather than just a means to achieve other ends, whereby obtaining knowledge is seen as a goal rather than just a tool to obtain employment or other reasons

Despite the federal government's massive investments¹, the ethnic minorities continue to have low or no formal education. In Sabah, only 32.1% of the Murut and 28.8% of the Bajau have primary education (See Appendix Table B10.5). In Sarawak, about 32.1% of the Iban, 32.3% of the Bidayuh and 32.5% of the Melanau have primary education (See Appendix Table B10.6). Only 7.3% of the Murut and 7.5% of the Bajau have tertiary education.

In the context of ethnic minorities, the lack of education issue is often associated with accessibility and quality. Reasons for the poor educational achievements of these communities include the physical distance of schools from their homes, the low quality of said schools and the cost of education. This brings us to the issue of the role of the state in fulfilling the rights of these communities to have access to basic and good quality education. In Malaysia, education, medical and health services are the responsibilities of the federal government. The federal government could also encroach into state legislation in matters such as land, agriculture, veterinary, local government and social welfare, on the grounds of national interest and the uniformity of policy throughout the federation. The state had very limited autonomy on matters relating to education, such as curriculum design and medium of

instructions in schools.

Another pertinent issue relates to examination performance among ethnic minority students. In the absence of official data, an analysis of news reports revealed that there is a relatively high percentage of ethnic minority students, particularly in the interior areas who did not obtain grades A and B in critical subjects – Mathematics, English and Science – in their UPSR examinations. The majority of them obtained grades D and E. In contrast, the majority of ethnic minority students seem to be performing well in subjects such as Living Skills, which involve agriculture, carpentry and welding. Their poor performance in the aforementioned critical subjects often hinders their ability to enter premier educational institutions or pursue programmes conducted by the Ministry of Education. They also face difficulties getting accepted into MARA's education programme—the one institution

created by the government with the sole purpose of assisting Bumiputeras in education. Also, given the poor examination performance and high dropout rates among ethnic minorities, one

can expect their selection into private and foreign universities on government scholarships and enrolment into highly competitive public institutions of higher learning (IPTA), to be extremely low. Their examination performance may qualify them to enter private institutions

Reasons for the poor educational achievements of these communities include the physical distance of schools from their homes, the low quality of said schools and the cost of education.

¹The Ministry of Education has undertaken multiple initiatives to address the issues of accessibility to education and quality education among the minorities, please refer to Appendix E.



of higher learning (IPTS), but many of them have been prevented from pursuing or completing their tertiary education in those institutions as the majority of them, particularly those from rural areas, do not have the financial means or knowledge of educational assistance programmes.

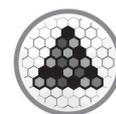
Another related issue is the enrolment of ethnic minority students into degree programmes that can hardly prepare them for employment in lucrative economic sectors. An analysis of student enrolments at IPTA reveals a high concentration of ethnic minorities in social sciences compared to science faculties. Even in the social science faculties, the majority of them are enrolled in degree programmes that have low market demand such as history, public administration, geography, literature, political science, sociology and anthropology. Only a small percentage of ethnic minorities are enrolled in faculties offering science, technical and professional courses such as accounting, law, economics, engineering, architecture, medicine and computer science.

Clearly, the major issues regarding ethnic minority education are not limited to poor academic performance, but also extends to access in terms of entry into universities, distribution of scholarships and enrolment in science and professional degree programmes. Indicators of average educational attainment also show that ethnic minorities rank far below the national average (see Figures 7.13 and 7.14). Consequently, this situation will, to some extent, impede the development of skilled manpower among the Bumiputera Minority.

In terms of healthcare, evidence indicates that, apart from poverty, ethnic minorities also have relatively lower immunisation coverage amongst children and relatively higher maternal and child mortality rates when compared to the national average, a result of a low rate of safe deliveries. For example, the Orang Asli registered safe deliveries of 80.6% as compared to 99.2% for the national average.

The high incidence of poverty, high concentration of ethnic minorities in the rural traditional sectors and their low health status, if not tackled immediately will exacerbate their marginalisation and exclusion from mainstream Malaysian society. Areas where many ethnic minorities reside, such as the rural areas of Sabah and Sarawak, are being developed, through rural land development, and regional development corridors (such as the Sarawak Corridor of Renewable Energy) and increasingly integrated into the general development of the country. Official statistics, however, reveal that the development level and average incomes of ethnic minorities are still relatively low compared to the average levels of the Malays, Indians and Chinese. The Human Rights Commission of Malaysia (SUHAKAM) even reported that, despite formal guarantees of protections for ethnic minorities, the system functions as a mechanism of exclusion and control (SUHAKAM, 2010).

In recent years, there have been protest blockages against Sarawak and timber companies by the Orang Ulu of the state, have arisen out of their perception, justified or not, that they are losing out in the competition for limited resources such as land and job opportunities. These



blockages relate to the next pertinent issue, namely the rights of the ethnic minorities to land. While there are no reported cases of blockages in Sabah, the ethnic minority communities often bring

The data show that there has been only a very small increase (3.87 hectares or 0.02%) in the number of gazetted Orang Asli reserves over the 20-year period. The data also show that a total of 9,787.86 hectares of Orang Asli

Table 10.6:
Status of Orang Asli lands (1990 and 2010)

Status of Land (Hectares)	1990	2010	Change	% Change
Gazetted Orang Asli Reserves	20,666.96	20,670.83	3.87	0.02
Approved but not gazetted	36,076.33	26,288.47	(9,787.86)	(27.13)
Applied for gazetting but not approved	67,019.46	85,987.34	18,967.88	28.30
Total	123,762.65	132,946.64	9,183.99	7.42

Source: <http://sarawakreport.org/suhakam/suhakam-chapter8.html>

up land issues to the relevant authorities, and in some cases they have taken legal action. Present laws in Sabah and Sarawak, the Aboriginal Peoples Act 1954 in the Peninsular and the Federal Constitution contain provisions recognising indigenous peoples' rights. Data from JHEOA on the land status revealed that between 1990 and 2003, land gazetted as Orang Asli reserves in accordance with the Aboriginal Peoples Act had been reduced from 20,666.90 hectares (1990) to 19,222.15 hectares (2003), involving a loss of land reserve of 1,444.81 hectares.

Data as presented to an inquiry by JAKOA on the status of Orang Asli lands as of 1990 and 2010 can be summarised in Table 10.6:

lands approved for gazetting by state authorities never did become Orang Asli reserve land. Some of these approvals were made in the 1960s and 1970s. There was an increase in the size of

Orang Asli land applied to be gazetted as Orang Asli reserves (18,967.88 hectares or 28.3%). However, the status of such land applications to be gazetted as Orang Asli reserves is not guaranteed. The recognition and security of traditional Orang Asli lands and territories¹ are being jeopardised by one or a combination of three administrative shortcomings:

The recognition and security of traditional Orang Asli lands and territories¹ are being jeopardised by one or a combination of three administrative shortcomings.

¹ILO C169 - Indigenous and Tribal Peoples Convention, 1989 (No. 169) states that "The use of the term lands in Articles 15 and 16 shall include the concept of territories, which covers the total environment of the areas which the peoples concerned occupy or otherwise use." This is also consistent with the usage of land and territories in UNDRIP which Malaysia has signed.



Under-gazetting. This occurs when the full extent of the Orang Asli customary land is not taken into account when an Orang Asli settlement is gazetted as an Orang Asli reserve.

Non-gazetting. This occurs when lands which have been approved by state authorities to be gazetted as Orang Asli reserves are not gazetted because of an administrative shortcoming. In most cases, this is due to the failure to produce a properly-surveyed map of the area to be reserved, in compliance with normal land alienation procedures.

De-gazetting. This occurs when an Orang Asli reserve is de-gazetted as such and the land reverts to the state and/or is given to another entity.

Without full recognition of land rights, the ethnic minorities are easily subjected to relocation and resettlement to make way for public or private development projects such as dams, highways, shopping complexes and ports. There is a need to safeguard future development of the communities and avoid any parties from taking advantage of land issues². In Sarawak, a total of 10,000 ethnic minorities from at least 15 different ethnic communities had to give up their ancestral homes and preferred environments for a government-sponsored resettlement area at Sungei Asap (Belaga), to make way for the construction of the the 2,400 MW Bakun Dam. The new Murum Hydroelectric Dam Project is also most likely to affect the indigenous communities, particularly the Penans, partly due to their scattered and remote habitation; they have been without proper access to roads and basic services and amenities. The

great majority are without personal identification documents. The forest-based communities are increasingly threatened by logging and estate development activities. One can argue that all this is possible only because the authorities do not recognise the rights of the ethnic minorities to their traditional lands. Another possibility is that authorities assume that the ethnic minorities would not resist resettlement.

The consequences of these development-induced displacements are deep and profound. Resettlement and re-groupment break up living patterns and social continuity. For many, this displacement dismantles their way of life, disrupts social networks and affects their cultural identity. The displaced communities claim that the land offered at the resettlement schemes ignored their native rights to hunt and fish as they like. The affected communities also claimed they are not properly informed of the details of their displacement and there is lack of resources and access to alternative housing. Also, many of the displaced communities have had to turn to cheap plantation labour to survive in the new cash economy. For example, in the case of the Bakun Dam, the resettled villagers were forced to “pay” for their homes in the resettlement schemes. It was reported that in January 2011, a total of 1,500 families relocated following the implementation of the Bakun project had accrued total outstanding loans worth RM4 million, or RM27,333.33 per family. In a way, the resettlement have impoverished many of those uprooted, threatened their cultural identity and increased the risks of health problems.

²The Government has taken the development perspective to boost economic activities and create greater economic opportunities for the local people. The Government decision on any land acquisition for development also takes into consideration all economic factors as well as the outcome and benefit for all citizens.

10.5 Malaysia: a house divided?

An analysis of official reports and data reveals that the socioeconomic gap has brought about four major consequences.

Firstly, on the part of the government, it recognises that its policies have limited impact on the ethnic minorities and has responded by issuing statements giving “special” considerations to the Bumiputera-Minorities (Eighth Malaysia Plan; Third Outline Perspective Plan OPP3, 2000-2010). It was only in the Eighth Malaysia Plan and OPP2 that the government first announced the move to introduce “specific measures” to assist the Bumiputera minorities in Sabah and Sarawak to improve their ownership and control of the corporate sector:

“In this respect, special attention will be given to increase equity ownership among Bumiputera in Sabah and Sarawak such as the Kadazan-dusun, Iban, Bajau, Murut, Bidayuh, Melanau and other Bumiputera minorities. The restructuring efforts will be carried out within the context of a rapidly growing economy with increasing opportunities for all Malaysians and without resorting to micro-restructuring of existing ventures. The implementation of the related programmes will also be guided by the need to achieve a more equitable participation of the various ethnic groups in the economy.”

(Eighth Malaysia Plan, 2000, p.76)

Special attention will be given to increase equity ownership among Bumiputera in Sabah and Sarawak such as the Kadazan-dusun, Iban, Bajau, Murut, Bidayuh and Melanau.

(Third Outline Perspective Plan, 1991, p.91)

Prior to this announcement, government officials and policymakers tended to lump ethnic minorities into a single Bumiputera group (together with the Malays) when formulating and implementing policies and strategies aimed at addressing economic and equity issues.

The NEM departed from the earlier approach by focusing on income increase, sustainability and inclusiveness. It turned its attention to the bottom 40% of Malaysia’s income strata—both individually and regionally. It included an affirmative action policy with a focus on raising income levels of all disadvantaged groups, which include those living in longhouses in Sabah and Sarawak, poor rural households in Peninsular Malaysia and fishermen, petty traders and small farmers, and the Orang Asli and low-income urban dwellers eking out a livelihood in tough economic circumstances.

The special attention paid by the government to the ethnic minorities in the five-year development and the NEM indicates that government has taken the step to address the inter- and intra-ethnic gap that have existed since the implementation of the NEP. But while there has been mention of “special attention” given to ethnic minorities in development policy documents, closer examination of government programmes

But while there has been mention of “special attention” given to ethnic minorities in development policy documents, closer examination of government programmes in education, employment and subsidies during the NEP and NDP periods do not truly bear this out.





in education, employment and subsidies during the NEP and NDP periods do not truly bear this out even though their socioeconomic positions have improved since the implementation of the NEP.

Secondly, the gradualist approach of the government toward ethnic minorities' socioeconomic development have frustrated many ethnic minorities, particularly the educated, nascent entrepreneurs and government officials who feel that they have not benefited from policies that were designed to uplift them. Also, many ethnic minorities perceive significant differences in access to education, economic opportunities, government jobs, asset ownership, business contracts and government procurements. Some are resentful of the fact that their communities continue to receive much less than what they believe they deserve.

To some, government policies on ethnic minorities, particularly the NEP and subsequent policies have created divided opportunities and unequal access to opportunities. The results of the Sarawak Socialisation Study (2005) reflect the perception of divided opportunities. When asked if there has been an improvement in the respondents' family lives due to the NEP, only a small percentage of ethnic minorities responded positively: 29.4% of Ibans, 27.1% of Melanau and 32.8% of Bidayuh as compared to 37.2% of Malays. When asked which ethnic community has benefited the most from the NEP, the majority of respondents say the Malays.

Thirdly, many ethnic minorities have responded to the policies by organising and mobilising themselves to undertake social, educational and political actions for progressive policy gains. For business

purposes, Dayaks in Sarawak formed the Dayak Chamber of Commerce and Industry (DCCI). In the area of culture, many organisations have emerged such as the Dayak Cultural Foundation, Sarawak Dayak Iban Association (SADIA), Orang Ulu National Association (OUNA) and Dayak Bidayuh National Association (DBNA). For educational purposes, the Dayaks formed the Sarawak Dayak Graduate Associations (SGDA). In Sabah, the ethnic minorities have formed various cultural organisations such as the Kadazan Chamber of Commerce and Industry (KDDI), the Kadazandusun Cultural Association (KDCA) and the United Sabah Bajau Organisation to mobilise their communities.

Fourthly, there is evidence that a small but increasing percentage of ethnic minorities are "turning inwards" instead of taking action and facing the increasing social decay. A study on Iban rural-urban migration (Madeline, 2009, 2010) revealed the growing disintegration of Dayak society in urban Sarawak resulting from urbanisation and poverty. While no official data is available, respondents revealed the rise in alcoholism, divorce rate, single parent households, and the "indai blues" and "anak ikan" (a term used to describe the illicit relationships between desperate housewives and youths) phenomenon among the Dayak communities in the squatter areas of major Sarawak towns.

Fifthly, the Bumiputera-Minorities are seeking recognition from the government of their "special" existence, of their problems and of their perspectives. They seek recognition that their ancestral lands are essential to their economic, social and spiritual development; and they also want their lands secured. The Orang Asli and the Penans of Sarawak, for example would like

better support for the development of their own cultures, languages and customs and to be able to hand them down to future generations. They seek recognition that they possess complex, flexible and appropriate social institutions, and they now want the right to practise them.

In a broader sense, therefore, the Orang Asli wants to reclaim their right to self-determination.

10.6 Conclusion

This paper argues that the Bumiputera minorities as a community are lagging far behind the Malays, Indians and Chinese in the enjoyment of the fruits of Malaysia's independence, let alone the fruits of the country's rapid development. They remain the most vulnerable ethnic group in Malaysia. Direct intervention, especially in addressing the horizontal inequality, must be continued in order to uplift the their socioeconomic situation to be at least on par with their fellow Malaysians.

What are the reasons accounting for the limited impact of key economic policies on the ethnic minorities? Four major factors have been identified:

Firstly, key policies, particularly the NEP, were articulated as a solution to interethnic conflict in Peninsular Malaysia, particularly between the Malays and Chinese. It was formulated after the racial riots of 1969 in Peninsular Malaysia; the NEP was later imposed on Sabah and Sarawak where the riots had been largely irrelevant. The policies in the NEP were conceived primarily to advance Malay economic wellbeing and narrow the income gap between the Malays and Chinese in Peninsular. However, input from Sabah and Sarawak, during the initial formulation of the NEP, particularly among

non-Malay Bumiputeras were virtually non-existent. But subsequently, a special committee chaired by the Prime Minister with The Implementation Coordination Unit (ICU) as the secretariat has been tasked to deal with issues and needs of these groups. There are also consultations and engagement of the community leaders for policy planning and program design.

The NEP was conceived to enable better access to opportunities for Bumiputera in order to achieve social justice goals and correct economic imbalances. However, there are views on the NEP that implementation of NEP did not fully achieve the social justice and economic rebalancing needs within the Bumiputera community itself. There are implementation challenges that have hindered the full realization of the NEP and subsequent policies. As a result, ethnic minorities continue to lag behind the Malay and non-Bumiputera communities.

Secondly, the underlying objectives of the NEP were to address inter- rather than intra-ethnic inequality. In the words of the former Prime Ministers Mahathir (Tan, 2002, p.2) "The NEP... was not concerned with making all the Bumiputeras earn equally, or share equally the wealth distributed amongst them." For the former Prime Minister, the NEP was formulated to establish equity between races, not between classes of people. The implication is that the NEP was designed to address inequality between the Bumiputeras and non-Bumiputeras, not within the Bumiputeras themselves.

The third factor is related to the way the government classify the various ethnic groups in this country into Bumiputera and non-Bumiputera. The Malays and the ethnic minorities of Sabah and Sarawak





are classified as “Bumiputera”. Such a classification gives the impression that government policies are neutral; it has similar effect on all Bumiputera groups irrespective of their ethnic background. This effect is most evident in official statistics where the less economically-advantaged ethnic minority groups are classified as Bumiputera together with the more economically-advanced Malays, rendering them statistically invisible in official data. Only lately are we seeing efforts to disaggregate official statistics for Sabah and Sarawak, as reflected in the ICU’s reports and e-Kasih databases.

Owing to this classification and definitional “errors” or problems, ethnic minority achievement is either over- or under-stated, thus giving incorrect signals to policymakers. One plausible explanation for these errors is that major development policies have been formulated by federal government officers (who are mostly Peninsular Malaysians) and based mostly on Peninsular Malaysia’s socioeconomic background, experiences and ethnic makeup.

Fourth, in the past there was limited participation by the affected local

communities in development plans for their own development in such areas as health, housing, education, social and economics. These development plans were seldom based on the communities’ unique needs. The communities whose lives affected by the plans were given insufficient information on the requirements and effects of the plans to enable them to make informed decisions. Instead of benefiting, these well-intended development programmes have further led to their marginalisation.

Some communities were not informed of proposed projects or alienation involving their Native Customary Rights (NCR) lands. An inquiry observed that providing information is not a consistent or established norm with government agencies, the private sector or the land offices; neither is there awareness among those concerned of the need to consult the affected communities. Although Malaysia has signed the UNDRIP, without ratification, commitments have not been translated into national legislation, thus resulting in misunderstanding and mistrust.



Chapter 11

Institutional Issues for Inclusive Growth



Chapter 11

Institutional Issues for Inclusive Growth

11.1 Key issues

Inclusive outcomes undoubtedly require inclusiveness in policymaking and implementation. Inclusive growth corresponds with the balanced participation of the government, the private sector and civil society; higher quality government services; and adequate and efficient delivery of public goods. This chapter discusses five key institutional issues underlying and influencing inclusive growth.

First, the issue of fiscal federalism, also raised in Chapter 8, will be further examined. The second and third issues pertain to, respectively, the government delivery system, together with its key performance indicators (KPIs), and the tax system as a redistributive mechanism, which will be evaluated in terms of their capacity to foster inclusive outcomes. The fourth issue concerns the role of the private sector, especially the emerging middle class and new demands placed on making public goods available and accessible. Finally, we review the contribution of CSOs to advocacy, monitoring and mobilisation. In conclusion, we summarise the importance of these five institutional supports vis a vis the achievement of inclusive growth, in particular the issue of income distribution and support for the vulnerable poor.

11.2 The emerging challenge of fiscal federalism

Malaysia, although constitutionally formed as a federation of states, is operationally more similar to that of a single nation. During the first General Elections, the

coalition known as the Alliance, comprised of the United Malay National Organisation (UMNO), the Malayan Chinese Association (MCA) and the Malayan Indian Congress (MIC) secured 51 out of 52 seats in Parliament and as well as majorities in all state constituencies, allowing them to form the respective state legislatures in the country¹. Throughout the years, more parties joined the ruling coalition, giving rise to its present name, Barisan Nasional or National Front which continued its tight grip on both the federal government and nearly all state governments. Both Parliament and the state legislatures have been formed by the same party coalition throughout much of the nation's history, leading to the states relegating their powers to the centre, widely referred to as Putrajaya, where all federal ministries are located.

Such an outcome may have been inevitable. The matter of state laws as opposed to federal laws is stated in the Ninth Schedule, at the back of the Federal Constitution under the Federal List, the State List and the Concurrent List. All of the usual functions of government are covered by the Federal List, leaving only a small subset of issues such as land, local government functions and town planning, and social welfare to the State and Concurrent Lists. In many issues where state governments have jurisdiction such as riverine fishing, wildlife protection, public health, drainage and irrigation, fire safety, culture and sports, and housing, there are overlaps in the federal ministries, which are vastly better funded and manned compared to their state counterparts.

Administrative uniformity, ruled at the centre, has been the traditional model of governance imposed since colonial times.

¹At present, the number of parliamentary constituencies has grown to 222 seats.





Hence, the concept of fiscal federalism and state-federal relationship has not been fully applied and tested in Malaysia even after a half century of the nation's existence. Articles 74 and 77 of the Federal Constitution clearly distinguish legislative functions between federal and state governments. Instead of being divided up following the functions of governance based on the State List and Concurrent List, all over the country state ministers (members of the state executive council or Exco) are given portfolio names very similar to federal ministers. As a result, public delivery in the states tends to be facilitated by federal ministries, leaving little (in terms of funding, expertise and manpower) for state ministers to do.

Ideally, each level of government should raise its own revenue to meet its allocated functions, but this is often not the case in Malaysia.

It was not until the 12th General Elections in March 2008 that the opposition began controlling a sizeable number of states: Kedah, Penang, Perak, Kelantan and Selangor². By the time 13th General Elections concluded on May 2013, Barisan Nasional managed to regain the state of Kedah and Perak. The ballot box has made the distinction between public delivery of items on the Federal List and the State and Concurrent Lists. Multilevel governments in Malaysia occurring at federal, state and local levels provide for both top-down and bottom-up strategies. The outcome of the 2008 General Elections presented an opportunity for separating development aspirations between federal, state and local governments, thus offering scope for a state-federal relationship embedded in the various lists. However,

over the past five years, this has not been fully realised.

Fiscal federalism is how best to assign to the different layers of government (local, state and federal) various fiscal functions (health, education, police etc.) and how best to collect public revenue (local, state and federal tax). Ideally, each level of government should raise its own revenue to meet its allocated functions, but this is often not the case in Malaysia, where state governments depend on the transfer of federal grants and loans in order to have sufficient funds to operate.

Figure 11.1 shows the federal government development expenditure per capita through the various five-year Plans since the Third Malaysia Plan in 1976 by region.

All three regions received varying allocations from federal government throughout period of 1975-1990 (Third to Fifth Malaysia Plans), with a significant decline for all regions in the period from 1986-1990 (in the Fifth Plan) in line with the financial crisis of the 1980s.

From 1990 to 2010 (Sixth to Ninth Malaysia Plans), all regions continued to receive constant increases in the federal allocation, although the North & East Coast and the West Coast regions recorded the highest boost—almost twofold increments in the total allocation from the Eighth to Ninth Plans.

East Malaysia, on the other hand, consistently received the lowest federal allocations in every Malaysian Plan. The total federal allocation from the Third to Ninth Plan is about RM275.5 billion; East Malaysia received about 13.1% (RM36.1 billion) compared to the North

²The opposition later lost Perak to Barisan Nasional after several state assemblypersons defeated.

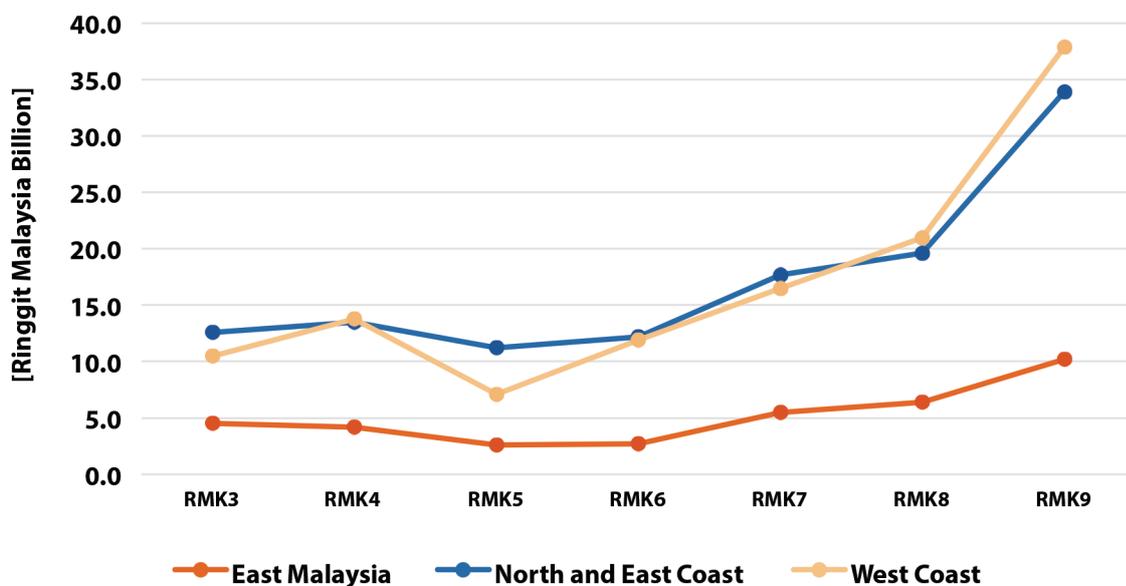
& East Coast (43.8% or RM120.7 billion) and West Coast (43.1% or RM118.7 billion).

Accordingly, the diverging political makeup between state and federal governments means that the absence of decentralised public fiscal allocation has become a point of contention. The bulk of public allocation in Malaysia is made through the various portfolios of the different federal ministries. With so much centralisation, local aspirations are much more difficult to achieve, giving rise to a “one-size-fit-all” prescription from the centre. This has led to a call for better distribution of public funds to state and local governments, with more discretionary spending left to those on the ground. As observed by Shankaran Nambiar, the limited scope of the State List in

the Federal Constitution mean that the states can do little to direct or control their own course of development³. The latest controversy in this regard relates to the allocation of oil royalties to oil-producing states (Kelantan, Terengganu, Sabah and Sarawak) under the Petroleum Development Act 1965.

Indeed, when the Tenth Malaysia Plan 2010-2015 was announced, no glaring changes were made to the size and growth rates, even among the opposition states. In Penang, for instance, where only 5.6% of the country’s population lives, the federal government set a target of 8.9% share of the national gross domestic product for Penang. This means that, compared with national rates, per capita GDP in Penang has to be 1.5 times higher and growth rates 1.2 times faster over the period of

Figure 11.1
Federal allocation per capita by region, 1976-2010



Source: Malaysia Five Year Plan, various years.

Notes: RMKx=Malaysia Plan x (x=3, 4, 5,...11). East Malaysia refers to Sabah & Sarawak. North & East Coast States refer to Kedah, Perlis, Kelantan and Terengganu. West Coast states refer to other states not mentioned above.

³Shankaran Nambiar (2007), “Malaysia” in John Kincaid and Anwar Shah (eds.) *The Practice of Fiscal Federalism: Comparative Perspectives*, McGill-Queens Press, as quoted by Lee Kah Choon and Chan Huan Chiang (2010) “Moving Penang from Past to Present” in Ooi Kee Beng and Goh Ban Lee (eds.) *Pilot Studies for a New Penang*, Socioeconomic and Environmental Research Institute and Institute of Southeast Asian Studies Singapore, p.15.





the Plan, if its target is to be achieved.

To succeed, the federal government has to continue collaborating with the state government in developing the state, regardless of Penang's political affiliations.

The issue of federal-state relations, both political and fiscal, has to be considered in order to ensure greater equalisation of allocations of resources between the centre and the states, and between the states.

11.3 The government delivery system

In line with the need for efficient delivery, the federal government adopted a major transformation strategy to formulate National Key Results Areas (NKRAs) in order to achieve high-income status by 2020. The ETP, the GTP and Rural Transformation Programme (RTP) were part of the overall transformational strategy to push for changes in these areas so as to contribute to higher income growth in all sectors. These changes were considered necessary as Malaysian income

level has been hovering within the low middle-income band for many years. In contrast, South Korea, which had income per capita lower than Malaysia as late as 1980, has already attained developed nation status,

with income per capita much higher than Malaysia's in 2012.

The ETP involves undertaking initiatives in National Key Economic Areas (NKEAs) while the GTP aims to bring about changes within the public service and public administration so as to hasten delivery of public service to the population while enhancing accountability and transparency.

In order to coordinate these initiatives, a special secretariat called the Performance Management and Delivery Unit (PEMANDU) was created to lead the planning, deliberation and coordination as well as the implementation of the various initiatives by the respective agencies. A full Cabinet Minister is given the task to lead PEMANDU and he directly reports to the Prime Minister on the progress of the various initiatives.

Prior to the setting up of PEMANDU, the machinery of implementation and delivery was undertaken mainly by the central agencies, in particular the ICU which was set up in the 1970s. It had been instrumental in supervising and monitoring the delivery of programmes for poverty alleviation among several agencies, such as the Ministries of Agriculture and National and Rural Development. The ICU also reported to the Prime Minister directly on the progress of implementation of programmes for poverty redressal and restructuring of society; the latter refers to the objective of reducing interethnic and rural-urban economic disparity.

Poverty in Malaysia has been reduced significantly from 49.3% in 1970 to 1.7% in 2012, and extreme imbalances in certain key sectors, such as in income levels between regions, rural and urban areas, community groups and in occupations, have also been reduced, if not totally eradicated. The nation is however faced

To succeed, the federal government has to continue collaborating with the state government in developing the state, regardless of Penang's political affiliations.



with the issue of economic competitiveness especially in attracting private investments and technology. The government service is seen as inefficient in view of the prevalence of many bureaucratic procedures which hamper businesses. The government set up a special task force called PEMUDAH, consisting of public and private sector officials, to reduce unnecessary bureaucratic procedures affecting business licenses and permits, many of which are no longer necessary. Malaysia now ranks 12th globally in the area of “ease of doing business” for 2013 compared to its 23rd position in 2010.

With the preparation of the Tenth Malaysia Plan, the government set up PEMANDU to bring about a new approach to economic and social planning and programme implementation so as to support the delivery of programmes of the Tenth Plan. PEMANDU initiated various labs involving the participation of key personnel from both the public and private sectors to deliberate on the various issues affecting nation and recommended ways to address them. The results of these deliberations are now the basis of many decisions and actions to achieve economic growth and development in the medium term.

In line with the need to improve the competitiveness of the economy, efforts are also undertaken to improve delivery of public services. For this purpose the transformation within the government will be guided by five principles, namely delivery through creativity and innovation, delivery through speed of decision-making and execution, delivery through value for money, and delivery through upholding the highest level of integrity. The government will focus these delivery

concerns and efforts around people and business through transparent and accountable management practices.

Within the context of achieving greater social inclusion, the government is guided by two objectives, namely enabling equitable opportunities for all Malaysians, and providing a social safety net for disadvantaged groups. For this purpose, the programmes and projects will incorporate elements of being market-friendly, needs-based, merit-based and transparent.

As expected the focus of social inclusion will be on the lowest 40% of the community who will be assisted in the areas of education, entrepreneurship and access to basic amenities. Social safety nets would also be strengthened to reduce the vulnerability of disadvantaged groups in the areas of housing, healthcare, income support and subsidies. In addition, special attention will be given to the Orang Asli, the Bumiputeras of Sabah and Sarawak, residents of new Chinese villages, and estates workers.

The government service is seen as inefficient in view of the prevalence of many bureaucratic procedures which hamper businesses.

11.3.1 Key performance indicators

The government is annually reporting the progress of its various initiatives and targets under the GTP; under the GTP, all heads of ministries and departments are given KPIs which relate to the major objectives and targets of the ministries. The Prime Minister and the minister in charge of PEMANDU will regularly receive “report cards” from each Cabinet Minister. The sum total of the progress is reported



by the Prime Minister to the public, who can then examine those records.

The administrative heads of ministries and departments, such as the secretaries-general or directors-general, in turn submit their report cards to the minister concerned, as well as the chief secretary, for performance evaluation; the achievements are then used for their

career progression.

KPIs are yardsticks to measure the delivery of services (quantity and quality), use of resources and organizational output and outcome. It is a performance monitoring tool in respect of the following areas:

- a. Delivery of output.
- b. Contribution of output to organisational objectives.
- c. Assessment of value for money in the service delivery.
- d. Identification of possible inconsistencies from original targets.
- e. Identification of possible corrective actions.
- f. Identification of changes in practices and behaviour to maximise results.

KPI is a good tool to analyse the outcome and impact of policy intervention and programmes. Output can be measured by the physical achievements of policies and programmes such as acreage of land planted with crops, number of schools built and number of affordable houses

being completed, whereas the outcome is farmers' incomes from the crops, educational status or attainment achieved and the extent of decent shelter achieved by the population. In fact, the monitoring programmes of development projects have incorporated impact or outcome analysis. This exercise has already been built into the monitoring mechanism within the ICU as early as the Ninth Malaysia Plan.

The delivery system is only effective if it is built upon a good procurement policy. Given the limited resources of many emerging nations, society has to carry out its functions by means of an efficient delivery system that eliminates or at least minimises wastage and leakages in public expenditure. Money will be wasted and the public would not be able to fully enjoy the benefits of public services and amenities if the procurement system fails. Ensuring accountability and transparency is important as they minimise or check the possibility of improper conduct such as corruption in the purchase of equipment and machineries as well as in the procurement of services.

It is therefore necessary that public procurements policy is based on a transparent open tender or bidding system to allow for competition and fair trade practices. This will enable the participation of the best suppliers and lead to competitive prices. Although open tendering may not necessarily lead to the most competitive prices, it nevertheless assures quality products and delivery.

An open tender should be enforced at all times, failing which a restricted tender based on strict performance standards should be encouraged. Direct negotiation should only be used as a last resort, during which the selection committee should

Direct negotiation should only be used as a last resort, during which the selection committee should ideally consist of trained and experienced negotiating officers.

ideally consist of trained and experienced negotiating officers. Direct negotiation tenders are discouraged, however, as they may lead to expensive and overly complicated services, and the cost would have to be borne by taxpayers.

This concern is also in line with the need to reduce practices that can lead to corruption among both public and private sector officials. The government launched the National Integrity Plan (NIP) in 2004 to inculcate a culture of integrity in society, institutions, corporations and government agencies. The NIP is being carried out and monitored by the Malaysian Institute of Integrity, which works closely with the Malaysian Anti-Corruption Commission.

Last but not least is the need to train contractors in public procurements so that they raise their own standards when carrying out contracting work, perhaps even meeting international standards.

11.4 The current mechanism for redistributing income is weak

From the fiscal policy perspective, Malaysia's middle class needs to be further segmented rather than categorised as a single group. Presently, there are too few taxpayers that are targeted for income redistribution. Out of some 12 million people in the labour force, the Inland Revenue Board has only 6.4 million registered taxpayers in 2010, four million of whom falls below the minimum taxable income bracket⁴. This leaves only one-fifth (2.4 million people) of Malaysia's labour force exposed to personal income taxes, or nine per cent of the population. They also happen to raise nine per cent

(RM20 billion) of total public revenue, suggesting that present policy has been to derive the bulk of public revenue from other sources, including non-income taxpayers, regardless of their economic status.

Indirect taxes (sales and services tax) also raise nine per cent (RM20 billion) of the total public revenue. For RM40 billion (18% of the total budget) worth of tax revenues, Malaysians as an aggregate pay half of it in personal income taxes (which is paid by 2.4 million taxpayers as mentioned earlier) and another half as indirect taxes (which everybody pays). Direct taxes are a device for income redistribution which indirect taxes cannot do. It is difficult to escape sales taxes because it is levied on consumption. While it is true that absolute consumption among the rich is higher, making them the prime source of indirect tax revenues, consumption tax is often seen as regressive because consumption (especially on essential items) makes up a larger share of the disposable income of the poor. The rich on the other hand can allocate excess income to investments that constitute an additional source of income.

There are also a variety of non-tax revenue sources (licensing, fines, duties and excise) and public sector investment incomes (from public enterprises that have risen out of the country's privatisation programme). Both finance the other one-third (more than RM70 billion) of the total public budget. They are really not that different from indirect taxes since Malaysians pay to consume goods and services for which either duty and excise has been levied, or pay public enterprises for the use of their services.

⁴Eng Hock and Serean Lau, "IRB expects to collect RM89 billion in income tax." *The Star*, 1 May 2010.





Opting between pure public services funded by direct taxes, and paying to consume privatised public services depends on how important is the goal to redistribute income between the rich and poor. Malaysia's public schools are free and public health is almost free, or at least fully accessible to the poor. Unlike many other public services, both have so far avoided privatisation. As pure public services, the taxpayer and the consumer are often different people. The alternative is for the rich to live behind high walls as in Manila. Gated housing communities such as those springing up in Penang and the Klang Valley are unhealthy signs of class segregation and indicative of structural problems in distribution.

With only nine per cent of the population from whom only RM20 billion in direct taxes (or nine per cent of the total public budget) could be pooled, public finance in Malaysia is more democratic. Everybody (rich, middle class or poor) pays by way of indirect taxes and non-tax revenues. For as much as one-third of the public budget, everybody also pays by incurring a budget deficit through spending a bit of the future (from oil revenues and by incurring national debt).

Federal-state relations have been set in stone in the Federal Constitution. But with changes in economic and political circumstances, the balance between federal and state powers may need to be revisited, especially in the area of resource exploitation such as oil and natural gas. In the end, politics may be the final arbiter of federal-state issues.

The fact that the Malaysian economy has experienced credible economic growth and price stability for many years, coupled with the reduction in poverty

as well as the decrease in extreme imbalances within society, indicates that the planning, implementation and delivery system has been effective. The achievements were, however, impacted by the many economic crises that the nation has endured, such as the economic crisis of 1985/86, the 1997 Asian financial crisis, the oil price crisis in 2008 and the Global Financial Crisis of 2008.

The world economy is currently hampered by the Eurozone crisis amidst poor economic prospects in Japan and the United States, with global growth being supported by respectable economic growth in emerging countries such as China, India and several other Asian economies. Within these economic prospects and scenarios, Malaysia will attempt to eke out a respectable economic growth of about 4.5-5% per annum. For this purpose, a policy to strengthen domestic sources of economic growth will be essential and critical, to be supported by an effective delivery system. These will help achieve inclusive development which would allow all members of society to partake in the growth of the economy and in the wealth generation processes.

The Malaysian experience in the e-Kasih system is a small but significant contribution to the implementation of measures to reach the very poor and disadvantaged groups. It allows the monitoring of those in poverty and ensures that assistance programmes reach them and help them move out of poverty.

It is equally necessary to have a procurement policy that supports fair trade practices in the delivery system. A policy ensuring greater transparency and an open bidding system in public procurements will ensure better quality products and delivery.



The private sector is also expected to play an important role in inclusive growth through open, non-discriminatory and flexible labour market practices, as well as by complying with requirements for equal opportunity, fair employment and other public requirements. As corporate citizens, the private sector needs to direct its corporate social responsibility (CSR) programmes at the disadvantaged and vulnerable groups either through social programmes or donations to CSOs. Increasingly, the growing middle class should also be able to fund the provision of public goods through the support of charitable programmes.

We note that earlier policy documentations including the Eighth, Ninth and Tenth Malaysia Plans all provided specific policies to ensure that disabled people are included and given opportunities to play a more active and direct role in the country's development. The implementation of these plans and policies should be done through collaborations with CSOs that are closer to the beneficiaries at grassroots level.

There is a need for the government to monitor and ensure that the infrastructure and legal framework to protect the disabled is implemented effectively and the CSOs must continue to fight for the rights of the disabled. Only then will we have the true meaning of Malaysia's development philosophy of inclusive growth.

11.5 Contribution of the private sector

Malaysia's economic growth is partly driven by the private sector, with private investments registering higher growth rates compared to public consumption

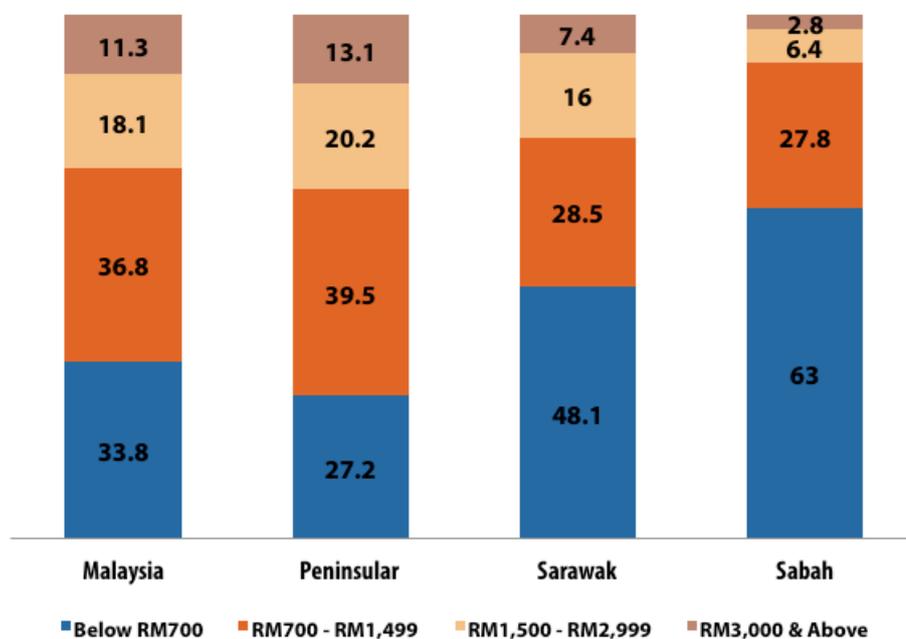
and expenditures. Given the important role played by the private sector, its involvement in ensuring that growth is inclusive is vital.

The growth and structural transformation of the Malaysian economy, facilitated by the booming private sector, had wide implications on the growth of employment opportunities, as well as the distribution of the labour force. The share of manufacturing and service sector of the Malaysian economy, contributed by the inflow of FDI post-1970s, has jumped from 50% in 1970 to about 80% in 2012, while the agricultural sector contribution to the economy has declined from about 30% to seven per cent during the same period. This transformation has indirectly, via the private sector, improved social mobility and reduced inequalities, specifically via job creation and particularly towards employing women.

Currently, nearly 85% of jobs in Malaysia are within the private sector (ex-GLCs and public sector), with manufacturing and services employment share of total employment increasing from about 42% in 1970 to nearly 75%. During the same period, low productivity occupations i.e. agriculture, saw its share of total employment drop to 12% from 53%. The private sector-led job creation has, indirectly, managed to reduce inequality.

However, progress in this area has been hampered by the lack of wage growth in the private sector (covered in Chapter 3) and the unequal distribution of wages. As Figure 11.2 shows, nearly one-third of Malaysian workers earn less than RM700, lower than the official poverty line. In East Malaysia, the bulk of workers earn even less, with nearly half of Sarawak workers and 63% of Sabah

Figure 11.2:
Distribution of workers in Malaysia, by wages earned



Source: Ministry of Human Resources, 2010, "A National Minimum Wage: The Concept and Issues for Discussion". Presentation by Human Resources Policy Division. Aug 4. Putrajaya Malaysia.

workers getting less than RM700 a month. Furthermore, wage suppression in the private sector has partly contributed to Malaysia's "brain drain", as Malaysian wages, especially for skilled workers, are not competitive when compared to its closest neighbour, Singapore (Figure 11.3). Not unsurprisingly, Singapore accounts for nearly half of skilled Malaysian emigrants (World Bank, 2011)⁵.

11.5.1 The middle class and the poor compete for access to public services and subsidies

Malaysia spent about 18.1% (approximately RM44 billion) of the total public budget in 2012 on economic and social services (excluding emoluments of public servants that amounted to 23.5%, or RM59.2 billion) and an additional 1.7%

on security and defence. Nearly 18% or RM42.4 billion was spent for a whole range of subsidies such as agriculture, essential items and pump prices for petrol—equivalent to about RM1,500 per person in the population.

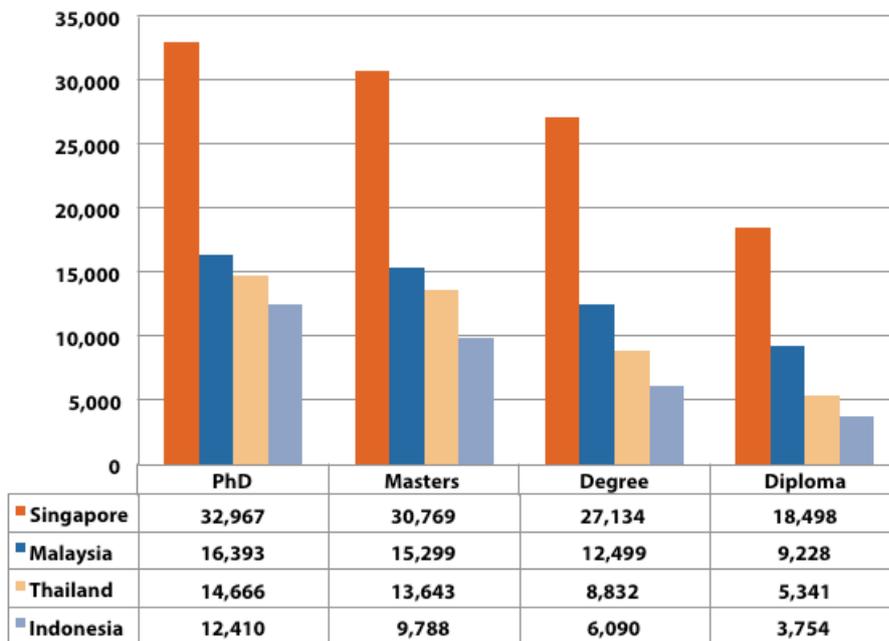
Public spending is far less progressively targeted than an inclusive development strategy would prescribe. Public provision of welfare benefits the poor, middle and upper income classes without adequate consideration of households' ability to afford goods and services out of private income. Paying to the government and then getting it back as a subsidy merely incurs unnecessary administrative costs and potentially leads to corrupted practices.

Meanwhile, the truly poor appear to have been neglected because they are

⁵World Bank [2011] *Malaysia Economic Monitor – Brain Drain*. April. Washington D.C. The World Bank.



Figure 11.3:
Real PPP-adjusted average starting annual base salaries for selected Asean,
by education attainment level



Source : Zeufack and Lim, 2013.

still required to make public contributions in the form of indirect taxes and non-tax revenues. Furthermore, subsidies tend to favour the middle class and the rich because they spend more on petrol, directly through car ownership and indirectly when they spend huge amounts on private goods from which the transport element of their costs has also been reduced. The poor's access to these subsidies tends to come from reduced food prices, but such subsidies also tend to favour the middle class and the rich due to higher levels of consumption. This is due to the fact that Malaysian subsidy regime is consumption-based rather than equity-based.

Direct taxes used as a device for redistributing incomes between the rich and poor have to be better designed. It

is critically important for these direct tax contributions to be targeted more accurately for the benefit of the poor rather than making broad public spending accessible across the entire population.

11.5.2 Private delivery of public goods

There has been an emergence of research on the private sector delivery of public goods in the past decade, including the prospect of delivery by groups such as non-government organisations (NGOs)⁶. This is the thinking behind the next generation of CSR programmes⁷. Private delivery of public goods (as opposed to corporate generosity) is one way to mitigate social costs that arise from private development by transferring them to private costs. The idea of pooling funds across a wide array

⁶See survey by Rose-Ackerman (1996).

⁷Watson Institute of International Studies, Brown University lecture series. Accessed from http://www.watsoninstitute.org/event_type.cfm?id=68



of activities to produce a common solution for everyone might be an effective system of public delivery.

People traditionally look to the public sector for the supply of public infrastructure and amenities. As a result, competition arises between public and private development in terms of funding. By making private development responsible for social welfare when developing the total living space of the entire community – and not just their customers’ – a more holistic design may be achievable. Instead of collecting taxes and using tax monies to build public wants, private developer can be brought in to contribute as well. Passing the entire responsibility of public goods delivery to the private sector contradicts the country’s need to strengthen delivery of government services. Neither has it proven to be effective: the provision of low-cost public housing through the 30% quota imposed on private developers have resulted in poor to mediocre levels of quality. Nonetheless, preventing the private sector from incurring social external costs (traffic jams etc.) that have long been transferred to the public sector to solve is an idea worth examining, at least in areas where public and private interests coincide. By adopting a more holistic and internalising public concerns within private development projects, sustainable development can take place.

11.5.3 The need for better “Club” goods funded by the middle class

Apart from the income redistribution role of public spending, which remains inadequate and wanting, there is the need for better “club” goods to be supplied. These are lumpy public goods that cannot

be purchased individually but can be collectively enjoyed, such as quality public healthcare and schools, roads, a clean environment, aesthetically pleasing and functioning public spaces, public safety and security, transport, utility systems, housing, recreation and parklands, social security, and so on.

Such goods are a critical part of modern living but because they have an indivisible quality (one’s access does not entirely deny another’s but can be jointly consumed), and because they are expensive, their supply is best achieved through the pooling of funds. Taxes are presented not as a burden to the middle class but as subscriptions that offer access to “club” goods collectively paid for and publically enjoyed. It is only with the willingness of the middle class to pool tax monies can quality public goods be adequately supplied over the long term.

The terminology for public spending has to evolve beyond economic and social services and subsidies as presently classified whenever the public budget is presented each year. Such terms imply public assistance to the community to help defray the cost of everyday living. But there is no real assistance as the bulk of public revenues are obtained from indirect taxes, non-tax revenues and deficit spending, which virtually everyone in the community cannot escape. Public sector spending in a modern society like Malaysia has to focus more sharply on guaranteeing the supply of public goods. This is done by better understanding where market failure (the creation of economic, social and environmental externalities) has occurred and addressing these through appropriate and effective public spending.

Public goods offer much potential for agglomeration and scale economies over private goods. Public transport is better than private cars because energy is used more efficiently. Pedestrian pathways are better than automobile dependent traffic system which also reduces the negative externalities of traffic jams and carries health benefits for the people.

11.6 Civil Society Organisations (CSOs)

The growth of CSOs over the past two decades has given them an increasingly important role and has led to the creation of a distinctive sector within civil society. Most sociologists define CSOs as organisations that possess four defining characteristics which enable them to be distinguished from one another. They are: voluntary, dependent, not-for profit and self-serving (Edwards & Hulme 1989; Moore 1993). The other criteria are that these CSOs manage themselves autonomously i.e. neither depending substantially on the state for their funds (though they may and often do receive a proportion of their funds from public sources) nor being beholden to the government in the pursuit of their objectives, and operate at local, national and/or international levels. In addition, a major part of their funds should come from voluntary contributions (Courier Report 1987).

In Malaysia, the concept of civil society is not so clearly defined, but is tied closely to elements of civic education that is propagated by the government. These elements include (Print et al. (eds.) 1999):

- Rights and responsibilities of citizens

- Government and institutions
- History and constitution
- National identity
- Legal system and rule of law
- Human, political, economic and social rights
- Democratic principles and processes
- Active citizen participation in civic issues
- International perspectives, and
- Values of democratic citizenship

The desire to incorporate these ideals in the general education of our society implies that Malaysia aspires towards some form of civil society, comprising individuals who are not connected with the government yet are involved in activities that help maintain peace and productivity.

In Malaysia, CSOs fall under two main umbrella groups:

Government-supported CSOs

These are organisations that depend on funding and support from the government and located within the state bureaucracy, under a government agency or ministry, although they are voluntary and managed by people from within the community. These include federal sponsored CSOs such as the National Council of Women Organisations (NCWO) and the Association of Wives of Civil Servants and Women Members of the Civil Service (PUSPANITA). Some of the ministries such as Youth and Sports and the Department of Social Welfare have CSOs under their wings such as the Malaysian Red Crescent Society, Association for the Blind and Majlis Pembangunan Kebajikan Masyarakat Malaysia. The effectiveness of these





state CSOs are based on the politicised aspect of the programmes. Many of the organisations are used as vehicles for government project implementation at the grassroots level.

Autonomous CSOs

These are voluntary societies and associations started by groups of individuals for a specific cause. According to Sharifah Munirah Alatas (2003), the distinct groups include:

Community-based organisations such as residents associations, religious groups, tribal cultural associations and clan associations such as the Rotary Club and Angkatan Belia Islam Malaysia (ABIM, Muslim Youth Movement of Malaysia).

Community service organisations, or voluntary CSOs, and consumer groups set up with specific service aims in mind such as the Family Planning Association, Consumers' Association of Penang (CAP), Federation of Malaysian Consumer Associations (FOMCA) and welfare societies such as the Child Welfare Council.

Professional organisations such as the Malaysian Bar Council and the Malaysian Medical Association (MMA).

Political party groups such as the National Front (UMNO, MCA, MIC and Gerakan) and Pakatan Rakyat (PAS, PKR and DAP).

Human Rights Groups such as Aliran Kesedaran Negara (ALIRAN) and the Voice of the Malaysian People (SUARAM).

Environmental groups such as the Malaysian Nature Society, Friends of the Earth Malaysia and the Environmental Protection Society of Malaysia (EPSM)

Think tanks such as the Institute of Strategic and International Studies

Malaysia (ISIS)

Whatever the definition, civil society has long played an important role in championing the cause of inclusive growth and protecting the vulnerable and marginalised. If one were to look at the history of activism in Malaysia, particularly the state of Penang, one cannot deny the fact that, as reported by Kunda Dixit (1995) of Inter Press Service, Penang is an island that has given birth to activists. Kunda wrote, "Activists groups are to the island of Penang, what brokerage firms are to Wall Street."

Many international-based CSOs such as the International Organisation of Consumers Unions (now known as Consumers International) and Third World Network (TWN) were conceived in and grew out of Malaysia. Other international CSOs were formed in Penang—and some still remain there, such as the World Alliance for Breast Feeding Action (WABA), Pesticide Action Network (PAN), Health Action International (HAI), and International Baby Food Action Network (IBFAN). All these international CSOs also carry a great deal of influence on local CSOs.

11.6.1 CSO survival despite challenges

It is observed that throughout the four phases, the civil Society movement (mostly the politically-motivated organisations) in Malaysia has continued to thrive, despite suppression and controls by the government.

Before 1957, there were repressive colonial laws such as the Societies Ordinance that were designed to check the spread of illegal secret societies and curtail communist activities. Society was

mobilised through goodwill movements to foster greater cooperation among the communities especially in building a society free from communist threats. The state was the principal actor through which political parties undertook people's mobilisation.

Post-independence, independent Malaya continued the colonial legacy of preventive arrest and curtailment of fundamental liberties in order to suppress racial tension and prevent the reoccurrence of racial violence.

During the 1980s and 1990s, the need to prioritise socioeconomic development and high economic growth was used as an excuse to suppress fundamental liberties and marginalise civil society. As an example, a major crackdown was undertaken during the 1987 "Operation Lalang" when preventive detentions were carried out under the ambit of the Internal Security Act. This period saw the tightening of all laws restricting fundamental liberties such as the Police Act, Societies Act, Printing Presses and Publications Act, Official Secrets Acts and the Universities and University Colleges Act.

The period after 2003 saw greater liberalisation and the public confidence to speak up and advocate for transparency and good governance. Suppression or abuse of power was easily relayed through the internet, drawing widespread global attention to local issues, thereby increasing pressure on the authorities. These new tools of engagement are used by civil society to express discontent and highlight their plight.

11.6.2 Self-regulation for CSOs

To survive, CSOs need to strike a

balance between having to account for the use of financial resources to donors while being responsible to their beneficiaries – the target group they are supposed to assist. Non-profit accounting is deemed complicated because, fundamentally, the operational methods of CSOs significantly differ from the government and private companies. Their financial management is mainly focused on utilising money as opposed to making money.

With the increasing importance of the CSO sector in their role as watchdogs, there is now increasing pressure on CSOs to also demonstrate to whom they are accountable to. Self-regulation is one approach to achieve this i.e. when they institute their own regulatory mechanisms supported by several other organisations in the same sector. It is one method CSOs use to set standards of conduct to demonstrate their legitimacy, effectiveness and responsible control of resources. This lends credibility to their organisations, which extends to the causes that they advocate.

But although much of the literature on civil society argues that civil society and democratisation go hand-in-hand (with the growing number of CSOs used as proof of on-going democratisation), not all CSOs actively promote democratisation. Malaysian CSOs come in a multitude of manifestations, ranging from academic and professional groups to grassroots groups, business-oriented groups, charity organisations and, most of all, ethnic and religious groups. Ethnic-based political parties and their associated effects have impeded the development of interethnic CSOs that transcend ethnic issues.

Ultimately, the prospects for democratisation lie with the highest power





in government: the Prime Minister. Power tends to concentrate “upwards”, meaning that the leadership will ultimately decide whether or not to make genuine attempts to improve accountability and democratic participation. Without such concessions, civil society and CSOs cannot participate more actively and freely. Concrete concessions must include the reform of unnecessarily restrictive legislation including the Societies Act and the ISA, which had been used repeatedly in the past to penalise CSOs, often in an arbitrary fashion. Without such concessions, civil society cannot realistically be expected to deliver what is hoped of it.

11.6.3 Emergence of CSOs in Malaysia

Table 11.1 below shows that the overwhelming majority of registered CSOs in Malaysia are political groups, representing 46.8% of the total CSOs registered in 2007.

CSOs have helped change the Malaysian political landscape. Looking at how CSOs have evolved in Malaysia over the years, there are clear indications that civil society have forced the government to pay greater attention to specific socioeconomic issues. In other instances, the government has actually taken the lead in championing these issues.

**Table 11.1:
Categories of CSOs in Malaysia, 2007**

Categories	National	State	Total
Religious	7,203	1,400	8,603
Social welfare	5,629	1,533	7,162
Social/recreational	6,158	567	6,725
Women	372	1,142	1,514
Culture	1,716	1,428	3,144
Mutual benefit	2,121	8	2,129
Trade	3,360	767	4,127
Sport	3,226	379	3,605
Youth	3,157	6,421	9,578
Educational	367	171	538
Political	46	51,129	51,175
Employment	1,104	515	1,619
General	7,100	2,247	9,347
Total	41,559	67,707	109,266

Source: Azeem, 2011.



Taking the consumers association as a case in point, the Selangor Consumers Association (SCA) was formed in 1965, followed by the Consumers Association of Penang (CAP) in 1969. Crucial to the international movement was the development of the International Organization of Consumers Union (IOCU) in 1974, when the first regional office for Southeast Asia was established in Penang; the first regional director of IOCU was Anwar Fazal, who was also the founder of CAP.

Other state consumer groups soon followed. The year 1971 saw the formation of the consumer associations of Sarawak, Negeri Sembilan and Kedah, while Perak and Malacca forming their own associations in 1972. Eventually, the state consumer associations agreed to form a single federation, giving birth to the Federation of Malaysian Consumers Associations (FOMCA), founded in June 1973 in Alor Setar, Kedah. With that, the other states i.e. Johor, Kelantan, Pahang, Terengganu and Sabah followed suit and formed their own state consumers association.

With mounting pressure from all these consumers associations on their key issues, the government eventually saw the need to set up a specific ministry to oversee consumer affairs, hence the creation of the Ministry of Domestic, Trade and Consumer Affairs in 1990. Over time, the ministry became the Ministry of Domestic Trade, Cooperatives and Consumerism.

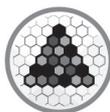
In the case of human rights, pressure from CSOs like ALIRAN (formed in 1977), the National Human Rights Society (HAKAM) and SUARAM led the government to set up SUHAKAM, the Commission for Human Rights Malaysia in 1999.

On the environment, the Malaysian Nature Society has been around since the 1940s. The Environmental Protection Society Malaysia was formed in 1974 and Sahabat Alam Malaysia (SAM) was established in 1977. Like the consumer groups, the environmental groups advocated for a better environment, long before green issues became fashionable.

The government only showed their formal response to environment preservation policies in 1976, when the Ministry of Technology, Research and Local Government was reformed into the Ministry of Science, Technology and Environment (MOSTE). However, the environment was still not the main focus of the ministry. It was only after the cabinet reshuffle in 2004 when a full fledge Ministry of Natural Resources and Environment was established.

Unlike consumerism, human rights and environmental issues, the government has been way ahead of civil society in terms of community welfare. As far back as 1946, 11 years before independence, Malaya had already established the Department of Community Welfare, which continues to exist under a different ministry until 1964 when the department was upgraded to Ministry of General Welfare. In 1982, it was renamed the Ministry of Social Welfare, Ministry of National Unity and Community Development in 1990. In January 2001, it was folded into the Ministry of Women, Family and Community Development.

The main roles of the various components of civil society should be to promote popular participation in activities concerning education, empowerment, advocacy, and various levels of family, community and national decision-making.



CSOs have played a significant role in influencing the social development of Malaysia as well as in the decision-making process, particularly in issues of children, women, biodiversity and the environment. There is a growing tendency for CSOs in Malaysia to be involved on decision-making levels with the government machinery.

11.6.4 CSOs and inclusive growth opportunities for disabled people

The 1990s saw an increase in the number of CSOs supporting people with HIV/AIDS, and there is no shortage of CSOs supporting people with physical or learning disabilities. There has been consistent focus on providing better access and facilities to disabled people in the past three Malaysia Plans, with each plan featuring sections dedicated to strategies on integrating persons with disabilities (PWDs) into society to enable them to lead a normal life.

In the Eighth Malaysia Plan, strategies for improving the wellbeing of disabled persons are contained in a few paragraphs in “Chapter 18 Housing and Other Social Services”. The progress of programmes for the disabled between 1996 and 2000 on the other hand are contained in five paragraphs (18.54-18.58) and the prospects in paragraph 18.109. The Ninth Malaysia Plan includes policies for disabled people under Thrust 2: “To Raise The Capacity for Knowledge and Innovation

and Nurture First Class Mentality”. A section on “People With Disabilities” was included in “Chapter 15: Fostering Family & Community Development”, found on pages 310-316. The Tenth Malaysia Plan included “Chapter 4: Moving Towards Inclusive Socio-Economic Development”; page 186 provides a section on “Integrating Persons with Disabilities into Society”.

All CSOs – whether they are consumer, human rights or environment advocacy groups – fight to ensure that the people and their rights are protected, and the environment preserved. This allows the marginalised to take part in the economy and participate in the development of their country.

11.7 Conclusion

In summary, the government sector, private sector and civil society can expand and enhance their respective roles in the reform process to support improvements in income distribution, raise the share of wages in relation to profits in national value-added income and provide social safety nets for the poor and vulnerable in Malaysia. The policy formulation process stands to benefit from wide and systematic incorporation of priorities and innovations from civil society, especially to press for public goods delivery and advocate on behalf of marginalised groups and overlooked issues. Continuing growth and maturation of CSOs also broadens the scope for them to participate in policy implementation.

Chapter 12

Law and Its Implications on Inclusiveness



Chapter 12

Law and Its Implications on Inclusiveness

12.1 Formal equality and substantive equality

The question of what role the law plays in the inclusivity of a society is a complex one. It raises paradoxes in jurisprudence, namely the balancing act between the legal ideal of equality and the reality that there are situations where unequal treatment is required in order to achieve said equality, or at least some form of equity.

International law has long accepted that the Aristotelian concept of “formal equality”, where the state treats everybody absolutely equally is an idea that is just in theory but fails upon closer inspection. It must be tempered with the practice of “like being treated alike”. For instance, a juvenile lawbreaker should not be treated in the same way as an adult offender, and instead he or she must be treated in the same manner as other juvenile offenders.

Yet, even this modified version of “formal validity” is not entirely satisfactory as differences in history, cultural bias, economic planning and imbalanced societal development can lead to situations where those who are “alike” are in fact not. The marginalised may not have the same opportunities as the rest of “mainstream” society and are placed in a position of unfair disadvantage.

To counter this, the concept of equality has moved beyond mere “formal equality” into “substantive equality”. This is where equality has to be contextualised, drawing upon values such as human dignity, distributive justice and equal participation. “Equality” then becomes about equality of opportunities, or the more aggressive equality of outcomes—the former being

about levelling the playing field and the latter about forcing through greater representation, for example by the establishment of quotas.

Therefore in the context of the marginalised, taking into account the idea of substantive equality, it thus becomes possible, perhaps even desirable for a degree of “unequal” treatment. However, in the Belgian Linguistic Case of 1968¹ it was held that in order for unequal treatment to be justified, there has to be an objective and reasonable justification. This justification has to be assessed in relation to its aims and effects, and the action has to be proportionate to the ill that it is attempting to overcome. These conditions would act as a counterbalance against the potential abuse that can arise out of favourable treatment.

Although the Belgian Linguistic Case was specifically about equal treatment in education, the approach taken by the courts has been adopted by the United Nations Human Rights Committee, The Committee on the Elimination of Racial Discrimination, The Committee on Economic, Social and Cultural Rights and the Inter American Court of Human Rights Moeckli, D. et al. (2010, p.201).

In Malaysia, the supreme law of the land is the Federal Constitution, as expressed in Article 4 of the said document. Any investigation of legislative measures to improve inclusivity and to reduce marginalisation must therefore begin with it. Equality is guaranteed under Article 8 of the Constitution; to emphasise its importance to this *Report* the text is reproduced here in its entirety:

¹(1968) 1 ECHR 252. This case heard in the European Court of Human Rights was a complaint amongst French speaking families in Belgium who felt that the Belgian law which divided the language of education in the country into Dutch, French and German had infringed their rights to equal treatment. Living in the Dutch speaking portion of the country, they felt that the lack of positive action on the part of the government to provide for French language education meant that they were being treated unequally.



Article 8. Equality

1. All persons are equal before the law and entitled to the equal protection of the law.
2. Except as expressly authorized by this Constitution, there shall be no discrimination against citizens on the ground only of religion, race, descent, place of birth or gender in any law or in the appointment to any office or employment under a public authority or in the administration of any law relating to the acquisition, holding or disposition of property or the establishing or carrying on of any trade, business, profession, vocation or employment.
3. There shall be no discrimination in favour of any person on the ground that he is a subject of the Ruler of any State.
4. No public authority shall discriminate against any person on the ground that he is resident or carrying on business in any part of the Federation outside the jurisdiction of the authority.
5. This Article does not invalidate or prohibit—
 - a. Any provision regulating personal law;
 - b. Any provisions or practice restricting office or employment connected with the affairs of any religion or of an institution managed by a group professing any religion, to persons professing that religion;
 - c. Any provision for the protection, well-being or advancement of the aboriginal peoples of the Malay Peninsula (including the reservation of land) or the reservation to aborigines of a reasonable proportion of suitable positions in the public service;
 - d. Any provision prescribing residence in a State or part of a State as a qualification for election or appointment to any authority having jurisdiction only in that State or part, or for voting in such an election;
 - e. Any provision of a Constitution of a State, being or corresponding to a provision in force immediately before Merdeka Day;
 - f. Any provision restricting enlistment in the Malay Regiment to Malays.

The concept of equality under the Constitution is not absolute, and there are both general and specific provisions that allow for unequal treatment. Article 8(2) provides for unequal treatment if the Constitution expressly authorises it. Article 8(5) then goes on to list several specific areas where such unequal treatment is allowed. For the purposes

of this *Report*, Article 8(5) (c) is the most relevant as it deals with the Orang Asli of Peninsular Malaysia; it clearly allows for laws designed to protect and advance the welfare of the Orang Asli as well as make way for the establishment of quotas for their employment in government service.

These Constitutional provisions will be discussed in greater detail in this *Report*. At



this juncture, however, it is submitted that an examination of the Reid Commission, the body created to help draft the Malaysian Constitution in its report of 1957, had noted statements by the Alliance (the political ruling parties of the time) as well as the Sultans that, although the Constitution allows for unequal treatment, the underlying aspiration for the country was equality. The historical antecedents and the background to the negotiations underlying the special provision in Article 153 need to be properly understood in order to conduct a proper review of its implications for inclusive growth in this study.

In this chapter, there will be an examination of Malaysian legislation (both national as well as its international treaty obligations) that either directly or indirectly influences inclusivity. Laws affecting the poor, the Orang Asli, women, the disabled and children will be scrutinised. This examination will be conducted within the context of the Constitution as viewed through the lens of constitutionalism and principles of justice and fairness.

12.2 Article 153 of the constitution

Article 153 allows preferential treatment for Malays and the natives of Sabah and Sarawak. The reasoning behind this provision is that at the time of Malayan independence (1957) and at the time of the creation of Malaysia (1963) when Sabah and Sarawak join with Malaya, these specific ethnic groups were at an economic level far below that of other ethnic groups, particularly the Chinese. The need to protect the “special position” of the Malays and Borneo natives is also

mentioned, meant to assuage the fear of being marginalised in what was deemed to be “their own land”.

There might well have been ample justification for Article 153 considering that the British colonial policy of divide and rule meant that different ethnic communities were separated not only geographically but also in their economic endeavours, leaving the primarily rural and agricultural Malays and natives at an economic disadvantage. Their economic backwardness has been discussed repeatedly since the early 20th century when the concept of federalism was first introduced and practiced, and was seen again in subsequent periods. This is evident in the Federation of Malaya Agreement 1948 after World War II, the Communities Liaison Committee (CLC) of 1949-1951, the Reid Commission of 1956, and later embedded in the Federal Constitution of Malaya in 1957 and the Federal Constitution of Malaysia in 1963.

A strict reading of the Article 8 of the Constitution shows that any preferential treatment has to be “expressly authorised by this Constitution”; action taken under Article 153 has to be specifically mentioned by that Article.

These specific provisions are found in Article 153(2), which stipulates that “(the King) shall exercise his functions under this Constitution and federal law in such manner as may be necessary to safeguard the special position of the Malays and natives of any of the States of Sabah and Sarawak and to ensure the reservation for Malays and natives of any of the States of Sabah and Sarawak of such proportion as he may deem reasonable *of positions in the public service (other than the public service of a State) and of scholarships, exhibitions and other similar educational or*





A cautionary approach should be taken when using Article 153 to establish affirmative action policies and laws.

training privileges or special facilities given or accorded by the Federal Government and, when any permit or license for the operation of any trade or business is required by federal law, then, subject to the provisions of that law and this Article, of such permits and licenses.”² Article 153 8(A) also allows for the establishment of a reasonable number of places in institutions of higher learning for Malay and native students—a quota.

Furthermore, such actions must not impede on the rights of other ethnic groups in the country, by which it is meant that in the pursuit

of the objectives of Article 153, whatever scholarship, license or permit already held by a non-Malay/native individual cannot be taken away nor can its renewal be denied if it would normally be approved. Another proviso that protects non-Malay/native citizens is found in Article 136 which states that “All persons of whatever race in the same grade in the service of the Federation shall, subject to the terms and conditions of their employment, be treated impartially”. Underlying all this is the constant use of the term “reasonable”, meaning that such affirmative action cannot be taken to a level that can be deemed as unjust.

It has to be remembered however that Article 153 does not create a right for Malays and natives of Sabah and Sarawak. What it does is provide the permission as required by Article 8 to allow for specific unequal treatment to be practiced amongst the citizens of Malaysia, if such departures from the principle of non-

discrimination are deemed necessary. It is this “permission” which makes it legally possible for policies such as the NEP to be made. This is consistent with the International Convention of the Elimination of all forms of Discrimination (ICERD) which makes a provision for positive discrimination. Countries such as India and the United States who have ratified ICERD continues to have laws for affirmative action for historically disadvantaged communities.

Both advocacy and criticism of the NEP’s pro-Bumiputera preferential programmes (and by extension Article 153) are commonplace in Malaysia. The issues are too complex and contentious to be discussed in full here, but in the interest of inclusive growth, a few points are worth noting. First, the areas of intervention specified in Article 153 – higher education, public sector employment, licenses – principally involve productive and learning activity that potentially enhance Bumiputera capability and mobility, which are widely agreeable objectives. Hence, reasonable apportioning of opportunity, credible selection of beneficiaries and effective monitoring of outcomes are desirable to all communities, as well as nationally constructive. Second, we also gain from a full recognition of elements in Article 153 that provide balance and moderation, specifically that the necessity of reservations or quotas should first be established, and that the “legitimate interest” of communities other than Malays and the natives of Sabah and Sarawak also need to be safeguarded. This implies a cautionary approach should be taken when using Article 153 to establish affirmative action policies and laws.

Furthermore as to the future of

²Writer’s own emphasis.



affirmative action, there is nothing in the Constitution that suggests the preferential treatment in positions in the federal public service, federal scholarship, federal permit or license, and tertiary education enrolment must be implemented if the Bumiputera community achievement is in some sort of equilibrium with other communities. There should be regular inspections checking the abuse of affirmative action and ensuring a right balance between the special position and legitimate interest. ICERD should be ratified, and it should be ensured that the bottom 40% have equal access, with particular focus on the natives of Sabah and Sarawak and the Orang Asli to ensure that the policy remains inclusive.

12.3 Women

Malaysia is party to the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). Article 2 (a) of this treaty requires all members to “embody the principle of the equality of men and women in their national constitutions or other appropriate legislation... and to ensure through law and other appropriate means, the practical realisation of this principle”. Malaysia did this by adding the term “gender” into Article 8 of the Constitution via an amendment in September 2001.

There have been several cases testing the application of Article 8 and its assurance of gender equality, mainly in the area of women’s rights in the workplace in relation to maternity. Article 11 (2)(a) of CEDAW requires states to ensure that they “prohibit, subject to the imposition of sanctions, dismissal on the grounds of pregnancy or of maternity leave and

discrimination in dismissals on the basis of marital status.”

In the case of *Noorfadilla bt Ahmad Saikin v Chayid bin Basirun & Ors* (2012)³, a woman had applied for and obtained a job as a teacher. After receiving her memo of appointment she was asked to attend a briefing. At that briefing she was asked if she was pregnant, to which she answered in the affirmative. Subsequently her letter of appointment was withdrawn. As defined by the newly amended Constitution, this act was a form of gender discrimination and therefore unlawful.

In contrast, there is the earlier case of *Beatrice A/P Fernandez v Sistem Penerbangan Malaysia & Ors* (2005)⁴ where the appellant was a stewardess; part of the terms of her contract was that if she were to get pregnant, she would have to resign, failing which her employers may terminate her services. This policy was part of a collective agreement in which all stewardesses in the appellant’s category agreed to.

It was held that Article 8 (1), which calls for equality, means equality amongst people in the same class. In this case the appellant was being treated equally with other stewardesses in her category. The court went on to say that constitutional protection deals only with the contravention of individual rights by the government and does not extend to infringements by other private individuals or entities, in this case the airline company.

It has to be noted that in the *Beatrice Fernandez* case, CEDAW was not raised and the matter was purely discussed on constitutional grounds. Otherwise, it would appear that the conditions imposed by the airline were clearly in contravention of Article 11 of CEDAW and the federal

³1 MLJ 832.

⁴3 MLJ 681.



government would have been obliged to ensure that such contractual terms are made unlawful⁵.

What is particularly troubling about the case is the judges' contention that constitutional rights do not apply in relationships between private individuals⁶. This is a very narrow interpretation of the Constitution, leaving room for gender-biased conditions of employment. It is illogical that the protection supposedly

It is illogical that the protection supposedly provided for by the Constitution simply does not apply in the private sector.

provided for by the Constitution simply does not apply in the private sector. It effectively implies that such protections as enshrined by the Constitution itself

are virtually meaningless outside the state/citizen dynamic. The case of Noorfadilla bt Ahmad Saikin does not deal with this issue as the employer was a government agency.

The earlier case of Barat Estates Sdn Bhd & Anor v Parawakan A/L Subramaniam & Ors (2000)⁷ however takes a different view. The court held that a private employer must behave in a manner that does not contravene an employee's constitutional rights, in this case Article 6 is applied, which is about the prevention of slavery and forced labour. Clearly this case supports the idea that constitutional rights apply not only in private/government relationships but also in private/private relationships. It is hoped that future courts take the Barat Estates approach—doing otherwise would seriously limit the level of protection that the Constitution is supposed to provide.

12.4 Children

Children in Malaysia have the Child Act 2001⁸ which specifically deals with their protection. The act however is primarily concerned with the physical welfare of the child and their treatment within the justice system. It is not holistic in the sense that it does not cover issues such as the right to education or healthcare.

However, for Malaysian children there appears to be ample legal and policy provisions to cater for their basic needs. Child labour is governed by the Children and Young Persons (Employment) Act 1966 (revised 1988)⁹ which provides for suitable employment that children can participate in, reasonable hours of work and working conditions. It is arguable that this 25-year-old law needs to be reviewed in light of current societal values, but despite its shortcomings it does provide a basic level of protection for working children.

Primary schooling is compulsory and free of charge, and access to school is guaranteed by Article 12 of the Constitution. But this "right" is actually the right to be treated equally by educational institutions—it is not a right to education per se. Therefore Article 25 (a) the Convention on the Rights of the Child 1989 (CRC), which calls for the provision of free primary education, is not expressly provided for by Malaysian law even though the nation is party to the CRC. However, it is still the country's policy to provide free primary education.

In the context of the marginalised, the children who are most at risk are those who are the offspring of refugees and stateless individuals. Stateless individuals are people who may be born in Malaysia but have no official documentation as they have not been registered. Without the requisite documentation, a child cannot lay claim to Article 12, severely limiting their schooling opportunities.

⁵At the time of writing there have been no cases where a private employer has been challenged on the grounds that their actions are in breach of CEDAW.

⁶See also Maizatul, A. et al. (2011).

⁷4 MLJ 107.

⁸Laws of Malaysia Act 611.

⁹Laws of Malaysia Act 350.

In a regional meeting in Bangkok on November 2012, a country report from the Malaysian Ministry of Education, referred to its own study conducted 2009, which reported that there were 43,973 undocumented children between the ages of seven and 17 years who were not attending school. Non-citizens accounted for the bigger bulk i.e. 38,702, and citizens 5,271. These include children from hardcore poor families from remote, rural or urban areas; children living permanently on boats with uncertain nationalities; immigrant children from the Philippines; Rohingya and Acehnese children whose parents are UNHCR card holders; stateless and street children; and children from high risk parents such as sex workers. Considering that these undocumented children tend to be the poorer sections of the community, a lack of basic education for their children only contributes to the continuation of the cycle of poverty.

In July 2010, Minister of Education YAB Tan Sri Muhyiddin Yassin, in a Bernama report gave the assurance that the government, with collaboration with government and non- government agencies, will ensure that undocumented children in Malaysia are given education in line with the principles of Education for All Goals 2015, irrespective of race, religion or locality. Currently, the ministry does not offer alternative learning curriculum other than the national education curriculum used by all schools in the national education system. However, efforts were made to provide alternative curriculum for at-risk and marginalised children.

In January 2011, an education centre for undocumented children was set up through a collaborative venture between the Ministry of Education, the Sabah Special Task Force and a teachers' foundation. It is managed by the local community using an alternative

curriculum at the primary level that focuses on literacy in reading, writing and arithmetic, Islamic religious study and other life skills such as sewing. Some 300 children registered at this initial centre; registration had to close due to the overwhelming response and inadequate space.

However, the project has its share of challenges, such as financial support and the opening of more centres; parental cooperation; and understanding of policy of citizenship among administrators at the local level; for example whether or not to allow children of Malaysian citizens without proper documentation into national schools.

There are also problems with regards to the definition of "child". The Child Act defines a child as under the age of 18 while the Children and Young Persons (Employment) Act defines a child as someone under the age of 16. These differing definitions complicate the issue of child protection.

From the perspective of international law, Malaysia has made several reservations to the CRC¹⁰. In the context of this paper, the most damaging reservations are to Article 2 which is about non-discrimination, Article 7 which is about the right to nationality and Article 28(1) which is about the universal right to primary education. These reservations need to be removed in order to include a more complete legislative framework for all children in the developmental process and minimise marginalisation.

The Child Act defines a child as under the age of 18 while the Children and Young Persons (Employment) Act defines a child as someone under the age of 16. These differing definitions complicate the issue of child protection.

¹⁰UNICEF http://www.unicef.org/malaysia/17982_crc-reservations-malaysia.html accessed 26 July 2013



Box Article 12.1: Need for child-sensitive policies

There is evidence of the association between child poverty: impaired cognitive development, increased behavioural difficulties, poorer physical health, underachievement in school, lowered aspirations, higher risks of welfare dependency, greater likelihood of teenage pregnancy, increased probability of crime and drug abuse—the list goes on. These negative consequences affect not only children and their families, but the society as a whole, through increased likelihood of unemployment and welfare dependence, higher costs of judicial and social protection systems and, in the long term, an intergenerational poverty trap that blocks upward social mobility, creates an “underclass” and dampens a nation’s productivity and development potential.

Malaysia is a young country where about 39% (11.3 million) of the population is under the age of 18. Ensuring that children are living out of poverty is not only a moral obligation for inclusive growth but also a strategic priority for a country that aspires to become a developed nation by 2020.

As part of a national initiative to eradicate poverty, one of the GTP’s National Key Results Areas (NKRA) was “Raising Living Standards of Low Income Households”. Child poverty has mainly been addressed indirectly in the past, focusing on the household rather than the child.

Despite the impressive achievements of that NKRA, there are still around 400,000 children living in households with incomes below the poverty line—a figure

based on household income data surveys. The actual number is likely to be higher since some of the children most at risk of poverty do not live in households. They

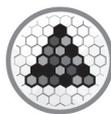
400,000
Estimated number
of children living in
poverty in Malaysia

live in children’s homes, hostels, hospitals, prisons, in houses for refugees, in mobile homes, on the streets, or in families and communities whose presence are unregistered.

Child poverty and child health are profoundly intertwined, and Malaysia has seen enormous achievements in the area of child health in the past four decades. Child mortality and maternal mortality have decreased dramatically between 1970 and 2000, followed by slower gains in the last decade. Like other upper-middle

2,700
Number of child deaths
in Malaysia that could
be prevented each year

income countries, Malaysia faces a double nutrition challenge, under-nutrition and obesity, both of which are largely preventable. Under-nutrition has not significantly improved in the last five years despite the existence of initiatives like the Rehabilitation of Children Programme or the 1Malaysia Milk programme. Childhood obesity meanwhile has become a major



cause for concern. The stagnation in further improvements in health indicators is mainly due to structural inequities.

There is also a lack of national initiatives and comprehensive data disaggregated for the 0-17 age group on important health issues, including physical

2,000,000
Number of children
suffering nutrition
problems in Malaysia

and mental disability, child injuries, reproductive health and substance abuse. The World Health Organization's Global School-based Student Health Survey (GSHS) in 2012 indicates that among Malaysian teenage students (ages 13-17), two-thirds of those who have had sexual intercourse (around 10% of the overall teenage student population) do not use condoms, 11.5% smoked in the last 30 days and 6.2% have been drunk one or more times in their lives.

Education enhances a nation's human

1,800,000
Number of children
suffering mental health
problems in Malaysia

capacity and enables upward mobility within a society. Despite Malaysia's successes in achieving almost universal primary education and significant progress made towards achieving universal secondary education, important

challenges remain for groups of children from marginalised and disadvantaged communities. The Report on the Status of Children's Rights in Malaysia states that many children from the refugee, asylum-seeking, stateless and irregular migrant communities do not have access to formal education, while children with disabilities, children living in poverty and indigenous children face significant hurdles in accessing education.

To progress toward Vision 2020's overarching goal of becoming a "democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous" society (Mahathir Mohamad, 1991), much more needs to be invested in the wellbeing of our children. A National Plan Against Child Poverty should be prepared, coordinating efforts and initiatives between government and non-government bodies under a common set of targets; a multi-sectoral approach, consistent with the multidimensional character of child poverty and deprivation, should be promoted, addressing not only household income but child wellbeing; a set of child wellbeing indicators that serve as a guide for the effective rollout of outcome-based budgeting should be adopted; comprehensive policies that address structural inequality, exclusion and marginalisation across the health, education and social spheres should be developed; and finally to improve data collection in order to make adequate monitoring possible. To invest in the future of Malaysia, poverty policies must be child-sensitive.

Note: Article written based on inputs from UNICEF and P.S. the Children.





12.5 Indigenous peoples

The marginalisation of indigenous peoples in Malaysia is perhaps not as straightforward as other communities. A key issue is their right to practice their cultural beliefs and traditional way of life. As is often the case with indigenous communities around the world – and Malaysian indigenes are certainly no exception – this culture and way of life is intimately linked to land.

The United Nations Declaration on the Rights of Indigenous Peoples 2007 (UNDRIP) recognises this. This is expressed by provisions that emphasise the need to protect indigenous cultures which include their lands (UNDRIP Article 8) to those which specifically spell out a right to customary lands like Article 26 which reads:

1. Indigenous peoples have the right to the lands, territories and resources which they have traditionally owned, occupied or otherwise used or acquired.
2. Indigenous peoples have the right to own, use, develop and control the lands, territories and resources that they possess by reason of traditional ownership or other traditional occupation or use, as well as those which they have otherwise acquired.
3. States shall give legal recognition and protection to these lands, territories and resources. Such recognition shall be conducted with due respect to the customs, traditions and land tenure systems of the indigenous peoples concerned.

Admittedly, UNDRIP is merely a declaration of the General Assembly and is therefore not a hard treaty law. Be that as it may, signatories (including Malaysia) still have a moral obligation to live up to the aspirations that they have agreed to when they signed this document.

Although constitutionally Malaysia has made provisions to help indigenous peoples (the Orang Asli in Article 8 (c) and the indigenous peoples of Sabah and Sarawak in Article 153) as a distinct community, they remain (in particular the orang Asli) some of the poorest communities in the country. A major point of contention is their lack of rights to customary land.

Although customary land may be set aside for indigenous communities (for example through the Aboriginal Peoples Act 1954¹¹), this is far from having an actual right to the land. For example, Sections 6 and 7 of the Aboriginal peoples Act read:

Section 6. Aboriginal areas.

(1) The State Authority may, by notification in the Gazette, declare any area predominantly or exclusively inhabited by aborigines, which has not been declared an aboriginal reserve under Section 7, to be an aboriginal area and may declare the area to be divided into one or more aboriginal cantons.

(3) The State Authority may in like manner revoke wholly or in part or vary any declaration of an aboriginal area made under Subsection (1).

¹¹Laws of Malaysia Act 134.

Section 7. Aboriginal reserves.

(1) The State Authority may, by notification in the Gazette, declare any area exclusively inhabited by aborigines to be an aboriginal reserve:

Provided –

(i) When it appears unlikely that the aborigines will remain permanently in that place it shall not be declared an aboriginal reserve but shall form part of an aboriginal area; and

(3) The State Authority may in like manner revoke wholly or in part or vary any declaration of an aboriginal reserve made under Subsection (1).

Without an overarching right to customary land, what this means is that the power to create either an aboriginal area or reserve is completely within the discretion of the government. Furthermore, both sections have provisions for declaring the loss of status for an aboriginal area or reserve.

In the case of *Kajing Tubek v Ekran Bhd* (1996)¹², the High Court judge did rule that a right to a cultural and traditional way of life which included the use of customary land was an extension of the right to life as laid down by Article 5 of the Constitution. However, in the appeal of this case¹³, the Court of Appeal held:

“...they will suffer deprivation of their livelihood and cultural heritage by reason of the Project... This complaint certainly comes within the scope of the expression “life” I Article 5(1) of the Federal Constitution. For where there

is deprivation of livelihood or one’s way of life, that is to say, one’s culture, there is deprivation of life itself... However, in the present case, as earlier observed, the State of Sarawak will extinguish the respondent’s rights in accordance with the provision of existing written law obtaining in the State... Since, in this instance, life is being deprived in accordance with an existing and valid law, the requirements of Article 5(1) are met”.

In effect, any protection afforded by the Constitution can be circumnavigated by a properly made law¹⁴.

On a more positive note, there have been progressive case decisions relating to Orang Asli land. In the case of *Koperasi Kijang Mas and 3 others v Kerajaan Negeri Perak and 2 others* (1991)¹⁵ the High Court held that Perak had breached the Aboriginal Peoples

Act when it accepted a tender from a logging company to extract timber from land which has been approved as Orang Asli reserve. What is interesting here is that the land had yet to be gazetted

as a reserve, it was merely approved for gazetting. Yet the judge said that it was sufficient enough to give the rights to the land and its produce to the Orang Asli.

In the cases of *Adong bin Kawan v Kerajaan Negeri Johor & Anor* (1997) and *Sagong bin Tasi v Kerajaan Negeri Selangor* (2002) it was held that customary land held the same status as alienated land, and thus the owners of such customary land had the same rights to compensation as any other

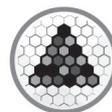
The High Court held that Perak had breached the Aboriginal Peoples Act when it accepted a tender from a logging company to extract timber from land which has been approved as Orang Asli reserve.

¹²2 MLJ 388: This was a case where a group of indigenous peoples in Sarawak challenged the government for not allowing them the right to comment on the Environmental Impact Assessment Report regarding a dam that would have inundated a piece of land the size of Singapore, including their village.

¹³Ketua Pengarah Jabatan Alam Sekitar & Anor v Kajing Tubek & Ors (1997) 3 MLJ 23.

¹⁴For a critique of the Court of Appeal Decision, see Nijar G.S., “The Bakun Dam: A Critique” (1997) 2 MLJ 388.

¹⁵CJ 486.





land owner. The compensation of Orang Asli customary land therefore was not limited to the feeble amounts provided for in the Aboriginal Peoples Act. Furthermore, the case of Superintendent of Land & Surveys Miri Division & Anor v Madeli bin Salleh (2008)¹⁶ also acknowledges that, as a point of law, indigenous peoples possess customary rights under common law, and common law is recognised by the Federal Constitution by virtue of Article 160 (2), making it part of Malaysian law.

Still, the security of native lands is suspect and this is reflected in the case of Jalang Paran & Anor v Government of the State of Sarawak & Anor (2010)¹⁷ where it was held that there is no law which says that Native Customary Land cannot be extinguished. Furthermore, any protection from the implementation of the principles of UNDRIP was rejected in the case of Jimi Mantali & Ors v Superintendent of Lands & Surveys Samarahan Division & Anor (2010)¹⁸ where it was held that UNDRIP could only be adopted by the court

by virtue of an enabling provision in the Federal Constitution, or in the absence of such a provision a law specifically enacted by Parliament. Seeing as neither exists,

it would appear that for the moment the indigenous communities of Malaysia would not be able to depend on UNDRIP to support their rights.

However, in the case of Bato Bagi v Kerajaan Negeri Sarawak (2011)¹⁹ the Federal Court was generally more vague as to the application of human rights

values on native rights and as such leaves the door open to greater recognition of these rights. What is clearly required is the formal legislative recognition of customary native land rights as well as a formalised absorption of the principles of UNDRIP into the Malaysian legal system in order to ensure an overarching respect of indigenous peoples and their rights throughout every level of governance.

12.6 Workers' rights

The primary power that workers have in order to bargain for better pay and conditions is the power to unionise. This is provided for by the Trade Unions Act 1959 (revised 1982) (TUA)²⁰. The establishment of a trade union requires the approval of the Director-General (D-G) by way of registration (TUA Section 12). The grounds for refusing to register a trade union are fairly innocuous except for Section 12(2) where an application for the creation of a trade union may be rejected if the D-G is of the opinion that a similar trade union already exists and could protect the welfare of the workers. This can be contentious if workers are not happy with the existing union and it is also arguably an affront to the right of association as guaranteed by Article 10 of the Constitution.

Perhaps what is more alarming is the power of the D-G under Section 18 of the TUA to suspend a trade union if they are of the opinion that it "is being used for purposes prejudicial to or incompatible with, the interest of the security of, or public order in Malaysia". This section provides the D-G with broad discretion to effectively stop any union action.

That is not to say any legal action on the part of a union is easy to come by. In

Section 18 of the Trade Unions Act provides the Director-General with broad discretion to effectively stop any union action.

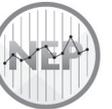
¹⁶2 MLJ 677.

¹⁷Civil Appeal No: Q-01-133-06.

¹⁸Suit No: 22-57-2007-11.

¹⁹6 MLJ 297.

²⁰Laws of Malaysia Act 262.



order to call for a strike or a lockout, a union needs to conduct a secret ballot of all its members and they need to obtain a two-thirds majority before industrial action can be taken. The result of this secret ballot will then have to be sent to the D-G who, according to Section 40(6), “may upon receipt of the results thereof under Subsection (5), carry out all such investigations as he may deem necessary, and where he is satisfied that the proposed strike or lockout if carried out would contravene this Act or any other written law he shall direct the trade union not to commence the proposed strike or lockout.”

12.7 The rights of the disabled

Malaysia is party to the Convention on the Rights of Persons with Disabilities 2007 (CRPD) and, via the Persons with Disabilities Act 2008 (PWDA)²¹, it is submitted that much of the principles of accessibility put forward by the treaty has been legislated for. The PWDA is significantly faithful to the principles and ideals of the treaty²².

According to the Act, the government is obliged to provide the necessary infrastructure in educational facilities from primary to tertiary level so that the general principle of equal access to education can be meaningfully practiced. Apart from access to ordinary institutions of education there is also an obligation to facilitate the special educational needs of the disabled such as the learning of sign language and Braille. This positive obligation extends to public transport where disabled access is also specifically called for by the Act.

With regards to employment, although there is a general obligation to ensure equal treatment of employees with

disabilities, there are no specific provisions for affirmative action, such as a quota. There is however a social responsibility placed on employers to “endeavour to promote stable employment for persons with disabilities by properly evaluating their abilities, providing suitable places of employment and conducting proper employment management”, and there is a requirement for the National Council for Persons With Disabilities²³ to formulate affirmative action programmes.

Access to transport, education and employment are key to ensuring that the disabled are able to lead independent lives, and it is submitted that the legislative framework required to provide for this is already in place. What remains is the actual implementation of the laws and policies that can be created.

12.8 Conclusion

It would be inaccurate to say that Malaysia does not have any laws to assist the marginalised. These laws do exist. However, these laws come with significant shortcomings:

- i. Affirmative action is perceived as race-based when in actual fact it is more complex than that. As explained in Chapter 3, the main prong of the NEP which is poverty eradication covers all groups, not just the Malays. Nonetheless, the (wrong) perception can lead not only to societal divisions, but its uncontrolled implementation of the Second Prong i.e. restructuring of society can also lead to the erosion of the principles of a formal and just substantive equality. It is

²¹Laws of Malaysia Act 685.

²²The relevant sections are reproduced in the Appendix.

²³Established under section 3 of the PWDA.



important therefore to ensure that the implementation of affirmative action is not abused while balancing the special position of the Bumiputera with the legitimate interests of other communities.

- ii. The protection of women's equal treatment and children's rights (particularly the child's right to education) requires respectively firm judicial support and the legislative affirmation of the child's right to education regardless of their nationality. Serious effort should be put into the construction of the alternative curriculum for marginalised and at-risk children. Furthermore, challenges faced by the education centre for undocumented children should be addressed accordingly to ensure the continuity of quality education for these children.
- iii. The rights of indigenous peoples as espoused by UNDRIP is not given the weight of law either legislatively or judicially.
- iv. Although Labour Laws in Malaysia are applicable for all legal workers without discrimination, the power of workers to defend their rights and to improve their lot is curtailed to the point of being useless.

Naturally, underlying all this is the need to have good implementation of laws. The best statute in the world is only as good as its enforcement.

However, what Malaysia lacks is an overarching law to deal with the issues of the marginalised. What exists appears to be piecemeal solutions with no attempt to approach the problem holistically and with intellectual depth. To this end, suggestions have been made by two NGOs (Saya Anak Bangsa Malaysia and HAKAM) for the creation of a Social Inclusion Law²⁴.

Their proposal is for the creation of a Social Inclusion Commission whose members are nominated by the King upon advice from a cross-party parliamentary committee. The Commission will consist of seven people who are experts in the issues related to social inclusiveness, and they are to facilitate research and later the drafting of policies to reduce marginalisation and encourage inclusivity. It would be an independent body answerable to Parliament.

This would open up the possibility of having a more thought-out, organised, democratic and transparent method through which a government can properly handle this matter of inclusivity. It holds out reasonable prospects for stewarding the inclusiveness agenda.

²⁴For a summary of the ideas see <http://thestar.com.my/news/story.asp?file=/2012/10/17/focus/20121017073945&sec=focus>

Chapter 13

Conclusions and Policy Recommendations



Chapter 13

Conclusions and Policy Recommendations

13.1 Introduction

This final chapter provides a summary of Malaysia's development track record and presents policy recommendations for enhancing inclusive growth. The thesis is that Malaysia's economic policy has taken various forms of inclusiveness under the rubric of "growth with redistribution", particularly from the NEP launched in 1971. The policy debates and political discourse surrounding the impact of the NEP and successive development policies have often been limited and clouded by restricted access to publicly-funded data sources, stultified analysis and perspectives, and political and ideological positioning. By using new analytical frameworks and methods and applying them to the most recent empirical data, this *Report* seeks to tell the full story, warts and all, so that future policymaking and development planning for the country will be informed by objective, cohesive and constructive analysis. Such analysis and its conclusions should serve as the basis of recommendations for policy reform in order to achieve the goals of inclusive development as the country strives to achieve developed status by the next decade.

13.2 Summary

The *Report* began with a review of the concept of inclusive growth in development policy as the theme of Malaysia's First Human Development Report and a survey of relevant literature, including the latest reports on the Malaysian economy pertinent to the theme. In Chapter 2, we develop a conceptual and policy framework on

inclusive growth we consider relevant to the Malaysian case, especially in relating economic performance to the quality of human development as the core of development policy.

Towards a new analytical approach to inclusive growth

From this review we concluded that the central thesis of inclusive growth is the triangular relationship between economic growth, income distribution and poverty reduction, and that a successful development policy must be measured by the extent income growth reduces poverty i.e. be pro-poor, while at the same time improving income distribution to benefit all members of society. The NEP aimed at inclusive growth on account of eradicating poverty regardless of race and accelerating the restructuring of society, which were to be pursued in and through economic growth. In light of the NEP, the NEM, Malaysia's current instalment of development perspectives, is arguably incomplete as it focuses only on the bottom 40%, while defining this explicitly as "inclusiveness", along with income growth and sustainability as its three pillars. The Tenth Malaysia Plan (2011-2015) on the other hand sets an income distribution target along with growth and poverty as its goals.

In order to pin down the contributing factors to inclusive growth, this *Report* adopts a New Economic Paradigm by decomposing the purchasing power of households into four components, namely wealth effects in order to understand the role of assets among household income classes; disposable income; access to credit; and transfers. This framework informs the statistical





analyses undertaken in this *Report* to record the development experience of Malaysia over the past 40 years since the implementation of the NEP. The *Report* also takes the position that this policy analysis of development performance must go beyond economic ideas, and its measurements become more multidimensional than conventional approaches. Thus, beyond measurements of gross domestic output and incomes, we include sociological approaches and methodologies in the analysis including the use of household concepts and case studies in the study of social mobility as the central mechanism and consequence of inclusive and human development.

NEP and inclusive growth: the record, 1970-2012

Chapter 3 looks at the historical growth performance of the Malaysian economy that can be attributed to the implementation of the NEP from 1970 to today. The first part looks at a wide variety of measurements to assess whether the growth brought about by

the NEP has been inclusive, based on the inclusive growth definitions stipulated at length in Chapter 2. The second part of the chapter identifies

remaining gaps exhibited by various measures such as income, wealth, asset ownership, wages and access to enablers of economic growth.

In summary, the Malaysian development progress from 1970 to 2012 can be categorised as inclusive as it meets the trinity of inclusive growth i.e.

pro-poor, resilient growth and growth being shared by all income groups. The evidence includes reduction in poverty rates, higher income growth rates for the bottom 40% regardless of race, reduction in inequality as measured by Gini and Theil coefficients and reduced interethnic and urban-rural income disparities. There has also been similar income and asset ownership growth patterns amongst every ethnic group, robust and resilient growth driven by private investment and reduced unemployment across all ethnicities.

But challenges remain. These include heterogeneity in poverty levels among strata and ethnic groups, and within the Bumiputera group, increasing poverty rates when measured on relative basis across the board by ethnicity and by location, unchanged income disparity between top 20% and bottom 40% income households over the years, and increased disparity in absolute terms.

In other dimensions of inequality Malaysia has fared less well, including the skewed distribution favouring the uppermost strata, persistent gaps between states. Since 2000 in particular, gains to the top 10% have been high while the size of the middle class population has grown stagnant, along with stark inequality in wealth with Malaysia's Gini coefficient at least twice that of income, and skewed distributions in financial assets and home ownership where some Malaysian cities fare worse than major world cities in terms of House Affordability Index.

It was also found that both wage and self-employment income growth are slowest amongst the bottom 40% income households while the share of

Since 2000, gains to the top 10% have been high while the size of the middle class population has grown stagnant.

wages to national income has declined. Employment is also found to be ethnically exclusive, with differentiations between private and public sectors and skewed against women as shown by stagnant female labour force participation rates.

Social mobility: intergenerational and household experience

Chapter 4 aims to step beyond the quantitative statistical approach by assessing social mobility in order to better understand the process of inclusive development. The *Report* argues that the case studies approach to studying social mobility will shed light on the “agency dimension” of social development.

Firstly, a statistical analysis was undertaken to juxtapose the median income profile of Malaysian households over time using the 1989, 2002 and 2009 household surveys onto a stylised S-shaped model of social mobility. When analysed by age cohorts of the Merdeka Generation (born between 1930 and 1945), the Sponsored (NEP) Generation (born between 1945 and 1960), and the X Generation (born between 1960 and 1975), the median income profiles of 2009 earnings for these age cohorts, despite the absence of contemporaneous income data, form a similar pattern to the stylised trend. The NEP middle class growth is more rapid compared to that of the earlier generation and even the later X Generation, though the median level of incomes is higher for the latter, hence the S-shape. However, the size of the middle class in Malaysia, as a metric for the process of inclusive growth, remains circumscribed at around 20% of the total population over the last two decades

in spite of continuing economic growth over the period.

Secondly, the case study method helps identify why some are trapped in social reproduction and intergenerational immobility, using the household as the unit of analysis in studying social mobility. The four national case studies were Felda settlers, Indian plantation workers, the coastal fishermen of Terengganu and urban poor Malay Bumiputeras, Chinese and Indians. In Case 1, it is found that the Felda land resettlement scheme had overlooked the second generation—the limited social capital of the settler community would put greater constraints on the second-generation family. Case 2 revealed that social capital in the plantation life pertaining to the Indian subculture and Tamil language is not conducive to adapting them to larger society, leaving most in the low mobility level category. Case 3 showed that most of those who experienced upward social mobility in the coastal fisherman community are those involved in business and administrative groups, while fishermen (61%) and manual labourers (29%) actually experienced downward mobility. Case 4 on the other hand showed that most urban poor respondents fall under the moderate mobility level, with the high mobility group preponderantly represented by the Chinese.

All three major ethnic groups – Indian, Malay and Chinese – exhibit similar patterns of determinants of social mobility in their dependence on the intervening variable combination of human capital, social capital and structural factors.





Macroeconomics of inclusive growth: critical factors

Chapter 5 examines the underlying factors contributing to the economic performance of the country since the introduction of the NEP. As a small open but resource-rich economy, Malaysia had built up a strong export-oriented economic structure that has successfully diversified into manufacturing from a primary resourced-based economy, and transitioned into the services sector as a contributory source of growth in the first decade of the 21st century. Total trade grew to nearly one and a half times of GDP at the end of the 40-year period, with foreign assets share of gross domestic output remaining significant throughout. Being so integrated into the global economy, Malaysia had been subjected to four economic crises, achieving V-shaped recoveries each time as the government adopted pragmatic policies to adjust to the new economic conditions affecting the country. Nonetheless, the economic liberalisation policies adopted since the Asian financial crisis in 1997 to encourage private investment has failed to bring the GDP growth rate to its historical potential growth rate of around eight per cent per annum that was achieved during the 1990s.

Malaysia's national economic competitiveness indicates the significance of labour productivity as a contributory factor to growth, while "third factor" sources of growth seem lacking. A growth diagnostics framework developed by the Islamic Development Bank confirms our conclusions: that poor levels of entrepreneurship, innovation and technology adoption form a significant binding constraint, resulting in low private

investment and low quality employment growth.

When applied to inclusive growth, institutional failures both in the private and public sectors form another important binding constraint. This was explored in the final part of the chapter via discussion of the small and medium scale sector as well as the informal economy where financial inclusion – or its lack thereof – and coordination of externalities play a significant role. In the overall strategy of inclusive growth, policy reforms in this area must be a priority.

Analysing inequalities: using a new economic paradigm

Chapter 6 performs two sets of analyses. First, we decompose the current purchasing power of households based on the New Economic Paradigm: disposable income, asset ownership, access to credit and transfers. Second, we present results of simulations of the impact of intervening equity-enhancing policies on disposable income, namely minimum wage, universal secondary education and social transfers (the BR1M programme) on disposable income.

Descriptive analysis mainly shows that the wealth effect is much higher among the higher income groups (the top 10% and top one per cent), while most of the purchasing power of lower income households (the middle class and bottom 40%) is attributable to disposable income from wages and self-employment incomes. The pattern is similar when broken down by ethnicity and strata, meaning that all groups follow similar income sources regardless of race or location. We also assess the characteristics of leveraging, where lower income groups undertake

debt for consumption purposes, while middle and higher income groups use debt as asset-generating instruments, with the bulk of credit generated by the financial system accruing to the middle and higher income groups. Another section expounds on the slower growth of wages relative to labour productivity (the wage rate increases by about 2.6% annually compared to the labour productivity rate of 6.7%) in the Malaysian economy.

Before simulating alternative policy interventions, a cross-sectional regression exercise shows that the better an individual does in various determining variables, namely education, activity status, location strata, occupation and age, the higher the purchasing power they would enjoy. Furthermore, men do better than women all else equal, the married or widowed is better off than a single person or divorcee, and a Bumiputera is relatively worse off than a Chinese or an Indian, all else equal. While the Gini is 0.453 before intervention, a minimum wage intervention reduces the Gini the most by about seven per cent, followed by compulsory secondary education which reduces the Gini by up to four per cent. The least effective method to reduce inequality are the BR1M transfers which only reduce Gini by 2.3% to 0.443 for RM1,200 cash offer per head, and by 0.96% to 0.449 if the cash offer is RM500. When all interventions are undertaken simultaneously, the Gini is reduced by up to 10%.

Relative poverty and multidimensional deprivation

Chapter 7 focuses on the importance of shifting from the traditional approach of absolute poverty to the relative poverty approach when looking at poverty

reduction and inclusive growth, as the latter is more capable of assessing inclusiveness. We propose evaluating relative income deprivation referenced to proportion of median income, and demonstrate how such benchmarking is effective in reflecting households' socioeconomic inclusion and access to social services. This chapter examines multiple dimensions of deprivation, and we find that head of households' educational attainment, gender and ethnicity, and the household's geographic location have an impact on relative deprivation, with less educated, female Bumiputera minorities and rural households more likely to have lower income. Regional disparities prevail, with deprivation more severe in Sabah, followed by Sarawak and the Peninsular. We expand our perspective on development and deprivation beyond income and evaluate differences in living conditions. Again, we find Sarawak and especially Sabah lagging behind Peninsular Malaysia.

Our human capability mapping casts light on development at the personal level, whereas Malaysia's development has overwhelmingly been evaluated only at the household level. Malaysia has invested heavily in the development of human capabilities, resulting in the increase of formal educational attainment in successive generations. However, disparities persist and quality differences grow in importance and access to schooling and higher education have burgeoned. Notably, Malay education attainment is marginally above the rest of the Bumiputeras, while Orang Asli and Bumiputera minorities in particular straggle behind, with lower enrolment rates. Less data on quality of education





are available, but it is reasonable to expect that where enrolment and completion are low, the capacity of teachers and conditions of schools are also depressed. Overall, the Peninsular exceeds both Sabah and Sarawak in terms of educational attainment, translating into parallel differences in skills composition of jobs and monthly earnings.

Importantly, we find that rural Sabah and Sarawak trail rural Peninsular Malaysia

Fostering greater inclusion demands attention to rural development in East Malaysia.

by considerably greater margins compared to the disparities among urban areas. Fostering greater inclusion demands attention to rural

development in East Malaysia. Another interesting finding is that rural Sarawak has a lower capability than rural Sabah; this signifies that the official income poverty rate of Sarawak, which is substantially lower than that of Sabah, may not be a true reflection of all the important aspects of its socioeconomic development.

The regional dimension of inclusive growth and sustainability

Chapter 8 analyses the spatial economy and regional dimensions of economic growth with the purpose of identifying policy interventions needed to achieve inclusive growth. As a federation of states, Malaysia has been ruled from the centre in pursuit of growth and development. The nation went through typical physical and social stages such as industrialisation, urbanisation, education development and middle class formation.

This chapter suggests the need for rethinking the current top-down

policies and strategies to achieve inclusive development. The new strategy is to adopt the bottom-up approach of decentralised growth by creating new urban agglomerations and clustering of economic and social activities in rural areas to produce the necessary economic density for rapid and decentralised growth. It was found that per capita GDP growth has been accompanied by increased urbanisation. This chapter argues that decentralised growth has never been fully tested in this nation. Though it is difficult to identify if Malaysia has moved into the tertiary stage economy, the services sector already makes up more than half of the national GDP. These structural changes need cities that are equipped with amenities and services support; cities should be the engines to drive further growth.

The government should intervene in areas of market failure, for instance in the environment, poverty, the delivery of welfare and basic services such as health and education, traffic congestion and other infrastructure limitations. Besides addressing environmental sustainability, including the utilisation of natural resources, the chapter seeks fiscal sustainability at the federal level and improvements in the fiscal capacity of states to achieve a decentralised and inclusive development in Malaysia.

On women and inclusive growth in Malaysia

Chapter 9 discusses the involvement of women in national growth and the extent to which they have been rewarded for their contributions. Women had long been

contributing to national growth with paid or unpaid work. In terms of paid work, women's participation rate in the labour force had increased due to the export-led growth development model adopted by the government. However, the rate has failed to pass the 50% mark in spite of various governmental pronouncements and proposals. Women may also go statistically "missing" even while working in the informal sector. Though unrecognised, women also contribute to growth through their reproductive roles; it is vital after all to nurture the next generation of workers.

Do women benefit from growth? The chapter evaluates this question with three indicators: location in the occupation hierarchy, gender wage differentials and the ability to re-enter the workforce. Women are more likely to be found in services and clerical jobs, while they continue to lag behind men in top-end jobs. Wage discrimination appears to prevail, rationalised by women's supposedly inferior qualifications. Moreover, findings show that there is a wider income gap between the genders in top-end jobs. Finally, women faced significant difficulties in re-entering the workforce after leaving to tend to their reproductive responsibilities. And even though there is an upward trend of women with tertiary qualifications, the number of women with tertiary education outside the workforce is also increasing. This could be explained by the traditional notion that women must be responsible for taking care of the family. Much more can be done to encourage, support and ensure equal treatment to women in terms of contributing to and reaping the benefits of national growth that is their due.

Bumiputera minorities and development process

In Chapter 10, the *Report* shows that Malaysia has achieved its aim of growth with distribution, mainly in reducing incidences of poverty through implementation of the three core development policies: the NEP, NDP and NVP. Yet poverty rates vary markedly even among Bumiputeras, with ethnic minorities in Peninsular Malaysia and Sabah and Sarawak having the highest incidences. The majority of the ethnic minorities continue to predominate the lower rungs of the economic ladder, where a majority of them are self-employed largely in primary and low-income sectors. Poor academic performance recorded by students among ethnic minorities has led to low admission rates to public and private universities, distribution of scholarships and enrolment in professional degree programmes. One implication of the continuing poverty among ethnic minorities is the high incidence of "statelessness", particularly those living in the interior of Sabah, Sarawak and Peninsular Malaysia. With all these impediments, ethnic minorities are lagging far behind the Malays, Indians and Chinese in reaping the benefits the fruits of Independence and national growth. The *Report* also affirms the need for direct policy intervention to address and improve the consistent low socioeconomic status of the ethnic minorities

Institutional issues in inclusive growth

Chapter 11 addresses five institutional issues underlying and influencing the question of inclusive growth. On fiscal federalism, the absence of decentralised





public fiscal allocation becomes a point of contention, especially with the changed political structure among the states of after the 2013 General Elections. With excessive centralisation, local aspirations are much more difficult to achieve, giving rise to a “one-size-fit-all” prescription from the centre. A major governance transformation strategy through the implementation of the GTP may help the nation improve its competitiveness and delivery of public services. The government delivery system, however, can only be an effective machinery if built upon a good procurement policy based on the principles of accountability and transparency, minimising corruption, wastage and leakages in public expenditure.

The two other institutional issues, namely the current mechanisms for redistributing income and the contribution of the private sector to private delivery of public goods play an important role in mitigating social costs that arise from private development. Lastly, the rising number of active CSOs over the past two decades has had a cumulative positive impact on the national decision-making process, allowing the marginalised and the less fortunate to participate actively in the socioeconomic development of the nation. The government has also focused on providing better access and facilities for disabled persons to enable them to be independent, productive and valued contributors to society.

This chapter has asserted that these five institutional issues need to be part of the institutional reforms required to achieve better results in inclusive growth and attaining developed status by 2020, namely: support income improvement and distribution, raise the share of wages in

relation to profits in national value-added income, and provide social safety nets for the poor and marginalised.

The law and its implications on inclusiveness

In Chapter 12 we discuss six constitutional and legal issues that either directly or indirectly influence inclusivity. These include Article 153 of the Constitution, and the rights of women, children, indigenous groups, workers and disabled persons. Overall, Malaysia does have laws to promote and protect the marginalised and vulnerable groups. There have been several cases testing the applications of these laws and their assurances of equality in various issues. However, there are some serious shortcomings that need to be carefully assessed and improved. The tensions between Article 153 of the Constitution and the basic principles of equality warrant a clear-headed assessment of its objectives, efficacy and proportionality in order to justify its continued use in the long run to ensure overall inclusiveness in development.

The protection of women’s equality and children’s rights (particularly the child’s right to education) requires both firm judicial support and the legislative affirmation of the child’s right to education regardless of their nationality status. The rights of indigenous peoples as espoused by UNDRIP is not given the weight of law either legislatively or judicially. Meanwhile, the power of workers to defend their rights and to improve their lot is curtailed to the point of uselessness. The *Report* emphasises that the concept of equality has moved beyond mere “formal equality” into “substantive equality” where equality has to be contextualised, drawing upon

values such as human dignity, distributive justice and equal participation. Lastly, the study informs that suggestions have been made by CSOs for the creation of a Social Inclusion Law to look into issues of inclusivity pertaining to the vulnerable, marginalised and the disabled.

13.3 Recommendations for policy reform

The statistical findings and arguments raised in the various chapters in this *Report* point to the urgent need to introduce new policy reforms and strengthen existing ones in order to achieve the goals of inclusive growth and better quality of life for all Malaysians. Policies must be based on clear objectives and evidence, resisting populism that ultimately disempowers households and communities. Malaysia is a complex nation, politically, economically and socially, to govern and manage. But with balanced development and pragmatic policies it has been able to make considerable advances towards inclusive development in terms of a fairer share in the benefits of economic performance. The NEP and its successive derivative development policies operating under the rubric of growth with redistribution have made commendable progress, but much more needs to be done if the nation is to simultaneously achieve developed status and inclusive growth. Table 13.1 provides a reference list of policy reforms and recommendations linked to the evidence and arguments adduced in the various chapters of the *Report*.

Growth policy

The first focus of policy towards achieving the goals of inclusive growth is economic growth itself. Malaysia needs to recover its potential

GDP growth rate that was achieved during the era of high-speed growth in the late 1980s and early 1990s in order to strengthen the basis for the redistributive policies it has adopted since implementation of the NEP. The potential GDP growth rate has fallen by nearly half its rate in the 1990s to around 4.5% and has remained there since the Asian financial crisis. The NEM calls for an average annual GDP growth rate of six per cent if Malaysia is to achieve the income targets it has set to attain developed status by 2020. Since this growth rate has hovered around five per cent annually since recovering from that deep recession, a higher target above the current level must be achieved within the next decade.

Statistically speaking, a rate above six per cent is preferable if Malaysia is to attain its goals. While the average of five per cent growth is encouraging given the lack of growth in advanced economies, namely the United States and Western Europe, it does not compare well with those achieved by emerging economies, especially in Asia. At the same time, due to competition for foreign investment, a reliance on the public sector to induce domestic private investment is further circumscribed by the government deficit, accumulated over the last two decades and impacting on the national debt. It is possible that a higher target closer to the historical GDP growth potential of seven to eight per cent per annum, fiscal and demand conditions permitting, would secure Malaysia's developed nation status. Subject to

The potential GDP growth rate has fallen by nearly half its rate in the 1990s to around 4.5% and has remained there since the Asian financial crisis.





financial sustainability considerations, the higher GDP growth required to implement the strategy of inclusive growth in Malaysia could be attained through a new round of infrastructure development as seen in the 1990s in the area of transport infrastructure, energy, environment and sustainable resource exploitation, housing, schools and health facilities through Public-Private Partnership (PPP) programmes already adopted by the government in recent five-year Plans.

But this of course requires reforms and transparency in government procurement policy as well as in incentives to promote private investment in public expenditure (PIPE) projects in order to avoid excesses and corruption. A better husbanding of national resources is also required, including rationalisation of subsidies to industry and phasing out a low-wage economic regime and overdependence on foreign labour, in order to maintain national competitiveness.

To achieve inclusive growth, pro-poor policies adopted so far need to be continued and strengthened, with adjustments and further reforms to be outlined in the following pages. It is also important to underline that a better income distribution policy and an improved functional income distribution between wages and profits may contribute to better growth performance in the long run through enhanced consumption. Inclusiveness does not have to come at the expense of economic growth. A balancing of the policy reforms proposed here is necessary for Malaysia to get out of the redistribution impasse it now faces and take another step closer to developed status.

Fiscal and tax policy reforms

Two classes of crucial reforms for inclusive growth are required in the area of fiscal and tax policy. First is the needed adjustments to the tax revenue base and a fairer sharing of the tax burden, and second is the rationalisation of tax expenditures including government transfers and the subsidy structure. Successful conduct of reforms in these two areas will reset the balance between compensation for work and the appropriation of profits due to the present disconnect between the real and the financial economy that had plagued the most recent development experience, as a result of rampant financialisation and rent-seeking behaviour on the part of economic agents.

The first tax reform involves implementation of a consumption tax in the form of the Goods and Services Tax (GST) which has already been approved by Parliament in order to broaden the nation's tax base. It has been argued that the GST is regressive (contrary to the Mirlees-Diamond theorem on a flat consumption tax) and has since been delayed. This can be overcome however with judicious application of an exclusion list to protect the poor and vulnerable groups. In addition, the government should, like so many advanced economies, consider introducing a Capital Gains Tax. Again, some argue that this may drive away foreign investment at a time when the country is competing for a share of global savings to finance its economic growth. And again, this concern is misplaced; what will be driven away is speculative capital that the country does not want anyway. These additional taxes should broaden the tax base sufficiently to enable a further reduction in the personal



Simulations show that minimum wage has the highest positive impact on overall income distribution as measured by the Gini coefficient, and contributes to improving the functional income distribution between labour and capital.

as measured by the Gini coefficient, and contributes to improving the functional income distribution between labour and capital as well.

This *Report* has shown that the wage-productivity gap in the country has widened considerably in the past two decades, while the share of wages in national income has remained stagnant over the same period. A reversal of this trend will be further

strengthened by introducing greater scope for collective bargaining through the growth of the labour movement. Productivity and wages can also be closer integrated with increased implementation of suitable and fair productivity-linked wage systems.

Figures in the *Report* show that labour union membership declined over the years and must be arrested if a more equitable share of the economic cake is to be achieved through the strategy of inclusive growth.

Contributions of women, who are increasingly educated and empowered, to the economy have persistently been impeded by various factors, as discussed in Chapter 9. Meaningful and extensive measures are warranted to redress Malaysia's unacceptably low female labour force participation rate, low representation in high-level positions and substantially smaller remuneration. Among other vital efforts, ongoing initiatives to enhance work flexibility, part-time employment and childcare must be broadened and intensified, and legal safeguards for

equality and against gender discrimination, and educational and financial support for working women, especially those engaged in the informal sector, all play important roles in fostering inclusion and in harnessing our women's available capability, potential energy and latent talents.

The role of foreign labour in the Malaysian economy is a vexing one, requiring considerable political will to resolve. While foreign labour has contributed much to the economy and has sustained the plantation and construction sectors, its continued application in the manufacturing sector has led to wage repression, running counter to the country's need to move to a higher wage regime. Reform attempts such as charging higher employment levies on employers have failed, as the extra charges were passed on to employment agents who then passed them on to the foreign worker themselves.

The exploitation of foreign labour must be stopped. Considerable disquiet has emerged over the displacement of local workers by illegal foreign workers, reducing opportunities for local enterprise in the informal sector. But more definitive studies need to be undertaken before the appropriate policy can be adopted to deal with this urgent situation.

Small Medium Enterprise (SME) & informal sector policy

This *Report* has identified SMEs and the informal sector as crucial to the strategy of inclusive growth, representing them as potential business assets and a source of entrepreneurship and wealth creation, as well as a generator of employment. But the sector remains a binding constraint to growth due to the lack of better

access to capital in order for companies to move to the next level and reach bigger markets. For the informal sector, especially for the hawkers and petty traders, improved access to microfinance through the promotion of financial inclusion is a crucial step in order to allow the sector to continue playing its clearly significant role to inclusive growth. As shown in the Chapter 5, there is no lack of government programmes to finance SMEs and the informal sector—on the contrary, SME policy and the informal sector programmes suffer more from coordination externalities than anything else due to administrative and structural factors. This policy prolegomena must be sorted out and consolidated in order to energise this sector. This effort includes improving licensing procedures, particularly at the local government level, and maintenance of a nurturing stance in dealing with these smaller enterprises.

Training programmes are also numerous, but their impact may be minimal to their lack of variety and follow-through. One areas that can be improved is the level of professionalism and quality of management of these smaller scale enterprises. Even more important is to enhance their innovation capabilities and marketing tools in order to penetrate the global market, especially in manufacturing. Attempts to provide linkages to larger enterprises such as through the Vendor Development Program have been tried with some success, and the franchise system has begun to show results, but a more concerted effort is required. At best, under the circumstances, the government may only act to provide the enabling environment for entrepreneurship

and then remain hands-off other than to ensure financial inclusion. Barriers to entry should be removed and competition from more privileged sectors such as government enterprises should be discouraged. From the point of view of the strategy of inclusive growth, this sector should in fact be fully liberalised, except for when maintaining health, labour and environmental standards.

As part of this enterprise reform, the government should endeavour to end monopolies in domestic trade as well as import-export business and free the supply chain to all comers. The practice of unfair trade practices, such as cartelisation and collusion should be expunged from the market through enhancement and enforcement of the Competitions Act, which has already been passed.

Social policy reforms

The case for increased transfer and subsidy programmes to targeted groups at the bottom 40% of households has been made in the discussion of tax and fiscal policy reform earlier in this *Report*. Short of adopting full-blown welfare state instrumentalities, the design of transfer programmes should aim at improving access to government resources while reducing the administrative costs of delivery. From anecdotal evidence, leakages, misappropriations and outright corrupt practices undermine the effectiveness of transfers to the target groups. Use of the internet such as in the e-Kasih programme may minimise such transaction overcharges, but online systems for authentication and verification need to be secure to prevent slippages. Access to official providers is





a crucial factor in assuring that the goals of inclusive growth at the bottom of the pyramid are achieved. Strengthening the social safety net provisions as discussed in Chapter 7 would otherwise be moot; they should be broadened and deepened to ensure the economic security of vulnerable groups at the margins of society.

This particularly applies to unemployment insurance for workers. As the vagaries of growth unfold in an economy increasingly more integrated into the global stage, and with enhanced flexibility in the labour market with respect to hiring and firing and other terms of employment, relief in the form of employment insurance should be extended to temporarily displaced workers in view of the absence of significant savings among the lower income groups and the decline of extended family support.

In a similar light, provisions for old age retirement in an increasingly aging society as Malaysia will be in the next few decades should also be strengthened, and diversions from retirement funds such as the EPF should be minimised. Such provisions could be enhanced by introducing voluntary individual pension plans and geriatric insurance to complement the EPF.

Educational reforms to improve the quality of education, qualifications of teachers and extended school facilities in rural areas and for the urban poor in low-cost housing estates, as well as in Sabah and Sarawak, should be the focus of policy reform towards inclusive growth that will have far-reaching consequences for the welfare of the poor and their improved life chances. Simulations

relating to raising educational access and skills formation in the labour force indicate the contribution of education to improved income and social mobility in the lower half of households.

Similarly improved access to affordable healthcare under the proposed Health Transformation Plan should not ignore the interest of the poor and vulnerable groups as well as the middle class as, unlike public healthcare providers, private healthcare providers and drug companies tend to prioritise profitability.

A National Plan Against Child Poverty should be prepared, coordinating efforts and initiatives between government and non-government bodies under a common set of targets. A multi-sectoral approach, consistent with the multidimensional character of child poverty and deprivation, should be promoted, addressing not only household income but child wellbeing. A set of child wellbeing indicators that can serve as a guide for effective roll out of Outcome-Based Budgeting should be adopted, and data collection must be improved in order to make adequate monitoring on child poverty possible. As an investment in the future of Malaysia, poverty policies must be child-sensitive.

Finally, an important dimension of social policy is access to affordable housing, not just for the poor who are already provided for through public and low-cost housing programmes, but even more so for the middle class who has to acquire housing through the housing market. The trend in the housing market has been shifting to the upper end of the scale as demand by investors have shot up over the past decade due to excess liquidity in the financial sector and speculation.

Prices have been pushed beyond the financial capability of new entrants to the labour force and the middle class, as reflected in the Housing Affordability Index. Lack of access to affordable housing constitutes a major problem in the strategy of inclusive growth, where property represents a significant asset in the purchasing power makeup of middle income groups. An active labour market without the speculative element, may in fact contribute to economic growth as a whole.

Legal and institutional reforms

Among the legal reforms brought out by our analysis of the implications of the law and associated legal provisions on inclusive growth is ensuring gender equality for all areas and bringing about full implementation of CEDAW. There should also be equal rights to education for all children regardless of race, religion and nationality, access to healthcare should be recognised as a rights-based need.

From the asset side of inclusive growth strategy, the protection of native land rights is crucial especially in Sabah and Sarawak. To ensure proper coverage of all concerns and to prevent exclusionary practices, an NGO has suggested the enactment and implementation of a Social Inclusion Act (SIA) to provide some bite to the suggested reforms. The SIA and equal opportunity or fair employment legislation, in concert, should effectively oversee both the equitable participation and derived benefits for social groups and income classes from inclusive growth and economic performance.

Supporting institutional reform programmes that arise from this *Report*

include the promotion of stronger fiscal federalism (including reviews of resource tax allocation and oil royalty); reform of government procurement policy; strengthening state representation in national policymaking; providing incentives for private sector contribution to public facilities; and empowering and enhancing the role of CSOs in policymaking through appropriate grant schemes and consultation.

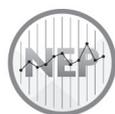
Finally, on integrity policy: there is a need to strengthen the governance structure and institutions for better checks-and-balances against corruption and wastage to enhance the independence and credibility of the Malaysian Anti-Corruption Commission (MACC) as well as the judicial system; and to enact and implement the Freedom of Information Act at the federal and state levels.

Property prices have been pushed beyond the financial capability of new entrants to the labour force and the middle class.

13.4 Conclusion

It is relevant to quote again the assertion by Stiglitz (2012) “(that) when elites overpoweringly exert influence over policies, the economic system begins to revolve around securing their interests, saliently through deregulation and privatisation, tax breaks and subsidies, and the promotion of short-term interest and financial gains over long-term improvements in real productivity. Financialisation and labour market ‘flexibilisation’ – among the mainstays of neoliberalism – are factors that have further decoupled finance from the





real economy, widened gaps between management and the workforce, and promoted economic insecurity as a premise for setting policy.” With the statistical analyses and evidence provided in this *Report*, this assertion has become even more relevant to Malaysia.

In our review and analysis of the implementation of the NEP and its subsequent policy instalments over the 40-year period from 1970 to the present, we can discern a story of two halves: the first 20 years which saw the implementation of the NEP in its formal sense, with results that debunked some of the myths created to dismiss its positive impacts on an earlier definition of inclusive growth as “growth with redistribution”; and a second period over the last two decades inclusive of the Asian financial crisis of 1997, which saw rapid growth in the period of economic recovery prior to the onset of the crisis, and a deterioration from that historical

path to the relatively drab performance of the first decade of the new century. Indeed, it is evident that the early part of the second period saw an economic recovery through the liberalisation policies described, but since that era of high-speed growth the policies adopted tended to deteriorate into the state of affairs outlined in Stiglitz statement, showing no significant movement in the indicators of inclusive development as defined in the literature.

If we are serious about achieving the goals of inclusive growth and development in Malaysia, reform measures as outlined in this *Report* are an important starting point. There are fundamental development pathologies in Malaysia – not just economic but also social and political – which can only be cured by the serious application of political will. A sustained effort by all parties to the Malaysian compact is necessary in this effort.

Table 13.1:
Reference list of policy and institutional reforms

Theme	Dimensions of Reform/Chapters	2	3	4	5	6	7	8	9	10	11	12	Status
Growth Policy	Achieve inclusive growth—beyond NEM & bottom 40%/improving wage share in national income	√	√	√	√	√	√	√			√		N
	Maintain pro-poor (vertical & horizontal equity) strategy	√	√								√		I
	Going for high growth strategy in excess of 8% per annum, through infrastructure investment to attain historical growth potential	√	√		√				√				N
Fiscal/ Tax Policy	Reinstate the Inheritance Tax				√								N
	Introduce a Capital Gains Tax										√		N
	Reduce Personal Income Tax										√		N

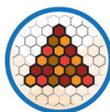
Fiscal/ Tax Policy	Rationalisation and implementation of better targeting of subsidies, and shifting to an equity-based criteria from current consumption-basis; review of industrial subsidies especially energy to reflect market costs		√	√		√	√				√	√		N
Labor Market Policy	Introduce equal opportunity or fair employment legislation	√				√	√				√		√	N
	Continue reasonable minimum wage policy					√	√							P
	Expand effective and fair productivity-linked wage systems	√					√						√	N
	Enhance unionisation and collective bargaining					√		√					√	I
	Application of minimum wage to all workers					√	√						√	P
	Raise female labour force participation and ensure gender equality in opportunity and reward										√			I
	Reduce size of foreign labour by charging higher wage levy on employers						√							N
Social Policy	Enhance measurement of inequality and inclusion: relative poverty, capability deprivation, middle class growth, wealth inequality		√	√				√						N
	Increase transfer and subsidy to targeted groups of bottom 40% and strengthening of social safety net provisions including old age pensions		√			√	√					√		I
	Educational reforms (improve quality of education, qualifications of teachers and extended facilities in rural areas, and Sabah and Sarawak		√	√				√			√			I
	Increase access to affordable healthcare							√			√			I



Institutional Reforms	Promoting stronger fiscal federalism (including resource tax allocation and oil royalty)								√		√		N
	Strengthening state representation in national policymaking (to nominate two representatives instead of one in the senate)								√		√		N
	Providing incentives for private sector's contribution to public facilities										√		N
	Empowering and increasing the roles of Civil Society Organisations (CSO) in policy making through appropriate grant schemes and consultation										√		N
	Reforming the government's procurement policy		√								√		N
Integrity Policy	Strengthening governance structure and institutions for better checks-and-balance against corruption and wastage	√	√								√		I
	Enhance independence and credibility of the Malaysian Anti-Corruption Commission as well as the judicial system										√		I
	Enact and implement Freedom of Information Act at federal and state levels										√		N

Legend:
 N: New proposal by MHDR P: Proposed but not implemented I: Implemented





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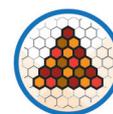
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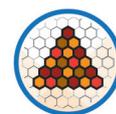
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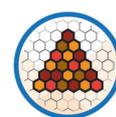
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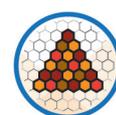
Appendices

Appendix A: Data sources

No.	Source(s)	Data	Type of Data	Period (Data)
1	Amanah Ikhtiar Malaysia (AIM)	Pembiayaan Sahabat 1Azam	Aggregated Data	2011-2012
2	Bank Negara Malaysia	Loan Amount Outstanding for Purchase of Securities, Purchase of Units in ASB & Residential Property by Individual, Businesses & Location	Data	2006-2011
3	Department of Statistics, Malaysia	Household Income Survey (HIS)	Raw Data (30%)	1999, 2009
		Population Distribution & Basic Demographic Characteristics	Aggregated Data	2010
		Population Distribution By Local Authority Areas & Mukim	Aggregated Data	2010
		Labour Force Survey	Report	2011
		Labour Force Survey	Aggregated Data	Year Series until 2011.
		Labour Force Survey	Raw Data (30%)	2011
		Migration Survey Report	Report	2011
4	Department of Justice, Malaysia	Data on Civil Servants by Age, Grade, Ethnicity, New Entrants, Application and Hired	Aggregated Data	2006-2012
5	Ministry of Education (MOE)	Enrolment Data	Aggregated Data	2000-2004
		Data on Schools	Aggregated Data	2000-2012
		Dropout Rates	Aggregated Data	2001-2011
		Transition's Rates	Aggregated Data	2001-2011



6	Ministry of Finance (MOF)	Data on Government's Subsidy Allocations	Data	2000-2012
7	Ministry of Health (MOH)	National Health and Morbidity Survey (NHMS)	Raw Data	2011
8	Ministry of Human Resource (Labour Department)	Labour Department and Institute of Labor (ILHAM) Study, MOHR	Raw Data	2007 & 2009
		Data on Retrenchment & Compensation (Foreign and Local Workers)	Aggregated Data	2003-2012
9	Ministry of Higher Education (MOHE)	Data on Students' Enrolment, Graduates and Tracer Study	Aggregated Data & Reports	2007-2012
10	Perbadanan Tabung Pengajian Tinggi Nasional (PTPTN)	Data on Loan (& Amounts) Approvals, Repayment, Exemption by IPTA/S, Course of Studies & Level of Studies	Aggregated Data & Reports	1997-2012
11	Permodalan Nasional Berhad (PNB)	Data on Amanah Saham Nasional Berhad (ASNB) Annual Reports	Aggregated Data	2001 & 2012
12	Public Service Department (JPA)	Data on Government's Scholarship (JPA Scholarship)	Data	2000-2011
		Data on Government Civil Servants	Data	1990-2012
		Data on Pension & Retirement	Data	2000-2012
13	Royal Malaysian Police (Polis Diraja Malaysia)	Data on Police force by Age, Grade, Ethnicity, New Entrants, Application and Hired	Aggregated Data	2006-2012
14	Suruhanjaya Perkhidmatan Awam (SPA) – Commission on Public Service	Data on Number of Applicants, Admission and Entrants into Public Service.	Aggregated Data	1990-2012
15	Suruhanjaya Perlantikan Kehakiman (SPK)	Data on Number of Applicants, Hired and New Entrants into Public Service	Aggregated Data	1990-2012
16	Suruhanjaya Perlantikan Polis (SPS)	Statistics on Entrants and Hired Personnel (by Grades/Ethnicity)	Aggregated Data	1994-2012
17	TEKUN (Malaysia)	Data on Loan Approvals & Applicants (Amounts)	Cumulative Data	1998-2013



Appendix B: Data & technical appendices

Appendix Table B6.1: Summary of quantile regression results

β (explanatory variable)	Sig	Bottom 10%	Bottom 20%	Bottom 40%	Median	Top 20%	Top 10%	Top 1%
Primary	*	25%	23%	20%	19%	18%	18%	17%
SRP/PMR	*	39%	35%	32%	32%	33%	33%	35%
SPM	*	54%	51%	47%	48%	50%	50%	51%
STPM	*	54%	54%	54%	56%	60%	60%	58%
Diploma/Certificate	*	80%	77%	73%	73%	73%	73%	81%
Degree	*	109%	105%	99%	98%	100%	104%	112%
Government Employee	*	-1%	-3%	-12%	-18%	-43%	-56%	-103%
Private Employee	*	-27%	-27%	-34%	-37%	-52%	-59%	-88%
Own Account Worker	*	-52%	-43%	-37%	-37%	-39%	-41%	-53%
Others	*	-345%	-236%	-129%	-118%	-94%	-111%	-91%
Rural	*	-10%	-12%	-12%	-12%	-13%	-13%	-14%
Other Bumi	*	-15%	-13%	-10%	-8%	-3%	-1%	6%
Chinese	*	31%	30%	30%	30%	29%	30%	27%
Indian	*	8%	7%	5%	6%	8%	10%	6%
Senior Officials & Managers	*	74%	77%	82%	83%	93%	97%	111%
Professionals	*	65%	66%	66%	66%	68%	66%	77%
Technicians & Associate Professionals	*	44%	48%	50%	50%	52%	51%	50%
Clerical Workers	*	40%	40%	38%	37%	36%	37%	33%
Service, Shop and Market Sales Workers	*	7%	10%	13%	14%	24%	28%	28%
Skilled Agriculture and Fishery Workers	*	1%	-1%	-4%	-4%	-5%	-6%	-9%
Craft and Related Trades Workers	*	13%	14%	17%	17%	19%	20%	22%
Plant & Machine Operators & Assemblers	*	23%	22%	19%	18%	17%	16%	11%
Homemakers	*	2%	-1%	-46%	-54%	-74%	-51%	-50%
Age	*	1%	1%	1%	2%	2%	2%	2%
Female	*	-54%	-47%	-39%	-38%	-33%	-33%	-39%
Never Married	*	-29%	-25%	-24%	-23%	-24%	-23%	-21%
Widowed	*	9%	7%	6%	4%	1%	-1%	-6%
Divorced	*	-4%	-1%	-3%	-5%	-1%	-2%	5%
Separated	***	3%	-3%	-5%	-4%	-3%	-5%	13%
Unknown	*	-41%	-15%	-29%	-40%	-40%	-57%	-91%
α	*	8.19	8.40	8.74	8.86	9.29	9.53	10.27

Note:(1) The dependent variable is log of purchasing power. Variables "no education", "housewife", "urban", "Malay", "elementary workers", "male", and "married" are excluded. 2) The coefficient of determination (R2) for the quantile regressions are pseudo R2, calculated as 1 minus (sum of deviations about the estimated quantile / sum of deviations about the raw quantile).

Note (2) * denotes significance within 95% confidence level, ** 90% confidence level, and *** non-significant at median purchasing power.



**Appendix Table B6.2:
Minimum wage: post-intervention quantile regression results**

β (explanatory variable)	Sig	Bottom 10%	Bottom 20%	Bottom 40%	Median	Top 20%	Top 10%	Top 1%
Primary	*	34%	27%	17%	14%	13%	12%	14%
SRP/PMR	*	42%	35%	24%	23%	23%	23%	32%
SPM	*	47%	41%	33%	32%	37%	39%	48%
STPM	*	49%	43%	41%	40%	47%	48%	56%
Diploma/Certificate	*	58%	56%	53%	52%	59%	60%	76%
Degree	*	85%	84%	78%	77%	84%	92%	109%
Government Employee	*	-3%	-7%	-16%	-22%	-43%	-57%	-102%
Private Employee	*	-10%	-15%	-26%	-31%	-48%	-57%	-86%
Own Account Worker	*	-90%	-70%	-54%	-50%	-43%	-45%	-52%
Others	*	-402%	-287%	-157%	-139%	-99%	-113%	-89%
Rural	*	-3%	-4%	-6%	-7%	-11%	-12%	-15%
Other Bumi	*	-6%	-5%	-3%	-2%	-1%	0%	6%
Chinese	*	11%	13%	19%	21%	26%	28%	26%
Indian	*	3%	3%	4%	5%	7%	10%	5%
Senior Officials & Managers	*	56%	64%	72%	76%	89%	93%	111%
Professionals	*	38%	44%	50%	53%	59%	60%	74%
Technicians & Associate Professionals	*	14%	21%	30%	35%	43%	46%	49%
Clerical Workers	*	9%	11%	15%	18%	24%	29%	31%
Service, Shop and Market Sales Workers	*	1%	3%	6%	8%	19%	24%	27%
Skilled Agriculture and Fishery Workers	*	-2%	-4%	-7%	-6%	-7%	-6%	-8%
Craft and Related Trades Workers	*	1%	2%	5%	6%	11%	15%	20%
Plant & Machine Operators & Assemblers	*	6%	6%	6%	7%	10%	11%	9%
Homemakers	*	11%	18%	-33%	-47%	-78%	-58%	-52%
Age	*	1%	1%	1%	1%	2%	2%	2%
Female	*	-22%	-24%	-24%	-24%	-27%	-29%	-38%
Never Married	*	-12%	-13%	-14%	-15%	-20%	-21%	-20%
Widowed	***	5%	4%	3%	1%	-1%	-1%	-5%
Divorced	***	0%	2%	0%	1%	0%	1%	3%
Separated	***	-3%	-9%	1%	0%	-2%	-4%	13%
Unknown	*	-11%	-16%	-26%	-30%	-43%	-42%	-92%
α	*	8.80	8.90	9.13	9.21	9.52	9.73	10.32

Note:(1) The dependent variable is log of purchasing power. Variables "no education", "housewife", "urban", "Malay", "elementary workers", "male", and "married" are excluded. 2) The coefficient of determination (R²) for the quantile regressions are pseudo R², calculated as 1 minus (sum of deviations about the estimated quantile / sum of deviations about the raw quantile).

Note (2) * denotes significance within 95% confidence level, ** 90% confidence level, and *** non-significant at median purchasing power.



**Appendix Table B6.3:
Education reform: post-intervention quantile regression results**

β (explanatory variable)	Sig	Bottom 10%	Bottom 20%	Bottom 40%	Median	Top 20%	Top 10%	Top 1%
STPM	*	-1%	3%	6%	7%	11%	10%	7%
Diploma/Certificate	*	25%	27%	26%	25%	24%	23%	30%
Degree	*	55%	54%	51%	50%	51%	55%	64%
Government Employee	*	0%	-2%	-11%	-17%	-39%	-52%	-98%
Private Employee	*	-26%	-27%	-32%	-37%	-48%	-56%	-82%
Own Account Worker	*	-50%	-42%	-36%	-36%	-35%	-38%	-49%
Others	*	-347%	-226%	-124%	-118%	-88%	-109%	-82%
Rural	*	-10%	-12%	-12%	-12%	-13%	-14%	-14%
Other Bumi	*	-15%	-12%	-9%	-9%	-3%	-1%	6%
Chinese	*	31%	30%	30%	30%	28%	29%	23%
Indian	*	8%	8%	5%	6%	8%	10%	6%
Senior Officials & Managers	*	73%	76%	81%	82%	93%	98%	113%
Professionals	*	64%	65%	65%	66%	68%	67%	77%
Technicians & Associate Professionals	*	44%	47%	49%	50%	52%	52%	51%
Clerical Workers	*	40%	39%	37%	37%	36%	38%	34%
Service, Shop and Market Sales Workers	*	8%	10%	13%	15%	24%	28%	31%
Skilled Agriculture and Fishery Workers	*	2%	-1%	-3%	-3%	-5%	-6%	-8%
Craft and Related Trades Workers	*	12%	14%	17%	17%	19%	20%	21%
Plant & Machine Operators & Assemblers	*	23%	22%	19%	18%	17%	16%	10%
Homemakers	*	9%	-5%	-46%	-50%	-73%	-49%	-50%
Age	*	1%	1%	1%	2%	2%	2%	2%
Female	*	-53%	-46%	-39%	-38%	-33%	-32%	-37%
Never Married	*	-29%	-24%	-23%	-23%	-24%	-24%	-19%
Widowed	*	10%	8%	8%	5%	1%	1%	-6%
Divorced	*	-4%	-2%	-2%	-4%	-2%	-2%	5%
Separated	***	-1%	-4%	-4%	-4%	-3%	-6%	15%
Unknown	*	-41%	-11%	-29%	-40%	-40%	-56%	-93%
α	*	8.73	8.89	9.19	9.32	9.75	10.02	10.76

Note:(1) The dependent variable is log of purchasing power. Variables "SPM", "housewife", "urban", "Malay", "elementary workers", "male", and "married" are excluded. 2) The coefficient of determination (R2) for the quantile regressions are pseudo R2, calculated as 1 minus (sum of deviations about the estimated quantile / sum of deviations about the raw quantile).

Note (2) * denotes significance within 95% confidence level, ** 90% confidence level, and *** non-significant at median purchasing power.



Appendix Table B6.4:
Transfers reform: post-intervention quantile regression results

β (explanatory variable)	Sig	Bottom 10%	Bottom 20%	Bottom 40%	Median	Top 20%	Top 10%	Top 1%
Primary	*	24%	21%	18%	17%	15%	16%	14%
SRP/PMR	*	36%	32%	29%	29%	29%	30%	33%
SPM	*	50%	46%	43%	43%	44%	46%	49%
STPM	*	51%	48%	49%	51%	55%	55%	56%
Diploma/Certificate	*	76%	71%	68%	68%	67%	68%	77%
Degree	*	104%	99%	93%	92%	94%	99%	110%
Government Employee	*	1%	-3%	-13%	-17%	-42%	-56%	-102%
Private Employee	*	-25%	-26%	-34%	-36%	-51%	-58%	-87%
Own Account Worker	*	-48%	-41%	-36%	-35%	-37%	-40%	-53%
Others	*	-349%	-240%	-133%	-116%	-92%	-109%	-90%
Rural	*	-10%	-11%	-12%	-11%	-12%	-13%	-15%
Other Bumi	*	-14%	-13%	-9%	-8%	-2%	-1%	6%
Chinese	*	30%	28%	28%	28%	28%	30%	26%
Indian	*	8%	7%	5%	5%	8%	10%	5%
Senior Officials & Managers	*	71%	74%	79%	81%	92%	97%	110%
Professionals	*	62%	64%	63%	64%	66%	66%	74%
Technicians & Associate Professionals	*	43%	47%	48%	48%	50%	50%	48%
Clerical Workers	*	40%	40%	36%	36%	34%	36%	30%
Service, Shop and Market Sales Workers	*	8%	10%	12%	14%	22%	27%	26%
Skilled Agriculture and Fishery Workers	*	3%	1%	-3%	-2%	-5%	-6%	-10%
Craft and Related Trades Workers	*	12%	14%	16%	16%	18%	20%	20%
Plant & Machine Operators & Assemblers	*	24%	22%	18%	18%	16%	15%	9%
Homemakers	*	24%	30%	-27%	-39%	-65%	-45%	-51%
Age	*	1%	1%	1%	1%	2%	2%	2%
Female	*	-59%	-50%	-41%	-39%	-33%	-32%	-38%
Never Married	*	-32%	-28%	-25%	-24%	-24%	-24%	-21%
Widowed	*	17%	15%	11%	10%	4%	1%	-3%
Divorced	***	2%	3%	2%	1%	0%	0%	5%
Separated	***	7%	2%	-1%	-1%	-2%	-2%	13%
Unknown	*	-44%	-15%	-33%	-43%	-37%	-49%	-84%
α	*	8.23	8.48	8.84	8.94	9.38	9.61	10.34

Note:(1) The dependent variable is log of purchasing power. Variables "no education", "housewife", "urban", "Malay", "elementary workers", "male", and "married" are excluded. 2) The coefficient of determination (R²) for the quantile regressions are pseudo R², calculated as 1 minus (sum of deviations about the estimated quantile / sum of deviations about the raw quantile).

Note (2) * denotes significance within 95% confidence level, ** 90% confidence level, and *** non-significant at median purchasing power.

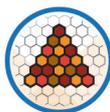


Appendix Table B6.5:
All reforms: post-intervention quantile regression results

β (explanatory variable)	Sig	Bottom 10%	Bottom 20%	Bottom 40%	Median	Top 20%	Top 10%	Top 1%
STPM	*	11%	11%	10%	11%	11%	11%	7%
Diploma/Certificate	*	22%	22%	20%	21%	22%	22%	30%
Degree	*	47%	47%	44%	45%	48%	54%	64%
Government Employee	*	-11%	-9%	-15%	-20%	-39%	-53%	-98%
Private Employee	*	-28%	-25%	-31%	-35%	-48%	-56%	-82%
Own Account Worker	*	-59%	-48%	-44%	-42%	-36%	-39%	-49%
Others	*	-364%	-228%	-132%	-116%	-94%	-109%	-82%
Rural	*	-8%	-8%	-9%	-9%	-11%	-13%	-15%
Other Bumi	*	-12%	-11%	-9%	-8%	-4%	-1%	6%
Chinese	*	20%	21%	23%	24%	27%	28%	23%
Indian	**	-1%	0%	0%	2%	7%	9%	6%
Senior Officials & Managers	*	70%	79%	84%	85%	95%	98%	113%
Professionals	*	60%	64%	64%	65%	67%	66%	77%
Technicians & Associate Professionals	*	41%	44%	47%	47%	50%	51%	50%
Clerical Workers	*	38%	37%	33%	33%	34%	36%	34%
Service, Shop and Market Sales Workers	*	12%	15%	17%	18%	25%	28%	30%
Skilled Agriculture and Fishery Workers	*	1%	-1%	-8%	-9%	-6%	-7%	-9%
Craft and Related Trades Workers	*	10%	13%	15%	16%	18%	20%	21%
Plant & Machine-Operators & Assemblers	*	20%	22%	19%	19%	19%	16%	10%
Homemakers	*	25%	8%	-17%	-33%	-61%	-48%	-51%
Age	*	1%	1%	1%	1%	2%	2%	2%
Female	*	-35%	-34%	-31%	-30%	-29%	-30%	-37%
Never Married	*	-17%	-17%	-16%	-16%	-21%	-23%	-19%
Widowed	***	6%	4%	2%	1%	0%	-2%	-6%
Divorced	*	-6%	-5%	-4%	-4%	-1%	-1%	5%
Separated	**	-6%	-14%	-9%	-7%	-5%	-5%	15%
Unknown	**	-9%	-10%	-17%	-25%	-40%	-39%	-89%
α	*	9.14	9.19	9.37	9.44	9.79	10.06	10.77

Note:(1) The dependent variable is log of purchasing power. Variables "SPM", "housewife", "urban", "Malay", "elementary workers", "male", and "married" are excluded. 2) The coefficient of determination (R2) for the quantile regressions are pseudo R2, calculated as 1 minus (sum of deviations about the estimated quantile / sum of deviations about the raw quantile).

Note (2) * denotes significance within 95% confidence level, ** 90% confidence



Appendix Box B6.1: Data and variable definitions

Methodology and data

We use quantile¹ regression estimations in the analysis as it helps alleviate some of the usual statistical problems that occur when dealing with wealth or income studies, particularly on sensitivity to outliers and non-normal error distributions. The analysis will use data from the 2012 Household Income Survey (HIS) that covered 184,447 individuals. However, several modifications have been made to benefit the analysis. First, as we want to focus on the differences between the main ethnic groups, we have dropped the group “Others” from our sample². Secondly, since we are only concerned with the adult population with income-generating possibilities (those between age 20 and 65), all observations outside this range will be ignored³. Our final sample is thus reduced to 98,720 observations.

The dependent variable in our equation is purchasing power. This endogenous variable is defined as the sum of the wealth effect, disposable income, transfers and leverage. As all these variables have a positive skew, the log transformation makes the positively skewed distribution more normal and avoids the undue influence of extreme observations. The independent variables⁴ in our estimation are fairly standard exogenous variables used in the purchasing power equation. The detailed description of these variables is as follows:

Education: Education refers to the level of education completed. It is split into eight categories: no education, primary education, middle high school (LCE/SRP, PMR), high school (MCE/SPM), senior high (STPM), certificate, diploma and degree. Specifically, it refers to the level of education based on the certification earned, meaning that the education must be completed in order to obtain the certificate. This means that if a primary-school educated person does not finish their secondary education, they will be treated as having only primary education. Religious education is not taken into account; following Milanovic (2006), a person with religious education is treated as having no education.

Employment status: This variable refers to the principal employment status i.e. either being an employer or an employee.

Locational strata: Refers to either urban or rural.

Ethnicity: Ethnicity refers to the four main groups in Malaysia: Malay, Non-Malay Bumiputera, Chinese and Indians.

Occupation: This is divided into nine categories: agricultural workers, elementary workers, machine operators, craft workers, service workers, clerical workers, technicians, professionals and senior managers.

Industry: This refers to the private sector or the public sector.

The remaining variables of Gender, Age, and Marital Status are self-explanatory.

¹Quantiles are a set of ‘cut points’ that divide a sample of data into groups containing equal numbers of observations. Examples of quantiles include quintile (five groups), quartile (four groups) and percentile (one hundred groups).

²Others constitute about 0.7% of the total households.

³The individuals below the age of 20 and above the age of 65 equals to about 46% of the total sample.

⁴Variance inflation factors (VIF) are calculated for all variables. The maximum VIF is 2.02, the mean VIF is 1.53. This does not suggest that the regressions suffer from multicollinearity.

Data cleaning

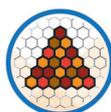
The data cleaning⁵ has been performed for the quantile regression, namely for detecting the outliers, normality, heteroscedasticity and multicollinearity. Several tests have been performed to detect unusual and influential data, though quantile regression estimation is immune to influential and extreme data. We have used three methods to determine if there are any unusual observations. We detect the outlier by examining the observation that has extremes values, defined as having more than three standard deviations above or below the mean. Leverage calculation has also been performed, where it measures how far an independent variable deviates from its mean. Normally, a point with leverage greater than $(2K+2)/n$ is examined. Here, K is the number of predictors and n is the number of observations. The last test is done by observing the influence, where an observation is said to be influential if removing the observation substantially changes the estimate of the coefficients. Influence, however, can be taken as the

product of leverage and outliers. The usual method of testing for influence is by running a Cook's D and DFITs tests; both measures combine information on the residual and leverage. Both provide similar answers even though they scale differently. The rule of thumb in measuring Cook's D and DFITs are $4/n$ and $2*\sqrt{k/n}$ respectively.

The test for normality is based on the STATA command `kdensity`, `qnorm`, `prnorm` and `iqr`. Another test that was used was the swilk test which performs the Shapiro-Wilk W test for normality. The test for heteroscedasticity was performed by running the command `estat imtest` and `estat hettest`. The `vif` command was used for checking multicollinearity. As a rule of thumb, a variable whose vif values are greater than 10 is troubling. The test for specification errors was also performed. The command `linktest` and `ovtest` showed that our model does not have a specification error. The entire tests above have all been performed to determine whether our data sample meets the regression assumptions. The results showed that the data sample is clean and our model specification has no error.



⁵There is no missing data in our sample.



Appendix Table B7.1:
Data sources for mapping household living conditions and human capability

Indicator	Data Source
Piped water inside house (treated)	Household Basic Amenities Survey 2009
Electricity supply (24 hours)	Household Basic Amenities Survey 2009
Condition of living quarters	Household Basic Amenities Survey 2009
Electricity supply (less than 24 hours)	Household Basic Amenities Survey 2009
Living quarters in deteriorating condition	Household Basic Amenities Survey 2009
Living quarters in dilapidated condition	Household Basic Amenities Survey 2009
Primary or less	Household Basic Amenities Survey 2009
Middle secondary	Household Basic Amenities Survey 2009
Complete secondary	Household Basic Amenities Survey 2009
Post-secondary	Household Basic Amenities Survey 2009
Degree	Household Basic Amenities Survey 2009
Average % GPS (SPM) 2011	Education Blueprint 2012 & Yearbook of Statistics
Doctors per million population	Yearbook of Statistics 2011
Hospital beds per million population	Yearbook of Statistics 2011
Cooperative memberships per population	Yearbook of Statistics 2011
Average manufacturing wages	Yearbook of Statistics 2011
Elementary jobs per total jobs	Household Income Survey 2009
Low-skill jobs per total jobs	Household Income Survey 2009
10th percentile earnings	Household Income Survey 2009
Median earnings	Household Income Survey 2009
90th percentile earnings	Household Income Survey 2009
Female per male median earnings	Household Income Survey 2009
Rural per urban median earnings	Household Income Survey 2009
Female per male labour participation	Labour Force Survey 2011
Healthcare coverage	National Health and Morbidity Survey 2011

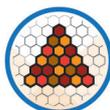


**Appendix Table B7.2:
Overview of the social protection system in Malaysia**

Aspect of Social Protection	Scheme for Government Sector Workers (& Dependents) (Non-contributory)*	Schemes for Private Sector Workers (& Dependents) (Mandatory Contribution)	Schemes for the Self-Employed (Informal Sector) (Voluntary)	Scheme for Military Personnel (Mandatory Contribution)	Schemes for Migrant / Foreign Labour	
					High Wage Expatriates (Voluntary)	Low Wage Workers (Mandatory contribution by employer only)
Old Age, disability & survivors	Pension scheme (include medical benefits)	EPF SOCSO	EPF	LTAT	EPF	Workmen Compensation Insurance
Work Injury	Government public health facilities	SOCSO		LTAT	-	Workmen Compensation Insurance
Sickness (medical care)	Government public health facilities	EPF (covers critical illness) SOCSO	EPF (covers critical illness)	LTAT	EPF (covers critical illness)	Workmen Compensation Insurance
Maternity	There are no formal schemes. 60 days maternity leave with paid wage is mandated by Labour Laws. Any additional benefits are provided by individual employers based on the terms and conditions of employment					
Unemployment	There are no schemes to protect against the risk of unemployment.					
Family & Child Care	There is no universal assistance for family and child care.					
Cash Transfer Programmes for low-income & poor	Cash transfer and social assistance programmes exist for targeted low-income, poor and vulnerable groups: <ul style="list-style-type: none"> Continual programmes - Welfare aid, e-Kasih, 1Azam, 1Care, govt. subsidies for utilities, food, petrol One-off benefits - BR1M (Bantuan Rakyat), PR1MA housing for the low-income, cash benefits for low-income and students, 					
Social protection provided by labour laws	<ul style="list-style-type: none"> Equal protection for Malaysian and foreign workers Compensation for termination and dismissals (Employment Act, Sabah Labour Ordinance and Sarawak Labour Ordinance) Collective bargaining and the right to organise (Industrial Relations Act and Trade Union Act) Welfare of plantation workers (Workers' Minimum Standards of Housing and Amenities Act, 1990) Minimum wage (National Wage Consultative Council Act 2012) Occupational safety and health (Occupational Safety and Health Act, 1994) 					
Supplementary voluntary schemes by private entities	<ul style="list-style-type: none"> Private Retirement Schemes (Defined Contribution) to supplement old age financial protection (launched in 2012) Private Commercial Insurance: for general health and critical illness, personal accident, education and endowment (savings) plans Investment and Savings Schemes provided by financial institutions 					

Source: Soh 2013.

Notes: EPF is the Employees Provident Fund; SOCSO is the Social Security Organisation; LTAT is Lembaga Tabung Angkatan Tentera i.e. the Armed Forces Fund Board. Government sector workers have the option to either contribute to the EPF or to join the pension scheme for government workers. Initially, the officer contributes to the EPF. However, a permanent officer may be conferred the status of a pensionable officer if he/she has (a) been confirmed in his present appointment; and (b) completed not less than three years' reckonable service. The officer may opt to continue to contribute to the EPF instead of joining the pension scheme.

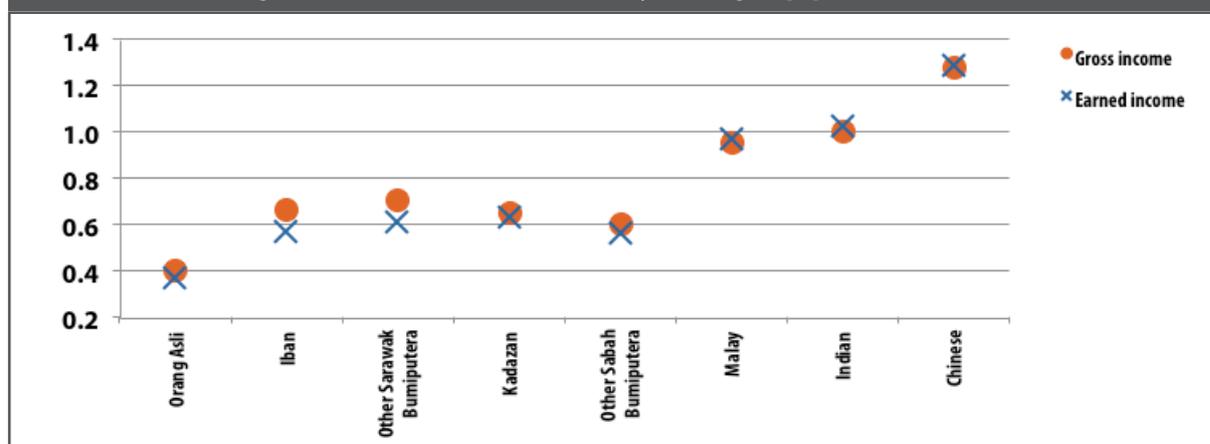


Appendix Table B7.3:
Healthcare coverage* by household income

	Overall	RM500 - RM999	RM1000 - RM1999	RM2000 - RM2999	RM3000 - RM4999	≥ RM5000
Government Guarantee Letter	19.30%	8.80%	14.20%	19.30%	23.80%	26.30%
Employer Sponsored	15.10%	5.70%	8.70%	13.60%	19.70%	24.10%
Personal Health Insurance	21.90%	5.30%	8.40%	16.30%	26.10%	45.160%
With Coverage	56.30%	19.80%	31.30%	49.20%	69.60%	94.50%
Without Coverage	43.70%	80.20%	68.70%	50.80%	30.40%	5.50%
Weighted Population	27,192,306	2,586,244	5,084,337	4,575,347	6,339,289	620,2196

Source: National Health and Morbidity Survey 2011.
*Note: Healthcare is extended to all Malaysians via public sector health services.

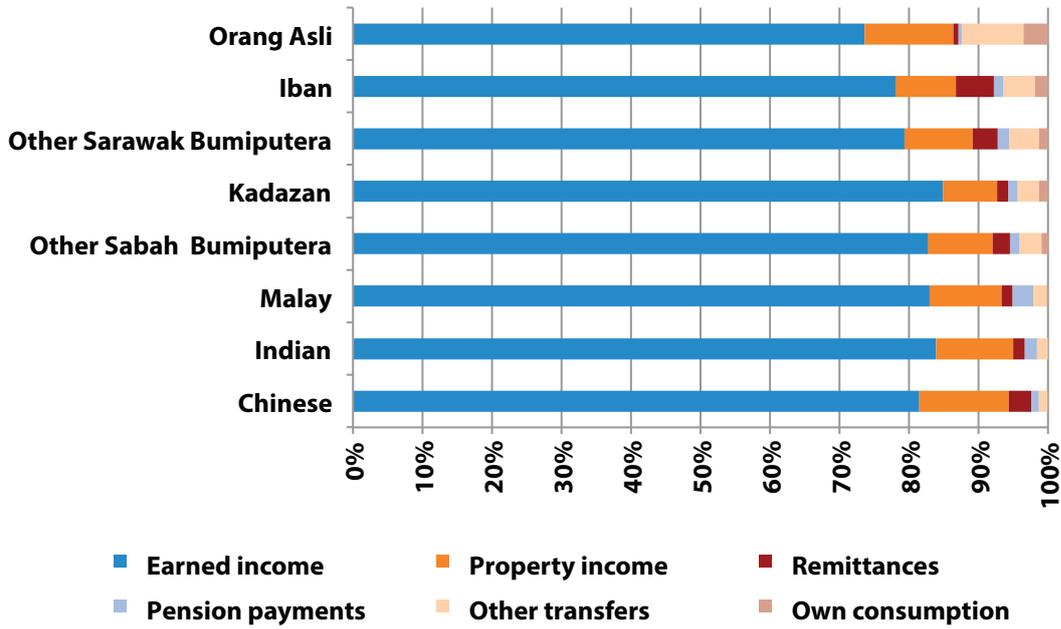
Appendix Figures B7.1:
Median household gross income and earned income by ethnic group, per national median



Source: Household Income Survey 2009.

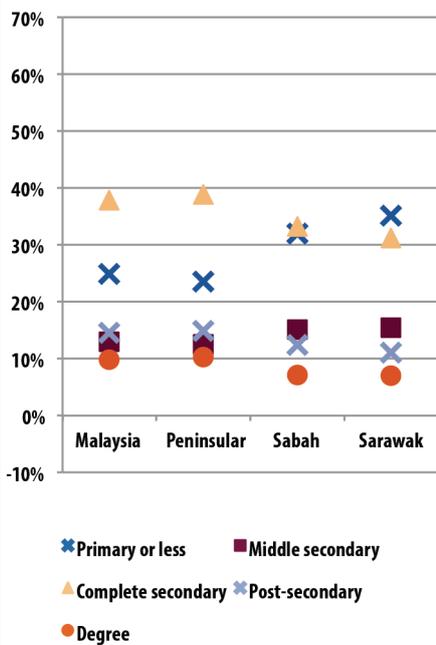


Appendix Figure B7.2:
Household income components, by ethnicity



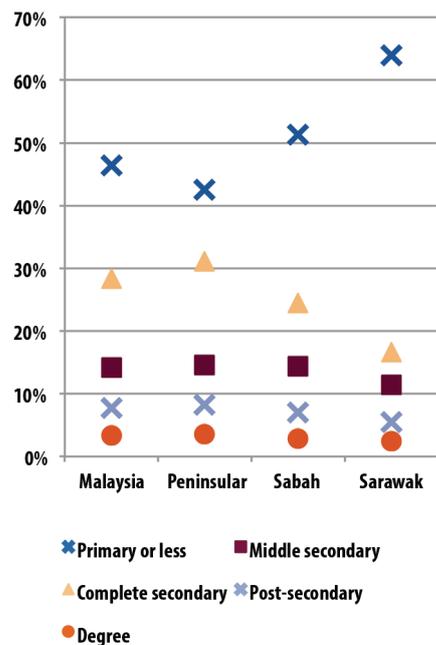
Source: Household Income Survey 2009.
Note: Property income for Orang Asli is predominantly from land rental; for all other groups dividends are the main contributor.

Appendix Figure B7.3:
Educational attainment by region: urban areas



Source: Household Income Survey 2009.

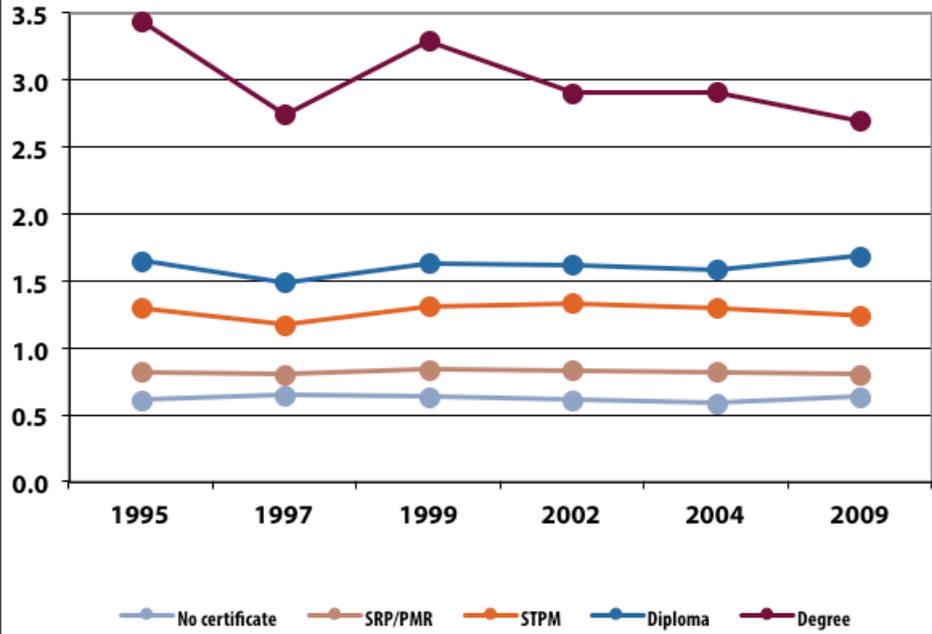
Appendix Figure B7.4:
Educational attainment by region: rural areas



Source: Household Income Survey 2009.

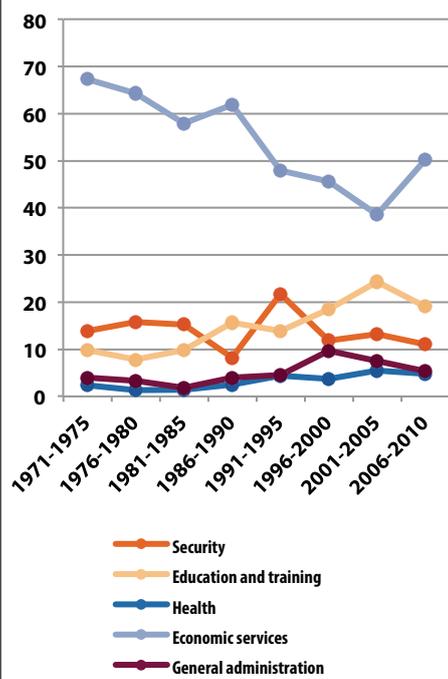


Appendix Figure B7.5:
Earnings of employed population by highest education certificate attained, per SPM (1995-2009)



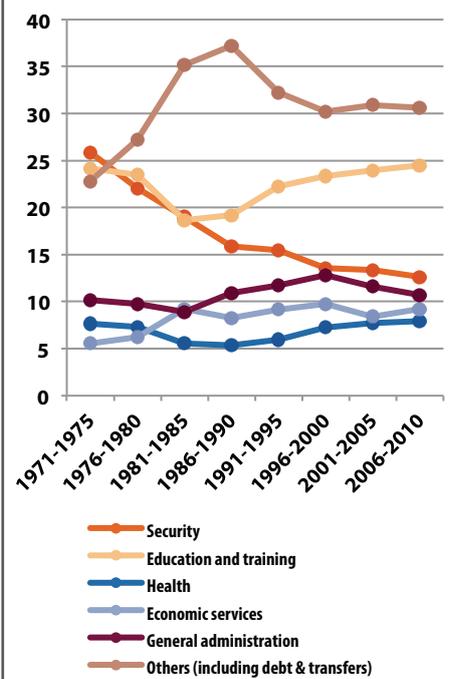
Sources: Lee 2010, Household Income Survey 2009.

Appendix Figure B7.6:
Federal government operating expenditure (% total)

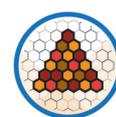


Source: Malaysia Plans (various years).

Appendix Figure B7.7:
Federal government development expenditure (% total)



Source: Malaysia Plans (various years).



**Appendix Table B8.1: fifth schedule [paragraph 11(1)(A)]
Acceptable conditions for discharge of industrial effluent or mixed effluent of
standards A and B**

No.	Parameter	Unit	Standard	
			A	B
(1)	(2)	(3)	(4)	(4)
i.	Temperature	°C	40	40
ii.	pH Value	–	6.0-9.0	5.5-9.0
iii.	BOD5 at 20°C	mg/L	20	50
iv.	Suspended Solids	mg/L	50	100
v.	Mercury	mg/L	0.005	0.05
vi.	Cadmium	mg/L	0.01	0.02
vii.	Chromium, Hexavalent	mg/L	0.05	0.05
viii.	Chromium, Trivalent	mg/L	0.20	1.0
ix.	Arsenic	mg/L	0.05	0.10
x.	Cyanide	mg/L	0.05	0.10
xi.	Lead	mg/L	0.10	0.5
xii.	Copper	mg/L	0.20	1.0
xiii.	Manganese	mg/L	0.20	1.0
xiv.	Nickel	mg/L	0.20	1.0
xv.	Tin	mg/L	0.20	1.0
xvi.	Zinc	mg/L	2.0	2.0
xvii.	Boron	mg/L	1.0	4.0
xviii.	Iron (Fe)	mg/L	1.0	5.0
xix.	Silver	mg/L	0.1	1.0



xx.	Aluminium	mg/L	10	15
xxi.	Selenium	mg/L	0.02	0.5
xxii.	Barium	mg/L	1.0	2.0
xxiii.	Fluoride	mg/L	2.0	5.0
xxiv.	Formaldehyde	mg/L	1.0	2.0
xxv.	Phenol	mg/L	0.001	1.0
xxvi.	Free Chlorine	mg/L	1.0	2.0
xxvii.	Sulphide	mg/L	0.50	0.50
xxviii.	Oil and Grease	mg/L	1.0	10
xxix.	Ammoniacal Nitrogen	mg/L	10	20
xxx.	Colour ADMI*		100	200

*ADMI: American Dye Manufacturers Institute.

Appendix Table B8.2: seventh schedule (regulation 12)
Acceptable conditions for discharge of industrial effluent containing Chemical Oxygen Demand (COD) for specific trade or industry sector

No.	Trade/Industry	Unit	Standard	
			A	B
	(1)	(2)	(3)	(4)
(a)	Pulp and paper industry			
	(i) pulp mill	mg/L	80	350
	(ii) paper mill (recycled)	mg/L	80	250
	(iii) pulp and paper mill	mg/L	80	300
(b)	Textile industry	mg/L	80	250
(c)	Fermentation and distillery industry	mg/L	400	400
(d)	Other industries	mg/L	80	200



Appendix Table B10.1:
Sabah – employment status of head of household (%)

Employment Status	Bajau	Chinese	Indian	Kadazan / Dusun	Malay	Murut	Other Bumi-putera	Others	Total
Employee – Govt	-	3.3	26.3	23.9	41.0	21.2	16.4	16.4	18.1
Employee – Private	32.4	52.9	52.6	25.8	38.7	31.4	40.3	43.6	37.5
Employer	1.3	10.3	10.5	0.6	1.9	1.5	1	3.6	2.6
Homemakers	6.8	3.4	0	2	3.2	2.2	3.2	5.5	3.5
Others (including retired, unemployed, infant and others)	6.6	9.1	0	6.8	5.7	3.6	6.7	5.5	6.9
Self-Employment	35.6	21.1	10.5	40.8	9.5	40.1	32.4	25.5	31.5
Unpaid Family Worker	0	0	0	0.1	0	0	0.1	0	0
Total	100	100	100	100	100	100	100	100	100

Source: Economic Planning Unit (unpublished).

Appendix Table B10.2:
Sarawak – employment status of head of household (%)

Employment Status	Bidayuh	Chinese	Iban	Indian	Malay	Melanau	Other Bumi-putera	Others	Total
Employee – Govt	22.2	5.6	14.4	36.4	31.8	25.4	19.6	20	17.6
Employee – Private	39.1	48.5	48.8	45.5	34.8	39.6	44.3	10	43.7
Employer	1.1	3.8	0.6	9.1	0.9	0.4	1.3	0	1.7
Homemakers	2.3	8.3	4.6	0	2.7	6.7	5.2	10	5.2
Others (including retired, unemployed, infant and others)	6.2	14	3.8	9.1	12.9	8.6	3.9	0	9.3
Self-Employment	29.1	19.7	28.1	0	16.9	18.7	25.2	60	22.4
Unpaid Family Worker	0	0.1	0.2	0	0	0.7	0.4	0	0.2
Total	100	100	100						

Source: Economic Planning Unit (unpublished).



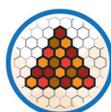
Appendix Table B10.3:
Sabah – industries of household head (%)

Industries	Bajau	Chinese	Indian	Kadazan / Dusun	Malay	Murut	Other Bumi-putera	Others	Total
Agric., Hunting & Forestry	13.3	9.5	21.1	38	11.7	40.9	24.9	14.5	23.1
Construction	6.3	13.3	0	4.3	2.9	1.5	4.9	3.6	6
Education	4.1	2.8	0	8.2	16.8	5.8	6.5	7.3	6.6
Elec., Gas & Water	1.8	0.3	5.3	0.6	1.3	0.7	0.8	0	0.9
Financial Intermediation	0.4	2.4	0	0.5	1.3	0	0.6	1.8	0.9
Fishing	14.4	0.8	0	0.5	0.6	0	6	5.5	4.6
Health & Social Work	1.3	0.3	0	2.6	0.6	2.9	1.9	7.3	1.7
Homemakers etc	13.4	12.4	0	8.7	8.9	5.8	9.9	10.9	10.3
Hotels & Restaurants	3.7	6.2	26.3	2.5	3.8	1.5	4.3	0	4
Manufacturing	6	8.1	5.3	3.1	5.7	6.6	7.3	1.8	6.1
Mining & Quarrying	0	0	0	0.3	0.6	0	0.1	0	0.2
Other Community & Social Services	2.2	3	10.5	3.7	1	0.7	2.2	1.8	2.6
Private Households with Employed Persons	0.6	0.8	0	0.8	0.3	0	0.8	1.8	0.7
Public Admin & Defence	11.8	1.1	15.8	12.6	24.1	13.1	9.4	3.6	10.3
Real Estate	2.2	6.1	5.3	2.8	3.8	2.9	2.6	3.6	3.3
Transport, Storage & Comm.	7.7	7.8	0	4.4	8.9	6.6	7.7	16.4	7.1
Wholesale & Retail; Repairs	10.8	25	10.5	6.5	7.6	10.9	10.1	20	11.7
Total	100	100	100	100	100	100	100	100	100



Appendix Table B10.4:
Sarawak – industries of household head (%)

Industries	Bidayuh	Chinese	Iban	Indian	Malay	Melanau	Other Bumi-putera	Others	Total
Agric., Hunting & Forestry	27.2	6.4	31.5	9.1	9.2	13.8	33.9	50	18
Construction	13.8	12	16.2	9.1	6.9	4.5	7.8	0	11.3
Education	7.7	3.1	5	9.1	9.6	8.2	5.7	20	6
Elec., Gas & Water	0.8	0.7	0.2	0	1.1	1.5	0.4	0	0.7
Financial Intermediation	0.8	1.1	1	0	1.5	1.1	0.4	0	1.1
Fishing	0	0.4	0.4	0	3.5	3.4	0	0	1.3
Health & Social Work	2.7	0.4	2.3	18.2	1.9	1.9	3.5	0	1.8
Homemakers etc	8.4	22.3	8.5	9.1	15.6	15.3	9.1	10	14.5
Hotels & Restaurants	3.8	5.6	1.4	0	4.1	4.1	1.3	0	3.6
Manufacturing	6.1	10.3	7.5	0	8	11.9	4.3	10	8.4
Mining & Quarrying	1.9	1.3	2.4	9.1	1.9	1.1	1.7	0	1.8
Other Community & Social Services	2.7	2.1	0.7	0	1.4	0.7	3.5	0	1.5
Private Households with Employed Persons	0.4	1.1	0.7	0	0.9	0.7	0.4	0	0.8
Public Admin & Defence	13.8	3.5	9	18.2	20.3	17.2	10.4	10	11.1
Real Estate	1.9	2.9	3.3	0	3.1	3.4	6.1	0	3.2
Transport, Storage & Comm.	4.2	6.2	6.4	9.1	4.7	4.9	5.7	0	5.6
Wholesale & Retail; Repairs	3.8	20.5	3.5	9.1	6.1	6.3	5.7	0	9.2
Total	100	100	100	100	100	100	100	100	100



Appendix Table B10.5:
Sabah – education status of household head, 2009 (%)

Level of Education	Bajau	Chinese	Indian	Kadazan /Dusun	Malay	Murut	Other Bumi-putera	Others	Total
Primary	28.9	18	15.8	22.4	17.1	32.1	28.1	25.5	24.6
Religious/ No formal	20.5	3.4	0	20.4	3.5	11.7	19.3	14.5	15.7
Secondary	43.2	60.1	63.2	43	46	48.9	41.9	47.3	45.9
Tertiary	7.5	18.5	21.1	14.2	33.3	7.3	10.7	12.7	13.8
Total	100	100	100	100	100	100	100	100	100

Source: Economic Planning Unit, Household Income Survey (2009).

Appendix Table B10.6:
Sarawak – education status of household head, 2009 (%)

Level of Education	Bidayuh	Chinese	Iban	Indian	Malay	Melanau	Other Bumi-putera	Others	Total
Primary	32.2	27.5	32.1	-	25.7	32.5	23.5	30	28.8
Religious/ No formal	18	6.6	20.2	9.1	9.9	13.4	17.4	30	13.2
Secondary	33.7	49.9	38.8	36.4	44.3	41.8	43.9	20	43.3
Tertiary	16.1	15.9	8.9	54.5	20.1	12.3	15.2	20	14.7
Total	100	100	100	100	100	100	100	100	100

Source: Economic Planning Unit, Household Income Survey (2009).

1.2.4 Appendix Box B10.1: Orang Asli & the 1961 Policy Statement

The 1961 Policy Statement has several “broad principles” that assure the Orang Asli of their wide-ranging rights. Among these are:

[1(a)] The aborigines... must be allowed to benefit on an equal footing from the rights and opportunities which the law grants to the other sections of community... special measures should be adopted for the protection of institutions, customs, mode of life, person, property and labour of the aborigine people.

[1(b)] The social, economic, and cultural development of the aborigines should be promoted with the ultimate object of natural integration as opposed to artificial assimilation... Due account must be taken of the cultural and religious values and of the forms of social control.

The aborigines shall be allowed to retain their own customs, political system, laws and institutions when they are not incompatible with the national legal system.

[1(d)] The special position of aborigines in respect of land usage and land rights shall be recognised... Aborigines will not be moved from their traditional areas without their full consent.

[1(e)] Measures should be taken to ensure that they have the

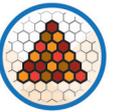
opportunity to acquire education at all levels on an equal footing with the other sections of the population. At the same time care must be taken to ensure that their own dialects are preserved and measures should be introduced to enable the teaching of these dialects.

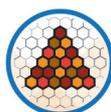
[1(g)] Adequate health services should be provided... and special facilities should be provided for the training of their own people as health workers and medical personnel.

[1(j)] In all matters concerning the welfare and development of the aboriginal peoples, the Government will seek the collaboration of the communities concerned or their representatives.

[2(iii)(a)] In the implementation of forest conservation requirements, the special position of these communities is to be acknowledged provided any relaxation exercised in their favour will not be detrimental to the effective and proper implementation of accepted Forest policy and objectives.

[2(iii)(b)] The basic requirements for settled agriculture areas sufficiency of food crops and a dependable cash crop... This requires a degree of permanency of occupation, and advance in agricultural technique and the choice of suitable sites.





Appendix Table B10.7:
Maternal deaths from year 2003-2007

Maternal Deaths	Year				
	2003	2004	2005	2006	2007
No. of Orang Asli Maternal Deaths	3	5	2	4	3
Live births*	3496	3810	4264	4101	4344
MMR of Orang Asli /1,000 live births	0.9	1.3	0.5	1.0	0.7
MMR of Malaysia**/1,000 live births	0.3	0.3	0.3	0.3	0.3

Source of data: * Report of live birth from District Health Office .
** Statistics Department.

Appendix Table B10.8:
Number of communicable diseases among Orang Asli, 2001-2007

Disease	Year						
	2001	2002	2003	2004	2005	2006	2007
Malaria	1847	1714	1039	434	172	86	55
TB	131	138	103	108	115	135	113
Leprosy	11	27	8	15	2	20	3
HIV	0	20	13	6	24	10	8
Filaria	69	30	81	42	18	22	13

Source: Disease Control Division, Ministry of Health.

Appendix C: framework for the selected case studies

Our main research question will be posed as follows: why does social reproduction of poverty and intergenerational mobility – two opposite forms of mobility – coexist within the same social and economic groups? In other words, why do some experience upward mobility but others remains vulnerable despite sharing the same socioeconomic origins? In concrete instances, why do some children of coastal fishermen, urban poor or plantation labourers experience intergenerational mobility but some of their peers remain trapped in social reproduction of class. We will attempt to provide the answers by tracing the social mobility trajectory of the families. It should be stressed that the cases of intergenerational mobility and social reproduction categories presented here are not mere incidents but observable pattern at the micro level. The recorded cases from both categories in our case studies go beyond isolated cases.

By posing the question of why social reproduction and intergenerational mobility coexist with the same poor and vulnerable groups, it would also create certain theoretical uneasiness. Rationalisation of social reproduction among groups that remain in same status quo over a prolonged period is common. The materialist theorist, for instance, repeatedly demonstrates that reproduction of class is a common pattern of mobility in the market economy. The socioeconomically backward or forward position in the class of origin is said to

determine the class of destination. And the “liberals” theorist concurs with the findings that parental background – parents’ income and education, family type, neighbourhood, race and sometimes genetic heritage – largely determines the child’s mobility prospects. To varying degrees, social reproduction is accepted by both the liberal and materialist traditions and associated with the class of origin.

There is an apparent tension in the reasoning and explanation of the social reproduction model when cases of intergenerational mobility appears within the same group. On one hand, social reproduction models are tautological, and on the other, it exposes the inadequacy of stratification theories to explain intergenerational mobility among the poor and vulnerable. For instance, assume two neighbouring families from an impoverished plantation share the same labour class background and have one daughter each—one of them experiences long range mobility and the other remains in same position as her labouring parent. Here, social reproduction reasoning appears paradoxical. In other words, explaining that the poor is poor because of their parental background (economic and cultural capital) while not being able to explain the upwardly mobile with the same sets of reasoning is a point to ponder. Is there a sociological dimension for the question or is it merely caused by the psychological factors of achievement?

One of the problems in answering the question is related to how the unit of analysis is defined. By rendering the unit of analysis, in this case the family as a static and non-creative unit in a given class structure, it limits our observation and appreciation of the agency. Within





micro-family structures, inequalities and distribution of uneven life chances are evident. Additionally, families sometimes combine their resources, including social capital, to achieve common goals and create an edge over other family units—and in both contexts further magnifying the disparities and chances of social mobility.

For this purpose, it is pertinent to define critical concepts such as “family” in as broad and dynamic terms as possible, and to move away from overt structural interpretation. The structuralist usually locates individuals within family from the same class structure as homogenous in terms of class positions. This is a problematic assumption especially when such families have intergenerational mobility members. Furthermore, intra-family dynamics and the micro-structures of inequalities within families cannot be disregarded. Families also mobilise to accumulate capitals and other opportunities within the limited context. Disregarding these aspects will negate the concept of unequal distribution of life-chances and distribution of labour. A fruitful concept of family should incorporate intra-family dynamics and family collectively, both in terms of economic and cultural determinants.

Acknowledging that poverty is not only about distributional issues pertaining to resources but also a question of relational conditions, the framework for the selected case studies will follow the principles outlined in the following.

The appropriate unit of analysis in studying social mobility is family. Family is the smallest social unit and the repository of all capitals or the lack of it. Individuals are bound together in familial units that linked them to the communal membership where

family, friendship and community-based networks normally operate. At the micro level, social mobility is often not merely about individual efforts and outcomes but also structured largely by familial level conditioning and manoeuvring. In terms of social mobility, the two primary roles of the family, namely as a sustenance unit and as socialising agents, are said to determine social mobility chances. These critical functions often have scholars concluding that the class of origin largely determines the class of destination. In other words, the children of the labouring class is likely to end up as a labourer themselves.

Focusing on the family on a micro level, this observation may prove to be more complicated. While it is true that the family provides resources and transmit cultural values and norms that influence social mobility, the outcome may be highly varied. The critical decisions of the family to invest limited resources on a selected, “bright” child at the expense of the child’s siblings may prove to be the rational of selectivity. On the other hand, the dimension of altruism that may inspire an elder child to sacrifice their chances for the sake of their younger siblings may also be a motivation, though it may not strictly be a rational choice. In the same vein, a family may mitigate the risk of income at origin by sending a child to work in urban areas. By doing so, others in the family will be less exposed to risk fluctuations. It may also be a method devised to secure better opportunities for other siblings that may eventually lessen the cost and anxiety of migration.

These decisions, if viewed as individual pursuits, will distort and reduce the processes as individual motivations seeking utility. The function and

expectation of reciprocal exchange and mutual help as basis of such decisions will also be lost to individual aspirations. The rich function of the family and social ties in making the decisions, and the selection of candidates that may approve or hinder social mobility chances, will also escape analysis. By the same token, the family taken as unit of analysis proves immensely useful in studying gender roles and divisions of labour. Here, the transformation induced in the family unit by the changing structures of economy and how it impacts existing power relations and gender roles are worth exploring. The reminder that people are “knowledgeable agents” and “every social actor knows a great deal about the conditions of social reproduction of the society of which he or she is a member” (Giddens 1979: 5) will be timely and help us understand the familial context in which decisions are made.

As mentioned earlier, all case studies in this *Report* will be represented by identified poor and vulnerable groups in older Malaysia Plans. In other words, the groups are recognised as poor and vulnerable by the state, as defined by those falling below the official poverty line for the period. How these groups responded to the rapid economic transformation, particularly the changing structure of the labour market and ensuing spatial transformations, will be a point of interest.

Generally, occupations have been used to determine social mobility in two major ways. This is following Weber’s distinction of “status group” and “class”. The classic usage of status in occupational hierarchy is reflected in the work of Blau and Duncan (1967). As “statuses are inequalities” (Haller and Portes 1973: 51), the movement in occupational hierarchy

will reflect mobility processes. The other method of using occupation is in reference to class, an approach popularised by Goldthorpe (1980, 1992). Occupational aggregation is done to reflect relation to “market” and “work”, which is said to reflect “demographic identity”, which in turn provides information on class formation. We employ Goldthorpe’s class schema as an operational method to discuss and explain the notion of class movement through occupations. The adopted classification system does not pose serious problems when transplanted in the Malaysian context, as the two selected categories represent extreme categories of occupations common both in developed economies and most other industrialising countries, including Malaysia.

The Goldthorpe class schema can be read in their original seven-class category that reflect occupational classification, or alternatively the simplified three classes. Before going further, we will define the concept of “long-range mobility” or “intergenerational mobility” as used in this *Report*. Breen, using Goldthorpe’s revised three-class schema, defines long-range mobility as upward movement in the following:

- a. class I + II;
- b. classes III, IVa, b, and c, and V + VI;
- and
- c. VIIa and b.

Based on the three classes above, long-range mobility is described as “upward mobility... movement from an origin in (c) to (a) (Breen, 2004:18), or vertical movement rising from the lowest level. Breen tells us that long-range mobility





is difficult to achieve compared to short-range mobility (2004: 31).

How does this class schema correspond to our identified poor and vulnerable group? Most of our respondents' fathers belong to Class VIIa or "semi-skilled and unskilled manual workers (not in agriculture)" or Class VIIb or "agricultural and other workers in primary production". However, the destination class of the intergenerational category is Class I (higher-grade professionals, administrators and officials; managers in large industrial establishments; large proprietors) or Class II (lower-grade professionals, administrators and officials; higher grade of technicians; managers in small businesses and industrial establishments; supervisors of non-manual employees). The movement from destination class of Class VII a or b to Class I or II will be defined under the intergenerational category. Social reproduction occurs when the children remain in the same class of origin with their parents i.e Class VII a or b.

The case studies on the selected groups are commissioned to scholars who have conducted recent research with the identified poor and vulnerable groups. The scholars will be required to employ the present framework where respondents will be divided into the two categories mentioned earlier. The analysis of the data will also follow the present framework so as to provide consistent and comparable data among the case studies. Originally, the data for each of the case studies were employed by multiple methods. However, additional research was required only for the new questions and variables introduced for this *Report* that were not attended to in the original research.

The methods employed in this data among others are:

Life stories and narratives: This form of data is obtained from field research. Apart from factual interest, focus will also be laid on the meaning and idea of upward mobility among the respondents. It includes how certain decision are "rationalised" at the familial level.

Interviews: A series of interviews, structured and semi-structured will be conducted with the selected respondents. The non-economic capitals will also be largely captured in the interviews.

Survey: Survey on socioeconomic indexes of respondents' families at origin and destination will be conducted. Survey will also include the spatial transformation in terms of public utilities and facilities to capture changing quality of life.

Document Examination: All case studies require thorough consultation with published and unpublished documents specific to the case of the identified groups. Different schools of thought and interpretation will be provided to give an overall idea on the subject under probe. This will not only provide additional insight on the subject but also serve as a part of the literature review on the selected case.

Social capital by itself can be defined as a multidimensional approach to studying social mobility. The main challenge in the analysis will be to separate the source, form and consequences of social capital. By distinguishing these closely-linked components, we can also understand the function of social capital both in its positive and negative outcomes.

Social capital itself can be constructed as a structure of social networks. Viewed in this manner, the core dimensions of social capital are networks of social relations (structure), which are characterised by norms of trust and reciprocity. Viewed overtime, the durability of social capital and how it functions within the intergenerational and social reproduction categories will be evident. The factors that nourish or diminish social capital will also be identified. In concrete terms, attention will be given to the nature of social capital that bridges families to opportunity structures that manifest

in various forms, such as labour market participation, largesse from state intervention programmes, non-governmental organisations, migration networks, political participation, spiritual and religious organisations and so on. On the other hand, at the micro level, kinship and communal level networks and reciprocal exchange systems will be the point of focus. On the whole, these social networks will be viewed as a source of social organisation and resource mobilisation in the pursuit of social mobility while acknowledging that resources to reciprocity may be limited with the poor (Offer 2012).





Appendix D: new programmes and incentives for the FELDA settlers

In the new millennium, FELDA's new generation has grown to around 1.6 million people. FELDA's existence has produced a variety of professionals, successful entrepreneurs and other benefits to the nation such as a large middle income group in rural areas, new township, business and employment opportunities.

FELDA has provided many incentives to its new generation through various socio-economic development programmes such as the Skills Training Programme, Higher Education Programme, entrepreneurship, housing and other incentives.

Under the Skills Training Program, FELDA has provided various training to the next generation with the aim of training 4,000 students every year in certificate levels and diplomas. For certificate levels, proficiency training is at College KINI, Institut Teknologi Utama (ITU), Giat MARA Centre, Institut Kemahiran Negara (IKN), Institut Kemahiran Belia Negara (IKBN) and other skills training institutions. For diploma levels, training is at Lim Kok Wing University College, MARA High Skills College and Malaysian Airlines System (MAS). To date, there are more than 43,000 students under these programmes.

For the Higher Education Programme, FELDA offers potential students to study overseas in selected countries such United Kingdom, Ireland, United States

and Australia. The courses involve professional courses such as medicine, engineering, biotechnology, accounting and so on. To date, more than 100 FELDA new generation has benefited from the scholarships.

For entrepreneurship development, FELDA offers loans to the new generation to expand businesses under the FELDA Entrepreneur Incentive Scheme. To date, there are around 2,000 new generations involved in various fields such as farming, plantation, manufacturing, aquaculture, trading and crafts. At present, there are 30,000 entrepreneurs comprising of settlers and new generation. FELDA also grooms potential entrepreneurs through Tunas Mekar Programme, collaboration with Universiti Teknologi Mara (UiTM). Among successful graduates from this programme is Ramun Delights (selling chocolates and cakes) with sales revenue amounting to RM1 million a year. In addition to this, there are also FELDA new generation businesses using high technology called Effective Microorganisms (EM) technology for caring about nature.

In 2013, FELDA reached another milestone by creating another FELDA Model- Sentuhan Kasih, focusing on the new generation who would gain income from the centralized modern integrated farming system and also obtain a single storey bungalow house. It uses less land than the existing FELDA Model with a minimum of 50 acres to house the integrated farming and 100 single storey bungalows.

FELDA also undertakes housing projects for the new generation for those working nearby and contributing to FELDA schemes. As announced by the Prime

Minister in the 2013 budget, FELDA will build 20,000 housing units under the New Generation Housing in 5 years (2013-2018). There are also new generation houses that

have been built since 2007. Considering all the housing projects, FELDA has and is building around 23,000 housing units for FELDA's new generation.





Appendix E: current initiatives to address the issues of accessibility and quality of education among the minorities

The Ministry of Education has undertaken multiple initiatives to address the issues of accessibility to education and quality of education among the minorities. These include:

- The development of a contextualised curriculum (Kurikulum Asli dan Penan, KAP) tailored to Orang Asli and Penan students' needs. KAP was piloted in 2007 at 14 Orang Asli and six Penan schools, and it contains two elements, a minimum adequate syllabus and a curriculum that has been contextualised to the Orang Asli and Penan communities. Initial results have been promising. For example, KAP students are reported more confident, achieve higher levels of literacy and numeracy, and have better self-esteem;
- The development of a Comprehensive Special Model School (K9) which provides residential facilities for students from of Year 1 to Form 3. One of the main objectives Malaysia Education Blueprint 2013 – 2025 is to reduce the drop-out rate between Year 6 and Form 1. This

programme was piloted in 2007, and thus far, it appears that attendance rates for students have been increasing every year, from 85.7% in 2007 to 97.6% in 2010.

- The inclusion of indigenous and other minority languages in the curriculum. Under the new KSSR introduced in 2011, the Ministry has also expanded the elective language choices to Iban, Kadazan-Dusun and Semai languages.
- The provision of Kelas Dewasa Orang Asli dan Peribumi (KEDAP) for Orang Asli adults to provide them with sufficient literacy and numeracy skills to support their children's learning.

The Roadmap: improving access and outcomes

The Ministry of Education's current policy is to provide Orang Asli and Penan students with educational opportunities relevant to their needs. In line with that, in July 2012, the Ministry launched a dedicated 5-year transformation plan of education for Orang Asli that will executed from 2013 to 2018, that is during Waves 1 and 2 of the Blueprint. A comparable plan for the minority groups in Sabah and Sarawak was launched in April 2013. Wave 1 (2013 - 2015): Improving access and laying foundations for further reform. The focus of Wave 1 will be on improving enrolment and attendance rates of Orang Asli students from primary to secondary. The first major initiative is to expand the number of K9 schools from two to six, followed by infrastructural upgrading for existing schools and residential facilities,

and the construction of new residential schools.

Secondly, the Ministry will also focus on curriculum enhancement which includes updating KAP to ensure its alignment with the design framework and principles of KSSR, and broadening of the Basic Vocational Education or Pendidikan Asas Vokasional (PAV) curriculum at secondary schools to offer more class options. The Ministry will also roll out the KEDAP programme to benefit the unserved remote communities, especially in Sabah and Sarawak.

Thirdly, the Ministry will work on improving teacher recruitment, support, and training. To achieve this, the Ministry will increase the number of Orang Asli candidates in teacher training programmes, and strengthen resources for indigenous education research at the

five National Centres of Excellence for Indigenous Pedagogy. To better support teachers in terms of classroom learning activities, the Ministry will expand the number of teacher assistants recruited among the Orang Asli communities. The parent engagement toolkit that is being rolled out to all schools in Malaysia will also contain specific information for teachers and principals on how to work with the indigenous and minority communities.

Lastly, in the effort to establish accurate performance baselines and goals for all indigenous and other minority groups, the Ministry will refine the student data collection processes, and this information will be used in developing further strategies for the betterment of the non-Orang Asli or Penan indigenous and other students in the minority groups.





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