Social Protection in Malaysia

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Abstract

Malaysia is a small nation with 23.8 million people in 2001 with a per capita income of US$3,508. The country had an average annual growth rate of about 9.2% during the five years prior to 1998 when GDP plunged by 7.4%. Fortunately, the economy bounced back in 1999 and 2000 when it grew at 6.1% and 8.3% respectively, before contracting again in 2001. The rapid growth is associated with the intensive growth in the manufacturing sector. Nevertheless, despite the volatility in the growth rate, poverty incidence continued to be reduced from 17.1% in 1990 to 6.8% in 1997 but worsened a little to 8.1% in 1999 as a consequence of the crisis.

There are several social protection schemes in the country, although not all are national in coverage and function, including:

(i) the Employer's Liability Scheme (ELS) covering employment injury compensation since 1952, and sickness and maternity benefits since 1955;
(ii) Civil Service Pension (1951), a non-contributory pension scheme for civil servants;
(iii) the Employee Provident Fund (EPF) (since 1951) for all workers not covered by the civil service pension;
(iv) the Workers' Compensation Scheme (1952) to determine the terms and amounts of compensation in the case of death or accident, which never attained much significance. In March 1998, the Foreign Workers' Compensation Scheme was formed to cater primarily for foreign workers' insurance needs. The main social insurance scheme for workers earning less than RM2,000[1] a month in Malaysia is the Social Security Organization (SOCSO) established in 1969. There are also several private savings schemes, which workers can fall back on in times of need if they are members of these schemes. Social assistance in Malaysia is classified only as residual welfare.

The coverage of the formal social protection system in Malaysia is inadequate. The ELS rests solely on the employers, which causes problems to employers who are not financially stable. The civil service pension is financed through taxation largely provided by the low-income groups and therefore regressive. EPF does not pool risks and provide life-long security as benefits are based on contributions with dividend rates fluctuating over the years. Moreover, workers in the informal sector and the self-employed, such as petty traders and hawkers, are not compelled to have ac-

1 The exchange rate of the ringgit against the US dollar at the time of writing was US$1 = RM3.8.

counts with the EPF and contribute only on a voluntary basis. As far as SOCSO is concerned, the real incidence rests with the consumers as employers can shift the burden as production costs, while social assistance is insignificant.

The Asian financial crisis has altered perceptions somewhat, due to the sheer magnitude of adversity that workers and vulnerable groups faced. The inadequacy of extant measures was exposed, for instance in retrenchment benefits and foreign worker social insurance. This is a significant development, though much work remains to be done. However, Malaysia still emphasizes employment generation and poverty eradication while reserving direct transfers only for those unable to enter the job market.

1. Institutional Framework

1.1 General Political, Social, and Economic Framework

General Background

Malaysia is an independent nation in Southeast Asia with a total area of 329,758 sq km and a population of 22.7 million in 1999 (69 people per sq km), 23.3 million in 2000 (71 people per sq km) and an estimated 23.8 million in 2001 (72 people per square km).

Table 1 shows that the average annual population growth rate between 1996 and 2000 was 2.4%. This growth rate continued to slow down with the declining fertility rate as the country continues to develop. The median age for the population was 23.9 in 2000 reflecting that Malaysia has a young population age structure. There has been a drop in the dependency ratio from 62.7% in 1995 to 59.1% in 2000 due to the rise in the proportion of working age population (15–64 years) and fall in the population below 15 years and a slower growth of those aged 65 and above. This dependency ratio will continue to drop until the end of this decade as the share in the 0–14 age group contracts from 33.1% in 2000 to 29.7% in 2010. On the other hand, the proportion of the working age group will rise from 62.9% to 65.8% over the same period. At the same time, the number and proportion of the 65 and above age group will also increase following the rise in life expectancy due to the improvements in the quality of life. While this phenomenon can lead to the problem of an ageing society, the problem is not expected to be critical in the next decade or so since the annual rate of growth of this group seems to be falling.

Life expectancy has been increasing steadily with that for males being 69.9 years and for females being 74.9 years in 2000. For the same year, the fertility rate for Malaysians is about 3.2 while the birth rate per 1000 population is 24.4; infant mortality rate per 1000 live births is 7.91 and death rate per 1000 population 4.4.

By 2000, the proportion of the population living in the urban areas increased from 55.1% to 61.8% over the last five years, rising at an average annual rate of 4.8%. The increase is due to the migration of workers lured by better economic opportunities and the expectation of an improved quality of life in urban areas as well as the extension of administrative urban boundaries. It is expected that the urbanization rate will rise to 66.9% by 2005. The main component of inter-state migration in Malaysia is the urban-urban direction, followed by that of urban-rural (see Table 1, Appendix). In contrast, the main component of intra-state migration direction is that of rural-rural, followed by that of urban-urban. However, the importance of these components for individual states varies, since for highly urbanized states the urban-urban components are very high.

Table 1: Population Size and Age Structure, 1995–2005 (million persons)

	1995	%	2000[1]	%	2005	%	2010	%	Average annual growth rate 1996–2000	2000–2005	2001–2010
Total population	20.7	100	23.3	100	26.0	100	28.9	100	2.4	2.3	2.2
Citizens	19.7		22.0		24.7		27.3		2.3	2.3	2.2
Non-citizens	1.0		1.2		1.4		1.6		4.3	2.4	2.4
Age Structure											
0–14	7.25	35.0	7.71	33.1	8.2	31.3	8.6	29.7	1.2	1.1	1.1
15–64	12.7	61.5	14.6	62.9	16.8	64.4	19.0	65.8	2.8	2.8	2.9
above 65	0.72	3.5	0.94	4.0	1.1	4.3	1.3	4.5	5.3	3.6	3.4
Dependency ratio (%)	62.7		59.1		55.3		52.2				
Median Age	22.8		23.9		25.3		n.a.[2]				

1 This estimate is based on the preliminary count of the Population Census 2000 and has been adjusted for under-enumeration.
2 Not available.

Source: Malaysia, 2001a; Malaysia 2001b.

Macroeconomic Framework

Table 2 shows that Malaysia had achieved an impressive record of growth prior to the financial crisis of 1997–98. The real (in 1987 prices) Gross Domestic Product (GDP) grew at over 9% per annum during the first half of the 1990s, reaching a peak of 10% in 1996. However, the growth rate plunged by 7.4% in 1998. Nevertheless, the economy made a speedy recovery and achieved a growth rate of 6.1% in 1999 and 8.3% in 2000. Unfortunately, the dampening of the US economy and the continuing recession in the Japanese economy (two of Malaysia's leading trade partners) had a negative impact on Malaysia. The growth rate for 2001 has been revised downwards to 2% and more recently to about 1% due to a protracted and severe economic slowdown in the United States, which had also spread to other economies. The event of 11 September 2001 has made the prospect of an early recovery even more uncertain.

Table 2 also shows that the high growth rate of the whole economy is associated with the intensive growth of the manufacturing and construction sectors. The two sectors together with the non-government services sector accelerated at double-digit growth. In contrast, the primary sector (agriculture, forestry and fishing), was experiencing negative growth in the years before the crisis except for 1996 and 1997. This rapid growth of the manufacturing sector in the face of a much slower rate of the primary sector over the past three decades has resulted in a significant transformation of the Malaysian economy. The share of the latter declined from 29% in 1970 to 8.5% in 2000, while the share of the industrial sector (mining and quarrying, manufacturing,

Table 2: Composition and Growth Rate of the Gross Domestic Product and Employment Share By Industry of Origin (in 1987 Prices)

GDP share (Employment share) (%)	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Agriculture, forestry & fishing	12.9 (22.6)	11.6 (19.6)	10.3 (19.0)	9.8 (17.7)	9.2 (16.7)	9.6 (16.3)	9.1 (16.0)	8.5 (15.2)	8.4 (14.8)
Mining & quarrying	7.5 (0.5)	7.3 (0.5)	8.2 (0.5)	7.7 (0.5)	7.3 (0.5)	7.9 (0.5)	7.2 (0.5)	6.9 (0.4)	6.8 (0.4)
Manufacturing	26.2 (23.4)	26.7 (25.1)	27.1 (25.7)	29.1 (26.5)	29.9 (26.9)	27.9 (26.5)	29.9 (26.4)	33.4 (27.6)	32.8 (27.4)
Construction	3.8 (7.3)	4.0 (7.9)	4.4 (8.9)	4.7 (9.4)	4.8 (9.9)	4.0 (9.4)	3.6 (8.5)	3.3 (8.1)	3.4 (8.2)
Services	50.6 (46.2)	51.1 (46.9)	51.2 (45.9)	50.7 (45.9)	51.9 (46.0)	55.7 (47.3)	55.1 (48.6)	53.4 (48.7)	54.6 (49.2)
(Non-Govt.)	42.7 (34.6)	43.4 (35.4)	44.1 (35.1)	44.2 (35.6)	45.3 (36.1)	48.4 (37.1)	47.8 (37.8)	46.5 (38.1)	47.4 (38.6)
(Govt.)	7.9 (11.6)	7.7 (11.5)	7.1 (10.8)	6.5 (10.3)	6.6 (9.9)	7.3 (10.2)	7.3 (10.8)	6.9 (10.6)	7.2 (10.6)
Import duties – imputed bank service charges	–1.0	–0.7	–1.2	–2.0	–3.1	–5.1	–4.9	–5.4	–6.0
Per capita GDP (RM)	7,235	7,548	8,050	8,646	9,065	8,245	8,493	8,899	9,167
Average growth rate (%)									
Agriculture, forestry & fishing	–3.1	–1.9	–2.5	4.5	0.7	–2.8	0.4	0.6	1.2
Mining and quarrying	–4.0	6.0	22.9	2.9	1.9	0.4	–2.6	3.1	0.9
Manufacturing	14.6	11.4	11.4	18.2	10.1	–13.4	13.5	21.0	0.2
Construction	10.8	15.1	21.1	16.2	10.6	–24.0	–4.4	1.0	4.9
Non-government services	16.0	11.1	11.9	10.2	10.5	–0.5	4.4	5.3	4.0
Government services	7.2	5.4	1.4	1.7	8.6	1.1	7.7	1.4	7.1
Total	**9.9**	**9.2**	**9.8**	**10.0**	**7.3**	**–7.4**	**6.1**	**8.3**	**2.0**
Average per capita growth rate (%)	5.9	4.3	6.7	7.4	4.8	–9.0	3.0	4.8	3.0
Per capita income (RM)	8,299	9,042	10,072	11,228	12,314	12,135	12,305	13,361	13,333
(US$)	3,073	3,447	4,016	4,446	4,377	3,093	3,238	3,516	3,508
Population (million)	19.2	20.1	20.7	21.2	21.6	22.1	22.7	23.3	23.8

* Estimate by the Ministry of Finance.

Source: Ragayah and Saadiah Mohamed, 2002.

and construction) rose from 31.4% in 1970 to 43.6% in 2000. The share of the services sector fluctuated between 36.2% and 54.6% over the same period. It is increasingly obvious that the services sector, comprising government and non-government services, has become more important.

Real per capita GDP (in 1987 prices) rose from RM7,235 in 1993 to peak at RM9,065 in 1997, but dipped to RM8,245 in 1998 and climbed to RM8,493 in 1999 and RM8,899 in 2000. GNP per capita in current prices rose from RM8,299 in 1993 to reach RM13,361 in 2000. However, in US dollar terms, it increased from US$3,073 in 1993 to peak at US$4,446 in 1996. The devaluation of the ringgit in the wake of the Asian financial crisis resulted in a sharp decline in GNP per capita in terms of US dollars since 1998. It has slowly picked up again to reach US$3,516 in 2000.

A remarkable feature of the development process of the Malaysian economy is that the high growth rate throughout the period has also been accompanied by low inflationary rates (see Table 2, Appendix). The inflation rates were stable except for 1980 due mainly to the oil price shock of 1979. However, due to the tight factor and goods markets during the expansionary period of the 1990s, inflation had risen again but could be controlled at a relatively low level. Nevertheless, examination of the components of the consumer price index (CPI) reveals a worrying trend, in that the CPI for food and medical services tends to be higher than for all other groups. Increase in the cost of these items would negatively affect the poor more than the rest of the population since a larger portion of their expenditure comprises food and basic needs. For the first eight months of 2001, the inflation rate stood at 1.5%. It is expected that continued moderation in economic activities, the less favourable employment prospects and relatively weaker consumer confidence will continue to have a moderating effect on domestic prices (Malaysia, 2001c). The sub-index for food, which accounts for more than a third of the total weightage of the CPI, rose by only 0.6% during the first eight months of 2001.

The total (development and operating) Federal Government expenditure on social services (education, health, housing and others) between 1970 and 2001 is shown in Table 3. It can be seen that the share of expenditure as a percentage of the GNP on social services was decreasing till the mid-1990s as a consequence of the government's effort to privatize some of these services. However, this share (particularly that of education) has been rising in recent years as the government pursues an expansionary budget as a counter-cyclical measure following a slowing down of world economic growth. The rise in the share of education is necessary in order to equip workers to face the knowledge-based economy.

Small and medium industries (SMIs) play an important role for social protection because they are said to be able to generate more employment relative to large industries and are more flexible, being able to adjust to the changing economic environment faster than large-scale industries (Ragayah Haji Mat Zin, 2000). It is also claimed that SMIs have a favourable impact on income distribution. This is because SMIs involve a greater number of relatively lower wage earners and a relatively low capital income, resulting in relatively small income increases for a large number of people.

Table 3: Federal Government Expenditure (Development and Operating) on Social Services, Malaysia, 1970 – 2001

	Social services (RM Million)			% of total government expenditure			% of GNP		
Year	Sub-total	Educa-tion	Health	Sub-total	Educa-tion	Health	Sub-total	Educa-tion	Health
1970	753	521	175	26.1	18.1	6.1	6.2	4.3	1.4
1975	1,973	1,370	418	28.0	19.4	5.9	9.1	6.3	1.9
1980	4,477	2,786	778	21.2	13.2	3.7	9.0	5.6	1.6
1985	7,131	4,345	1,129	26.2	16.0	4.1	9.9	6.1	1.6
1990	9,611	6,361	1,772	26.0	17.2	4.8	8.7	5.7	1.6
1991	10,427	7,067	2,035	27.5	18.7	5.4	8.5	5.8	1.7
1992	12,261	8,059	2,414	29.4	19.3	5.8	8.8	5.8	1.7
1993	12,601	8,478	2,407	29.8	20.0	5.7	8.0	5.4	1.5
1994	14,826	10,108	2,529	32.0	21.8	5.5	8.2	5.6	1.4
1995	15,654	10,603	2,772	30.9	20.9	5.5	7.5	5.1	1.3
1996	18,808	12,489	3,474	32.2	21.4	5.9	7.9	5.3	1.5
1997	19,970	12,881	3,727	33.1	21.3	6.2	7.6	4.9	1.4
1998	20,845	13,443	4,047	32.1	20.7	6.2	7.8	5.0	1.5
1999	23,548	15,323	4,462	34.0	22.1	6.4	8.4	5.5	1.6
2000[1]	29,860	20,022	5,403	35.3	23.7	6.4	9.6	6.4	1.7
2001[2]	35,263	23,658	5,461	37.8	25.4	5.9	11.1	7.4	1.7

1 Estimated actual
2 Revised estimate

Source: Malaysia, various years. *Economic Report*.

In Malaysia, a SMI is defined as a firm employing not more than 150 full-time workers, with annual sales value not exceeding RM25 million; with a small-scale industry being one that employs not more than 50 workers and with annual sales value not exceeding RM10 million, and a medium-scale industry being one that employs between 51 and 150. The principal statistics of manufacturing industries by size of establishments show that while the SMIs form a substantial portion of Malaysia's manufacturing base, their contributions to the gross value of output, total value-added, and employment are still low (see Table 3, Appendix). Hence, SMIs are not quite able to be one of the sources of social protection during times of crisis especially when they themselves face financial constraints.

The Bank Negara Annual Report 2000 (Bank Negara Malaysia, 2001) states that foreign direct investments (FDIs) into Malaysia peaked in 1992–93, accounting for 8.7% of GDP, but moderated thereafter to around 6.6% of GDP between 1994–97. It then dipped to below 4% in 1998, but has since recovered to about 4.9% of GDP in 1999 and 2000. During the 1990–97 period, 65% of the inflows were channelled into the manufacturing sector, 18% into the oil and gas sector, 10% into the services sector and 7% into the property sector. Since then, the share of FDI in the manufacturing sector contracted to about 43% of the total FDI inflows in the 1998–2000 period, while that of the oil and gas sector remained stable at 19% and that of the services sector jumped to 35%.

Labour Market Structure

The growth and structural transformation of the Malaysian economy has had wide implications on the growth of employment opportunities as well as the distribution of labour force by sectors. The employment share in the primary sector decreased from 53.5% to 15.2%, while that of the industrial and services sector increased from 14% and 32.5% to 36.1% and 48.7% respectively between 1970 and 2000 (see Table 2). While the structural transformation of the economy was rapid in terms of output, it has been rather slow in terms of employment structure. This invariably indicates disparities in labour productivity and earnings between sectors, and thus on the share of the poor.

With the rise in the employment opportunities in the modern sectors, the unemployment rate contracted to a low of 2.4% in 1997, but has since then risen slightly to 3.1% by 2000. The labour market became so tight in the 1990s that some sub-sectors had to resort to imported labour from abroad. There is no accurate estimate of the number of foreign workers in this country as different sources have different estimates. Edwards' (1997) estimates put it at 500,000 for 1985, one million for 1990 and 1.7 million for 1995, while the official estimate was about 1.6 million in 1999. Although the financial crisis had seen workers being retrenched from certain sub-sectors, particularly construction, many have been re-deployed to other sectors still experiencing a labour shortage, such as some sub-sectors in the manufacturing and services sectors as well as the agriculture sector.

The Malaysian labour force grew steadily before the Asian financial crisis, but dipped slightly in 1999, before returning to its pre-crisis level of almost 10 million (see Table 4). The labour force participation rate (LFPR) fluctuated during the 1990s, being around 65% for the nation as a whole. The male LFPR is much higher than that of the female LFPR, the former fluctuating around 85% while the latter is about half of the male LFPR.

Table 4: Labour Participation, Employment and Cost, 1995–99

	1995	1996	1997	1998	1999	2000	2001
Population ('000)	20,700	21,169	21,666	22,180	22,712	23,275	23,840
Labour force ('000)	8,256.8	8,641.4	9,038.2	9,880.9	9,178.0	9,573.0	9,801.2
Employment ('000)	7,999.2	8,426.5	8,818.8	8,564.1	8,862.1	9,271.2	9,411.1
Unemployment rate	2.8	2.5	2.4	3.2	3.4	3.1	3.9
LF productivity & wages (% increase):							
Real productivity	25.0	4.9	2.7	–6.3	8.8	22.7	–6.5
Unit labour cost	–4.5	2.8	3.9	–5.0	–5.0	–12.0	7.9
Real wage	20.9	4.4	5.9	–2.7	–1.7	12.9	4.5
LFPR*: Total	64.5	65.8	67.0	64.3	64.6	65.5	65.3
Male	83.8	84.8	85.7	83.4	84.4	85.4	85.1
Female	44.3	45.8	47.4	44.2	43.8	44.5	44.3

* Labour force participation rate.

Source: Malaysia, various years. *Economic Report*.

Distribution of Income and Allocation of Budget

The mean income of a Malaysian household has increased significantly and continuously from RM514 in 1976 to peak at RM2,606 in 1997. The Malaysian achievement in reducing income inequality between 1976 and 1990 is also impressive with the Gini ratio falling from its peak of 0.529 in 1976 to 0.446 in 1990. The state of income distribution both in the rural and the urban areas also exhibits similar trends. In terms of the income shares, the top 20% of households reduced their share from 57.7% to 50.5%, while the middle and bottom 40% increased their shares from 31.2% and 11.1% to 35.3% and 14.3% respectively for the same period. However, the Gini ratio has shown a trend reversal in the 1990s when it rose to 0.459 in 1993, 0.462 in 1995 and 0.470 in 1997. Similarly, the income shares of the top 20% of households increased to 51.3% in 1995 and 52.4% in 1997. On the other hand, the shares of the middle and bottom 40% decreased to 35.0% and 13.7% respectively in 1995 and to 34.4% and 13.2% respectively in 1997. This U-turn in income inequality almost wiped out all the gains that were made under the New Economic Policy (Ragayah Haji Mat Zin, 2001).

Nevertheless, the crisis resulted in the moderation of the mean income of the top 20% of households when it fell from RM6,854 in 1997 to RM6,268 in 1999. On the other hand, the mean income of the middle and bottom 40% fell at much lower rates. As such, it is not surprising that income disparity between the urban and rural areas, which rose from 1.7 in 1990 to 2.04 in 1997 moderated to 1.81 in 1999. The Gini also fell to 0.443 from 0.470 in 1997 with the income share of the top 20% of households contracting to 50.5% in 1999, while the shares of the middle and bottom 40% increased to 35.5% and 14.0% respectively. Still, while the crisis puts a break on the rising inequality of the 1990s, this improvement comes with a reduced size of the economic pie.

Malaysia has achieved a remarkable record in the progress of poverty eradication. The poverty incidence has plunged from 52.4% in 1970 to 9.3% in 1995. Over the same period, urban poverty incidence shrank to 4.1% (99,300 households), while the rural poverty incidence fell to 15.6% (319,000 households), indicating that poverty in Malaysia continues to be a largely rural phenomenon. In 1995, the overall incidence of poverty stood at 9.3% numbering 418,000 households. The incidence of poverty was further reduced in 1997 to 6.8% (332,400 households), 2.4% (64,900 households) for the urban areas and 11.8% (267,500 households) for the rural areas. However, the incidence of poverty for 1999 rose to 8.1% (409,300 households), 3.8% (102,700 households) for the urban areas and 13.2% (306,600 households) for the rural areas as a consequence of the crisis (see Ragayah Haji Mat Zin, 2001).

The value and share of Federal Government development expenditure in the various categories for the period 1970 to the present indicate that the percentage share of development expenditure in social services went up in the mid-1980s and then followed a downward trend in the first half of the 1990s (see Table 4, Appendix). Since then this share has increased again to reach a peak in 2001 when almost half of the development expenditure has been allocated to social services, particularly education. This was the result of a continued effort to revive the economy, and the budgets since 1998 continued with an expansionary fiscal stance. Of the additional allocation for development expenditure in 1998, RM1,000 million was directed at social development projects to address and ameliorate the effects of the economic crisis on the lower income groups. In 1999, priority in government spending was given to projects that address structural and socio-economic issues (education and skills training, health services, low-cost housing, and agriculture and rural development), as well as revival of selected infrastructure projects to increase efficiency of the economy (Bank Negara Malaysia, 2000). In order to overcome the weak domestic demand and excess capacity as well as the negative external developments, the government continued with an expansionary fiscal policy resulting in a fiscal deficit of 5.8% of GDP, which is regarded as still within a prudential level. The September event and its adverse impact on the global economy necessitated the government to further inject a stimulus package of RM4.3 billion in September 2001 to contain and minimize the negative spillover effects from the deteriorating global economy (Malaysia, 2001c).

Political System

Malaysia has a parliamentary democracy, with one dominant party. The National Front coalition has won every general election and continues to dictate political affairs. Surpassing power is vested in the Executive, and various laws have been instituted that restrict political freedom or contain social activism. The federal government dictates the content and priority of objectives and policies, but state governments play an important role in overseeing economic development.

The Malaysian development strategy since independence in 1957 has always encompassed the two important objectives of, first, allocating resources in such a way as to ensure the growth of real per capita income and second, ascertaining that income and wealth are distributed in an equitable manner. However, prior to 1970, while the policies implemented during this period were able to attain satisfactory growth, they failed to improve equity or significantly eradicate poverty. This growing inequality – overall as well as along intra-ethnic lines – and persistent poverty was said to be one of the proximate causes of the May 1969 'race riots' which culminated in the proclamation of the New Economic Policy (NEP) in 1970.

The NEP, which was implemented between 1971–90, was hailed as a successful model of redistributing income without sacrificing growth. It was launched with the objective of attaining national unity and fostering nation building through poverty eradication and economic restructuring so as to eliminate the identification of race with economic functions. Since the implementation of this policy, Malaysia has achieved growth, structural transformation, and poverty alleviation and improved income distribution in an ethnically diverse society.

The NEP was succeeded by the National Development Policy 1991–2000 (NDP), which retains the basic strategy of *growth with equity* of the NEP. This in turn was followed by the current National Vision Policy (NVP) contained in the Third Outline Perspective Plan 2001–10. In essence, the NVP represents the consolidation of all past development efforts (NEP and NDP) to attain a united, progressive and prosperous Malaysian society. The quest of the nation is to become a developed nation in its own mould, and in meeting the challenges towards this end the same strategies expounded in the NEP and NDP of building a resilient, competitive nation and an equitable society to ensure national cohesion and social stability will also be emphasized in the NVP.

1.2 Availability and Quality of Data

The income data used to estimate poverty incidence and income distribution in Malaysia are derived from several official surveys, namely the Agriculture Census 1976 (AgCensus, 1977) and the Household Income Surveys (HIS), which were conducted by the Department of Statistics (DOS). Most are not available to the public except for summary data published in official documents. It is generally agreed that the census/surveys have employed a consistent and comparable income concept and approach in conducting the various surveys. Bhalla and Kharas (Bhalla and Kharas, 1992) asserted that "the overwhelming result from cross-checks of the data is that these surveys have been extremely well conducted, and it is likely that they are amongst the most reliable of the surveys conducted in the developing world".

Most of the other data reported in this paper are also collected by DOS, which has a reputable reliability in its data collection. However, data relating to the informal sector is scarce, so much so that here the informal sector is restricted to the self-employed and unpaid family workers. Also, there are difficulties in getting access to data, for example from studies conducted by SOCSO. Much important survey data and reports have been concealed from public view; it remains difficult to obtain statistics on a range of issues, particularly those deemed 'sensitive'.

1.3 Existing Institutional Framework

Generally, the institutional framework in Malaysia consolidates the role of government, and limits the room for movement of trade unions and civil society organizations. The state has assumed a 'developmentalist' position, in which formulation and implementation of development plans are held to be the sole prerogative of the state. This type of system asserts that socio-political stability is necessary for smooth state-led development – which includes containing civil activism. Society's main role is to comply with the terms, co-operate, and perhaps offer suggestions. The activities of unions have been particularly stigmatized in Malaysia; industrial action is considered as disruptive, disrespectful, and unreasonable. The relationship between the Malaysian government and NGOs has been strained, especially for groups that voice dissent at government policy or action.

The 1950 Trade Unions Act outlines procedures for registering and operating a trade union. The Director General for Trade Unions has discretionary power to decide whether to recognize a trade union applying for registration. The Industrial Relations Act 1967 imposes severe strictures on collective bargaining, going on strike and other forms of industrial action. Trade unions are generally small and fragmented. The definition of a trade union – as one that comprises workers in a particular trade, occupation or industry – has been used to disapprove the expansion of membership or the establishment of large unions (Ayadurai, 1993).

Recent data statistics confirm that the institutional framework continues to restrict trade unions. Until 2000, there were only 577 unions in Malaysia. This small number of trade unions, in spite of a substantial number of applications for trade union recognition (184 in 2000), reflects the low rate of approval and the power vested in the Director General's hands. Unions had a total of 734,525 members in 2000, making for an average union membership of 1,270 members.[1] In other words, only 8.2% of Malaysian workers were unionized in 2000[2], which is a drop from 9.9% in 1990 and 11.8% in 1982 (Zulkifly and Ishak, 1998). In-house or enterprise unions have also become more common.[3] The declining trend in membership and gravitation toward in-house unions mirrors a shift away from industrial negotiation to a market-driven and decentralized form of industrial relations. Activities of unions are subdued, as corroborated by industrial action incidences – or lack thereof. In 2000, only 11 strikes or lockouts and 22 pickets were recorded.

In a wider context, combined bodies or large unions may gather sufficient momentum to make larger impacts. The Malaysian Trades Union Congress (MTUC) was formed in 1950, as an umbrella body to represent unions. Because it encompasses various sectors, it has not been approved as a union. Thus, the MTUC has the status of a peak society, and hence cannot engage in the activities of trade unionism. It has advocated worker concerns, though its leaders often face criticism for not pushing the labour agenda enough, or for capitulating to government or employer terms too often. The plantation sector got as far as instituting a minimum wage, but at a level that can scarcely guarantee subsistence.[4] The National Union of Plantation Workers, which led the campaign, is the union with the largest membership.

At the other end of the bargaining table, employers have generally had the upper hand in negotiations. Malaysia's industrialization strategy has placed high emphasis on employer interests. The Malaysian Employers Federation (MEF) was established more recently, in 1978. The favourable policies that employers enjoy pre-date the formation of this group, although the MEF occasionally publicly advocates employer interests. Tri-partite discussion and negotiation take place within organizations, such as on the Employees Provident Fund (EPF) board, which includes representation from the government, employees' (including the MTUC) and employers' representatives. The views of the MTUC, MEF, and government are sometimes solicited for public enquiries related to industry. Tri-partism, however, cannot be said to be equilateral:

1 This compares with 1989, when there were 369 trade unions with 560,339 members, with an average of 1,520 members.

2 Data obtained from Malaysian Ministry of Human Resources website, http://www.jaring.my/kms.

3 Private sector membership of in-house unions, as a proportion of total union membership, increased from 6.5% in 1982 to 29.7% in 1992. Corresponding figures for the combined public and private sector are 24.6% in 1982 to 41.8% in 1992 (Zulkifly and Ishak, 1998, Table 9.5).

4 The fixed component of the minimum wage of RM325 even falls under the Peninsula poverty line of RM510. Productivity and commodity price factors are to determine the plantation worker's income beyond RM325.

disproportionate weight at the negotiating stage tends to reside on the government and employer fronts. Nonetheless, the MTUC has recently raised significant objections to EPF approved policies.

Directly related to social protection are two main statutory bodies: one each for old-age savings and social security. The EPF, established in 1951, serves foremost as a retirement savings fund. With the 1969 Employees Social Security Act, the Social Security Organization (SOCSO) was formed to cover accident and death incidences on the job. The concept and application of social security, however, has remained contained to the provision of injury and incapacitation benefits. This legislative conception, though termed social security, did not introduce a full-scale institutionalization of social insurance or social assistance.

The 1997–98 economic crisis seems to have altered perceptions somewhat, due to the sheer magnitude of adversity that workers and vulnerable groups endured. The inadequacy of existing social protection measures was exposed, for instance in retrenchment benefits, urban poverty and insurance of foreign workers. This is a significant development, though many gaps remain to be filled – the longer term implications are less certain. We witness continual outcries against abuse of EPF funds, primarily through purchasing shares of politically connected companies, and the low dividend resulting from such misplaced investment.

1.4 Government Support

The Malaysian government has maintained a cautious distance from involvement in social protection. Historically, this ideological stance may be traced to the Communist emergency period of 1948–60, during which trade unions were labelled as leftist insurgents. Socialist parties also posed a credible political threat to the establishment until the 1960s. The lack of trade union penetration and civil organization, over time, contained social pressures for state welfare provisions. The NEP introduced a developmental programme oriented toward poverty alleviation and income redistribution. Understanding and application of social welfare, thus, took the form of affirmative action, primarily on ethnic grounds.

Thus, poverty reduction and income redistribution policies find more sympathy than social protection. The government plays a key role in propagating lukewarm perceptions toward various instruments of social protection. Existing social institutions are generally regarded as sufficient; the government has not indicated any desire to substantiate or expand the instruments of social protection on a wide scale. The country has adopted development strategies in line with mainstream ideology, which emphasizes the private sector and employs supply-side strategies such as human resource development and labour flexibility. These strategies, in line with a growth-centred development formula, tend to stress market outcome as the determinant of welfare. Perceptions that social safety nets induce indolence and discourage productivity have been perpetuated till present day.

1.5 Traditional and Contemporary Perception of the Social Protection System

While the coverage of the formal social protection system in Malaysia is greatly inadequate, transfer payments within the extended family have acted as an informal shock absorber in times of economic downturn. Children who earned a steady income normally try to send some money to support their ageing parents or needy relatives, implying that solidarity and justice are important values in the Malaysian society. The Muslims are supposed to pay the religiously compulsory '*zakat*' to the state religious department or pay directly to those who qualified, particularly the very poor. Moreover, in developing countries such as Malaysia, traditionally the family and kinship and community-based institutions, like mutual benefit societies, catered for needy people. For example, the agricultural and the fishing sectors rely strongly on their respective cooperative societies for financial, social and moral support in cases of misfortune. In this instance, the Farmers' Association and the Fishermen's Association, initiated by the government, were established for the purpose of promoting the welfare of its members, but membership of these occupational cooperatives is not obligatory. However, industrialization and urbanization plus social mobility have resulted in the disintegration of traditional forms of social protection. Development creates the need for formal social security provisions.

A more progressive tax system would be more easily acceptable to the people in the lower income group since those who could not really afford to pay would not have to pay and yet would be likely to qualify for benefits. However, this type of tax regime is no longer tenable in the era of liberalization and globalization when each government is forced to lower its taxes in order to make the country a more competitive place for doing business in order to attract FDI. While certain insurance schemes might be a more attractive alternative to taxes, the government has to come in to pay for the premiums of those who simply could not afford to pay. In its poverty eradication strategy, Malaysia would like to avoid the 'dependency syndrome' and would like to assist the needy through job creation rather than forking out subsidies. Hence, when the Eighth Malaysia Plan targets poverty incidence to be reduced to 0.5% in 2005, it envisages that only these people will be left under poverty to be assisted by transfers.

2. Review of the Existing System

Contemporary social security schemes in Malaysia derived its origin from provisions introduced during the colonial era. Malaysia's social security schemes tend to cover those in the waged or salaried groups only. The earliest social security provisions were a workmen's compensation scheme, established in 1929, and an employer's liability, sickness, and maternity scheme for plantation workers, introduced in 1933 (Midgley, 1984, p. 144).

2.1 Social Protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

The formal sector in Malaysia comprises organized and registered economic activities that operate within the legal institutional framework, and generally generate regular wages and incomes. Employers are required to comply with legal social protection institutions, in particular old-age savings for all employees and accident/death insurance for low-income workers. Workers have the option of joining trade unions, although subject to severe restrictions as mentioned above. Working conditions and hours also have to fall within certain limits, and workplaces abide by safety regulations.

Although the formal sector, compared to the informal sector, enjoys obvious advantages of state priority, higher potential for income generation, capital intensity and technical progress, the returns to economic growth from a largely capital accumulation regime have been diminishing. One of the main problems faced in the formal sector is that it is not very efficient after the mid-1990s; labour productivity registered negative growth in 1998 (see Table 4). Labour productivity did pick up in 1999 and 2000 but fell again in 2001. Unit labour cost and real wages also rose significantly last year. The formal sector is dominated by the private sector, particularly since Malaysia embarked on privatizing many of the public utilities and other non-financial public enterprises from the mid-1980s. Malaysia once had an obvious comparative advantage in natural resource intensive and unskilled labour intensive industries, but now has a comparative advantage in industries which are technology intensive (see Table 5, Appendix). A pressing challenge ahead is how well Malaysia forges towards skill-intensive industry and services. In the long term, there are potential positive consequences of advancing to high technology and high-skills production, in the form of higher wages and abilities to allocate toward savings and insurance.

Social protection measures exist for workers in the formal sector – limited as they are. Receiving these benefits, however, is contingent on the participation of employers and employees, and on the monitoring activity of government authorities. Social protection has not been accorded high priority in economic development – in policy and practice. However, the need for state-sponsored or state-coordinated social schemes will rise further, in the continuing climate of volatility and with the diminishment of the family support tradition. The Malaysian government has demonstrated a commitment to ‘social expenditure’. Nonetheless, the bulk of this expenditure goes towards education and health facilities and provisions (see Table 3).

2.1.2 Social Insurance and Savings Schemes

Currently there are several formal social security schemes in the country, although not all are national in coverage and function. Only employees in the government service are entitled to receive pensions upon retirement while all other employees are required to contribute to an old-age retirement scheme known as the Employees Provident Fund (EPF). The coverage of these social security schemes is shown in Table 5.

Table 5: Retirement Income Coverage, 2000

	Number	% of total
Total working population	9,573,000	100.0
EPF members*	9,990,000	104.36
Employees under Government Pension Scheme	118,854	1.24
Registered foreign workers	732,588	7.65
Estimated foreign workers who are not registered	500,000	5.22
Estimated Malaysian workers not covered by any formal retirement scheme	585,600	6.12
Estimated working population not covered by any formal retirement scheme	2,877,300	30.06

* Exceeds 100.0% since a retired worker can still be a member.

Source: Public Services Department, cited in Rajasekaran, 2001.

i. Employer's Liability Scheme

The employer's liability scheme covers mainly two types of benefits. Firstly, employment injury compensation is provided under the Workmen's Compensation Act, 1952, and secondly, sickness and maternity benefits are provided under the Employment Act, 1955. Paid sick leave entitlement, as stipulated by the Employment Act, 1955, depends on the employee's length of service. It ranges from 14 days for those employed for less than two years, and 18 days for those employed between two to five years, to 22 days if the employee has served the employer for more than five years.

Maternity protection is one of the few areas where employees in the private sector get better benefits than employees in the public sector. In general while contribution rates are higher in the private sector, benefits tend to be less compared to the public sector. Yet in terms of maternity leave, employees covered by the Employment Act 1955 enjoy a longer period to recuperate from birth. All female employees covered by this Act are entitled to 60 days maternity leave, subject to a maximum of five surviving births, plus a maternity benefit which is an amount equivalent to her wages at the time of confinement. This sum should be paid even if the employee dies (from any cause) during the maternity leave.

Since 1993, the Workmen's Compensation Act is particularly important to foreign workers in Malaysia. Previously these workers were covered by the SOCSO. However, with the huge influx of foreign workers, SOCSO found it increasingly difficult to cope with the problems of providing compensation to workers who have left the country. Foreign workers are employed in high-risk industries such as construction, where the number of accidents is high. Workers who were involved in work-related accidents and were no longer able to work returned to their home countries. Paying out the compensation on a monthly basis could not be managed smoothly by SOCSO. Tracing the families of foreign workers who have died was equally difficult. Hence, the Ministry of Human Resources revived the Act.

The schemes discussed are enforced by the Labour Department and are entirely the responsibility of the employers, who are legally bound to meet the costs and provide benefits to their workers who qualify for such benefits. Since the responsibility of payment of compensation is placed on the employer, it may be a disadvantage to employers who are not financially stable. They might find it difficult to discharge their obligations to the injured workers, particularly if the claims involve heavy financial liabilities arising out of permanent disablement or fatal cases. Thus, in order to prevent small or financially weak employers from becoming insolvent, it is a common practice for employers to purchase commercial insurance plans to cover their liabilities under the workmen's compensation schemes. Payment of compensation is not automatic, and claimants might encounter delays and difficulties in demanding their claims. Moreover, the payment of a lump sum has its disadvantages as the lump sum often diminishes in a short period and the claimant might become a charge of public welfare.

ii. Civil Service Pension

The Government Pension Ordinance of 1951 introduced a non-contributory pension scheme for civil servants, which was amended by the Pensions Act of 1980. This scheme provides income protection for all employees in the public sector. Benefits include those relevant to employment injury, disability, superannuation or gratuity payment upon retirement and dependents' pension in the event of death while in service and death after retirement.

The generous provisions of the civil service pension scheme are funded by the government, through tax revenues. Table 6 shows the gradual increase in government expenditure on public pensions and gratuities over the years 1998 to 2002. This trend reflects a system in which members of low-income groups not covered by social security are at a disadvantage, not only by being excluded in coverage but also as a result of their contribution to the general taxation, which are largely provided by the low-income groups through regressive indirect taxation.

Table 6: Expenditure on Civil Service Pensions and Gratuities, 1998–2002

Year	RM million	% of total government operational expenditure
1998	3,658	7.8
1999	3,792	8.1
2000	4,187	7.4
2001	4,891	8.0
2002	4,556	7.0

Source: Malaysia, 2001c.

iii. Employee Provident Fund (EPF)

For the majority of employees outside the civil service, there is the statutory provident fund that provides retirement benefits under the Employee Provident Fund Act, 1951. Currently there are some 9.97 million members of the EPF, and some 318,218 employers. However, there is a portion of members who are not active, that is, they have some amount of savings but do not continue to contribute, perhaps due to unemployment, or for the reason that they are civil servants who have been absorbed into the public pension scheme,[5] or foreign workers who have left the country. Table 7 gives a picture of the membership and employer situation from 1996 to 2000, while Table 8 shows the wage structure and balance of members for 1999. The latter reflects that a large majority is earning less than RM2,000 a month.

Table 7: Number of Employers and Members 1996–2000

Year	Total members (million)	Active members (million) (% of total)	Employers
1996	8.05	4.18 (51.9)	276,417
1997	8.27	4.31 (52.1)	296,299
1998	9.16	4.65 (50.7)	297,792
1999	9.54	4.78 (50.1)	301,191
2000	9.97	5.03 (50.4)	318,218

Source: EPF, 2000.

Table 8: EPF: Wage Structure and Average Balance of Members, 1999

Wage range of members (RM)	Active members in wage range		Average balance in 1998 (RM thousand)
	Number	Percentage of total	
Up to 500	1,335,175	27.9	5.9
501 – 1,000	1,560,620	32.6	12.6
1,001 – 2,000	1,084,565	22.7	29.5
2,001 – 3,000	336,902	7.0	50.2
3,001 – 4,000	126,891	2.7	74.8
4,001 – 5,000	67,648	1.4	98.4
5,001 – 6,000	39,136	0.8	118.9
6,001 – 7,000	24,805	0.5	141.8
7,001 – 8,000	17,409	0.4	162.7
8,001 – 9,000	11,302	0.2	179.6
9,001 – 10,000	9,320	0.2	199.1
More than 10,000	170,401	3.6	265.9
Total	4,784,174	100.0	31.9 (Total average)

Source: EPF, 1999, p. 56; Lee Hock Lock, 2001.

The EPF scheme consists of individual and entirely separate accounts for each worker. Contributions are paid by workers and employers, and these accumulate to earn dividends until the amount is paid out on the occurrence of the prescribed contingencies of retirement or death, provided that retirement is not before the statutory age. Contribution rates for employees and employers have increased over the years. Between 1952 and June 1975, both employee and employer contributed 5% each, but this increased to 6% and 7% respectively between July 1975 and November 1980, 9% and 11% between December 1980 and December 1992, 10% and 12% between January

5 A majority of civil servants contribute to the EPF for a period of three to ten years before they are absorbed into the Civil Service Pension scheme.

1993 and December 1995, and 11% and 12% between January 1996 and December 2000. Since then, the government has reduced the employee's contribution to 9%.

Each worker's EPF account is divided into three components.

1. Account 1 comprises 60% of total savings and can be withdrawn only upon reaching the age of 55 years;
2. Account 2 comprises 30% of total savings and withdrawals are allowed for the purpose of purchasing a house, a computer and education;
3. The last 10% of the savings are deposited into Account 3, and withdrawals are allowed for medical expenses.[6]

Table 9 shows the amount of contributions and withdrawals for 1996–2000.

Table 9: Annual Contributions and Withdrawals, 1996–2000 (RM Million)

Year	Contributions	Withdrawals
1996	12,899	3,638
1997	14,614	5,679
1998	14,782	8,441
1999	15,192	7,124
2000	17,040	9,961

Source: EPF, 2000.

The Fund has provisions for periodical withdrawal of savings upon reaching retirement age, so as to ensure that there is a guaranteed flow of income. Still, this does not ensure that account holders are not tempted to withdraw all their savings, especially those in the lower income groups whose savings are small. In 2000, for example, only 0.06% of the amount withdrawn was for the purpose of periodic payments.

Provident funds, though useful in their own way, have their limitations. It provides for a measure of protection for old age, but where invalidity or permanent disability is concerned, it can hardly provide the desired or adequate income security. Lump sum payments do not provide the life-long security as is available under a social insurance scheme that provides periodical payments throughout life. Furthermore, the provident fund has the disadvantage of not pooling risks. Benefits are based directly on contributions and, therefore, they are not always sufficient to deal adequately with contingencies that may arise. The lump sum payment may be small and is soon used up. This problem is particularly pressing in the case of workers who are disabled or die at a young age or who join the fund shortly before retirement. Moreover, the dividend rates of the Fund have fluctuated over the years. When the country achieved its independence in 1957 and economic development accelerated, the rates ranged between 5% and 7%, with a peak of 8.5% between 1983 and 1987, but since then have

6 EPF withdrawals for medical expenses are envisaged for payment of expensive surgeries, etc. The amount may not be sufficient to cover the total costs incurred. The public are encouraged to buy health insurance plans under the *Sihat Malaysia* programme, overseen by the government. Medical services are free for low-income people who are not covered by the 1955 Employment Act or the 1952 Employer's Liability Act, or are not employees in the public sector.

declined to 6% in 2000 (EPF, 2000, p. 38). Besides, 72% of EPF contributors who withdraw their savings at the age of 55 tend to spend all funds within three years.[7] Thus there is a need for the EPF to educate its members on how to use their savings prudently upon retirement since life expectancy has risen and these figures are expected to increase to 82 and 85 for males and females respectively by the year 2020.

In general, the EPF was established mainly for employees in the formal sector, that is, employees who have a regular paymaster. Thus, workers in the informal sector and the self-employed, such as petty traders and hawkers, are not compelled to have accounts with EPF and may contribute on a voluntary basis. There is no enforcement by the authority to encourage them to open up provident fund accounts. Unlike in some countries where business licenses may not be renewed unless there is proof of provident fund contributions, this prerequisite is not practiced in Malaysia. Hence, it is crucial for the government to look into this matter in the near future.

iv. Workmen's Compensation Scheme

The Workers' Compensation Scheme was conceived from the Workers' Compensation Act, 1952. The injured or deceased workman is compensated by his employer, who is required to insure his company against such liabilities. Unlike SOCSO, this scheme operates as a law governing the terms and amounts of compensation in the case of death or accident. It does not handle the funds itself; the employer is fully responsible for the social insurance through private companies.

The benefits under this scheme are as follows:

1. Death: a lump sum equal to 60 months' earnings or RM18,000, whichever is lesser;
2. Permanent total disablement, according to age of worker (of the following, whichever is lesser):
   a) less than 16 years: 108 months' salary or RM23,000;
   b) 16 to 18 years: 84 months' salary or RM23,000;
   c) more than 18 years: 60 months' salary or RM23,000.

This scheme never attained much significance in scope or magnitude, particularly since the establishment of SOCSO in 1971. Nonetheless, it has been utilized by foreign workers, some public servants and workers in statutory bodies. More recently, the Workers' Compensation Fund has been modified to be a major source of indemnity for foreign workers in case of injury or death. In March 1998, the Foreign Workers' Compensation Scheme was formed to cater primarily to foreign workers' insurance needs.

Benefits for the Foreign Workers' Compensation Scheme include:

a) RM2,000 'ex gratia' payment for death resulting from commuting to work;
b) a maximum of RM20,000 payment for death or permanent disability outside of regular work hours;

7 Statement by the Chairman, EPF Board, 21 January 2002.

c) guarantee of RM4,800 payment for cost of sending worker to his/her home country in the case of death or permanent disability.

From 1997 to 1998, the total nation-wide number of cases increased (2,285 to 2,716) but the amount of benefits paid remained constant (RM3.85 million and RM3.86 million) (MHR 1998: 37). Another source notes a significant rise in cases and benefit payments between 1998 and 1999 in Peninsula Malaysia: respectively, 3,224 to 3,951 and RM4.6 million to RM5.4 million. This data discrepancy reflects the poor standard of information provision. Nonetheless, the upward trend is clear. Still, the total amount of funds disbursed is miniscule, considering the approximately 730,000 registered foreign workers in Malaysia.

v. *Employment Injury Insurance and Invalidity Pension Schemes*

The Employees' Social Security Act, 1969 formed the basis of a social insurance system in Malaysia. It also meant that for the first time the principle of social insurance and the pooling of risks and finances were introduced in the country. The scheme covers workers who earn less than RM2,000 a month and is financed by contributions by the workers and employers, and administered by a corporatized central government agency, that is, the Social Security Organization, or popularly known as SOCSO. However since April 1993 foreign workers are exempted from coverage by this scheme and they have to rely on the Workmen's Compensation scheme instead.

There are two types of benefits that are administered by SOCSO, namely, the Employment Injury Insurance scheme and the Invalidity Pension scheme. Under the former, the contribution rate is 1.25% of the employee's monthly earnings, and in the latter scheme it is 1%; the contributions are shared equally between the employer and the employee. Under the first scheme, the benefits provided include medical benefit, temporary disability benefit, permanent disability benefit, dependents' benefit, death benefit, and rehabilitation benefit. On the other hand, the Invalidity Pensions scheme provides coverage against invalidity or death due to any cause. The benefits provided are related to temporary or permanent disability and rehabilitation, funeral grant, survivors' pension and educational benefits. Benefits are paid out in the form of periodical payments, calculated on an earnings-related basis.

Contributions by employers may appear as a transfer of income from employers to workers. Nevertheless, in reality it is difficult to comprehend whether employers' income are really affected by social security contributions. In this instance, the real incidence is on the consumers, as the employers are able to assume their contributions as production costs and transfer them to consumers, and thus social security benefits financed out of employers' contributions represent a redistribution of income from the consumers to the insured persons.

Table 10 shows the registrants, accidents and benefits paid from 1996–2000. The number of registered employers and employees has been increasing during the five-year period. However, the number of registrants and active membership diverge greatly. For example, although some 385,916 employers are registered with SOCSO in 1999, only 267,197 or 69.4% are active employers, having made at least one contribution in that year. Similarly some 8.598 million employees are registered, but of these only 4.61 million or 53.6% are active members. There were 106,508 reported industrial accidents in 1996, but this figure has come down since then to 73,400 in 2000. On the other hand, commuting accidents and the number of recipients have been rising. Total contributions in 1999 amounted to RM898.7 million; while benefit expenditure amounted to RM497 million. At present it is believed that SOCSO's expenditure far exceeds the rate of increase in contributions, which stands at 60% of SOCSO's earnings.[8] One reason for this increase, it is believed, is the abuse of the workplace disability assessment by doctors, employers and employees.

Table 10: SOCSO, Number of Registrants, Accidents and Benefits Paid, 1996–2000

	1996	1997	1998	1999	2000
Registration					
Registered employers	305,500	338,794	358,543	385,916	415,523
Active employers	217,524	236,593	253,305	267,197	254,901
Registered employees	7,613,635	8,252,680	8,428,589	8,598,005	8,877,304
Accidents					
Reported industrial accidents	106,508	86,589	85,338	92,074	73,400
Commuting accidents	14,771	13,503	16,759	18,309	19,276
Death cases (settled)	1,020	1,473	1,273	984	911
Recipients of benefits					
Temporary disability	80,320	78,315	67,168	69,491	73,987
Permanent disablement	17,038	19,374	21,130	17,264	20,009
Dependant's benefit	16,516	20,137	23,200	25,149	25,900
Invalidity pension	10,040	11,686	13,316	15,724	18,324
Survivors' pension	43,377	59,194	67,034	75,189	82,113
Total	**167,291**	**188,706**	**191,848**	**202,817**	**220,333**

Source: SOCSO (http://www.perkeso.gov.my).

Total investments by SOCSO amounted to RM4 billion in 1999. Some RM1.63 billion are invested in government securities, while another RM1.87 billion is invested in bonds used to finance vast development projects such as the Kuala Lumpur International Airport, the North-South expressway and others. This reinforces the argument that social security contributions play a prominent role in the supply of long-term investment funds for the country's economic development.

vi. Savings Schemes

There are quite a number of unit trust funds in the market since the number of approved funds increased from 67 in 1995 to 127 in 2000 with the number of investors rising from 6.8 million to 9.6 million over the same period. These unit trusts include the government guaranteed schemes under the *Permodalan Nasional Berhad,* such as the National Unit Trust (ASN) and the ASB (Bumiputera Unit Trust), which are

8 Personal communication between the writer and a SOCSO official.

only open to Bumiputeras (ethnic Malay citizens), and the *Amanah Saham Wawasan 2020* (open to all Malaysians between the ages of 12 and 29) and the *Amanah Saham Malaysia* (also open to all Malaysians). These savings schemes have yielded much better returns than the EPF and fixed deposit rates provided by the banks. In order to raise the income of the hardcore poor (those with income equal or less than half the poverty line), the government launched the Bumiputera Unit Trust (ASB)-PPRT loan scheme in 1992. This programme enabled each hardcore poor household to obtain a RM5,000 interest-free loan to participate in the ASB scheme. A total of RM75.7 million was paid out to those who participated in the scheme by the end of 1995 in the form of dividends and bonuses.

2.1.3 Social Assistance and Services: Benefits and Transfers

Under this scheme monetary benefits and other benefits in kind such as clothing and food parcels, as well as apprenticeship training and small business launching-grants are provided by the government and administered by the Department of Social Welfare, under the jurisdiction of the Ministry of National Unity and Social Development. This scheme is strictly means-tested, and low income is the principal determinant of eligibility. However, benefits are not provided for claimants who have relatives that are liable and able to support them.

The federal government sets limits for the amount of public/social assistance given to claimants. Benefits are based on the total monthly income of a family,[9] and should not be above RM400 a month. Monthly allowances are given at a rate of RM80 per person, up to a maximum of RM350 per family. Old people above the age of 60 years who are destitute, not able-bodied and do not have any relatives to depend on for support are eligible to apply for assistance of RM130 a month. Benefits at the state level vary between RM40 per person in Negeri Sembilan to RM135 per person in Trengganu; these levels are set by each state. Table 11 shows the differences in levels of benefits in each Malaysian state.

Besides, there is a tendency for benefits to be biased towards claimants in the urban areas. Theoretically, all needy people qualify for social assistance, but most rural dwellers are excluded, either through ignorance or through the administrative technique of limiting procedures for receiving and processing applications in the large urban centres.

9 For the first half of the Eighth Malaysia Plan, the income eligibility criterion for assistance is set at RM1,200 and below, per month per household (Malaysia, 2001a).

Table 11: Public Assistance[10]

States	Minimum (RM)	Maximum (RM)
Federal Territory	80	250
Johor	55	155
Kedah	70	200
Kelantan	70	120
Melaka	90	310
Negeri Sembilan	40	80
Pahang	80	235
Perak	95	200
Perlis	70	200
Pulau Pinang	70	200
Selangor	95	235
Trengganu	135	335
Sabah	80	180
Sarawak	80	350

In general, we may safely classify public or social assistance in Malaysia as residual welfare. Economic development planners regard the role of social welfare services as marginal to the development process precisely because these services do not generate income. What is urgently needed is a reassessment of the role social assistance can play in ameliorating the problem of poverty and deprivation. The Department of Social Welfare has acquired experience mostly in assisting the handicapped, elderly, and juveniles; social income transfers to the destitute have not advanced substantively into social income transfers and social protection schemes.

2.1.4 Auxiliary Schemes

There are a number of auxiliary social security schemes that are ad hoc in nature.

i. Rubber Smallholders' Accident Compensation Scheme[11]

This scheme was initiated in March 1982 by the Rubber Industry Smallholders' Development Authority (RISDA). This was a social insurance scheme, which covered all registered smallholders and their families. Smallholders contribute a small sum of RM8 annually.[12] Benefits provided included a lump sum payment of RM10,000 for contingencies arising out of death or permanent disability of the smallholder, RM200 a year for medical expenses and a weekly allowance of RM30 for a maximum of 52 weeks for loss of income due to injury or sickness. However, this scheme was repealed in May 1987. Smallholders felt this scheme was not run according to Islamic principles, but what was pertinent was the fact that claims far exceeded contributions by smallholders.

10 Personal communication between writer and an official of the Welfare Department Headquarters, Kuala Lumpur.

11 Information in this section is based on the writer's interview with an official of RISDA.

12 This scheme was highly subsidised by the government, partly due to the fact the smallholders paid cess (tax on latex) and partly because this scheme had underlying political objectives.

ii. Fishermen

(a) Fishermen's Group Accident Scheme

The Fishermen's Association has initiated an insurance scheme for boat owners, who have to buy an insurance plan for their boat and workers each time they renew their licences. In the past fishermen were also encouraged to purchase some form of insurance for themselves, at the rate of RM5 per month, but the response was poor. Furthermore, there is no administrative mechanism to ensure they comply with this suggestion. Generally, therefore fishermen do not have adequate social security coverage.

(b) The Trengganu Fishermen's Welfare Fund

In January 1978, the Trengganu state government introduced a system of social security for contingencies arising out of accidents at sea specifically for fishermen who are born and residing in the state. The fishing industry is one of the main traditional employment sectors (the other one being the agriculture sector) in this state. Currently, there are some 2,300 fishing boats in operation in Trengganu. This scheme, known as the Trengganu Fishermen's Welfare Fund, is financed fully by the state government, and administered by the Trengganu Fisheries Department. Fishermen need not register formally for the scheme, but they must be sons of Trengganu or have resided for at least ten years in the state. Furthermore, they must spend at least 120 days in a year employed as fishermen in order to be eligible for the benefits. However, they are encouraged to be members of the Fishermen's Association.

Benefits include a lump sum payment of RM10,000 for death due to an accident at sea, or RM6,000 for invalidity or permanent loss of disability as a result of accidents at sea. Other benefits include medical expenses, hospital allowances (RM10 daily, for a maximum of 90 days), compensation for loss of boat, and contributions towards the cost of repair of boats. Although this scheme does not guarantee permanent income maintenance for permanently disabled fishermen or survivors (in cases of death), it does provide some form of assistance to fishermen. Thus, this proves the commitment of the state in recognizing the fishermen's contribution towards the economy.

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal Sector

A large section of the population, in particular the self-employed, petty commodity trades, and those employed in the informal sector, are excluded from any formal social security measures. We should recognize the importance of this sector in providing job opportunities for the lower income groups. Quijano-Obregon (Quijano-Obregon, 1974), for example, sees the informal sector as a marginal activity at the peripheral of the formal sector, which provides a potential source of workers for the other sectors.

There is no official categorization of the informal sector in Malaysia. Thus, in this paper this refers to the self-employed (own account and unpaid family workers, including petty traders, food and merchandise hawkers, insurance agents, and others). In the context of social protection, it is quite likely that these self-employed do not have access to formal protection, or do not involve themselves in such programmes. Registering as EPF contributors, for instance, requires declaring incomes that they may not wish to disclose. In 1980, there were 1.14 million self-employed or 26.2% of the employed population. This number rose to 1.42 million in 1991 or 23.7% and 2.03 million in 1999 or 23% of the employed population. The distribution of employed persons by employment status, strata and sex is shown in Table 12. In 1999, there were 427,800 or 13.9% of males compared to 253,900 or 14.5% of females who were self-employed in the urban areas. In contrast, there were 897,600 or 32.4% of males and 453,800 or 36.6% of females who were self-employed in the rural areas. Thus, the informal sector features relatively more in the rural than in the urban areas. This is not surprising as a majority of the self-employed is found in the agriculture, forestry and fishing sector (see Table 13). Most of the self-employed in the urban areas are found in the wholesale and retail trade and service sector.

Table 12: Distribution of Employed Persons by Employment Status, Strata and Sex 1999 (thousand)

	Urban				Rural			
Employment status	**Male**	**%**	**Female**	**%**	**Male**	**%**	**Female**	**%**
Employer	130.4	88.35	17.2	11.65	47.9	67.57	6.8	12.43
Employee	2,523.6	63.12	1,474.4	36.88	1,823.9	70.03	780.5	29.97
Own account worker	385.2	71.81	151.2	28.19	747.1	78.42	205.6	21.58
Unpaid family worker	42.6	29.32	102.7	70.68	150.5	60.64	248.2	62.27
Total	3,081.8	63.84	1,745.5	36.16	2,769.4	69.05	1,241.1	30.95

Source: Malaysia, 2000.

Table 13: Distribution of Workers in the Informal Sector by Industry, 2000

Sector	**Employee**	**Own account worker**	**Unpaid family worker**
Agriculture, forestry and fishing	686,500	704,600	304,900
Mining and quarrying	26,600	600	0
Manufacturing	1,970,000	110,700	19,300
Electricity, gas and water	47,500	500	0
Construction	649,500	102,100	3,400
Wholesale and retail trade, restaurants and hotels	1,059,400	417,200	198,300
Transport, storage and communications	336,900	75,100	2,400
Finance, insurance and real estate, and business services	419,100	27,400	800
Community, social and personal services	1,747,400	140,700	8,900
Total	6,942,900	1,578,900	538,000

Source: Statistics Department Malaysia.

2.2.2 Problems and Features of the Informal Sector

The self-employed (including unpaid family workers) represent some 11% of the total workforce. Usually they have low educational attainment and possess minimum skills deemed necessary for advancement. More often than not, they are exposed to potential risks from natural, social and economic hazards, are least protected against these hazards compared to employees in the formal sector. They face economic insecurity due to unstable income; while at the same time they lack the skills and capital needed to diversify into other forms of income generating activities or seek better opportunities elsewhere.

2.2.3 Social Assistance and Services: Benefits and Transfers

Zakat

The *zakat* is an Islamic welfare institution that collects funds and distributes them to a specified list of qualifying recipients. In the modern Malaysian context, it may be considered a form of social assistance. Although it operates openly and has a formal structure, the means of allocating assistance are more informal, i.e. based on the deliberation of *zakat* councils subject to Quranic guidelines, not strict and consistent economic criteria. *Zakat* collection and distribution is not centralized at the national level, but is overseen by 14 Islamic Councils – one in each state, and the Federal Territories. Beneficiaries may qualify under one of eight categories.[13] The regulations are also decentralized to the state level. *Zakat* councils comprise elected politicians, religious officials, academics, businessmen, and other prominent individuals. Nationwide *zakat* collection amounted to RM203 million in 1997, RM198 million in 1998, and RM195 million in 1999. We are unable to ascertain the specific direction of these funds; their disbursement is decentralized, to a vast array of benefits. As a whole, however, approximately RM150–200 million is distributed through *zakat* channels (Zakat Report, 1999–2000, p. 102–103). The destitute and poor are known to comprise a large portion of *zakat* recipients, although in recent years more priority has been given to fund transfers for upholding the Islamic faith.

This system reaches out to needy persons, but faces limitations in scope and size. In scope, the eligibility of recipients is based on scriptural criteria as decreed in the Quran, not necessarily on economic need, such as measured by household income. In addition, this form of social assistance is only applied to Muslims. Accumulation of funds flows through one channel: *zakat* collection by relevant establishments. It operates more as a transfer payment system than an investment mechanism.

Similarly, *Zakat* functions more as a poverty assistance programme, although it also serves as a means of social assistance. Its efficacy as the latter will depend on the speed at which it identifies the needy and extends aid to them. A difficulty with administering *zakat* as a social assistance mechanism is the reference to static criteria and lack of dynamic, functional evaluation. For instance, a sustainable social assis-

13 Zakat may be granted to the destitute, poor, zakat collectors, new converts and travellers, and for payment of debts, freeing of slaves and upholding the religion.

tance programme will arguably function more effectively if employment status or insurance availability are added to income level as a means of adjudging need.

2.2.4 Voluntary Schemes

The self-employed may make voluntary contribution to the EPF. However, this stipulation is neither carried out assiduously by the self-employed nor is it enforced by the relevant authorities. Officials of the EPF often cite inadequate staff as a reason for not being able to attend to this matter fully. Unless they are compelled by the law to make social security contributions, the self-employed may regard voluntary EPF contribution as something insignificant.

2.3 Labour Market Policy

2.3.1 Active Labour Market Policy

i. Creating Job Opportunities

Having a job and earning a sufficient income can be a self-sustaining and preventive step of social protection. However, policies that purposely provide or stimulate employment are difficult to distinguish from general development or poverty reduction policies. Since lower-income or lower-skill workers, or those with little collateral, typically face lower job security and capacity to obtain loans, we may link active labour market policies with efforts to simulate smaller scale enterprise or provide micro-credit.

In this regard, programmes are limited. The Small and Medium Industries Development Corporation (SMIDEC) aims to promote investment, efficiency and technological progress in the sector. Workers in SMIs have less recourse to trade unions to bargain for their concerns, due to the small size of their firm and the near impossibility of setting up industry-wide unions. This amplifies the need for skill development and technological competence. The Human Resource Development Council, discussed below, sets aside a certain portion of its funds for skills acquisition and training in SMIs. However, responses have been lukewarm. The Malaysian government has provided a wide range of financial assistance that caters for the varied needs of the SMIs, but the SMIs still lament that access to these various assistance programmes is difficult (Ragayah, 2000).

Poverty alleviation programmes have perhaps elicited a relatively wider reception. While the government was the main force in eradicating poverty, some NGOs played quite a significant role in cutting poverty incidence. *Amanah Ikhtiar Malaysia* (AIM) is the most well-known NGO involved in reducing hardcore poverty incidence by providing interest-free micro loans to the poor to undertake income-generating activities under close supervision. Similar to the Grameen Bank case, most of the AIM's beneficiaries are women. During the Sixth Malaysia Plan (1991–1995), the government provided RM20 million loan to AIM, while AIM provided interest-free loans worth RM77.1 million to about 36,200 poor and hardcore-poor households to enable them to venture into poultry and livestock rearing and small-scale businesses such as retailing of groceries, and the servicing and repairing of vehicles. Most of these ventures were successful, as reflected in the increased household income of the participants and the loan repayment rate of almost 100%. During the Seventh Malaysia Plan period (1996–2000), AIM provided micro-credit financing to 22,800 poor families from the RM300 million interest-free loan allocated by the government. In times of greater need, funds can also be injected through AIM for speedier seeding of investments, such as during the 1997–98 crisis, in which the government allocated RM100 million to AIM under the hardcore poverty programme (Jomo and Lee 2000, p. 248). We should note that these job-creating programmes apply to the formal sector only.

Another NGO is the state-based *Yayasan Basmi Kemiskinan* (YBK),[14] which also complemented the government's efforts to eliminate hardcore poverty with the support of private companies. YBK programmes focused on skills training with guaranteed employment, educational assistance and better housing. The private sector provided support to NGO programmes through skills training as well as in-kind and financial contributions to the poor. Among these NGOs are YBK Selangor, *Yayasan Kemiskinan Kelantan* and *Yayasan Membasmi Kemiskinan Kedah.*

ii. Training Schemes

(a) Human Resource Development Fund (HRDF)

The HRDF was established in 1992, under the Human Resources Ministry, to be an agent for training and retraining of workers in the manufacturing and service sectors. The main objective, similar to job creation policies, is preventive: to avoid redundancy or skill deficiency of workers that may stifle their employability or wage-earning capacity. More positively, training and retraining also enhances technological progress and productivity. Employers of a particular size are required to participate, and begin so by registering with the Human Resource Development Council (HRDC) and paying one percent of their wage bill as a levy. The government matches employer contributions of smaller companies. Registered employers are entitled to apply for training assistance, drawing from the balance in their levy accounts. The HRDC co-ordinates various training schemes, it links companies with training agencies, and provides financial assistance from its pool of resources. Most HRDC sponsored training programmes are conducted by the private sector. Participation in the HRDC has witnessed substantial growth in recent years, as shown in Table 14 below. As a proportion of total workers employed in the manufacturing and service sectors, participation is estimated at 7.2% in 1998 and 4.3% in 1999.

The opportunity for this training, of course, is restricted to participating firms, which tend to be already technologically equipped. The distribution of training opportunities, however, is concentrated in certain sectors and regions. Sectorally, the electronics and electrical sector constitutes the largest membership and, accordingly, receives the biggest share of training places and finances. Combined with the telecommuni-

14 Which can be translated as Poverty Eradication Foundation.

cations sector, the two account for 40% of places and 48% of financial support in 1999. In line with the priority given to high-tech industries, the number of workers trained, as well as financial allocation, is heavily skewed toward Johor, the Federal Territory, and especially Penang and Selangor.

Table 14: HRDF, Participation and Finance, 1994–1999

Year	Registered employers		Levy collected (RM million)	Financial assistance (RM million)
	Manufacturing	Services		
1994	3,669	—	73.6	47.8
1995	3,966	778	100.9	89.6
1996	4,393	1,027	126.8	158.9
1997	4,702	1,181	144.5	159.5
1998	4,803	1,323	63.2	141.3
1999	4,948	1,404	82.7	106.1

Source: Human Resources Development Council, Ministry of Human Resources.

Within Penang, the Penang Skills Development Centre (PSDC) is a more localized body that conducts training. Industry-government participation and collaboration has been encouraging, raising the international profile of the PSDC. In the wider context, however, the Centre is very much focused on the core industries of the state – again, electronics and electrical manufacturing.

(b) Training of Retrenched Workers

As mentioned above, the training conducted by the HRDF is primarily for skills upgrading and retraining. That is, the workers involved are sent by their employer, and return to their place of work. Training for the unemployed or retrenched was not specifically organized until mid-1998, after the financial crisis struck. The training scheme for retrenched workers is now instituted, with a government allocation of RM117 million. In 1998 and 1999, respectively, the number of retrenched workers that were retrained amounted to 572 and 426, involving financial assistance of RM2.5 million and RM2.0 million (Jomo and Lee, 2001, p. 253). In 1999, out of the 426, 275 (64.5%) attended courses at the diploma level while 151 (35.5%) attended courses at the certificate level. As for the skills upgrading and retraining, 76 (17.9%) received training in computer/information technology, 166 (38.9%) in technical/engineering disciplines, and 184 (43.2%) in management.

The number of training places and financial assistance that accrues to retrenched workers is almost negligible relative to the total. In 1998, 405,300 places were available with financial assistance of RM113.6 million; in 1999, the corresponding figures were 246,725 and RM97 million. On average, over the incipient two years (1998–99) of this training of retrenched workers scheme, 0.15% of total training places and 2.2% of total financial assistance benefited this particular group.

iii. Job-placement

The Manpower Department within the Ministry of Human Resources offers job-seeking services. Unemployed persons and employers may register with the manpower department, which then attempts to match the two so that workers find new jobs. The department acts as an intermediary. As shown in Table 15 below, between 35% to 40% of officially unemployed workers register with the department. Within this group, about 20% have been placed in new jobs from 1998 to 2000.

Table 15: Registered Unemployed, Vacancies, and Placements, 1998–2000

	New registered unemployed			Placements	
	Number	% of total unemployed	Registered vacancies	Number	% of registered unemployed
1998	114,190	35.9	69,091	20,864	18.3
1999	122,920	38.7	108,318	23,095	18.8
2000	112,835	35.5	123,484	24,738	21.9

Sources: Ministry of Human Resources, various years. *Manpower Department Report*.

Registration and placement programmes have been divided into a few categories – which are relatively new initiatives. First, for retrenched workers, this scheme was launched in January 1998. Retrenched workers numbered 74,899 in 1998, 35,457 in 1999 and 22,785 in 2000. Those that the programme managed to place in new jobs numbered 12,062, 7,548 and 4,917 respectively for a success rate of 16.1%, 21.3% and 21.6%. Second, the registration and placement programme for under-employed rural sector workers was started in May 1997, primarily to increase the incomes of housewives and rubber tappers, who would be placed in factories. Until the end of 1998, 5,485 vacancies were reported, but very few candidates were placed in new jobs. Third, the parallel programme for rural youth was initiated in October 1997, in conjunction with the Ministry of Youth and Sports, and with the collaboration of youth associations and government agencies. Throughout 1998, this programme managed to register 1,282 youths and place 511 of them in factory jobs.

Recently, there has been an increasing use of electronic labour exchange like Job Street, Job Link and Hotspot to match demand with supply. The jobseekers serviced through these agencies are mainly in the professional category.

2.3.2 Passive Labour Market Policy

Basic education is provided broadly in Malaysia. The country registered a high literacy rate of 87% in 2000. This flat rate, of course, does not portray the shape of the distribution of education. Educational attainment statistics of employed and unemployed give significant insight into the status of education in the Malaysian labour force. The vast majority of the employed Malaysian workforce has at least primary level education, and more than half have completed secondary schooling, though the percentages are higher among males and those located in the urban areas (Table 16). Those with primary level of education form the next biggest group among employed

Malaysians, but the situation is the reverse among foreign workers. The proportion with tertiary education, however, is still low, especially in rural areas.

Table 16: Level of Education of Employed Persons, Various Categories, 1999 (%)

Level of education	Overall	Male	Female	Urban	Rural	Malaysian	Foreign
No formal education	6.6	5.2	9.4	3.3	10.6	5.6	13.2
Primary	26.4	28.2	23.0	19.4	34.8	22.8	50.6
Secondary	53.8	54.7	52.0	59.6	46.8	57.8	27.7
Tertiary	13.2	11.9	15.6	17.7	7.8	13.8	8.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Malaysia 2000. *Labour Force Survey Report* 1999, Department of Statistics.

Among the unemployed persons, those with secondary level of education again form the majority followed by those with primary level of education, with the percentages being higher among the males and those located in the rural areas (Table 17). The situation is reversed among those with tertiary level of education, with more females and urban dwellers being unemployed relative to the other groups. Up to 22% of unemployed women have tertiary level education, which is not unexpected since there are more females registered in Malaysian tertiary institutions than males. Currently, there is rising concern for the unemployed graduates who are finding it increasingly difficult to find a job. Some of the ways in which the government is tackling this problem is by encouraging them to further their studies to post-graduate levels, to take courses to enhance their skills or improve their language communications (especially English), or find an attachment in institutions of higher learning as part of their training.

Table 17: Level of Education of Unemployed Persons, Various Categories, 1999 (%)

Level of education	Overall	Male	Female	Urban	Rural
No formal education	2.4	2.3	2.6	2.0	3.0
Primary	15.2	17.8	9.8	14.7	15.8
Secondary	68.4	69.6	65.8	66.3	70.8
Tertiary	14.0	10.3	21.7	17.0	10.5
Total	100.0	100.0	100.0	100.0	100.0

Source: *Labour Force Survey Report* 1999, Department of Statistics.

An ongoing, pressing issue is whether the education system meets the needs of the labour market. Needs are twofold: first, in equipping the workforce with specific skills, particularly in dynamic sectors; second, in cultivating generic analytical and critical capacities to enable workers to be more flexible and adaptable to changing market conditions. There are shortcomings in this respect. For the first, we note that with 500 scientists and engineers per million of the population, Malaysia lags behind other newly industrializing countries.[15] In general, only 25% of 20–24 year-olds receive tertiary education. Qualitatively, it has been widely acknowledged that graduates from Malaysian education institutions lack the critical and creative thinking skills required in a modern, dynamic economy.

Existing measures of passive labour market policy include:

i. Retrenchment Compensation

Retrenchment practice and compensation is regulated by the Employment Act, 1955. The employee is to be compensated by the employer in accordance with length of service, under the Employment (Termination and Lay-off Benefits) Regulations, 1980:

- Less than one year: no benefit;
- Between one and two years: 10 days wages per year of service;
- Between two and five years: 15 days wages per year of service;
- More than five years: 20 days wages per year of service.

Assistance to retrenched workers has not been made a priority in the past, and continues to be subordinated to other interests, ostensibly under human resource development. Nonetheless, the government made it mandatory for all employers to report retrenchments to the Minister of Human Resources, beginning in February 1998. The first step to assisting retrenched workers is to monitor market dynamics and record job losses.

The number of retrenchments reported to the Ministry of Human Resources increased from 7,773 in 1996 to 18,863 in 1997, then leapt to 83,865 in 1998, before falling to 37,357 in 1999. The drastic rise in 1998 was a direct consequence of the economic downturn, bolstered by the new law making it mandatory for employers to report retrenchments.

ii. National Retrenchment and Unemployment Fund

This fund has been proposed by the Malaysian Trades Union Congress in 1997, to provide benefits to retrenched workers who are not entitled to receive them, and to provide unemployed workers allowances until they get a new job. This proposal has been publicized, but no decision has been made yet. Employers and workers will each make statutory contributions of RM1 per month towards the scheme. The contributions will grow at the rate of RM2 per worker per month, so that contributions from the existing 5 million SOCSO members will amount to RM10 million per month, and RM120 million per year. The quantum of monthly benefit should be based on stipulations of the Employment (Termination and Lay-off Benefits) Regulations, 1980, or according to the terms and conditions of their collective agreements (Rajasekaran, 2001, p. 6). The MTUC recommended that this fund be administered by SOCSO, since it is an established body with an existing network.

15 The corresponding figures for other countries are 2,728 for Singapore, 2,636 for South Korea, and 350 for China (OPP3, p. 126).

iii. Minimum Wage

Wage regulation is confined to four categories of workers: catering and hotel workers, shop assistants, cinema workers, and stevedores and cargo handlers in Penang. Minimum wage provision is effectively non-existent. The MTUC has proposed a minimum wage of RM900, based on a basket of basic needs (Rajasekaran 2001: 6–7). Productivity-based wage setting schemes may apply in excess of this wage, but the wage received remains above this level. Other groups, especially the Malaysian Employers' Federation, have protested against this minimum wage proposal – and against minimum wage in principle. A key aspect of the debate is whether Malaysia's transition to higher technology and higher value-added industries – which is inevitable given the economy's waning comparative advantage in offering cheap labour – prepares the way for the introduction of a minimum wage. Productivity gains are expected to raise wages, potentially above the minimal level.

iv. Vulnerable Groups of Workers

(a) Foreign Labour

Foreign labour warrants a special mention in this section, for migration into Malaysia's labour market has resulted from an under-regulated labour programme. The first issue to note about foreign labour in Malaysia is that many are unregistered. Thus, they are situated outside the boundaries of formal social protection. More are participating in the Workers' Compensation Scheme, and as noted earlier, in 1998 this institution was specialized in the Foreign Workers' Compensation Scheme. EPF coverage was extended to foreign workers in 1998. Out of 728,000 new registrants with the EPF in 1998, 369,000 were foreign workers (Lee, 2001, p. 31–32). Additionally, since 1998, it is mandatory for foreign workers paid below RM2,000 per month to contribute to SOCSO. Administering social protection to foreign workers requires striking a delicate balance between providing adequate protection while maintaining domestic priorities. The large number of unregistered/illegal foreign workers raises concerns about their social protection. On the other hand, large amounts of survivors' pension payments flowing out of the country also cause leakages in the system.

(b) Contract Labour

The situation of contract workers is pertinent to this survey, for they have been found to be under-provided with social insurance – although they are entitled to the same benefits, since the Constitution does not distinguish between contract and direct workers. Contract workers are favoured for various reasons, according to a wide-ranging survey by Lee and Sivananthiran (Lee and Sivananthiran 1996) of 44 contractors employing a total of 1,275 workers in the construction and plantation sectors. Domestic contract workers are hired to overcome shortages in workers in general, as well as due to the ease of management. Foreign contract workers are often sought after because of the high turnover of domestic workers, lower wages demanded by foreign contract workers and their willingness to work long hours. In the construction sector, in particular, there is a high prevalence of contract workers (71% of total construction workers in 1990).

A large section of the contract labour category, we may note, comprises foreign workers. Where domestic contract labourers are treated poorly, foreign contract labourers are treated worse. Lee and Sivananthan (Lee and Sivananthan 1996, pp. 80–82) found that domestic contract workers receive less provision of social protection – contributions to SOCSO and EPF, in particular – and are therefore more vulnerable to be uncovered in the event of injury, disease or death. In case of job loss, they will have fewer avenues for assistance, since most contracts are mere verbal agreements.

v. Health and Safety

The rise in claims from SOCSO has raised concern toward the prevention of industrial accidents. Towards this end, health and safety checks by department officials, and courses on work hygiene and safety are conducted. Incidents of industrial accidents have followed a declining trend, though they still fluctuate, from 106,508 (1996) to 85,338 (1998) to 73,400 (2000). The number of death cases settled went from 1,020 (1996) to 1,273 (1998) to 911 (2000). Reported commuting accidents, however, increased from 14,771 (1996) to 16,759 (1998) to 19,276 (2000).

3. Assessment of the Effectiveness and Efficiency of the Existing System

3.1 Coverage

i. Retirement and Insurance Schemes

The civil service pension covers all government employees. Although the amounts for the lowest income groups are sometimes claimed to be inadequate, the government does make periodic adjustments to the amount of the pension. On the other hand, the EPF covers workers in the private sector, mainly the formal sector. However, for a large majority the amount saved is not adequate especially when they make lump sum withdrawals. The self-employed become members only on a voluntary basis; not surprisingly, most have yet to become members. These people would have no personal resources to support themselves unless they save in any of the unit trusts or savings schemes. While SOCSO covers all workers who earn below RM2,000 a month, it is restricted only to employees. Membership in many of the auxiliary schemes is optional and confined to a particular interest. Public health policy has focused on the provision of health facilities and subsidization of medical costs. Withdrawals for medical expenses are permitted from EPF members' Account 3. However, this source will be slim for many members, and in any case, this takes away from old-age savings. All these findings imply that social protection coverage in Malaysia is sporadic and not universal.

ii. Labour Policy

As noted in Section 2.3, training and retraining schemes, especially of lesser skilled labour, are quite limited in their scope. The majority of unemployed workers does not register with the Manpower department, and do not have access to the job brokerage services that the department offers. The Manpower Department's 49 network offices nationwide are inadequate to thoroughly conduct registration of the unemployed and facilitate their re-employment. It is good that the Human Resource Development Council maintained a large amount of financial assistance for training and re-training programmes in 1998, in spite of the economic downfall and the shortfall of levy collection (firms were exempted from paying the levy on a voluntary basis). However, the allocation to retrenched workers was a mere 2.5 million, or 1.8% of total financial assistance.

SMIs, in particular, are quite reluctant to send their workers for training due to a number of reasons. The main obstacle in providing training to the workers is the threat of losing them to their competitors. Firms have no incentive to train their workers if the returns to the investment could not be recouped. In tight labour markets labour turnover is high. If this is the case, firms consider investment in training as wasteful. Moreover, sending workers for training also interrupts their production schedule, which they cannot afford to upset. Finally, there are employers who felt that the courses were too general and not necessary or relevant for their employees (Ragayah 2000).

3.2 Feasibility and Financial Sustainability

i. Civil Service Pension

The civil service pension fund is a non-contributory fund and is fully funded through taxation and other government revenue. Thus, it is crucial for the government to check the impending increases in this type of benefit. Perhaps it is time that the government reverts back to the proposal made in 1987, whereby all new recruits into the civil service would have to contribute to the Employees' Provident Fund instead of being absorbed into the civil service pension scheme.

ii. EPF

Currently, contributions and returns from investments exceed withdrawals and expenditure. However, bearing in mind that the EPF is a savings fund for old age, in reality only 60% of each member's savings are reserved for withdrawal at age 55 years. Thus, savings of lower income groups in particular might not be adequate for old age, since withdrawals for other purposes are available. For example, the withdrawal scheme for purchase of computers has been abused; whereby with the collaboration of computer vendors (who are appointed by the EPF) withdrawals of up to RM5,000 are used for other purposes instead. Such unscrupulous practices need to be checked by the authorities.

There is also concern regarding the dividend paid, which at 6% for year 2000 is the lowest in 27 years, particularly when compared to the others, such as the Pilgrims'

Fund, the Armed Forces Fund and ASN, as shown in Table 18. The declaration of 5% for 2001 raised even more concern regarding the prudence and profitability of the EPF portfolio. As in all financial portfolios, there is a trade-off between volatility and rate of return. The EPF has in its history channelled most of its funds into government bonds, which are theoretically valued for security more than profitability. Through the 1990s, other financial instruments were added to the EPF portfolio, especially shares of publicly listed companies that constitute about 20% of total EPF investment. The declining performance of dividends in the 1990s, in spite of the stock market boom until 1997, has therefore raised serious doubts on the motives behind EPF share acquisition: whether to maximize returns or support government-favoured projects. The extremely low 2000 and 2001 returns are widely perceived to be due to corporate 'bail-outs'. For future sustainability and recovery of trust, the EPF must demonstrate more transparency and accountability. There is also concern that many employers failed to remit contributions on behalf of thousands of workers. It is claimed that the EPF's failure to act quickly and decisively has led to huge losses (Rajasekaran 2001).

Table 18: Rate of Dividend Declared by EPF and Other Trust Funds

Year	EPF	Pilgrims' Fund	Armed Forces	ASN
1991	8.00	8.00	10.00	6.25
1992	8.00	8.00	11.00	8.25
1993	8.00	9.00	12.00	12.50
1994	8.00	9.50	13.00	14.00
1995	7.50	9.50	13.00	13.00
1996	7.70	9.50	13.25	13.75
1997	6.70	9.50	11.50	10.50
1998	6.70	8.00	10.50	6.50
1999	6.84	8.00	12.00	8.25
2000	6.00	5.50	10.00	8.00

Source: Rajasekaran (2001).

iii. SOCSO

Currently it is evident that income exceeds expenditure, being RM1.679 billion compared to RM585,773,504 in 1999 (*SOCSO Annual Report* 1999). However, if present trends were to continue in the future, it may be a burden to the organization. Abuse of medical claims by doctors must be discontinued. Accidents at the workplace must be minimized. Towards this end the government has implemented the Occupational Safety and Health Act, 1994. Regular training courses on occupational safety and prevention of accidents at the workplace are provided by the National Institute of Occupational Safety and Health. Like the EPF, its returns on investment are also relatively low compared to other funds, being 7.7% in 1998 and 6.2% in 1999.

iv. Other Programmes

The government had expected the private sector firms to increase their involvement in poverty eradication by collaborating with various state-based YBK in conducting skill training and providing financial contributions to the poor. However, given the financial problems faced by these corporations since the financial crisis, their ability in contributing to this programme would be severely curtailed, if not ceased altogether. The Retrenched Workers and Unemployed Training Scheme depends on government allocations. The government's RM117 commitment is substantial, though it should be topped up regularly – although the first priority is to ensure that the funds get disbursed and expended.

3.3 Gender Equity

Labour laws in Malaysia do not discriminate according to gender. In practice, however, male-female wage differentials are known to exist. This phenomenon impacts on the earnings of women, which in turn affects their savings and capacity to allocate towards social protection. Inequities also surface in terms of the added burdens faced by women, which may make a case for more 'female-friendly' labour and social policies. Female-headed households number an estimated 630,500, or 16.6% of all households. Besides the requirements of paid work, they usually have to bear responsibilities at home with little help. Another point to note is the apparent gender bias in retrenchment. Although women constitute two-fifths of the industrial workforce, they absorb almost half of all retrenchments. In addition, 64.5% or about three-fifths of women retrenched were working in the manufacturing sector, where weak unionization and labour abundance make them more vulnerable to coercion and manipulation (Jomo and Lee, 2000, p. 233–234).

3.4 Costs of Administration

Government pension has constituted an average of 7–8% of the federal budget. Demographic trends appear to favour the sustenance of pension payments, since the body of tax payers will be growing in the years ahead. The dependency ratio is projected to fall from 59.1% in 2000 to 55.3% in 2005 and 52.2% in 2010.

Labour market policies have fallen under the purview of the Ministry of Human Resources. This ministry has shown its inadequacy in dealing with the adversity of economic downturn, particularly in helping the unemployed find jobs and in retraining retrenched workers. A strong case can be made for the resources of such programmes, in view of their current slim figures: the Manpower Department's operating budget amounted to RM43.1 million in 1999 and RM66.9 million in 2000 (actual expenditure fell just short of it). The development budget leapt from RM216.7 million in 1999 to RM630.6 million in 2000, an indication of the importance attached to labour in the development plan. Increasing the operating funds of this department, however, will be vital to the long-term expansion of its services.

Many labour market schemes involve private sector financial contributions, and some already have an infrastructure in place that needs to be expanded and consolidated. The pooled financing from employers earnings to HRDC programmes helps regulate the inflow of contributions and outflow of payments. Training and skills development schemes cater mostly to the employed. In the context of social protection, the access of retrenched and unemployed persons to such programmes is severely limited. The registration and placement of unemployed persons also only involves a minority of workers who may benefit from this programme. This will involve public expenditure in expanding and improving information and service networks.

3.5 Targeting

Because the programmes are targeted at workers who are found mainly in the urban areas, while the informal sector, which is not covered, is located mainly in the rural areas, there is a tendency for these benefits to be urban biased. Moreover, urban dwellers are also more aware of the programmes and know how to benefit from them.

3.6 Accountability and Transparency

These attributes are typically lacking in public institutions in Malaysia. For example, Rajasekaran (Rajasekaran, 2001) wrote that apart from stating a loss of RM749.68 million, there was no further detail to explain the loss in the EPF. He quoted A. Kadir Jasin who wrote in the *New Straits Times*, 4 March 2001, “EPF must be made accountable for the losses, more so when it was reported that as much as RM1 billion was from a single banking and finance group. They are believed to be RHB, RHB Capital and RHB Sakura. The sole purpose of the RM1 billion irredeemable non-cumulative convertible preference shares was for the rescue of SIME Bank which RHB carried out at the request of Bank Negara Malaysia.” Rajasekaran also wrote that EPF was reported to have taken up 78.7 million shares from the Time dotCom initial public offer (IPO) and overnight incurred a whopping loss since only 25% of Time dotCom IPO was subscribed.

4. Development of Innovative Programmes and Alternative Social Protection Schemes

The scope for innovative programmes and alternative social protection schemes appears narrow. Malaysia’s development thrust toward the future places responsibility for social protection on family ties and traditional means. Malaysia adopts a residual welfare approach. The role of the family in terms of welfare and social security is greatly emphasized by the state. Hence, there has been a slow progression towards implementing formal comprehensive income maintenance and social protection programmes particularly geared to fulfilling the needs of the lower income groups.

In his paper, *Malaysia: The Way Forward* (1991), the Malaysian Prime Minister Dr. Mahathir Mohamad, said that the Malaysian objective is to be a developed nation in its own mould by 2020. Malaysia should then be a united nation, with a confident

Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous, and in full possession of the economy that is competitive, dynamic, robust, and resilient. The roles of the public sector in this society are alluded to in the seventh and eighth challenge stated in this document: the challenge of establishing a fully caring society and a caring culture, a social system in which society will come before self, in which the welfare of the people will revolve not around the state or the individual but around a strong family system; and the challenge of ensuring an economically just society, in which there is a fair and equitable distribution of wealth of the nation, in which there is full partnership in economic progress.

A crucial aspect in designing a social protection system for Malaysia is to ensure that the system is sustainable and financially viable. The main idea here is not to burden the government financially, since many industrialized countries engaged in redistributive programmes/transfer payments, which require public budgets amounting to 40–50% of their GDP (Ragayah, 1997). As a consequence, the public sector in developed countries faced pressures as reflected in the rapidly growing rates of public expenditures, persistent budget deficits and debts, high unemployment, and taxpayer resistance. In order to avoid this quagmire, the approach to social protection is through employment creation and increasing productivity while transfers should only be for those who cannot enter the job market.

While social protection should not burden the state or the individual, some kind of system must be in place to ensure a caring society but the state is not to be fully responsible for the social security provisions. The people must be more conscious of the necessity to care for their own welfare. Towards this end, the following suggestion may be considered.

i. Guaranteed Minimum Social Income Fund

One specific option that policymakers could consider is the establishment of a scheme specifically for the low-income groups, the self-employed, and workers in the informal sector. This scheme could be named the guaranteed minimum social income fund. This scheme should be run by a new institution, thus leaving EPF and SOCSO to cater for workers in the formal sectors only.

This fund should serve as a long-term solution for the establishment of a basic social security and pension for the general population. Anyone could take part in the scheme, including the self-employed and those employed in the informal sector, both in the rural and urban areas, homemakers and students. A minimum age limit of 16 years is recommended for anyone who wishes to join the scheme. Members of this scheme pay a flat-rate basic contribution. As a non-income related scheme the aim is to provide for a basic income guarantee in old age, sickness and unemployment. Hence, this fund should be extended to cover health care, sickness and invalidity. A social security card should be issued to every member, and this card could also be used for access to public health care facilities.

A defined-contribution and a defined-benefit scheme are recommended but changes in the levels of contribution and benefits are possible from time to time. However, based on the experiences of other countries it should be noted that this scheme may take at least 20 years to fully mature from the time of its initiation. In the long run, this scheme should be made mandatory for all adult citizens.

The crucial question that would concern policymakers would be: what could be the sources of funding for the scheme, apart from flat-rate contributions from members? In order to avoid the pitfalls which some developed countries have fallen into, it is suggested that the government should contribute only on behalf of those who really cannot afford to pay, that is the targeted 0.5 % poor in 2005 (Malaysia, 2001a).

This scheme is not supposed to be managed fully by the market or the private sector. Rather it is recommended that a public-private smart partnership should be set up in the provision of social protection for the population. There is a need for a dominant control by the state in this scheme. Thus, the government should have at least 60% control of the scheme.

Additionally funding for the fund could be generated through the 40% joint ownership by the private sector. Perhaps in this instance Bank Rakyat, which is a cooperative bank and has shown remarkable rates of returns for investors in the last few years (despite the economic crisis of 1997–98), could play a prominent role. As it stands, Bank Rakyat does play a major role in providing assistance in the form of saving accounts and in kind to the needy. However, this form of assistance serves only on an ad hoc basis and does not cover a large section of the poor or lower income population. Thus, there is scope for them to strengthen their social commitment by forming a smart-partnership with the government.

ii. Additional Schemes

There is a lot of scope for financial institutions and cooperatives in offering a variety of income maintenance plans in the event of loss of income due to old age or retirement or sickness. For example, cooperatives could also act as fund managers for its members. Padi farmers, for instance, market their produce through the cooperative. They are paid for their products, but a small portion of the income should be retained by the cooperative. Part of this income could be invested in government securities, and another part of it could be used to purchase group insurance for cases of premature death and disability. This plan would be over and above the basic guaranteed social income fund proposed above.

5. Policy Recommendations

i. Safeguard and monitor existing institutions

The EPF should maintain its prime function as an old age-savings institution. Over the years, new functions have been added piecemeal, such as house ownership and computer procurement. These purchases should be left to private bank loans, to avoid bleeding EPF accounts. Alternatively, as proposed by Lee (2001), withdrawals for housing or computer purchases, or children's education, should be administered as a zero-interest loan, so that the EPF member is obliged to replenish his/her account, but at a much more comfortable rate than any bank can offer. The body also has to restore the eroded public confidence in the safety and profitability of its investments. The EPF ought to display a higher degree of transparency and accountability, to demonstrate that the savings of employees are being managed in a trustworthy manner. Fund management and expenditures of the SOCSO should also be monitored, to ensure it is transparent and efficient.

ii. Extend the scope to the self-employed

Participation of the self-employed in EPF, as repeatedly mentioned above, is optional. Insurance for the self-employed should be encouraged, whether through the EPF or private financial institutions. Opportunities for people in this group of occupations to register and contribute to obtain SOCSO coverage have not been available. Since there is pooling of funds here, enlisting the participation of self-employed workers will be less problematic. SOCSO has conducted studies on the feasibility of extending coverage to such workers, who comprise an estimated 1.5 million. This is a positive step that should be pursued resolutely.

iii. Integrate complementary and compatible social insurance institutions

SOCSO and the Workers' Compensation Fund, for instance, are presently under different governmental jurisdictions. Although agglomerating may enlarge bureaucracies to the point of inefficiency and wasted resources, it may be useful to integrate at least information networks and help centres.

iv. Enlarge and enhance assistance programmes for the unemployed and retrenched

Facilities for unemployed or retrenched job seekers have much potential to be expanded. The Manpower Department presently has only 49 network centres across the nation. By opening more centres and improving services, the number of registrants and beneficiaries can be substantially increased. Importantly, these outlets can play a key role in channeling information and intermediating between workers and employers.

The MTUC's proposal of a National Retrenchment Fund should be seriously taken up. This can fill in major lacunae. Other measures should still be followed, in spite of limitations. As a preventive step, retrenchment should be discouraged as an early means of coping with adversity. Indeed, guidelines provided by the Ministry of Human Resources stipulate that retrenchment should be used as a last resort, and suggests other avenues for coping with market downturns. These guidelines are useful, but there are also risks, for the legal requirement that employers compensate retrenched workers may compel employers to coerce workers to accept other terms of termination or to resign. Monitoring of payment of retrenchment has slackened when it is most crucial, as in the aftermath of the 1997–98 economic crisis (Jomo and Lee, 2001, p. 229).

v. Resolve the minimum wage issue

In principle, the minimum wage institution concurs with a social welfare sensitive economy and society. An effective and meaningful minimum wage regime will have to weigh in a host of factors, especially cost and adjustment. The level may differ according to each state, to account for regional differences in living expenses. Implementing a minimum wage is always fraught with varying degrees of dissension and dislocation, but the long-term gains may outweigh painful adjustments in the short term. The minimum level, of course, has a direct impact on the labour market and on the amenability of negotiating parties to the new wage regime. In view of Malaysia's aim to advance to a higher technology and higher value-added productive economy, setting a minimum wage is timely. It may also yield efficiency outcomes and encourage skills acquisition, in line with broader policy objectives.

vi. Stimulate active labour market policies

In addition to the above, policies must also be in place to ensure continuous employment in the face of rapid changes in technology. Ragayah and Tham (Ragayah and Tham, 2000) argue that flexibility in production demands equally flexible skills as they may necessitate workers and managers to make decisions that are not the same every day or even every hour. The jobs also may require updating knowledge even in the course of a single year. This need is further accentuated by the technology revolution that reduces the shelf life of technology and increases the need for new skills to match with the new technology that is continuously emerging. Since employment is one source of helping the socially disadvantaged to participate meaningfully in society, retraining becomes essential to enable workers to move into the new economy. Alternatively, retraining will help this group to find continued employment in the old economy. Thus, it is recommended that:

- Firms should not only contribute to the HRDF but should be encouraged, through the provision of tax rebates, to fully utilize the funds that they have contributed for the training of workers so that they are equipped to compete with international firms. For this purpose, firms need to have a planned systematic training schedule that can rotate their workers for training without disrupting the production process;
- Since the digital divide will cause some workers to be redundant, it is important to provide incentives for retraining and the upgrading of skills. Hence, a retraining insurance scheme can be set up to fund the acquisition of new skills for workers that have been laid off due to obsolescence. The new skills will enable them to find new employment. Both employers and workers can make joint contributions to these schemes to reduce the burden on the government;
- For the self-employed poor, the government should contribute the employers' share while the self-employed themselves contribute the workers' share. The fund

can then be used to pay for apprenticeship training and retraining in the event of unemployment;

- At the same time, the government needs to set up training institutions for 'professionalizing' some of the manual jobs in the old economy such as converting gardening into landscaping, or cooking into catering as found in developed countries. This is to enable self-employed manual workers to continue to be gainfully employed in the old economy as they do not fit into the new economy;
- The restructuring of production to move up the technology ladder will require the government to phase out the dependency on unskilled foreign workers. Moreover, the shift into the new economy implies that these workers will crowd out jobs or employment opportunities for the domestically unskilled and disadvantaged workers. Hence, it is important to ensure that the shrinking employment opportunities must be preserved for the domestically unskilled and disadvantaged workers in the interest of social cohesion. However, given the current necessity to utilize these foreign workers, it is important to establish clear guidelines on their health and educational needs. The establishment of health and education insurance or similar schemes for financing their needs is recommended. Employers and foreign workers can jointly contribute toward these schemes.

Appendix

Table 1: Malaysia: Percentage Distribution of Inter- and Intra-State Migrants by Migration Direction, 1992–1999

Inter-state migration direction	1992	1993	1995	1996	1997	1998	1999
Rural-rural	15.7	14.8	11.6	9.6	11.8	12.7	12.5
Rural-urban	18.4	20.6	17.1	16.0	16.8	15.1	15.4
Urban-urban	44.2	44.0	47.7	51.3	47.5	44.3	44.3
Urban-rural	21.7	20.6	23.6	23.1	23.9	27.9	27.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Intra-state migration direction	**1992**	**1993**	**1995**	**1996**	**1997**	**1998**	**1999**
Rural-rural	36.8	32.2	39.0	36.9	34.1	35.5	30.3
Rural-urban	22.7	23.9	19.7	20.8	19.2	20.1	21.4
Urban-urban	25.7	23.3	21.3	21.6	23.4	23.7	26.3
Urban-rural	14.8	20.6	20.0	20.7	23.3	20.7	22.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Malaysia, various years. *Migration Survey*.

Table 2: Malaysia: Inflation, Total and Selected CPI Components, 1980–2001

Year	All groups	Food	Medical care and health services	Gross rent, fuel and power
1980	6.7	3.6	7.5	9.6
1985	0.4	–2.5	2.5	4.2
1990	3.1	4.2	2.6	0.4
1991	4.4	4.8	5.3	3.0
1992	4.7	6.5	3.5	3.6
1993	3.6	2.2	5.1	3.5
1994	3.7	5.3	3.4	2.4
1995	3.4	4.9	3.1	3.4
1996	3.5	5.7	3.7	3.2
1997	2.6	3.8	3.4	3.3
1998	5.2	8.6	5.8	4.3
1999	2.8	4.6	3.1	1.6
2000	1.6	1.9	2.0	1.4
2001*	1.5	0.6	2.8	1.6

* January to August

Source: Malaysia, various years. *Economic Report*.

Table 3: Principal Statistics of Manufacturing Industries by Total Employment Size Group, Malaysia: 1993, 1996 and 1997

Total employment size group (RM)	1993	1996	1997
Less than 50 workers (small industry)			
– No. of establishments	18,931 (81.8)*	15,615 (77.3)	16,938 (73.5)
– Value of gross output (RM'000)	13,271,813 (8.3)	19,118,002 (6.9)	18,757,780 (6.3)
– Cost of input (RM'000)	5,762,504 (5.2)	13,867,145 (6.8)	13,700,386 (6.3)
– Value added (VA) (RM'000)	7,509,310 (15.6)	2,946,576 (4.9)	5,057,394 (6.4)
– Total employment (L)	185,517 (15.0)	175,474 (12.0)	151,619 (10.7)
– Salaries and wages (RM'000)	1,202,786 (15.0)	1,788,267 (9.2)	1,678,795 (8.2)
– Value of fixed assets (K) (RM'000)	4,233,795 (6.3)	10,194,430 (8.7)	9,687,911 (7.6)
– K/L (RM'000)	22.822	58.097	63.896
– VA/L (RM'000)	40.478	16.792	33.356
50–150 workers (medium industry)			
– No. of establishments	2,623 (11.3)	2,656 (13.1)	3,495 (15.2)
– Value of gross output (RM'000)	29,174,455 (18.2)	46,786,445 (17.0)	47,512,411 (16.0)
– Cost of input (RM'000)	19,709,614 (17.6)	36,625,101 (18.0)	37,087,444 (17.0)
– Value added (RM'000)	9,464,841 (19.6)	7,363,580 (12.1)	10,424,966 (13.2)
– Total employment	228,425 (18.5)	229,603 (15.7)	198,717 (14.1)
– Salaries and wages (RM'000)	1,645,515 (20.4)	2,998,673 (15.5)	3,210,980 (15.7)
– Value of fixed assets (RM'000)	10,624,242 (15.7)	14,499,229 (12.4)	16,341,487 (12.8)
– K/L (RM'000)	46.510	63.149	82.235
– VA/L (RM'000)	41.435	32.071	52.461
More than 150 workers (large industry)			
– No. of establishments	1,602 (6.9)	1,933 (9.6)	2,596 (11.3)
– Value of gross output (RM'000)	117,459,263 (73.5)	210,143,095 (76.1)	230,860,086 (77.7)
– Cost of input (RM'000)	86,231,943 (77.2)	152,754,309 (75.2)	167,169,447 (76.7)
– Value added (RM'000)	31,227,321 (64.8)	50,475,045 (83.0)	63,690,640 (80.4)
– Total employment	820,486 (66.5)	1,056,744 (72.3)	1,061,111 (75.2)
– Salaries and wages (RM'000)	5,195,157 (64.6)	14,591,957 (75.3)	15,610,474 (76.1)
– Value of fixed assets (RM'000)	52,654,967 (78.0)	92,406,957 (78.9)	101,825,204 (79.6)
– K/L (RM'000)	64.175	87.445	95.961
– VA/L (RM'000)	38.060	47.765	60.023
Overall			
– No. of establishments	23,156 (100.0)	20,204 (100.0)	23,029 (100.0)
– Value of gross output (RM'000)	159,905,532 (100.0)	276,047,542 (100.0)	297,130,277 (100.0)
– Cost of input (RM'000)	111,704,060 (100.0)	203,246,555 (100.0)	217,957,277(100.0)
– Value added (RM'000)	48,201,471 (100.0)	60,785,201 (100.0)	79,173,000 (100.0)
– Total employment	1,234,428 (100.0)	1,461,821 (100.0)	1,411,447 (100.0)
– Salaries and wages (RM'000)	8,043,458 (100.0)	19,378,897 (100.0)	20,500,249 (100.0)
– Value of fixed assets (RM'000)	67,513,003 (100.0)	117,100,616 (100.0)	127,854,602 (100.0)
– K/L (RM'000)	54.692	80.106	90.584
– VA/L (RM'000)	39.048	41.582	56.093

* Figures in brackets are shares of the total.

Source: Malaysia, 1994, 1997, 1998.

Table 4: Malaysia: Federal Government Development Expenditure, Value (RM million) and Share (%), 1970–1998

	1970		1975		1980		1985		1990		1991		1992		1993	
	RM	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**
SECURITY	172	23.7	229	10.6	1,222	16.4	629	8.8	1,061	9.9	2,211	23.1	2,173	22.4	2,256	22.3
SOCIAL SERVICES	81	11.2	328	15.2	1,185	15.9	2,093	29.3	2,617	24.5	2,426	25.4	2,653	27.4	2,220	21.9
Education	44	6.1	212	9.9	558	7.5	872	12.2	1,634	15.3	1,285	13.4	1,205	12.4	1,117	11.6
Health	20	2.8	57	2.6	80	1.2	112	1.6	461	4.3	572	6.0	602	6.2	425	4.2
Housing	n.a.		31	1.4	295	4.0	972	13.6	43	0.4	66	0.7	94	1.0	167	1.6
Others	n.a.		n.a.		252	3.4	137	1.9	479	4.5	503	5.3	752	7.8	452	4.5
ECONOMIC SERVICES	451	62.2	1,398	65.0	4,833	64.8	4,303	60.2	6,701	62.7	4,684	49.0	4,504	46.5	5,265	52.0
Agri. & rural dev.	198	27.3	506	23.5	1,138	15.2	1,287	18.0	1,298	12.1	1,126	11.8	1,098	11.8	1,276	12.6
(Subsidies)[3]	(52)		(112)		(148)		(819)		(1,044)		(1,219)		(1,291)		(1,166)	
Public utilities	20	2.8	118	5.5	665	8.9	789	11.0	798	7.5	681	7.1	834	8.6	610	6.0
Trade & industry	100	13.8	223	10.4	1,554	20.8	557	7.8	2,726	25.5	969	10.1	648	6.7	660	6.5
Transport	80	11.0	486	22.6	1,031	13.8	1,052	14.7	1,845	17.3	1,897	19.8	1,896	19.6	2,678	26.5
Communications	53	7.3	65	3.0	428	5.7	601	8.4	2	0.0	1	0.0	4	0.0	5	0.0
Others	n.a.		n.a.		17	0.2	17	0.2	32	0.3	10	0.1	24	0.2	35	0.3
GENERAL ADMINISTRATION	21	2.9	196	9.1	223	3.0	117	1.6	310	2.9	244	2.6	358	3.7	—	
TOTAL	725	100.0	2,151	100.0	7,463	100.0	7,142	100.0	10,689	100.0	9,565	100.0	9,688	100.0	10,124	100.0

Table 4 (Cont'd)

	1994		1995		1996		1997		1998		1999		2000[1]		2001[2]	
	RM	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**	**RM**	**%**
SECURITY	2,360	20.9	2,888	20.6	2,438	16.7	2,314	14.7	1,380	7.6	3,122	13.8	2,332	8.3	2,842	8.9
SOCIAL SERVICES	3,285	29.1	3,513	25.0	3,984	27.2	4,919	31.2	5,783	31.9	6,936	30.7	11,076	39.6	14,618	45.6
Education	2,010	17.8	2,044	14.5	2,091	14.3	2,521	16.0	2,915	16.1	3,865	17.1	7,099	25.4	9,630	30.0
Health	354	3.1	388	2.8	459	3.1	449	2.9	716	4.0	836	3.7	1,272	4.6	1,098	3.4
Housing	359	3.2	403	2.9	501	3.4	735	4.7	1,030	5.7	1,081	4.8	1,194	4.3	1,922	6.0
Others	562	5.0	678	4.8	933	6.4	1,214	7.7	1,122	6.2	1,154	5.1	1,511	5.4	1,968	6.1
ECONOMIC SERVICES	5,289	46.9	6,440	45.0	7,693	52.6	7,501	47.6	9,243	51.1	8,969	39.7	11,639	41.7	11,614	36.2
Agri. & rural dev.	1,342	11.9	1,360	11.9	1,182	8.1	1,105	7.0	960	5.3	1,088	4.8	1,183	4.2	2,314	7.2
Public utilities	790	7.0	790	7.0	733	5.0	1,496	9.5	1,968	10.9	1,850	8.2	1,517	5.4	878	2.7
Trade & industry	961	8.5	961	8.5	1,212	8.3	1,285	8.2	3,227	17.8	2,798	12.4	3,667	13.1	4,380	13.7
Transport	2,158	19.1	3,151	22.4	4,530	31.8	3,578	22.7	3,062	16.9	2,893	12.8	4,863	17.4	3,986	12.4
Communications	5	0.0	14	0.1	2	0.0	4	0.0	3	0.0	289	1.3	228	0.8	12	0.0
Others	33	0.3	43	0.3	34	0.2	33	0.2	23	0.1	51	0.2	181	0.6	44	0.1
GENERAL ADMINISTRATION	343	3.0	1,210	8.6	513	3.5	1,015	6.4	1,697	9.4	3,587	15.9	2,894	10.4	2,984	9.3
TOTAL	11,277	100.0	14,051	100.0	14,628	100.0	15,749	100.0	18,103	100.0	22,614	100.0	27,941	100.0	32,058	100.0

1 Estimated actual.
2 Revised estimates.
3 Figures in brackets show the amount of operating expenditure.

Source: Malaysia, various years. *Economic Report*.

Table 5: Revealed Comparative Advantage Index for ASEAN–5 1995–98

	1995	1996	1997	1998
Malaysia				
Natural resource intensive	1.08	1.13	1.02	0.89
Unskilled labour intensive	0.81	0.78	0.71	0.73
Technology intensive	1.47	1.39	1.37	1.43
Human capital intensive	0.80	0.78	0.64	0.62
Indonesia				
Natural resource intensive	2.80	2.68	2.24	1.82
Unskilled labour intensive	2.14	1.98	1.29	1.34
Technology intensive	0.31	0.28	0.25	0.29
Human capital intensive	0.50	0.47	0.41	0.58
Thailand				
Natural resource intensive	0.97	1.30	0.85	0.79
Unskilled labour intensive	1.61	1.65	1.42	1.45
Technology intensive	1.05	1.07	1.00	1.08
Human capital intensive	0.58	0.60	0.63	0.69
Philippines				
Natural resource intensive	0.65	0.68	0.51	0.32
Unskilled labour intensive	2.07	1.75	1.37	1.16
Technology intensive	1.96	1.65	1.72	1.95
Human capital intensive	0.27	0.28	0.22	0.19
Singapore				
Natural resource intensive	0.45	0.45	0.45	0.35
Unskilled labour intensive	0.43	0.41	0.36	0.38
Technology intensive	2.04	1.93	1.83	1.90
Human capital intensive	0.58	0.60	0.52	0.48

Source: Tham, 2001.

Acronyms

AgCensus	–	Agriculture Census
AIM	–	Amanah Ikhtiar Malaysia (NGO)
ASB	–	Bumiputera Unit Trust
ASN	–	National Unit Trust
CPI	–	Consumer Price Index
DOS	–	Department of Statistics
GDP	–	Gross Domestic Product
GNP	–	Gross National Product
ELS	–	Employers’ Liability Scheme
EPF	–	Employees Provident Fund
FDI	–	Foreign Direct Investment
HIS	–	Household Income Surveys
HRDC	–	Human Resource Development Council
HRDF	–	Human Resource Development Fund

LFPR	–	Labour Force Participation Rate
MEF	–	Malaysian Employers' Federation
MTUC	–	Malaysian Trades Union Congress
NDP	–	National Development Policy
NEP	–	New Economic Policy
NVP	–	National Vision Policy
PSDC	–	Penang Skills Development Centre
RISDA	–	Rubber Industry Smallholders' Development Authority
SMIs	–	Small and Medium Industries
SMIDEC	–	Small and Medium Industries Development Corporation
SOCSO	–	Social Security Organization
YBK	–	Yayasan Basmi Kemiskinan (NGO)

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