

## Foreword

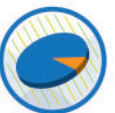
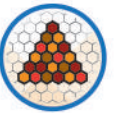
Since the introduction of the New Economic Policy in 1970, Malaysia has been a global leader in recognising the need for inclusivity in economic and social policy, as well as in the implementation of policies to achieve greater horizontal (or group) equality. The NEP had twin objectives:

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

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

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

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





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

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

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

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

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## Preface

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

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

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

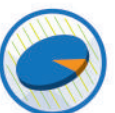
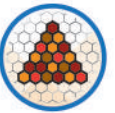
attention in walking the last mile of equitable and inclusive growth in the country.

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

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

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

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





recommendations. The *Report* also explores the triangular interactions between growth, income distribution and poverty to understand constraints as well as accelerators to inter-generational social mobility in Malaysia. In response to the now resounding global acknowledgement of the inability of income, on its own, to capture the complexities of poverty and deprivation, this *Report* also conducts analysis across multiple dimensions, in line with UNDP's work with the Economic Planning Unit (EPU) to develop Malaysia's first Multidimensional Poverty Index (MPI). These new approaches encompass dimensions of health, education and living standards, overlay the multiple deprivations in the lives of the poor and vulnerable and enable the government to better identify and target the poor and vulnerable.

The MHDR team is comprised of dedicated and respected Malaysians, led by Tan Sri Datuk Dr. Kamal Salih and supported by Dr. Muhammed Abdul Khalid and Dr. Lee Hwok Aun and three research assistants, Wan Ya Shin, Andika Wahab and Farhana Roslan. A series of background papers have also been commissioned to 13 national experts and the Institute of Ethnic Studies (KITA), National University of Malaysia to provide thematic insights.

The research process was facilitated by the MHDR Secretariat led by Christopher Choong and assisted by Kwek Ai Wei and Wan Ya Shin.

I would like to take this opportunity to thank EPU in the Prime Minister's Department, Department of Statistics, various government ministries, agencies and departments, as well as civil society organisations and individuals who have offered valuable support in the provision of data, analysis and feedback to ensure objective assessments and realistic and implementable policy recommendations.

As global discussion framing the Post-2015 development agenda continues in the coming two years and as Malaysia marches on its path of transforming to a high-income, inclusive, and sustainable society by 2020, we hope that this *Report* offers a platform for more people to reflect on the success and challenges of Malaysia in human development, and informs the country's future directions and priorities.

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UN Resident Coordinator and  
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## Acknowledgements

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

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

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

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

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

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



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