

Achieving Vision 2020 Without Sacrificing Income Inequality

With a steady GDP growth rate of 5.5% in recent years, Malaysia looks to be on track in achieving its '2020 vision', which entails reaching high income status by 2020. However, though the economic data presented on paper may seem exciting, there is a great danger in equating GDP growth with improved standards of living for the population. In truth, there is a wide disparity between the optimistic-sounding economic data and the real financial effects felt by ordinary Malaysians, a large number of whom are struggling to eke out a living in abject poverty, regardless of what official statistics might say. According to official government statistics, Malaysia only has a poverty rate of 1.7%. However, if the United Nations' definition of poverty (income below 50% of the national mean monthly income) were to be applied instead, the actual poverty rate would be a worrying 40%.^[1] Despite the robust growth experienced by Malaysia, little to none of the economic benefits are enjoyed by the majority of the populace, with much of the wealth being gained by the top strata of already rich Malaysians.

Gini coefficient statistics (a measure of the degree of inequality in a country, with 0 representing perfect equality and 1 representing perfect inequality) show that among its ASEAN peers, Malaysia is lagging behind in terms of income equality^[2]. Of course, Malaysia is far from being the only country to experience this increased income disparity due to rapid economic growth. According to the Kuznets Curve, countries experiencing high growth would experience heightened levels of income inequality initially, which should later diminish in the long run.^[3] On the contrary, real world data shows that countries which have experienced income inequality due to rapid growth have typically found it hard to normalise income distribution. China, Russia and India stand as examples of countries wherein there exists a vast income divide, which is especially pronounced in the urban-rural income divide. Hoping to eradicate this problem, the Malaysian government introduced the 'New Economic Model' (NEM)^[4] in 2010, replacing the racially-based New Economic Policy of 1969. However, the policy has utterly failed to make an impact on income inequality.

In Malaysia, one of the key causes of income inequality stems from the rural-urban divide. Rapid economic growth brought with it structural development and infrastructure advancements, most of which were concentrated in urban financial hubs. A clear example of this is seen in the development of the public transport system. Light Rail Transit (LRT), Monorail and Mass Rapid Transit (MRT) developments are concentrated solely in the Klang Valley, which is the most heavily urbanised area of Malaysia. Meanwhile, there are little to no public transport networks elsewhere in Malaysia, with the exception of the Colonial era KTMB (Malaysian Railways Limited). Furthermore, large-scale rural migrations to the cities have further contributed to the stagnation of progress in the rural areas. As such, high paying job opportunities in Malaysia remain highly concentrated in the financial hubs, with the rural areas restricted mainly to the farming industry.

In their efforts to correct the rising tide of income inequality, policymakers must tread carefully so as to prevent disrupting the rate of Malaysian economic growth. An excellent way to tackle this issue would be to strengthen the human capital by way of improving the level of education. Based on the results of the Programme for International Student Assessment (Pisa) 2012, Malaysia ranks 52 out of 65 countries which paints a dire picture for the future prospects of Malaysian schoolchildren.^[5] According to World Bank economist

Frederico Gil Sander, the poor quality of Malaysia's education system is even more worrying than the level of debt in its households.^[6] In an attempt to address these concerns, the Malaysian Government has introduced the Malaysian Education Blueprint 2013-2025^[7]. However despite the fact that education gets the lion's share of the government's budget each year, the results are hardly encouraging in the least. Therefore, it is clear that more drastic steps are needed and an overhaul of the Malaysian education system is long overdue.

Furthermore, income inequality in Malaysia is further exacerbated by the restriction of access to higher education due to the high fees involved. This contributes directly to the creation and reinforcement of a vicious poverty trap, wherein the poor are prevented access to higher education due to poverty, thus becoming unable to compete effectively in the job market and therefore unable to improve their income. The high barriers to education also effectively reinforces income inequality as the rich, who can afford higher education are in a better position to jockey for higher-paid employment, thus increasing their wealth and further widening the income and social divide. In a feeble attempt to correct this, the government introduced National Higher Education Fund Corporation (PTPTN) loans which act as student loans to enable the public, and in particular, the poor to access higher education.^[8] These loans have proven to be burdensome on the student population, with students taking to the streets to express their dissatisfaction.^[9] In addition, the repayment rate for these loans is dismally low, standing at a paltry 49.9%. This comes even after the offering of a staggering 20% discount on repayment.^[10] This clearly shows that the poor simply do not have the means to finance higher education and as a result, they have no choice but to default on their student loans.

It is no secret that with the nature of the high-skilled job market today, graduates are in high demand. However due to the aforementioned poverty trap, low-income households find themselves increasingly excluded from high-paying jobs. To overcome this problem, it is proposed that Malaysia publicly fund all education, including post-secondary education. This method of advancing the populace is not a particularly new one. In fact, by providing free education Malaysia would join the ranks of many other countries such as Argentina, France, Norway, Brazil and Germany.^[11] The provision of free education would greatly help liberate low-income households and empower them to take on lucrative occupations, thus breaking the poverty cycle and helping to improve income inequality. Levelling the playing field allows for a more equitable distribution of income as more segments of the populace gain a chance at high-paying jobs.

The implementation of such a policy may be burdensome at first, but the eventual benefits gained from the increased capabilities of the labour force far outweigh these initial costs. In the long run, the improvement of the labour force may even be a catalyst for more rapid growth as productivity of the labour force is amplified. This creation of a new generation of intellectual Malaysians will surely enable Malaysia to leap advance onto the next level as a competitive player on the global stage. With the multitude of positive spillover effects from education, it thus becomes the prerogative of the government to provide and encourage the consumption of this merit good for the benefit of all.

The rural areas of Malaysia are dominated by the agriculture industry. This overemphasis on the primary sector in rural areas contributes greatly to income inequality as the monetary rewards from the agricultural sector are dwarfed by that of the financial sectors. Furthermore,

the volatile nature of commodity prices also greatly increase the risks associated with an overreliance on the agriculture sector. In addition, the lack of knowledge and expertise among the rural populace results in technologically advanced machinery being eschewed in favour of traditional methods.

It cannot be denied that the agriculture industry has a huge role to play in Malaysia's economic health. This sector contributes 12% to the national GDP and provides employment for 16% of the population. ^[12] Furthermore, Malaysia places 16th on the list of largest countries by agricultural output at Purchasing Power Parity according to the International Monetary Fund (IMF). ^[13] Therefore, the government should adopt policies to encourage the use of latest technological advancements in the rural agricultural sector. This can be done in the form of grants or vocational training to empower the rural populace with the skills necessary to fully utilise technology to improve their yields. These improvements in the agriculture field are necessary to fully tap into the international markets. Therefore, improvements in rural agriculture could potentially improve income inequality as rural incomes increase due to better yields and increased export volumes. Furthermore, this advancement of the agriculture industry as a whole will also generate a positive impact on the Malaysian economy as increased export growth and improvements in the terms of trade for Malaysia would surely prompt swift economic growth.

However, the rural populace should not be restricted only to the agricultural industry. The rise of a burgeoning tourism industry in Malaysia can be seen as a boon for the rural areas, many of which are blessed with an abundance of natural beauty. Therefore as a method to reduce income inequality, Malaysia should increase its efforts to encourage the advancement of rural tourist activities. For example, rural residents could participate in homestay programs to enhance their income. Furthermore, the existence of a tourism trade creates countless employment opportunities for local residents, which will greatly improve the level of income. Thus tourism is an excellent gateway to negate the impact of income inequality which can be greatly reduced as rural incomes begin to improve due to foreign inflows of money. Therefore, it is clear that Malaysia should adopt policies aimed at encouraging and improving its tourism industry as this will not only improve income inequality, but will also aid the Malaysian economy in the form of foreign exchange income.

Another excellent method to ensure equitable distribution of income in Malaysia is through the funding of entrepreneurs and start-up companies, especially those in the rural areas. This opens up a method by which the underprivileged members of society can become self-employed, and eventually self-sufficient. Furthermore, the creation of more small and medium sized enterprises (SME's) will also act as a stimulus for domestic demand and thus generate growth in the economy. However, even small sized businesses may face high start-up costs, in the form of administration and other expenses which create a barrier to entry. This may present a problem for those living in poverty who may not have the necessary wealth to engage in capital intensive business activities. Furthermore, they are also highly likely to lack significant collateral, steady employment and a verifiable credit history and which restricts their ability to raise finance.

To alleviate this issue, Malaysia could increase the availability of microcredit, specifically targeted at underprivileged entrepreneurs. The benefits of this are twofold. Firstly, the availability of credit encourages the creation of more diverse SME's, which in turn increases

the level of employment and income of the local population. This also leads to greater development and improvements in the standard of living. Secondly, microcredit would also generate growth. By stimulating domestic demand, the velocity of money greatly increases and this in turn generates growth for the country. Thus, it is clear that the providence of microcredit will help alleviate poverty while increasing the nation's economic growth.

In conclusion, it is clear that it is indeed possible for Malaysia to achieve its lofty ambitions of high income country without sacrificing its goal of income equality. By enacting and enforcing the abovementioned policies, Malaysia will be able to achieve an equitable distribution of income. However, this may require sacrifices in the short run to fund future benefits. Therefore, the government must possess the political will and fortitude to remain focused in its approach thereby ensuring the success of these policies in bridging the income divide.

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