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**Intervention and Non-Intervention:  
Policy Ideas for  
a Social Market Economy  
in Malaysia  
– Policy Brief**

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# FOREWORD

For more than 60 years, the Social and Ecological Sustainable Market Economy built the guarantee for economic success and social stability in Germany. According to its founding fathers - Ludwig Erhard, the first Minister of Economics of post-war Germany and the economists Walter Eucken and Wilhelm Röpken, among others – the Social Market Economy is built on a competitive order, whose principles are the protection of private property, liability rules, contractual and commercial freedom, monetary stability, access to open markets as well as a long-term, reliable and principled economic and social policy.

The Social Market Economy comprises much more than just an approach to economics. It is the expression of a philosophy committed to a humane society which aims at the self-determination, dignity, freedom and responsibility of all individuals, as expressed in the Declaration of Human Rights.

The Konrad-Adenauer-Stiftung promotes these principles in Europe and worldwide. Therefore, we supported the Academy for Responsible Management in 2012 to undertake the study Fairness, Competition and Development - Foundations for a Social Market Economy in Malaysia. In this study, a comparison was undertaken between the main policy frameworks in Malaysia,

including the New Economic Model and the 10th Malaysia Plan and the concept of the Social Market Economy.

Since then a lot of changes have taken place in terms of economic developments and policy in Malaysia. The national economy is in a state of transition and Malaysia aspires to become a top-twenty nation in economic development, social advancement and innovation. The present paper, Intervention and Non-Intervention: Policy Ideas for a Social Market Economy in Malaysia, proposes policy ideas to accompany the necessary changes and examines the levels and necessities of government intervention.

With this policy paper, we hope to add a useful contribution to the ongoing economic discussion among Malaysian decision makers, experts and academics.

On behalf of the Konrad-Adenauer-Stiftung, I would like to thank the authors of this paper for their excellent academic work and scientific commitment.

**Wolfgang Hruschka**

*Country Director,  
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“Every time I speak on the theme of ‘social security’, I am in danger of being accused of going beyond my brief. If I speak less as Minister of Economic Affairs and more as a political economist, it will seem natural to those knowing the subject that within the sphere of the social market economy, the Minister of Economic Affairs has every reason to interest himself in further development of our social policy. The social market economy cannot flourish if the spiritual attitude on which it is based – that is, the readiness to assume responsibility for one’s fate and to participate in honest and free competition – is undermined by seemingly social measures in neighbouring fields.”

Ludwig Erhard, in Prosperity Through Competition (1958), p.185

# ► Intervention and Non-Intervention: Policy Ideas for a Social Market Economy in Malaysia – Introduction

## 1. The Social Market Economy (Soziale Marktwirtschaft)

The term Social Market Economy (Soziale Marktwirtschaft) is often used to refer to a conception of economic management that combines market freedom and social protection. From its origins in the 1940s through to the 1960s, it was based on the central concept of Ordoliberalism, that is, a free market, constituted and regulated by an orderly policy framework (Ordnungspolitik) which regulates the rules and conduct of the market economy but does not intervene in price-setting and resource allocation, economic processes which are left to market participants. It is also concerned with the non-economic or social foundations of the market economy, which lie beyond supply and demand and foster inclusivity, protection and social responsibility in a wider sense.

The overall guiding principles of the SME model are solidarity and subsidiarity. Solidarity ensures that the market economy is continually legitimised by its orientation to the common good, while subsidiarity creates and guarantees the space for individual responsibility and initiative.<sup>1</sup>

A clear statement of these aims in a modern sense was provided in 2009 by the Guidelines for Prosperity, Social Justice and Sustainable Economic Activity which can be summarised as follows:

### 1. Legal framework

a functioning, reliable and democratically legitimate legal system as the basis for efficient and sustainable economic activity. Proper regulation and consistent supervision ensures that rules are adhered to and violations penalised.

### 2. Property ownership and employment

private property ownership places the exchange of goods and services, including employment services, in the hands of private enterprises and households and provides the right incentives for generating income through work and innovative entrepreneurship.

### 3. Competition as the basis

a global competitive system based on free determination of prices optimises the allocation of scarce resources. Fully functional competition drives and sustains economic activity, fosters efficiency and progress, coordinates responsible behaviour and prevents imbalances in market power.

### 4. The principle of liability

freedom of competition requires the application of the

principle of liability by which competitive performance is tied to responsible conduct of each participating player. The prospects for profits stimulate competition, while personal liability in the event of losses curbs irresponsible and excessively risky behaviour.

### 5. Stability of the economic environment

a long-term economic policy and macroeconomic stability, particularly in national and international financial markets, creates confidence in a stable economic framework, a prerequisite for investments and long-term consumption decisions. This requires the rejection of both protectionist measures and monetary policy geared only to short-term national economic and growth targets.

### 6. Provision of public services by the state

the state must ensure that public services are available if the market is unable to provide them adequately. An efficient infrastructure, fundamental educational opportunities, access to comprehensive healthcare and social welfare are all elements of this process.

### 7. Solidarity and social security

economic growth helps to reduce poverty, but the market economy cannot prevent inequalities in income, wealth and opportunity. Broad-based social security systems, mechanisms for regional redistribution and a performance-oriented system of taxation, all functioning in line with market conditions, safeguard social peace and enable appropriate levels of participation by broad sections of the population in the development of the economy and society.

### 8. Incentive compatibility

a market economy requires an incentive-oriented system of taxes and levies to finance state tasks which must be designed in such a way that they neither minimise performance incentives nor lead to allocative distortions.

### 9. Sustainability

long-term results in terms of ecological, social and fiscal sustainability is important for success and an expression of intergenerational justice. This includes a legal system based on responsibility and liability for sustainability, active climate protection and safeguarding future generations.

### 10. Open markets

a coordinated policy of open markets and respect for the rules of fair play serve the common good and ensure careful and sustainable business activity. International institutions must counter protectionism and economic nationalism.

<sup>1</sup> Konrad Adenauer Stiftung (2009) "Guidelines for prosperity, social justice and sustainable economic activity," KAS, Berlin

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## 2. Prospects for a Social Market Economy in Malaysia

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During 2011-12, a study was undertaken for Konrad Adenauer Stiftung (KAS) in Malaysia entitled Fairness, competition & development: Foundations for a Social Market Economy in Malaysia. This study examined and assessed the parallels between the concept of the 'Social Market Economy,' or SME model (Soziale Marktwirtschaft) and the main policy frameworks in Malaysia, including the New Economic Model (NEM) and the 10th Malaysia Plan (10MP).

Since the end of the last study, Malaysia has held a pivotal general election, in 2013, following which there have been significant changes in terms of political and economic governance and policy. These changes need to be assessed and recommendations, based on the SME model, have to be proposed to help foster policy ideas that promote state-business-labour cooperation as well as address the issue of the level of government intervention and the nature of such intervention.

This is the focus of this new study, Intervention and Non-Intervention: Policy Ideas for a Social Market Economy in Malaysia, which examines new policy ideas that are imperative for the country in the current political and social environment. The timing for such ideas is very appropriate, as we are expecting, among other things:

- a general election which has to be held by mid-2018;
- changes in the extent and type of government intervention at both federal and state levels;
- a change in the role of the government in large and small businesses, especially through government-linked companies (GLCs) and government-linked investment companies (GLICs), including through investments;
- growing concerns about growing wealth and income inequalities and the viability of existing welfare and subsidy programmes such as BR1M (Bantuan Rakyat 1Malaysia or One Malaysia People's Assistance);
- a debate about declining education standards, seen in the growing number of unemployed graduates, as well as about cuts in financial support for education institutions, both public and private; and
- renewed deliberation about trade and trade relations following the faltering of the Trans-Pacific Partnership (TPP), growing trade and investments from China and the potential for a Free Trade Agreement (FTA) with the European Union.

Malaysia's economy is also in a state of transition as it seeks to achieve high-income, industrialized nation status by 2020. Many elements necessary to attain this goal are sorely lacking, such as the quality of available human capital.

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## 3. The aims of this policy brief

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This Policy Brief provides a revised resource to continue discussions about the Social Market Economy though our focus is on the development of social, education and business issues which frame current policy debates.

This Policy Brief also covers matters surrounding intervention and non-intervention by the government at federal and state levels and how this balance is struck in the SME framework. Questions of both the level and type of intervention are essential in the evolving socio-economic environment, but this is an issue which is rarely, if ever, exposed to objective, comparative discussion.

In addition, questions around the issue of subsidiarity, which determines the degree of delegated responsibility and necessary accountability and control mechanisms, are also under-researched and rarely discussed in Malaysia, although they are well understood in Germany within the Social Market Economy model.

This Policy Brief provides a summary of the research findings and offers policy recommendations, based on the SME model's approach to intervention and non-intervention, for politicians and bureaucrats to consider. The precise content is based in part on the responses to stakeholder inputs and policy ideas arising from the Opening Forum & Roundtable held at HELP University on 11th May 2017.

In general, this Policy Brief focuses on three areas: (1) the role of the state in the industrial economy and enterprise development; (2) the creation of a skilled labour force and the potential of a dual-vocational system; and (3) the current state of welfare provisioning in Malaysia and the scope for reform.

Within these three areas, we also deal with the following issues:

- to what extent should the government intervene in the economy, particularly in enterprise development and through the government-linked companies (GLCs)?;
- what incentives and policies should be introduced to nurture the evident entrepreneurial capacity among small and medium-sized enterprises?;
- how can the education system be reformed to ensure high quality training is provided to the young, a factor that will contribute to producing employees who can fit into an economy in transition?;
- how can we create an effective cross-stakeholder dialogue on issues related to training, employment and empowering working conditions within a system advocated under the SME model?;
- are socioeconomic policies such as the newly-introduced BEE (Bumiputera Economic Empowerment, a Malay-centric socioeconomic empowerment agenda) and BR1M (Bantuan Rakyat 1 Malaysia, the 1 Malaysia Peoples Assistance scheme) viable in the long run, specifically in terms of sustaining equitable economic growth?; and
- what changes are needed in the current welfare system and what lessons can be learned from the experience in Germany?

Our main objective is to continue the discussion of these issues amongst policy makers, within the context of the SME approach. We also aim to prompt debate and elicit views and ideas from a wider group of stakeholders to help guide and inform our understanding of the main issues around the SME in Malaysia, going forward.

# ► Intervention vs non-intervention: Public policies and enterprise development in Malaysia

## 1. State intervention and development of the corporate sector

Industrialized Asia's history is one replete with accounts of interventionist governments that actively used public policies and key institutions to influence the development and dynamism of their domestic entrepreneurial base. The debate about state intervention in the economy to cultivate companies and drive industrialization revolved around the contention that systematic but temporary protection of infant industries was necessary to nurture entrepreneurial firms. In order to achieve this industrialization and create highly entrepreneurial domestic companies, a well-functioning state-business compact was seen as imperative. This compact involved a system of business patronage which often worked very effectively, as seen in Japan's quick emergence as a highly industrialized country, known too for its enormous entrepreneurial and export capabilities. With the introduction of a similar compact in South Korea, Taiwan and Singapore, these once extremely poor and under-developed economies emerged as highly industrialized economies. As these East Asian economies began developing at an unprecedented rate – the World Bank referred to this phenomenon as a, 'miracle'<sup>2</sup> – similar state-business linkages were constructed in Southeast Asia which focused on priority sectors that would advance industrialization, cultivate domestic companies and foster structural change, including the rapid reduction of poverty.

A key feature of these rapidly industrializing countries, including Malaysia, is the presence of extremely different types of business enterprises in their economies. Malaysia's policy pathways to enterprise development, through this system of selective patronage to nurture specific types of companies, were historically determined by the preferences of the government which controlled key financial institutions, including those that were development-based with a focus on supporting important sectors such as agriculture (AgroBank), small firms (SME Bank) and export-based industries (Export-Import Bank). State-business ties served as a mechanism through which government-generated concessions of various sorts were channelled on a selective basis to privately- and publicly-owned businesses to nurture new sectors of the economy, such as heavy industries, as well as foster the rise

of Bumiputera-owned enterprises through affirmative action. The nature of public policies and the mode of state intervention have changed over time, with new methods of institutional control by the government.

Malaysia is also an interesting case because what has emerged in the corporate sector involves equally important businesses, namely highly-diversified business groups, small- and medium-sized enterprises (SMEs) and government-linked companies (GLCs). In this context, a heterogeneity of public enterprises and private firms co-exist and function in tandem with each other. Of the 1.2 million registered firms, SMEs constitute 98% of them. However, GLCs are key actors in the corporate sector and such companies constitute an estimated 42% of total market capitalization of all publicly-listed firms. Unlisted GLCs are also owned by the federal government, while most of the twenty-four government ministries manage such enterprises. All thirteen state governments in the Malaysian Federation own GLCs, making these enterprises a ubiquitous presence in the economy that may crowd-out entrepreneurial SMEs. Large business groups, owned by families and individuals, have a presence in manufacturing, banking, telecommunications, construction and a variety of services-based industries including education.

The Malaysian government has consistently shown a desire to develop entrepreneurial domestic firms – originally, business groups and subsequently SMEs – through strong intervention in the economy. GLCs were used to nurture privately-owned enterprises, through joint-ventures and vendor programmes, as well as supply links and sub-contracting systems. Market-oriented forms of co-ordination by firms were conditioned by the policy choices of the six Prime Ministers who led the country, particularly that shaped how government-generated economic concessions were to be distributed. For example, Mahathir Mohamad (1981-2003) focused on nurturing business groups, Abdullah Ahmad Badawi (2003-2009) stressed the importance of SMEs and Najib Razak (since 2009) has actively employed GLCs. Apart from these constant shifts in focus on the type of firms to nurture, a related concern is whether private enterprises, particularly SMEs, have invested adequately to upgrade the quality of their products and services.

<sup>2</sup> World Bank (1993) *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press

## 2. Mix and match policy: Developmental state, neoliberalism, affirmative action

Industrialized Asian countries had in common an effective bureaucracy that planned the direction of the economy, while the financial and industrial sectors created close ties to advance industrialization. In this system, referred to as the developmental state model, the Government allocated bank credit to domestic industries on favourable terms and accorded them various sorts of protection, such as through the use of tariffs.<sup>3</sup> However, the business systems of these industrialised economies differed. Japan's keiretsu system involved extensive interlocking ownership ties between industrial and financial firms. In South Korea, a government-controlled financial system providing, 'policy loans' at highly favourable rates helped nurture extremely diversified chaebols, basically family-owned business groups. Taiwan's growth has been driven by SMEs which constitute about 98% of its economy. GLCs, the primary engine of Singapore's industrialization, have played an equally prominent role in other East Asian economies, including South Korea and Taiwan, though it is their presence in Malaysia that is particularly noteworthy.<sup>4</sup>

While there was much adherence to the features of a developmental state in developing Asia, in the early 1980s, most governments of these countries were inspired by a vastly different model of development, neoliberalism, based on ideas developed by Friedrich von Hayek and Milton Friedman and actively pursued by Margaret Thatcher and Ronald Reagan. Neoliberals advocated limiting state intervention in the economy and endorsed policies and programmes seeking to privatize the public sector, liberalize trade, deregulate the economy and decentralize administrative functions. The assumption was that through trickle-down economics, market forces of a robust economy and greater circulation of capital, social problems and inequities would be resolved. Neoliberalism resulted in the shift from pro-poor to pro-business strategies and the growing influence of capital, both domestic and foreign, in terms of policy advice.<sup>5</sup>

Privatization through the public-listing of government-owned enterprises was seen as an avenue to transfer public assets to private individuals. However, the privatization of public services such as healthcare, energy and water supply was particularly contentious as it further marginalized the poorer and more vulnerable sections of the population in the developing world. The enthusiastic deployment of privatization and the stock market, pivotal features of a neoliberal state, to cultivate big business had an immense impact on the pattern of development of publicly-listed companies. These development ideas were brought into question following the 2008 global financial crisis which led to a serious recession worldwide.

This crisis of neoliberalism drew attention to grave structural problems in Malaysia and as foreign direct investments (FDIs) plummeted during the ensuing recession, an issue that indicated the country's still heavy reliance on such investments to generate growth. The crisis compelled the government to propose a, 'new economic model' to foster, 'sustainability,' and, 'inclusiveness,'<sup>6</sup> However, since 2009, that new model has still not been found, in spite of a variety of policies, one that included a mechanism to effectively employ GLCs, business groups and SMEs to develop the economy in an equitable manner. A review of these different types of businesses and their role in the economy as well as policy reforms to deploy them effectively to precipitate economic growth is necessary.

## 3. Government Linked Companies (GLCs)

The 13 May 1969 crisis, widely viewed as a race-based conflict, resulted in the twenty year New Economic Policy (NEP), introduced in 1970 to, among other things, redress corporate wealth inequality among ethnic groups as Bumiputera ownership of corporate equity stood at a mere 1.5 per cent (see Table 1). With the NEP, governance and policy frameworks shifted toward much stronger and more centralized control by the Government and aggressive interventions to raise Bumiputera participation in the corporate world.

**Table 1**  
**Ownership of share capital (at par value) of limited companies, 1969–2008 (per cent)**

	1969	1970	1975	1980	1985	1990	1995	1999	2004	2006	2008
Bumiputera individuals & trust agencies	1.5	2.4	9.2	12.5	19.1	19.2	20.6	19.1	18.9	19.4	21.9
Chinese	22.8	27.2	n.a	n.a	33.4	45.5	40.9	37.9	39.0	42.4	34.9
Indians	0.9	1.1	n.a	n.a	1.2	1.0	1.5	1.5	1.2	1.1	1.6
Other	–	–	–	–	–	–	–	0.9	0.4	0.4	0.1
Nominee companies	2.1	6.0	n.a	n.a	1.3	8.5	8.3	7.9	8.0	6.6	3.5
Locally-controlled firms	10.1	–	–	–	7.2	0.3	1.0	–	–	–	–
Foreigners	62.1	63.4	53.3	42.9	26.0	25.4	27.7	32.7	32.5	30.1	37.9

Source: Malaysia (2010) *Tenth Malaysia Plan, 2011-2015*. Kuala Lumpur: Government Printer; n.a.: not available.

3 Woo-Cumings, Meredith (1999) *The Developmental State*. Ithaca: Cornell University Press

4 Whitley, R. (1992) *Business Systems in East Asia: Firms, Markets and Societies*. London: Sage.

5 Harvey, D. (2005) *A Brief History of Neoliberalism*. Oxford: Oxford University Press

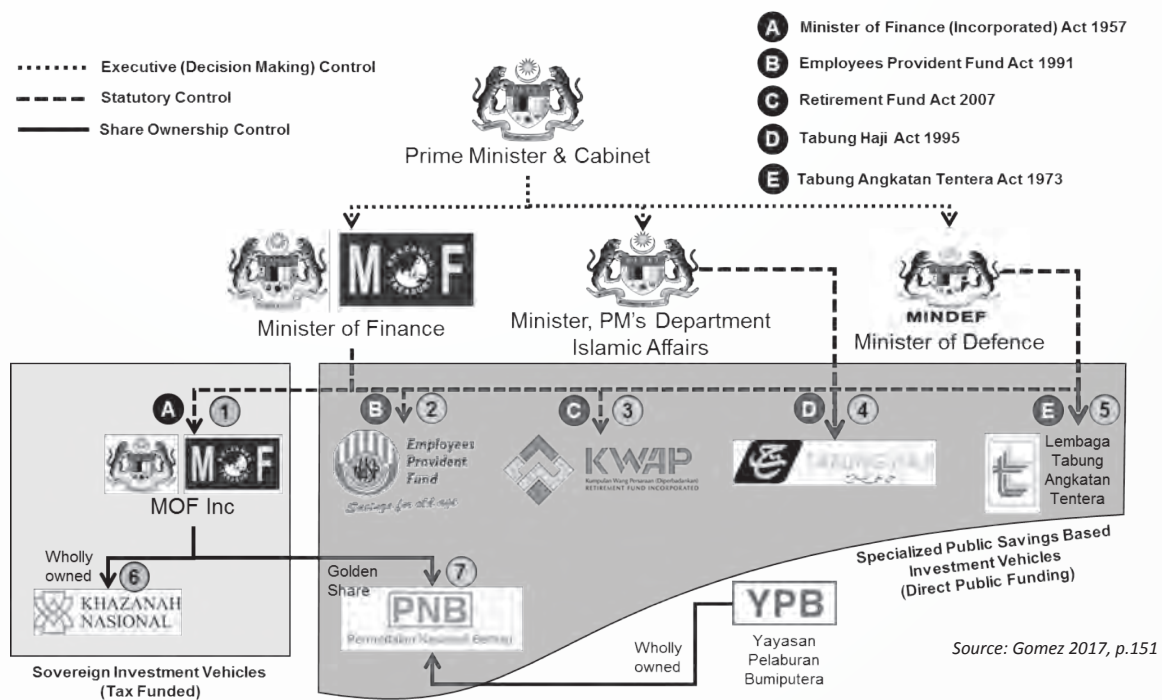
6 Malaysia. 2010, *New Economic Model, I and II*, Kuala Lumpur: Government Printer

During the first decade of the NEP, government intervention in the economy entailed employing newly-established public enterprises and trust agencies, endowed with substantial public funding, to acquire big businesses. This process was aided by a ruling that each quoted firm had to ensure that a minimum 30 per cent of its equity was allocated to Bumiputera agencies or individuals. Public enterprises acquired corporate equity for investment purposes and soon had a presence in all major sectors, i.e. plantations, mining, manufacturing, services, agriculture, insurance, banking, finance, property development and construction.

However, GLCs at the federal and state levels have not evolved in a coherent, linear direction. They incorporate hybrid features and are required to fulfil a range of

business and social duties. At the federal level, GLCs are primarily owned and controlled by five savings- and investment-based institutions, the Employees Provident Fund (EPF), the Kumpulan Wang Amanah Pencen or Government Pension Fund (KWAP), the Lembaga Tabung Haji or Islamic Pilgrimage Fund (LTH), the Lembaga Tabung Angkatan Tentera or Armed Forces Pension Fund (LTAT), the Permodalan Nasional (National Trust Fund), as well as Khazanah Nasional, the sovereign wealth fund and the Minister of Finance Incorporated (MoF Inc.), the Finance Ministry's holding company. These seven institutions, collectively known as government-linked investment companies (GLICs), vary considerably in terms of size and objectives and are ultimately controlled by the Minister of Finance through complex pyramid-type organisational structures (see Figure 1).<sup>7</sup>

**Figure 1**  
**Ownership and Control Structure of GLICs**

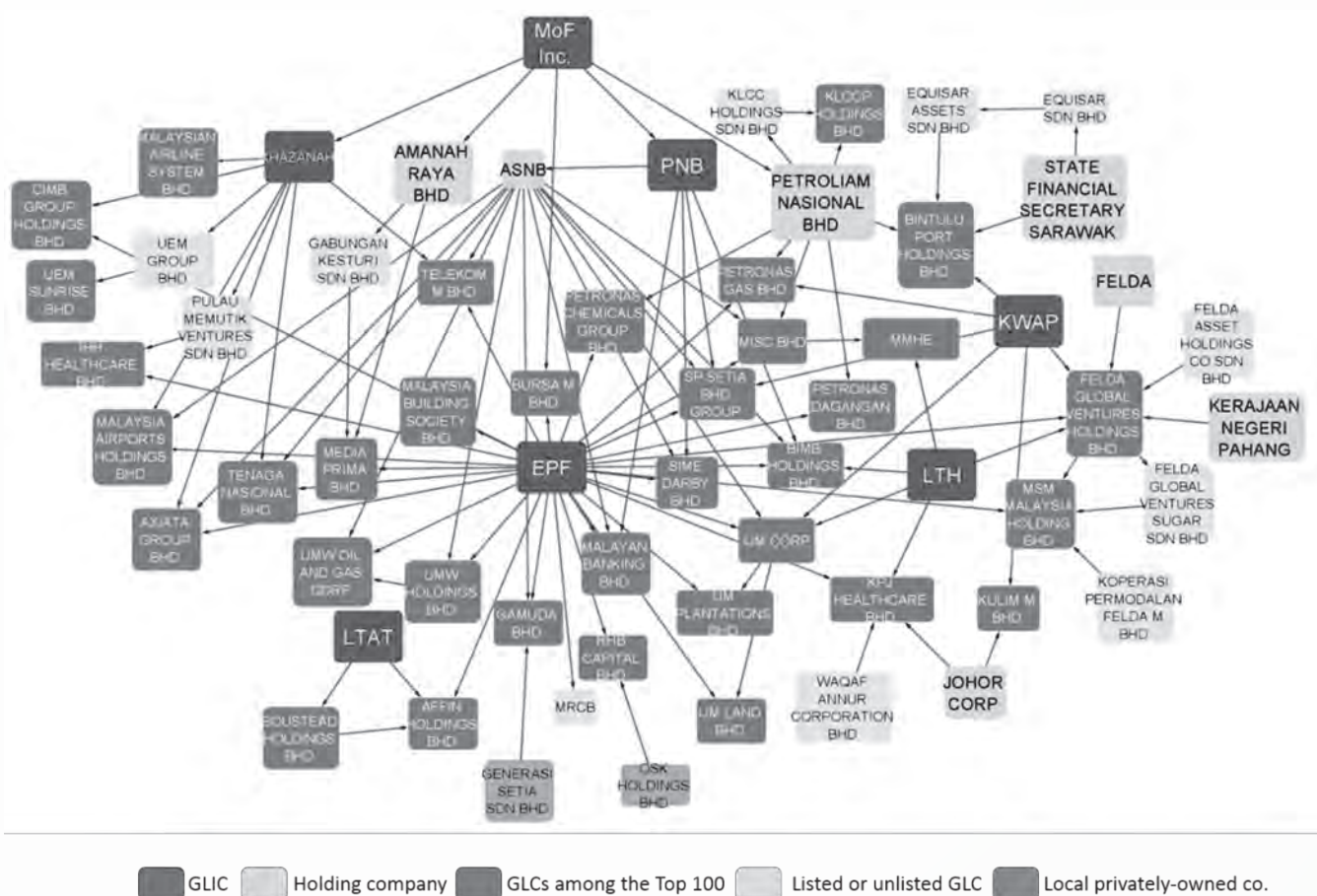


<sup>7</sup> Gomez, Edmund Terence (2017) *Minister of Finance Incorporated: Ownership and Control of Corporate Malaysia*. Basingstoke: Palgrave-Macmillan

GLICs and GLCs implement interventionist policies, including those that drive industrialization, while also participating actively in corporate-type practices such as takeovers and mergers. By 2013, GLICs had majority ownership of Malaysia's largest publicly-listed firms, along with a multitude of private companies in all sectors of the economy. The extensive quoted assets of these GLICs include the power supplier Tenaga Nasional, major banks such as Malayan Banking, CIMB Bank and RHB Capital, petroleum and chemical-related firms such as Petronas Gas, Petronas Dagangan and Titan Chemical Corp, leading

plantation firms Sime Darby and Boustead Holdings, transport-linked firms Malaysia Airlines, Malaysia International Shipping Corp (MISC), Bintulu Port and PLUS Expressways, property developers UEM-Sunrise and SP Setia, as well as prominent enterprises in the automotive, fast-food and health sectors, such as United Motor Works (UMW), KFC Holdings (Malaysia) and KPJ Healthcare (see Figure 2). The leading publicly-listed GLCs, known locally as the 'G20,' had a market capitalization of RM431.1 billion – about 42% of total market capitalization – and a presence in 42 countries.<sup>8</sup>

**Figure 2**  
Share Ownership Network of Publicly-Listed GLCs by GLICs in 2013



Source: Gomez 2017, p.96

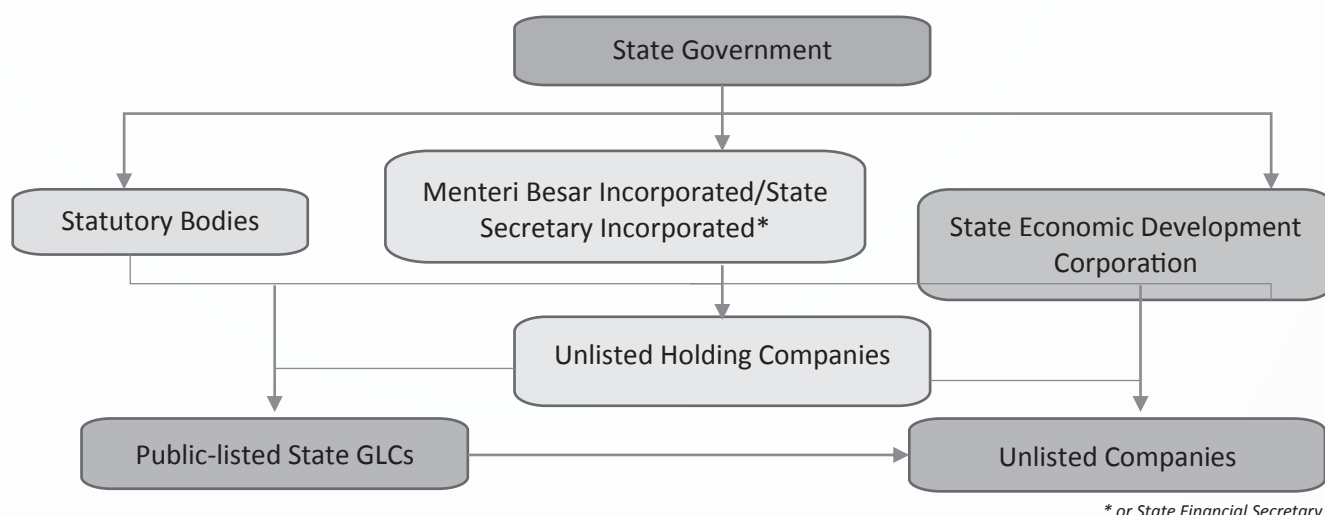


These quoted Government-owned enterprises, as well as some GLICs, work in cooperation with private sector bodies and public research institutions to implement programmes set by government ministries. Some examples include the Malaysian Biotechnology Corporation (MBC), which aims to maximize returns from the agricultural sector by ensuring value-added in downstream activities, as well as the Halal Industry Development Corporation (HDC), created in 2006, which seeks to make Malaysia a global leader in the production of halal products and services.

The State Governments in the Malaysian Federation, through their respective State Economic Development Corporations (SEDCs), holding companies and statutory bodies also have ownership of corporate equity (see Figure 3). The extensive assets of these SEDCs include

publicly-listed as well as unquoted firms, with the latter being used to control the former. For example, wholly-owned private companies used by Sabah's state government are Desa Plus Sdn Bhd, to hold its equity in IJM Corp, while Ekuiti Yakinjaya Sdn Bhd and Sawit Kinabalu Sdn Bhd have an interest in Felda Global Ventures (FGV) and Warisan Harta Sabah Sdn Bhd in Malaysian Airlines (MAS). Some state governments, such as those in Johor and Sarawak, are now shareholders of major quoted firms through their investment arms. However, state-level GLCs, such as the Penang Development Corporation (PDC), typically offer infrastructure, financial incentives, skills and R&D incentives and services, as well as administrative and coordinating services to domestic and foreign investors. In addition, these GLCs may engage in technology acquisition in order to distribute it to local firms.

**Figure 3**  
**State Governments and GLCs**



The Federal-level GLICs and quoted GLCs are led by professional managers who report to a board of directors whose members are appointed by the Government. Through these directors, the Government can shape decision-making within the GLICs and GLCs, determining how the contracts and other concessions they generate are distributed. The Government can also inform decision-making within these enterprises through a series of other mechanisms such as legislation and public policies. Since the Government has a substantial equity stake in the banking sector, it has been able to involve GLCs in capital intensive sectors such as those in heavy industries and high technology. Malaysia's leading commercial banks, Malayan Banking, CIMB Group and RHB Bank, are GLCs while development financial institutions (DFIs) such as SME Bank, Export-Import Bank and Agro Bank play a role in channelling funds to SMEs. Government-led industrial-financial ties involving DFIs were productively used by Mahathir to drive

industrialization and by Abdullah to create new economic sectors and nurture SMEs. Najib has not utilized these DFIs as development-based institutions, preferring to get them to function as commercial banks.

A key feature of Najib's administration is his stress on creating State-State ties, involving links with state-owned enterprises (SOEs) from China. Malaysia remains heavily dependent on foreign investments to generate growth but a transition has been noted in the mode adopted by the government to attain this goal which involves launching major public infrastructure projects to be implemented through GLC-SOE joint-ventures.<sup>9</sup> These State-State joint-ventures are similar to those forged between the government of China and Singapore in the 1990s.<sup>10</sup> However, a major difference in these State-State ties is that these joint-ventures in Malaysia also serve to secure private investments. Najib has incorporated large Malaysian Chinese-owned businesses into these ventures.

9 Gomez, Edmund Terence, Khor Yu Leng and Zhao Fang (2016b) *State, Society and Enterprise Development: Southeast Asia-China Investment Flows. The Round Table: The Commonwealth Journal of International Affairs*, 105 (6): 683-700.

10 Pereira, A. (2003) *State Collaboration and Development Strategies: The Case of the China Singapore Suzhou Industrial Park (1992-2002)*. London: Routledge

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## 4. Private business groups

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An important transition in the form of development of Bumiputera-owned businesses occurred when Mahathir was appointed Prime Minister in 1981, a position he held for more than two decades. It was the ever-pragmatic Mahathir who first mixed developmental measures such as affirmative action-driven enterprise development and Government-led heavy industrialization with the privatization of key public enterprises. Mahathir's intent was to produce an ensemble of entrepreneurial Bumiputera capitalists leading chaebol-like businesses with international presence. He justified this agenda on the grounds that after ten years of the NEP, though the volume of corporate holdings held in the name of Bumiputeras had increased appreciably to 12.5 per cent, little progress had been made in developing private Malay entrepreneurs in control of big businesses (see Table 1). Mahathir further justified the selective patronage system he introduced by arguing that the best way to create business groups led by Malays was to distribute concessions to the most capable entrepreneurs.

A sweeping privatization programme was executed from the late 1980s to develop these new entrepreneurs and a majority of these concessions were transferred to them through the Bumiputera Commercial and Industrial Community (BCIC) policy. Privatization would facilitate Bumiputera capital accumulation and those who were privy to privatized projects had a triple role – to be profit-oriented, to drive industrialization and to develop Bumiputera SMEs. This hive of privatizations and rapid creation of Bumiputera-owned business groups peaked between 1991 and 1995.

Mahathir was captivated with the workings of the stock market and saw the domestic bourse, Bursa Malaysia, as a route to the swift creation of domestic business groups. Bursa Malaysia's stock market capitalization relative to gross domestic product (GDP) would soon emerge as the highest in Southeast Asia. Between 1989 and 1993, equity market capitalization as a percentage of GDP increased from 105 per cent to 342 per cent. By 1997, Bursa Malaysia was the 15th largest in the world in terms of market capitalization.

However, following the 1997 Asian currency crisis, a number of well-patronized businessmen were severely over-leveraged as the firms they owned held corporate equity worth far less than their acquired value. These companies were bailed out by GLICs and GLCs, with a number of them emerging as business groups. Before he retired in 2003 as Prime Minister, Mahathir publicly admitted that his policy endeavours had failed with NEP patronage having resulted in a, 'crutch mentality.'<sup>11</sup>

Another core group in control of business groups are families who reputedly control about 40 per cent of

publicly-listed firms. The top ten families own a quarter of market capitalization. Major family-controlled firms include the Genting, Hong Leong, IOI, KLK, Tan Chong, Berjaya, Sunway and YTL Corp groups, though the Kuok family still retains a prominent presence. Among the quoted firms still led by their founders are Public Bank (Teh Hong Piow), Lion Group (William Cheng), AMMB Holdings (Azman Hashim), Tanjong/Maxis (T. Ananda Krishnan), Jaya Tiasa (Tiong Hiew King), MUI (Khoo Kay Peng), Top Glove (Lim Wee Chee) and Air Asia (Tony Fernandes). These companies, a majority of them non-Bumiputera-owned, have acquired expertise in steel and cement manufacturing as well as the finance, telecommunications and services sectors.

The internal structure of privately-owned publicly-listed companies is characterized by interlocking stock ownership, used by their owners to protect themselves from financially well-endowed GLICs that can institute corporate takeovers with ease. Ex-political leaders and ex-bureaucrats are appointed by these companies as board directors to protect their economic interests. The founders of these firms as well as family-owned companies remain principal corporate decision-makers, evident among the largest firms, Genting, IOI, Public Bank and the Hong Leong, AirAsia, Maxis/Astro, Berjaya and YTL groups.

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## 5. Small and medium-sized enterprises (SMEs)

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Domestic SME development can increase employment, generate economic growth, create local value-added and improve domestic innovation and entrepreneurial capabilities. In Malaysia, SMEs are regulated primarily through public policies, introduced to nurture domestic enterprises and are tied to the government through procurement and vendor programmes, involving SMEs and multinational companies (MNCs), which tend to favour the Bumiputeras. A high level of intra-Chinese competition prevails among SMEs because of Bumiputera-based affirmative action, a reason for evident persistent entrepreneurial activity among members of this ethnic group. This type of competition is not as pervasive among Bumiputera-owned SMEs because they are recurrently privy to government-generated concessions. Concessions to Bumiputeras disbursed through public programmes include government contracts which are implemented through sub-contracts to non-Bumiputera firms, another reason for the continued growth of Chinese enterprises.

Since the Government is aware that FDI can enhance SME development through beneficial linkages between foreign firms and small firms, much emphasis has been given to the Vendor Development Programme (VDP). These benefits include increasing the purchase of local supplies, transferring technology, upgrading SME management skills, facilitating SME access to capital and markets and

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<sup>11</sup> Mahathir Mohamad (2002) "The New Malay Dilemma." Speech delivered at the Harvard Club of Malaysia, 27 July 2002.

assisting local SMEs to internationalize their business. These linkages can benefit the affiliates of multi-national companies (MNCs) by lowering transaction costs, providing greater flexibility and spurring local adaptations.

Taking advantage of the Country's significant FDI inflows, SME policies in the 1980s and 1990s focused primarily on creating SME-MNC linkages through the VDP (see Table 2).<sup>12</sup> This vendor system was introduced in December 1988 as part of the government's attempt to promote Bumiputera involvement in manufacturing. The national car project, Proton, served as an, 'anchor firm,' responsible for cultivating SMEs by using them to supply components parts. The vendor system proved unsuccessful in nurturing Bumiputera firms in the automobile industry. SMEs tied to Proton showed little capacity to enhance their technological skills or develop the ability to serve other companies. Most of these SMEs did not improve the range and quality of their products. Proton's experience with the vendor system indicated that selective intervention to nurture Bumiputera businesses failed. This same vendor system might have produced different results had contracts been issued to companies with the capacity to produce high quality products at a reasonable rate, which also would have aided the Malaysian car project.

Learning from the problem it encountered from GLC-SME-MNC linkages in the Proton project, the government formulated new joint-venture methods. Malaysia's second car project, Perodua, was launched in 1993 to produce small-compact automobiles. Perodua had numerous shareholders when it was established such as the government-owned firms UMW and PNB Equity Resource Corporation, Japanese enterprises Daihatsu and Mitsui and a publicly-listed Malaysian company, MBM Resources. MBM Resources, a Chinese family enterprise, was the lead domestic firm in this new joint-venture. Toyota Japan owns a 51.1% stake in Daihatsu Japan and has an interest in

UMW, giving the company a significant interest in the Perodua project. The Perodua project, unlike the Proton car project, emerged as a major enterprise with growing capacity to export its products abroad.

Given problems related to the ability of local firms to meet the supplier requirements of MNCs and to absorb the benefits of associated spillovers, a more general and concerted approach to SME development ensued. The mid-1990s saw the emergence of broader policies directed at SMEs, such as assistance with marketing, technical development, finance and infrastructure. In 1996, the Small and Medium Industries Development Corporation (SMIDEC) was created as a specialized agency under the auspices of the Ministry of Trade & Industry (MITI). Newer programmes, such as the Industrial Linkage Programme (ILP) and the Global Supplier Programme (GSP), not only matched foreign and domestic enterprises, but also provided incentives to SMEs to develop the necessary capabilities for their engagement in advanced production processes and global supply chains. Created in 1996 under SMIDEC, the ILP first promoted selected manufacturing activities and then moved into service industries as well. This programme seeks to build MNC-SME linkages by offering tax incentives to SMEs producing eligible products, as well as to foreign affiliates who incur costs by helping to improve SME capabilities.

In 2003, in response to then new Prime Minister Abdullah's reordering of development priorities, a high-level National SME Development Council (NSDC) was created in 2004. In 2009, SMIDEC was officially transformed into Small and Medium Enterprise Corporation Malaysia (SME Corp). SME Corp now serves as the secretariat of the NSDC as well as the coordinator of SME programmes across all related ministries and agencies. This Council is chaired by the Prime Minister and comprises fifteen ministers and heads of four key agencies involved in the development of SMEs.

**Table 2**  
**Vendor Development Programme (VDP)**

Aims of the Programme	
	<ul style="list-style-type: none"> <li>• Provide opportunities for SME to participate in the subcontracting arrangement and other joint-venture related activities</li> <li>• Develop and strengthen the SME performance as the manufacturer and supplier of components, input materials, machinery, parts and supporting services to large corporations and MNCs</li> <li>• Vendors supply components and spare parts to the anchor companies - the large corporations or MNCs operating in Malaysia</li> <li>• In return, the anchor companies are directly involved in the development of the SME, particularly through technology transfer and by providing a stable market</li> <li>• This long-term contract will enable the vendors to grow into large corporations and also be able to penetrate the international market</li> </ul>
How it works	
Incentives for SMEs	<ul style="list-style-type: none"> <li>• Anchor provides a market for the products of SMEs, provides technical facilities to the vendors, such as in the area of training and quality improvement</li> <li>• The government provides various facilities such as soft loans and other financial support</li> </ul>
Incentives for MNCs	<ul style="list-style-type: none"> <li>• Anchors do not receive financial assistance under this programme</li> </ul>

Source: Masayuki (1999).

<sup>12</sup> Masayuki Kondo (1999), 'Improving Malaysian Industrial Technology Policies and Institution,' in Jomo K.S., Greg Felker and Rajah Rasiah (eds) *Industrial Technology Development in Malaysia: Industry and Firm Studies*. London: Routledge

Shortly after the creation of the NSDC, the Third Industrial Master Plan (IMP3) (2006-2020) identified SMEs as one of six targeted future growth areas. This recognition marked an important policy shift from developing large-scale Malaysian business groups to cultivating internationally competitive SMEs. This new policy priority then drove a rapid expansion of SME-related initiatives, as most ministries, relevant agencies and GLCs developed or enhanced programmes to aid SME growth in their area of responsibility. Effective policy coordination was imperative given that in 2007 there were 189 SME-specific programmes implemented by a combination of fourteen ministries and sixty agencies, spending RM4.9 billion to benefit 286,755 SMEs.

However, the government was not able to foster the rise of entrepreneurial domestic SMEs. Meanwhile, entrepreneurial non-Bumiputera SMEs were reluctant to invest in R&D, preferring to remain small-sized firms, for fear of expropriation of their firms through affirmative action, suggesting that social policies had hindered them from building on what they had learnt from their contact with MNCs. Inevitably, Abdullah had not been able to nurture entrepreneurial SMEs in spite of the numerous incentives he had produced for them. Furthermore, the small number of domestic firms that were entrepreneurial in terms of creating new technology brought into question the practice of selective patronage and the effectiveness of race-based targeting.

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## 6. Lessons learned and policy reforms

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It was not until the late 1990s and early 2000s, with the creation of SMIDEC in 1996 and the NSDC in 2004, that efforts were made to prioritize SMEs. SME development strategies entailed merely basic credit facilitation services, with focus primarily on large-scale industrialization and the attraction of foreign investors. When support for the sector was forthcoming, it was often selective, leaving local Chinese-owned SMEs to grow largely outside of these programmes.

While SMEs can benefit from linkages with MNCs, this requires a certain set of pre-existing capabilities in order to be attractive to foreign partners and in order to be able to absorb spillovers through this relationship. Malaysia's experience highlights this point. Under the VDP, SMEs were set up as suppliers to MNCs with little attempt to ensure their preparedness. Moreover, restrictions related to ethnicity limited the entry of many qualified firms. Partly as a result, the programme's Proton automotive project in particular has been unsuccessful, with control now under a firm from China who will probably limit local enterprise involvement. The more successful linkage initiatives in Malaysia appear to be those involving joint-capacity building (e.g., PSDC and some cases of ILP and GSP), where MNCs are assured of adequate suppliers

and given the chance to pool resources with the government to improve SME capabilities.

Evidently, to create and benefit from linkages, general SME capabilities must meet a certain threshold. This means that since SME sector initiatives have often given preference to Bumiputera SMEs, this policy requires urgent review. These preferences resulted in two negative effects, i.e. inhibiting the growth of entrepreneurial non-Bumiputera SMEs while discouraging FDI that might have provided linkage opportunities. History provides evidence of this. The restricted approach continued with minor adjustments until the mid-1980s when recessionary pressures brought some liberalization of affirmative action requirements in the manufacturing sector, a reform that spurred the development of domestic industries. In sum, the selection of SMEs based on non-economic criteria failed in many cases to bring along associated economic benefits and limited the growth of the SME sector.

The poor development of domestic SMEs draws attention to a crucial fact: no business, an SME or a business group, nurtured through state intervention has emerged as a leading Malaysian enterprise of global repute, as envisioned by the government since 1981. In 2016, no publicly-listed firm under majority ownership by a Bumiputera figured among the top 40 (see Table 3). Interestingly too, in spite of active privatization since the mid-1980s, there is no evidence of a once wholly-owned government enterprise that is now under the ownership and control of a private individual. Partially privatized companies, such as the utilities companies Tenaga Nasional, Axiata and Telekom, along with major banks such as Malayan Banking, CIMB group and RHB Bank and the plantations giant Sime Darby, figure among the country's largest enterprises. The GLICs have majority ownership of these huge enterprises, raising serious concerns about privatization as a policy mechanism to nurture enterprising privately-owned domestic firms.

Of equal concern too is that, compared to 1970, no manufacturing enterprise has retained a top 50 position. Prominent companies of old have fallen behind, suggesting that they had not invested in plant and equipment sufficiently enough to create new products or pursue new markets, with one possible exception, the Hong Leong group, a highly diversified enterprise.

When the list of top quoted firms in 2016 in Table 3 is compared with corporate equity ownership patterns in 2008 (see Table 1), the last time the Government released such figures, some major questions arise. There has been a perceptible fall in Chinese equity ownership figures, from its peak of 45.5% in 1990 to 34.9% in 2008, a decline of nearly 11 percentage points! This raises an important question: Have Chinese equity ownership figures fallen even further because they are reluctant to invest in the

economy? The fall in Chinese equity ownership draws attention to another issue about policies, that of property rights. The government has the capacity to take over privately-owned firms at will. This fear of government expropriation of private firms was exacerbated following the forced consolidation of the banking sector in 1999 when a number of Chinese families lost ownership and control of financial enterprises that they had long nurtured. A similar situation has been occurring in the property development and construction sector since 2009.

Under Najib's administration, in the 10th Malaysia Plan, 2010-2015, the Government revealed that it would persist with affirmative action, though it would now be, 'market-friendly'.<sup>13</sup> However, the 10MP did not indicate how affirmative action would be market friendly, apart from an assurance that the policy would no longer be abused through, 'patronage,' and, 'rent seeking.' Crucially, when the 11th Malaysia Plan, 2016-2020 was released, in its review of policies implemented under the 10MP, there was no mention of the effectiveness of this market-friendly affirmative action policy. In fact, the 11MP does not mention affirmative action at all! This is also probably why the 11MP did not reveal the latest ethnic-based corporate equity ownership figures.<sup>14</sup>

Important questions arise about the 11MP when reviewing this table. Why was this table, updated in all previous Malaysia Plans, omitted here? Why does the 11MP persistently refer to the imperative need to develop Bumiputera capital by 2020 but provides no feedback on the progress it has made on this front since 2008? Is this omission linked to the issue of poor levels of investment by domestic investors, a point alluded to in the 11MP?

Other important issues arise when reviewing Table 1. The Government's own figures indicate that corporate equity attributable to Bumiputeras has increased very minimally since 1990, from 19.2% to 21.9% in 2008. This issue raises

concerns about why the government continues to see affirmative action in business as a viable policy. Crucially too, there has been an appreciable increase in domestic corporate equity holdings by foreigners, from 25.4% in 1990 to 37.9% in 2008. This significant rise is particularly disconcerting given the fall in equity ownership by foreigners between 1970 and 1990, from 63.4% to 25.4%.

By the Government's own admission in the 11MP, there is a core need to promote research and development (R&D) as investment in this area has not been sufficient to generate technological upgrading that can enhance productivity and promote enterprise development. The Government's response to this problem is to now promote not merely R&D but also Productivity & Innovation (P&I). Meanwhile, the Government also stresses that it will persist with its endeavour to nurture Bumiputeras in business through affirmative action through its longstanding BCIC policy.

The figures in Tables 1 and 3 suggest that it is unlikely that the 11MP's R&D and P&I thrust as well as its BCIC agenda will be fruitful. These outcomes, that is, the ubiquitous presence of GLICs and GLCs, the need to support SMEs and the failure of big business groups to retain a dominant presence in the corporate sector, suggests the need for policies based on merit, with a review of the BCIC. The entrepreneurial capacity once so evident among domestic firms who had garnered manufacturing experience before the end of colonial rule appears to have stalled. While the Government has failed to nurture this entrepreneurial capacity, its policies have severely undermined these enterprises. Even though non-Bumiputera companies retain a prominent presence in the economy, most of them have not managed to develop the capacity to move up the technological ladder. Inadequate government support of entrepreneurial industry will only serve to further constrain the rise of domestic enterprises that could help reduce Malaysia's dependence on foreign companies to industrialize the economy.

<sup>13</sup> Malaysia. 2010, *Tenth Malaysia Plan, 2011-2015*, Kuala Lumpur: Government Printer

<sup>14</sup> Malaysia. 2015, *Eleventh Malaysia Plan, 2016-2020*, Kuala Lumpur: Percetakan Nasional Malaysia

**Table 3**  
**Top 50 Publicly-Listed Companies in 2016**

Rank	Company	Owner	Rank	Company	Owner
1	Malayan Banking Bhd	PNB	26	Westports Holdings Bhd	Gnanalingam Gunanath and Ruben Gnanalingam
2	Tenaga Nasional Bhd	Khazanah	27	Astro Malaysia Holdings Bhd	Ananda Krishnan
3	Public Bank Bhd	Teh Hong Piow	28	AMMB Holdings Bhd	EPF
4	Petronas Chemicals Group Bhd	Petronas	29	British American Tobacco M Bhd	Foreign
5	Sime Darby Bhd	PNB	30	YTL Power International Bhd	Yeoh family
6	IHH Healthcare	Khazanah	31	Gamuda Bhd	PNB
7	Maxis Bhd	Ananda Krishnan	32	IJM Corporation Bhd	PNB
8	Axiata Group Bhd	Khazanah	33	Malaysia Airport Holdings Bhd	Khazanah
9	Petronas Gas Bhd	Petronas	34	Sapura Energy Bhd*	EPF
10	CIMB Group Holdings Bhd	Khazanah	35	IOI Properties Group Bhd	Lee family
11	Digi.Com Bhd	Foreign	36	SP Setia Bhd	PNB
12	MISC Bhd	Petronas	37	Fraser & Neave Holdings Bhd	Foreign
13	Genting Bhd	Lim Family	38	Genting Plantations Bhd	Lim family
14	Hong Leong Bank Bhd	Quek/Kwek family	39	Dialog Group Bhd	EPF
15	IOI Corporation Bhd	Lee family	40	Batu Kawan Bhd	Lee Oi Hian and Lee Hau Hian
16	Genting Malaysia Bhd	Lim Family	41	Hartalega Holdings Bhd	Kuan Kam Hon and Kuan Kam Peng
17	Kuala Lumpur Kepong Bhd	Lee Oi Hian and Lee Hau Hian	42	MMC Corporation Bhd	Syed Mokhtar Shah
18	Petronas Dagangan Bhd	Petronas	43	Malakoff Corporation Bhd	EPF
19	Telekom Malaysia Bhd	Khazanah	44	Top Glove Corporation Bhd	Lim Wee Chai
20	Hap Seng Consolidated Bhd	Lau Cho Kun	45	BIMB Holdings Bhd	LTH
21	RHB Capital Bhd	EPF	46	AirAsia Bhd	Anthony Francis Fernandes and Kamarudin Meranun
22	PPB Group Bhd	Robert Kuok	47	Sunway Bhd	Cheah family
23	Nestle M Bhd	Foreign	48	Lafarge M Bhd	Foreign
24	YTL Corporation Bhd	Yeoh family	49	Press Metal Bhd	Koon Poh Ming and Koon Poh Keong
25	Hong Leong Financial Group Bhd	Quek/Kwek family	50	Alliance Financial Group Bhd	Foreign

*\*formerly known as SapuraKencana Petroleum*

# ► Intervention vs non-intervention: Education, TVET and the labour market

## 1. Introduction

Malaysia's push to become a high-income, advanced, developed nation by 2020 faces the challenge of creating a high-skilled, advanced, developed workforce able to produce high value-added goods and services. This aim meets its policy challenge in the realm of vocational training and skills development.

Vocational training prepares people for work, usually in a trade or a craft. Trade and craft work is usually manual or practical and training is commonly non-academic and skills-based, focussed on a specific trade or occupation. However, vocational education prepares people for more general professional careers as technicians in many fields such as accountancy, architecture, engineering, law, medicine and nursing or even social care. For this reason, the more general term of technical and vocational education and training (TVET) is often used to incorporate vocational training as part of a wider conception of education for higher skills and learning outcomes.<sup>15</sup>

In Malaysia, almost all vocational education takes place in a classroom setting followed by on-the-job-work placement. Students learn trade skills and trade theory from accredited professors or established professionals and then spend time in industry to apply these skills to finish their training. By contrast, in Germany, vocational education takes place in a balanced, 'in-work, in-college,' system where trainees work and study at the same time, gaining work experience and technical skills in a more blended format.

The overall aim of the German the dual-vocational training system is to develop a skilled labour force which promotes growth and innovation, but it also has three additional core aims: (1) to promote economic innovation, high-skills and productivity; (2) to enhance social integration; and (3) to encourage individual development.<sup>16</sup> These aims are all consistent with the Social Market Economy (SME) approach and combine the interests of the key SME stakeholders: (1) the state at federal and local level; (2) large and small companies within the business community; and (3) society at large, particularly young people entering the workforce.

In addition, rather than being focused simply on employment creation and employability, the German dual-vocational training system aims to achieve multiple policy objectives and address a broad range of stakeholder concerns in social as well as economic issues, particularly in addressing unemployment, personal empowerment and social inclusion.

In this section, our aim is to evaluate whether a dual-vocational system, modelled on that of Germany, could offer solutions to the issues faced by Malaysia in its target of achieving high-income, advanced nation status by 2020. In addition, we aim to see whether the dual-vocational system can help sustain growth beyond 2020, while balancing the interests of stakeholders in social as well as economic terms.

We will focus on three main areas: (1) high youth and graduate unemployment in Malaysia and the Government's policy response; (2) low youth and graduate unemployment in Germany and the role of the dual-vocational education system; and (3) the prospects for Malaysia to adopt a similar system including the experiences from pilot studies here and the challenges to implementing such changes more widely.

## 2. Malaysia: The Background

### 2.1 High youth and graduate unemployment

Generally speaking, Malaysia records low unemployment and for many years the unemployment figure has remained at around 3% of the total workforce, as measured by official statistics. As in many other countries, official figures mask the underlying nature of the challenges of unemployment. In Malaysia, this includes under-reporting of significant under-employment, involving also age cohort variations.

Under-reporting arises because many Malaysians take time out of work without registering as unemployed, for example in order to qualify for unemployment benefits. This means that many instances of unemployment, sometimes lasting for many months or years, are not recorded in official statistics. Under-employment arises when people take jobs for which they are over-qualified, often during job-search periods and so their skills and capabilities are not fully utilised. Age cohort variations arise when the incidence of unemployment varies according to age groups. In Malaysia, this is a particular problem for younger workers.

According to a report by Bank Negara, the Malaysian central bank, youth unemployment among those 15-24 years old was 10.7% in 2015, compared to 3.1% aggregate unemployment. The youth age group is only one-third of the total labour force, but makes up more than 60% of the unemployed.<sup>17</sup>

In terms of educational attainment, 16% of the youth cohort has tertiary education, compared to 28% of the total labour force, but tertiary education does not appear

<sup>15</sup> UNESCO-UNEVOC "What is TVET?" <http://www.unevoc.unesco.org/go.php?q=What+is+TVET> accessed 10 August 2017

<sup>16</sup> Euler, Dieter (2013) "Germany's dual vocational training system: a model for other countries?" Bertelsmann Stiftung, Gütersloh

<sup>17</sup> Dian Hikmah Mohd Ibrahim and Mohd Zaidi Mahyuddin, (2016) "Youth Unemployment in Malaysia: Developments and Policy Considerations" Bank Negara Malaysia, Annual Report 2016, pp.99-106

to improve employment prospects. Among those in the youth cohort with tertiary education, 15.3% were unemployed compared to 9.8% for those with non-tertiary education.

The situation appears worse among university graduates. The annual universities tracer study reported that 23.9% of university graduates were unemployed six months after graduation in 2015.

Numerous reasons for low graduate employment have been posited. Industry evidence suggests many of the reasons relate to poor skills and work-place preparedness. For example, a survey by Grant Thornton in 2014 reported that 62% of Malaysian firms have difficulty finding skilled workers and 48% identify lack of talent as a constraint for future growth.<sup>18</sup>

Other industry surveys cite poor workplace preparation during study in schools, colleges and universities. A Jobstreet survey in 2015, cited the main reasons why employers do not hire recent graduates as: unrealistic salary expectations (68%); poor English (65%); choosy about job / company (60%); poor communication skills (60%); and poor character / attitude (58%).<sup>19</sup> The same survey reported the top characteristics companies look for are: leadership skills, which were cited by 39% of companies; high academic scores (25%); extra curricula activity (20%); and volunteering (16%). This survey suggested that these key features are lacking in the current education system.<sup>20</sup> Such is the concern about unemployment and under-employment that a national policy plan for graduate employability has been devised by the Higher Education Ministry.<sup>21</sup>

## 2.2 Low graduate salaries and early-life debt

Even among those who are able to find work, the jobs that they find are often low-paid and may not require higher education qualifications. According to Bank Negara, 53.7% of graduates earn less than RM2,000 per month on graduation, which means that even after four years of study they would still be eligible for in-work welfare support through the BR1M (Bantuan Rakyat 1 Malaysia) cash transfer scheme. Average graduate salaries have been stagnant for almost 10 years.<sup>22</sup>

After graduation, half of tertiary-educated workers earned less than RM4,042 per month in 2016, compared to RM1,703 overall. The average salary of tertiary-educated workers was RM3,854 per month, compared to RM2,463 overall.<sup>23</sup>

## 2.3 Education-related debts

Many tertiary students finance their studies through the

National Higher Education Fund Corporation (Perbadanan Tabung Pendidikan Tinggi Nasional or PTPTN). The number of loans granted to students in the public and private sectors is roughly equal; in 2014, it was 52.9% and 47.1% respectively. In financial terms, the share of PTPTN loans going to students in the private sector has increased every year from 2011-2014, reaching an all-time high of 61.6%.

Of immediate concern is the low repayment rate of PTPTN loans which has put significant financial pressure on the system. PTPTN has taken drastic steps to improve the repayment rates including credit-blacklisting those who refuse to service their loans and preventing them from going overseas. Of the RM12.6 billion worth of PTPTN loans which had to be repaid at the end of 2014, only 45%, or RM5.7 billion, had been recovered. The poor rate of repayment has put a tremendous strain on the finances of PTPTN, forcing it to seek fresh funds from the market through bank loans and bond issues to make new loans.<sup>24</sup>

The absence of a system for students to work while studying is a significant cause of the high level of debt, while the repayment difficulties are linked to the low salaries of graduates, often from non-graduate work, after completion of their studies. This has a systemic impact because it reduces financial resources in higher education, particularly in the private sector, which in turn impacts education quality.<sup>25</sup>

## 2.4 Other forms of debt and salary outcomes

Research by the Asian Institute of Finance (AIF) in Kuala Lumpur showed that 75% of Gen Y professionals aged 20-33 have at least one form of long term debt and 37% have more than one loan. Around 40% of the debt is education loans. Many young people are now living on low salaries and relying on expensive personal loans and credit cards to fund day-to-day living.<sup>26</sup>

The combination of years of study without income, tuition fees and low graduate salaries raises the question of whether Malaysia's move toward a more vocational system makes for a worthwhile investment.<sup>27,28</sup> Research by the Penang Institute showed that graduates can generally earn a premium above non-graduates in similar types of work. However, in some industries, including the service industry and general jobs, they earn around 12% less. Although most students break even between 4-6 years after graduation (or 8-11 years after the end of schooling), in fact, it is around 10 years after graduation before they catch-up with the investment return earned by non-graduates who have been earning income since leaving school. Health and engineering, precisely the type of courses that lend themselves to work-based training, take longer than this because of the course length and costs.<sup>29</sup>

18 Reported in: *New Straits Times* (2014) "High ratio of jobless youths to overall unemployment in M'sia: World Bank"

19 Jobstreet (2015) "Employers: Fresh Graduates Have Unrealistic Expectations," December 2015 (<http://www.jobstreet.com.my/career-resources/employers-fresh-graduates-unrealistic-expectations/#.VzzvduRXw20>)

20 A report for Talent Corp by the World Bank in 2014 also identified employers' unwillingness to offer the level of compensation needed to meet the expectations of recent graduates and attract the required talent.

21 Kementerian Pendidikan Tinggi Malaysia (2012): *National Graduate Employability Blueprint, 2012-17*

22 Dian Hikmah Mohd Ibrahim and Mohd Zaidi Mahyuddin, (2016) "Youth Unemployment in Malaysia: Developments and Policy Considerations," *Bank Negara Malaysia, Annual Report 2016*, pp.99-106 – Chart 5, p103



## 2.5 Changes in the labour market

High graduate unemployment and under-employment is a general trend in many countries and is not unique to Malaysia. Table 1 presents figures from the International Labour Organisation (ILO) for a range of countries which show that youth unemployment is generally higher than overall unemployment; and, in many countries in Asia, unemployment among tertiary graduates exceeds that among those without tertiary education. In developed countries, although youth unemployment is generally higher than the overall level, graduate unemployment among the youth cohort is generally lower than for non-graduates.

**Table 1**

**Youth Unemployment Rates (%) by Educational Attainment, 2016**

	Youth (15 -24 years old)		Overall
	Tertiary	Non-tertiary	All Levels
Indonesia	24.5	21.4	5.6
Philippines	20.1	13.3	5.5
Vietnam	18.2	4.4	2.1
Singapore	17.4	12.3	1.8
Malaysia	15.3	9.8	3.4
Thailand	13.8	2.6	0.6
Korea	11.0	10.3	3.7
Japan	4.7	9.0	3.1
Germany	4.4	30.1	4.1
Australia	5.9	12.1	5.7
UK	8.8	16.3	4.8
France	15.9	27.5	10.1

Source: International Labour Organisation, 2016 and Bank Negara Malaysia 2016

Care should be taken when looking at these statistics. For example, in Britain, recent graduate unemployment was 11.9% six months after graduation but fell to 3.9% three years after graduation, compared to 9.0% for non-graduates.<sup>30</sup>

This in part is due to changes in the labour market in which, counter to the popular view, a secular decline in demand for knowledge-intensive workers requiring a degree has been identified since 2000.<sup>31</sup> For example, in the United States around 40% of young people study for degrees, but by 2010 only 20% of jobs required a bachelor's degree. In contrast, 43% required a high-school education and 26% did not even require that.<sup>32</sup>

In Malaysia, around 80% of new jobs created in the period 2001-15 were of low- and mid-skill levels, whereas tertiary level graduates accounted for more than half of the new entrants into the labour market.<sup>33</sup>

A key factor may lie in the automation of knowledge-intensive jobs which may affect over 47% of existing jobs globally. Knowledge-intensive but repetitive routine jobs such as accounting and auditing, insurance underwriting and credit analysis are most likely to be automated. Hands-on jobs in hospitality and services and in public services such as firefighting, neither of which require higher education qualifications, are least likely to be automated.<sup>34</sup>

In more general terms, many people also question the value-added of a university education or rather the form of education provided within a traditional university setting. US research has suggested that after two years at university, around 45% of students showed no significant improvement in their cognitive skills. In some courses, such as business administration, students' cognitive abilities actually declined in the first few years and after four years, 36% of students had not improved in their ability to think and analyse problems.<sup>35</sup>

A recent YouGov survey showed 37% of UK employees think their jobs make no meaningful contribution to the world at all. A separate survey in the UK in 2016 reported that 49% of university graduates believe that they could have achieved similar income and career goals without going to university and 37% regretted higher education because of the debt level on graduation.

## 3. Malaysia's response

### 3.1 Higher education and vocational reform

In order to address some of these issues, Malaysia has gone through a series of reforms in tertiary education, including in the higher education and the TVET sectors. The National Higher Education Strategic Plan 2007 (Pelan Strategik Pengajian Tinggi Negara (PSPTN) set reform in phases:

**Phase I (2007-2010) Laying the Foundation;**  
**Phase II (2011-2015) Strengthening and Enhancement;**  
**Phase III (2016-2020) Excellence; and**  
**Phase IV (Beyond 2020) Sustainability**

Phase III was superseded by the Malaysia Education Blueprint 2015-2025 (Higher Education) (MEB), launched in April 2015. This important and far-reaching reform programme has introduced ten strategic shifts, divided into five enablers and five outcome targets.<sup>36</sup>

There is a general view that the shifts in the MEB represent a move from a scholastic vision of higher education involving: (1) the character, qualities, activity or attainments of a scholar through learning; (2) the methods, discipline and attainments of a scholar or

23 Department of Statistics Malaysia, *Salaries & Wages Survey Report 2016*

24 Ong Kian Ming, Jonathan Yong, Chew Khai Yen and Dickson Ng (2016) "The sustainability of the PTPTN loan scheme," Research Paper, Penang Institute, 2016

25 Paul Lim and Geoffrey Williams, (2015) "Crisis ahead for private higher education – and solutions," *Penang Monthly*, pp. 30-36, May 2015

26 Raymond Madden and Wan Nursofiza Wan Azmi (2015) "Bridging the Knowledge Gap of Malaysia's Millennials," *Asian Institute of Finance*

27 Geoffrey Williams (2016) "Reforming Higher Education in Malaysia: Scholarship or Vocationalism?" A report for the Penang Institute on the investment returns on higher education institutions in Malaysia, May 2016

28 Kamles Kumar (2016) "High fees, low salaries make degrees poor investment, academics say," *Malay Mail Online*, 21 May 2016

29 Geoffrey Williams (2017) "A mortar board does not guarantee employability," *Penang Monthly*, February 2017

30 DBIS (2015) *Graduate Labour Market Statistics 2015*, London UK: Department for Business Innovation and Skills

31 Beaudry, David, A. Green and Ben Sand (2013) "The great reversal in the demand for skill and cognitive tasks," *London Scholl of Economics*, November 2013

scholars; and (3) attaining knowledge resulting from study and research in a particular field. This is compared to a more vocational view of higher education involving: (1) the stressing of vocational training in education; (2) using educational philosophies or learning methods, claiming that the content of the curriculum should be governed by its occupational or industrial utility and marketability as human capital; and (3) the practice or policy of requiring vocational training of all college or high-school students. In addition to reforms of TVET, to be discussed below, the main shifts driving a vocationalist approach include:

**Shift 1 – Holistic, Entrepreneurial and Balanced Graduates**

**Shift 3 – Nation of Lifelong Learners**

**Shift 4 – Quality TVET Graduates**

**Shift 5 – Financial Stability**

**Shift 9 – Globalised Online Learning**

**3.2 TVET reform in Malaysia**

In the Malaysian education system, students are essentially, 'streamed,' around the age of 15/16 years old. They enter an, 'Academic Stream,' if their grades are good,

a, 'Technical Stream,' if their grades are moderate, or a, 'Vocational Stream,' if their grades are poor. In all other cases, they enter an, 'Unskilled Stream.' There is very little option for. 'cross-streaming.' Those that fall out of the system tend to stay out of the system.

The most recent reforms of Malaysia's TVET system within the MEB focus on four strategy aims which are summarised in Table 2. These aim to (1) improve the process of industry-relevant curricula by including companies in curriculum design; (2) reform the delivery system for TVET, particularly through the publicly-funded polytechnics; (3) streamline qualifications and accredit them to international standards; and (4) rebrand TVET to remove the "Cinderella-syndrome" in which vocational training is seen as less valuable and of lower status than academic studies.

As part of this process, Prime Minister Najib Razak is scheduled to launch Technical and Vocational Education and Training (TVet) Malaysia on 27 September 2017. TVet Malaysia is the Ministry of Human Resources' (KSM) branding initiative for its new TVET programmes.

**Table 2**  
**Reform of Malaysia's TVET System in the MEB 2015-25**

	<b>Wave 1 (2015)</b>	<b>Wave 2 (2016-2020)</b>	<b>Wave 3 (2021-2025)</b>
<b>Strategy A:</b> Enhancing industry-led curricula	<ul style="list-style-type: none"> <li>Establish partnerships with industries through GLCs and economic corridors implementing authorities;</li> <li>Develop industry-led curricula and a TVET programme bank; and</li> <li>Embed elements of industry certification in TVET curricula.</li> </ul>	<ul style="list-style-type: none"> <li>Increase student internships and apprenticeships;</li> <li>Set up industry training facilities</li> <li>Introduce monetary incentives for industry-academia engagements;</li> <li>Intensify recruitment of experienced practitioners for adjunct staff; and</li> <li>Enhance community-industry academia and international linkages.</li> </ul>	<ul style="list-style-type: none"> <li>Increase the number of partnerships under the PPP programme;</li> <li>Increase the number of TVET programmes pre-approved by industries; and</li> <li>Increase programmes offered through Work-Based Learning (WBL) in community colleges, polytechnics and MTUN.</li> </ul>
<b>Strategy B:</b> Creating an integrated and coordinated governance structure	<ul style="list-style-type: none"> <li>Enhance the roles of the Ministry TVET taskforce; and</li> <li>Develop a comprehensive plan for establishing the statutory status of Politeknik Malaysia and for strengthening curricula, industry partnerships, IT connectivity and infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>Institutionalise outcome-driven approach to optimise TVET provision;</li> <li>Apply statutory status for at least three polytechnics; and</li> <li>Increase percentage of polytechnic lecturers and trainers who have industry experience and professional certifications.</li> </ul>	<ul style="list-style-type: none"> <li>Implement statutory status for all polytechnics;</li> <li>Benchmark the Ministry's TVET providers with regional and international organisations; and</li> <li>Improve cost-efficiency and percentage of income generated at all Ministry TVET providers.</li> </ul>
<b>Strategy C:</b> Streamlining qualifications	<ul style="list-style-type: none"> <li>Collaborate with other ministries and agencies on a single National Qualification Framework for TVET; and</li> <li>Develop a comprehensive plan for international recognitions.</li> </ul>	<ul style="list-style-type: none"> <li>Align TVET programmes with the latest national qualification framework;</li> <li>Enhance effective and flexible learning pathways at all Ministry TVET providers to optimize talent potential, acquire recognition and facilitate articulation between various pathways and qualifications.</li> </ul>	<ul style="list-style-type: none"> <li>Acquire international recognition from relevant bodies and institutions; and</li> <li>Implement a seamless articulation system for TVET.</li> </ul>
<b>Strategy D:</b> Rebranding of TVET	<ul style="list-style-type: none"> <li>Identify and introduce high-tech and high value programmes;</li> <li>Rebrand TVET as an attractive choice for students and parents; and</li> <li>Enhance international reputation and branding e.g. APACC and Dublin Accord;</li> </ul>	<ul style="list-style-type: none"> <li>Create a database of success stories;</li> <li>Develop a comprehensive plan for articulation between programmes or levels or institutions; and</li> <li>Develop a funding mechanism to finance international collaboration and student/staff exchanges.</li> </ul>	<ul style="list-style-type: none"> <li>Set up a national comprehensive data centre for TVET which includes data on students, staff, courses, graduate employability, alumni, international students etc.</li> </ul>

Source: Malaysia Education Blueprint 2015 - 2025 (Higher Education), Shift 4 Quality TVET Graduates, 4-11

32 Alexander Cockburn (2012) "The Myth of the Knowledge Economy," Counterpunch, March 23, 2012

33 Dian Hikmah Mohd Ibrahim and Mohd Zaidi Mahyuddin, (2016) "Youth Unemployment in Malaysia: Developments and Policy Considerations," Bank Negara Malaysia, Annual Report 2016, pp.99-106 – Chart 8, p103

34 Carl Benedikt Frey and Michael A. Osborne (2013) "The future of employment: How susceptible are jobs to computerisation?" University of Oxford, Oxford Martin School, September 17, 2013

35 Richard Arum and Josipa Roksa (2011) Academically Adrift: Limited Learning on College Campuses, Chicago, IL.: Chicago University Press

36 Kementerian Pendidikan Malaysia (2014): Malaysian Education Blueprint: Higher Education, April 2015

### 3.3 TVET outcomes in Malaysia

Despite many schemes to encourage vocational education, the percentage of students in post-secondary TVET courses in Malaysia is low but, is targeted to rise from 17% in 2012 to 26% in 2025.<sup>37</sup> This compares to almost two-thirds of post-secondary students in TVET in Germany.

The level of unemployment among vocational graduates is lower, according to official statistics, at around 18%, compared to around 25% for all graduates.<sup>38</sup> Nonetheless, as mentioned above, there is still a concern among employers that many graduates, even those in the vocational stream, are not industry-ready. This opens up the need to consider and evaluate alternative systems such as that in Germany.

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## 4. The German TVET system – dual-vocational education

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### 4.1 Aims and vision

In the German education system, students are not streamed so rigorously. Students can choose to enter an, 'Academic Stream,' a, 'Technical Stream,' or a, 'Vocational Stream.' There are many options for, 'cross-streaming.' Those who fall out of the system can find ways of re-entering the system. The Secondary II stage allows for work-based training involving paid employment mixed with college studies to gain industry accredited qualifications.

Work-based training has a long tradition in Germany, dating back to the Middle Ages. However, the country's modern-day dual-vocational system follows from the 1969 Berufsbildungsgesetz (BBiG), or Vocational Training Act 1969 and the Vocational Training Promotion Act of 1981 (Ber-BiFG – which was revised in 1994). These were combined, modernised and reformed in the 2005 Gesetz zur Reform der beruflichen Bildung (Berufsbildungsreformgesetz - BerBiRefG). The 1969 Act created the modern form of the German dual-vocational training system which has been the central pillar for training, recruiting and retaining high-skilled employees, with various modifications over the last 48 years.

Each year, between five and six hundred thousand young people, around two-thirds of the youth cohort, follow this route. As a result, Germany has a constant stream of well-trained, skilled entrants into its workforce.

The key features of the system can be seen from its aims and vision, which are summarised in Table 3. The system has been structured to provide direct work experience and skills, within a genuine working environment, to allow trainees to fully understand the nature of their work, to acquire skills required for their chosen occupation and also to appreciate in-work social relationships. Under this system, they also develop a sense of maturity and independence which make them "work-read" by the time they complete their education.

The creation of the dual-vocational system involves a balance of stakeholders from government at state and federal level, training providers and industry people, including from representative groups such as the Chambers of Commerce. This means that there is a system for investment and commitment from all key stakeholders and a process for collaboration on the development of curricula and its implementation.

Finally, the need for central planning and highly regulated course provision is reduced by a market-driven approach in which there is a direct link between training providers and companies needing trainees. This means that the supply and demand is determined by an efficient market process.

### 4.2 Structure and processes

The dual-vocational system promotes and supports cooperation between two learning venues, in industry and in vocational schools, which both play a key role in work-based training. The curricula for industry and vocational school training are developed jointly and are coordinated, regulated and accredited systematically when drafting or modernizing regulations governing training for approved occupations.

Since small and medium-sized enterprises are key stakeholders in this process, they benefit directly from cooperation with other stakeholders in education and training, including larger companies and external institutions. Chambers of Commerce also play a key role in looking after and supervising training, in the interests of their members. Such oversight involves preparing interim and final examinations and developing and promoting further training and vocational retraining to ensure that skills can be constantly updated and renewed (see Table 4).

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<sup>37</sup> Kementerian Pendidikan Malaysia (2014): *Malaysian Education Blueprint: Higher Education, April 2014*

<sup>38</sup> Kementerian Pendidikan Malaysia: *Perangkaan Pendidikan Negara: Sektor Pengajian Tinggi 2013 (Ministry of Education: National Education Statistics: Higher Education Sector)*

**Table 3**  
**Summarising the German system: Aims, vision and regulation**

<p><b>Vocational training – aims and vision</b></p>	<ul style="list-style-type: none"> <li>• Practical training is in-work, theoretical training and general education is provided in vocational schools one or two days a week</li> <li>• The provision of knowledge and skills is linked to acquiring the necessary job experience</li> <li>• Training proceeds under the same conditions that trainees will encounter when practising their chosen occupations</li> <li>• Training on the job is more than just a process of institutionalised and organised learning:             <ul style="list-style-type: none"> <li>• Trainees are able to learn to cope with the constantly-changing demands of the job</li> <li>• They can appreciate the variety of social relationships that exist in the work environment</li> <li>• Learning by doing gives a sense of achievement and provides a special source of motivation for the trainee</li> <li>• It promotes independence and a sense of responsibility</li> <li>• By tackling concrete tasks under real working conditions the trainee can show evidence of the knowledge and skills he has acquired and can himself experience the success of his efforts</li> </ul> </li> </ul>
<p><b>The Vocational Training Act – governance and regulations</b></p>	<ul style="list-style-type: none"> <li>• That the standards and rules for vocational training were set up by the self-governing economic bodies including the Guilds and the Chambers of Commerce</li> <li>• The 1969 Vocational Training Act (and amendments) brings together relevant regulations contained in other legislation and gives the force of law to much that had until then been regulated by the statutes of the Chambers</li> <li>• The Vocational Training Act regulates more than just the training of young people after their period of compulsory school – it includes initial training, further training and vocational retraining</li> <li>• The Vocational Training Act does not apply to vocational training schools – these are regulated by the member states of the Federal Republic (the "Laender")</li> <li>• There a very extensive labour law component – the relationship between employer and trainee is based on a civil law training contract which is subject to the legal principles and provisions governing contracts of employment</li> <li>• The employer can decide whether he wishes to take on trainees and has a say over the people with whom he concludes a training contract. The same applies to the trainees</li> <li>• Trainees are not directed into specific occupations: the labour offices give vocational advice and help to find training places for prospective trainees</li> <li>• The Chambers also advertise current vacancies in the training companies</li> </ul>
<p><b>Training and the labour market</b></p>	<ul style="list-style-type: none"> <li>• There is a direct link between training capacity and the demand for skilled labour through the labour market</li> <li>• There is no need for state planning or regional or nationwide planning</li> <li>• There is a constant exchange between training providers and companies, so that adjustments are effected via the labour market</li> <li>• Expenditure on training is operating expenditure and so is reflected in company costs</li> </ul>

Source: Derived from Hamburg Chamber of Commerce  
 (<https://www.hk24.de/en/produktmarken/training/vocational-training-dual-system/1147578>)

**Table 4**

**Summarising the German system: Aims, process, facilities and the role of Chambers**

<p><b>The process of training</b></p>	<ul style="list-style-type: none"> <li>• The initial training provides a broad basic preparation for an occupation and the necessary technical abilities and knowledge to engage in a skilled form of occupation upon completion</li> <li>• There must be a systematic training programme which must adapt to technical, economic and social requirements and changes</li> <li>• Initial training must also enable a trainee to acquire the necessary occupational experience</li> <li>• Federal ministers issue training regulations specifying the name of the approved occupation, the period of training – generally between two and three years and the abilities and knowledge to be gained from the training</li> <li>• The training regulations are issued together with an annex, giving guidelines on the systematic presentation of the syllabus and timetable for training</li> <li>• Training content is set out in the form of learning objectives that are easily understood by the trainee and employer</li> <li>• The syllabus and timetable, including learning objectives and purpose of the training, must be set down in writing in the training contract</li> </ul>
<p><b>The facilities and forms of training</b></p>	<ul style="list-style-type: none"> <li>• Many medium- and large-scale enterprises have installed special training workshops</li> <li>• For those firms that are too small to operate their own facilities, the Chambers and professional associations have established a number of training workshops which are used by a range of firms</li> <li>• Attendance at the vocational training schools, is compulsory for every trainee for twelve hours of instruction a week</li> <li>• Vocational schools are run by State Governments</li> <li>• Instruction focuses on the occupation in question and is generally given in classes specialising in one occupation</li> </ul>
<p><b>Tasks of the Chambers</b></p>	<ul style="list-style-type: none"> <li>• Looking after and supervising training matters</li> <li>• Interim and final examinations</li> <li>• Further training</li> <li>• Vocational retraining</li> </ul>

Source: Derived from Hamburg Chamber of Commerce (<https://www.hk24.de/en/produktmarken/training/vocational-training-dual-system/1147578>)

**4.3 TVET outcomes in Germany**

The German labour market has often been characterised as having high unemployment levels. For many years, particularly after reunification in 1990, unemployment as measured by official statistics, had remained around 10% of the total workforce. However, in recent years unemployment has fallen considerably, from around 11.2% in 2005 to 4.1% in 2016. While youth unemployment is higher than overall unemployment at 7.1% in 2016, graduate unemployment is very low at only 4.4%.<sup>39</sup>

In addition to the general employment profiles, TVET outcomes in Germany are associated with relatively high graduate salaries and relatively low graduate debt because trainees are paid during their training and do not start full-time work on the lowest entry-level salaries.

**5. Scope for dual-vocational training in Malaysia**

In Malaysia, a pilot programme based on the German dual-vocational system was established by the Malaysian-German Chamber of Commerce and Industry

(MGCC) in cooperation with the Department of Skills Development in the Ministry of Human Resources (MOHR), the German-Malaysian Institute (GMI), the Penang Skills Development Centre (PSDC) and the Penang Institute (PI).<sup>40</sup> The programme, called German Dual Vocational Training (GDVT), began in June 2014 and is based on German training standards, with a combination of 25% theoretical and 75% practical training. It currently offers work-based programmes in areas such as Industrial Management, Logistics Operation Management and Mechatronics.

Qualified candidates must possess basic school-level certificates (SKM 2 & 3, SPM, STPM, or equivalent) and a good command of English. During their programme, trainees benefit from high-quality, tuition-free, professional training and a monthly training allowance negotiated with their employer. Upon completion of their programme, they will be awarded an Advanced Skills Diploma (DLKM / Level 5 National Occupational Skills Standard (NOSS)) and a German Chamber (AHK) Certificate and will have access to career opportunities with multinational corporations.

A typical programme offers a three to three-and-a-half

<sup>39</sup> Source: International Labour Organisation, 2016 and Bank Negara Malaysia 2016

<sup>40</sup> Source: Malaysian-German Chamber of Commerce and Industry (MGCC) (<http://www.malaysia.ahk.de/en/dual-training/dual-vocational-training/>) accessed 10 August 2017

years training contract, based on 25% theoretical training at the training institute, the German-Malaysian Institute (GMI) and Penang Skills Development Centre (PSDC) and 75% practical in-work training based in Malaysia, at one of the partner companies which include B. Braun, Infineon, BOSCH, DB Schenker, Jowat, Mühlbauer and TÜV Rheinland.

As in Germany, companies joining the programme can create a pool of qualified professionals with practical skills and competencies as well as sound theoretical knowledge. They can also leverage on industry-specific skills and qualifications acquired through an in-work training environment and actual genuine commercial experience. The programme also reduces recruitment and settling-in cost and helps companies to retain trainees within the company who are familiar with its products, strategies and working environment.

The scheme also offers an interesting balance of stakeholder involvement, with the MGCC serving as the lead coordinating organisation taking responsibility for quality assurance and certification under German accreditation. There is active involvement of the participating companies and the vocational schools, as well as support from Federal and State-level ministries, which balances state-industry-employee relations under one system.

In Penang, the State Government supported the GDVT Programme with a RM2 million scholarship scheme. The programme is industry-driven and began with a Mechatronics curriculum. The overall vision is to support the growth of local industry, up-skill the existing workforce and school leavers with international-level skills and competencies, promote higher efficiency and productivity and reduce dependence on foreign experts and workers in the long run.

Some have questioned the full impact of the programme and also highlighted that it does not follow the German system fully because it relies on state and federal financial support. So, the commitment of the companies is not based on their direct investment in the process. Nonetheless, although the scheme is small, with intakes between 20-25 students, the feedback from trainees and companies has been positive. The Malaysian government has also recognised the importance of dual training. In the 11th Malaysia Plan, in 2015, it announced plans to make the, 'Malaysian Meister,' the premium diploma level in vocational education.

Trainees report that they feel more confident and

independent, based on the responsibility levels they attain in the workplace, while company trainers see their trainees as an integral part of their team.<sup>41</sup> As the first cohorts of the programme complete their studies, research on the full impact of the GDVT in Malaysia would be justified.

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## 6. Opportunities and challenges

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### 6.1 Benefits of a dual-vocational system in Malaysia

The benefits of a shift to a dual-vocational system have been mentioned above but can be summarised in three core features relevant to the Malaysian context. First, from the perspective of learning outcomes, the dual-vocational system allows trainees to benefit from high quality, industry-determined, technical education which is directly relevant to their chosen occupation. At the same time, the balance of in-work and college-based study helps trainees to gain valuable workplace experience and socialisation which produces more mature, work-ready graduates at the end of the period of study. This is something that Malaysian employers have been calling for over many years.

Second, the ability to earn a salary while studying reduces the need to finance tertiary education from savings and loans. This means that graduates are not burdened with debt at an individual level and the system as a whole is not subject to financial risk due to low repayment rates of student loans. This would go a long way to addressing the financial constraints on the Malaysian tertiary system.

Third, by shifting vocational training into balanced in-work and vocational college courses, universities are relieved of the need to vocationalise their curriculum and can focus on scholarly higher learning objectives such as reflective, critical, analytical study and higher level research and development. This would be a valuable shift in Malaysia's aim to create world-class universities.

More widely, small and medium-sized enterprises benefit from approved curricula and recruitment processes regulated by a government-industry-employee consensus. This in turn improves employability and addresses social as well as economic concerns.

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<sup>41</sup> Dual Vocational Training in Malaysia, *Malaysia Insights*, 16 September 2016 (<http://www.malaysia-insights.com/dualvocational/>) accessed 10 August 2017

## 6.2 Challenges of a dual-vocational system in Malaysia

The export of the German dual-vocational system has often proved unsustainable because of local challenges.<sup>42</sup> In the Malaysian context, these can be summarised in three core issues. First, is the need to change mindsets in relation to TVET in Malaysia, which the MEB goes some way to addressing. One of the biggest challenges is the view held by many Malaysian employers that training for skills is seen as a private good not a public good. Employers are often reluctant to train their employees in transferable, accredited programmes for fear that they will ask for higher salaries or will move jobs once the training is complete. Bonded training, in which employees are required to work for companies on completion or to repay training fees if they leave, is still very common in Malaysia. Resources available through the Human Resources Development Fund (HRDF), either through the HRDF levy on companies or HRDF special schemes, are often unclaimed.

Second, there is a need to understand that changes in the labour market have an impact on the dual-vocational system and how it is perceived. This is also an issue of debate in Germany. For example, training regulations might prove onerous for many companies and the training itself can be very expensive and may require subsidies and support from the federal and state governments, as in the case of the current GDVT scheme in Malaysia.

In addition, technical requirements for some occupations have become more complex. Many high school graduates do not gain the prerequisite level of education in secondary school and may require aptitude tests or pre-training before they are accepted. This makes positions more difficult to obtain and more competitive. Added to this is the increasingly specialised nature of many firms which may restrict their ability to train apprentices in all of the areas required for a comprehensive education.

Two solutions have been suggested in the, 'contractual education,' programme (Auftragsausbildung) and

state-run courses. The first allows companies to train apprentices who they do not plan to employ so that the contract is not an employment contract. The second involves training outside of companies in schools and colleges but reduces the in-work training benefits that are an important feature of the full dual-vocational system. To address this, the Hamburg Chamber of Commerce, for example, is pressing for reform of the vocational schools and colleges to increase the influence of the wider economy on their structure, conduct and performance.

Third, the implementation of a dual-vocational system presents significant challenges from a practical perspective. The MEB goes a long way to identifying these issues and to positing some policy solutions, but it remains based on a traditional classroom system of learning and qualification assessment. Schemes such as the 2U-2I degree programmes combine two-years of study at university and two-years in industry, but do not provide the balanced, 'in-work-in-college,' programmes of the German dual-vocational system. As such, they do not leverage fully on the benefits of the German system.

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## 7. Conclusions

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The reforms of Malaysia's TVET system are timely given the target of becoming a high-income advanced nation by 2020 and the challenges in the labour market, particularly high youth and graduate unemployment. Nonetheless, although the reforms identify and propose solutions to important issues in implementation, they still rely on reforming the existing system rather than changing the system holistically.

An alternative vision of dual-vocational education, modelled on that of Germany, could offer more sustainable solutions. The pilot schemes run in Malaysia by a balanced group of stakeholders appear promising and deserve a full evaluation to identify the feasibility of a wider roll-out across the country and across companies in different sectors, both large and small. This could go a long way to ensuring that Malaysia's high-income status can be sustained beyond 2020.

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<sup>42</sup> Euler, Dieter (2013) "Germany's dual vocational training system: a model for other countries?" Bertelsmann Stiftung, Gütersloh

# ► Intervention and Non-Intervention: Inclusive welfare schemes in Malaysia

## 1. Introduction

The term, 'welfare,' has its roots in social well-being and often refers to prosperity, success, happiness and wealth. The modern connotation of this term began in the twentieth century when it frequently came to denote, 'state hand-outs,' charity or government programmes to provide for the poor, the disabled, the unemployed and those considered to be without the means to provide for their basic needs. It refers to a wide definition of social programmes encompassing broad areas of life from, 'the cradle to the grave,' in short, a set of publicly-provided relief programmes often funded through taxation.

The term, 'social protection,' is not frequently used in Malaysia. The Asian Development Bank (ADB) defines it as the set of policies and programmes designed to reduce poverty and vulnerability by promoting efficient labour markets, reducing people's exposure to risks and enhancing their capacity to protect themselves against hazards and interruption or loss of income<sup>43</sup>. This definition is consistent with the view that will be discussed in this paper.

Welfare policies are sometimes regarded in the economic literature as, 'second-best,' solutions or, at worst, even threatening to economic prosperity because, as repeatedly stressed by some economists, only economic growth can guarantee a share in prosperity vis-a-vis social welfare.

Although welfare programmes can encompass broad areas of life, this paper will only focus on the general varieties of welfare schemes at the federal and state levels, with emphasis on the cash-transfer scheme known as *Bantuan Rakyat 1 Malaysia (BR1M)* and pension schemes for Malaysia's ageing society.

As Malaysia is aiming to be an advanced high-income nation by 2020, welfare policies continue to play a critical role in the economic transformation of the country. While generally considered justified and constructive, the issue of sustainable welfare policies still remains an on-going area of debate. Nonetheless, it is safe to say that welfare policy has a place in the public policy arena as it serves to reduce exposure to risks and enhance the capacity for self-protection and dignity.

## 2. The success story of Malaysia

Malaysia is one of only thirteen countries in the world to have sustained an annual growth rate of over 7% for more than twenty-five years in the post-war period<sup>44</sup>. Since the independence of the Malay States in 1957 and the formation of Malaysia in 1963, sustained and rapid economic growth has changed the landscape of the country's low-income economy tremendously, from one based on agricultural to a middle-income economy based on industrial production, manufacturing and services.

For example, between 1970 and 1995, while the contribution of agriculture to GDP declined by 25.5%, from 29.0% to 13.5%, the contribution of manufacturing to GDP increased by almost 20%, from 13.9% to 33.1%, while the employment in agriculture dropped from 50.5% in 1970 to 15% in 2000. While only about a quarter of the population was living in the cities in 1957, the number has grown to nearly two-thirds of the population by 2005.<sup>45, 46</sup>

This growth has also been accompanied by a near-eradication of poverty that fell from over 49.3% in the 1970s to 0.6% in 2014, while hardcore poverty is now at 0.28%.<sup>47, 48</sup> The Gini-coefficient, which measures inequality, has dropped from 0.513 in 1970 to 0.401 in 2014.<sup>49</sup>

These outcomes were achieved through active, centrally-planned, intervention by the government which set up various economic and social institutions such as FELDA (*Lembaga Pembangunan Tanah Persekutuan or Federal Land Development Authority*), MARA (*Majlis Amanah Rakyat or Peoples Trust Council*), FAMA (*Lembaga Makanan dan Pemasaran or Food and Marketing Authority*), MARDI (*Institut Penyelidikan dan Pembangunan Pertanian or Malaysian Agricultural Research and Development Institute*), RISDA (*Lembaga Pembangunan Getah dan Pekebun Kecil or Rubber Industry Smallholders Development Authority*), MAJUJIKAN (*Lembaga Kemajuan Ikan or Fisheries Board*) and MAJUTERNAK (*Lembaga Kemajuan Penternakan or Cattle Board*), UDA (*Urban Development Authority*) and SEDC (*Perbadanan Kemajuan Ekonomi Negeri or State Economic Development Corporation*), PERNAS (*Perbadanan Nasional or National Corporation*), MIDF (*Yayasan Pembangunan Industri Malaysia or Malaysian Industrial Development Foundation*), Bank Bumiputera and CGC

<sup>43</sup> Suman K. Sharma, *Malaysia: Updating and Improving the Social Protection Index – Technical Assistant Consultant's Report*. Asian Development Bank, August 2012.

<sup>44</sup> Commission on Growth and Development (2008) *The Growth Report Strategies for Sustained Growth and Inclusive Development*. Washington D.C., The World Bank.

<sup>45</sup> *Ibid.*

<sup>46</sup> A.H. Roslan, *Income Inequality, Poverty and Development Policy in Malaysia*. UUM.

<sup>47</sup> *Free Malaysia Today*, "Najib: Kerajaan hampir berjaya 'sifarkan' miskin tegar," 19 April 2017. Link at <http://www.freemalaysiatoday.com/category/bahasa/2017/04/19/najib-kerajaan-hampir-berjaya-sifarkan-miskin-tegar/>. Date accessed 18 July 2017.

<sup>48</sup> Ahmad Naqib Idris, "Malaysia's poverty rate shrinks to 0.28%," *The Edge Market*, 29 March 16.

<sup>49</sup> Economic Planning Unit (EPU), Table 6 – Gini Coefficient by Ethnic Group, Strata and State, Malaysia 1970-2014. Department of Statistics Malaysia (DOSM).



(Perbadanan Jaminan Pinjaman or Credit Guarantee Corporation).

Unfortunately, this high level of state involvement created and strengthened a pattern of thinking that more government intervention is needed to achieve more.

### 3. Incidence of poverty in Malaysia

Until recently, the World Bank had referred to poverty as income below, 'a dollar-a-day,' before they increased this threshold to US\$1.25 a day.<sup>50</sup> Previously, the incidence of poverty in Malaysia was defined by the Poverty Line Index (PLI), based on seven components of household expenditure which are clothing, rent, fuel and utilities, transport and communications, medical expenses, education and recreation.

Within the PLI, extreme poverty is defined as when individuals "fail to earn enough to fulfil basic survival needs," which cover food, clothing and shelter. Those defined as poor include individuals who, "fall short of certain standards of consumption which are deemed necessary to maintain 'decency' in society." People in the poor category earn less than RM930 per month in Peninsular Malaysia, less than RM990 in Sabah and less than RM1,170 in Sarawak.<sup>51</sup>

In 2015, when the 11th Malaysia Plan was presented, the poverty definitions have been changed from the one-dimensional PLI. The government now tries to capture the dynamic nature of poverty by using the Multidimensional Poverty Index (MPI). Within the MPI, the incidence of poverty does not just consider income but also education, health and living standards. As for now, nothing much can be gleaned from the data from the MPI approach because the indicators are too recent.

### 4. Welfare schemes in Malaysia

There are many wide-ranging public assistance schemes to support vulnerable groups in Malaysia, provided by the Social Welfare Department (JKM) at the federal level. Most are short-term welfare support systems.

The federal schemes cover only Peninsular Malaysia, i.e. the eleven states and the Federal Territories of Kuala Lumpur, Putrajaya and Labuan. The Borneo states of Sabah and Sarawak are not covered under the federal schemes. The type of benefits, the entitlement conditions for receipt of the benefits and the rate of the benefits are determined by the federal government and approved by the Ministry of Finance.

### 4.1 Main categories of welfare assistance in Malaysia

The principal objective of these schemes is to empower society in need to ensure social wellbeing. Table 1 summarises a list of federal-level programmes for different target groups. In addition, the federal government also exempts fees for primary and secondary school, skills training for unemployed graduates and non-graduates and subsidizes health services especially in the rural, district hospitals and specialist and teaching hospitals.

The government has also launched several other welfare programmes that were outlined in the New Key Results Areas (NKRAs) in 2010. One of the areas is to improve the well-being of the people through a series of 1 Malaysia initiatives.

One objective of the NKRA is to provide immediate relief to Malaysians through targeted, direct cash assistance, through BR1M (*Bantuan Rakyat 1Malaysia or One Malaysia People's Assistance*). Other related NKRA schemes include BB1M (*Baucar Buku 1Malaysia or One Malaysia Book Voucher*) and BKAP1M (*Bantuan Khas Awal Persekolahan 1Malaysia or One Malaysia Early School's Special Assistance*). To increase the availability of and accessibility to affordable basic necessities and services, the Government introduced K1M (*Klinik 1Malaysia or One Malaysia Clinics*), KR1M (*Kedai Rakyat 1Malaysia or One Malaysia People's Grocer*) and MR1M (*Menu Rakyat 1 Malaysia or One Malaysia People's Menu*). Other '1 Malaysia Programmes,' were introduced later such as PR1MA (*Perumahan Rakyat 1Malaysia or One Malaysia People's Housing*) and SL1M (*Skim Latihan 1Malaysia or One Malaysia Training Scheme*).

### 4.2 Unemployment insurance in Malaysia

In August 2017, the government tabled a proposal for an Employment Insurance Scheme to be administered by Social Security Organisation (SOSCO). Insured employees would be entitled to claim a portion of their insured salary for between three to six months when they remain unemployed. In addition, job search allowances, early re-employment allowances and training allowances and fees would also be available. The scheme is based on the contributions by employers and employees to the fund, at around 0.5% of the monthly salary each. Despite the relatively low costs, the proposal was opposed by employer groups and was withdrawn for further discussion and revision.

<sup>50</sup> Martin Ravallion, *World Bank's \$1.25/day poverty measure- countering the latest criticisms*. Link <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:22510787~pagePK:64165401~piPK:64165026~theSitePK:469382,00.html>, Jan 2010. Date accessed 28 July 2017.

<sup>51</sup> *The Official Portal of Social Welfare Department, Pengenalan Skim Bantuan Kebajikan*. Link at <http://www.jkm.gov.my/jkm/index.php?r=portal/left&id=NzFHmNjLSWxoQytmM3RscmUvMVdWZz09>. Date accessed 28 July 2017.

**Table 1**  
**Welfare Programmes at Federal Level in Malaysia**

Type of recipients	Type of assistance
Children ( <i>Kanak-kanak</i> )	Early Development such as TASKA and PERMATA. Childcare, witness support service, protection and rehabilitation centre. Allowance for children in poor families. Apprentice allowance for drop-outs from school, unemployed and exposed to social problems.
Senior citizens ( <i>Orang tua</i> )	Home help service, activity centre, transport and discount for medication and sheltered homes.
Destitute ( <i>Orang Papa</i> )	Rehabilitation, refuge centres and training.
People with disability ( <i>OKU</i> )	Allowance, discounts for transportation, training, education, employment, equipment, social entrepreneurship, medications and sheltered homes. Financial assistance for carers of bed-ridden disabled and the chronically ill.
Psychology ( <i>Psikologi</i> )	Children, elderly, poor and those resorting to begging, people with disability, disaster relief, victims of domestic violence, family and volunteer organizations.
Community ( <i>Komuniti</i> )	Allowance and training for volunteer organizations.
Former trainees ( <i>Bekas pelatih</i> )	Launching grant for a small business.
Minimum wages	RM1,000 per month for the Peninsula and RM920 per month in Sabah and Sarawak.
General Federal Assistance ( <i>Bantuan Am Persekutuan</i> )	Allowance to target groups that are not capable of meeting basic income levels. Single mothers, orphanages. Temporary basis or longer until they can be independent.

Source: Social Welfare Department, at <http://www.jkm.gov.my/jkm/index.php>. Date accessed 22 July 2017

**Table 2**  
**Amount of BR1M disbursement 2012-17**

Target segment by monthly income	Amount of BR1M disbursement per recipient by year					
	2012	2013	2014	2015	2016	2017
Single <RM2,000		RM250	RM300	RM350	RM400	RM 450
Family <RM3,00	RM500	RM500	RM650	RM950	RM1,000	RM1,200
Family >RM3-4,000			RM450	RM750	RM800	RM 900
Family (E-kasih) <RM1,000					RM1,050	RM1200
Recipients (million)	4.2	7.0	7.9	7.4	6.4	7.0
Total allocation (RM billion)	2.0	3.0	4.6	6.8	5.9	6.8

Source: National Budgets and Malaysian Economic Reports 2016/2017

### 4.3 Bantuan Rakyat 1Malaysia (One Malaysia People's Assistance)

BR1M is a cash transfer programme which aims to ease the pressure on low-income individuals and families. It was started in 2012 and although it was originally intended as a short-term scheme, BR1M has continued, even expanded over the years.

### 4.4 State-level welfare assistance schemes

There are also state-level welfare assistance schemes, which are not structured and not uniform. Selangor for example, as the richest state in the country, embarked a programme called Merakyatkan Ekonomi Selangor (MES), or Selangor's Economy for the People, in 2008, when the federal opposition first won control of that state. It has subsequently been upgraded to the *Inisiatif Peduli Rakyat* (IPR), or Initiative to Care for the People programme, which included several new welfare initiatives, such as food stamps, free bus travel, free wifi, scholarships and

low-cost housing to add to, 'the cradle to the grave,' schemes in that state. From only seven schemes in 2008, the state government now have 17 schemes running.<sup>52</sup>

Penang, another developed state led by the federal opposition since 2008, introduced Agenda Ekonomi Saksama (AES), or Agenda for Economic Equality. In 2015, Penang became the first state to be declared free from hardcore poverty. This state government also introduced wide-ranging schemes for senior citizens, people with disabilities, single mothers, students, fisherman, rickshaw cyclists and taxi and bus drivers.

Not much information is available about the welfare schemes in other states based on official websites. Nevertheless, each state has its own welfare programmes but they are generally not as extensive as those in Selangor and Penang, partly because other states do not have the same resources. Moreover, since most of the states are led by the same political party that governs at

<sup>52</sup> *Inisiatif Peduli Rakyat*. Link <http://ipr.selangor.gov.my/>. Date accessed 24 July 2017.

the federal level, they seem to rely on the federal schemes. In addition to these state schemes, religious institutions play quite a significant role providing welfare activities. Islam is the official religion of Malaysia and the Malaysian constitution places religious matters under the power of the state, while the Sultan is the head of the religion for the State. The King is the head of religion at the federal level. Hence, the collection of alms (zakat) in Islam is managed by Islamic institutions in each state.

There are also social insurance programmes including the Employees Provident Fund (EPF) for pensions and the Social Security Organization (SOCSO) Fund which covers industrial injuries. In addition a mixture of private insurance schemes provides non-universal social protection for issues such as work injuries, health insurance, sickness, maternity, retrenchment and death and disability pensions.

#### 4.5 Rationalization of subsidies

After Najib was appointed Prime Minister in 2009, he announced, among other things, the Economic Transformation Programme (ETP).<sup>53</sup> PEMANDU (the Performance Management and Deliver Unit), an institution in the Prime Minister's Department, was assigned to work on the implementation and monitoring of the ETP. Later, Idris Jala, who leads PEMANDU, presented findings and a recommendation road map from the Subsidy Rationalization Lab, a stakeholder group drawn together to discuss widespread subsidies of a range of products that were aimed at making them affordable to lower-income people. While highlighting some achievements of the subsidy programme, Idris also presented some challenges that need to be addressed by the government. Among other things, he highlighted the rising deficit and debt levels that Malaysia had accumulated since the Asian Economic Crisis in 1998. He became famous for his controversial remark that Malaysia would be bankrupt by 2019 if the government continued along the same path of policies.

PEMANDU proposed various policies to increase Gross

Domestic Product (GDP) and to reduce government expenditure. Idris stressed that Malaysia is one of the highest subsidized nations in the world, higher than Indonesia and Philippines and even France and United Kingdom. Malaysia recorded the highest subsidy in 2009, which amounted to RM74 billion or RM12,900 per household. From this enormous amount, RM42.4 billion was allocated to social subsidies, RM23.5 billion to fuel and energy, RM4.8 to infrastructure and RM3.4 billion to food.

Idris stressed that the subsidies were given to the wrong income group highlighting that the allocation to the poor, fishermen and farmers was only about RM2 billion, or 3% of the total subsidy. Although there was agreement that some measure of correction had to be made, PEMANDU argued further that the rationalization must also reduce wastage and abuse and be more targeted. Later, the government published the New Economic Model (NEM), which introduced the bottom 40% income group (B40) as its target group for subsidies and welfare schemes in the interest of creating a more inclusive society.

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### 5. Welfare assistance and its financing in Germany

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Tables 3 and 4 provide a summary of the various welfare assistance programmes provided in Germany as well as the mechanisms used to finance them. The social security system in Germany is funded through contributions paid by employees and employers as a levy on all direct and indirect wages up to a ceiling. In some cases, for example in healthcare, private insurance schemes can be used to supplement the state-funded schemes. The general reliance on compulsory, universal insurance schemes reduces the burden on general taxation and allows for generous welfare support outcomes, although many people claim that the costs are too burdensome overall. However, in terms of percentage contributions, the Malaysian system is currently more expensive than the German scheme, at least for the pension and injury insurance schemes.

<sup>53</sup> Malaysia. 2010, *Economic Transformation Plan*, Kuala Lumpur: Government Printers

**Table 3**  
**Summary of main welfare assistance in Germany**

Type of benefit	Type of assistance
State Pension	Pensions in Germany are based on a "three pillar system": (1) Mandatory State Pension Insurance (gesetzliche Rentenversicherung) which is part of the basic social security system and all employees and employers pay a percentage of salaries into this system; (2) Voluntary Occupational Pension Insurance; and (3) private insurance.
Health insurance	Germany has a universal healthcare system. The two main types of health insurance are "Statutory Health Insurance" (Gesetzliche Krankenversicherung) and "Private Health Insurance" (Private Krankenversicherung). Health insurance is compulsory and employees are automatically enrolled into one of the 130 public non-profit "sickness funds."
Unemployment	Claimants receive a living allowance (unemployment benefit), help in finding work and training. Unemployment benefit is paid to workers who have contributed at least during 12 months preceding their loss of a job. The allowance is paid for half of the period that the worker has contributed. Claimants get 60% of their previous net salary or 67% if they have children. For those not eligible, a second form of benefit scheme is available.
Invalidity Insurance	To qualify for any allowances or special employment conditions, disabled people need to visit their local Pensions and Benefits Office (Versorgungsamt) to be given an assessment of disability. This then determines the level of assistance they receive at state and federal level.
Accident Insurance	Statutory occupational accident insurance was established in Germany by statute in 1884. Unlike other welfare schemes, it is contribution-free for those insured. The costs for comprehensive insurance coverage for prevention and rehabilitation are borne by employers. For public-sector jobs, the federal, state and municipal governments carry the costs.
Sick pay insurance	Employers are obliged by law to pay employees on sick leave full pay for at least six weeks. After six weeks, the 'Krankengeld' (health insurance fund) pays sickness and benefits at 70% of the normal salary, but not exceeding 90% of the net salary if under sick leave in Germany. The insured employee can receive sickness benefits for a maximum of 78 weeks.
Maternity leave	Under the new rules, employees will have a right to request up to 24 months of paid parental leave or, if both parents decide to go on parental leave, they will be entitled to 28 months of paid parental leave to be shared between the parents.
Minimum Wages	Since 1 January 2015, the Minimum Wage Act (Mindestlohngesetz) applies to employees who are employed in Germany and provides for a minimum wage of EUR8.50 gross per hour (from 1 January 2017: EUR8.84 gross per hour).
Wage guarantee fund	Compensation is provided for workers of companies that become insolvent. Payments are covered by a centralised contribution system (Insolvenzumlage) from private employers (2016: 0.12%; 2017: 0.7% of gross pay) which are paid alongside with social security contributions to the statutory health insurers.
Holiday pay	Employees' rights to holiday are governed by the Federal Holiday with Pay Act (Bundesurlaubsgesetz). Those who work six days per week are entitled to an annual minimum paid vacation of 24 working days. Off-days are granted pro-rata for less than six days a week.

Source: Various German ministry websites, 2017

**Table 4**  
**Welfare contribution rates in Germany**

Type	Employer	Employee	Notes
State Pension	9.45	9.45	Ceiling: West Germany €69,600. East Germany €58,800
Health insurance	7.3	8.2	Ceiling: €48,600
Unemployment	1.5	1.5	Ceiling: West Germany €69,600. East Germany €58,800
Invalidity Insurance	1.025	1.025	0.25% supplement for childless employee
Accident Insurance	1.6	--	Varies by sector depending on risk
Sick pay insurance		1.5-3.6 %	Depends on the proportion of employees on short hour contracts. Applies to companies with fewer than 30 employees
Maternity leave		--	Rate set by the health in the wage bill
Wage guarantee fund	0.15	--	The contribution rate is adjusted according to the reserves managed by the Federal employment agency
Holiday pay		--	Financed by companies

Source: Various German ministry websites, 2017. Invalidity insurance in Saxony is 0.525% for employer and 1.525% for employee

## 6. Welfare insurance contribution rates in Malaysia

The welfare system in Malaysia is funded through a combination of (1) direct state-funding from general taxation; (2) contributions paid by employees and employers, for example for SESCO and EPF; and (3) private insurance schemes which are used principally by the wealthy to supplement the state-funded schemes. The heavy reliance on tax-funded schemes and the relatively limited use of insurance schemes places a heavy burden on the system and reduces the generosity of benefits available across most categories.

The EPF contributions are paid on all direct wages as well as indirect wages. For employees who receive wages of RM5,000 per month and below, their contribution is 11% and the employer contributes 13%. For an employee who receives wages exceeding RM5,000 per month, his contribution remains at 11% but the employer's contribution falls to 12%. Under the SESCO injury insurance scheme, the employer's contribution rises from 1.3% for very low salaries to about 1.75% for salaries exceeding RM4,000 per month and the employee's contribution rises from 0.3% to 0.5% over the same salary range.

## 7. Discussions and recommendations

In Malaysia, the approach to the issue of welfare goes beyond the question of whether to intervene or not. The right question to ask is where to intervene and what kind of intervention is deemed proper. There is also a broader issue of fairness that needs to be addressed, such as coverage, adequacy, longevity, inflation and sustainability.

### 7.1 Social Market Economy

The ultimate aim of the SME is to allow people to live in humane conditions while ensuring freedom as the basis of economic creativity to generate an optimal supply of goods and services, guarantee decent conditions in the workplace through public legislation and ensure solidarity with the economically weak through a system of social security.<sup>54</sup>

Ludwig Erhard, the Minister of Economic Affairs during the West German economic miracle in the 1950s who later became the Chancellor stated that "the terms free and social overlap (...); the freer the economy is and the more social it is, the bigger is the profit for the national economy."<sup>55</sup> To Erhard, market institutions, which are in competition, protecting freedom and instigating wellbeing, can reach most of the social objectives. Hence,

social progress requires the establishment of a form of popular capitalism based on the encouragement of individual responsibility by promoting personal wealth obtained through work.

In other words, the welfare system should not be taken as a convergence of competing systems, but as a sophisticated and effective component of the market economy. It should be taken with the aim to improve the market system and not to undermine it.

### 7.2 Malaysia: The right mindset

A general welfare policy has evidently been a part of Malaysian policies. In fact, it has played a very crucial role in national development since Malaysia's independence in 1957. This has been achieved against a background of a growing and aging population. The Malaysian population is projected to reach about 32 million in 2017<sup>56</sup> and is estimated to grow to nearly 41.5 million by 2040.<sup>57</sup> Total life expectancy is 74.5 years, with male life expectancy at birth at 72.2 years and female life expectancy at birth at 76.9 years.<sup>58</sup>

Unfortunately, with the growth in population and life expectancy and the uncertainty of the economy, continued welfare support is only viable and sustainable if the country can generate steady growth. The Rangka Rancangan Jangka Panjang Tiga 2001-2010 (RRJP3 or Draft of Long Term Planning – Three: 2001-2010) mentions that government assistance is only eligible for any household with income lower than RM1,200.<sup>59</sup> However this target is not being followed through, partly because the eligible recipients have multidimensional needs and are already beyond the condition of not having enough income and other means to meet basic needs.

Welfare support is also influenced by several factors such as geography which creates limited accessibility to areas of particular need such as in Sabah and Sarawak. The challenge is also becoming more dynamic with the increasing prevalence of urban poverty and inequality which has become inter- and intra-ethnic and inter-sectoral.

Any welfare intervention should not aim to be permanent. The success of a welfare scheme should be measured by the real reduction in the number of eligible recipients and the total cost, not from the increased number of recipients or increased amount of disbursement. In short, the ultimate objective of the scheme should be to make sure that more recipients become self-reliant, rather than continue to remain in a state of dependency.

<sup>54</sup> *Ibid.*

<sup>55</sup> Christian L. Glossner and David Gregosz (2011) *The Formation and Implementation of the Social Market Economy by Alfred Müller-Armack and Ludwig Erhard – Incipency and Actuality*. Konrad Adenauer Stiftung.

<sup>56</sup> Malaysiakini. Penduduk Malaysia Dianggarkan 32 juta orang tahun ini, 14 July 2017. Link at <https://www.malaysiakini.com/news/388573>. Date accessed 25 July 2017.

<sup>57</sup> Department of Statistics Malaysia (DOSM), *Population Projections (Revised), Malaysia 2010-2040*.

<sup>58</sup> UN Department of Economic and Social Affairs (2017), *World Mortality Report 2015*. New York, United Nations.

<sup>59</sup> Chamhuri Siwar, *Pembasmian Kemiskinan dan Ketidakesetaraan Agihan Pendapatan, dalam Ekonomi Malaysia Ke Arah Pembangunan Seimbang*, Nor Aini Haji Idris and Ishak Yusof (eds). (2009), p. 142.

### 7.3 Data-driven policy

Data can play a significant role in reducing wastage, abuse and ensuring the efficiency of disbursement of assistance to the targeted groups. Many complain that the true picture of poverty is not as bright as being painted by the government and the availability of data can fill these gaps. It is also a crucial asset because it can take into account not just the frequency but also the depth of the incidence of poverty.

Assistance is best allocated when it is driven by data on questions such as who the recipients are, where they are living and how much the gaps are in terms of income and the facilities they are facing. It can also foster an understanding of resources available at hand and some potential resources that can be channelled into the scheme. A clear idea of who should benefit from assistance is critical for making choices about the best use of scarce resources.

Some available data can be used as a baseline. Chart 1, for example, shows the percentage of households earning less than RM6,000 per month by income class and location in 2014. With this data, a timely decision can be made by narrowing further how much assistance needs to be allocated to each state.

With data mapping, the government can implement key development policies in the poorest regions or states, to create a long-term solution in-situ. This should be

considered because migration to the cities, due to little opportunity of stable income and jobs in the rural areas, has led to an increase in the number of urban poor.<sup>60</sup>

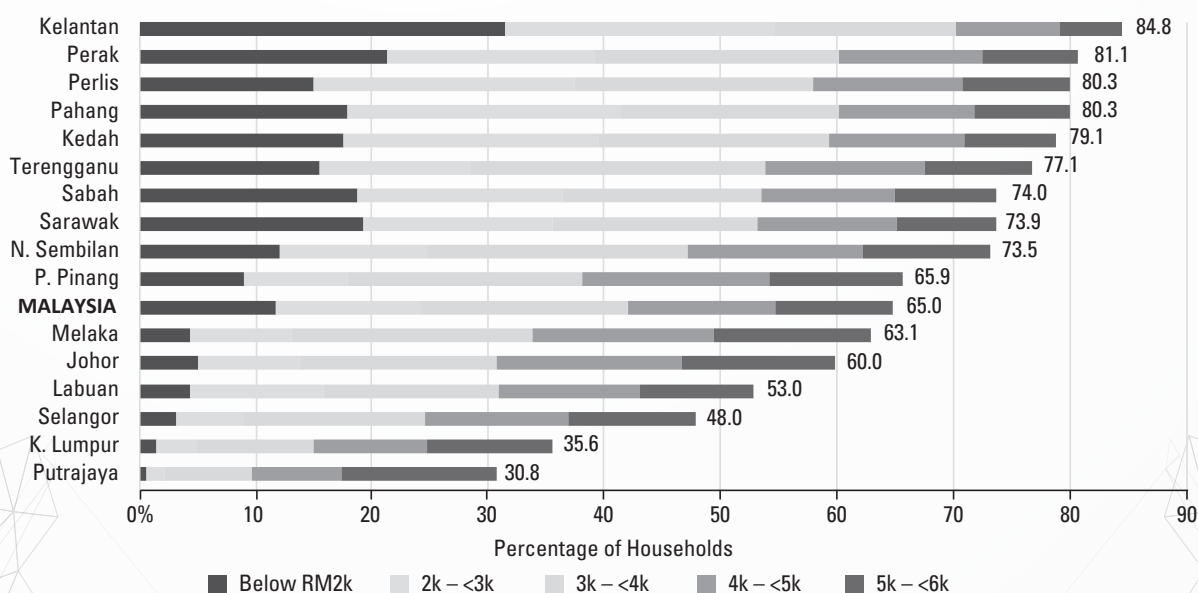
Non-state actors, including private institutions, the corporate sector, non-government organizations, foundations and religious institutions can also use this type of data to avoid overlaps and to optimize the use of resources with proper and better coordination among themselves. With public-private partnerships, groups in need can have access to greater and more widely available resources.

### 7.4 Cash transfers

Cash transfers certainly increase the welfare of the recipients. However, the merit of this policy depends on its efficiency to expand individual choice in consumption, enabling the target groups to purchase the goods and services needed by them. The effectiveness of such policies can only be fully realized if the amount of money received is equivalent in purchasing power to the subsidies that have been removed.

Unfortunately, this is not always the case. A survey found that 85.3% of recipients used the cash they received within one month.<sup>61</sup> Cash transfers are clearly insufficient, but to many recipients and people who support this system, it is seen as better than nothing. Nevertheless, extra measures should be taken into consideration due to the increase dependency on the transfers received.

**Chart 1**  
Percentage of households earning less than RM6,000 per month by income class in 2014

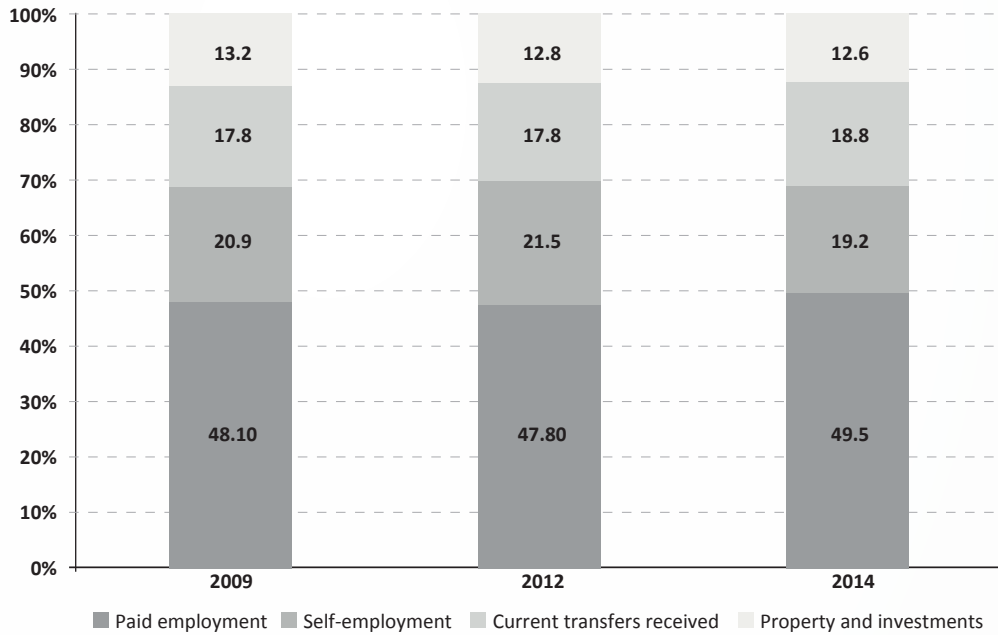


Source: The state of Households II, Aug. 2016. Khazanah Research Institute

<sup>60</sup> Chamhuri Siwar, *Pembasmian Kemiskinan dan Ketidaksetaraan Agihan Pendapatan, dalam Ekonomi Malaysia Ke Arah Pembangunan Seimbang*, Nor Aini Haji Idris and Ishak Yussof (eds). (2009), p. 142.

<sup>61</sup> Free Malaysia Today, *Tinjauan: 85.3% penerima BR1M habiskannya dalam tempoh sebulan*. Link <http://www.freemalaysiatoday.com/category/bahasa/2017/03/24/tinjauan-85-3-penerima-br1m-habiskannya-dalam-tempoh-sebulan/>, 24 March 2017. Date accessed 28 July 2017

**Chart 2**  
**Source of household income for the B40 households**  
**(% household income, 2009-2014)**



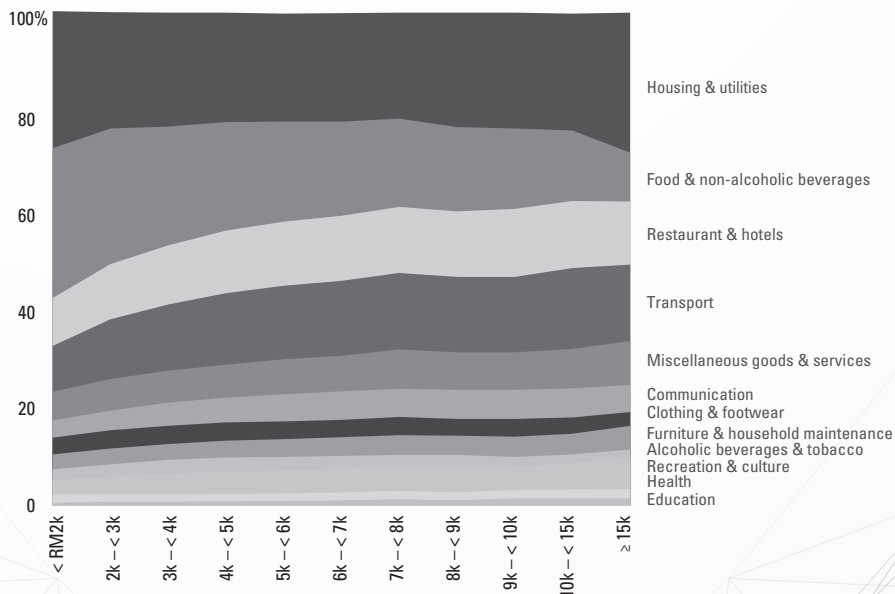
Source: Data from *The State of Household II*, Aug. 2016. Khazanah Research Institute.

This type of assistance also requires specialist implementation capabilities because better information on potential beneficiary households is needed. Fortunately, given the, 'low,' incidence of poverty in Malaysia, this seems possible and the government should target this group of recipients as a priority.

However, exceptions can be made. In these cases, the assistance might be provided in different forms such as vouchers, loans, food stamps or expert sharing on technical skills.

Different forms of cash transfer have different value to recipients and a different impact on welfare. This is where the data can also help, with a micro-targeting approach. Chart 3 shows another example of the percentage monthly spend on goods and services by people from different income brackets. This type of data can provide a better perspective on different forms of welfare assistance that can be made to lower-income groups.

**Chart 3**  
**Percentage monthly spend on goods and services, by expenditure category, 2014<sup>62</sup>**



## 7.5 Ageing society

While longer life expectancy is often attributed to significant achievements of human development, there is also a multi-dimensional nature to it with regard to welfare schemes. This is because the issues faced by senior citizens are not limited to only financial concerns but includes issues such as healthcare, mobility and family support.

The compulsory pension-age is now being increased from 55 years to 60 years. This is in line with the chronological definition of senior citizens used in Malaysia, which is 60<sup>63</sup> years and above. People in this age group accounted for 9.5 per cent of the population in 2016. The United Nations ESCAP projects that it will grow to nearly a quarter of the population, or 23.6%, by 2050.<sup>64</sup> Problems may arise when there is a social welfare system that depends heavily on the contributions of young people to support an ever increasing number of senior citizens.

### 7.5.1 Scheme for the public sector

The public sector is at the centre of this dilemma as the largest employer in Malaysia. Under the current system, pensions are paid to public sector employees when they retire due to attainment of retirement age, medical reasons, abolishment of service and reorganization.

Between 2007 and 2017, pension and retirement charges nearly tripled, from RM8.25 billion to RM21.76 billion and are projected to more than triple between 2017 and 2030.<sup>65</sup> The number of civil service retirees has risen by about 4.25% annually over the last three years and it is projected that if the Government Retirement Fund Inc. (*Kumpulan Wang Amanah Pencen* or KWAP) assumes 100% annual pension obligation between 2017 and 2027, the fund can sustain payments only for another seven years after that.<sup>66</sup>

### 7.5.2 Scheme for the private sector

Labour force growth is important for the sustainability of a social welfare system, including the Employees Provident Fund (*Kumpulan Wang Simpanan Pekerja* or EPF), a retirement fund for those working in the private sector in Malaysia.

Based on EPF data, the average savings of people 54 years old is only RM223,000 for men and RM175,000 for women. More shockingly, around 50% of private workers save less than RM50,000 before retiring.<sup>67</sup> Only 22 per cent of the 6.7 million active EPF contributors had RM196,800 or more in their savings.<sup>68</sup>

Initially, EPF was intended to be a pension scheme for the private sector and non-pensionable public sector employees, but now it has been improvised so that some funds can be withdrawn before the employee retires. This also contributes to what little is left for them on retirement. The real value of the pension has also eroded with the introduction and possible increase of GST in the future, as well as with inflation.

Direct comparisons with other countries can be flawed because of differences in any particular country's political, economic, social, cultural and historical circumstances. However, certain features, across the range of systems, can serve as a benchmark for countries to achieve. Our pension system can be improved by implementing the following:

- increase the pension age to 65 years;
- limit the number of public sector employees;
- provide the private sector more tax incentives, if they offer support for their employees to increase savings;
- curb the increase of household debt by abolishing car tax, tackle speculation in the housing market and increase regulations on credit card use; and
- create incentives for savings such as giving a tax exemption equal to 20% amount of savings per year.

<sup>62</sup> *The State of Household II*, Aug. 2016. Khazanah Research Institute.

<sup>63</sup> Portal Rasmi Bahagian Pasca Perkhidmatan, What is the definition of senior citizens in Malaysia?. Link at [http://www.jpapencen.gov.my/english/senior\\_citizen.html](http://www.jpapencen.gov.my/english/senior_citizen.html). Date accessed 27 July 2017.

<sup>64</sup> The United Nations 2016 Economic and Social Commission for Asia and the Pacific (ESCAP) Population Data Sheet.

<sup>65</sup> Cindy Yeap and Khairie Hisyam Aliman, A growing pension burden, 26 June 2017. *The Edge*

<sup>66</sup> *Ibid.*

<sup>67</sup> KWSP, EPF Opens Consultation On Four Proposals For Scheme Enhancement, No date. Date accessed 2 Aug. 2017

<sup>68</sup> Free Malaysia Today, EPF saving may not be enough for retirement, 10 Nov. 2016. Link <http://www.freemalaysiatoday.com/category/nation/2016/11/10/epf-savings-may-not-be-enough-for-retirement/>. Date accessed 2 Aug. 2017



# ► Intervention and Non-Intervention: Conclusions and Policy Ideas for a Social Market Economy in Malaysia

## 1. The scope for a Social Market Economy in Malaysia

To consider the options for a Social Market Economy in Malaysia, we need to assess whether there is scope for economic management at the federal and state level that combines market freedom and social protection within the meaning of Ordoliberalism that is, free markets, constituted and regulated by an orderly policy framework (Ordnungspolitik).

We also need to assess whether Malaysia's approach to economic management effectively addresses the non-economic or social foundations of the market economy. This includes areas which lie beyond supply and demand such as inclusivity, social protection and social responsibility more widely.

In some senses, the overall guiding principles of the SME model based on solidarity and subsidiarity appear at odds with policy developments in Malaysia. While solidarity, in the form of 1Malaysia policies aims to create a sense of common cause, subsidiarity which creates and guarantees the space for individual autonomy, responsibility and initiative and delegates power to various levels of government and authority appears to be lacking with power increasingly centralised at the federal level.

In other senses, there may be scope to change this trajectory at least in the three areas which are the focus of this study.

## 2. Public policies and enterprise development in Malaysia

Our discussion of the policy developments in state-industry relations in Malaysia highlight important principles of the SME approach, particularly in the areas of the legal framework in which enterprises are run, property ownership and protection from expropriation, competition as the basis, the principle of liability versus selected protection and open markets versus protectionism more generally in promoting the stability of the economic environment.

With these principles in mind, we make the following observations and recommendations:

### 1. Policy issues:

To create and benefit from linkages with large companies, GLCs and the federal and state authorities, the general capabilities of small and medium-sized enterprises must meet a minimum threshold, particularly if they are to play a significant role in creating and sustaining a high-income, developed nation in Malaysia.

### Policy recommendation:

More attention needs to be placed on what this minimum threshold is and how large companies, GLCs and the federal and state-level programmes can work together to coordinate and nurture higher performance in smaller companies.

### 2. Policy issues:

Many government initiatives for small and medium-sized enterprises have given preference to Bumiputera companies, which often excludes non-Bumiputera businesses.

### Policy recommendation:

This policy requires urgent review to remove negative incentives which are inhibiting growth and entrepreneurial innovation in small non-Bumiputera companies and discouraging FDI that might provide linkage opportunities.

### 3. Policy issues:

Initiatives to promote small and medium-sized enterprises based on non-economic criteria have failed in many cases to bring associated economic, social and environmental benefits and have limited the growth of the small and medium-sized sector.

### Policy recommendation:

This policy also requires urgent review to address the limitations of the current framework and to connect the social and environmental benefits with strong economic outcomes in a systemic and holistic way based on merit.

### 4. Policy issues:

The poor development of small and medium-sized enterprises at the domestic level draws attention to the fact that no business, among small and medium-sized enterprises or any business group, nurtured through state intervention has emerged as a leading Malaysian enterprise of global repute.

### Policy recommendation:

A full review and evaluation of the policies of state intervention in enterprise development must be conducted to identify the failure of state control and influence to create global Malaysian enterprises..

### 5. Policy issues:

In 2016, no publicly-listed firm under Bumiputera-majority ownership figured among the top 40 companies in Malaysia

### Policy recommendation:

A full review and evaluation of the policies of affirmative action in industrial development must be conducted to identify the failure of affirmative action

programmes to deliver an equitable distribution of ownership across community groups.

**6. Policy issues:**

In spite of active privatization since the mid-1980s, there is no evidence of a once wholly-owned government enterprise that is now under the ownership and control of a private individual.

**Policy recommendation:**

The overall success of the privatisation process needs to be reviewed and tested to see whether it creates open markets and orderly competition or represents an encroachment of the state into business activity.

**7. Policy issues:**

In Malaysia, the GLICs have majority ownership of huge enterprises, raising serious concerns about privatization as a policy mechanism to nurture enterprising privately-owned domestic firms.

**Policy recommendation:**

The overall ownership structure of Malaysian companies must be reviewed to see whether it creates open markets and competition in ownership terms.

**8. Policy issues:**

The fall in Chinese equity ownership draws attention to the issue of protection of property rights since the government appears to have the capacity to take over privately-owned firms at will. The fear of expropriation of private firms was made worse during the consolidation of the banking sector in 1999 when a number of Chinese families lost ownership and control of financial enterprises that they had long nurtured.

**Policy recommendation:**

The concerns of private companies about expropriation should be studied and reviewed urgently. Special focus should be placed on the adequacy of the Malaysia system to protect legal rights and property ownership, paying attention to proper regulation and consistent supervision to ensure that rules are adhered to and violations penalised.

**9. Policy issues:**

There is a core need to promote research and development (R&D) as investment in this area has not been sufficient to generate technological upgrading that can enhance productivity and promote enterprise development.

**Policy recommendation:**

The government's response to this problem is to now promote not merely R&D but also Productivity & Innovation (P&I) which is welcome but must be available to all companies based on merit.

**10. Policy issues:**

Entrepreneurial, technological and innovation capacity appears to have stalled due to inadequate government support which constrains the rise of domestic enterprises and increases Malaysia's dependence on foreign companies to industrialize the economy.

**Policy recommendation:**

The government's response to enterprise development must take a holistic and systemic approach and coordinate stakeholders at all levels to develop local capacity and economic security while balancing the opportunities of international collaboration and FDI.

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### 3. Education, TVET and the labour market

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Our discussion of education, TVET and labour market changes in Malaysia focuses on the SME principles of solidarity and social security, the provision of universal educational opportunities and the need to provide the right incentives for generating income through work. It also emphasises the imperative of creating high-skilled workers through a system that sees education and skills development in its wider social context, to promote economic innovation, high-skills and productivity while enhancing social integration and individual development.

With these principles in mind, we make the following observations and recommendations:

**1. Policy issues:**

High youth and graduate unemployment in Malaysia is seen as a problem that is driving the reform agenda towards vocationalism in the education system. However, the official figures often conflate unemployment and under-employment with work-related capabilities in ways that are not well-understood.

**Policy recommendation:**

A full review of the nature and causes of youth unemployment is needed to understand whether low participation in the workforce is actually due to the education system, as is widely believed, or to other factors such as changes in the demand for workers in the labour market.

**2. Policy issues:**

Low graduate salaries and early-life debt in Malaysia has been identified by numerous stakeholders, including Bank Negara, as an issue of urgent concern. Employers take a different view and point to poor graduate skills and work preparedness coupled with unrealistic expectations of salaries and career prospects.

**Policy recommendation:**

A full review of the nature and causes of low graduate salaries and high debt is needed to understand whether this is due to poor skills and work-readiness or due to imbalances in the labour market in favour of employers. Relying on anecdotes and unstructured case studies is unhelpful in investigating this important issue clearly.

3. **Policy issues:**

Education-related debts are not just a problem at the level of the individual, but also systemically. Poor repayment of PTPTN loans threatens the stability of the loan agency and access to funds for students and institutions alike.

**Policy recommendation:**

A full review of the funding of higher education in Malaysia is required, including the option of working during study to reduce the need for loans and also of paying for studies after successful completion through a graduate tax system.

4. **Policy issues:**

Changes in the labour market, the elimination of many job types due to automation and the casualization of work in the, 'Uber-economy,' are often associated with high unemployment and low incomes.

**Policy recommendation:**

A thorough and ongoing research and policy programme needs to be carried out to understand the changes in the labour market in Malaysia as well as globally and the likely impact of automation and other forms of structural shift.

5. **Policy issues:**

The perception that unemployment and under-employment is due to poor education methods and outcomes is driving higher education and vocational training reform and forcing universities to become more vocationalist in their approach at the expense of scholastic, research-based learning.

**Policy recommendation:**

Malaysia should make a stricter split between academic and vocational streams and provide proper infrastructure for both streams rather than asking academic institutions to take on vocational training roles. There should be clearer recognition that universities are scholastic and an upgrading in facilities, learning approaches and status for vocational colleges is required.

6. **Policy issues:**

TVET reform in Malaysia is ambitious but is still too classroom focussed. The current framework plan focuses too much on changes to the existing system, rather than holistic, systemic changes. It is also unclear how businesses will interact with education and training providers in a practical sense.

**Policy recommendation:**

: 2U-2I programmes are not integrated to 4I-U programmes.

7. **Policy issues:**

The German TVET system applies a dual-vocational education approach which is widely regarded as providing the best solution to work-based training. It combines skills training in the workplace with theory training in vocational colleges but also gives students genuine experience of the working environment during their training and so makes them work-ready during their studies.

**Policy recommendation:**

The system of German dual-vocational education should be evaluated widely across all relevant stakeholder groups with a view to evaluating strengths and weaknesses for application in the context of Malaysia.

8. **Policy issues:**

Scope for dual-vocational training in Malaysia has been tested in some small pilot programmes but the full impact has not been evaluated. Challenges exist in changing mindsets, understanding dual-vocational training within a changing labour market and dealing with practical issues in implementation..

**Policy recommendation:**

The dual-vocational education pilot programmes should be evaluated thoroughly and independently to assess their impact in terms of outcomes and cost-effectiveness. Identification of challenges should be assessed more rigorously with a view to proposing solutions and reducing impediments to wider roll-out of successful schemes.

9. **Policy issues:**

Education and training in Malaysia is becoming increasingly geared toward employability and vocationalism. The wider social and personal context is often lost in the transition from one reform programme to another. This means that valuable aspects of the socialisation and personal development processes of education are overlooked in the push for work-related skills.

**Policy recommendation:**

The benefits of the dual-vocational system should be viewed in their wider social context in addressing social inclusion, reducing unemployment and promoting individual development. These features should be included as active learning outcomes in Malaysian TVET curriculum at all stages.

**10. Policy issues:**

Even among its advocates, the dual-vocational system is considered an expensive option and one that is becoming more demanding as technology and skills develop further. Funding the system is therefore a challenge.

**Policy recommendation:**

The current Human Resources Development Fund (HRDF) should be reviewed and used differently to help fund, 'in-work, in-college,' schemes. Companies must be made to understand that they must pay for the skilled workforce they need and the government should require companies to spend the HRDF levy efficiently or forfeit it into a common fund for general skills training.

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#### **4. Inclusive welfare schemes in Malaysia**

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Our discussion of the welfare schemes in Malaysia focus on the SME principles of solidarity and social security, the provision of public services by the government and incentive compatibility to ensure that there is an efficient social infrastructure as well as universal access to educational opportunities, comprehensive healthcare and social welfare support for all.

With these principles in mind, we make the following observations and recommendations:

**1. Policy issues:**

Welfare in Germany has evolved as part of a well-designed system of universal coverage funded largely by compulsory insurance programmes. Welfare schemes in Malaysia have evolved out of ad hoc schemes over many years, each funded in different ways with no apparent systemic thinking on structure, coverage, funding or impact.

**Policy recommendation:**

There needs to be new thinking on welfare in Malaysia on an urgent basis. The current system is partial, inefficient and costly but, most damaging of all, it allows people in desperate need to fall through the gaps in the social safety net.

**2. Policy issues:**

Universal coverage and adequacy is a serious

limitation of Malaysian welfare schemes and leaves many people under-provided for, especially in times of need. This is due to a lack of systemic and coordinated thinking and analysis.

**Policy recommendation:**

There needs to be widespread multi-stakeholder engagement on the issue of welfare reform in Malaysia to establish needs, resources and processes to meet the demands of a growing and aging population. This engagement should first aim to foster a spirit of inclusion, solidarity and trust and then set out the requirement for technical analysis.

**3. Policy issues:**

Unemployment insurance in Malaysia through the proposed Employment Insurance Scheme (EIS) to be administered by Social Security Organisation (SOSCO) was withdrawn due to opposition by employer groups despite the relatively low costs and the considerable benefits for employees.

**Policy recommendation:**

The EIS must be urgently reviewed by all relevant stakeholders representing government, employers and employees, as well as wider social and industry groups.

**4. Policy issues:**

The cash transfer scheme under Bantuan Rakyat 1Malaysia (BR1M, or One Malaysia People's Assistance) is both inadequate and unsustainable with more than 85% of recipients spending the cash received within one month. It is clearly insufficient and although designed as a one-off programme it has now become a permanent feature of the Malaysian system. BR1M affects not only those who receive it but also those who pay for it. It may also serve to suppress wages and can act as a wage subsidy in many cases.

**Policy recommendation:**

A full review of the BR1M scheme must be undertaken to assess its full impact and costs. Reform of the system will be delicate and sensitive and must not disadvantage those who have become dependent on it. This requires urgent analysis of the scheme and its alternatives.

**5. Policy issues:**

Welfare provision at state-level varies between jurisdictions and is often unclear and unstructured. The principle of subsidiarity is rarely applied so that welfare is not always provided at the most effective level by the most efficient agency. The consequence is wasted resources, under-provision and suffering among those in most need.

**Policy recommendation:**

Subsidiarity in the provision of welfare should be reviewed to ensure that Federal and State-level systems are coordinated and that the correct incentives are introduced within a regulated market environment. The Government must ensure that public services are available if the market is unable to provide them adequately.

**6. Policy issues:**

Funding of the welfare system in Malaysia is a mix of direct government payments funded by taxation, compulsory insurance for pensions and injury and private insurance for those who can pay. There are many gaps in funding which leave many people uncovered by welfare protection and reliant on charity.

**Policy recommendation:**

Welfare insurance contribution rates in Germany are lower than in Malaysia due to the better-structured, more efficient and universal welfare system. A new comprehensive system of compulsory welfare insurance should be considered in Malaysia with reforms to existing schemes, including no withdrawals from EPF to ensure adequate final funds on retirement.

**7. Policy issues:**

Many welfare schemes in Malaysia have generated dependency, while short-term schemes have become long-term structural policies. This is due to poor policy design which has ignored negative incentives and created dependency through poor implementation, monitoring and control.

**Policy recommendation:**

Any welfare intervention should not aim to be permanent. The success of a welfare scheme should be measured by the real reduction in the number of eligible recipients and the total cost, not from the increased number of recipients or increased amount of disbursement. In short, the ultimate objective of the scheme should be to make sure that more recipients become self-reliant rather than continue in dependency.

**8. Policy issues:**

Welfare reform must be viewed against a background of a growing and aging population and continued welfare support is only viable and sustainable if the country can generate steady growth or reform the pensions, healthcare and welfare system.

**Policy recommendation:**

Malaysia's pension system can be improved with increasing the pension age to 65 years, reducing the number of public sector employees and creating incentives for savings through reform of the EPF.

**9. Policy issues:**

The use of data for welfare analysis is limited in the Malaysian context and is not easily available in the public domain. This is a symptom of the poor level of analysis that is used to understand the system and the needs of recipients.

**Policy recommendation:**

A new system of data collection and analysis is required to provide a clear idea of who are going to benefit from assistance. This is critical for making choices about the best use of scarce resources. The assistance is best allocated when it is driven by data on questions such as who the recipients are, where they are living and how much the gaps are in terms of income and the facilities they are facing. It can also foster an understanding of resources available at hand and some potential resources that can be channelled into the scheme.

**10. Policy issues:**

Above all, structural reform towards more liberalization is key to achieving better quality growth. It is widely agreed that the best form of welfare provision is to provide well-paid, sustainable employment to avoid the need for welfare payments and allow the scope for saving for retirement.

**Policy recommendation:**

This can only be achieved and sustained through a commitment to advanced market and democratic institutions. The Social Market Economy offers a potential model for Malaysia to emulate and this should be the focus of more research and wider stakeholder discussion.

## ► About the Author:

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Amin has authored four books – *The Social Market Economy: Alternative for Malaysia?* (2010), *Global Warming and Climate Change: Policy Observation* (2011), *Sustainability: Human, Environment and Development* (2014) and *The Foundations of Freedom and Justice: An Introduction Edition* (2016). Besides that, he has translated nearly 10 books including *What is Seen and What is not Seen* by Frederic Bastiat (2012) and *Economics in One Lesson* (2013) by Henry Hazlitt. He is currently working on the translation of the collected works of a prominent national historian, Emeritus Professor Khoo Kay Kim and the over 1,000 pages three-volume biography of Abraham Lincoln, written by the Pulitzer Prize winner, Carl Sandburg, while residing in Manhattan, New York, United States since 2014. Since 2010, he has appeared on numerous public forums and national and private television talk shows to discuss various political, economic and social issues. Hundreds of his writings on current issues were published by mainstream and alternative media.

Amin is also an alumni of Asia Institute for Political Economy (AIPE), University of Hong Kong – Georgetown University; International Academy of Leadership (IAF), Germany; and American Council for Young Political Leaders (ACYPL). He is now working on developing his newly-founded think tank, Institute for Leadership and Development Studies (LEAD), since January 2014, which promotes the principles of market solutions to public policy challenges of Malaysia.

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Professor Williams' most recent work has focussed on higher education management, economic impact and policy analysis, sustainability and corporate responsibility. His work has been published in leading academic journals including *Oxford Review of Economic Policy*, *Journal of Business Ethics*, *Journal of Economic Behavior and Organisation*, *Research Policy*, *Journal of Economic Psychology*, *Business Ethics: A European Review*, *Review of Income and Wealth*, *European Competition Law Review*, *Review of Financial Economics*, *Journal of Behavioral Finance*, *Journal of Macroeconomics*, *Information Economics and Policy*, *Applied Economics*, *Applied Financial Economics* and *International Review of Business and Economics*. His edited volume *Responsible Management in Asia – Perspectives on CSR* was published by Palgrave-Macmillan in 2011 and his volumes on *Higher Education Policy & Reform in Malaysia* and *Private Higher Education Management & Finance in Malaysia* will be published by Palgrave-Macmillan in 2017.

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### **Disclaimer:**

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