



PRAKSIS
THE JOURNAL OF ASIAN SOCIAL DEMOCRACY

ISSN: 2815-1046

Volume 3

Issue 1

September 2023

The Limits of Globalization:

Injustice, Inequality and the
Progressive Response





PRAKSIS is a semiannual publication of the Network of Social Democracy in Asia (Socdem Asia). It seeks to combine theory and practice by providing cogent analyses to inform the strategy of the progressive movement and help shape the policy direction that should guide the region's governments.

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Malaysia's Push for Equitable Economic Development

Globalization and Economic Development in Malaysia

Malaysia has had an ambivalent relationship with globalization. On one hand, Malaysia's economy has been strongly driven by globalization—harnessing trade, foreign capital, and foreign labor to grow. It has transformed the economy from one that was highly dependent on agriculture and commodities into one driven by manufactured exports and service sectors, thereby reducing poverty and inequality locally.

On the other hand, the over-reliance on low-skilled foreign workers has distorted and compromised the competitiveness of the economy, leading to high unemployment among locals and graduates, and resistance towards the implementation of the minimum wage (Ang et al. 2018; Radhi 2022; Sheikh Ahmad Tajuddin et al. 2021).

Malaysia is one of the most open economies in the world with a trade to GDP ratio of 130.73 percent in 2021 (Malaysia's trade to GDP ratio was 116.43 percent for 2020, 122.99 percent for 2019, 130.40 percent for 2018) (Macrotrends LLC n.d.). Openness to trade and investment has been key in the creation of jobs and income growth, with about 40 percent of jobs in Malaysia linked to export activities (Oxford Business Group 2022). However, there is a drawback: the openness of the Malaysian economy has made it vulnerable to global economic shocks (Lee 2021).

Foreign Labor in Malaysia

The World Bank (2020) estimated that Malaysia's foreign workforce hovers around 15 percent of the total labor force, concentrated mainly in lower-skilled occupations (World Bank Group 2020)—sectors such as manufacturing, construction, plantation, agriculture, services and domestic help (Rahmah and Ferayuliana 2014; Malaysian Investment Development Authority n.d.).

Initially, the development of export-oriented manufacturing did not call for the extensive use of foreign workers. However, due to steady economic expansion and demographic changes, by the early 1990s, Malaysia began to experience labor shortages, and relatively cheap foreign labor helped sustain the manufacturing sector for the past 30 years.

Despite that, the readily available pool of cheaper low-skilled foreign workers discourages industrial upgrading. While grants and incentives for automation and technology adoption are helpful, they are by themselves insufficient to create the necessary push for firms to move up the value-chain (Ang et al. 2018).

Research also shows an alarming trajectory. Malaysia's share of low-skilled job creation has increased to 16 percent from 8 percent in 2002 to 2010. As a matter of fact, 73 percent of net jobs created in 2015 to 2016 went to foreigners, of which almost all of them had at most a secondary education.



Image: www.hrmasia.com

“Consequently, Malaysia risks being trapped in a low-wage, low-skill conundrum. Corporations are still engaged in a 'race to the bottom' in relation to labor costs and are unwilling to pay more. By keeping wages low, it removes the pressure to change the status quo.

On the other hand, the number of graduates in Malaysia increased by around 880,000 persons over the same period, but with a corresponding high-skilled job creation of only 650,000 persons. This translates into increasing graduate/youth unemployment from 2011 to 2016, outstripping that of non-graduates.

Consequently, Malaysia risks being trapped in a low-wage, low-skill conundrum. Corporations are still engaged in a 'race to the bottom' in relation to labor costs and are unwilling to pay more. By keeping wages low, it removes the pressure to change the status quo. This distorts the natural wage clearing mechanisms that would have otherwise driven wages upwards. This has led to the depression of overall wages, particularly wages of low skilled locals (Ang et al. 2018).

Politicians on both sides of the divide, upon becoming government, have always been caught between a rock and a hard place on the policy of foreign labor, as there has been resistance towards the reduction of foreign worker employment and

also the implementation of minimum wage for the protection of local low-income workers (Ang et al. 2018; Radhi 2022; Sheikh Ahmad Tajuddin et al. 2021).

Poverty and Inequality in Malaysia

Interestingly, globalization has indirectly benefited the rural poor, through rural development programs (such as the Federal Land Development Authority scheme).¹ The success factor in 'eradicating poverty' has been identified as the absorption of educated rural workers into higher income occupations in the industrial and services sectors. Thus, insofar as the country's manufacturing sector is export-oriented, globalization has had a positive and indirect impact on the decline in the incidence of poverty in Malaysia.

Despite the plethora of benefits Malaysia reaped from globalization, inequality prevails. Inequality mainly worsened due to the pandemic.

¹The Federal Land Development Authority (FELDA) is an agency of the Malaysian government that handles the resettlement of rural poor to newly developed areas called schemes or settlements—the editor.



Image: www.isis.org.my

“To eradicate Poverty, the HARAPAN in its election manifesto provided a series of proposals to reduce inequality, which includes Micro-credit Financing, Direct Cash Transfer aid, Free Breakfast Programmes, assistance for children from impoverished families, Affordable Home Ownership and Rental, Community Health Access, building Safe Spaces in urban poor residences, and Community Kitchen initiatives.

According to UNICEF, the COVID-19 pandemic has exacerbated pre-existing poverty, inequality and social exclusion challenges (UNICEF Malaysia). Based on the *Household Income Estimates and Incidence of Poverty Report, Malaysia, 2020* from the Department of Statistics Malaysia, the incidence of absolute poverty increased from 5.6 percent (2019) to 8.4 percent. Meanwhile, the incidence of hardcore poverty is estimated to increase from 0.4 percent (2019) to 1.0 percent which involved 78.0 thousand households (2019: 27.2 thousand households) (Department of Statistics, Malaysia 2021).

Inequality in Malaysia as measured by the Gini ratio has increased slightly in 2019 due to the effects of the pandemic. The 2019 findings depicted the value of the Gini coefficient that was

calculated based on gross income increased by 0.008 percentage points from 0.399 (2016) to 0.407 (2019). Over the said period, the Gini coefficient in urban areas increased from 0.389 to 0.398 whereas the Gini coefficient in rural areas rose from 0.364 to 0.367 (Department of Statistics, Malaysia 2020).

Unlike universal welfare states, and due to existing structures, the government stratified citizens according to their income levels to channel aid to vulnerable groups more effectively—namely the Top 20 percent (T20), Middle 40 percent (M40), and Bottom 40 percent (B40). This is based on the Department of Statistics' (DOSM) Household Income and Basic Amenities (HIS/BA) survey of 2019. The HIS/BA is conducted twice every five years (Department of Statistics, Malaysia 2021).

The government of Malaysia has been focused on addressing the well-being of the poorest. Following the removal of broad-based subsidies, the government adopted targeted measures to support B40 communities, mainly in the form of direct cash transfers to low-income households. This form of subsidy has transcended election cycles and outlasted governments.

However, there are still gaps in the statistics, leading the *Pakatan Harapan* coalition (Alliance of Hope) to propose Action Plans to protect the most vulnerable in society.

Pakatan Harapan's (Alliance of Hope) Action Plan for Malaysia

Pakatan Harapan is a Malaysian political coalition consisting of center-left political parties, namely the Democratic Action Party (DAP), the People's Justice Party (PKR), National Trust Party (AMANAH), and the United Progressive Kinabalu Organisation (UPKO). Pakatan Harapan is now in government after winning the 15th General Elections.

The Action Plans proposed by the Pakatan Harapan coalition to combat inequality, *inter alia* are: (A) Eradicating Poverty, and (B) Strengthening Worker Protection (Pakatan Harapan 2022).

To eradicate poverty, the HARAPAN in its election manifesto provided a series of proposals to reduce inequality, which includes Micro-credit Financing, Direct Cash Transfer aid, Free Breakfast Programmes, assistance for children from impoverished families, Affordable Home Ownership and Rental, Community Health Access, building Safe Spaces in urban poor residences, and Community Kitchen initiatives.

In order to strengthen worker protection, there are measures to take care of workers' welfare by further improving minimum wage, social security schemes, and eliminating challenges stemming from workplace discrimination.

Conclusion and Summary

Globalization has had a very significant impact on Malaysia. The country's engagement in globalization can be traced to the pre-independence period. The engagement—through trade, foreign capital, and labor migration flows—helped shaped Malaysia as it is today.

The country's economic openness in terms of trade and investment brought about the development of an export-oriented manufacturing economy. However, this brought on another problem of over-dependence on low-skilled foreign labor.

The pandemic has exacerbated pre-existing poverty, inequality and social exclusion challenges, and the response of the government is direct cash transfers.

The Pakatan Harapan Unity Government supports globalization that is socially just. Therefore, the gaps within the system were identified, and policy measures proposed to protect the most vulnerable in society. ■

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