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# **Global forces, institutional pressures:**

## *The Malaysian Employees Provident Fund in Need of Reform*

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## Abstract

This thesis examines one area of welfare in one rapidly industrialising country – Malaysia – in order to explore the nature and impact of key economic, social and institutional pressures on a key component of the Malaysian welfare system: the Employees Provident Fund (EPF). The fundamental question is can the Malaysian EPF meet its core objective which is to ensure that all of its members have financial security in their old age? The thesis identifies four key challenges: first, can the current pensions system meet its stated aims despite external global economic pressures which can impinge on the way states configure their welfare systems; second, how will population ageing impact upon current pensions policy and third, do class and ethnic changes matter?

The fourth challenge is the EPF itself which – in common with core institutions in other welfare systems is itself ‘institutionalised’ – though having been in existence for over 50 years, needs to change in order to fulfil its primary objective of ensuring financial security for its members in old age. Continued reliance on individual provision alone will increase inequality based on gender, age, class and ethnicity. The demographic shift to an ageing population *combined* with widening income inequality – itself a product of Malaysia’s engagement with the global economy – will result in too few people will having amassed the required level of savings to fund a lengthening old age.

The thesis concludes that neither expansion of the EPF’s remit nor inaction are viable options. A new social insurance based scheme which guarantees a minimum level of

income for all, regardless of class or ethnicity should be introduced. Such a scheme, though expensive, would be both effective and equitable, and would be consistent with the EPF's own stated objectives.

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## **Glossary/Abbreviations**

ABIM	Malaysian Islamic Youth Movement
ADB	Asian Development Bank
AFTA	Asian Free Trade Association
ASEAN	Asian Free Trade Association
BN	Barisan Nasional
Bumiputera	Ethnic Malays (translates as ' <i>sons of the soil</i> ')
CPF	Central Provident Fund
DAP	Democratic Action Party
DCs	Developing Countries
EPF	Employees Provident Fund
EU	European Union
FDI	Foreign Direct Investment
FEER	Far Eastern Economic Review
GDP	Gross Domestic Pressure
HPAEs	High Performing Asian Economies
ICTs	Information Communication Technologies
IGOs	International Governmental Organisations
ILO	International Labour Organisation
IMF	International Monetary Fund
ISA	Internal Security Act
ISI	Import-Substitution Industrialisation
KLIA	Kuala Lumpur International Airport
KLSE	Kuala Lumpur Stock Exchange

KPWK	Ministry of Women, Family and Community Development, Malaysia
MBSB	Malaysia Building Society Berhad
MCA	Malaysian Chinese Association
MCP	Malayan Communist Party
MFLS-2	Second Malaysian Family Life Survey
MGS	Malaysian Government Securities
MIC	Malaysian Indian Congress
MNCs	Multi National Corporations
MSC	Multi-media Super Corridor
MTR5MP	Mid Term Review 5 <sup>th</sup> Malaysian Plan
MTR8MP	Mid Term Review 8 <sup>th</sup> Malaysian Plan
MTUC	Malaysian Trades Union Congress
NAFTA	North American Free Trade Association
NCC	National Consultative Council
NDP	National Development Policy
NEP	New Economic Plan
NIC	Newly Industrialised Country
NIEs	Newly Industrialised Economies
NOC	National Operations Council
NPE	National Policy for the Elderly
NPF	National Provident Fund
NVP	National Vision Policy
OADR	Old Age Dependency Ratio
OECD	Organisation for Economic Co-operation and Development

OPP2	Second Outline Perspective Plan
OPP3	Third Outline Perspective Plan
PAP	People's Action Party
PAS	Partai Islam Se-Malaysia
PAYG	Pay As You Go
PLI	Poverty Line Income
PTF	Pension Trust Fund
RM	Malaysian Ringitt
SOCISO	Malaysian Social Security Organisation
TFR	Total Fertility Rate
UMNO	United Malays National Organisation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNPAN	United Nations online Network in Public Administration and Finance
WB	World Bank
WTO	World Trade Organisation
2MP	Second Malaysia Plan
5MP	Fifth Malaysia Plan
7MP	Seventh Malaysia Plan
8MP	Eight Malaysia Plan

## Preface

This thesis examines the nature and impact of key economic, social and institutional pressures on one significant component of the Malaysian welfare system: the Employees Provident Fund (EPF). The overriding question is whether or not the EPF is likely to meet its core objective, which is to provide its members with financial security in old age? This is not simply a question about what the Malaysian state should be doing to ensure that the increasing numbers reaching old age avoid poverty or financial hardship, rather the thesis is concerned with whether the EPF, reliant as it is on individual monthly contributions, is 'fit for purpose'.

This thesis identifies four major challenges to the EPF:

The first challenge is the nature of the EPF itself which – as with key institutions in other welfare regimes is itself 'institutionalised' – it is argued, needs to change in order to fulfil its stated primary objective of ensuring financial security for its members in old age. The socio-economic changes which have taken place as a result of social policy reform over the last 30 – 40 years or so have resulted in increased inequality based on class *combined* with ethnicity and gender. Continued reliance on individual savings will exacerbate such inequalities and will result in more EPF members failing to amass sufficient resources to fund a lengthening old age.

The second challenge is whether the current pensions system will be able to meet its stated aims despite external global economic pressures which can impinge on the way states configure their welfare systems? The Malaysian state has enthusiastically embraced the global economy and as a relatively small, though largely open economy,

Malaysia is at risk of wider, global economic trends. Three decades of impressive economic growth came to an end with the 1997 regional economic crisis and Malaysia has found it difficult to recapture both previous levels of economic growth and pre-1997 rates of inward investment. Economic globalisation offers both opportunities and restriction for welfare reform and it is the nation state and its institutions which mediate the effects of external pressures.

The third challenge is represented by how population ageing will impact upon current pensions policy? Demographic developments which have taken place as the Malaysian economy has grown include a massive increase of mainly young, rural to urban migration in search of increasingly insecure employment. In addition to this Malaysia is experiencing the near global phenomenon, or 'crisis', of a demographic shift to an ageing population. There are real concerns regarding the cost implications, both in terms of increased health costs and ineffective income levels, for those reaching old age in increasing numbers and for many of whom old age is equated with an extending period of economic inactivity.

The fourth challenge examines the development process which has seen Malaysia move from a primarily ethnic based society, to one in which ethnicity *combined* with class and gender has resulted in increased inequality in Malaysian society. It is this particular form of growing inequality which again calls into question the efficacy of the EPF and its claim to ensure that members have financial security in old age.

In seeking to examine these four challenges, the thesis 'naturally' falls into three sections:

**Part One:** Chapter 1 will provide the reader with the rationale for the thesis, that is does the EPF remain ‘fit for purpose’ and can it adapt to, and survive *four key* challenges of population ageing; class and ethnic changes global economic pressures and institutional stasis? The exogenous and endogenous factors which have a bearing on the problems faced by Malaysia will be examined – primarily the perceived effects of economic globalisation and the tensions created by institutional stasis. This chapter will also review the methodological considerations.

Chapter 2: gives the reader historical context to the contemporary welfare system, noting its historical and colonial roots and examining the political economy of Malaysia. This in effect deals with how Malaysia got to the EPF and (in part) why the political establishment has thus far shied away from welfare expansion.

Chapter 3: examines the institutionalised pension system which is the EPF, its aims and objectives, development and mechanism. This chapter also highlights the shortcomings of an over reliance on individual savings for old age.

**Part Two:** Chapters 4, 5 and 6 examine the remaining 3 three key challenges namely the impact of globalisation, ageing and class, ethnicity and gender and how all three represent challenges to the current EPF.

Chapter 4 examines the impact of globalisation and argues that social policy reform cannot take place without some regard to the prevailing global economic conditions. However, it concludes that domestic institutional and political arrangements are likely to have a mediating effect on the influence, or otherwise, of external economic conditions.

Chapter 5 seeks to explore the extent to which a demographic transition to an ageing population can be regarded as a ‘crisis’. In doing so it examines what it is that

constitutes an ageing population, the rapidity and extent of this phenomenon and, with reference to Southeast Asia in general and Malaysia in particular, whether this demographic shift should be labelled as a 'crisis'. The themes explored in the chapter are concerned with issues of demography which incorporates ageing, changing family structures, increasing female participation in the formal labour market linked to adequacy of income in old age, retirement, culturally specific responses to old age and the way forward for developing societies increasingly enmeshed in the global economy.

Chapter 6 examines the development process which has seen Malaysia move from a primarily ethnic based society to one in which ethnicity, class and gender combine to give greater insight into the growing inequality in Malaysian society. This growth in inequality calls into question the efficacy of the EPF and its claim to ensure that members have financial security in old age.

**Part 3:** Chapter 7 presents Singapore as a comparator case which faces similar challenges of an institutionalised pension system; exposure to global economic trends; a rapidly ageing population; and increased ethno-class based inequality. The chapter notes the continuing issues facing the CPF which serve notice to the EPF of possible pitfalls of continued reliance on the provident fund mechanism as the main source of pensions provision.

Chapter 8 is the concluding chapter which reviews the thesis and suggests policy recommendations which would address the identified weaknesses of over reliance on the EPF.

## **Chapter One**

### **Malaysian welfare under pressure?**

This thesis looks at one area of welfare in one Newly Industrialised Country (NIC) – Malaysia – in order to explore whether or not the approach adopted towards old age pensions is able to survive four key challenges: First, can the current pensions system meet its stated aims despite external global economic pressures; second, how will population ageing impact upon current pensions policy; third, do class and ethnic changes matter; and fourth, will the combination of these factors continue a reluctance to adapt or reform existing structures to take account of wider social and economic changes which will affect the historical institutionalised (and path dependent) nature of Malaysian society?

In short, the thesis is seeking to address a fundamental question: Can the Malaysian Employees Provident Fund (EPF), as presently constructed, provide sufficiently for the Malaysian population in old age? This is not a normative question about what the Malaysian state should be doing to secure financial stability in old age for its citizens, but one which asks whether the EPF is actually ‘fit for purpose’ according to its stated objectives. According to the EPF Annual Report, 1999 (EPF, 1999), the ‘purpose’ of the Fund is to provide retirement benefits for members through mandatory savings in the form of monthly contributions. The Chairman’s Statement (EPF, 1999: 13) makes it clear that ‘the primary responsibility of the EPF is to ensure that its members have financial security in their old age in the form of adequate savings to support their retirement’. This comment is reflected in the organisation’s mission statement, which

notes that, for the fund's members 'Our primary mission is to provide retirement benefits to our members through the management of their savings in an efficient and reliable manner' (EPF, 2004: 5). Furthermore, it is pertinent to note that, although charged with the provision of retirement income to its members 'the EPF is essentially an implementing agency and its policymaking powers remain with the Ministry of Finance' (Asher, 2002: 86).

A quick perusal of Malaysian official statistics, which detail the decline of poverty in Malaysia, a key policy objective of the New Economic Policy (NEP), reveals that poverty rates dropped from a high of 49.3 percent in 1970 to 5.1 per cent in 2002. This would seem to offer a snapshot of successful anti-poverty measures based upon economic growth, a decline in the agricultural sector of the economy and a subsequent expansion of the export-orientated manufactures-based industrial labour force (Crouch, 1996; Mid-Term Review, 8<sup>th</sup> Malaysia Plan (MTR8MP) 2003). However, it is argued elsewhere (Chapter 3: 128/9) that poverty affects not only those generally classified as poor, with reference to earnings power within the formal labour market, but also those whose position in the stratification system could have been expected to afford them a greater degree of financial security beyond retirement. As Rueschemeyer et al (1992: 273) state, 'one class can never be understood in isolation from that of all other classes, states and international actors in the *historical* situation' (my emphasis). This particular phenomenon has much to do with the ways in which *ethnicity combines with class* to privilege a particular section of Malaysian society, namely the educated 'new' middle class Malays. Such a system has been institutionalised by the state through active intervention strategies, in particular the NEP and its successors. However, it is also the case that far larger sections of society

are at risk of poverty in old age due, in the main, to relatively low wages during the contributory phase, increased life expectancy and the 'natural' erosion of savings by inflation. These factors conspire against a contribution-based system such as the EPF, where account balances are seen as failing in the task of providing an adequate alternative to wages beyond retirement and income throughout the contingency of old age – and indeed where balances fall far short of the International Labour Organisation (ILO) preferred replacement rate of 60 per cent for the vast majority of members. In addition, there is growing concern regarding the increased level of income inequality in Malaysia which, it is suggested, will reduce the real levels of savings for the many who do not command high salaries (Hashim, 1998; Jomo, 2001). Such a situation, it is argued, will have serious implications for the continued relative stability of Malaysian society.

This chapter will provide a snapshot of the different challenges facing current Malaysian pensions policy. In doing so, it will first seek to place the issues facing old age incomes in Malaysia in context. At a general level, the exogenous and endogenous factors which have a bearing on the problems faced by Malaysia will be examined – primarily the perceived effects of economic globalisation and the tensions created by institutional stasis. More specifically, the factors of ageing, class and ethnicity will be assessed to give a broad description of issues affecting both current pension policies and future reform paths. There will be a short discussion which will conceptualise the Malaysian welfare regime and attention will be focussed on the problematic nature of transferring regime analysis from its more usual sphere of 'northern' advanced industrial societies to those of the 'southern' developing nations. The chapter will conclude with an examination of both the methodological

considerations pertaining to the thesis and the methodological tools employed in its production.

*Placing Malaysian pensions policy in context*

For more than fifty years the dominant form of income provision for life into old age has been individual savings through membership of the Employees Provident Fund. Generally, this arrangement has been held in good regard (Ramesh with Asher, 2000; Gough, 2000a; Yaacob, 2000) although there remain questions regarding both its coverage and its efficacy. Many of the issues facing the contemporary EPF are – inevitably – a consequence of its history. By this it is not meant that the fund is preserved in aspic, rather that changes which have taken place in Malaysian society have not been mirrored and addressed by more recent reforms to the original EPF Act (1951). Although the fund currently operates under more recent amendments, these do not fully answer those nagging points of coverage and efficacy; indeed elsewhere the thesis argues that such reforms have contributed to greater inequality in old age.

The development from an agricultural to industrial economy and the accompanying shift from a rural to an urban population has increasingly placed strain upon the ability of the EPF to function as a de facto private sector pension provider. In short, there are more people who require coverage and for a longer period, as dependency upon the labour market has increased and a lengthening old age has become a commonplace risk which needs to be planned for and insured against. As noted, the EPF has developed and will continue to do so. However, there is an almost perceptible tension between what this thesis argues are necessary reforms to old age incomes policies, in part brought about by greater engagement with the wider global

economy, and the domestic 'institutional' brakes which are applied to such a reform process. Furthermore, it is argued here that progressively it is socio-economic class *combined* with ethnicity, which is the focus for inequality, and that increasingly it is class – despite the continued 'plural' nature of Malaysian society – which will prove to be the arena for future discontent. This is not to discount the institutionalised notion of ethnicity as a vital concept in understanding Malaysian society, however. Malaysia is an ethnically divided society with relatively rigid ideological, social and cultural practices which favour Malays over others and which prolong what we shall later define as communalism. Rather it is to recognise – and emphasise – an important dislocation in the specific link between employment and ethnicity and the increased prominence of paid labour as the locus of inequality. It is against the backdrop of this altered internal dynamic that the current structure of the EPF attempts to continue in its central role as the mechanism by which individual Malaysians save for their old age.

#### *Pension policy reform in Malaysia: exogenous and endogenous factors*

Examining Malaysian pensions' policy, there are two distinct groups of factors which interact to produce tension and instability in a previously relatively stable environment. In the first instance, there are a number of external factors, which have been identified as aspects of the processes of economic globalisation, and which have specific implications for social policy reform in general and moreover which carry with them individualised implications for Malaysia. Secondly, there are the specific internal institutional factors which, it is argued here, relate both to the nature of Malaysian society and to its social, political and economic institutions, which could be the source of increased tensions as inequality (both real and perceived) increases.

It is the combination of these factors which tends towards stasis and a reluctance to adapt or reform existing structures to take account of wider social and economic changes.

Economic globalisation can, for the purposes of this thesis, be described loosely as the processes by which increased liberalisation and expansion of the global economy has produced external pressures on welfare regimes. This heightened economic interconnectedness includes increased speculative flows of short-term capital based on currency trading, increased levels of long-term foreign direct investment (FDI), the interconnectedness of production due to advances in technology and increased world trade accompanied by policies designed to reduce barriers and facilitate the further expansion of trade flows. Many writers have argued that the growth, or spread, of economic globalisation has important implications for welfare reform as the options available are limited by the growth of power of international capital (Deacon et al, 1997; Mishra, 1999; Rodrik, 1997). However, a contra position has been put forward by Hobson and Ramesh (2002: 8), who argue that globalisation processes have both a positive and negative relationship vis-à-vis states and welfare reform. They contend that 'states are purposeful agents that shape and determine the global system within which they reside and, conversely, that the global system shapes states. In short states and globalisation are mutually reflexive and are embedded in, or are co-constitutive, of each other'. Furthermore, they infer that such a dualistic approach confers opportunities as well as constraints: 'The global realm is simultaneously both a realm of constraint that defines parameters to which states must adapt and a resource pool into which states-as-agents dip in order to enhance their power or interests either in *external* or *internal* realms' (Hobson and Ramesh, 2002: 8 – my emphasis). It is this

dualistic nature of economic globalisation which offers both opportunities to, and imposes constraints upon domestic economies which calls into question the efficacy of the current Malaysian pension arrangements whilst simultaneously creating the space and conditions for possible state led reform.

Later in this chapter (p35) *economic* globalisation is identified as one of five explanations of the development path of social policies in Southeast Asia, and the influence of globalisation is examined more thoroughly in Chapter Four of this thesis. However, such is the influence of the wider global economy on the economic and social development of Malaysia in general and its pension policies in particular, that it would be odd to omit reference to such processes from a headline list of exogenous factors. Indeed to quote the Eighth Malaysian Plan (8MP, 2001: 39), 'Being an open economy Malaysia's prospects...will be influenced by developments in the international economy.' There is evidence to suggest that since Malaysia was caught up in the 1997 Asian Financial Crisis it has, in common with other regionally affected economies, found it difficult to recapture previous high levels of economic growth, despite projected levels of economic growth as averaging a healthy 7.5 per cent per annum (8MP, 2001: 40). In part, this slowdown can be seen as a response to the manner in which Malaysia sought to weather the turbulence by imposing capital controls, thereby restricting dis-investment, a form of economic management which did not please either the global market or global financial organisations.

In the immediate aftermath of the 1997 regional economic crisis Malaysian FDI rates appeared to return to similar pre-crisis levels though this recovery did not last. This fluctuation has introduced newer risks to the labour market, such as increased

employment insecurity and vulnerability, particularly in the low skills end of the electronic manufactures industry. In the longer term Malaysia, in common with most of its regional competitors, has seen a reduction in streams of foreign direct investment (FDI) as the booming Chinese and Indian economies continue to attract high levels of foreign capital. Figures from the World Bank bear this out, noting that Malaysia's flow of FDI decreased by 40 per cent between 1999 and 2003. As the Bank states 'In U.S. dollar terms, FDI inflows into Malaysia decelerated steadily from a recent peak of \$3.9 billion in 1999, to \$3.2 billion in 2002 and to \$2.5 in 2003...while Malaysia is still an attractive destination for FDI, the country's relative performance has waned slightly, more so in recent years' (World Bank, 2004: Box 2). Increased employment insecurity naturally impacts upon individuals' ability to procure incomes in old age, and this has led to a possible future increased risk of poverty and social exclusion based upon age and employment record. The cost implications of such labour market insecurity have so far been borne by existing structures, including inadequate informal arrangements (Jomo, 2001). However, there is a growing likelihood that this may not hold as both the expansion of the formal sector is slowing down and the claims on the revenue streams increase as the EPF continues to move away from its central remit (Omar, 2005). Added to this is the oft-stressed need to maintain and grow returns via greater exposure to the global financial market on both an individual and corporate basis. This in turn introduces greater levels of risk and uncertainty of returns due in part to market volatility as well as investor inexperience. It is this notion of increased economic risk and uncertainty which places greater emphasis upon the domestic pension arrangements and furthermore calls into question the ability of existing institutions and 'ways of doing welfare' to provide sufficiently for the Malaysian population in old age.

Endogenous factors, primarily those concerned with Malaysia's socio-economic transformation, necessarily impact upon domestic pensions policy. In such an examination, a degree of emphasis is placed upon the socio-economic transformation in Malaysia's domestic economy. This saw a shift from a mainly agricultural economy – reliant on the export of raw materials in the form of tin, rubber and palm oil – to export led growth as industrialisation placed increased significance on manufacturing. More recently there has been a drive towards a services based economy in which 'value added' and 'knowledge' have become the contemporary watchwords. As the Third Outline Perspective Plan (OPP3, 2001: 154) states, 'The future growth and development of the economy will be driven by knowledge-based industries in all sectors, particularly the manufacturing and services sectors.'

Demographic developments which mirror the change in direction of the Malaysian economy include a massive increase of mainly young, rural to urban migration as younger cohorts leave behind relatively unprofitable though stable agricultural employment in favour of more insecure wage labour in the increased manufacturing sector of the economy centred predominantly around electronics. A concomitant aspect of the shift in the domestic economy has been increased employment choices open to women, again primarily in the electronics manufactures sector as well as the burgeoning services sector. Here again the link between the economic and social aspects of Malaysian society are intertwined as the OPP3 notes; 'As more women pursue higher levels of education or training, the overall fertility rate, which is the number of children that a woman will bear during her child-bearing age, will continue to decline. In addition, delayed marriages, increasing urbanisation, higher cost and improved standards of living is expected to reduce family size' (2001: 149-50). This

at a time when Malaysia is experiencing a shift to an ageing population, which calls into question the ability of traditional support mechanism to continue as previously.

One final aspect of development in Malaysia which has direct impact upon the development of old age incomes policy has been the changes to the class structure, in part as a 'natural' aspect of the processes of industrialisation, although these have been exacerbated by the discriminatory policies of NEP and the increased interweaving of class and ethnicity in light of economic development. As Ramesh (2000: 5) notes, 'Industrialism draws people out of self employment and into wage employment, with attendant risks of exposure to unemployment, sickness...Urbanisation and ageing are trends that accompany industrialisation and further compound the need for expanding the state's role in income maintenance'. In part this socio-economic approach is informed by the theoretical approach of new institutionalism in general (and more specifically historical institutionalism) which emphasises the concept of path dependence in particular, which is present throughout this thesis. Here it is suggested that ethnicity and communalism persist due, in no small measure, to the developmental path taken by Malaysia and the continued effects of the NEP and later active 'social' policies such as the National Development Policy (NDP) and Vision 2020.

These general endogenous 'institutional' factors are further investigated specifically in relation to the following key themes:

1. *Poverty and social exclusion in old age*
2. *Women beyond retirement*
3. *Ethnicity and class*

#### 4. *The changing political establishment*

1. Both poverty and exclusion combine to form one of the central concerns of the thesis and as such it is argued that the likelihood of a growing number of elderly Malaysians, including not only those who are regarded as hardcore poor but also those from the expanded lower middle class, will face the reality of increasing poverty and social exclusion unless reforms to the funding mechanisms for old age are brought about. Figures from the MTR8MP (2003) show that households headed by the elderly and female headed households register a higher incidence of hardcore poverty at 4.9 per cent and 9.4 per cent against a national level of 1.0 per cent for 2002. As the review states ‘The overall decline in poverty was the result of Government’s continued efforts in implementing poverty eradication programmes, particularly the promotion of income generating projects’ (MTR8MP, 2003: 60). The field trip which was undertaken as part of the research process was concerned not only with gauging attitudes to the so-called ‘crisis’ of old age, but also questioning the current commitment to an individualised approach to funding life beyond retirement, and the onward ability of traditional forms of support to effectively continue in their role.

2. Whilst women will naturally be included in the above section, this thesis argues that such are the problems facing women, and those from low income backgrounds in particular, that an explicit examination of their situation with regards to insecure employment and the ability to save for life beyond retirement is important. In brief, it is the dual burden of low paid and interrupted employment and domestic care responsibilities which, combined with the increase in life expectancy, reduces

women's ability to provide an adequate independent income stream for life beyond retirement.

3. In a multi-ethnic society such as Malaysia, a core issue is the extent to which life chances are determined by an individual's ethnicity. Examples of such concerns are commonplace in the media in Malaysia and can be drawn from areas such as education, employment and politics. For example, as a result of the active discriminatory policies quotas exist which reserve Malays places in tertiary education, public sector employment and business licensing (Case 2004). This theme is addressed in other chapters, most notably Chapter 6 which deals with the NEP and its aftermath. A key point is the role ethnicity plays in the provision of income beyond retirement – the key question being whether class transcends ethnicity as the major determinant for the quality of life in old age?

4. During the period of research for this thesis economic crisis has rocked the Malaysian economy; Dr Mahathir has stepped down after 18 years as Prime Minister and yet on the surface little appears to have changed. The Internal Security Act (ISA) is still rigorously enforced, political opposition remains weak, mainstream media are somewhat neutered and the priority of restoring strong economic growth remains key. Despite this, some aspects of cronyism have been tackled and Prime Minister Badawi appears less isolationist than his predecessor. However, authoritarian populism remains as the main mode of governance (Munro-Kua, 1996) and Case (2002; 2004: 87) argues that Malaysia continues as a 'pseudo democratic regime' restricting civil liberties in order to maintain electoral victories. A key challenge to the institutionalised political establishment may come from the expanded (Malay) middle

classes when they begin to fully experience the effects of an inadequate pension system and demand greater involvement and action from the state.

Having reviewed the core challenges to the EPF, it is important to examine key explanations regarding the development of social policy provision in Southeast Asia in general, whilst, taking Malaysia as the main focus. Each of these explanations will be briefly reviewed in the subsequent section below, although it should be noted that added emphasis is given to globalisation and institutionalist approaches. Indeed it is the interaction of both globalisation and historical institutionalism which threads its way through the thesis. Of key interest here are the ways in which both global economic phenomena *and* 'local' institutionalised practices can act as catalysts or impediments to welfare reform. This discussion further strengthens the position taken in this thesis, which is that the tension between external economic forces and internal institutional pressures provides the best framework for examining the main challenges outlined above – ethno-class tensions, increased inequality, an ageing population and traditional welfare arrangements under pressure facing Malaysia – each of which will be fully explored and developed in subsequent chapters.

### *Social policy development and reform in NICs*

Explanations given for the development path of social policies in Southeast Asia generally differ in their emphasis and for the purposes of this thesis can be categorised into five main approaches, these being:

1. *Cultural perspectives*
2. *Political explanations*
3. *Socio-economic factors*

#### *4. Globalisation*

#### *5. Institutionalism and welfare reform*

##### **1. Cultural perspectives**

The development of cultural explanations regarding the path of social welfare reform in Southeast Asia has focused to a greater extent on finding common strands within divergent cultures. Most explanations of the success of Japan and the NICs will touch upon the subject of shared cultural traditions, and it is to be expected that the discussions will revolve around Confucianism and its beliefs and attitudes.

The distinction must be made between the philosophical teachings of the originator and his followers and 'popular' Confucianism, which in this context is both more general and open to reinterpretation in differing societies (Chow, 1986; Jones, 1993; MacPherson, 1993 and Goodman and Peng, 1996). The common underpinnings of this cultural analysis is based on ethnicity in the case of states such as Hong Kong, Singapore and Taiwan (and latterly China itself), and to this list one could add in part Malaysia, and is based on acculturation through the adoption of Confucian values in the case of Korea and Japan (Goodman and Peng, 1996). The focus rests firmly on the role of the family, or its substitute in the form of the family business or corporation, as provider of welfare based on the Chinese traditional values of duty, obligation and above all the ethic of filial piety. The growth of urbanisation that has accompanied the rapid industrialisation of the region has transformed the traditional family structure away from the extended or stem family structure, which in agri-rural societies was the main, and often sole, provider of welfare.

It is difficult to overstate the importance and centrality of the family within the Chinese cultural tradition. Not only does the structure of the household inform welfare provision (combining notions of solidarity, loyalty, patriarchal authority, female subordination and strict gender role segregation), but it is argued it also informs the way in which the larger society should be run. Jones (1990) coined the phrase 'Oikonomic Welfare States' to describe the form of welfare provision linked to economic performance that, it is claimed, exists in the region of East Asia. The concept here is one in which Confucian values and beliefs inform the manner in which welfare provision is initiated and linked not only to the role of the family as provider, but family as model. To paraphrase Jones (1990, 1993), the state is run along the lines of the traditional family structure in which beliefs and values play an important role in the provision of and demand for welfare. Corporationism (not corporatism, organised labour being effectively restricted for much of the latter half of the twentieth century) has been employed to describe the manner in which the states of the Pacific Rim have sought to 'manage' their societies.

Whilst this is an inherently attractive approach, placing as it does the focus directly upon local factors, it does not fully explain the ways in which welfare regimes in Asia have developed (White and Goodman, 1998), and in particular it is ill suited to the case of Malaysia. In the first instance, it is too general and seeks to apply Confucian values and beliefs to nations which are clearly something other. Asian cultures are both too diverse and too vibrant to be easily subsumed under one classificatory label. In the case of Malaysia such an explanation fails to take account of the Malay political hegemony which has existed since independence, and the primacy of Islam within the majority Malay culture. Dr Mahathir did in the past employ the rhetoric of

Asian cultural values as part of his anti-western, anti-welfarism stance, but he demonstrated little real affinity in practice (Korff, 2001). Rather it would appear that he employed such tools as were beneficial to his political aims. In this way his use of Asian values enabled Malaysia to tap into the political and economic alliances in the wider region and deflect international criticism of welfare arrangements, whilst at the same time promoting Islamic/Malay credentials to a home audience who were displaying greater affinity with the approach put forward by his main domestic political rivals in PAS.

## *2. Political Explanations*

Political explanations of the development of social policies in Southeast Asia tend to emphasise the nature of the political state and the role of class conflicts and democratic accountability of policy makers to a broad electorate as determining factors. In the case of Malaysia, as is noted elsewhere in this thesis, the nature of the political state can be characterised as ‘popular authoritarianism’ (Munro-Kua, 1996), in which the use of the Internal Security Act (ISA) – colonial in its origins – continues to enable the UMNO led Barisan Nasional government to quell political unrest (Aliran, 2001; Korff, 2001). In terms of social policy reform, the major development that has sprung from the political system could be argued to be the instigation of the NEP and its successors. Through these broad ranging initiatives, which have sought to advantage the Bumiputera community over other ethnic groups, Malays have found themselves to be beneficiaries of positive discrimination practices both in education and employment.

It is difficult to argue for a more precise link between the political economy and social policy reform, due in part to the reactive nature of political initiatives in the face of public discontent. As with Dr Mahathir's somewhat opportunistic use of the rhetoric of Asian values, which was picked up and dropped when circumstances or audience changed, so too it is somewhat problematic to attempt to pin down a Malaysian commitment to *an* ideological position relating to social policy reform. That is to say, expediency can inform political decisions which affect the lives of everyday Malaysians. Examples of this can be provided through the work of the Citizen's Health Initiative (Chan, 2000), which has been successful in lobbying against a transformation of the Malaysian health service into something resembling the American model in which private health insurance affects the level and standard of treatment available. However, it should be noted that this residual/privatisation approach to policy reform has not gone away.

Historically Malaysia has had a rather weak organised labour movement and has not been the repository of traditional forms of class conflict. The Malaysian Trade Union Congress (MTUC) has little real political influence and the state has enacted legislation both in the early 1960s and the mid 1980s to prevent the formation of large general unions (Crouch, 1996). Rather such conflict as has existed, has been in the main ethnically based. In the Latin American case, Ramesh with Asher (2000) cite Meso-Lago (1994) as arguing for the importance of competition amongst social groups in the development of social welfare programmes but, this has limited appeal in the case of Malaysia because of the discriminatory approach of the NEP, which has skewed any notion of social group competition towards a greater emphasis on inter-ethnic competition. Instead, it is argued that class and ethnicity are in fact part of the

same material process and that it is this conjoining, combined with a somewhat neutered labour movement, which determines policy reform and by default the resultant quality of an individual's life beyond retirement.

Similarly the notion of democratic competition as a fundamental factor in the development of social welfare in Malaysia has limited impact. The idea that political competition between parties for the votes of the electorate will result in a closer alignment with the wishes of voting public does not take account of the hegemonic power of the ruling coalition and a lack of a real 'left' alternative alongside numerous other factors, both social and political, which affect the development of public policy in Malaysia. Ramesh (2000) argues against the notion that elite ideologies can be applied to the development of social security in Southeast Asia 'Not too much can be read into the ideological predilections of Southeast Asian governments, whose leaders subscribe to and depart from their principles according to convenience. The same ruling elites that proclaim the superiority of the free market and the need to uphold individual responsibility show few qualms about denying both in practise' (Ramesh, 2000: 10-11).

### *3. Socio-economic factors*

Socio-economic factors emphasise the role that the industrialising process has on the development of social welfare programmes, essentially the traditional 'convergence thesis' (Wilensky, 1975). In short, the argument runs that as a society undergoes industrialisation and the attendant urbanisation and demographic shift towards an ageing population, so social policy reform expands to meet the needs arising from this tripartite process (Castles, 1998). The increasing reliance on waged employment, and

the nature of that employment with attendant risks, requires the state to provide a wider scope of welfare services in order to maintain economic competitiveness (Rimlinger, 1971).

This approach, however, views the process of industrialisation as a somewhat uniform phenomenon and so fails to take account of the variety of paths which lead to a similar end. It is difficult to see the similarity in the routes to industrialisation and developed nation status within the Southeast Asia region, let alone on global scale. It can, however, be argued that the ageing of populations in Southeast Asia and in Malaysia particularly will, by necessity, result in the expansion of social welfare spending as traditional providers of welfare fail to meet the growing needs and demands of the elderly. There is as yet, little convergence of approach to this common issue.

#### **4. Globalisation**

Globalisation is a multi-faceted term (Dicken, 1998, 2003; Held et al, 1999; Gough, 2000a) as identified above, and one that requires some definition before use. In the context of this thesis globalisation refers to *economic* globalisation and pays less attention to the notion in its more cultural form, though even the most casual observer will note that a 'westernisation', or more accurately 'Americanisation' of youth culture has developed in Malaysia through the presence and seeming popularity of the a line-up of the usual suspects such as MacDonald's, Starbucks, Levis and a host of other mainly American originating global players.

We should also be careful with our use of economic globalisation as this too has come to encompass a variety of meanings. In this context, the term refers to the increasing global connectedness in trade, the internationalisation of production, the liberalisation of the financial sector and the increasing power of transnational organisations resulting in a possible erosion of the power of the nation state to act independently of global players (Mishra, 1999; Scholte, 2000). Somewhat ironically it is this last which appears to some most sinister, and which Malaysia has, in its unique response to the 1997 regional economic crisis, for the time being staved off. Dr Mahathir has not only railed against the immorality of western lifestyles in his defence of 'Asian values' (Mahathir, 1998), but also the international economic actors such as the International Monetary Fund (IMF), World Bank and the World Trade Organisation (WTO), whom he views with suspicion as favouring the West (Mahathir, 1999). As Beeson (2000: 339) cogently argues 'the rise of financial markets is not seen simply as part of a universal process of secular change driven by technological innovation and economic restructuring, but as a process in which specific national or even regional interests are being served'.

However vehement Dr Mahathir was in his attacks on transnational organisations, the fact remains that the success of the export led strategy of industrialisation and the attendant economic and developmental leap forward that Malaysia has enjoyed over the past 25 years, has been as a result of the increased internationalisation of production and access to strategic markets in the West. What remains to be seen is whether globalisation in this form will lead to the much vaunted process of 'social dumping' in the Malaysian context. Indeed, it could be argued that the pressures of economic globalisation provide an impetus behind the ongoing debate regarding

health service reform in Malaysia. The flip side of this of course is whether, on a more positive trajectory, globalisation results in the development of a global social policy which takes into account the notion of access to social welfare provision as a basic human right (Deacon et al, 1997). As inherently interesting as this notion is, it is beyond the remit of this thesis. Rather, in Chapter 4, the discussion will focus on the effects of increased openness to the global economy and the pursuit of foreign direct investment on a rapidly developing nation such as Malaysia.

##### *5. Institutionalism and welfare state reform*

March and Olsen (1998) offer a useful way of 'opening up' this section by their simple explanation of what an institution can be interpreted as, and one which is of use in this context. They suggest that an institution 'can be viewed as a relatively stable collection of practices and rules defining appropriate behaviour for specific groups of actors in specific situations. Such practices and rules are embedded in structures of meaning and schemes of interpretation that can explain and legitimize particular identities and the practices and rules associated with them...An *institutional approach* is one that emphasizes the role of institutions and institutionalisation in the understanding of human actions within an organization, social order or society' (March and Olsen, 1998: 948 my emphasis). For the purposes of this thesis, it is useful to insert here within this broad approach a specific focus on welfare regimes and the policies and organisations which are concerned with welfare per se. Indeed, we can take this notion of rules and practices as contributing to identity and communities of belonging. As is clearly stated in Chapter 6 ethnicity is an institutional feature of Malaysia, albeit one which is now being undermined by a combination of external and internal forces. As March and Olsen (2005: 4) suggest

institutions represent 'structures of meaning, embedded in identities and belongings: common purposes and accounts that give direction and meaning to behaviour, and explain, justify and legitimate'. This brief section is focussed on the ways in which the institutionalised ways of 'doing' welfare can inhibit or restrict change or reform. (Beland, 2005) However, there are many and varying strands to the broad area of the role of institutions and their effects upon social policy reform and not all are taken as equal in their explanatory power.

S. Reich (2000: 501) has argued that 'New institutionalism has become a catchphrase concerning an approach to the study of social science. Yet the term conceals a number of distinct approaches that compete with one another as explanations of political behaviour'. Ellison (2006: 2) states that the underlying contention which informs the institutionalist position is that 'the embedded organisational structures on which particular policies rest, together with the assumptions and expectations about the nature of 'welfare' that develop over time among interested parties, conspire to make radical reform difficult'. Paul Pierson (1996, 2000a, 2000b), Beyeler (2003) and Campbell (2004) present useful accounts of the approach taken by the New Institutional school of thought which stands contra to the position which links greater economic globalisation with the welfare state retrenchment as a taken for granted situation. What these authors suggest, is that both political systems and administrative bureaucracies remain key players in the processes which determine social policy reform in individual nation states. It is the relative resilience of existing welfare state programmes, in both developed and developing nations, in the face of the processes of economic globalisation, which would appear to give some degree of substance to the New Institutional approach.

To develop this further, it is worth noting that there are many 'institutionalisms' each seeking to lay claim to greater explanatory power. S. Reich (2000) offers four characterisations of institutionalism, as do March and Olsen (1998), whereas Nielsen (2001) cites DiMaggio (1998) as distinguishing three 'types' of institutionalism. However, the strand or variant most relevant to this discussion is that of *historical institutionalism* (Pierson and Skocpol, 2002). This is not to negate the value of other positions, as S. Reich (2000: 517) puts it 'each of the four variants of institutionalism provides keen insights into a particular slice of politics.' Rather it is the historical institutionalist approach, with its consideration of path dependency, which appears best suited to explain the relationship between exogenous pressures and endogenous welfare resilience with reference to the Malaysian EPF. The notion of path dependency forms the backdrop for the section below, and here it is enough to highlight what Paul Pierson (2000b) terms the 'consequences of path dependence'. Pierson argues that change is not only difficult to achieve in institutions but that 'Individual and organizational adaptations to previous arrangements may also make reversal *unattractive*. When actors adapt to the new rules of the game by making extensive commitments based on the expectation that these rules will continue...Rather than reflecting the benefits of institutionalized exchange, institutional continuity may reflect the rising costs over time of adopting previously available alternatives' (2000: 491 - 2 – original emphasis). It may be as Beyeler (2003) suggests, that external pressures may appear to demand change, although domestic considerations and arrangements may prevail. Indeed Campbell (2004: 148) goes further, citing Esping-Andersen, (1999) and Swank (2002) as providing evidence that 'suggests that national institutions mediate global pressures'.

In summary then, it may appear difficult to ascribe primacy to one or other of the above approaches in order to explain the path taken by the Malaysian state in the development of social welfare reform. There are indications that each can contribute something to our understanding of where Malaysia finds itself now. For instance there are without doubt strong links between the deep cultural tradition and an institutionalised approach to welfare provision, which places such emphasis on individual self-reliance and the role of the family and community. However, as noted above, how can such a multi-ethnic society conform to the expectations of the cultural explanation, whilst avoiding the charge of generalisation? To which cultural tradition should we ascribe primacy? It is the pluralistic nature of Malaysian society, both past and present, which weakens the explanatory power of this approach.

There is some value also in parts of the socio-economic explanation, although here too one must be aware of the singular nature of industrialisation Malaysia-style (Jomo, 1997). The most appealing aspect of this argument is the attention that is paid to the expansionary effect on social spending that would be expected to accompany the demographic shift to an ageing population (Gough, 2000a). Indeed this is one of the central claims of the thesis that, as currently structured, the key objectives of the EPF will not be met unless social policy reform takes account of the impact of an ageing population combined with the inability of traditional sources of support to cope with such a rapidly changing society.

The political thesis may have more to offer in the contemporary setting with the arrival of a seemingly united multi-ethnic opposition coalition, although the very real threat remains that this unity will fragment along ethnic lines. It is undeniable that

Malaysia is undergoing a process of change with regards to the political economy. And despite the prolonged, though ultimately peaceful, transition of power to Abdullah Badawi, there is as yet little indication as to the final outcome. Little has transpired to indicate that the current regime will be any more willing to relinquish the firm grip which characterised Dr Mahathir's authoritarian rule, and which was consistent in its opposition to meaningful political freedom. Indeed Korff (2001) argues that the new perceived threat of radical Islamic fundamentalism which is seen as a component part of the 'global' war on terror has been employed to argue for the ongoing use of the ISA as a means of social control.

There are, as has been briefly sketched, elements of each of these explanations in the Malaysian case; however, there is less by which to gauge the trajectory of future policy and need. Rather it is to the two remaining explanations – economic globalisation and historical institutionalism - which may offer a more rounded account of recent and future paths of social policy reform in Malaysia. The explanatory power of these two perspectives is further enhanced in part because they tend to incorporate and build upon elements found in the other three approaches.

It is the nature of economic globalisation with its rapid flow of capital, internationalisation of production and liberalisation of financial markets which have done so much to take Malaysia along the road to developed nation status, whilst simultaneously exposing Malaysia to the risks and vagaries of international markets. As mentioned above, there is another, more positive side to economic globalisation which may see the establishment of some form of global social policy, treating welfare rights as basic human rights. However, this would still have to be seen within

the context of Malaysia and would of necessity have to pass through political, social and cultural filters. At this point the preferred choice of the historical institutionalist approach is appropriate. Here are found ways of explaining not only the development and reform trajectory of Malaysian social welfare, but also the arguably necessary endogenous counterweight to the exogenous influence of Malaysia's increased connection to the global economy. There is an inherent tension here, which can both advance social policy reform, as well as inhibit the reform process due to the 'institutional capital' that is invested in contemporary social welfare institutions. Primarily, in terms of old age incomes, this thesis focuses on the EPF, but it also takes account of the ethnic and cultural *institutionalised* traditions and practices which are concerned with the ways of doing welfare and how this contributes to the need for reform of the EPF in particular and social welfare in general in Malaysia. This tension between the endogenous and the exogenous pressures would not *a priori* result in a high degree of homogeneity between regional welfare systems, nor a continuation of the status quo in the Malaysian case, but it is this dynamic that this thesis argues will shape future policy reform.

#### *Locating a Malaysian welfare regime?*

Current welfare arrangements in Malaysia are both historically well established and embedded, and relatively complex in their organisation. In the case of the former, the influence of the colonial administration is evident in both the continued use of the provident fund mechanism and a health service which has a degree of similarity to the UK National Health Service, at least in so far as it is publicly funded and available to all, despite the increase in private provision and the employment of over 50 per cent of all registered doctors in the private sector (Gough, 2000b) In respect of the latter,

the complexity springs, in part, from the ethnically plural nature of Malaysian society. By complexity, it should be understood that the 'private' welfare arrangements of the three main communities, Malay, Chinese and Indian, as well as the ethnically based provision of some aspects of 'public' welfare services presents us with an obscured picture of coverage and adequacy.

It is this complexity which negates the tag of 'welfare state', limited as it is in its suitability to incorporate the varied means by which welfare is provided and consumed. Castles (1998: 146) employs a definition of welfare state coined by Briggs (1961: 228) as 'a state in which organized power is deliberately used...in an effort to modify the play of market forces...It must provide individuals and families with income guarantees that obviate poverty on any major scale, it must remove the causes of insecurity by ensuring that individuals and families have sufficient resources to meet social contingencies such as sickness, old age and unemployment and finally it must offer all citizens access to a certain agreed range of social services.' Perhaps in the case of Organisation for Economic Co-operation and Development (OECD) members this conception broadly holds true, however, in the case of developing nations in general and Malaysia in particular, the lack of state power used to fulfil the first three of Briggs' activities, by singularly failing to offer state guarantees against poverty and insecurity except through economic development, reduces the efficacy of the term 'welfare state'.

A more sensitive descriptor of welfare arrangements can be found through the employment of the term welfare *regime* as formulated by Esping-Andersen (1990, 1999). In his much read *Three Worlds of Welfare Capitalism* Esping-Andersen

(1990: 2) suggests that 'the concept of the welfare state is too narrowly associated with the conventional social amelioration policies'. Rather he argues that three welfare regime types can be identified in post-World-War-Two advanced capitalist nations. There are certain core characteristics which enable individual nations to be grouped together, the most important of which is the degree of de-commodification or, put another way, the extent to which welfare outcomes are not reliant upon market forces. Esping-Andersen identifies the three regime types (and their main exemplars) as liberal (U.S.A.), conservative-corporatist (Germany) and social democratic (Sweden) (1990:26-9).

However, well received though the thrust of the 'three worlds' typology was, Esping-Andersen has not been without his critics. For some, he is at fault for trying to squeeze some countries into too restrictive a typology. So Castles and Mitchell (1993) argue in favour of an Antipodean welfare regime incorporating Australia and New Zealand and based upon wage earner rights. Liebfried (1992) suggests a further Mediterranean regime based upon the prevalence of social assistance programmes and Jones (1993) makes a case for an East Asian regime as personified by Japan and its strong Confucian tradition of filial piety and loyalty. Feminist critics of the 'three worlds' have argued that it ignores both gender relations and the family as the principle source of welfare. It is women's unpaid domestic labour, regardless of geography, which establishes a gendered division of labour leading to a reproduction of inequalities between men and women in both the public and private spheres (Esping-Andersen 1999; Gough 2000c citing O'Connor, Orloff and Shaver 1999). Further Gough (2000c: 5) suggests that Esping-Andersen's 1990 work has been

criticised for its sole focus on class analysis and thus ignores other sources of stratification such as religion and ethnicity.

Esping Andersen's response to such criticisms was incorporated in to his 1999 book *Social Foundations of Postindustrial Economies*, in which he accepted that the case for a Mediterranean model had some worth although he dismissed calls for an Antipodean or East Asian model arguing, in the case of the former, that 'the passage of time is pushing Australia – and certainly New Zealand – towards what appears as prototypical liberalism' and in the case of the latter that Japan is something of a hybrid, although Japan's 'unusually accentuated familialism, makes a strong case for assigning Japan squarely to the conservative regime' (1999: 89-92). In response to the second featured criticism Esping-Andersen argues that he accepts the importance of the household economy (1999: Chapter Four) and employs a concept similar to de-commodification, that of 'de-familialisation' or the extent to which an individual's welfare is independent of kinship (Esping-Andersen, 1999; Gough, 2000c). In response to the third area of criticism we have to rely upon a rather unsatisfactory contention in a personal communication between Esping-Andersen and Gough (as cited in Gough, 2000c) in which the former suggests that the third sector (community, be it ethnically or religiously based) plays a marginal role in advanced industrial countries.

More recently Esping-Andersen has argued that 'A welfare regime can be defined as the combined, interdependent way in which welfare is produced and allocated between state, market and family' (1999: 34-5). It is this recognition of the threefold relationship within the concept of welfare regimes which enables both a broader scope

of analysis, through the incorporation of the family into the equation, and a more narrowed focus on the patterns and outcomes of welfare production and consumption. This carries greater relevance for the conceptualisation of a Malaysian welfare regime in particular and the analysis of the development of social policies in NICs in general. In doing so the thesis will critically examine recent attempts by Gough (2000a,b,c) to adapt welfare regime analysis to Southeast and East Asia.

At first glance, the applicability of applying welfare regime analysis to developing nations appears marginal as Gough (2000b: 3) himself acknowledges. In the first instance the role of the *welfare* state, which is central in the case of OECD nations, is minimal in the developing nations of Southeast Asia. Secondly the concept of de-commodification is of minor importance in states with significant agricultural populations. Gough (2000b: 3) further argues that the impact of external factors such as the global economy and supra-national institutions is greater than in OECD nations and finally that the ‘the role of formal welfare institutions in shaping stratification outcomes and interest group formation is small’. That said, Gough suggests that, with a degree of reformulation, welfare regime analysis has its place in examining NICs precisely because of the acceptance of a broader welfare mix which includes state, private and households. Furthermore, it examines social policy reform in terms of power, employing as it does a political economy approach and finally it gets away from the view that uniqueness or individuality is the norm when analysing the welfare characteristics of developing nations.

In the first instance this approach seems appealing. To be able to cluster states together on the basis of similar welfare features is promising and certainly attempts to

get away from the notion that either all developing countries are individual in their approach or that a one sized descriptor fits all. However, Gough's approach is somewhat limited, in part because the corollary of 'variations' appears regularly. By variations, Gough is implying individual policy profiles and although his use of Holliday's (2000) description of East Asian Tiger economies as examples of *productivist welfare capitalism* and applying this to Southeast Asia is accurate, he is unable to construct a welfare regime 'type' which applies to and is able to include all the states under discussion. In part this is because the level of variation present in both the welfare mix and the welfare outcomes degrades the applicability of the concept of welfare regimes as employed in advanced industrial nations. Even taking into account, as Gough (2000a: 5) does, that the Esping-Andersen's welfare regime model 'needs drastic modification' if it is to have any chance of working, the result is similar to the conclusion reached by Wilding (2000) in his study of the viability of an East Asian welfare model. The concept is helpful as long as it is not pushed too far.

In conclusion then Gough's work on developing a framework to enable the concept of welfare regimes to be applied to developing nations is important as it goes beyond the approach which views the developing world as an aggregated mass, and calls for 'qualitative historical studies of selected countries' (2000c: 16). This is indeed the kind of approach adopted by this thesis, and through the production of a qualitative case study examination of Malaysia, and the use of Singapore as a comparator case, a key aim of this thesis is to locate the Malaysian welfare 'regime' in a general sense and, in light of this, analyse the adequacy or 'fit for purpose' of its current pensions policy in particular.

So far this chapter has set out the field for enquiry with which the thesis is concerned, the adopted approach which takes into account exogenous and endogenous factors on the reform process as well as noting the influence of economic, socio-cultural and political institutional arrangements. The next section describes the research process which was, to a greater extent determined not by a philosophical or theoretical allegiance to one 'type' of method over others, but which was influenced by the case study approach which places a greater emphasis on openness in the adoption of a research methodology (Mabbett and Bolderson, 1999).

### **Methodological considerations**

Having employed the above section to set out briefly the theoretical approach employed in this thesis, the 'what' as it were, we must now address ourselves to the more practical 'how'. This thesis makes no great claims with regard to the development or testing of theories to explain how and why particular institutional arrangements exist in the case of Malaysia. Although a case study approach was employed in the production of this the central concern was not to examine or test a particular theory of welfare development. Rather this study, which is evaluative in nature, seeks to avoid 'an emphasis on 'testing' (which) imposes competition on theories which can be made to be complementary.' Furthermore, 'In historical case studies theory is the servant rather than the master, generating explanations and guiding the search for data. A feature of this work is its willingness to grapple with the historical and institutional specifics of the countries under study...case studies often...aim for commonalities in their explanations whilst acknowledging idiosyncratic features.'(Mabbett and Bolderson, 1999: 35-36).

In the context of this thesis, it is important to underline the fact that the methods used were determined by both the subject matter in hand and the employment of a case study approach. By this is meant simply that the methods employed were those which are most commonly found within the framework of a case study approach and which were both manageable and would be best suited to yielding the depth and breadth of data required. Bryman (2001: 48) contends that 'The basic case study entails the detailed and intensive analysis of a single case'. By examining the 'fit for purpose' nature of the EPF, particular research methods such as secondary data analysis and documentary research were selected as the most appropriate in order to achieve such an analysis. It was such methods which would enable the exploration of both the EPF as the de-facto pension system in Malaysia as well as facilitating the production of a case study of Malaysia which takes account of the social, political and ethnic dimensions of welfare arrangements. As stated by Mabbet and Bolderson (1999: 36-7), evaluative studies can often focus on a 'narrowly defined set of intervention, such as cash benefits for various contingencies. A grounding in social policy is reflected in the care taken to describe the allocation system...and in an evaluative underpinning concerned with the effectiveness of the government in achieving an allocation of resources which meets needs...researchers are usually interested in, for example, the adequacy of provision, the coverage of population, and the equity or otherwise of treatment of different groups in the population'.

To examine the 'fit for purpose' nature of the EPF in light of the four key challenges identified on page one required an analysis of a particular set of data. Clearly data produced by the EPF was in itself central to any exploration of its efficacy as a pension provider; this included examining a number of Annual Reports as well as

articles and chapters by other authors who have explored similar themes. In particular, quantitative data which detailed the levels of savings, coverage of the scheme and authorised investments were key to determining whether or not the EPF was able to meet its clearly stated aim. In addition to these data, further data on demographic projections, poverty rates and levels of unemployment as well as composition and performance of the Malaysian economy were collated from a number of sources. These included the Malaysian Departments of Statistics, Social Welfare, Manpower and Women and Development, a number of Malaysian Development Plans and United Nations organisations amongst others.

Thus the main research methods employed in this thesis are documentary research and secondary data analysis. Documentary analysis can be both a valid tool for the production of questions and ideas in the developing research process, and a complementary method which enables the furthering of investigation within the framework of the case study approach. Indeed as Bryman (2001: 52) notes 'Case study research frequently includes a longitudinal element...by analysing archival information'. Both aspects of this method have been deployed, and this has enabled not only the grounding of the thesis within of a wider academic context, but also has led to the development of a less general and more precise focus for the study.

Clearly there are alternative research methods which could have been employed but which were not for very good reasons. As an example, survey research in the form of a structured questionnaire administered to a representative sample of the EPF membership could have produced very useful quantitative primary data. However, it was not possible to employ such a method as this would have, at the very least,

required multi-language skills which the researcher does not possess. In addition to this, Malaysia is a very structured and status-oriented society and the author did not have the required status to gain access to the membership rolls which would have been required to generate the sample. Some success was possible in generating a list of suitable interviewees, although as is noted below this was as a result of tapping into the international academic network, which in part circumvented the issue of status.

Malaysia was chosen for a variety of reasons, which though not necessarily compelling in isolation, combined to provide convincing evidence from which to proceed. Bryman (2001: 51) argues that 'Cases are often chosen not because they are extreme or unusual in some way but because they provide a suitable context for certain research questions to be answered'. In short Malaysia fitted the profile of a rapidly industrialising, urbanising nation and importantly, it was not one of those countries identified as tiger economies. It was ranked in the low-middle income bracket (World Bank, 1994) in which increased income inequality was, despite rapid reductions in poverty rates, a growing concern for an ageing population (7MP, 1996). Social policy reform that had taken place had, on the whole, focussed on the expansion of education and health (Roemer, 1991) with the NEP acting as the overarching social policy, which sought to advantage the Malays over other ethnic groups (Teik, 2001). The result of these factors encouraged further study, focussing on how so apparently liberal a regime could address the growing problem of shortfalls in income provision for the elderly not only amongst the poor, but also those middle class Malaysians for whom old age should not have presented so financially precarious an existence. Implicit in this is the role played by the state in offering financial support to the elderly. It is argued here that in light of the effects of

economic globalisation which Mahathir's, and now Prime Minister Badawi's, Malaysia has positively accepted, the rapid industrialisation and exponential growth of urban centres in the last 30 years combined with the attendant demographic shift towards an ageing population, has resulted in serious issues concerning the ability of individuals to fund their now extended old age.

### *The case study approach*

Bryman (2001) comments on the blurred boundaries which can incorporate a number of research designs, each of which can go under the name of *case study*. He argues strongly that the term 'case study' should be employed only in 'those instances where the 'case' is the focus of interest in its own right'. Comparative social policy studies seek to describe, analyse and map different states' welfare responses to common issues. Those projects which employ a case study approach do not make great claims to theoretical development or to the construction of models which are transferable or representative 'Instead case study researchers... generate an intensive examination of a single case, in relation to which they engage in theoretical analysis' (Bryman, 2001: 52). Furthermore, the case study 'allows a researcher to tell a country-specific story, and thereby escapes the problem of operationalising concepts in a uniform way.' (Mabbett and Bolderson, 1999: 55). And despite Amenta's claims (1993:760) that 'case studies and close comparisons of countries have been and will remain the main means for understanding the development of public spending policies', it should be noted that employing a case study approach does not result in problem free research.

- *Advantages*

In this instance it is worth citing the claims put forward by Mabbett and Bolderson (1999). They argue that the case study approach is suitable for those researchers who have neither a strong theoretical direction nor the luxury of long-term immersion, which would allow issues to reveal themselves. This approach allows the researcher to focus on one or two cases and gain intimate knowledge of the case in question. Further this enables a greater degree of openness in the adoption of a research methodology which, though remaining systematic, is 'open in its approach to gathering comparative material' (Mabbett and Bolderson, 1999: 51).

- *Disadvantages*

There are a number of well known disadvantages to the use of the case study approach, the central concerns being issues of access and affordability and generalization. In the case of the former, and as Mabbett and Bolderson (1999: 51) suggest, in all studies 'which try to get closer to culture-specific factors, there are problems of applying the methodology.' In part this is due to the location for sources, data require 'on-site visits and face-to-face interviews' and 'these are especially resource intensive in the cross-national context.' (*ibid*) This study made full use of the range of data sources available for the case study approach. In particular, during the process of research, this study employed a short field trip, or research safari (Hantrais and Mangen, 1996; Mabbett and Bolderson, 1999) supplemented by documentary data gathered from both national and international sources.

Issues of generalisation, or more accurately in the context of this study, this being the manner in which the findings of this piece of research can be said to be applicable to

other similar cases, was dealt with in two main ways. Firstly there is a recognition that the findings of this study may be somewhat individualistic. Indeed Bryman (1988: 88) cites the observation given by Bulmer (1986) that a 'researcher's ability to have an impact on social policy through the use of the case study can be diminished by a belief that the findings may be idiosyncratic.' This can be countered in two ways. Firstly, there is little point in suggesting that this researcher aimed to make any impact upon current social policy arrangements in Malaysia. This research, whilst being on the whole evaluative, does seek to illuminate genuine concerns whilst remaining wholly pragmatic regarding the impact that any results will have. In general this study is contributing to the wider academic debate regarding the adequacy of current policies for old age incomes and the emphasis on individual arrangements, not only in the specific context of Malaysia and Southeast Asia but in the developed world also. Secondly, in an attempt to counter any claims that the scope of the study is too limited to be of use, Singapore is employed as a comparator case in order both to widen the field of research and challenge the view that the current development path of old age incomes in Malaysia would lessen the possibility of poverty and social exclusion amongst the future elderly. Furthermore, there remains the underlying recognition that evaluative research requires comparing like with like (Mabbett and Bolderson, 1999), and as this thesis clearly demonstrates in the case of Malaysian and Singaporean use of the provident fund mechanism there is enough similarity to make the comparative element of the study both useful and worthwhile.

As stated above, the primary methods of data collection have been a mixture of documentary research, secondary data analysis, which were supplemented by a small number of semi structured interviews which took place during the short field trip to

Malaysia and Singapore. The thesis employs a case study approach and in doing so subscribes to the view put forward by Mabbett and Bolderson (1999: 49) who argue that 'In the context of comparative social policy, the characteristic feature of a case study approach is that the research examines the specific institutional, historical and political features of each country covered, instead of imposing a standardizing framework whereby only pre-selected items of data are accepted for incorporation into analysis. Furthermore, case studies allow an open view to be taken about causal linkages, with historical analysis often used to examine how events unfold.' By employing such an approach, the thesis seeks to illuminate issues facing Malaysia in particular, and NICs in general, as they deal with increased exposure to the various forces exerted through the processes of globalisation, a demographic shift towards an elderly/greying population and more pertinently how issues such as risk of poverty in old age can be ameliorated by the actions, or otherwise, of the state.

It is this latter point which provided the main focus for choosing Malaysia as the case to study and which also resulted in the use of Singapore as a 'comparator case' with reference to the preferred employment of the provident fund mechanism in both instances. Hantrais and Mangen (1996: 4) argue that the case study approach is well suited to research which involves the investigation of a small number of countries, and 'where researchers are required to have intimate knowledge of all the countries under study.' It is this comparative element which gives the thesis an added degree of rigour and which allows for a degree of generalization to take place. By looking at the structures for old age incomes in both Malaysia and Singapore the thesis seeks to challenge the view expressed in some quarters (Gough, 2000a) that the provident fund mechanism in general and the EPF in particular *could* become a regional model for

pension provision. On a recognisably basic level, the question was posed, 'Should Malaysia follow the example of Singapore?' If so, then should Malaysia seek to enlarge the scope of issues addressed through the provident fund mechanism, or should some other approach be adopted in order to deal with the combination of factors brought about by rapid industrialisation, the effects of economic globalisation on a relatively open economy and an ongoing demographic shift?

Malaysia then met the defined criteria and presented the added challenge and opportunity of an investigation into the preferred path of reform of the provident fund mechanism. This in effect meant that the central reason for members continuing to pay into their account was no longer simply security in old age, although this remains a central feature of the fund, but rather was to meet the ongoing needs across the adult life course. In this way the logical comparator selected itself and so Singapore, which has set the precedence for enlarging the scope of the provident fund remit, was decided upon.

### *Documentary research*

Documentary research is both a valid and useful tool from which to generate hypotheses and also as a stand-alone research tool it has its own intrinsic value. The method has a long and distinguished history and is often noted to as the primary method in the work of Marx, Weber and Durkheim (Macdonald and Tipton, 1993; Tuchman, 1998). In the course of the research for this thesis a variety of documentary evidence was utilised including historical accounts, media reports, both print and electronic, previous research by individuals and organisations and official governmental publications and statistics.

One of main the concerns associated with this method is that of evaluation and interpretation. Many documents are produced to be read in a certain manner in order more easily disseminate information and to get a specific message across and this does not confine itself to official publications (Bryman, 2001). In the case of Malaysia the print media is on the whole owned or controlled by members of the Barisan Nasional. There is little critical journalism and the government line is blatantly touted. To offset such bias one has to rely on electronic media mainly in the form of malaysiakini.com and the electronic version of Aliran for, on the whole, objective reportage. It could be suggested that Malaysian electronic media is as open to bias or distortion (Macdonald and Tipton, 1993) as traditional print formats such as The Star or The Sun, however the fact that malaysiakini has been subject to attack from government sources at least frees it from one charge of bias and evens the field somewhat. The result is some degree of balance from which an impression of contemporary Malaysia has been garnered during the period of the study.

One the whole it was context, knowledge and understanding which was sought from the process of documentary research. The advantage of this method is the ability to source large amounts of data in a manageable and cost effective manner. The often over looked negative aspect of documentary research; however, is precisely the 'cost' in terms of time that is required to select and discard, process and analyse, and finally employ examples in the process of writing. Also as Bryman (2001: 216) points out there is some 'unease' about certain types of official data, and indeed the statistics which detail the success of poverty reduction schemes in Malaysia do contain weaknesses (see Chapter 3: 125 and Chapter 6: 218 – 220 below), although Bryman is clear that documentary research in the form of secondary data analysis presents few

other disadvantages. A final inconvenience, which was associated with the use of documentary research, was access to official data sets. This was important not only for the actual data itself, but to enable evaluation of other research to take place using the original data sets where possible. In part this was overcome by the collation of as wide a series of data as possible through secondary sources, and obtaining published primary data from the Department of Statistics in Kuala Lumpur in person, which formed one of the key aims of the field trip.

As alluded to earlier, a variety of methods were employed in order to give a greater degree of understanding, depth and context to the study. Whether we use the term multiple strategies (Burgess, 1984) or triangulation (Bryman, 1988; Macdonald and Tipton, 1993; Denzin and Lincoln, 1998) the objective is the same, that is 'The combination of multiple methods, empirical materials, perspectives and observers in a single study is best understood, then, as a strategy that adds rigour, breadth, and depth to any investigation.' (Denzin and Lincoln, 1998: 4). To complement the documentary method and secondary data analysis a short self-funded field trip was arranged which fits the 'safari' approach as described by Hantrais and Mangen (1996) where a single researcher carries out research in a small number of countries. The field trip, though not unproblematic, was undertaken in order to achieve a variety of aims. These included gaining access to hard to source data, interviewing key individuals and the representative of the main organisations, namely the Malaysian Social Security Organisation (SOCSO) and the EPF, and gaining a sense of place through casual observation.

## *Interviews*

An important point to note is that due to the nature of the case study approach and, in part, due to the constraints affecting the trip such as time, expense and problems of access to desired interviewees, the interviews themselves contributed contextual understanding only. This applied to prior documentary analysis and in turn prompted further documentary research upon return. The interviews do not, in any way, form a major part of the analytical element of the thesis. However, the field trip was invaluable, not only in the production of context and access to data, but in terms of improving knowledge and understanding that could be brought to the analysis and the final product, the thesis, itself.

In order to generate a suitable 'sample' for the interview schedule two aspects of one sampling method were employed. It was decided that snowball sampling would be the most effective method by which to gain access to the desired sample (Macdonald and Tipton, 1993). In the first instance direct mailing was used to Malaysia based individuals and organisations. However, this resulted in a very poor response rate. Fortunately an alternative sample was generated through email to a small randomly selected group whose names were generated through the process of documentary research and who were accessible through the international academic network. The resulting initial interview schedule was further supplemented by cold-calling individuals and organisations, whether in person, through email, door-stepping or via the telephone throughout the duration of the field trip. It should be noted that representatives of the major political parties, the National Council of Senior Citizens Organisation and the MTUC could not be included in the sample due either to non-response or the constraints of time and expense.

The interviews themselves were conducted on a semi-structured basis. There were very definite reasons for employing this particular method, and the subject matter was by far the overriding consideration. What was sought from the interviews was information about the ways in which both individuals and organisations viewed the issue of old age incomes. In part the aim was to elicit information *and* opinions from regional based experts (Kvale, 1996; Esterberg, 2002). There were certain core topics, which were covered in all interviews, although the format of the questions and their timing within the interview differed depending upon the interviewee. This gave a degree of flexibility to the interviews, which enabled the interviewee's freer rein to discuss their own individual viewpoints, which was in part a core aim of the meetings (Kvale, 1996; Wengraf, 2001; Hall and Hall, 2004). The interviews were recorded for later transcription, however, it should be noted that on two occasions this was not possible due to location in the first instance, which precluded any quality audio recording, and spontaneity in the second, which saw the interviewer unprepared. In both instances handwritten notes were taken which were written up immediately after the interview.

A research diary was kept to record events and appointments, and also to record impressions of place. There were instances during the field trip, which seemed to capture previously documented situations, whether it be the general ethnic divide, or the co-joining of ethnicity and class. Similarly expected impressions were altered or reversed. All of which, despite the limited data that was generated through interviews, resulted in a useful and worthwhile exercise enhancing both the process and the product.

## *Conclusion*

The core argument of this thesis is, in short, that one of the major struts of Malaysia's welfare system is under pressure from the combined impact of pressures stemming from economic globalisation, on the one hand, and others grounded in accepted domestic institutional arrangements, on the other. Global economic pressures have changed the socio-economic structure of Malaysia, resulting in a highly urbanised population employed in an increasingly insecure and volatile labour market. Large scale urbanisation has increased pressure on traditional forms of support and informal welfare arrangements (Jomo, 2001). The socio-economic changes which have taken place in Malaysia have seen class begin to combine with institutionalised ethnic divisions as the main locus of inequality. Increased wage inequality and insecure employment calls into question the ability of the EPF to fulfil its central remit. This chapter has highlighted key themes which will be explored in this thesis and this will be achieved by employing a dual approach which privileges globalisation and historical institutionalism as the 'best fit' approach to answer the question 'Can the Malaysian EPF, as presently construed, provide sufficiently for the Malaysian population in old age?'

The case study approach employed in the production of this thesis was also examined in this chapter along with a discussion of the strengths and weaknesses of this approach. It was argued that the methods chosen are those best suited to yield the depth and breadth of data required and which also allow the researcher to tell what Mabbet and Bolderson (1999: 55) refer to as a 'country specific story'. It was acknowledged that there are alternative methods which could have produced useful primary data, such as a structured questionnaire delivered to a representative sample

of the membership of the EPF. However, such a method was unworkable due to a lack of language skills and a perceived relatively low status of the researcher in the Malaysian context.

Looking ahead, Chapter 2 examines the institutionalised nature of the Malaysian political economy and places the Malaysian welfare regime in an historical perspective. Employing an historical institutionalist approach, it is argued the moribund nature of Malaysia's political economy has inhibited the reform process and so allowed the Malay political elite to remain in power. The chapter argues that current welfare arrangements are a consequence of path dependence (Pierson, 2000b) and that the 'ways of doing of welfare' in Malaysia, are a result of historically institutionalised political, social and cultural arrangements.

## **Chapter Two**

### **Malaysian welfare regime in historical perspective**

Malaysia has been politically stable since independence with only a brief hiatus in 1969. However, the effects of colonial immigration policies, negotiations at the time of independence coupled with the active pro-Malay strategies of policies such as the New Economic Policy (1971-1990) and subsequent legislation have had long lasting and wide ranging effects on both the political and socio-economic nature of Malaysian society. March and Olsen (1998) have suggested that a legitimization of political rule can be found in the embedded structures which have developed over time and which give meaning and order to society. Malaysia clearly has an institutionalised political economy and it is argued here that the form in which it currently exists is a consequence of path dependence (Pierson, 2000b) and subsequently, that the 'ways of doing of welfare' in Malaysia, reliant as they are on historically induced political, social and cultural arrangements, are institutionally bound.

The EPF was formed as a colonial institution in 1951 and was co-opted and maintained by subsequent governments since independence in 1957. It is interesting to note, that the single most important reform to the EPF came in the shape of the 1991 Employees Provident Fund Act which made provisions for the increase use of equity investments by the EPF Board. Furthermore, given recent political events such as the Reformasi movement of the late 1990s, the Malaysian polity is clearly resistant to change in that it reflects and favours the interest of a distinct ethno-class faction

namely the majority Malay, and increasingly middle class, population. In this instance, as was suggested in Chapter 1, historical institutionalism is the most appropriate and illuminating strand of what has been termed 'New institutionalism' (S Reich 2000). It is as a consequence of decisions taken during the colonial period, at the time of independence and later during the early 1970s which created embedded social, ethnic and political structures which still determine the way in which Malaysia does politics at the beginning of the 21<sup>st</sup> century. That is not to say that the political establishment in the form of the Barisan Nasional has not come under pressure from political opponents, rather that it is adept at co-opting 'popular' positions without necessarily changing its ways of doing politics. Two clear examples of this are the adoption of the Islamic revival movement of the 1970s and 1980s and the politically expedient use of the rhetoric of 'Asian values'. However, an institutionalist approach reinforces the complexities of embedded welfare policies such as the EPF in Malaysia, intertwined as they are with political, social and cultural arrangements, which mediate the effects external pressures are likely to have on any reform process.

The growth of the Malaysian economy and the country's rapid rise as one of Southeast Asia's 'little tigers' has resulted in an increasingly urbanised population, as the lure of paid employment has proved irresistible to those previously 'employed' in small scale family agricultural businesses. There has been a significant increase in the numbers of female employees in the new semi-skilled manufacturing enterprises, although this state of affairs is by no means guaranteed to continue as the crisis that rocked the Malaysian (and regional) economy in 1997 has proved. The previously admired growth rate in the economy of above 7 per cent, consistent for 8 years during the late 1980s and early 1990s, has predictably slowed as foreign free floating capital has

drifted away leaving shortfalls in predicted economic growth. A feature of this urbanisation has been the influx of Malays into previously Chinese dominated urban settings. A major feature of the post 1969 NEP included the Islamisation of what has been termed the 'new' Malaysian middle class.

An underlying theme of this chapter then is the notion that this process of middle class construction along ethnic lines may yet lead to calls from within this numerically larger section of society for greater governmental responsibility for the welfare of all Malaysian citizens, and in particular the elderly (Asher, 2000).

However, radical reform is likely to be made more difficult by both previous arrangements and the very policies which gave rise to the growing Malay middle classes. To be clear, it is not suggested that a Malay middle class is a new phenomenon, rather that the structure of Malaysian society has been altered to privilege a certain ethnic grouping and this has resulted in a broadening of this socio-economic class faction. Central to this shift in the social structure of Malaysian society has been the role of active policies such as the NEP, the National Development Policy (NDP – 1991-2000) and the National Vision Policy (NVP – 2001-2010). Through these three initiatives the state has sought to promote the interests of ethnic Malays, which as Torii (2003) argues has 'set aside the principle of equal opportunities and instead skewed opportunities and the distribution of the growth pie in the direction of the Bumiputera through the implementation of priority distribution based on an ethnic quota system'. To this end, class is defined by occupation in relation to status and power, and in particular it is argued that the process of middle class expansion, which took place against a background of a

‘reinvention’ of Malay or Bumiputera tradition, sought to enhance the primary role of Islam and the centrality of the family in contemporary Malaysian society.

To counteract this notion of an ‘Islamisation’ of Malaysia one must also take into account the role that tradition, religion and ethnic difference must play in the ethnically diverse society that is modern Malaysia. The following discussion will focus on the two (numerically) main ethnic groups, Malay and Chinese, and will only make passing reference to the Indian community. The chapter is framed by the notion that reinvention of tradition includes as a by product the reluctance of the state to engage in full blown Western style welfare initiatives, however, a future challenge to this implied evasion may come from an increasingly economically insecure middle class producing a more vocal demand for greater state support.

What must be resisted however is the notion that western models of welfare are to be viewed as ‘ideal’ and thereby transportable to areas of rich and divergent historical, cultural and economic difference. It is at this point cogent for the author to take exception to the notion proposed by Esping-Andersen (1990) in the influential text ‘Three Worlds of Welfare’. The ideas promulgated in this text infer that the complexity of welfare provision can be reduced to three identifiable models, with roots firmly embedded in the ‘western’ concept of welfare statism (albeit in three markedly different models). This is believed to be both short-sighted and displaying the kind of western-specificity that is best consigned to an historical perspective, one dated, acknowledged and dismissed. To acknowledge difference is to open the debate to influence and diversity of opinion. One can recognise the influence of colonial and external notions of welfarism, but it would be quite wrong to stop there. The individual nature of welfare provision is apparent and culturally specific. To lump

together divergent states as representative of one form or another misleads and obscures the true features of the manner in which emerging nations can be seen to cope with the increasing demands of a rapidly developing urban culture.

Furthermore, as was stated earlier in Chapter 1, a form of welfare regime development, namely that which has been termed *productivist welfare capitalism* (Gough, 2004; Holliday, 2000; 2005) is both descriptively flexible and economically accurate and as such is operationalised as the preferred term in this thesis.

At present Malaysia is governed by the United Malays National Organisation (UMNO) dominated Barisan Nasional, a multi-ethnic coalition formerly led by the long serving Dr Mahathir Mohamad, and now under the direction of the current Prime Minister Abdullah Ahmad Badawi. The nature of Malaysian parliamentary democracy thus far, although undoubtedly authoritarian in nature, has been a struggle to include all ethnic communities, whilst simultaneously promoting the interests of the numerically superior Malays or Bumiputera (sons of the soil). That matters have been further complicated by religious (mainly Islamic) revivalism since the 1970s has been well documented and will be addressed briefly below. It would be naïve (aside from being fundamentally incorrect) to assume that this balancing act has always been successfully accomplished and some attention must be paid to the nature of Malaysian democracy in order to document incidents that have threatened fragile intra-ethnic stability. The alternative is probably best substantiated by the evidence of the post election riots of May 1969 in Kuala Lumpur between the two main ethnic groups, the Malays and Chinese.

To fully explain the need for this institutionalised intra-ethnic alliance, one must first take a historically backward glance to uncover the fundamental causes of the current state of ethnic division in contemporary Malaysia. What is the root cause of ethnic division that still plays a major role in the internal politics of a modern, rapidly developing nation state? As with many other areas of Asia the fundamental cause can be traced to the none too distant colonial past and the measures taken by the British administration during its 150 year tenure. It should be noted that this section is intended to be both brief and necessarily selective in identifying the factors that have contributed to the formation of the contemporary Malaysian state.

### *British Colonial Malaya*

In common with many other colonial territories, the *raison d'être* for the incorporation of the Malay peninsular into the sphere of British imperial control was simply a question of economic security and expansion. Initially the acquisition of Penang as a trading port by the British East India Company in 1786, was as much to do with the need to secure open sea lanes and access to the straits of Malacca, as safe harbourage for the British Navy during the annual monsoon season. This initial solution proved unsatisfactory and in 1819 a treaty was negotiated which granted the British East India Company the right to establish a trading settlement on the island of Singapore. This arrangement was far more suitable, and despite a brief disagreement with the Dutch, the company was able to secure passage through the lucrative shipping lanes plying trade between India and China. It is from this secure base that the British increased their influence throughout the peninsular.

The British were initially, at best, uninterested in extending their power and influence over the Malay peninsular although this attitude had changed by the signing of the Pangkor Treaty in 1874. The main reason for this shift can be traced to concerns in London that other European powers, particularly Germany, were intent upon extending their influence towards Southeast Asia (Andaya and Andaya, 1982).

Although the colonial office began to take greater interest in the internal affairs of the peninsular, influence was never fully extended to cover the entire region. The peninsular was divided between the Federated Malay States (FMS) which were closely co-ordinated by the colonial office and the Unfederated Malay States (UMS) which maintained their own systems of administration. This pattern remained intact until the outbreak of World War Two and the subsequent Japanese invasion.

The British involvement in Malaya resulted from economic and imperial necessity and it is the former rather than the latter, which can be seen as the engine behind the ethnic diversification of peninsular Malaya. It would be foolish to ignore the earlier migrations of non-indigenous ethnic groups to the peninsular, be they Indian, Arab, Chinese or Indonesian, which stretches back centuries before the British involvement. However, these migrations were far fewer in number and left fainter imprints on the demographic nature of the population. Traditionally Malay peasants were agricultural and wedded to the land, it fell to the Chinese to exploit the tin industry as entrepreneurs and, later and in greater numbers, as workers. The peninsula's other main economic potential of the late nineteenth and early twentieth century was derived from rubber. It was this industry which led to large-scale immigration of the Indian, mainly Tamil, population.

It is during this 'middle' colonial period that the now embedded ethnic foundations of contemporary Malaysia were established. Due in part to the need for labour, the British colonial administration engaged in an open door immigration policy from Mainland China and in the form of indentured labour from the Indian Subcontinent. These economic migrants were never intended to become permanent statistics in the Malayan makeup, and indeed the British failed in their attempts to woo Chinese and Indian farmer to invest in the emergent rice industry, precisely because of its long term nature (Andaya and Andaya, 1982). This wage labour immigration remained a feature of economic expansion until the 1930s when the effects of the worldwide recession restricted demand for Malayan tin and rubber. The 1931 census shows just how successful this policy had been, reducing Malays to a numerical minority (44.7 per cent) in relation to the Chinese (39 per cent) and Indian (14.2 per cent) aggregate population (Nagata, 1979: 11).

What the colonial administration did succeed in, however, was the creation of an institutionally embedded and ethnically divided labour force. During the pre-colonial period ethnicity was of less importance 'as a basic identity and was one aspect of a broader set of economic and political consideration' (Nagata, 1979: 10). The colonial period saw the division of labour along more clearly ethnic lines with Malays employed in the civil service and agriculture, the Chinese as urban entrepreneurs and tin miners, and the Indians as mainly employed as plantation workers in both the rubber and sugar industries. Nagata (1979) argues that it is at this point that ethnicity becomes 'crystallised' into effective boundaries of demarcation, linking identity to economic, political and legal status, which clearly resonates throughout the contemporary political scene in Malaysia (Nagata, 1979; Munro-Kua, 1996). A point

of conflict was created; communalism ensured that ethnic difference would be the central feature of an independent Malaya. This notion was re-enforced during the Japanese occupation and post-war state of emergency. From 1948 and continuing for nearly two years, the mainly Chinese Malayan Communist Party (MCP) sought to destabilise the country by means of a radicalised trades union movement and use of violence through guerrilla warfare. The British retaliated by the declaration of a nation-wide state of emergency that lasted until 1960, post independence, and in some respects set the precedent for authoritarian responses to internal communally based threats, real or otherwise. One crude aspect of the emergency was the Briggs Plan whereby more than 500,000 Chinese were forcibly relocated into barbed wire surrounded and guarded 'New Villages' to prevent aid reaching the jungle based guerrillas of the MCP.

#### *Post war moves towards independence*

The 1946 Malayan Union foundered on ethnicity as Malay concerns grew regarding their status, being seen not as a nation but rather as a community or ethnic group. The 1948 Federation Agreement saw ethnicity as a central feature, granting power and jurisdiction to the Sultans and providing special educational training for Malays, thereby enabling their maintenance of position in the sphere of politics and administration. Munro-Kua (1996) argues that the 'Emergency' was to have a profound impact on the future development of an independent post-colonial State. Thus resulting in 'a nationalism founded on a 'national security' ideology in which communalism became a central element...a rationale for rejecting debate on democratic rights...a communal perspective of uneven economic development' (Munro-Kua, 1996: 11).

The tricky notion of citizenship reinforced ethnic identity and culture as the basis for qualification, over and above the place of birth. Thus all Malays automatically, by law, became citizens whereas non-Malays, regardless of place of birth had to apply for citizenship. There were exceptions for those who habitually spoke Malay and conformed to Malay customs, thus conferring citizenship on many resident Indonesians. The Federal Agreement succeeded in making ethnicity the central issue (Nagata, 1979; Andaya and Andaya, 1982).

### *The Bargain*

The sharply delineated ethnic boundaries existed in political as well as economic institutions and the national Alliance Organisation which came together to broker the bargain for independence in 1953 reflected this. The United Malays National Organisation (UMNO), the Malayan Chinese Association (MCA) and the Malayan Indian Congress (MIC) formed the bulk of the Alliance party (formed in 1957) members representing the communal ethnic bourgeois population. The first national elections to the Legislative Council in 1955 confounded British hopes for a truly multi-ethnic party and the Alliance was recognised as the best workable alternative. Clearly UMNO was to be the dominant partner seeking to reassert Malay interests in the face of numerical minority status, and with the incentive on independence looming large the three parties entered into intense negotiations resulting in what has been termed the 'Bargain'.

In short the Bargain institutionalised political dominance for the indigenous Malays in return for relatively socio-economic freedom for non-Malays. The majority of the agreed points made it into the constitution; Islam was to be the state religion although

religious freedom was guaranteed. Under article 153, special rights were accorded to the Malay population in the form of quotas in the areas of land acquisition (at least 50% of land in each state to remain under Malay ownership), education (later to include university admissions) and employment in the public services and the armed forces. The specific rationale for these privileges was to enable the Malays to 'catch up' specifically with the Chinese population. In return the non-Malays achieved their main desire, namely citizenship based on country of birth (Nagata, 1979; Milne and Mauzy, 1986).

The Constitution legislated for a federal system of parliamentary government, headed by a constitutional monarch (Paramount Ruler – Yang Dipertuan Agung) elected by the Conference of Rulers (Durbar) to serve a five-year term. Parliament was to consist of a more powerful House of Representatives (Dewan Rakyat) and a less powerful appointed Senate (Dewan Negara). There was to be an independent judiciary and although parliament was to be the supreme law making body reliant on a two thirds majority, the states retained areas of autonomy such as Islamic law, land, mining, forestry and local government. Article 150 of the new Constitution made provision for extensive powers under a declaration of a state of emergency by the elected monarch acting on government advice, including the suspension of parliamentary rule. Under an Alliance government headed by Prime Minister Tunku Abdul Rahman, the Federation of Malaya became an independent state on August 31<sup>st</sup> 1957.

## *Towards Malaysia*

In the immediate post-independence period the Alliance government maintained both ethnic and economic stability. The 1959 Federal elections, however, indicated the ethnically divisive nature of the political scene. The Alliance maintained its majority, winning 74 of the 104 seats but its popular vote declined to just over 51 per cent (Milne and Mauzy, 1986). The Parti Islam Se-Malaysia (Islamic Party of Malaysia or PAS) built on its gains in the preceding state elections to achieve the largest opposition bloc of seats (13). As in the state elections PAS invoked Malay nationalist fears and accused UMNO of selling out the birthright of Malays and the Alliance was clearly rattled by internal strife (notably a split in the MCA) and the federal losses. In 1960 the Emergency came to an end and was immediately replaced by the equally repressive Internal Security Act (ISA). Under both these measures economic stability and vital foreign investment were ensured through anti trade union legislation and the extensive use of detention without trial. The Alliance relied on its two-thirds majority to pass the ISA and thus refute criticism. We will look more closely at the authoritarian nature of Malaysian politics in a later section, making note of the so-called populist approach adopted by the ruling coalition since May 1969.

In 1961, the Prime Minister Tunku Abdul Rahman announced the proposed expansion of Malaya to include Singapore, North Borneo (later Sabah), Brunei and Sarawak. Elements of this proposal were by no means new as far as Singapore was concerned, but this notion had previously been dismissed due to fears of incorporating Singapore's predominantly Chinese population and risking upsetting the ethnic balance within Malaya. These fears expressed by UMNO members were now partially allayed by the possibility of including the Muslim Borneo states and thus

maintaining the ethnic balance. The proposed move was favoured by both the Singaporean government and its people and received popular endorsement via a referendum. The Borneo states took a little more persuasion, but North Borneo and Sarawak agreed after receiving guarantees regarding degrees of autonomy at state level. These included control over immigration, concessions regarding language, education and religious practice, and formed part of the 1963 Malaysian Constitution. The victories of the Sabah Alliance and the Sarawak Alliance in the 1963 state elections resulted in entry into negotiations to enter the Federation. Brunei withdrew from the proposal due to differences concerning oil revenues and the Sultan's eligibility for the post of Yang Dipertuan Agung (Milne and Mauzy, 1986; Andaya and Andaya, 1982). The Federation of Malaysia was officially formed on the 16<sup>th</sup> September 1963 in the face of continuing opposition from the neighbouring states of Indonesia and the Philippines. However, the configuration did not last long. Amid damaged relations between Kuala Lumpur and Singapore due to the political ambitions of the Chinese dominated Peoples Action Party led by Lee Kuan Yew, calls for a Malaysian Malaysia and the very real threat of communal violence, Singapore was officially separated from the Federation in August 1965. Malaysia had withstood diplomatic and military pressure, but had succumbed to the threat of violence from its own peoples.

The period 1964 to 1969 was dominated by ethnic concerns. The solution to the threat of communal violence was to be the formation of a Malaysian citizenship encouraging loyalty to the nation rather than the ethnic group. The interpretation of what constituted the new Malaysian citizenship became a contentious issue. The Alliance, dominated by UNMO, decided that traditional culture and heritage in the

form of Malay language and culture should form the basis of the new citizen. Quite naturally other ethnic groups argued for a stronger Malaysian identity that would truly reflect the multi-ethnic composition of the country. One of the flash points was to be the instigation of a national language due in 1967. The 1957 constitution had included a provision that would see Malay as the sole official language after 10 years; in the case of Sabah and Sarawak this was to be ten years after their entry into the federation. The Alliance government compromised on the issue of language, in the form of the 1967 Language Act, which did little to satisfy the communal elements of each ethnic group. The Malays viewed the instigation of Bhasa Malaysia as both a source of cultural pride and a means of obtaining the advantages needed to enable ethnic Malays to keep pace with the increased rate of development. The Chinese community saw the language issue, alongside that of education, as yet another step towards the disintegration of Chinese culture.

The 1969 Federal elections were fought against a highly charged backdrop of ethnic concerns over language and education. For the first time the Alliance was unable to unite against a common external threat, which had previously diverted attention away from greater communal concerns (Andaya and Andaya, 1982; Shamsul, 1986). The formation of new ethnic and pan ethnic parties in the form of the Chinese Democratic Action Party (DAP) and the non-communal Gerakan Rakyat Malaysia (Malaysian Peoples Movement) along with the performance of PAS resulted in the Alliance losing its two thirds majority in the Dewan Rakyat. The day after the elections vicious ethnic riots took place on the streets of Kuala Lumpur between DAP and Gerakan supporters and the supporters of UMNO. The rioting in the capital lasted

four days before order was restored, and sporadic ethnic clashes continued for two months.

The Constitution was suspended and a national emergency declared. Power was transferred to a National Operations Council (NOC) headed by the Deputy Prime Minister Abdul Razak, later to become leader of UMNO and Prime Minister. The main task facing the NOC was to construct a united Malaysia, a nation that took account of ethnic differences but did not fragment under communal pressure. The May riots dispelled the myth of the 'bargain' and signalled the end of the Alliance. The Chinese vote was split; the MCA were shown to be powerless to defend non-Malay interests in the face of UMNO pressure, similarly the Indian community felt poorly served by the MIC. Although Malay political hegemony became open and apparent, the decision to return to parliamentary rule was only taken after the convening of the newly established National Consultative Council (NCC). The declared aim of the NCC was to initiate greater inter ethnic co-operation, discussions were held in which coalition government received approval under the clear leadership of UMNO. The Alliance was dead and was in turn replaced by a broader based coalition under the UMNO directed Barisan Nasional (registered 1974). Many opposition parties including PAS, Gerakan and the People's Progressive Party (PPP) joined forces with those of the old Alliance party under an initial arrangement of notional power sharing. PAS eventually left the Barisan Nasional in 1977 and has since been seen as a real threat to the UMNO led Barisan. The final years of Dr Mahathir's political tenure were marked by ongoing tribulations following the sacking and prosecution of former Deputy Prime Minister Anwar Ibrahim, PAS once again

threatened to erode UMNO support in the following two elections and this, somewhat ironically, led to a swing in the Chinese vote behind the ruling UMNO coalition.

The May 1969 riots were attributed in part to the economic inequality experienced by Malays and thus the response of the NOC was the formulation of the New Economic Policy (NEP) (1970-1990) which sought to redress this imbalance. It is worth noting at this point that the NOC had carefully prepared the ground through the introduction of the Sedition Act 1970 (amended 1971). The terms of this act in its final form made it an offence to publicly debate issues classed as 'sensitive', namely those which might arouse racial emotions centring on the Malay language, the special position of Malays and citizenship rights (Munro-Kua, 1996). The 1971 amendment limited the discussion of such issues in parliament, narrowing the opportunities to criticise proposed legislation and therefore limiting perceived unrest anticipated as a result of the implementation of a clearly communally defined legislative programme. Malay political hegemony was ensured due, in part, to the introduction of the Sedition Act which, argues Munro-Kua (1996), saw the narrowing of democracy, favouring Malay interests and given strength through the amended ISA.

The main aim of the NEP was the achievement of national unity through the eradication of poverty regardless of race. This manifested itself in a fundamental restructuring of society in an attempt to achieve economic parity primarily between Malay and Chinese citizens. It was in effect a two pronged approach resting to a greater degree on the second objective, namely legislating to provide greater opportunity for the Malay population in the form of positive discrimination (including reserved places in higher education). The policy was presented in the Second

Malaysian Plan (2MP) (1971-1975) to the newly restored parliament and elaborated in the Outline Perspective Plan (OPP) (1971-1990). Its focus on the eradication of poverty ensured minimal political opposition, although the two-thirds majority enjoyed by the Barisan Nasional ensured safe passage through parliament. (Hua Wu Yin, 1983; Munro-Kua, 1996; Gomez and Jomo, 1997).

The basis of this UMNO led strategy was to increase Malay participation in the economy and the government set targets so that 'Malay corporate ownership would be 30 per cent, non-Malay 40 per cent and foreign 30 per cent in contrast to 1.9 per cent, 37.4 per cent, and 60.7 per cent respectively in 1970' (Jesudason, 1989: 1-2). This process has involved both the modernisation of rural life and rapid and mass urbanisation in order to provide the workforce for a rapidly expanding economy. It has been claimed by UMNO that the NEP has by and large been successful in its stated aim of reducing poverty, although both the focus, in terms of the communalisation of poverty, and the measures employed are open to discussion and will be addressed later. In crude terms then the OPP envisaged a reduction in the official rate of poverty for Peninsular Malaysia from 49 per cent in 1970 to 16 per cent by 1990 and the rate has in fact fallen well below this level in subsequent years.

The main target of the economic policies enshrined in the NEP was in fact foreign, particularly British, capital. The notion that the 1969 riots sprang from the obvious economic imbalance between the Malay and non-Malay (Chinese) communities detracted from the true picture of an economy dominated by foreign capital.

Therefore it was hoped that possible discomfort felt by the non-Malay communities as a result of the NEP could be ameliorated by reducing the levels of foreign capital

share ownership. The success of the NEP was based on rapid economic growth and the UMNO led government was at pains not to discourage foreign investment (Jesudason, 1989). It was envisaged that the inflow of foreign capital investment would provide sufficient resources and opportunities to instigate the desired growth in Malay participation in the modern economy, whilst enabling the non-Malay communities to continue on a path of growth albeit at a slower pace. This aim, based on positive discrimination in favour of the Malay community, was somewhat limited in scope as a result of the 1974 Petroleum Development Act and the 1975 Industrial Co-ordination Act. These two pieces of legislation acted as disincentives to both domestic and foreign inward investment and are regarded as producing a stifling effect on the economy in general (Snodgrass, 1980; 2002; Jesudason, 1989; Gomez and Jomo, 1997).

The effects of world wide recession and the subsequent slow down in direct investment as multi-nationals sought ever cheaper manufacturing bases led to a policy shift away from public sector involvement and towards the private sector. Both the Fifth (1986-1990) and Sixth (1991-1995) Malaysia Plans emphasised a shift away from redistribution of wealth, to the creation of wealth with government expenditure increasingly directed towards infrastructure projects designed to encourage and enhance private sector development. This policy shift was also present in the medium and long-term strategic aims of the National Development Policy (NDP) and Dr Mohamad Mahathir's Vision 2020 plan. The main aim of this plan is for Malaysia to achieve 'fully developed country' status by the year 2020 primarily through accelerated industrialisation, growth and modernisation (Gomez and Jomo, 1997). However, as noted by Gomez and Jomo (1997), Vision 2020 differed from the NEP in

other ways most notably in the role expected of individuals and a curtailing of state responsibility with regards to welfare provision. The NEP emphasised government interventionist policies and a redistributive welfare role for the state. Dr Mahathir's plan, and his espousal of 'Asian values', rested on institutionalised welfare arrangements in the form of the EPF, which placed greater emphasis on the family/individual responsibility, to which we will return in a later section.

### *Islamic revivalism and UMNO co-option*

The power of UMNO has to a greater extent resided in its ability to muster support from the large rural Malay community and to project itself as the only party capable of maintaining the fragile peace between the different ethnic groups in contemporary Malaysia. A great strength of the organisation is to co-opt populist strategies that play to the wishes of the Malay population. An example of this has been the manner in which UMNO has neutered opposition through the use of repressive measures in the interests of 'national security', before assuming the clothes of that same opposition. The trick has been to appeal to the Malay population without alienating the non-Malay populations and UMNO has to some extent achieved this by presenting the alternative as extreme. This is of course something of a paradox. By assuming the cloak of Islamic Malay identity, for example, UMNO has increased ethnic polarisation and thereby reinforced the political divide between Malays and non-Malays. The case examined here is that of the Islamic revival of the 1970s and the way in which UMNO co-opted the dakwah movement for its own political gain.

The dakwah movement has been seen to coincide with the growth of the Malay middle class, which had seized control from the more conservative 'old guard' after

the 1969 riots. This new ruling elite, anxious to pursue a more communalist line in favour of Malays, employed the rhetoric of both the traditional rulers and the increasingly influential Islamic groups. Islam has traditionally been the dominant ideology of the Malay ruling class and as such has been a powerful instrument for ideological and behavioural control (Lee, 1995). However, it is important to reflect that at the time of independence Islam was enshrined in the constitution as the official religion of the new Malaysian state and as such gave context to the notion of Malay identity, as all Malays were 'officially' deemed to be Muslim. As noted above, this was not to the detriment of other religions, which were guaranteed freedom, but in the aftermath of the 1969 communal riots Islam again became a focus of Malaysian identity – the difference between Malays and the other ethnic groups.

With the instigation of the NEP and wider access to tertiary education guaranteed for Malays, those students who migrated from the religiously conservative rural areas came into contact with and were influenced by new Islamic ideas. Islam in the wider context was also reasserting its influence through events in the Middle East. The increasing numbers of Malay students attending overseas universities bore witness to the resurgence of Islamic states on the world stage, culminating in the 1979 Islamic revolution in Iran. The dakwah movement itself was part of this resurgent Malay identity and Islam became a rallying point for the new Malay middle classes and an outward sign of their identity (Nagata, 1979; Crouch, 1996). It would however, be wrong to portray the dakwah movement as unitary, this has simply not been the case and a quick perusal of contemporary reports will yield evidence that the Islamic community in modern Malaysia is fractured between supporters of mainstream political parties and Islamic 'interest' groups. Hussin Mutalib (1990: 74)) argues that

the 'dakwah is the propagation of the Islamic message and call on Muslims to upgrade their Islamicity' (See also Nagata, 1984; Chandra Muzaffar, 1987; Jomo and Cheek, 1992; Lee, 1995; Crouch, 1996; Shamsul, 1997).

For the purposes of this chapter, the focus will be on two of the largest and most influential organisations representing a Muslim identity, that is the Malaysian Islamic Youth Movement (ABIM) and PAS. The intention is not to simply give a potted history of these two organisations; more authoritative authors than myself have already employed this type of approach. Rather I intend to employ selective evidence from the experience of these Islamic organisations, in an attempt to identify factors which have led to the notion of an Islamisation of contemporary Malaysia and a marked shift in the approach of the ruling coalition. This is evidenced in the co-option by UMNO of Anwar Ibrahim as well as attempting to appeal to its core constituency, namely the rural Malays, who have been targeted by PAS. The aim here is not to introduce the theme of Islamisation to the analytical thread of the thesis as a whole, rather it is to contribute to the historical institutionalist approach and to examine a political economy dominated by a ruling coalition which is willing to adopt 'populist' strategies to maintain power and which advantages the Malay population over others.

Both ABIM and PAS have striven to establish a society based on the principles of Islam, although the members of ABIM have always attempted to make clear the distinction that sees them not as a political force, but rather an Islamic social/welfare organisation lobbying the political arena for change. This is not to suggest that the organisation exists solely as a lobby group. ABIM has initiated education

programmes and set up schools and nurseries (Jomo and Cheek, 1992), and has actively campaigned for PAS most notably in the 1978 general election. PAS on the other hand has maintained its stance as the main Islamic opposition party despite its short lived accommodation within the Barisan Nasional during the mid 1970s. PAS pre-dates and has outlived ABIM as a major political force in contemporary Malaysia.

ABIM was formed in 1971 and similarly to PAS, saw the growth of its influence attract unwelcome attention from the governing Barisan Nasional. Indeed both organisations have endured the detention of prominent members under the auspices of the ISA, including the then president of ABIM Anwar Ibrahim, for a period of two years (1974-76) for his part in student demonstrations against the policies of the Barisan Nasional (Munro-Kua, 1996). That ABIM rose to such prominence during the middle of the 1970s can, in part, be seen as a result of PAS joining the Barisan Nasional and thus leaving open the position of legitimate Islamic opposition. This accommodation of PAS in the governing coalition enabled ABIM to absorb disgruntled PAS supporters, and its electoral support of PAS, after that party left the Barisan Nasional in 1978, enabled it to gain ground in rural areas.

ABIM's approach was seen as less confrontational and more accommodating to non-Muslims, a view given substance by its vocal opposition to the NEP. It was this broad appeal that cut across the rural/urban divide. Affiliation with PAS cemented ABIM's acceptance in the more conservative rural areas enabling it to break out of its traditional urban constituency. ABIM's non-communalist approach led to Anwar Ibrahim being invited to address the leaders of the DAP (Jomo and Cheek, 1992). Mutalib (1990), Jomo and Cheek (1992), Hefner (1997) and Shamsul (1997) have

concluded that the influence of ABIM was so closely linked to the rise in prominence of Anwar Ibrahim, that his decision to join UMNO in 1982 signified the high water mark for ABIM (See Jomo and Cheek, 1992 for a more detailed account of this somewhat opportunistic move).

In essence what the dakwah movement has achieved is the institutionalisation of Islamic concerns in mainstream Barisan Nasional government policies. The roots of many government initiatives can be traced to the pressure exerted and the examples shown by the many dakwah organisations, not the least ABIM. We began this section by commenting that the strength of UMNO lay in its ability to co-opt the opposition and adopt its clothes to maintain power. The decision by Anwar Ibrahim to switch to UMNO can be seen as an example of this process in action. In order to capitalise on the broad appeal of ABIM the Barisan Nasional, and more particularly the Prime Minister Mahathir Mohamad, co-opted Anwar to make use of his appeal to lend credence and an air of legitimacy to the ongoing process of Islamisation. This is not to simply assume that that there is little thought or belief behind the drive to Islamisation. On the contrary one could argue that the communalist policies of the UMNO dominated Barisan Nasional simply found expression in one of the fundamental facets of Malay culture, namely the Islamic religion. That by promoting Islam, UMNO was in fact adding a cultural dimension to the NEP, satisfying the needs of the Malay population without alienating the non-Malays. Crouch (1996) suggests that contrary to the line proposed by PAS, UMNO opted for a more 'inclusive' notion of Islam as a prime factor in cultural evolution of contemporary Malaysia.

To fully appreciate the ways in which UMNO achieved its aim of adopting the language of the dakwah movement and adding Islamic credentials to its image, one must take account of the influence of the long serving Prime Minister Mahathir Mohamad. It was his accession to the Presidency of UMNO and thus the office of Prime Minister in 1981, which saw the process of Islamisation receive official backing through the offices of the Barisan Nasional. Within months of assuming office Dr Mahathir introduced the twin policies of Look East, indicating a rejection of Western influence, and an assimilation of Islamic Values announced at the 1982 UMNO general assembly (Milne and Mauzy, 1986; Shamsul, 1997). This coupled with the announcement of plans to set up an International Islamic University, an Islamic Bank and later an Islamic insurance company, as well as minor restrictions such as prohibiting Muslims from entering the Genting Highlands casino, enhanced the Islamic image of the Barisan Nasional (Jomo and Cheek, 1992; Crouch, 1996; Shamsul, 1997). However, as Crouch (1996) suggests this image enhancement had little effect on the non-Malay population and therefore fears were somewhat allayed. Concern continued to centre around the possibility that the government was intent upon instigating moves towards an Islamic state, in reality these moves were intended to prevent such an outcome. UMNO can be seen to have assumed the clothes of Islam in order to neuter the opposition. In doing so both parties entered into an ongoing process whereby PAS criticises the government for its un-Islamic approach and the government in turn criticises PAS for presenting a singular, and in their opinion false, interpretation of Islam. One of the side products of the Anwar switch has been the decline in influence of ABIM on the general political stage. Much support was lost in rural areas as people drifted back to PAS, many ABIM leaders joined PAS and the remainder 'felt they had little choice but to follow Anwar in

furthering Islamisation within UMNO and the government' (Jomo and Cheek, 1992: 93). What is undeniable is that Anwar quickly climbed the ladder within UMNO before assuming the role of deputy Prime Minister and Dr Mahathir's heir apparent. What is equally undeniable is the swiftness of his downfall culminating in arrest in September 1998. This led to his eventual conviction on charges of interference with police investigations after allegations that he had had an affair with the wife of a staff member and had sodomized his wife's male chauffeur and adopted half brother. It is these latter allegations which formed the basis of his second and successfully prosecuted trial.

The controversy surrounding his arrest and six year sentence continues to resonate and the inference that his supposed political challenge to Dr Mahathir was the real reason for his incarceration refuses to die down. Indeed Anwar's wife Wan Aziza Wan Ismail helped form and became leader of a new political party Parti Keadilan Rakyat (People's Justice Party) in September 1998. The street protests, which led to the arrest and eventual prosecutions of Anwar Ibrahim, continued sporadically. On the nineteenth of September 1999, the anniversary of Anwar's arrest, thousands demonstrated outside the National Mosque in Kuala Lumpur, culminating in violent clashes with the police and the subsequent arrest and detention of up to fourteen opposition leaders under the ISA. The then deputy Prime Minister Abdullah Ahmad Badawi dismissed fears that the protests would spark a large-scale crackdown by the authorities similar to Operation Lalang in 1987, during which one hundred and six people were detained (Straits Times, 27/09/99). It is the longevity of Dr Mahathir as first a member of the Barisan Nasional and later as Prime Minister which is examined next.

## **The Mahathir effect**

To trace the possible future progression of Malaysia, politically, culturally and in terms of ethnic co-existence, it is necessary to turn attention to the late 1960's. The first incident that is noteworthy is the expulsion of Dr Mahathir from UMNO by the then Deputy Prime Minister Tun Abdul Razak bin Hussein. This expulsion resulted from a letter written by, and demonstrations organised by, Dr Mahathir and supported by Musa Hitam (Deputy Prime Minister 1981-1986) and other Malay UMNO backbenchers. Both actions publicly criticised the Prime Minister Tunku Abdul Rahman, blaming him and his multi-ethnic policies for the 1969 riots (Jesudason, 1989; Munro-Kua, 1996). At this time, Dr Mahathir published a book outlining his grievances with the Tunku's Alliance administration, which the ruling coalition promptly banned. In *The Malay Dilemma* (1970) Dr Mahathir pointed to the impoverished position of the Malay majority, in relation to the relative wealth of the (mainly) Chinese minority. It was argued that it was this imbalance of economic resources which led to the outbreak of racial violence in May 1969, and which would lead to such an eventuality if the imbalance were not quickly addressed. According to Mahathir the solution to this problem was the positive discrimination which soon became enshrined in the NEC 'racial equality can only be said to exist when each race not only stands equal before the law, but also when each race is represented in every strata of society, in every field of work, in proportion more or less to their percentage of the population' (Mahathir, 1970: 79 quoted in Crouch, 1996: 25).

The expulsions (Mahathir and Musa) however were short lived. The 'old guard' in UMNO was soon eclipsed and the former 'radicals' were found places within the new post-emergency administration. With the implementation of the NEP, the

communalist tendencies of those individuals were realised. Dr Mahathir progressed from the backbenches to become Minister of Education in the early seventies and it was he who oversaw a clampdown on the series of protests by campus based student groups at the University of Malaya and others. The government's reaction to this was the implementation of Universities and University Colleges Act 1975 which 'for both students and lecturers, proscribes political involvements, limits the type of society/meeting which is allowed and thus removes all remnants of student union autonomy' (Munro-Kua, 1996: 83). It is this heavy-handed approach, which has earned the Malaysian political economy the term authoritarian populism (Munro-Kua, 1996).

Dr Mahathir ascended to the post of president of UMNO and Prime Minister due to the resignation on health grounds of his predecessor Datuk Hussein Onn. He had occupied the position of deputy Prime Minister since early 1976, after the death of Tun Abdul Razak had led to the elevation of Hussein Onn. The transition in leadership was not altogether plain sailing as there was a challenge for the position of deputy president of UMNO and therefore deputy Prime Minister. Dr Mahathir's favoured candidate was the minister of education Datuk Musa Hitam and he was challenged by the then minister of finance Tengku Razaleigh Hamzah. This was a damaging contest, and laid the seeds for the eventual and relatively short-lived split in UMNO in the mid 1980s. Due to extensive lobbying and financial support on the part of Dr Mahathir Musa's campaign was successful, although he enjoyed only a small majority over his rival. Crouch (1996) argues that the breakdown in relations between Mahathir and Musa began almost as soon as the vote was completed. Dr Mahathir preferred to keep the defeated Razaleigh on side by re-appointing him to the cabinet,

in the position of Minister for Trade and Industry. Musa on the other hand wanted Razaleigh out of the government. The net effect of this rift resulted in the two former opponents joining forces to oust Dr Mahathir in the party elections in 1987. Dr Mahathir and his running mate Ghafar Baba were victorious, but the matter did not end there. A challenge was made as to the validity of the results, claims were made that branches of UMNO had not been properly registered and thus the delegates from these branches were ineligible to vote in party elections.

The resulting chaos saw the two factions trying to re-register their groups under the UMNO name. Mahathir's supporters won, not least because they were able to time their re-registration thanks to the register of societies being part of the Ministry of Home Affairs of which Dr Mahathir was minister. Razaleigh formed a new party, Semangat '46 (Spirit of '46) in 1989 and formed an alliance with PAS to fight the 1990 elections (Crouch, 1996; Munro-Kua, 1996). Crucial to the victory of the Mahathir faction in both the party elections and the national elections in 1990 was the system of patronage. This in effect ensured that those who wanted to continue enjoying security and preferential treatment with regards to contracts, licences, loans and locality of employment (Crouch, 1996) voted UMNO. Only in the state of Kelantan were Semangat '46 and PAS in control of the machinery of patronage, thus ensuring victory.

Perhaps the most important outcome of the 1990 elections was the notion of an inter-ethnic alliance, in part, being successful at the polls. PAS, Semangat '46 and the DAP had shared a platform and to a greater or lesser degree co-operated despite overwhelming differences. The most startling difference was again religion, with the

DAP objecting to the call from PAS to establish an Islamic state. Although officially denouncing such a notion the DAP still campaigned on the same ticket. Crouch (1996) argues that this tactic enabled PAS to mobilise its rural Malay supporters and left the DAP free to appeal to its urban Chinese and Indian supporters (For a fuller account of the 1990 election see Crouch, 1996: 121-129). This inter-ethnic element has re-emerged forcibly in response to the arrest and imprisonment of the former deputy Prime Minister Anwar Ibrahim and the formation of Keadilan. Perhaps almost inevitably this alliance between PAS and Semangat '46 was relatively short-lived. The alliance did continue throughout the 1995 elections however Razaleigh soon after rejoined UMNO and then sought to challenge his erstwhile political allies in the state of Kelantan in the run up to the much anticipated 2000 elections.

Dr Mahathir took much credit for his strong and decisive leadership following the Southeast Asian currency crisis in 1997, although he simultaneously attracted condemnation for his denouncement of the alleged damaging activities of 'foreigners' in general and the currency speculator George Soros in particular. The results of Dr Mahathir's neo-Keynesian economic policies proved to be relatively a short-lived economic recession followed initially by respectable levels of predicted economic growth, which though proving lower in reality, still managed to post positive figures. Ironically it has been the Bumiputera business community that suffered most during the 1997 crisis with corporate ownership falling from 20.5 per cent in 1995 to 19.4 per cent in 1998 (7MP). On October 12<sup>th</sup> 1999, Dr Mahathir issued a call to the Chinese business community to help the Bumiputeras regain their lost ground in his address to the 53<sup>rd</sup> AGM of the Associated Chinese Chambers of Commerce (Straits Times, 13/10/99). This disadvantage to the Bumiputera community has led to Dr

Mahathir claiming that the work of the NEP has to some extent been undone and that the NEP must be re-instituted to enable the Malay business community to recover lost ground.

### *Conclusion*

This chapter has taken a broad overview of the development of some of the many strands present in contemporary Malaysian cultural, social and political life which, it is suggested, has resulted in an institutionalised political economy in which one ethno class faction is privileged over others. The chapter argued that the current state of the Malaysian polity is as a result of path dependence, in that decisions taken at different points in history have led to embedded political ethnic and cultural structures which continue to give meaning to and legitimate the contemporary political economy. It was suggested that this process of institutionalisation was begun under the British colonial administration. It is to this point historically that the ethnic divisions that are the focus of much debate, policy and conflict can be traced. With the expansion of British economic interest in the region came imported labour from mainland China and the Indian sub-continent. This heralded the introduction of the explicit link between ethnicity and economic, legal and political status, which continues to focus many minds in the contemporary Malaysian political scene. Furthermore, it was the British colonial administration which founded the EPF and in doing so laid the foundations for individual provision of old age incomes which remains the case today.

Moves towards independence saw the Malay community seeking to and succeeding in re-establishing itself in the prime political position through the machinations of the Bargain and the subsequent declaration of the Federation of Malaya in August 1957.

This was superseded by the declaration of the Federation of Malaysia in 1963, which saw territorial expansion take in Sabah, Sarawak and Singapore. Singapore's membership however was short-lived due to the political ambitions of the Chinese based Peoples Action Party led by Lee Kuan Yew and calls for a Malaysian Malaysia which resulted in the very real threat of communal violence. Singapore exited the Federation 1965.

Attention then shifted to what can plainly be described as the defining moment in modern Malaysian history, the communal riots of May 13<sup>th</sup> 1969. The after effects of this period of civil unrest were massive. Democracy was suspended, the instigation of pro-Malay positive discrimination was enshrined in the NEP and the expansion of authoritarianism was achieved through the introduction of the Sedition Act (1970) and amendments to the ISA. This period also bore witness to a shift towards modern bourgeois political figures replacing those drawn from the traditional ruling class. As was noted this shift marked a change in the nature of the democratic state and gave added impetus to the dakwah movement and its eventual co-option by the UMNO dominated Barisan Nasional under the leadership of Datuk Seri Dr Mahathir Mohamad. It was this re-assertion of Malay Islamic credentials which, it is argued, was likely to appeal to both UMNO's core constituency the rural Malays, but also the new Malay middle classes.

The ability of Dr Mahathir to hold onto power through a variety of means formed the final section in this chapter. Despite a number of challenges Dr Mahathir continued to retain a firm grip over the Barisan Nasional until October 2003. He has followed the UMNO trait of co-option and institutionalisation of popular initiatives that

reinvigorate UMNO's Malay credentials whilst simultaneously placating the fears of other ethnic communities. The example looked at was that of the shift towards the embrace of Islamic values, thereby satisfying the upsurge in Islamic revivalism amongst the Malay population, but stopping well short of any ambition to the notion of the establishment of an Islamic state. With the succession of Ahmad Badawi such Islamic credentials were given greater prominence as the UMNO party machine made great play of his scholarly knowledge of Islam and the Koran. For the ethnically divided electorate thus far, it appears to have lead to a situation of better the devil you know in the form of UMNO, than the devil you don't whether that be the stalled multi-ethnic Keadilan or the Islamist PAS.

The ways of doing politics and the ways of doing welfare are inextricably linked to the development of an independent Malaysia and the rapid economic development since the 1970s. In effect Malaysia's approach to welfare is a consequence of past decisions both pre and post independence and an example of what Pierson (2000b) characterises as 'path dependence', as a result of which political economic and ethno-class institutions restrict or hamper the reform process.

The colonial immigration policies of the early twentieth century resulted in an institutionally embedded and ethnically divided labour force. The instigation of Malay political rule by the British colonial administration in the aftermath of World War Two, together with the introduction of the EPF laid the foundations of key political, socio-cultural and economic institutions which, in the case of the latter two are relatively unchanged today. However, positive discrimination policies such as the NEP and NDP have altered the relationship between ethnicity and labour, and given

rise to new and expanded Malay middle classes which have enjoyed privileged access to higher education and public sector employment. That the ruling Malay political elite have enjoyed continued legitimation and support across the ethnic communities is in part a result of the embedded structures in Malaysia which, over time, have developed to give meaning to Malaysian society (March and Olsen, 1998). The co-option of the mainly middle class Islamic revival of the 1970s and 1980s by the Barisan Nasional coupled with the adoption of the rhetoric of Asian values – espousing family/individual provision under the auspices of both the EPF and the Islamic zakat – not only institutionalised Islamic concerns within Barisan Nasional policies but also reinforced the complexity of welfare arrangements which privilege the individual and the family over the state thus mediating external economic pressures which otherwise could result in expanded welfare provision.

However, the privileging of one ethno-class faction, the new Malay middle classes, over others has exposed both their vulnerability to exogenous global economic pressures in the form of employment insecurity and the weaknesses in the institutionally embedded mechanism for the provision of economic security in old, the EPF. Such weakness calls into question whether the EPF is ‘fit for purpose’ for the twenty first century. The next chapter examines the development, objectives and mechanisms of the EPF and highlights the shortcomings of this key socio-economic institution.

## **Chapter 3**

### **The Malaysian Employee's Provident Fund: a model to meet future challenges?**

In Chapter 1, the two concepts of economic globalisation and historical institutionalism were identified as offering a more rounded account of the difficulties involved in adapting to current economic and social changes in Malaysia. Chapter 2 examined the historical institutionalised nature of the Malaysian political economy and placed the Malaysian welfare regime in an historical perspective. The ongoing influence of the colonial period was examined in relation to the contemporary socio-cultural, political and ethnic institutions in Malaysia. It was noted that during the colonial period the ethnic composition of Malaysia was irrevocably altered and that the negotiations leading up to independence resulted in the institutionalised Malay political hegemony. Positive discrimination in the form of the NEP and pragmatic co-option of populist ethno-cultural movements – namely the Islamic revival of the 1970s and the rhetoric of Asian values – reinforced the limited role of the state in welfare services. Rather the family/individual were privileged as key sources of welfare, most notably in the form of the EPF.

The aim of this chapter then, is to concentrate squarely on Malaysia and its preferred embedded institutionalised mechanism for old age protection, namely the Employees Provident Fund (EPF). This is achieved through a brief discussion of how the Malaysian state aims to utilise policy to avoid exclusion of its growing elderly population, mainly through the National Policy for the Elderly (NPE, 1995),

emanating from the Ministry of National Unity and Social Development. There then follows a section which offers a brief review of selected sources of old age income provision in Malaysia, before moving on to a fuller description of the development and current structure of the main source of income in old age, the Employees Provident Fund. The penultimate section highlights the shortcomings of an over reliance on individual savings, whilst the final section focuses on some simple measures which would go some way to making the EPF 'fit for purpose' in the twenty first century.

### *Ideological and cultural foundations of social security in Malaysia*

The spectacular rise of the Asian economies throughout the 1980s and 1990s was to a great extent built upon the increased level of inward investment which was actively sought as *the* means by which developing nations could achieve their wider economic and more domestic political and social goals. The increased levels of cost for manufacturing production in the North coupled with the unshackling of capital facilitated the rush to greater industrialisation and its attendant urbanisation throughout the region.

So at first viewing it could be concluded that the processes of globalisation have the upper hand in terms of explanatory power when analysing the socio-economic changes which have undoubtedly taken place in Southeast Asian states such as Malaysia, Singapore and Thailand. However, this does not reveal the whole picture, and what one does not get is any sense of decision making at a national level.

Globalisation is not a take-all package there are aspects of the globalisation debate which can fare less well under scrutiny and it is the cultural reductivist approach,

which argues that a global culture is seeking to obscure national and regional differences as major brands dominate the global consumer market.

Institutional factors such as culture and cultural difference have often been cited as the reason why, for example, social policy reforms have taken second place to economic objectives. It is not that Southeast Asia is jam packed with ardent neo-liberals shunning the needs of the poor in the search for more US dollars. Rather, it is the institutionalised social and cultural mores of the region which place self-reliance and the family at the centre of welfarism both large scale and small. Furthermore, this approach is mirrored in the embedded institutional base, namely the EPF, which operates the main mechanism for old age savings in Malaysia. As was noted in the Chapter 2, the EPF was founded in the colonial era and is, in part, something of a hangover from that period. Its original form has changed and, perhaps more importantly, the EPF has adopted a central role in how the majority Malaysians save for retirement, buy houses and fund tertiary education. However, despite the first objective of the EPFs mission statement claiming the primary mission to be the provision of retirement benefits to its members through the management of their savings (EPF, 2005) the scope of uses such savings can be put to has expanded. Indeed, the organisations vision statement in part claims that the EPF aims ‘To be a leading social security organisation in the world’ (EPF, 2005). Furthermore, the EPF has in the past been used as a ready source of cash by successive governments to both rescue ailing national companies, to fund mega-projects and to meet budget deficits through the requirement of the fund to invest heavily in Malaysian Government Securities (MGS). It has, in effect, become an institutionalised aspect of Malaysian economic and socio-cultural life.

### *National Policy for the Elderly (NPE)*

It was not until relatively recently that the Malaysian state acknowledged the necessity of social policies specifically targeted at the growing elderly population. Previously the 1990 National Welfare Policy incorporated the needs of the elderly within its remit and it is worth noting, that despite the 1995 NPE the primary provider(s) of care remain the family and the community. Indeed, included in the publication of the Seventh Malaysia Plan (7MP, 1996) was a brief review of the NPE which stated that the policy aimed at 'creating a society of elderly people who are contented and possess a high sense of self worth and dignity, by optimizing their self potential and ensuring that they enjoy every opportunity as well as the care and protection of members of their family, society and nation.' (7MP, 1996: 571). This was followed up in 1999 with the publication of the Action Plan for the National Policy for Older Citizens which again reinforced the 'care' line for older people as being the family first, followed by the community and then the State. Mazanah and Mazalan (1999: 2) suggest that the policy incorporated 'very strong objectives with the ultimate aim to increase the dignity of, and respect for, older people' which were the subject of a wide range of programmes including education and training under the auspices of the Social Welfare Department, an agency of the Ministry of National Unity and Social Development. The efficacy of this emphasis on education and training related schemes has been challenged by Ong (2002: 115-6) who states that 'Although the policy has been a great step forward in preparing Malaysia for a transition to an ageing society, the 1999 Plan of Action does not adequately cover employment and income security'. It is this shortfall in planning for income security which is of key concern in this chapter.

It is worth noting in passing that there are ideological, historical and cultural parallels between the states of Southeast Asia, which are reflected in their approach to the broad thrust of social policy per se and social security in particular. In Chapter 1 (p 47), it was argued that, at present, the term *productivist welfare regime* (Holliday and Wilding, 2003; Gough et al, 2004; Holliday, 2005) best describes the developmental trajectory of a Southeast Asian regime type. It should be stressed again that this is not in any way to over simplify the diversity contained within the region. Instead the aim is to enable this discussion to draw parallels of experience and development which goes beyond the alternatives which can be characterised as either lumping divergent experiences together under an unsuitable and inaccurate *Asian model* of welfare, or throwing ones hands up in the face of diversity. Rather this approach goes some way to explaining why some aspects of social policy reform have lagged behind the more expansive models found predominantly in the advanced industrial nations. However, one particular policy area which has been the main beneficiary of state spending across the majority of the Asian region has been education. Although as Gough (2004: 171) notes public social expenditure has remained at relatively low levels compared to more the developed industrialised nations as ‘East Asian governments have consistently emphasised the central role of education in economic development...The general verdict is that the allocation of resources is more effectively targeted on basic education than in other developing nations’, though not as yet income security.

In Malaysia, the recently departed Dr Mahathir periodically castigated the industrial nations of the North for attempting to impose their own (lower) values and moral standards on developing nations, whilst arguing that Asian values placed ‘greater



stress on economic and social rights and...they took less account of individuals, and gave more regard to the interests of the community' (Milne and Mauzy, 1999: 137).

Asher (1999) has argued that various Southeast Asian states, Malaysia included, have based their social security systems on a common set of assumptions which include:

- Social security as secondary to economic growth
- Social security provision as essentially a concern for individuals, families, communities and employers
- The state as concerned with the whole population and not the needs of individual groups or members.

It is this notion of an institutionalised 'local' filter, through which the varying strands of globalisation must pass, which informs subsequent discussions in this thesis.

Economic globalisation is affecting social policy choices in both the North and the South, but its effects may yet remain muted as national governments set their own agendas. That provident funds remain popular, particularly in Asia, is unsurprising given the stress on individual provision and self help over government intervention.

Malaysia operates the oldest national provident fund (NPF) in the region and has periodically, and without consultation of the fund's members, made use of the large cash reserves to fund either budget deficits or to finance large scale infrastructure projects. Furthermore, the EPF has enabled many Malaysians to become home owners, as individual members are able to access not only the funds they have contributed but also those monies paid into their account by employers. These two uses of monies accrued through individual savings has, to an extent overshadowed the original purpose of such mechanisms, that being the self provision of income into old age. This set of arrangements has led Dixon (1996: 74) to contend that 'The juxtaposition of economic, social and social security objectives has ensured the

survival of NPFs in Asia'. An overview of selected sources of income for the elderly, which sees the resilience of Malaysian welfare provision as a response to exogenous pressures of economic globalisation due, in part, to the existence and pivotal position of entrenched bureaucratic institutions, is covered briefly in the next section.

#### *Selected sources of incomes provision for the elderly in Malaysia*

There exists in Malaysia a broad spectrum of social security schemes that differ philosophically in their approach (Asher, 1994). Some schemes subscribe to the notion of social insurance, primarily legislated for under the Employees' Social Security Act 1969 (SOCSO). The Employment Injury Insurance Scheme and the Invalidity Pension Scheme were created by the Employees' Social Security Act 1969 and implemented in 1972 and 1974 (Peninsular Malaysia) respectively. The Act covers all employers employing one or more persons and relates to those employees earning less than RM2000 a month. Recent figures indicate that the total membership of SOCSO for 1999 stood at 8,598,005 (cumulative) while the total number of registered employers was 355,916 (SOCSO, 1999). Once covered by the scheme employees remain insured against work-related injury, invalidity or death, even if subsequently the employees' earnings rise above the qualifying threshold.

The Employment Injury Scheme is currently fully financed through employers' contributions at a rate of 1.25 per cent of the employees' monthly salary. The Invalidity Pension Scheme is financed through contributions from both employers and employees currently set at 0.5 per cent of monthly wages. In short SOCSO operates as little more than a workers compensation scheme, and as such cannot be regarded as a main contributor to income in old age.

Other schemes rely on the principles of individual provision for old age under the Employees' Provident Fund (EPF) which we return to below. It is this which best represents the dominant political philosophy as often proclaimed by the long serving Prime Minister Dr Mahathir bin Mohamad, who has periodically spoken out strongly against western forms of welfarism, arguing that economic growth should be the route to an affluent society, in which individuals and their families are rightfully regarded as the mainstays in the provision of care and old age income. It would appear that thus far, there is a degree of continuity between the former and current Prime Minister Abdul Ahmed Badawi. Whilst in character Ahmed Badawi appears less confrontational, nevertheless the fundamental principle would appear to remain that old age income is the responsibility of the individual and the family. Consequently, it remains the case that it is the EPF that provides the greatest extent of cover for individuals seeking to fund life beyond retirement.

#### *The family and intergenerational transfers*

Whilst it is correct to state that the EPF plays a central role in the provision of income security for the elderly in Malaysia, it is also important to acknowledge the role that the family has played, and continues to play, in the support of the elderly. The main concern here, are the roles that informal social care arrangements and intra-family intergenerational transfers play in the provision of income for the elderly beyond retirement. It can be argued that the family in Malaysia is the central welfare provider, both in monetary terms and in the provision of social care (Da Vanzo and Chan, 1994; Lillard and Willis, 1997; Schulz, 1997). The latest available data suggests that it remains common practise for adult children to co-reside with their parents. Data drawn from the Second Malaysian Family Life Survey (MFLS-2)

(Haaga et al, 1993) indicates that more than two thirds of Malaysians aged over 60 co-reside with an adult child. Indeed there are economic incentives in place, in the form of tax rebates, to encourage the continuation of this practice (Da Vanzo and Chan, 1994). However, the dual processes of rapid industrialisation and urbanisation may have a detrimental effect on the ability of the family to offer support to those more vulnerable members. In practical terms, the higher cost of living in urban areas, insecure employment experienced by the majority of recent migrant workers, compounded by other demands on income such as education, may leave little or no monies remaining to send back as remittances to rural based family members. Added to this, there is an ethnic dimension to future old age poverty. In Malaysia, it is the rural elderly, the majority of whom are Bumiputera and female (Yaacob, 2000), left behind by the migration of the young to urban areas in search of employment who are most at risk. It is true that intergenerational transfers continue to play a vital role in this instance, indeed Yaacob (2000: 72) argues that a common religious and cultural ideology of *balas jasa* (repaying parents) is present across all ethnic groups in Malaysia, and it is this which accounts for the continuing central role of intergenerational transfers as a source of old age income.

However, it is as yet unclear as to what the long-term effects of the changing family structure, both as a result of urbanisation, the shift to nuclear families, increased female participation in the labour force and a declining birth rate will have on attitudes to the support of the elderly. Indeed Jomo (2001) has argued that societal change has left widening gaps in the informal traditional safety net previously provided by families and communities. Schultz (1997) contends that both geographical dispersion and the growing trend for smaller family units may require an

extension of formal social protection to fill the role traditionally associated with the family. Furthermore, as recently as 2003, the EPF Chief Executive Officer Datuk Azlan Zainol, commenting upon a review of the withdrawals procedures argued against the phasing out of early withdrawals for children's education, claiming that 'It is our hope that the children, once they get jobs, would look after their parents' (New Straits Times, 11/12/2003). Such statements are in keeping with national sentiments as voiced in the OPP3, here it is envisaged that 'The family unit will continue to be pivotal in inculcating positive values and its efforts will be supplemented and complemented by *non-governmental organisations*, community based organisations and other voluntary organisations... Towards this end, motivational and attitudinal based family and society oriented programmes, which emphasize positive values will be intensified to induce good behaviour and morality' (OPP3, 2001: 166 – my emphasis added). Clearly the ongoing intention is for the state to play a minimal role.

### *The provident fund mechanism*

In general terms, provident funds can be described as fully funded compulsory saving schemes with fixed contributions from employers and employees, proportions of which are directed to dedicated accounts (Ramesh with Asher, 2000). The accumulated funds, with added interest or dividends, are returned to the members upon retirement either in the form of a lump sum or periodic payment until such balances are exhausted. In many systems members are able to access funds prior to retirement age, usually for the purposes of housing or health care, although in some instances educational fees and individual investments are catered for under provident fund schemes. The emphasis on individual provision through paid labour is a clear principle of the provident fund mechanism and, due to its fully funded nature, there is

no chance of such schemes running into deficit (Dixon, 1996; Ramesh with Asher, 2000).

There are a number of primary drawbacks to the provident fund mechanism; these include a risk to member's savings from inflation. Such is the long term nature of provident funds that savings may indeed be reduced due to inflation, the only safeguard for members being the dividends which are pegged at a minimum to inflation. This situation is compounded when members cease paid work and withdraw all funds from the scheme. Similarly, such schemes do not seek to ensure that all members receive benefits which are adequate for subsistence into old age. Benefits reflect a member's individual contributions history and as such will be insufficient for those on low incomes during their working life. As Ramesh with Asher (2000; 37) note 'This is problematic because the basic purpose of social security is to provide income to those who are unable to earn it in sufficient quantity in the marketplace. It is arguable that the well-off can and do save sufficiently even without provident funds. The arrangement also makes no allowance for different life-spans of different people; those living longer will have less funds available during retirement'.

However, in balance to such possible negative aspects, there are a number of positives. Provident funds increase domestic public savings, though this is at the cost of reducing private savings. The accumulated funds have significant financial and economic implications for the state, both in terms of funding large scale infrastructure projects and the meeting of, or reducing, budget deficits, through the purchase of government bonds, in times of economic slowdown. They broadly meet socio-

economic objectives, such as increased home ownership, and in some cases access to quality health care, which as Dixon (1996: 84) suggests is valued by scheme members 'who are willing to trade off social security protection in their later life'.

This may well be the case in Singapore where the Central Provident Fund (CPF) is broadly acknowledged to be a de facto social security system. However, this is relatively easy to achieve with a population of approximately 3 million people who are under the direction of an authoritarian regime. Such gains are less easy to quantify in larger states. It is true that Malaysians make use of the EPF to increase home-ownership. Health is relatively well provided for by the Malaysian health system, although despite the earlier rejection of increasing privatisation of health services under Dr Mahathir, the issue is well and truly back on the agenda. Aliran reported on 30/05/05 that 'Civil society activists are concerned that a proposed national health insurance scheme scheduled to take off at the end of next year, while catering to well-off Malaysians, will marginalise Malaysia's poor – many of whom can barely afford to pay for basic medical services'. As such, for EPF members, there is little in the way of a trade off to be achieved. This is not a direct criticism of Dixon (1996), rather a broader point that individual provident funds operate in different ways and as such the 'willingness' of individual members of different schemes cannot and should not be taken as given. It may be that the EPF will not be used as the payment vehicle for the proposed health insurance scheme as the CPF is in Singapore. However, the Eighth Malaysian Plan (2001) estimates that approximately 25 per cent of households in Malaysia have monthly incomes of less than RM1000 (US\$262), with more than 50 per cent of all households having monthly incomes of less than RM2000 (US\$524), this would place an increased financial burden on those less well

placed to cope. Such health insurance policies are likely to be weighted according to age and gender, thereby placing increase costs on those who have greater need but least resources. Should the proposed health insurance scheme be funded out of individuals' EPF accounts then, as figures below indicate, a sizeable minority of the Malaysian population would not be covered by such schemes. In order to make such reforms palatable, government officials have, according to Aliran (30/05/05), indicated that 'one million civil servants, 200,000 disabled, 1.8million senior citizens, 435,000 pensioners, 25,000 in hard poverty and the unemployed would be exempted from making mandatory monthly payments'. A key point to note here is that the government sets its' hard-core poverty line at households earning less than RM250 per month, which in no-way takes account of those on low incomes, or those who drift between the formal and informal sectors.

This chapter is not directly concerned with the perceived shortcomings of the Singaporean CPF, which is dealt with as a comparator case in Chapter 7. However, it is worth noting in passing that the EPF has much in common with the Singaporean CPF, which in turn has been touted as a successful model worthy of imitation (Aspalter, 2002) and indeed, the EPF makes a similar claim to be a social security system (EPF, 2005). Rather it is the Malaysian EPF which is the focus of this discussion and although further parallels have been drawn elsewhere (Asher, 1994, 1998; Ruyter, 1998; Ramesh with Asher, 2000) that is not the explicit intention here.

### **The Employee's Provident Fund (EPF)**

The EPF is a publicly mandated savings plan with contributions shared between employers and employees. Originally set up by the former British colonial power to

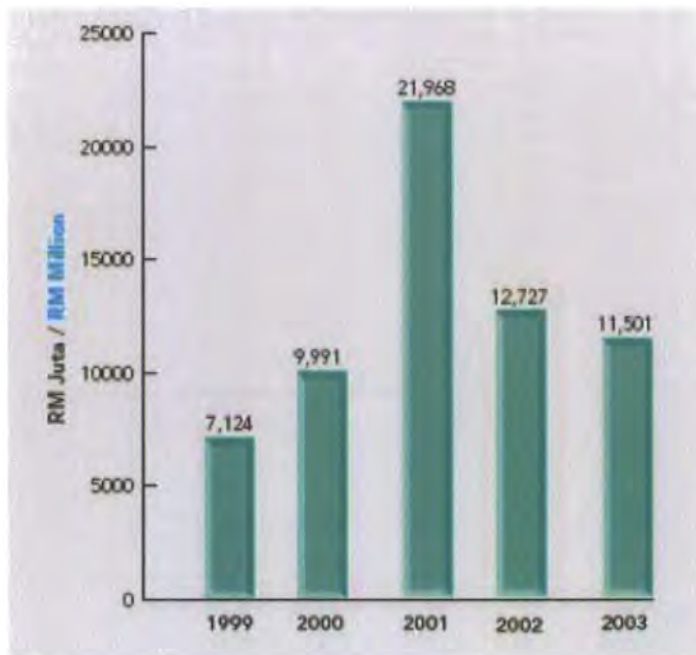
cater for expatriate workers, the Malaysian EPF is the oldest operating provident fund dating back to the EPF Act 1951 (272) and currently operates under the 1991 Act (452), and subsequently amended in the years 1995 (915), 1996 (958), 2000 (1080), 2001(1123) and 2003 (1190). The EPF is a defined contribution fully funded scheme and as such differs from other pay-as-you-go social insurance based schemes such as those operated by the Malaysian Social Security Organisation (SOCSO). As reiterated in the Chairman's statement in the 1999 Annual Report 'the primary responsibility of the EPF is to ensure that its members have financial security in their old age in the form of adequate savings to support their retirement' (EPF, 2000). Furthermore, as this thesis demonstrates, there are issues which prevent the EPF from adequately achieving this primary responsibility.

### *Structure*

All employees, irrespective of the size of their employer's business, are covered by the scheme with both employees and employers contributing to the EPF at a current rate of 11 per cent and 12 per cent of wages respectively. The employee contributions for the year 2001-02 were reduced by 2 per cent to 9 per cent in an attempt by the government to boost consumer spending and give a fillip to a somewhat moribund economy. This tactic was again employed in 2003 and was then rescinded in May 2004. According to figures published in the Business Times (22/05/2003) the 2 per cent cut in employee contributions was expected to boost consumer spending by somewhere between RM1.8 billion and RM2.2 billion or the equivalent of 0.4 - 0.5 per cent of GDP. Coincidentally, this economic stimulation by the EPF coincided with the government issuing a half month bonus to one million civil servants to the tune of RM500 million.

It is interesting to note, that the data in fig 3.1 below indicates that as the Malaysian economy stuttered and stagnated, and as the state initiated its first cut in contribution rates for employees, so the EPF posted its highest figures for withdrawals, which saw approximately RM21.968 billion withdrawn. The EPF itself has put this remarkable figure down to the withdrawals by ‘a large number of foreign workers (who) had withdrawn their savings following the Government’s decision to exempt them from contributing to the EPF effective 1 August 2001’ (EPF 2003). This coincides with the repatriation of foreign workers in order to stave off increasing levels of unemployment, and as such has wider implications for old age poverty beyond Malaysia’s borders.

**Fig 3.1: Withdrawals 1999 - 2003**



(EPF Annual Report, 2003)

As part of the ongoing reform of the EPF, measures introduced in January 2002 to replace the less than successful annuity scheme introduces the possibility of each member’s contributions now being separated into four dedicated accounts, each with

specific withdrawal requirements. At present, 60 per cent of contributions are deposited into Account 1 and cannot be withdrawn until the member reaches age 55. At age 55, members can withdraw their funds either as a single lump sum, part lump sum with balance paid in periodical payments, periodical withdrawal or withdraw the dividend annually leaving the balance within the account. A further 30 per cent is deposited in Account 2 and withdrawals are permitted for the purchase or building of a house, the payment of housing loans or towards cost of education at diploma level or above for the member or their children at an Institute of Higher Learning either in Malaysia or abroad. The balance of this account, that is total contributions plus compound interest, may be withdrawn at age 50. The final 10 per cent is held in Account 3 and may only be withdrawn to meet the costs of defined critical medical conditions.

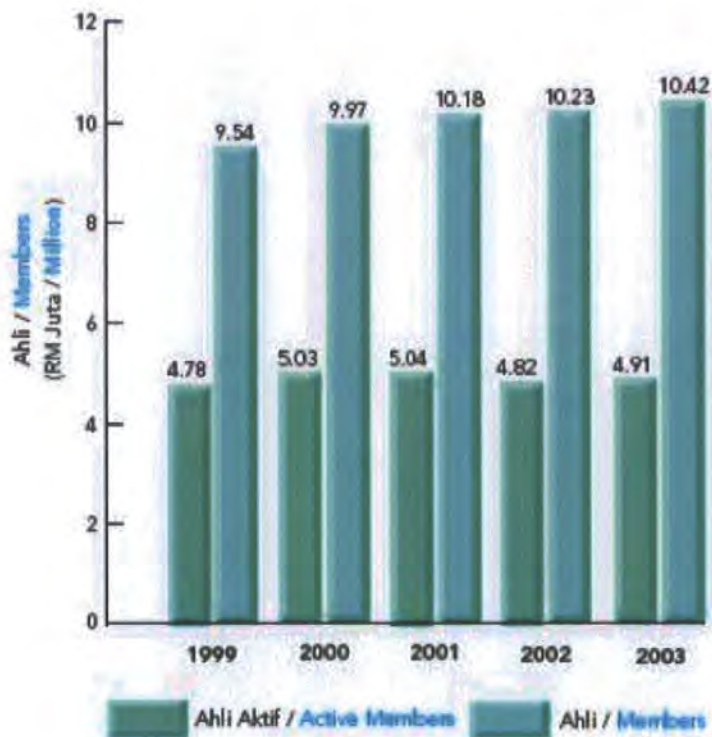
As of 1<sup>st</sup> January 2002, the newly initiated optional Account 4 allows members to transfer in a maximum of 50 per cent of the balance held in Account 1 and then 50 per cent of monthly contributions thereafter until age 55. Providing Account 4 has a minimum balance of RM24,000 members, upon reaching the age of 55, will be able to opt to withdraw monthly minimum payments of RM100 for a maximum period of 20 years to age 75. If the balance held in Account 4 is below the threshold and the member opts not to top up the balance with monies from Accounts 1, 2 or 3 then all four accounts are merged and the total is withdrawn in a single lump sum.

### *Coverage*

As at the end of 1999 the EPF had 9.54 million members, this figure included approximately 4.78 million active contributors (EPF, 2000). Asher (1998) has shown

that the coverage as measured by the ratio of active contributors to labour force as at end of 1995 stood at 49.5 per cent. More recent figures, using the same calculation, show that the coverage has marginally increased to approximately 53.1 per cent (Ramesh with Asher, 2000), thereby implying that approximately 47 per cent of the labour force, or just less than one in two workers did not enjoy the basic EPF coverage.

**Fig 3.2: Growth in EPF membership 1999 - 2003**



(Source: EPF Annual Report, 2003)

However, if one makes use of the EPF's own figures from the 2003 Annual Report, as shown in fig 3.2, then the ratio of active members as a per cent of the total labour force shows a decrease from the previous level of 53 per cent to an approximate figure of 48 per cent. Two points should be noted here: first, that membership of the EPF should continue to rise, albeit slowly, as the formal sector expands in line with

sustained economic recovery. It can be assumed that some of the previously active members have suffered retrenchment due to the stalling of the Malaysian economy since the turn of the century. Secondly it should also be noted that public sector employees are, in part, provided for under the Pension Trust Fund (PTF). Estimates suggest that the PTF accounts for approximately 5-7 per cent of the work force, which increases slightly the overall coverage of the work force to approximately 55 per cent again down from the previous high of 60 per cent. However, the picture still remains somewhat gloomy, as the figures from the 2003 Annual Report now imply that coverage by the EPF has fallen back below the 50 per cent mark

### *Investments*

Under the 1991 Act, the EPF can only utilise approved investments. These include Malaysian Government Securities (MGS), debenture loans, money market instruments, equities and property. Under Section 26B 'Board to invest in Government Securities' the Act stipulates in subsection 1 that 'Subject to any variation which the Minister (of Finance) may make under subsection 2 (vary the percentage specified in subsection 1), the Board shall invest or re-invest at least fifty per cent of the moneys belonging to the Fund in securities offered by the Government of Malaysia provided that the total amount of moneys so invested in such securities at any one time shall not be less than seventy per cent of the Fund's total investments' (EPF Act 1991). In short then, the EPF is required to invest at least 70 per cent of its total funds in MGS, but is restricted from investing more than 25 per cent of its total funds in equities. As at the end of 1997, the EPF investments in MGS amounted to 29.4 per cent compared to 73.6 per cent in 1991. This figure was expected to show an increase in the wake of the large budget deficit for 1999 of some RM16.6billion, part

of which is to be met by the EPF. This has in fact been the case as MGS holdings rose initially to 31.58 in 1999 before rising further to 37.44 per cent as of September 2001. Investments in equities again rose to stand at 22.27 per cent by the end of the third quarter, 2001 (Asher, 1998; EPF, 2000). However, more recent figures indicate that EPF investments in MGS which stood at 39.03 percent in 2004 have since declined to 37.62 percent at the end of 2005, equity investments have remained level at approximately 20 percent whereas debenture loans have increased to 36.3 percent of assets (EPF, 2005). The issue here is not so much the levels of investments, but that the Minister of Finance can change the terms of the 1991 Act to enable greater or lesser amounts to be invested in MGS and it is this interference by the state which hampers the EPF and restricts its ability to determine its own investment strategies and introduces a degree of volatility to investment returns.

### *Dividends*

Dividends are calculated on a compound basis and are paid annually. The rate of dividend is determined by the EPF board, subject to approval from the Minister of Finance, under the EPF Act (1991) the dividend cannot be less than 2.5 per cent. The real rate of return, that which has exceeded the increase in the consumer price index, has consistently been positive. That is, the rate of dividend has exceeded the rate of inflation for 48 out of its 52 years in existence from 1951 to 2004. Indeed as the figures in table 3.1 indicate, the real rate of return on an individual's savings has remained fairly consistent at on or around the 4 per cent mark for the previous 40 years.

**Table 3.1: Comparison of nominal and real dividend rates on EPF balances**

Time period	Nominal dividend rate (%)	Inflation rate (CPI) (%)	Real rate of dividend (%)
1961 - 99	6.89	3.45	3.37
1983 - 99	7.87	3.03	4.87
1987 - 99	7.68	3.34	4.40
2000 - 2004	4.9	1.48	3.42

Source: Adapted from Asher, M (2000) Table 2; EPF, 2004: 80 - CPI refers to the Consumer Price Index

However, as both Valdes-Prieto (1999, cited in Asher 1999: 16) and Iglesias and Palacios (1999, cited in Clark 2002: 76) have reported, returns on EPF investments were below that which could have been achieved on domestic bank deposits. Indeed Valdes-Prieto (1998: 8) argues that over the period 1971 – 1999, the real rate of return to members in the form of dividends was 2.74 per cent as opposed to that obtainable from bank deposits of 4.26 per cent, with equity investments topping out at 5.61 per cent. Asher (1998) has noted that the shift in investments away from MGS to alternative investment destinations has affected the ability of the EPF to maintain its accustomed high nominal dividend rate. The continued growth in the level of investment allocation directed towards equities, which at present are restricted to those based on the Kuala Lumpur Stock Exchange (KLSE), will continue to have a direct and increasing bearing on the ability of the EPF to produce consistent dividend returns to members. Another aspect of this shift away from MGS can be attributed to one of the roles that the EPF has assumed in recent years, that of housing provider. Asher (1998) comments that the amendment to the 1991 Act enabled the EPF not only to encourage private home ownership through Account II, but to act as housing provider through the offices of its subsidiary MBSB. Evidence of the success of this approach is provided by the EPF (2000), which recorded an increase of 25.59 per cent from 1998 figures of withdrawal of savings for housing purposes which totalled RM2.54 billion.

Whilst it is important to highlight the developments of the EPF investment strategy, and the possible impact of this upon the level of dividend payments to its members, it should also be noted that the EPF maintains a high degree of efficiency in the management of accounts. A common criticism of national provident funds has been the often high administrative burden associated with such schemes. As far as the EPF is concerned, however, this has been demonstrated not to be the case with operating costs amounting to less than 3 per cent of total income (EPF, 2000). That is not to say that there is no room for improvement. Great store has been placed upon investment in ICTs, not only by the state in general, but by the EPF in particular as it seeks to become more responsive and transparent in its dealing with its members. The hope is that administration costs can be further restricted as the organisation moves towards a greater reliance on non-paper administration and online communications.

### **Issues facing the EPF**

#### *Institutionalism and reform*

As was noted in Chapter One, there are varying schools of thought represented under the banner new institutionalism. Furthermore, it is historical institutionalism which it is argued here corresponds to an endogenous pressure that reflects both cultural and political preferences as well as representing the normative expectations of members of the EPF. In short, there is a reluctance to radically alter a savings mechanism which encompasses such slippery concepts as ‘Asian’ values, budgetary elasticity and leverage and short term (if not long term) realisation of members’ needs and wishes. It should be stressed again, however, that this has not impeded incremental reform of the EPF, rather it has obscured the original central purpose of the fund and has led to the development of friction between the varying, and at times vying, constituencies.

The EPF has been used by the UMNO led Barisan Nasional as a ready source of cash to fund budget deficits, as in the aftermath of the 1997 economic crisis, and mega-projects such as the Kuala Lumpur International Airport. Such reforms to the EPF which have taken place have seen the fund extend the uses to which members can put their savings, such as housing, health, education and investments, and it is the popularity both of the prospect of long term savings and short term satisfaction of needs which has enabled the EPF to thus far avoid radical reform. However, it is pertinent to talk about institutional inertia based upon ethno-class conflict, political temerity and public sentiment. The state has benefited both in economic flexibility and in less tangible terms, as the EPF has mirrored socio-cultural norms of self provision and family support which have been actively promoted by a state determined to avoid an expansive welfare regime. As an 'arms length' institution, albeit one directed by the Ministry of Finance, the EPF can be viewed as above ethno-class distinctions. Its stated aim being the provision of old age income for *all* Malaysians enables it to avoid suspicion of promoting or serving the interests of one ethno-class faction above any others. In effect the EPF is liked by all. The result is that there is neither the political or organisational will, nor at present at least, is there the public demand for reform which would address the shortcomings of the current arrangements which call into question whether the EPF is 'fit for purpose'.

In interviews carried out with high ranking members of both the EPF (24/04/01) and the Malaysian Social Security Organisation (SOCSO, 30/03/01) organisations and Professor Mukul Asher at the National University of Singapore (16/04/01), this sense of institutional conflict was indicated. Both organisations it appeared, doubted the ability, capacity or philosophical approaches of the other. On the one hand the EPF

was deemed to be antipathetic to social insurance, SOCSO was deemed to lack the expertise, whilst the impact of both political decision making and the attitudes of EPF members were viewed as, at present, negative towards the implementation of policy reform which might eat into the notion of individualism in the former and increased contributions in the latter case.

Campbell (2004: 159) suggests 'Public sentiments consist of broad-based values, attitudes and normative assumptions about what is appropriate. They are held by large segments of the population and are perceived by decision makers...Public sentiments are often well institutionalised, reside in the background of decision-making debates and constrain the normative range of solutions that decision makers view as acceptable'. Of course the biggest stumbling block to reform is the lack of political will to implement the required reforms. Having spent so long decrying the notion of expanded western welfarism, it does not sit easily with the Malaysian government, even under the leadership of the less vitriolic Ahmed Abdullah Badawi, to cast aside its protective buffer of 'Asian values' in recognition of an alternative path of social policy reform which it has for so long derided.

It should, however, be stressed that this is not an 'either or situation'. It is not a case of simply dividing power, agency or action/inaction between the development and role of institutions versus the influence of exogenous *economic* pressures in the form of the processes of globalisation, the picture is more complex than that. Rather this duality forms a broad framework through which ideas of resilience or weakness of existing forms of welfare policies (and regimes) can be viewed. In effect, new and wider global and economic pressures are impinging upon 'traditional' institutionalised

ways of doing welfare, which in the case of Malaysia includes social and cultural as well as political arrangements, and makes them less able to withstand the turbulence which accompanies change (Jomo, 2001). With respect to the Malaysian EPF then, the embedded nature of individual provision and the 'ways of doing' old age income makes reform problematic. In the first instance it is the social and cultural norm of saving for one's old age which is accepted and reinforced through the provident fund mechanism. This is inherent in the 'Asian values' discourse which clearly focuses on the distinct cultural arrangements of welfare provision. Similarly the method of saving and accessing funds through a variety of means to meet a number of needs, housing being the most obvious, restricts the reform capabilities of the EPF in that its members 'prefer' the status quo. To save dividend accruing contributions to the EPF and then to raise an interest bearing loan from an alternative financial institution raises the idea of a double payment. This does not prevent change and reform; rather it implies a particular approach which incorporates both concerns of the institution (which here could include both the EPF, the State and the public) and the traditional means of achieving such ends – the family. Here it is argued that far from radically reforming the provision of old age incomes through the introduction of greater choice for members through a wider variety of investment mechanisms, the EPF is in fact reacting to the social and cultural norms of individual provision.

In short, such reforms are located in the historical development of both the fund and Malaysian society and are therefore path dependant, further embedding the institutionalised nature of Malaysian welfare regardless of whether the EPF is 'fit for purpose' in the present and the future. Such challenges have been acknowledged by the EPF and indeed the Chairman's statement in the 2005 Annual Report notes that

'Traditional schemes that were developed decades ago can no longer be sustained viably nor can they provide the financial security for future population' (EPF, 2005: 29). The Chairman is, however, quick to suggest that questions of viability do not apply to the EPF.

*The Malaysian Employees Provident Fund: a limited model?*

The remainder of this chapter is concerned with issues regarding the development of current arrangements for the provision of income for the elderly in Malaysia under the auspices of the Employees Provident Fund (EPF). It argues that as things currently stand the EPF is not 'fit for purpose' and that savings accrued are insufficient to meet the needs of an increasingly elderly population. In Malaysia, as in most of the rest of the developed and developing world, a main concern for both state, non-governmental organisations and individuals is the ability of elderly persons to fund life beyond retirement. Choices made by both the state and individuals will have a direct impact upon the quality of life experienced by the elderly. The proclaimed aim of the Malaysian state and other concerned bodies is to avoid excluding from the mainstream those who have contributed so much to the present and future prosperity and improved quality of life for the majority in Malaysia. Evidence for this can be found in the documentation of the National Policy for the Elderly which declares that 'A united, tolerant and progressive nation with a populace that has strong moral and ethical fiber (sic) can help ensure a society that cares for the social well being of all its members.....In this context the status and position of the elderly as important members of the family, society and nation has to be recognized. They have made significant contributions and as a recognition of their past, present and future roles...their future social well being must be ensured' (Dept of Social Welfare, 1995).

There are; however, real concerns that these aims will be severely hampered, if not met, if current institutionalised old age income arrangements persist.

Malaysia's total population currently stands at approximately 23.27 million, of which 21.9 qualify as citizens (Dept of Statistics, Malaysia, 2004). Classified as an upper middle-income country (World Bank, 1997), the per capita income currently stands at RM 13,359. This reflects Malaysia's swift recovery from the 1997 regional financial crisis, which saw a GDP rate (at 1987 prices) of -7.5 per cent in 1998 recover to +5.4 per cent in 1999 reaching +7.2 per cent in the year 2000 (8<sup>th</sup> Malaysia Plan (8MP), 2001), before dropping back to +5 per cent in 2001 (Department of Statistics, 2001). The population is expected to increase at an average rate of 2.3 per cent, with a growth rate for those aged 65 and above estimated at 4.5 per cent (8MP, 2001, Table 4.1). The three main ethnic groups in Malaysia experience varying fertility rates with the Bumiputera enjoying a fertility rate of 3.62 reflected in an average increase in the Bumiputera population of 3.2 per cent. This far exceeds the increases in the Chinese and Indian populations which stand at 1.4 per cent and 1.8 per cent respectively, with these groups achieving similar fertility rates of 2.57 for the Chinese and 2.55 for the Indian communities. Life expectancy in Malaysia has continued to increase from 68.8 years for males and 73.4 years for females in 1991 (Asher, 1994), to 70.2 years for males and 75 years for females in 2000 (Department of Statistics, 2001). The elderly share of the population, which currently stands at 7 per cent, is estimated to reach 21 per cent by the year 2050. This will be reflected in an estimated increase of elderly persons age 60 and above from 1.56 million in 2002 to 7.87 million in 2050 (UN Commission on Population and Development, 2000 Revision). It is clear from the data presented that the Malaysian elderly are living longer and are increasing as a

percentage of the population. Despite the recent qualification regarding an increase in the retirement age for public sector employees from 55 years to attaining their 56<sup>th</sup> year, there is a real and contemporary need for the establishment of an adequate system for securing income for old age which will last the contingency.

*Gender: a dimension of financial insecurity in old age.*

Economic security, both during economically productive years, the time at which savings can be accrued, as well as in old age are closely connected with gender.

Women are, in general, less able to secure a regular and stable income than men.

Higher proportions of women work in the informal sector or those sectors of the economy which are at greater risk from low wages and increased job insecurity.

Ariffin et al (1996) have argued that there were no substantial socio-cultural barriers to women's participation in paid employment, and furthermore that there was a parallel increase in female production workers and a decrease in women as agricultural workers. Data to substantiate this shows that in 1970 women's employment in the agricultural sector stood at 68 per cent of the total female labour force, by 1990 this had decline to 28 per cent. In contrast however, in the manufacturing sector, the figures rose from just 8 per cent in 1970 to 24 per cent in 1990. Ariffin et al (1996: 70) suggested that manufacturing industries preferred to hire female workers as they were 'more willing to accept lower wages'. More recent figures taken from the 8MP (2001) show a continuing decline in female employment in the agricultural sector, which in 2000 accounted for 14.1 per cent of the total female labour force.

However, in relation to manufacturing the figures show something quite different. In 1995 29.4 per cent of women were employed in manufacturing, post 1997; the figures for 2000 show that the numbers employed in the manufacturing sector had dropped to 27.3 per cent. A recent report published by the Ministry of Women and Family development entitled *The Progress of Women Since Independence* (2003) includes data which states that in the year 2000, 47.5 per cent of all females employed were to be found in either three categories of employment, clerical and related workers, services and sales. If one adds in manufacturing this accounts for 74.8 per cent of all women employed, thereby giving substance to the point raised later in Chapter 5 that women, due to their work destinations, are at greater risk from insecure employment. Domestic care responsibilities further disadvantage women in their attempts to both work and save towards old age. In their 2001 publication *Social security: a new consensus*, the ILO correctly emphasize the point that 'gender equality in social protection is more than a question of securing equal treatment of men and women in the formal sense. It is also a matter of taking account, in an appropriate way, of gender roles in society, roles which differ between societies and have in recent years undergone immense change' (2001: 69). This is not to imply that the Malaysian state has been idle, as this is clearly not the case.

A variety of policy reforms have been implemented in order to facilitate female participation in the labour market, one such example being the 1998 amendment to the 1955 Employment Act which provided for flexible working hours and provided for benefits to be paid to part-time workers proportionate to that of full time employees. However, this amendment was designed to encourage a greater degree of flexible part-time work particularly married women in order to enable them 'to meet

their family obligations', not to attain financial independence or guarantee greater income security.

Furthermore, there has been a rise in the number of female headed households in poverty with figures from the 8MP which show the number in 1997 as being 585,688 households or 15.1 per cent in 1997 rising to 16.1 per cent or 588,554 in 1999. It is conjecture, but none too fanciful, to infer a relationship between retrenchment in the manufacturing sector and the increase in the numbers of female-headed households in poverty. Similarly, whilst it is encouraging to note that Malaysia is seeking to promote greater female participation in the labour force. Furthermore, there are concerns that the government, in amending the 1955 Employment Act, has focussed on 'new flexible working arrangements such as teleworking, part-time work and job sharing, to enable more women to integrate a career with household duties' (8MP, 2001: 567). The obvious issue here is that remuneration for such jobs will be low in terms of both actual wages and real wages in light of pro rata payment. The impact upon saving for retirement income is therefore obvious:

*Part time work = low pay = low EPF balances = increased risk of poverty in old age.*

This points to a concrete failing in institutional arrangements for old age incomes which promote individual savings over risk pooling and is an issue of direct discrimination. Such discrimination is further exacerbated by indirect discrimination which is prejudicial to women 'because of the nature of their occupational activity, marital status or family situation. Women workers predominate in the sectors not covered by social security, such as domestic, part-time or occasional work in the

informal economy'. (ILO, 2001: 69). Data to substantiate this is provided by the Ministry of Women and Family Development (2003) which notes the decline in unpaid female family workers from a high of 19.7 per cent to stand at 11.5 per cent. However, the report notes that this figure still accounts for more than two thirds of all unpaid family workers. The key issue here is one which can be identified in relation to all EPF members, but is an issue which is particularly pertinent to women, that is long qualifying periods, throughout which contributions are required to build up enough credit to provide members with a decent level of savings, disproportionately penalise women. Therefore, it is the double 'risk' of inequality in the paid labour market coupled with continuing domestic/care responsibilities which forges the link between gender and increased risk of poverty in old age.

Retrenchment, in the aftermath of the 1997 crisis, carried with it a gender dimension which saw a disproportionately high number of female employees leave the manufacturing sector 'The official data show that a total of 46,4643 workers were retrenched from July 1997 until June 1998, with the manufacturing sector accounting for 60.5 per cent of them. Women accounted for 38.4 per cent of workers retrenched until May 1998' (8MP, 2001: 20). Here again there are issues of validity with respect to the official data published by the Malaysian government. It is difficult to arrive at the full figures of those who were made redundant as a result of the 1997 crisis, as the state did not require, nor collect data relating to numbers and gender split of those retrenched until December 1997 to January 1998, a full six months after the run on the Thai Baht sparked off the crisis. Similarly, further data taken from the 8MP (2001, Table 20-3) shows that women's employment grew fastest in the service sector from 14.5 per cent in 1995, to 17.4 per cent by the year 2000, in contrast the proportion of

women employed in the Production and Related Workers category fell from 25.4 per cent in 1997 to 22.6 per cent in the year 2000.

**Table 3.2: EPF Active members' average savings at age 54 by gender**

Year	Male			Female		
	Members (000s)	Total Savings (RM)	Average Savings (RM)	Members (000s)	Total Savings (RM)	Average Savings (RM)
2000	21,137	1,827,005,849	86,436	7,952	357,182,294	44,917
2001	25,535	2,289,377,130	89,656	10,146	467,759,686	46,102
2002	24,823	2,522,229,750	101,608	10,156	570,939,118	56,216
2003	27,342	2,887,880,477	105,620	11,896	737,951,939	62,033
2004	27,498	3,100,573,810	112,789	12,045	815,279,414	67,686
2005	29,342	3,583,920,369	122,143	13,539	1,001,462,777	73,969

Source: Adapted from EPF Annual Report 2004: 83; 2005: 94

As the above section clearly demonstrates Malaysian women are prone to both direct and indirect discrimination in both the labour market and the construction of the EPF, the ultimate effect of which will be the prevention of accumulation of savings with which to fund a longer period of retirement. Table 3.2 clearly demonstrates that women lag well behind men in the average levels of savings they are able to accumulate. Women are gaining on their male counterparts and the savings gap is reducing, albeit at an uncomfortably slow rate. In the next section this chapter will explore the limitations of the EPF and give substance to the claim that it is not 'fit for purpose', as for most Malaysians it is too limited a model to rely on the provision of a sustainable income throughout old age.

#### *Limitations of over reliance on the EPF*

As discussed above, Malaysia is to a greater extent reliant on foreign inward investment, mainly in the field of electronics and is consequently vulnerable to the vagaries of the global economy (UNDP, 2002). Over the past 4 years the

manufacturing sector has been engaged in a period of retrenchment as the world market in semi-conductors has reached saturation point. This is in an economy in which electrical and electronic products accounted for 56 per cent of exported goods in the first quarter of 2001 (Dept of Statistics, 2001). Of course Malaysia has a somewhat idiosyncratic manner in dealing with the issue of unemployment as a consequence of the global economic downturn. In short Malaysia expels those foreign workers deemed surplus to requirements in periods of rising unemployment, thereby exporting (or repatriating) some of its unemployment. Whilst this certainly lessens the threat of unemployment to Malaysian citizens, the economic situation still infers risk to continuous employment, which is crucial for individuals seeking to provide adequate resources to finance life in old age. Secondly there is no provision for a minimum wage in Malaysia. There has been a great deal of talk from both the Malaysian Trades Union Congress (MTUC), the Employers Federation and the State but little has as yet been resolved. There is real inequality of income in Malaysia (Hashim, 1998) and this is reflected in figures produced by Yaacob (2000) which state that 60 per cent of contributors to the EPF are earning RM1000 (approximately £200) or less per month and, citing Vijaya (1997) that the average amount withdrawn at age 55 was RM19,501. More recent figures from the EPF, cited in the New Straits Times (16/03/2003) show that 'a Malaysian worker only has on average savings of RM85,000 with the EPF one year before he retires. About 80 per cent of the 10 million workers have savings of less than RM100,000 with the EPF. An EPF study also revealed that almost 70 per cent of retirees would have spent their money within three years'. In reality this translates into an equivalent monthly income of between 25 and 40 per cent of final salary, which is far below the preferred ILO figure of 60 per cent.

These difficulties have clear knock on effects for the EPF. In short, there appear to be few '*ideal*' members of the EPF in existence, those who pay into the fund on a continuous and regular basis for 30 to 35 years. Increased job insecurity directly impacts upon the ability of individuals to save towards retirement as does the present level of income inequality. Here is a clear example of potential ethno-class conflict, as it is the growing Malay middle class who are least exposed to employment insecurity, whilst those with few skills, poor education and from ethno-class factions which have not benefited from the institutional arrangements legislated for in the 1970s are most at risk. The one category which straddles both the dominant ethno-class faction and those at most risk are women. Embedded institutional welfare arrangement which view women as providers of unpaid care seriously undermines women's ability to accrue savings or credits towards an old age income. Research has shown that those who make it to retirement, and this is an increasing number, may well find that there are simply insufficient funds to enable full retirement to be an option (Yaacob, 2000). Instead, the increasing likelihood is that those aged 56 – 60, whether employed in the private or public sectors, will be unable to contemplate the possibility of ceasing work, or in the majority of instances, reducing the time spent earning an income beyond the official retirement age in order to supplement the meagre lump sum accrued through membership of the EPF.

There are many sections of Malaysian society who find themselves in danger of poverty in old age. It is not only those whose occupation has been poorly remunerated during their working years. It is true that in both rural and urban settings, hawkers, trishaw pullers, labourers and petty traders for example, as well as those already suffering the effects of poverty in old age, are at risk from poverty due

in the main to non-existent EPF savings. There are, however, real concerns regarding the ability of a growing number of professionals from the lower middle classes to avoid poverty in old age. Ironically it the ethno-class faction which is better provided for in terms of employment, through positive discrimination, which finds itself at risk. Though provided for as public employees, they will see their income diminish over time as the cost of living rises and so eats into the value of their pension. Part of the problem is again the embedded institutional arrangement which requires compulsory retirement of public sector employees at the end of their 55<sup>th</sup> year. Low wages, early retirement and a static pension combine to increase the risk of a lack of material well being amongst older Malaysians.

There are a number of fundamental concerns regarding the efficacy of national provident funds in meeting their main aim, that being the provision of income for the elderly beyond retirement. In the first instance, the ability of provident funds to provide an adequate income for the elderly is reliant on regular long-term contributions from individual account holders. Individual savings schemes are not equal to the task of providing adequate income for those workers forced to leave the labour force through ill health/disability, or the provision of social/child care in the case of women. The nature of the globalised economy, on which so much is pinned in the case of Malaysia, reduces the certainty of life long employment, as evidenced by the sharp economic downturn in 1997.

Clark (2002: 65), commenting on East Asia in general, argues that both political and economic upheavals can affect the real income of the elderly and such 'events illustrate the importance of retirement policies such as indexed benefits, funded

retirement accounts, and diversification in the investment of these accounts to include international investments'. However, as has been noted, the recent trend away from MGS will introduce greater volatility of returns and so affect the ability of the EPF to maintain its regularly high dividends Asher (1998).

Early withdrawals from individual members' accounts will take their toll, not only on the final balance but also on the dividend yield. In the case of the EPF early withdrawals from Accounts 2 and 3 for housing, education and health care, a possible 40 per cent of all contributions and dividends, will result in lower returns (Williamson and Pampel, 1998). The relatively young age at which lump sum withdrawals can be made from the EPF (age 55) casts serious doubt on the ability of the accumulated balance lasting the required length of time. The increasing life expectancy combined with inexperience in individual private investments could leave the elderly vulnerable to an increased risk of poverty. The preference for a lump-sum payment, rather than a phased withdrawal scheme is evidenced by data in the EPF annual report (2000).

Figures relating to the lump-sum withdrawal at age 55 were 72,719 or 27.94 per cent of savings withdrawn. In 1999, only 177 individuals opted for a phased withdrawal accounting for a mere 0.04 per cent of all cash withdrawn. In the 2003 annual report the number of members opting for monthly phased withdrawals at age 55 had dropped to 151; however, this accounted for a staggering RM8.96 million, clearly indicating that this option is, in reality, available to only a very wealthy few. Those members opting for the lump sum have inevitably found that their balances were inadequate to providing a life long income. In the majority of instances 'the benefits were exhausted within three years of receipt at age 55' (Beattie, 1998: 70). In cases where lump sums are managed appropriately to give a longer lasting source of income,

inflation will inevitably affect the level of income return. Therefore lump sum payments cannot be relied upon as an efficient means for the provision of income beyond retirement.

### *Conclusion*

Providing adequate income beyond retirement and thereby lessening the socially exclusive aspects of poverty is not simply a question of individual versus state provision. Improving the current schemes and supplementing individual provision with a social insurance based pension would provide a greater guarantee of acceptable living standards beyond retirement. To achieve full labour force coverage, the state would be required to guarantee contributions for those workers who are unable to contribute personally, through to a pensions credit mechanism for women fulfilling social care obligations and workers in the shrinking informal sector. Such measures would contribute to greater gender equality as well as providing better income security. A degree of compulsion would be required to encourage the self employed and agricultural workers to sign up to such a scheme, as it is precisely these individuals who are currently beyond the scope of the EPF. The intertwining of ethnicity and class as a result of industrialisation and increased urbanisation has resulted in an expanding middle class and a vulnerable urban working class whose precarious position is, in part, a consequence of the degree to which the Malaysian economy is open to the demands of the global economy and in part a result of existing ethno-class relationships. The former is evidenced by Jomo (2001) who notes the increasing income inequality as wages are suppressed to maintain and attract FDI. The latter is evidenced by the fact that those employed in the informal sector, the low paid, those forced to leave the labour force early through ill health or disability, or

women taking a career break to fulfil social care obligations are placed at a disadvantage in a scheme which depends upon a high level of long term contributions. Women in particular are likely to suffer direct discrimination and the adverse effects of poverty in old age due in part to earlier retirement combined with greater life expectancy. An increase in the level of contributions paid would go some way towards addressing this problem for the low paid. This could be achieved through the introduction of a minimum wage, which would in effect guarantee a defined level of saving.

The EPF operates as an individual savings scheme designed to offer social protection beyond retirement through the provision of an adequate income (EPF, 1999). To fulfil this criteria greater emphasis needs to be placed on its core activity rather than expanding its remit to cover the costs of health and social care. Access to funds with regards to retirement ages will need to be addressed. The withdrawal of a lump sum at age 55 is no guarantee of income for the remaining lifetime. The need to introduce periodical benefits has been acknowledged by Malaysia (Beattie, 1998) although given the data presented above, a degree of compulsion with attendant benefits may be required.

An increase in the mandatory retirement age and thus access to Account I would at the very least increase the period of contribution. This could be made more acceptable if carried out incrementally over an extended period of time. This thesis is not assuming that those who reach age 55 retire from work altogether, research proves this not to be the case (Chen and Jones, 1989). However, a government led initiative towards flexible retirement could facilitate the continued employment of older

workers and lessen the incidence of poverty and social exclusion experienced by the elderly. The Malaysian government is unwilling at present to countenance the continued employment of older workers in the public sector beyond their 56<sup>th</sup> year, in part due to the pressure brought about by Malaysia's expanding cohort of graduates. Demographic, social and economic changes in Malaysia will increase the need for a more adequate system of income provision for the elderly. Reliance on institutionally embedded traditional means of support combined with individual savings may well lead to an increase of the incidence of poverty and social exclusion among the elderly. To prevent such a scenario, action needs to be taken to ensure that all workers are covered by a system that offers at least a minimum guaranteed income through periodical payments. The overriding impression is that the EPF as *the only* mechanism for securing an income into old age, has outlived its usefulness, it is simply no longer up to the job as developments, both social and economic, have left it behind. As an institution the EPF has found it difficult to adapt to a changing labour market, and its reactions have been just that reactions. There is recognition of the problem, but little concrete evidence available which points to a Fund which is capable of meeting the need of current, let alone future, Malaysian. In truth the EPF appears to have opted for the status quo rather than meeting the needs of its members.

Clearly then, the EPF has value as an individual savings scheme, but its scope and coverage compromise the ability of the fund to act as an equitable and adequate form of pension provision for a majority of Malaysians. There is another factor, recognised as both a global and domestic issue, which impinges upon the efficacy of the EPF, namely the demographic shift to an aged population. This process which it is argued is part and parcel of the effects of economic development and growth was first noted

in the World Bank's 1994 publication *Averting the Old Age Crisis*. In the next chapter the processes of economic globalisation are examined as a global, regional and domestic pressure and it is argued that individual savings, including those invested in equity based investment vehicles, are insufficient to meet the needs of the growing numbers of elderly Malaysians. Economic globalisation is not presented as an all or nothing package, rather the concept of a local filter is introduced which is used to explain how states are able to resist or adapt to the external pressures and benefits which engagement with the global economy has undoubtedly brought Malaysia, whilst simultaneously introducing new risks which further calls into question the 'fit for purpose' nature of the EPF.

## **Chapter Four**

### **The impact of ‘globalisation’: challenging the EPF**

In Chapter 1 it was argued that the twin concepts of economic globalisation and historical institutionalism were representative of the struggle to adapt to changing economic and social developments, both internally and externally, and that this called into question the ‘fit for purpose’ nature of the Malaysian EPF. As both Chapters 2 and 3 noted, the current EPF is as a result of historical developments which took place during the colonial period, as well as more recent administrative reforms, and the colonial era continues to have an impact through embedded and path dependent social, political and economic institutions. This chapter widens the discussion to take account of the exogenous pressures placed upon Malaysia as a result of the degree of market openness to global economic forces. Such forces have enabled the process of economic and social development over the past 30 – 40 years, but have also introduced ‘new’ risks to both the economy and the Malaysian population, and which have consequences for the EPF.

This chapter will pin down some of the more amorphous terms and concepts which often surround the ongoing debate which centres on the ability of nation states to operate independently of an increasingly interconnected global economy. It is impossible to contemplate social policy reform without some regard to the prevailing global economic conditions. This is not the sole factor, rather it is a component part of the decision making process albeit one which carries greater weight in certain instances than in others. Domestic institutional and political arrangements are likely

to have a mediating effect on the influence, or otherwise, of external economic conditions (Hobson and Ramesh, 2002). Similarly there is no suggestion that regard given to wider economic circumstances by policy makers is anything new, clearly it is not. However, it would be wrong to suggest that the importance of external pressures and influences has remained constant over the last 60 or so years. As economic and trade barriers have tumbled, due in part to the influence of International Governmental Organisations (IGOs) such as the World Bank, International Monetary Fund (IMF), international institutions such as the North American Free Trade Agreement (NAFTA), World Trade Organisation (WTO), Association of South East Asian Nations (ASEAN) and the European Union (EU), and the concomitant rise in power of the Multi National Corporations (MNCs), there has been a concurrent rise in the attention that nation states have had to pay to external, primarily economic, factors. That is not to suggest, as it has been by others (R. B. Reich, 1991; Ohmae, 1995; Strange, 1996; Mishra, 1999), that the nation state has ceased to function without reference to the wider economic processes, this is clearly not the case as evidenced by Malaysia's response to the 1997 Southeast Asian economic crisis which saw controls placed upon both the Kuala Lumpur Stock Exchange and the Ringgit pegged to the dollar at a steady RM3.8. Rather, just as the processes of globalisation and their end point are subject to disagreement so too is the idea that individual nation states are unable to resist the push and pull of the global economy. Instead, this thesis is informed by those like Mann (1997) and Dicken (1998, 2003), and as such argues that 'the position of the nation-state is being redefined...The nation-state remains a most significant force in shaping the world economy' (Dicken, 1998: 80).

Though it is something of truism to contend that the nation-state has had to adapt and change to meet wider global economic shifts and increased interconnectedness, in certain instances this has involved attempting to predict future economic trends and taking difficult *local* decisions so as to safeguard *national* economic security and stability. This process of events should come as no surprise, as it is nigh on impossible to find a point in modern history at which nation states have remained constant with regard to their economic and social policies. Reference is often made to the so called 'golden era' of post war welfare expansion, however, two points are worth noting firstly that this 'epoch' lasted at best 30 years and secondly its effects were unevenly spread and the benefits felt by a relatively small number of western/northern developed nations and as such is limited in its applicability or relevance to this thesis. That is not to ignore the process of policy exchange which has taken place and which continues to inform the path of welfare reform. This process as identified by Goodman and Peng (1996) as 'peripatetic learning' has played, and continues to play, a role in the exchange of ideas between different nations and geographical areas of the globe. Rather in respect of the 'golden age', this thesis argues that the political and economic stability and consensus of this period did not greatly affect the developmental path of welfare reform in Southeast Asia. Economic development provided the driving force, behind which lagged social welfare development.

There has been, in a sense, a deterministic approach to the development of welfare states amongst the newly industrialising countries of Southeast and East Asia. In part the argument contends that authoritarianism and economic liberalisation have gone hand in hand to produce welfare regimes which have focussed on a strong family and

weak state provision. The role of the state, it has been argued, has for the most part been limited to providing conditions for year on year economic growth, thereby enabling populations to provide for and meet the needs of their members, the preferred private rather than public path to meeting social needs. Holliday (2000 cited in Gough, 2000a: 15) employs the term developmental-universalist to describe the form of welfare reform employed under the *productivist welfare capitalism* of such states as Japan, Taiwan and South Korea. Gough (2000a: 16) argues that by this it should be understood that ‘Social expenditures were small but relatively well targeted...as part of a strategy of nation building, legitimation and productive investment. The growth in welfare over the last three decades has relied on the expansion of formal employment within the orbit of strong families, plus growing payment for services.’ In general, welfare expenditure has remained relatively low in selected areas of Southeast Asia although the benefits of targeted welfare spending have produced the desired positive effect for the economy, in particular through spending on education and health, and it is for this reason that the use of such a label is both accurate and usefully explanatory. The economic development that has taken place under the influence of increased economic globalisation has enabled states with a common history to advance at differential rates to a form of common future, that being a ‘developed status’. Some have fared better than others in this regard, although it is worth noting that such an account of economic and social reform suffered a severe blow in part as a result of the regional economic crisis which began with a run on the Thai Baht on the 2<sup>nd</sup> July 1997.

The main problem with such a crude model of development is that it glosses over the detail in favour of the broad strokes in seeking to categorise and model diversity. It

fails to take account of the very different forms of economic and social development which have been implemented in a large and diverse geographical area. So just as one could not suggest a single welfare model for Western Europe in the latter half of the twentieth century, any such claim for Southeast Asia would be fundamentally flawed. Instead what is argued for in this chapter is a degree of historical similarity between the nations of Southeast Asia, as they face some common contemporary issues, but that this does not go far enough to fully explain their approaches to social policy reform. This thesis argues that globalisation is an amorphous term which covers more than simply increased economic interconnectedness, important though this is, and that these *globalisations* have explanatory power in terms of cultural clashes in the aftermath of decolonisation.

To further this aim, this chapter will chart some of the common historical and contemporary similarities between a select group of Asian nations which represent differing stages of both economic and welfare state development. The chapter will also examine issues facing Malaysia's ongoing process of economic development which are shared by its regional neighbours, specifically the rise of alternative destinations for FDI, namely China and India. The obvious comment to make at this point is that the chosen states represent both tiers of economic development which, have respectively been referred to as tigers or dragons. Such states have also been described as newly industrializing countries (NICs) and newly industrializing economies (NIEs), or the World Bank's catch all category of high performing Asian economies (HPAEs). Rather than make use of the full range of the first wave of nations to advance economically in the region, namely Japan, Hong Kong and Taiwan, it was decided to employ Korea as their sole representative. In part this is

due to common demographic issues affecting Korea at a similar pace to the other chosen states and in part because Korea has recently undergone a democratisation process, which having largely left behind previous authoritarianism, has exposed a new range of social risks which are to be open to insurance based solutions – unemployment is a good example. It is not intended that Korea should form a blueprint of development for other nations in Asia, although there is much to learn from the Korean experience, rather the aim is to highlight the fact that the development and construction of the Korean welfare regime is active and ongoing and leaves behind the constraining notion of economic determinism as the driving force of social welfare development.

It is worth briefly restating the shared historical experiences of the six nations which we will examine more closely later. Some of the factors this group have in common are, with the exception of Thailand, a relatively recent colonial past, a generally low level starting point in terms of development at independence and a common developmental path throughout the latter stages of the twentieth century which saw economic development as *the* means by which both the state could survive and its peoples benefit from new found independence and homespun prosperity. All of the nations under discussion have forged their own path in seeking and achieving oftentimes spectacular economic growth. However, one fundamental strategy that all have employed is an authoritarian governance coupled with providing the necessary conditions with which to entice inward investment by large multinational corporations seeking cheaper and more *flexible* labour. With the exception of Korea, there is a continued high level of economic dependence upon foreign direct investment, particularly in the area of electronics manufacturing which leaves the remaining states

at greater risk of exposure to a global market which has reached saturation point in this particular sector. This does not necessarily mean that the development of welfare systems in each nation state are at the mercy of foreign capital. There is justifiably less currency in the once dominant notion that a successful open economy could not afford to expand welfare provision for fear of alienating capital and thereby damaging the individual economy. The argument here is not that capital has less power, however, clearly there are instances where this is not the case. Rather, nation states and their institutions have not been fundamentally or structurally undermined by the growth and reach of capital in the form of MNCs or IGOs, and have developed welfare regimes which take account of macro-economic conditions as well as the needs of their citizens. In effect nation states act as *filters* through which the processes of globalisation must pass and which screen their effects with reference to national economies and more importantly social welfare regimes.

There are global agencies which carry more weight in the arena of economic globalisation and these institutions or organisations can be identified as a source of hindrance to aspects of progressive welfare reform. Into this category would fall international governmental organisations (IGOs) such as the IMF, World Bank and the WTO all of which wield immense power over the developmental path of the world's less developed nations. These organisations have for the most part been dominated by the 'North' and by the USA in particular. However, there are signs that such power to direct the economic and social policies of smaller nations as represented by the so-called Washington consensus has lessened, if not waned (Jomo, 2001; Rigg, 2003). The instance of Malaysia imposing capital controls in the wake of the 1997 economic crisis much against the warnings of the IMF, and the subsequent,

and somewhat grudging, admission by the same organisation that such a decision did not detract from the rapid pace of economic recovery is notable for the shift in tack from earlier statements of gloom. However, as with most aspects of economic policy time does not allow for initiatives to go unchallenged for long. So although the IMF accepted that the short-term implementation of capital controls and the pegging of the exchange rate to the dollar initially aided economic recovery, other commentators have suggested that this act of market closure caused a degree of nervousness and suspicion amongst possible foreign investors unsure as to the stability of the Malaysian market (FEER 9<sup>th</sup> October, 2003: 22). As Garrett (2000: 944) suggests ‘there might be domestic political incentives for governments to maintain restrictions on cross-border capital movements...Such policies send negative signals to the financial markets; however, and many governments may be unwilling to take this risk’.

### *Addressing globalisation*

Globalisation has been making steady progress to the centre of social policy debate for the best part of twenty years and it is both used in a prescriptive and descriptive manner. At times it can be seen as a catch all concept which can be used to explain such diverse developments as the growth in economic and social interconnectedness, the development (or not) of a *global* culture and the end of the rise of the nation state. Globalisation has also been employed as an ideological hammer with which to beat the previously dominant social democratic model of the post World War Two era and as a justification for the view that with the end of economic protectionism of the nation state and Soviet style socialism at the close of the 1980s rampant and unrestricted neo-liberal capitalism is the only means by which global and local

poverty and inequality can be addressed (Beck, 2000; Giddens, 2000; Gough, 2000a; Held and McGrew, 2000; Mann, 1997; Mishra, 1999; Sklair, 2002; Yeates, 2001). In an attempt therefore to avoid further obfuscation the following section of this chapter seeks to operationalise and limit the scope of the broad term *globalisation* in order that a more accurate definition can be employed within the confines of this thesis.

Whilst the many and varying strands of the globalisation debate offer different views or takes on the purpose, direction and extent of the processes which are encompassed, it is fair to say that there seems little point in arguing the case that nothing is occurring. In Held and McGrew (2000: 341) the United Nations Development Report (1999) claims that globalisation is not new, but that the current global era has identifiably new components which set it apart from historical precedents. These the report identifies as;

- *New markets* – foreign exchange and capital markets linked globally operating 24 hours a day, with dealings at a distance in real time.
- *New tools* – Internet links, cellular phones, media networks
- *New actors* – the WTO with authority over national governments, the MNCs with more economic power than many states, the global networks of NGOs and other groups that transcend national boundaries.
- *New rules* – multilateral agreements on trade, services, intellectual property, backed by strong enforcement mechanisms and more binding for national governments, reducing the scope for national policy.

Garrett (2000: 942), in his identification and examination of four perspectives of globalisation, which he restricts to the 'international integration of markets in goods, services, and capital.', suggests that, with specific regard to the lending practices of banks to developing nations, the advent of complex multinational production regimes and the two way manufacturing trade between developed and developing states then the sensible conclusion to draw is that something new is happening (see Table 4.1 below). In addition to this there are a number of generally agreed upon dimensions which can be employed to give shape to this discussion. So as Held et al (1999: 15) contend 'the concept of globalisation implies, first and foremost, a *stretching* of social, political and economic activities across frontiers such that events, decisions and activities in one region of the world can come to have significance for individuals and communities in distant regions of the globe...there is a detectable *intensification*, or growing magnitude of interconnectedness.' (original emphasis). However, although use can be made of the concept of greater interconnectedness it should be noted that this too is open to dispute. Following others such as Giddens (2000), Held et al (1999), Mishra (1999), Sklair (2002) and Yeates (2001) a little time should be spent broadly sketching the varying strands in this particular section of the globalisation debate.

In the first instance then the scope of disagreement will be limited to two broadly accepted camps, before introducing a more comprehensive and market integrationist approach as put forward by Garrett (2000). There are those for whom globalisation is viewed as something new, indisputable and unstoppable, variously describe as globalists (Sklair, 2002), Hyperglobalizers (in which is included here the briefly mentioned transformationalists) (Held et al, 1999) or subscribing to a 'strong' version

of globalisation (Yeates, 2001). Subscribers to this view argue that 'globalisation defines a new epoch of human history in which 'traditional nation-states have become unnatural, even impossible business units in a global economy' (Held et al, 1999: 3). Rather it is the MNCs who have the upper hand in the new global economy with their ability to shift location and maximise profit to geographical areas which offer the most advantageous conditions. Nation states are leeching control and power not only to these dominant corporations but also to new supranational forms of governance which will eventually call into question the legitimacy of national governments (Held et al, 1999; Held and McGrew 2002; Yeates, 2001) who are unable to meet the needs of their citizens. Furthermore traditional notions of nationality, identity and custom are replaced by a new global consumerist ideology which as Yeates (2001: 10), somewhat tongue in cheek suggests, enables 'the wonders of Disney, Coke and McDonalds are brought to those previously ignorant or deprived of them'. In short those advocating such a stance argue for an economic view of the processes of globalisation resulting in a fundamental and qualitative shift in power away from the state and towards a new global economic order.

Opposing these advocates are the sceptics for whom globalisation is portrayed as something of a myth or political construct serving the increased marketisation approaches of various international actors and neo-liberal inclined national governments. (Garrett, 2000: 943 citing Rodrik, 1998). Furthermore, the sceptics argue that levels of world trade have *simply* returned to pre-World War One levels and that the world economy is becoming regionalized with national governments allying their economic interests to regional trading blocs such as the EU, NAFTA or ASEAN (Hirst and Thompson, 1999; Held et al, 1999). Put simply then, the

argument here is that changes are taking place but that these developments are commensurate with greater internationalization of the world economy rather than a move towards, and certainly not an arrival at, a truly global economy. The sceptics also reject the notion of cultural homogenisation put forward by the advocates. Rather they suggest that the processes of increased internationalization result in winners and losers, roughly equating to the North winning and the South losing out. This, the sceptics argue, gives rise to increased nationalism and fundamentalism resulting in greater fragmentation based on cultural and ethnic difference.

A useful, and more comprehensive picture is provided by the summary of four main perspectives of market integration in the global economy (or what he terms the 'big picture') in Garrett (2000). As Table 4.1 indicates, the sceptic position is represented by the first perspective, the hyperglobalizers by the second, the transformationalists are contained within perspective three and the fourth takes a more political/ideological viewpoint. The position of Malaysia within this framework is at best suggested and evidenced by its response to the 1997 crisis. The acceptance of the risks and possible costs of market closure, as indicated by perspective three, did not prevent the imposition of capital controls or the pegging of the Malaysian Ringgit (RM) to the US dollar at a constant rate of RM3.8 which continued until July 2005. However, these policies were followed in opposition to the stance taken by the then 'Washington consensus' and indicates the viability of independent action by nation states and their ongoing active involvement in the global market.

**Table 4.1: Four perspectives on international market integration**

	<i>View</i>	<i>Selected advocates</i>	<i>Critique</i>
<b>1</b>	A return to economic internationalization as at the beginning of the 20 <sup>th</sup> Century	Rodrik (1997) Hirst and Thompson (1996) Krasner (1999)	New facets of global economy; banks lending to developing states; two-way manufacturing trade between North and South; complex multinational production
<b>2</b>	Technological determinism; 'unstoppable' processes of globalisation; 24 hour trading	Ohmae (1995) Strange (1998)	Greater salience for finance rather than trade; negates role of nation states
<b>3</b>	Moderate technological determinism; Acknowledges continued role of the nation state, but at a cost to maintaining streams of FDI	"Washington Consensus" World Bank IMF WTO	Unclear as to benefits of increased free trade; gains of openness offset by uncertainty and volatility
<b>4</b>	Globalisation as political construct which does not benefit society as a whole	Helleiner (1994) Rodrik (1998) Rodriguez and Rodrik (1999)	Easy to endogenise ideological changes in terms of technological determinism in international finance and cost of market closure in terms of multinational production

Source: Adapted from G. Garrett, 2000: 942-44

### *Social policy and globalisation*

The question that should be addressed at this juncture is, what is the role for the study of social policy in a globalised world? An area of common ground has emerged in certain sections of academia which argues that the growing importance of the global economy, the decreased levels of states autonomy with regards to social policy reform and the desire from some quarters for a greater degree of global regulation, thereby seeking to ameliorate the harshest effect of global capitalism, which appears not too dissimilar from concerns regarding the construction of national welfare regimes, has lead to call for the study and analysis of social policy to be expanded to include both national and transnational perspectives (Deacon et al, 1997; Perez Baltodano, 1999;

Yeates, 2001). Some issues which find a place on the global stage include, but are not limited to, economic security, migration, age, urbanisation and greater disparity between the nations of the rich North and those of the poor South which questions the neo-liberal contention that globalisation is '*good*' for all. It is not too great a leap of imagination to accept that the increased emphasis on the global requires a greater role for comparative analysis which takes account of the different developmental path of individual nations and which further accepts that social policy initiatives of the North are not wholesale transferable to the South.

In the first instance the social and cultural arrangements which have developed in different nations are relative to, and concerned with, the milieu in which they have come about. So for example, the strength of the informal private provision of welfare as a result of continuing robustness of family and community bonds in many developing nations has given rise to a broader scope of formal welfare arrangements which have sought to shore up such arrangements. Such an approach is outlined in the 8MP (2001: 18) which states that 'globalisation will have an impact and may even threaten the integrity of the family structure and traditional communities as well as influence cultural values and norms in social integration and nation building.' It is this reliance on familial provision of welfare which has thus far, enabled national governments from the South to exclude or limit the role of the state. The diversity of *local* or national welfare arrangements, many of which are beyond the scope of traditional social policy analysis as developed in the North has lead Gough (2000c: 15) to argue that 'In a majority of DCs.... a wider range of historical and institutional variables impinge on the welfare regime. In other words, welfare regimes in DCs are not the same game with different actors; usually a different game is being played.' In

part, this requires a broadening of the scope of analysis of welfare regimes in developing countries, one which takes account of the multitude of initiatives which, though not directly identifiable as traditional welfare reforms or initiatives in the developed North, nevertheless seek to address issues such as poverty and inequality.

One such area, which is pertinent to developing countries in general and Malaysia in particular, is that of land reform and the support given to those living in rural areas in an effort to sustain populations. In his paper on globalisation and poverty and income inequality in Southeast Asia, Jomo (2001: 19) argues that only in case of Korea and Taiwan did land reform aim to reduce poverty and inequality 'after the Korean War, the Seoul government bought land from landlords and resold it at subsidised prices to 90,000 tenants. In Taiwan, the Kuomintang government seized land in return for shares in public companies and sold it cheaply to peasants... Only in South Korea and Taiwan did land reforms contribute to low initial income inequality, a level that was maintained.' The situation was different in Malaysia, due in part to reforms initiated by the British colonial administration and also due to land ownership inequalities being less acute (Jomo, 2001). Instead the Malaysian state opened up new agricultural land through schemes administered by government agencies such as the Federal Land Development Authority (FELDA), Federal Land Consolidation Rehabilitation Authority (FELCRA) and the Rubber Industry Smallholders' Development Authority (RISDA) under the auspices of the NEP (Jomo, 2001). However, research casts doubt on the efficacy of such schemes and others such as the Green Revolution in rice production in Malaysia. Rigg (2003: 292-3) cites research carried out by Kato (1994), which depicts a process of widespread abandonment of rice cultivation in Peninsular Malaysia, an increase in the average age of rural inhabitants, a reduction in rural

populations and a substantial increase in incomes from pensions or remittances from the younger generation working in the urban industrial environment. This is in line with Jomo's (2001: 20) suggestion that income inequality in rural areas grew 'in the 1960s, declined in the 1970s and 80s and has increased again since then.'

However, there are suggestions (World Bank, 1994) that the processes of economic globalisation are in part responsible for what should be a convergence of social policy reforms which would seek to address the current and future inequalities which are a facet of globalisation per se. Malaysia is faced with issues of income inequality across the life course and lacks *comprehensive* formal arrangements which will result in an increased proportion of the current and future elderly being at greater risk of the social exclusory aspects of poverty in old age. Furthermore, it is argued that internal migration, increased urbanisation and heightened insecurity of employment will affect the ability of individuals to save enough to prevent a drop in standard of life once full time economic activity is ended. This is not a problem unique to Malaysia, rather it is one of a plethora of issues which find a place on the global stage. The development of welfare regimes can be seen to be qualitatively different in terms of geo-social and cultural arrangements, but by the same token the issue of poverty in old age is not restricted to the North or the South, it is a global concern. How this issue is dealt with will primarily be concerned with *local institutional* arrangements and will still pass through the national filter, although it could be argued that the scale of the issue should reveal a degree of consensus in how to find a solution. Perhaps what mediates such a consensus are the individual endogenous pressures brought to bear by specific domestic institutions, and here the range is broad, which will necessarily affect the future path of welfare reform. The conclusion put forward in this thesis calls for a

greater role for the state through social insurance and a diminishing reliance on individual provision.

### *Welfare regimes in a globalised world*

This section of the chapter is concerned with the notion which implies that the processes of globalisation have had a detrimental effect upon the contemporary structure and future developments of welfare regimes in the developed and developing world. It has been suggested that little has been left untouched by the increased interconnectedness of the global economy as nation states seek to become ever more flexible and attractive to the requirements on the MNCs who power the increasingly connected global economy (Beck, 2000; Held and McGrew, 2000; Mishra, 1999; Yeates, 2001). This view, though less strident now than previously, led to fears of 'social dumping' which demanded that social spending was cut in order to promote investor attractiveness and lower the costs to the state. This was to be achieved via cutting or maintaining, though not increasing, social expenditure and both an increased role for households and individuals and a greater marketisation of welfare provision.

However, there is a contra position such as that taken by Rodrik (1997) which highlights the increased need for the state to take a leading role in the reform and provision of social welfare. This is particularly the case with regards to social insurance, as the majority of individuals remain bound to national locations and yet are at greater risk of the negative effects of economic globalisation. The role that social insurance plays in terms of fostering social solidarity and, historically in the case of the developed economies though less so for the NICs, nation building should

not be ignored. Nevertheless, there is little doubt that national economies now operate in a more restrictive environment which can limit policy choices and which has given rise to the abandonment of redistributive policies in favour of 'privatization' and a leaner welfare state. Yeates (2001) argues that this is in essence representative of the *welfare convergence thesis* which infers that nation states will resort to similar welfare choices and that those who take a more independent stance will be punished by the main actors in the global economy. Yeates (2001: 23) cites Taylor-Gooby (1997: 171) who suggests that 'Since full employment, redistribution and expensive universal services are no longer seen as feasible, the new welfare can only justify social spending as investment in human capital and the enhancement of individual opportunities. Welfare states are all driven in the same direction by the imperatives of international competition'.

The efficacy and accuracy of the convergence thesis, portraying as it does something of an overwhelming and overarching determinism in the name of economic globalisation is challenged by Hay and Marsh (2001: 12-13). Rather they argue that despite some of the claims made in the name of globalisation, the reality is one of heterogeneity not homogeneity. Taking up the theme of convergence, their view is summed up as 'in so far as there are convergent tendencies in global political economy these are exhibited at the regional and certainly not the global level... This as we have argued, requires an inversion of the conventional lines of causality which run from globalisation to a variety of assumed outcomes and effects'.

Whilst it is difficult to disagree with the surface validity of the convergence thesis, given that there is an awareness of the economic and social consequences of dis-

investment by one or other of the large MNCs and of the need for the state to maintain its attractiveness to international investors, it should be noted that the welfare convergence thesis operates from a western model of welfare and seeks to explain the challenges facing the social democratic ideology which gave greatest impetus to post World War 2 welfare state construction. It is somewhat different when viewed from the perspective of the NICs. In this instance there may well be something in the convergence thesis, albeit not a downward thrust to meet the expectations of the global economy, but a reform agenda which increases the scope of state led provision in order to prop up the mainstays of welfare in these states, namely the family and community. Just as the 'golden era' fostered social cohesion and social solidarity for the West, so too could an increased scope for welfare regimes in the NICs maintain cohesion in an era which sees the traditional providers of welfare under increasing strain as more and more individuals and families are laid open to the risks posed by the greater interconnectedness of the global economy. As Jomo (2001: 21) argues that 'It was often claimed the unemployed could always count on "traditional" social safety nets provided by families, communities and informal sector work. The social impacts of the 1997 East Asian financial crises underscored the inadequacy of such provisions when most needed.'

It should also be noted that those traditional providers are themselves undergoing a period of change which can be best illustrated by the changing nature of the family and the loosening of the familial bonds as migration, particularly rural to urban, stretches and increasingly breaks the informal network of welfare provision. It is worth reiterating the point made earlier that globalisation has to pass through *local* national filters and that national governments are concerned with the needs and

requirements of both the economy and the electorate. This duality infers a differentiated approach to social protection and at least defers and possibly weakens and slows the impact of the processes of economic globalisation on national welfare regimes.

## **Position of developing countries in globalisation**

### *Southeast Asian economic development*

The states, which are considered in brief in this section have, during the recent past, been playing a game of catch-up with the industrialized nations of the West and North. In part this has been a play for survival, as in the case of Singapore, and in part a means by which poverty could be tackled without recourse to 'traditional' welfare statism as in the case of Malaysia. For many in the international community, represented by such institutions as the IMF and the World Bank, the Southeast Asian nations were seen as success stories to be marvelled at and wherever possible emulated. Rapid, and in general prolonged, economic growth won international praise as evidenced by the World Bank's 1993 publication of the *East Asian Miracle*. That the economic 'miracle' masked increased inequality and growing social exclusion did nothing to dent the reputation of the region and of the Association of Southeast Asian Nations (ASEAN) in particular as a powerhouse of economic growth and development. Regardless of the over-arching reasons behind the drive for industrialisation and economic growth, developing countries, and particularly those in Southeast Asia, have fully engaged with the development of the contemporary global economy in a bid to achieve *local* aims, and as such have found themselves with greater exposure to the vagaries of global economic activity as a concomitant part of the increased interconnectedness of international production and trade. In the first

instance this push for foreign-led, export-driven industrialisation and development (Rigg, 2003) relied heavily upon the growth of manufacturing production as peripheral geographical locations. That is, those economies away from the North and West (the USA and Northern Europe), offered a plethora of incentives such as cheap labour, preferential fiscal incentives and an entry to a growing market in order to attract the all-important foreign direct investment (FDI). This process of enticing manufacturing based FDI was successful at the expense of those established industrialized economies.

**Table 4.2: Growth and change in manufacturing production 1963–1994**

<i>Leading Industrialized Countries</i>	<i>Share of world manufacturing %</i>			<i>Average annual change %</i>			
	1963	1980/87*	1994	1960/70	1970/81	1980/87	1990/94+
Japan	5.5	19.4	21.0	13.6	6.5	6.7	0.03
USA	40.3	24.0	26.9	5.3	2.9	3.9	3.20
UK	6.5	3.3	4.1	3.3	-0.5	1.3	0.50
<i>East &amp; Southeast Asia</i>							
Hong Kong	0.1	0.2	0.2	-	10.1	-	-0.2
Indonesia	-	0.1	0.5	-	-	-	10.7
South Korea	0.1	0.6	2.7	17.6	15.6	10.6	8.2
<b>Malaysia</b>	-	<b>0.1</b>	<b>0.3</b>	-	<b>11.1</b>	<b>6.3</b>	<b>15.8</b>
Singapore	0.1	0.5	1.2	16.3	13.5	7.5	4.7
Taiwan	0.1	0.5	1.2	16.3	13.5	7.5	4.7
Thailand	-	0.3	0.8	-	-	-	13.1

Note: \* Figures for LICs are for 1987. Those for ESEA are 1990

+1990/94 rates of change are based upon constant 1990 US\$

Source: P. Dicken, 1998: 28, 30 Tables 2.2 and 2.3

As Table 4.2 shows, in the first instance Japan led the way through the quadrupling of its' share of world manufacturing output, from the mid 1960s to the mid 1990s, at the expense of the USA and Northern Europe. This was closely followed by growth in the four tiger economies (Hong Kong, Korea, Singapore and Taiwan), which was in turn followed by rapid growth in the Southeast Asian NICs.

However, as with all aspects of the processes of globalisation, the shift in manufacturing from the geographical and (relatively) high cost core to the cheaper periphery did not see the first tier of Asian newly industrialising countries (the NICs being Hong Kong, Korea, Singapore and Taiwan) remain as the destination for the investment targets of MNCs, which soon moved onto the second tier (being Indonesia, Malaysia and Thailand) and beyond (primarily China). As Rigg (2003: 33) notes, the 'garment and footwear industries have continually moved their operations to those countries with the lowest wage rates – from Taiwan, South Korea and Hong Kong to Malaysia; from Malaysia to Thailand; from Thailand to Indonesia; and from Indonesia to Vietnam and China'. This highlights one area of concern for the region, that being the vulnerability to capital flight due to increased costs. Another such concern is the dependency upon certain key export sectors within national economies, particularly the electronics industry in Malaysia as we shall see, and linked to this, the increased risk to national economies from a global economic slowdown or a slump in demand from export destination markets. In terms of trade in manufactures, Dicken (1998: 31) cites some remarkable figures which give an indication of the relatively precarious nature of the Southeast Asian NICs prior to the 1997 crisis. He argues that a small number of NICs account for rapid growth in the importance of manufactures to the economies of the developing world 'for the group of east and southeast Asian NIEs as a whole manufactures accounted for 49 per cent of total exports in 1980. By 1994, this share had increased to 78 per cent.' Furthermore, he adds that 'In some cases the transformation has been nothing short of spectacular... For example, in 1980, less than 20 per cent of Malaysia's exports were of manufactures; by 1994 the figure was 84 per cent. (Dicken, 1998: 36).

It is important however, to move away from the notion that the NICs of Southeast Asia are simply producers of cheap exports to the developed North. Many are now moving toward production of more sophisticated *value added* products and just as importantly the destination of exported goods is diversifying. Citing figures from the UNCTAD Trade and Development Report 1996, Dicken (1998: 38) notes that 'In 1985, less than one fifth of the Asian NIEs' manufactured goods were sold within the region itself. In 1994, the share had increased to almost two fifths.' Further it is worth mentioning that the region is itself a growing market within global export trade and is increasingly important as a market for imported goods and services. So for instance in 1984 the East and Southeast Asian region accounted for less than 10 per cent of the global import market, by 1994 this figure had increased to 17 per cent (Dicken 1998). The importance of regional trade was further enhanced by the inauguration of the Asian Free Trade Association (AFTA) in September 2003, which saw further reduction in trade barriers between ASEAN member states.

What has, for the most part, driven the economic development of much of Southeast Asia has been the dominant role of foreign direct investment, both in terms of employment relocation from high to low cost areas and in terms of technology transfer thereby enabling the development of indigenous capabilities in search of sustainable long term economic growth. It is the role played by FDI in the economic development of Southeast Asia which is examined in the next section.

#### *The importance of FDI in the 'Southeast Asian miracle'*

With the exception of Korea, the remaining five Southeast Asian NICs have at various times and to a varying degrees, relied upon FDI as the driving force behind

industrialisation, export based development and sustained economic growth. As Table 4.3 indicates, the role played by private investment in the developing economies of Malaysia, Thailand and Indonesia in particular, remains important in the aftermath of the regional financial crisis of 1997 and, it has been suggested was ‘a vital source of foreign capital during the crisis’ (Thomsen, 1999: 4). Garrett (2000: 943) has argued that; ‘FDI is an important driver of growth. It provides a transmission mechanism for the diffusion of technological innovations’.

**Table 4.3: Growth of manufactures exports (%)**

	1970	1980	1990	1993	1999
Indonesia	1	2	35	53	54
<b>Malaysia</b>	<b>9</b>	<b>19</b>	<b>54</b>	<b>65</b>	<b>80</b>
Singapore	37	50	72	80	86
Thailand	16	28	63	73	74

*Source:* Adapted from Rigg (2003: 239, Table 6.1)

*Note:* Data for Vietnam and Korea unavailable

What Table 4.3 does not show is the importance of FDI per se to individual selected economies; nor does it tell us the destination of the investment over and above manufactures. Two important points to note here are, firstly that one measure which will give some indication of the reliance and economy has on FDI is its relationship to GDP. This relationship varies both between economies and within sectors in the host economy. If we take the first indicator, that of FDI as a per cent of GDP then the variation between our selected countries becomes apparent.

**Table 4.4: Inward FDI as a share of gross domestic product, 1994 (%)**

Singapore	72.8
<b>Malaysia</b>	<b>46.2</b>
Indonesia	26.5
Thailand	10.1
South Korea	3.3

*Source:* Adapted from Dicken (1998: 48 Table 2.10)

*Note:* No data available for Vietnam

Table 4.4 shows that foreign firms dominate the Singaporean economy and are very important to the Malaysian economy and yet in the case of Korea they account for only 3.3 per cent of GDP. In part, the low level of FDI as a per cent of GDP in Korea can be explained by the dominant position of indigenous industrial giants in the form of the *Chaebol*. This underlines the greater reliance on FDI in Southeast Asia as opposed to Northeast Asia as represented by the first tier of NICs. Jomo (2001: 13) argues that this greater reliance ‘raises questions about their industrial and technological capabilities (especially in the most dynamic and export oriented sectors) and concern about the sustainability of their growth and industrialisation, especially if other countries are deemed more attractive sites for FDI’.

Secondly, FDI tends to be concentrated in particular sectors. In the case of Singapore, high levels of FDI are concentrated in the financial services sector as Singapore has sought to set itself against Hong Kong in an attempt to move away from the primary manufacturing sector. Malaysia, placed second in Table 4.4, still attracts a relatively high level of FDI to the manufacturing sector and within that the electronics industry is both a prominent destination and extremely important in terms of export of

manufactures. In third place, FDI to Indonesia's manufacturing sector is mainly directed towards resource-based activities such as chemicals and paper, although the electronics sector is growing in importance and in deed Indonesia has recently been highly successful in attracting FDI in face of stiff competition from the newer low cost production centres of China and Vietnam (Rigg, 2003). It should be noted however, that the vast bulk of FDI inflows to Indonesia are located in the oil and gas sector (Thomsen, 1999). Further down the table, Thailand's manufacturing sector only accounts for about one third of FDI the remaining is directed towards distribution, finance, construction and real estate. Moreover, in each case there is concern over the need for diversification of FDI destination within national economies. In the case of Singapore, this has been successfully achieved as labour costs rose and labour intensive manufacturing based FDI sought alternative lower cost locations. This process of a shift away from primary sector based FDI towards the more value added manufactures and the service sector is ongoing in both Thailand and Malaysia particularly, whereas Indonesia is concerned with maintaining current levels of low cost manufacturing based FDI, despite the threat of increased costs leading to FDI relocation further east, principally to China and Vietnam.

The role of FDI in the export-oriented industrialisation process in Southeast Asia was, in the main, the driving force behind the sustained economic development in the region in the latter third of the twentieth century. As indicated above, the main issue facing Malaysia and other regional states is to maintain and build upon existing levels of FDI in the face of stiff competition from low cost destinations, particularly India and China, and to shift focus of investment towards higher skilled and more value added manufactured products and services. In the case of the former this includes

labour suppression (see Rigg 2003, Chapter 6), and in the case of the latter, this requires increased levels of skills and education in order to facilitate a flexible labour force capable of meeting the needs of private capital. The next section of this chapter will focus specifically on Malaysia, and examine more closely not only the importance of FDI to the Malaysian economy, but also the extent to which Malaysia is subject to global economic pressures and responses to such.

### **Malaysia: open to the global economy**

As was indicated in Table 4.4, there is a strong correlation between high levels of FDI and strong economic performance in the Malaysian economy. UNPAN (2003: 88) clearly states that 'Since Malaysia became independent in 1957, Foreign Direct Investment (FDI) has been the largest factor fuelling growth'. The World Investment Report (UNCTAD, 2003) indicates that inward FDI was worth US\$ 3,203 millions to the Malaysian economy in 2002, though this was down from a peak of US\$ 3,895 millions in 1999. In 2001, with respect to foreign firms operating in Malaysia, the government had approved 636 Representative Offices, 335 Regional Offices, 52 Operational Headquarters and 47 International Procurement Centres. In this there is evidence that Malaysia has been and can continue to be best described as a small, open economy, fully engaged with the globalised economy and at risk from the pitfalls therein.

There remains a good degree of inward investment potential in the Malaysian economy, in part due to the reforms instigated both by the Mahathir and the Badawi governments. In the case of Dr Mahathir, the Malaysian government sought to fully embrace globalisation through increased incentives provided for under the Promotion

Investment Act (1986) which built upon the earlier Investment Act (1968). In the case of the latter, incentives for inward investment by foreign capital included fiscal incentives in the shape of total or partial relief from both development and income tax. Export oriented businesses were located within Free Trade Zones (EPZs) which were created along the West coast of Peninsular Malaysia, particularly in Johor, Penang and Selangor. As Dicken (2003: 180-1) notes, the local impact of EPZs has left certain areas more vulnerable to the ebb and flow of the global economy 'In particular cases like Penang, Malaysia, they can be very large indeed. Here the number of plants in the Penang EPZ grew from 31 in 1970 to 743 in 1997 whilst employment in the EPZ plants grew from 3000 to almost 200,000'. In 1986 the replacement Act sought to 'extend more attractive incentives to investment in the manufacturing, agriculture and service sectors. The incentives, among others, include allowances for building, expansion and modernization of hotels, incentives for Research and Development as well as the creation of the Investment Guaranteed Agreement to avoid the non-business risks, such as nationalization of companies and to liberalizes the inflows and outflows of capital' (Yusoff et al, 2000: 15). The 1997 crisis saw restrictions placed on capital flows as the Mahathir administration sought to protect the Malaysian economy from capital flight. In addition Mahathir engaged in Keynesian style intervention in the hopes of stimulating recovery and economic growth (UNPAN, 2003). This has taken the form of increased government expenditure on large scale infrastructure projects such as the new Kuala Lumpur International Airport (KLIA), the building of the new administrative capital at Putra Jaya and the Multi-media Super Corridor (MSC) which will eventually link KLIA to Putra Jaya and beyond to central Kuala Lumpur. Beeson (2000: 347) has argued that the development of the MSC is evidence of the 'widespread belief that industrial

evolution and innovation is dependant upon (or likely to occur more readily where) “clusters” of similar industries exist.’ Further measures intended to stimulate domestic spending include reductions in income and import duties, implementing generous wage increases to the countries 800,000 civil servants and reducing employee contributions to the EPF by 1 per cent. The new administration of Prime Minister Abdullah Badawi has shelved some of the more expensive and recently proposed mega projects such as the North-South Rail link and a bridge connecting Malaysia to Singapore. He has also shown willingness to tackle corruption or cronyism which was represented by all too close ties between UMNO and the business community and was a central feature of the Mahathir regime (Beeson, 2000; Jomo, 2001; UNPAN, 2003).

However, there remain important concerns regarding the ability of the Malaysian economy to sustain long-term economic growth and resist global economic pressures. This is evidenced by the fall of Malaysia from 16<sup>th</sup> to 25<sup>th</sup> in the World Economic Forum’s ranking of competitiveness (UNPAN, 2003). The reliance on FDI led economic growth certainly casts a degree of doubt over the sustainability of previously high levels of year on year economic growth. In 2002, FDI was responsible for 59.4 per cent of GDP (UNCTAD, 2003) and this was disproportionately centred on the electronics industry. In 1995 electronics and electricals accounted for 65.7 per cent of gross exports of manufactured goods, by 2000 this figure had increased to 72.5 per cent (8MP, 2001). However, to disaggregate this further, the goods manufactured in this sector has seen a move away from semi-conductors, which constituted 76.1 per cent of total electronics exports in 1990 and by 2000 this had decreased to 42.6 per cent, and towards higher value added

goods such as silicon wafers, motherboards and hard drive media (OPP3, 2001).

External events, such as the terrorist attacks on the USA in September 2001, have resulted in a sharp drop in demand for goods produced in the electronics sector as American firms delayed reinvestment as the US economy stalled. This has further exacerbated the economic slowdown and continues to have a detrimental effect on the Malaysian economy. The downturn in manufactured exports resulted in more than 30,000 people being made redundant between January and September 2001, the majority of whom were in the electronics sector (UNPAN, 2003) and government projections saw unemployment figures climb from 3.1 per cent from 2000 to 3.9 per cent by the year end of 2001. Such figures led to a statement in The Sun newspaper (05/05/2001) by the then Minister for Human Resources Dr Fong Chan Onn, who declared that figures of one to two thousand redundancies per week was 'normal'; however the effects of such redundancies were felt most keenly in the EPZs, with Penang faring worst. The over dependence on external trade flows to the US have been highlighted by recent events and this has in turn created a negative effect on foreign short term capital investment on the KLSE, which dwindled from a high of almost 30 per cent in early 1997 to a mere 3 per cent in 2002. (UNPAN, 2003). This reluctance on the part of foreign investment capital is, according to the Asia-Pacific Economic Update 2002 (UNPAN, 2003: 88-9), due to concerns regarding government involvement in the economy, particularly the close ties between government and business in the form of crony capitalism; inconsistent application of the law and the independence of the judiciary; concerns regarding Malaysia's banking system and in particular the level of non performing loans.

There are two final linked issues, one internal and one external, facing Malaysia which should be acknowledged in this section. Firstly there has been much talk about the shift to a knowledge-based economy. A knowledge-based economy is 'where the acquisition, utilization and dissemination of knowledge provide the basis for growth. The development of a knowledge-based economy involves enhancing the value-added of all productive activities through knowledge utilization, in addition to creating new knowledge-intensive industries' (OPP3, 2001: 24). This meets the criteria as outlined in the National Vision Policy (NVP) which seeks to establish Malaysia as a developed nation by 2020, and which will result in less reliance upon low skilled manufacturing production. Jomo (2001), states that the demand for skilled labour in Malaysia has spiralled, but that the domestic education system has not been able to meet the need. This is underlined by the 8MP (2001: 88) which notes that 'the transformation of production methods and processes towards capital-intensity and information and communications technology (ICT) applications led to shortages of highly skilled manpower in specific areas.' The shortfall in skilled labour is as a result of underperformance in education provision, both in secondary and particularly tertiary education where Malaysia lags behind its competitors. There are provisions for addressing this need in both the 8MP and the OPP3; however, this does not meet current need and as such will impinge upon Malaysia's economic competitiveness and attractiveness to FDI as a place in which to do business.

Secondly, an external issue facing Malaysia, and Southeast Asia in general, is the emergence of competitors for inward streams of FDI in particular China. There has been rapid growth in levels of FDI into the Chinese economy during the last twenty years. The World Investment Report 2003 gives a good indication of this, reporting

levels of inward FDI between 1985-95 as averaging US\$11,690 millions or 3.1 per cent of GDP compared to US\$52,700 millions or 36.2 per cent for the year 2002 (UNCTAD, 2003). This rapid growth in FDI is not solely at the expense of the Southeast Asian region as the originators for the FDI differ. In the case of China, Hong Kong, China is responsible for over 50 per cent of inward investment with Japan, the USA and Taiwan contributing another 25 per cent (Thomsen, 1999). However, it is the potential growth in the Chinese economy which can be viewed as the threat, with a realignment of investment from OECD nations shifting away from the increasingly costly Southeast Asia and towards the relatively low cost China. In 2001, the then Malaysian Second Finance Minister Mustapa Mohamad acknowledged that China was likely to be a competitor for FDI and that the answer lay in the willingness and the ability of smaller economies, such as Malaysia, to 'respond quickly to the new challenges in the global environment' (National Economic Action Council, 2001).

### *Conclusion*

Malaysia has undoubtedly benefited from the processes of globalisation thus far, particularly in terms of sustained export-oriented economic growth. However, not all of the population has benefited and there has been an increase in the levels of income inequality during the export-oriented phase of economic development since the late 1980's (Fields and Soares, 2002; Jomo, 2001). The pace of globalisation is unlikely to reduce, if anything technological developments will speed up the processes of change and increase economic competition. It has been argued that growth will depend upon increased investment in human resources, primarily through education, and maintaining open economies, but that such openness will increase exposure to

external pressures and may lead to greater economic volatility (Osteria, 1999; Jomo, 2001; Pangestu, 2001). It may well be that across the Southeast Asian region demographic shifts, increased urbanisation and a greater prevalence of 'new' risks, such as unemployment, may require greater formal intervention from the state.

The spectacular rise of the Asian economies throughout the 1980s and 1990s was to a greater extent built upon the increased level of inward investment which was actively sought as *the* means by which developing nations could achieve their wider economic and more domestic political and social goals. The increased levels of cost for manufacturing production in the North coupled with the unshackling of capital facilitated the rush to greater industrialisation and its attendant urbanisation throughout the region. So at first viewing we could conclude that the processes of globalisation have the upper hand in terms of explanatory power when analysing the socio-economic changes which have undoubtedly taken place in states such as Malaysia. However, this does not give us the whole picture, what we do not get is any sense of decision making at a national level. Globalisation is not a take-all package there are aspects of the globalisation debate which can fare less well under scrutiny and to argue that a global culture is seeking to obscure national and regional differences as major brands dominate the global consumer market is simply cultural reductivism.

Institutional arguments noting culture and cultural difference have often been cited as a reason why, for example, social policy reforms have taken second place to economic objectives. It is not that Southeast Asia is jam packed with ardent neo-liberals shunning the needs of the poor in the search for more US dollars. Rather, it is

the institutionalised social and cultural mores of the region which place self-reliance and the family at the centre of welfarism both large scale and small. In Malaysia the recently departed Dr Mahathir periodically castigated industrial nations of the North for attempting to impose its own values and moral standards on developing nations whilst arguing that Asian values placed 'greater stress on economic and social rights and ...they took less account of individuals, and gave more regard to the interests of the community' (Milne and Mauzy, 1999: 137). It is this notion of a 'local' institutional filter, through which the varying strands of globalisation must pass, which informs subsequent discussion in this thesis. Economic globalisation is affecting social policy choices in both the North and the South, but its effects may remain muted as national governments set their own agendas.

As this chapter has shown, the Malaysian economy has benefited greatly from substantial levels of FDI whilst simultaneously experiencing newer risks, such as increased and persistent unemployment and shortfalls in retirement funding, which will require state led initiatives to ameliorate such risks. It is those who are least skilled and are employed in the more volatile and less secure sectors of the labour market who are more likely to experience periods of unemployment. This will increase the likelihood of a failure to contribute consistently to the EPF. Furthermore the increasing income inequality will further affect many EPF members' ability to accrue sufficient savings save to avoid problems in old age. The following chapter examines the effects of a phenomenon, ageing, which is both global and local in scope and which has been couched in terms as a 'crisis' by key global institutions. A key issue here is both the growth of the elderly population and the increasing number of years that individuals can expect to spend in 'retirement' which calls into question the

institutionalised 'ways of doing welfare' in Malaysia in general and pensions provision in particular. As was shown earlier current arrangements provided for under the EPF do not meet the stated aims of the institution and this will be exacerbated by an increasing elderly and longer lived population.

## **Chapter Five**

### **Ageing: a global issue and a challenge for the EPF**

This chapter is concerned with the ‘popular’ notion that as the developing world catches up with the advanced capitalist industrial nations they are sure to experience similar issues which at present tax governments of the developed world. However, this is something of a truism. In part there is a degree of accuracy in this approach in so far as the developing world will experience some of the concerns which are currently affecting the North as it undergoes the processes of capitalist industrialisation and accompanying urbanisation. Nevertheless, this is too simplistic and deterministic a position to be truly useful. What such an approach fails to take account of is the diversity of institutionalised social, economic and cultural arrangements, which will have a direct bearing on the developmental paths of the industrialising nations.

One major cause for concern has been and continues to be the rate at which populations are ageing and the costs, both social and economic, this is likely to incur. For the past decade at least the question of how to cope with increasingly elderly populations has been a major issue in both national and international contexts. Accordingly, HelpAge International (2002: 2) claims that ‘Ageing has become one of the defining global issues that will shape the future of the world’s societies.’ Furthermore it is not simply an issue of numbers. There are real concerns regarding the cost implications, both in terms of increased health costs and ineffective income levels, for those reaching old age in increasing numbers and for many of whom old

age is equated with an extending period of economic inactivity. It is somewhat ironic that the successes of sustained economic growth, advances in health care and the resultant increased longevity are now translated into a 'crisis' of global proportions. It is these cost implications which, as the World Bank (1994) has argued, could have severe detrimental effects on economic growth both nationally and globally. Furthermore, the embedded institutionalised 'ways of doing' welfare can act as a barrier or brake to necessary reforms. Here it is both the mechanism as institutions and the political/ideological approach which emphasises individualism which requires change, as the shortcomings of old age income mechanisms are often exacerbated by cultural and ideological institutions.

Jackson (1998: 198-9) offers a usefully concise summary of the bi-polar nature of the imagined 'ageing crisis', arguing that in most publications dealing with population ageing evidence such as a rise in dependency ratios, a drop in workers to non-workers and increasing dependency burdens will harm economic growth and necessitate welfare retrenchment. The young produce and the old consume from an increasingly shrinking pot. However, as he argues this is a somewhat skewed picture as not all the young are economically active and by no means all the elderly are economically inactive. Old age is in itself a social construction which varies in relation to cultural context, and as Wilson (2000) argues assumed uniformity of old age does little to accurately describe either the current situation or help foster workable future policies. Even supposedly simple definitions such as the chronological age at which the term elderly becomes operationalised is open to dispute. It is common practise to employ a retirement age as a marker of old age, yet this too is culturally and socially constructed and open to change dependant upon a variety of factors such as level of

economic development, contemporary economic conditions, life expectancy and fertility rates. The pensionable/retirement age in the UK is, for example, currently set at age 65, whereas in Malaysia the same qualifying age can be anywhere from 5 to 10 years before that, ranging from age 55 in the public sector to age 60 in the private sector. Even this does not accurately describe the situation as many older Malaysians continue to be economically active well into old age, in part due to a lack of alternative income streams. Thus to view old age representing a 'crisis' is both ideological in origin and deriving from a western perspective (Jackson, 1998). Ideologically the World Bank (1994) represented the neo-liberal 'Washington consensus' which stressed private market based solutions over public state mandated initiatives and focussed attention on an assumption that all older people are eligible and receive pensions leading to misplaced concerns about the cost of pensions (Wilson, 2000).

What the remainder of this chapter seeks to explore is the nature of this 'crisis' and the extent to which the demographic transition to an ageing population can be regarded as a crisis. In doing so it will discuss what it is that constitutes an ageing population, the rapidity and extent of this phenomenon and, with reference to Southeast Asia in general and Malaysia in particular, whether this demographic shift should be labelled as a 'crisis'. In part then the themes explored here are concerned with issues of demography which incorporates ageing, changing family structures, increasing female participation in the formal labour market linked to adequacy of income in old age, retirement, culturally specific responses to old age and the way forward for developing societies increasingly enmeshed in the global economy. The

aim here is to give at least a general indication of how individual states are responding to the demographic shift to an ageing population.

Governments around the world are facing a series of difficult choices, brought about, in part, by previously relatively minor and manageable pressures. Hitherto, issues such as population ageing could be dealt with through either national pension systems, sustained economic growth, individual or private arrangements, or most likely a combination of all three. However, with the growth in the global economy, the increased level of economic interconnectedness and the volatility that that entails has meant that governments are now engaged in the process of reassessing their social security systems and old age incomes policies. This reassessment is taking place in an era in which people are living longer and spending increased periods of time reliant on income streams other than wages. In an effort to facilitate equitable and adequate incomes in old age, governments all around the world are seeking an answer to the issues of the demographic shift to an older population. It is worth remembering that demographic changes are evident not only in the form of the headline grabbing shift towards an elderly population, but also in terms of changes in the labour force, particularly the increase of female participation in the formal labour force, changing family structure and size and an increase in single person households.

Furthermore, the manner in which societal change and globalisation interact will inform the subsequent discussion both explicitly and implicitly. One aspect of this discussion which is beyond debate is that ageing can be viewed as a near-global phenomenon. As such, inaction by national governments is not an option; reforms are needed around the globe and this is certainly the case in Southeast Asia in general and

Malaysia in particular. Moreover, it has been suggested that, '*caring for the elderly*, encompassing intergenerational transfers, the financing of pensions, family demographics, and health care finance, may be regarded as Asia's major challenge in the next several decades' (Shantakumar, 2002: 81 – original emphasis). In the Malaysian case there are a number of factors which intersect or crosscut one another, and as such, complicate an already difficult issue. These factors include the plural nature of Malaysian society, increased inequality both in terms of income and location and finally there are ethno-class issues which are increasingly informing the debate regarding social change and the nature of contemporary Malaysian society.

### **The demographic shift to an ageing society**

It would be unusual to engage in any discussion on the global nature of the demographic shift to an ageing population without reference to the World Bank Policy Research Report, *Averting the Old Age Crisis* (1994). It is this publication, more than any other, which has sought to portray the success of increasing life expectancies for the vast majority of developed and developing nations as a crisis of global proportions. This in turn has been echoed by publications from other institutions such as Organisation for Economic Co-operation and Development (OECD: 1996; 1998; 1999; 2000), the Asian Development Bank (ADB: 2000), HelpAge International (2002), the International Labour Organisation (ILO: 1997), to list but a few. As both Christopher Pierson (2001) and Ellison (2006) note, the World Bank has sought to heighten the levels of expectation that societies around the world will find themselves challenged by increasingly ageing and aged populations. The precise nature of the 'crisis' is to be found in the costs incurred by the demographic shift which sees the growth of older cohorts outstrip the replacement rates of younger

generations. One main feature of this concern is that the 'intergenerational contract', which has funded welfare in developed nations in the post-war period, will be unsustainable as the shift to an older population takes hold. Whilst this may well be one of the central concerns in OECD nations, a similar issue is of concern for developing nations in general and Malaysia in particular. In this instance it is not so much the direct funding of formal welfare which is in doubt, but the informal intra-family and intergenerational transfers which take the form of both care and cash which are increasingly placed under strain as internal migration increases and the cultural shifts associated with modernisation, such as smaller families and greater geographical mobility, take hold. As Christopher Pierson (2001: 91) suggests, 'the key argument in relation to ageing societies is that at some point in the next fifty years in all developed and developing countries the cost of supporting a growing elderly population out of the current production of a much smaller active workforce will place on the latter a burden which is either unsustainable or, at the very least, politically unacceptable.' For the World Bank, the economic costs and impact this would have on the economic competitiveness of individual nations in particular and the global economy in general meant that urgent reform was necessary. Added to this was the central concern held by the World Bank that current arrangements, based as they were on a mandatory pay-as-you-go (PAYG) basis and funded out of payroll taxes levied on the working population, did not meet their aims of protecting the old. Such arrangements held firm during periods in which the economically inactive older populations were relatively small. However, if the elderly population grew substantially this would place a greater burden either on the working population, through the imposition of higher payroll taxes, or on the state through increases in public debt. Either way, the Bank argued the result would be lower economic growth.

These claims forced the issue to the forefront of international and governmental concerns for the greater part of the last decade.

To prevent such a situation of depressed economic growth and increased pensioner poverty, the 1994 World Bank Report suggested that public provision should be reduced and supplemented by the implementation of a multi-pillared approach to old age incomes. Briefly, the Bank (1994: 16) argued that a scaled down mandatory publicly managed and tax-financed pillar should remain, but that this 'would have the limited object of alleviating old age poverty and coinsuring against a multitude of risks'. This would still be financed through payroll taxes and could either take the form of a severely means tested benefit effectively limiting coverage, a minimum pension guarantee, or alternatively a lower value universal flat rate benefit to a broader group of the elderly. The second pillar would comprise a mandatory fully funded though privately managed scheme which would take the form of either personal saving plans or occupational plans. This, the World Bank (1994: 16) argued, should 'avoid some of the economic and political distortions to which the public pillar is prone'. The final and third pillar, according to the Bank would be entirely voluntary and would simply be for those who wished to access increased old age income security. As Christopher Pierson (2001: 96) notes however, 'the trickiest issue of all in the World Bank's proposed reform is the transition from what we have to what they recommend...even on their most optimistic projections it is, in the end, an issue of sharing out the disappointment – delaying retirement, paying out lower replacement rates, while increasing taxes and social security charges.'

It should be remembered, however, that such recommendations are made on the basis of an identifiable '*crisis*' existing. This is by no means the case in all instances and the findings of the World Bank are but one, albeit substantial, aspect of the ongoing debate regarding the causes, nature and solutions to the demographic shift to an increasing elderly population for the majority of the world states. Indeed Jackson (1998) has suggested that in addition to the World Bank's three pillars, a fourth pillar could be added which would represent part-time work undertaken after retirement in order to supplement income. Citing Kessler (1998), Giarini (1990) and Reday-Mulvey (1990) Jackson (1998: 122) argues that such a fourth pillar 'will become increasingly important as work and retirement become more flexible'. Retirement trends, which for the developed world in the latter quarter of the twentieth century saw earlier exits from the formal labour market as a direct response to the move towards a diversified post-Fordist, more technology based and globalised economy (Jackson 1998), may well have been a short-lived phase designed to reduce labour forces in the search for greater *flexibility*.

Indeed, given the concerns amongst many governments of the developed nations the current trend is one that encourages later retirement and offers incentives for workers to defer drawing pensions. Taylor (2004) cites a number of examples of this. In the first instance Australia now offers incentives for individuals to defer drawing pensions until age 70 and in both Japan and the USA retirement/pensionable age is being raised from 60 to 65 in the case of the former and from to 67 years in the case of the latter. However, the relatively early statutory retirement ages in Asia for instance, has thus far, and will in all likelihood continue to require a part time approach to retirement and work into older age. This will enable individuals to

supplement low pension levels and may go some way to avoid the material poverty experienced by many older people in the developing world, resulting in increased social exclusion and isolation from mainstream society.

### *Population ageing*

According to Jackson (1998) population growth and ageing is a feature of industrialisation, although the exact nature of the relationship between population growth and economic development is open to debate. What is agreed upon; however, is the manner in which populations grow and undergo the demographic shift to an ageing profile. Jackson (1998: 11-12) cites Notestein's model from the 1940's which divides the demographic transition model into four stages:

1. Fertility and mortality rates roughly equally high
2. Fertility remains high but mortality falls leading to increased population growth
3. Fertility rates fall in accordance with mortality rates, population grows less quickly resulting in an increasingly ageing population
4. Fall in fertility rates slows down until fertility and mortality are again roughly equal. Fertility rates now linked to economic conditions and the new steady state results in a larger older population with a higher average age. An aged steady-state population

Furthermore, Jackson (1998: 12) argues that 'Most developed countries are in the third or fourth stage of the transition and well on the way to a new, more aged steady state population'. Given the general trend of the figures presented here and in the publications of many international organisations, many developing nations, such as those from East and Southeast Asia, are following similar demographic trajectories.

According to World Bank figures (1994: 25) in 1990 about 9 per cent of the global population were aged 60 or over, the numbers are expected to almost triple by 2030 to 16 per cent or 1.4 billion aged 60 and above. The Bank (1994: 28-30) estimates that most of the growth in the world's old population will take place in Asia and that the region will have older populations at much lower levels of per capita incomes. Added to that, approximately a quarter of the old will be aged over 75 and of this, almost two thirds will be women. Similarly, Wilson (2000: 34) agrees that current projections indicate that there will be three times as many older people living in current developing nations by 2035. Christopher Pierson (2001: 93) notes that developing societies are experiencing far more rapidly ageing populations than advanced industrial nations, citing as he does the example of the doubling of the elderly population in France as taking 140 years, as opposed to a similar process taking just 22 years in Venezuela. Robert Clark (2002) adopts a similar approach, albeit one with a different focus. He argues that Asia is undergoing spectacular rates of ageing.

The data in Table 5.1 illustrates the rapid increase in the rates of elderly population growth and the period of time during which the proportion of the elderly increases from 10 to 20 per cent of the total population in selected Asian states. In some instances, the number of years it takes for the proportion of those populations aged 60 or above to increase from 10 to 20 per cent is as little as 18 years in the case of Singapore and at most 28 years in the case of Japan.

**Table 5.1: Pace of Population Ageing in selected Asian States: Years Required for Population aged 60+ to Increase from 10 to 20 per cent of National Population**

	Ageing Period	Years Required
China	1999 – 2026	27
Indonesia	2017 – 2043	26
Japan	1967 – 1995	28
Korea	1998 - 2021	23
Singapore	1999 – 2017	18
Taiwan	1992 – 2019	27
Thailand	2001 - 2025	24

Source: Adapted from Clark, R.L. (2002: 64) Table 4.3

Similarly the data in Table 5.2 clearly demonstrates that, at the very least, the proportion of those aged 65 years and over will double between 1998 and 2025, in some cases such as Singapore the increase is projected to see the size of the elderly population almost triple from 6.8 per cent to 20.0 per cent.

**Table 5.2: Ageing in East Asia**

Country	1998		2025	
	Total Population (Millions)	Percent 65 and over	Total Population (Millions)	Percent 65 and over
China	1,236.9	6.6	1,407.7	13.3
Indonesia	212.9	4.0	288.0	8.6
Japan	125.9	16.0	119.9	26.8
Korea	46.4	6.4	54.3	16.5
<b>Malaysia</b>	<b>20.9</b>	<b>3.9</b>	<b>34.2</b>	<b>7.8</b>
Singapore	3.5	6.8	4.2	20.0
Taiwan	21.9	8.2	25.9	17.9
Thailand	60.0	6.0	70.3	14.1

Source: Adapted from Clark, R. L. (2002: 62) Table 4.1

*Dependency ratios, Fertility rates and Life expectancy*

What the data from Tables 5.1 and 5.2 indicate is that the numbers of older economically inactive populations is set to rise and at the most fundamental level, the implication is one of cost. The question arises, how should governments seek to fund

old age or indeed should they refer the issue to markets, eschewing public solutions? The World Bank report (1994) is subtitled as *Policies to protect the old and promote growth*, the implication here is clear, action should not inhibit economic growth. One of the issues raised by ageing populations is the impact that an increase in old-age dependency ratios (OADRs) will have on economic growth, the implication being that the impact will be negative. Jackson (1998: 6) argues that ‘An ageing population means that the proportion of the population over the statutory retirement age, and with it the old-age dependency ratio, will almost certainly be rising....Dependency ratios aim to show the average number of dependent people supported by each economically active person.’ The data in Table 5.3 indicates that in the specific case of Malaysia, there is a projected shift away from youth dependency to old-age dependency, although the overall dependency ratio is seen to fall from a high of 75.4 per cent in 1980 to 54.9 per cent in 2050. The shift from youth to age is nevertheless quite dramatic with an increase in the OADR from 6.4 per cent in 1980 to 24.7 per cent in 2050 or a higher than fourfold increase.

**Table 5.3: Malaysian dependency ratios (%) 1980 to 2050**

	1980	2000	2010	2030	2050
Youth	69.0	55.0	42.7	34.8	30.3
Old age	6.4	6.7	8.0	16.2	24.7
Total	75.4	61.7	50.7	51.0	54.9

Source: Adapted from ILO World Labour Report (2000: 257) Table 2

Linked to this is a decline in fertility rates which results in a smaller (younger) active labour market, thereby increasing the cost per capita incurred by an increase in the elderly (inactive) population. As Wilson (2000: 32) argues ‘different patterns of demographic transition show clearly that population ageing is dependant on the birth-

rate. Death rates are falling in virtually all countries but the stage and speed of demographic transition varies with the collapse in the birth-rate.’

**Table 5.4 Total Fertility Rates (TFRs) for selected ASEAN states**

	1960	1970	1980	1990	1998	2005
Indonesia	5.4	5.1	4.3	3.0	2.7	2.3
<b>Malaysia</b>	<b>6.7</b>	<b>5.2</b>	<b>4.2</b>	<b>3.8</b>	<b>3.1</b>	<b>2.8</b>
Singapore	4.9	2.6	1.7	1.9	1.5	1.4
Thailand	6.4	5.0	3.5	3.2	1.9	1.9
Vietnam	-	-	5.0	3.6	2.3	2.2

Source: Adapted from Rigg (2003: 179); [www.unicef.org/infobycountry/index.html](http://www.unicef.org/infobycountry/index.html)

As Table 5.4 shows there has been a dramatic decline in fertility rates across Southeast Asia with Singapore particularly noteworthy as the rate is below that which is required to maintain a stable population. As ever in this region there is an ethnic dimension to this issue, and in the case of Singapore, it is the dominant Chinese community which is experiencing falling fertility rates, and the ethnic Malay community which is experiencing fertility rates above replacement level. This process is somewhat different in Malaysia, as here it is the dominant Malay community which maintains a higher fertility rate, albeit declining overall in line with the national trend. As Tey (2002: 6) notes the total fertility rates vary by ethnicity in Malaysia with figures for Malays standing at 3.8 per cent, declining to 2.6 per cent for Indians and 2.5 per cent for Chinese.

In addition to this sharp decrease in fertility rates is a concomitant rise in life expectancy which will see people live longer and, in theory at least, become economically inactive for longer periods of time. As Table 5.5 indicates, there have been substantial rises in life expectancy at birth in these selected states. Given that

the official retirement age across this region is between 55 and 60, the majority will, at first glance, see increased periods of economic inactivity as retirement periods grow.

**Table 5.5: Life expectancy at birth in ASEAN 5**

	1960-5	1970-5	1980	1990	1998
Indonesia	43	48	55	62	66
<b>Malaysia</b>	<b>56</b>	<b>63</b>	<b>67</b>	<b>71</b>	<b>73</b>
Singapore	66	70	72	74	78
Thailand	54	60	64	68	72
Vietnam	-	-	63	67	68

Source; Adapted from Rigg (2003: 179)

However, there are two main issues to draw from such data. The first is that projections of fertility rates are just that, projections. There is no rule which dictates that fertility rates follow a linear pattern from high to low over extended periods of time. It is accurate to suggest that as industrialisation takes hold and modernisation gathers pace developing nations will experience falls in fertility rates, but as Bonoli (2000: 17) argues, ‘there seems to be a relatively high degree of uncertainty with regard to long term population age structure projections. Since fertility rate is the most relevant factor and yet the most difficult to predict, projections are reliable only if they look at the generations who have already been born...Current projections of the population...should be considered as relatively reliable until around 2015. Beyond this time horizon it is extremely difficult to produce useful projections’.

Secondly, there is little evidence to suggest that older people become economically inactive at the prescribed time of retirement. Wilson (2000: 38) argues that ‘In worldwide terms, people may be defined as ‘old’ and ‘dependant’ by demographers,

but the vast majority of them are working', indeed part of the problem with this form of measurement is that it counts only paid work, not productivity. If productivity were the measure used then a wider spectrum of activities could be included which would in turn reflect more accurately the activities in which older people engage in which though unpaid is economically productive.

Accepting that factors such as data projections and the categories productive and unproductive are problematic, insofar as they are open to question there is, however, a need to disaggregate figures further in order to attempt to get a more accurate picture of the nature of the demographic shift. The picture so far is one of less younger people, more older people living longer resulting in an increase in dependency ratios which in short requires greater levels of economic productivity from a shrinking labour force. What this doesn't reveal is who are the older people and how old are the elderly. Schultz (1997: 10) argues that by employing a cut off age, beyond which people are classified as elderly or old, does not reveal gender or age distribution. If increased life expectancy indicates individuals living longer, then figures for the 'very old' or 'old-old' defined as those who aged 80 or above illustrates the age distribution of the elderly. He supplies data which details that in 1950 the very old constituted 13 million, or 7 per cent of the total elderly population. By 1985 this had increased more than threefold to 45 million or 10 per cent of the total elderly population, and was projected to reach 137 million or 11 per cent of the total elderly population by 2025. This increase in the very old will similarly affect both developed and developing nations and in both cases the very old age group will grow twice as fast as those aged 60 or above.

Similarly, in order to find out who are the elderly and the very old it is necessary to examine the sex ratios of those aged over 60. Women generally have a longer life expectancy than men and are therefore more likely to live to very old age. One indicator of this is the sex ratio, which is defined as the number of males to 100 females.

**Table 5.6: Sex ratios (male:female) for selected age groups in 5 ASEAN states, 1990 and 2025**

	1990			2025		
	25-49	65-69	80+	25-49	65-69	80+
Indonesia	100	84	67	101	87	57
Korea	105	71	34	101	86	50
<b>Malaysia</b>	<b>97</b>	<b>85</b>	<b>72</b>	<b>102</b>	<b>80</b>	<b>54</b>
Singapore	104	97	61	106	95	63
Thailand	103	88	54	102	95	66

Source: Adapted from Schultz (1997: 12) Table 2

As Table 5.6 indicates there is a disparity between the number of males who reach very old age (80+) compared to the number of females who reach a similar age. Given the increased poverty levels experienced by elderly women compared to elderly men, due in part to lower wages and breaks in employment to fulfil care responsibilities resulting in lower incomes in old age, such a measure indicates that there is an uneven gender dimension to the issue of old age.

### *Retirement trends*

As noted above, the notion of retirement is socially and culturally constructed and is a feature of industrialisation and a move away from agricultural based economies. Particularly relevant to developing countries is the move away from an agricultural based to an industrialised economy. On the whole this raises two specific issues. In the first instance as the agricultural sector declines in size and importance in relation

to the growth in the industrial sector, labour follows the employment opportunities and internal migration from rural to urban locations gathers pace. It is predominately the young who migrate and this can result in fewer and older workers remaining in rural communities. Secondly, this affects the dynamics of the traditional family as the younger generations take on the role of wage earners for the extended and dispersed family in the form of remittances. There is a specific issue in economies in which the qualifying bar for statutory retirement is fixed at a low level, namely that the form of retirement income must stretch further as longevity increases. Robert Clark (2002) argues that statutory retirement policies combined with early access to retirement benefits can encourage older people to leave the labour force at relatively young ages. Added to this are the effects that the processes of industrialisation, and the accompanying urbanisation, have on traditional forms of support upon which former and current generations of older people rely.

It is important to note that such informal arrangements consisted of both cash and care and both aspects are under threat from the processes of economic development (Robert Clark, 2002). Rigg (2003: 180) argues that the 'erosion of the family as a support unit and safety net is partially associated with social changes linked to modernization'. This implies a greater reliance on more formal support, both benefits and care. However, the ages at which individuals retire will have a profound impact on the quality of life which can be 'bought' with the old age benefits they have built up during their working life. As noted in Chapter 3, lump sum payouts from the Malaysian EPF are unequal to the task of providing income throughout old age, lasting an average of just three years beyond the statutory retirement age of 55. However, retirement is not necessarily an individual choice. As Schultz (1997: 23)

points out, retirement 'is virtually mandatory, determined by a variety of factors largely or entirely outside their control. Factors such as government policies and laws, traditional work practices, employment opportunities, employer policies, and the state of worker health often dominate the retirement decision'.

In its report *State of the World's Older People* (2002: 3) HelpAge International cites the draft text for the United Nations (2001) *International Strategy for Action on Ageing*, as calling for policies to be adopted which would aim 'to ensure that people everywhere are able to age with security and dignity and continue to participate in their societies as citizens with full rights'. Key to furthering this aim is the need for international agencies to press national governments to act to limit the social exclusionary effects of poverty in old age which currently compromises the pursuit of the UN strategy. There are some common misconceptions regarding older people which have in part been given credence by publications such as the World Bank's (1994) *Averting the Old Age Crisis*, focussing as it does on the need for pension reform as a cost curbing exercise. The 'popular' image is of older people both dependent and economically inactive. However, there is data to suggest that many of the world's older people continue to work beyond official retirement ages and into very old age. According to HelpAge International (2002: 30) at least half of the world's older people are economically active in their 60's compared to a third of those aged between 70 and 74 and a fifth of those aged 75 and above.

**Table 5.7: Labour force participation rates for the elderly (aged 65+) in 6 ASEAN states**

	Labour force participation rates (%)	
	Males	Females
Indonesia	48.5	24.1
Korea	32.4	16.0
<b>Malaysia</b>	<b>38.6</b>	<b>17.0</b>
Singapore	16.3	4.3
Thailand	37.5	17.3
Vietnam	43.7	26.1

Source: Adapted from Ogawa (2003: 108) Table 10

As Table 5.7 indicates there is a gender disparity between the number of males aged 65 and above who are participating in the labour force as opposed to females. In part, this disparity can be explained by generally lower levels of female participation across all age ranges and the culturally specific reasons which see far lower female labour in Asian and Islamic countries. What should be noted, however, is that such figures do not take account of informal labour, both in terms of employment which is either not counted in census data or, the unpaid work mainly performed by women. It is safe to assume that if the latter were included the figures for female labour participation would increase dramatically.

However, what the data in table 5.7 does not indicate is the gradual downward trend in the labour force participation for older male workers. Schultz (1997) argues that as industrialisation continues to expand in developing countries, the trend is towards fewer older males working beyond the statutory retirement age. Furthermore, this does not provide the full picture if, as indicated above, many workers simply move into the informal (or part time) sector in order to supplement meagre retirement incomes.

A further dimension to both the processes of modernization, and the spectre of an alleged ageing 'crisis', is the increased levels of migration and the effect this has on the material well being and access to care for the worlds increasingly elderly population. Crouch (1996) and Hashim (1998) both claim that the most important means of escaping rural poverty has been internal migration to urban areas. However, this does not tackle poverty for those left behind who are often elderly and rural bound, nor does it take account of possible holes in the traditional family based provision of care. Such a situation is not gender neutral, as increased longevity results in more older women and an increasing number of elderly widows. The World Bank (1994: 29) notes that in 'Africa and Asia, more than half of the women over the age of 65 are widows, compared with only 10 to 20 percent of men'. There are two issues to be noted here, firstly women generally earn less than men, take more breaks in employment due to domestic care responsibilities and, in developing countries, are more likely to work either part time or in the informal sector. This necessarily has a detrimental effect on the ability of women to save for old age. Secondly the social changes which accompany industrialisation, such as the trend towards smaller families, reduce the pool of support available to older women.

This issue is important both generally in Asia, and in the Malaysian context in particular. As Da Vanzo and Chan (1994: 95) note, according to data from the Second Malaysian Family Life Survey (MLFS-2) 'More than two-thirds of Malaysians age 60 or older co reside with an adult child.' and that 'co residence is influenced by the benefits, costs, opportunities and preferences for co residence versus separate living'. Just as there is no single explanation for the levels of co residence, so there are differences in the levels of co residence amongst the three main

ethnic groups in Malaysia. Da Vanzo and Chan (1994) argue that just as the cultural norms for the three groups vary, so too do levels of co residence. Accordingly it is the Chinese community which experiences the highest levels of co residence and the Malays the lowest, this being contrary to percentage share of population. However, there may be some dispute in the current levels as Da Vanzo and Chan (1994) employ data from the 1980s and therefore fail to take account of the increased rates of Malay urbanisation over the last 25 to 30 years. The effect this may have on levels of co residence is that the relatively high costs of housing in the urban areas could lead to increased levels of co residence as families pool resources to make ends meet. This point is picked up by a later publication (Chan and Da Vanzo, 1996: 47) in which the authors postulate that 'For both the married and unmarried, seniors living in metropolitan or large urban areas are significantly more likely to co reside than those in small urban areas'. What this increased level of co residence fails to address is the poverty levels which may force parents and children into co residence. For the majority, the level of benefits accrued under the EPF are insufficient to last the increasing period of old age and therefore there inevitably will come a time when co residence is not a an economy measure, rather more of a necessity due to low or non existent old age income. It is the increase in poverty amongst older people which cast doubt on the efficacy not only of the EPF, but also of current pension arrangements around the globe. In order to maximise returns to investors and pension companies alike, increased exposure to the global financial markets is accepted as the norm.

However, the downside is the increased level of risk this exposes investors to. There is always an appropriate health warning accompanying any market based investment that consistent high returns are not guaranteed and that past performance should not

be taken as an indication of future performance. There is something illusory in seeing pension arrangements as a national or domestic issue in an era in which the global market place is the destination for increased levels of private investment and an increasingly deciding factor in overall economic performance of domestic economies. It is this interconnectivity which forms the focus of the next section of this chapter.

### **Pensions investment: local or global?**

In the contemporary economic era, it is somewhat myopic to continue to view the pension systems of individual nation states as domestic in both their construction and reform, and the manner in which benefits are accrued. There is little scope for Keynesian style macro-economic intervention which took precedence in much of the industrialised North in the post-war welfare state building period. The growth in 'other' markets as a source of cheaper labour and as destinations for both capital and manufactured products has, by necessity, led to greater labour market flexibility combined with an increase in capital flows. Deaton (1989: 186 cited in Mann, 2001: 69) suggested that the size of pension funds could be viewed as a source of conflict and crisis in part because 'The pension system under advanced capitalism has assumed a structurally strategic and pivotal macroeconomic function'. This has meant that, in effect, national governments can no longer pursue economic policies without reference to the external economic conditions both regionally and globally. To give a degree of substance to the claim that pensions systems, and those institutions which administer private pension funds, are beyond the scope of domestic issues one need look no further than the staggering size and economic clout of retirement funds. Mann (2001: 68-9) offers some truly incredible figures which are worth quoting at length 'In the mid 1990s Diana Olsberg (1997) estimated that

pension funds worldwide held over Aus\$12,000 billion (equivalent to roughly £5,000 billion)...Just a few years later Richard Minns (2001: 26-7) estimated that pension fund assets amounted to 43 per cent of the planet's GDP!...The Myners Review, undertaken on behalf of the Labour government, stated that: "UK institutional investors own more than £1,500 billion of assets – over half the quoted equity markets" (Myners, 2001, p 4). A figure that is more than double the size of the US's GDP for 1998'.

It is, therefore, undeniable that pension funds are a major source of capital in the global equities markets and as such are able to wield considerable power on both the economic and political level. However, it should be noted that despite the size of funds and the complex nature of 24 hour a day dealing which is now possible due to the advances in ICTs in the financial services industry, pension funds are accountable to both national governments, through regulatory frameworks, and to their members whose interest may or may not be maximising returns on investments. On both these points it is worth considering the extent to which the pensions industry operates on two distinct levels, as both an autonomous or free reigning set of institutions and simultaneously as a (seemingly) highly accountable industry which is required to provide answers to those who provide its capital investment. Reisen (2000) suggests that diversification of portfolio assets by pension funds into developing countries through foreign capital investment can be regarded as one way in which the developed world can reduce the costs of current and future pension costs to employers and the state as well as indicating increased returns for individual investors. However, this scenario of a seemingly win-win situation is tempered by the approach of pension fund managers who Reisen (2000: 37) argues 'take a *conservative*

approach to international investment, which is motivated more by risk reducing portfolio diversification than by expectations of superior long-term returns'. This approach has to be weighed against technological advances which have increased the speed at which investment, and more importantly dis-investment, can take place. The Asian financial crisis is one such case to bear in mind. The speed at which currency speculation led to a full-blown regional financial crisis was a result of the development and implementation of ICTs in the international financial markets. Reisen (2000: 242-3) suggests that increased use of hedge funds which invest borrowed capital worth more than actually held funds, or to use the financial sector jargon *leverage*, the increased availability of financial derivatives which can 'facilitate the evasion of emerging-market prudential regulation as well as of taxes and capital controls', as well as modern risk management systems which in effect reacts to increased market volatility through a tightening of credit, all played a part in the contagion aspect of the Asian crisis. However, despite the big picture element of such suggestions, it is worth remembering that individual investors bear the cost of investment failure and that regardless of the mechanisms by which investments are thought to perform or under perform, or which can lead to speculative inspired economic shocks or crises, the result can be a shortage of funds which individuals had hoped to have built up through increased exposure to market based investments.

Regardless of the form which old age incomes provision takes, there has been a marked increase in the level of risk at both an institutional and individual level. In Chapter 3 the Malaysian EPF was examined in some detail, and it is clear from data supplied by the EPF itself that the level of investments in securities has risen to previously unprecedented levels. In short, this nominally increases the level of

individual risk as the dividend is derived from investment performance. It should be noted however, that there is a guaranteed minimum dividend which ameliorates a degree of risk but which would not enable savings to grow to sufficient levels to fund the lengthening period of old age. When individual risk is increased with regards to the EPF and other savings mechanisms, it is achieved by freeing a proportion of individual member's savings for investment in market based equity products. Such products however carry no minimum guaranteed return and as such are prone to the vagaries of the global market. In addition to this obvious risk is one other, that being the relative lack of experience of individual investors who are being encouraged to take greater personal responsibility for the accumulation of funds for old age through equities based products. As Christopher Pierson (2001: 103) clearly argues 'The responsibility for making very complex and highly consequential decisions are thus devolved to individuals who, with even the most expert (and perhaps costly) advice, will find it extraordinarily difficult to make rational choices...pensioners with identical contribution records may find themselves with widely differing pension entitlements and standards of living (depending on the performance with which they have invested).'

However, the situation in Malaysia is not unique. There has been an increased level of interconnectivity between domestic pension arrangements and the global economy. Gordon Clark (2003: 210-12), whose focus is on European pension futures, argues that 'pension futures are also global economic futures...managing global finance is not just a matter of managing the possible contagious effects of country specific crises. It is also a matter of managing administrative and regulatory reform in large developing countries with a significant demographic and economic growth

potential...the nature and path of reform may be more than a matter of adapting to the outside world. To the extent that national social security and retirement income are affected by global capital markets, these institutions may become the object of systematic reform not just accommodation.’ Similarly, Reisen (2000: 246) argues that any approach to staving off future economic crises must be undertaken at both a domestic and international level. He is clear that despite earlier trends which saw international financial institutions as ‘lenders of last resort’ this can no longer be possible in a world in which capital mobility is both rapid and intense. It is the sheer scale of private liquid assets which put them beyond the scope of international institutions abilities to cover losses. Such private assets are, as Reisen (2000: 246) states ‘worth trillions of dollars and are virtually free to move across borders’.

It is somewhat paradoxical then, that as nation states are required to engage more fully with the global economy, in order to promote domestic economic growth and stability, they are more open to external economic shocks which would have a detrimental effect on their abilities to fund increased public spending, particularly in the areas of education and training which is necessary to continue to attract the all important FDI. As the above figures cited from Mann (2001) show, the level of capital investment through the actions of private investors in the form of pension fund managers can have both positive and negative macroeconomic consequences for national economies. But it is worth reiterating the point that, above and beyond this macro-level impact and reform process, it is individuals who gain or lose from decisions which are more and more being taken with the global market as the focus.

## *Conclusion*

If only one lesson was to be taken from the 1997 regional economic crisis, then it could just as well be that state lead public pension provision which operates on an insurance basis is more equitable than a mechanism which emphasises private individual provision in which reform centres on investment in equities. Such increased individual exposure to markets enhances levels of volatility though in no way guaranteeing returns on a lifetime investment given both market volatility and the herd-like practices of fund managers (Reisen, 2000). The Malaysian state has shown itself capable of acting to limit further damage to economic growth in the aftermath of the crisis. The state could also show itself capable of initiating reforms which would address the predicted demographic shift and prevent an increased risk of social exclusion in old age.

There are two further issues which arise from this chapter and which are worth discussing, albeit briefly. In the first instance there are the choices which are available to national governments and which only they can take with respect to domestic pensions policy. In essence this can be summed up as a choice between greater openness to the global market or, a mix between individual state-determined fully funded income guarantees and a market element which individuals can employ as a mechanism by which they can 'top-up' their savings for (possibly) an enhanced income in old age.

However, as has been noted, domestic pensions policy is inexorably linked to the ebb and flow of economic globalisation. On a most basic level, this has increased the level of risk at which national economies operate. The effect of this could be to limit

the policy options available to national governments, but this does not mean that there are no policy options. Pensions policy is, at best, described as incremental (C. Pierson, 2001) and as such is unlikely to place an immediate burden on national economies. This is not to ignore issues of affordability (nor the pressing nature of democratic elective processes) rather it raises the possibility of a greater variety of policy choices. Christopher Pierson (2001: 107) succinctly sums this up when he argues that 'in the end, affordability will strongly reflect economic performance and, in practice, all pension regimes will involve a mix of private and public provision. There may well be a feedback between social policy and economic performance but levels of growth will also be affected by contingencies outside the scope of social policy'.

One area which is well beyond the scope of domestic social policy is the way in which the structure and form of the globalised economy is managed. Reisen (2000: 258) highlights some of the issues which need addressing if the most severe effects of economic crises are to be ameliorated. He suggests that there is a general agreement between the governments of the developed and developing world for a 'new global financial architecture'. The basis for this new financial management style appears to be based on clearer, more immediate and more reliable data. However, in its 1998 Annual Report, the Bank of International Settlements (BIS) noted in relation to the 1997 Asian crisis that 'in spite of readily available BIS data showing the increasing vulnerability of some of these countries to a sudden withdrawal of short-term bank loans, the volume of these loans just kept on rising' (cited in Reisen, 2000: 259). Reisen (2000) concludes that bad news which gets in the way of profits is never popular with investors. This may be so, but if the end result is financial crises,

regardless of size, leading to a devaluing of individual pensions, this again transfers the bulk of the risk to those who are most reliant on projected growth figures and who can least afford unexpected shortfalls.

The demographic challenge is not restricted to the issues of age and 'domestic' pensions policies. Other issues such as healthcare, social care, the gender dimension of elder poverty, ethno-class relations and inflexible retirement ages all contribute to the debate, as do doubts regarding the accuracy of some of the data such as that detailing fertility rates (Bonoli, 2000). One key issue which this chapter has sought to highlight is the veracity of the alleged 'ageing crisis' and the perceived effects of demographic change. One such effect, which is of greater relevance to Malaysia is the decline of traditional forms of support in terms of both cash and care (Shantakumar, 2002; Rigg, 2003). The effects of increased levels of rural to urban migration combined with inflexible retirement ages are deemed to be contributory factors to increased elderly poverty and social exclusion. In conclusion then it is worth reiterating two points. Firstly demographic change will occur at different rates in different settings (Wilson, 2000) and secondly, that regardless of the pace of change, inaction, either by international financial institutions or by national governments is no longer an option. If the issue is left unattended then the result can only be increased poverty and poverty for the increasing numbers reaching a lengthening old age. Furthermore, it is clear that the three main ethnic communities which make up the majority of the Malaysian population will 'benefit' differently from the effects of previous social policies which have impacted upon the abilities of the different ethno class factions to save for old age. In the next chapter the intertwining of ethnicity and class is examined and it is argued that the positive

discrimination of policies such as the NEP and NVP have privileged a certain ethno-class faction, namely the new Malay middle class.

## **Chapter Six**

### **Ethnicity, Class and Gender: social change challenging the EPF**

The thesis thus far has examined the efficacy of the EPF and its ability to respond to exogenous and endogenous pressures of economic globalisation, institutionalised welfare arrangements and a demographic shift to an ageing population. This chapter builds upon this discussion and examines the development process which has seen Malaysia move from a primarily ethnic based society to one in which ethnicity, class and gender combine to give greater insight into the growing inequality in Malaysian society which calls into question the efficacy of the EPF and its claim to ensure that members have financial security in old age (EPF, 2004). Employing a Weberian model of class, that which is defined by occupation linked to status and power, this chapter aims to analyse the class structure that has developed and is presently current in Malaysia. It is worth reiterating at the outset of this chapter that there are twin pressures brought to bear in Malaysia which can act as instigators or prohibitors of welfare reform. These pressures were examined in part in previous chapters where it was argued that Malaysia's increased exposure to the global economy has impeded the expansion of welfare as costs are kept to a minimum, whilst simultaneously generating economic growth which the state could use to develop social welfare arrangements for the increasing constituency of the industrialised labour force. Acting as an institutional brake to demands for increased state welfare was the notion of ethnic and cultural traditions which placed individual and family provision at the forefront of social welfare, both in terms of cash and care.

This chapter will take the thesis forward by examining the link between class ethnicity and gender and implicit in this treatment will be an examination of the process of rapid urbanisation that has taken place over the last twenty five years, culminating in a far reaching reappraisal of the occupational class structure for many of Malaysia's citizens. To facilitate this it will be necessary to examine the relationship between ethnicity and occupation, as an early indicator of class, and to re-examine this notion within the confines of the current structure of society. In short, to what extent can or does ethnicity determine an individual's place within the occupational structure and thence the class model employed in this text? A parallel question will be in evidence – that being is class *combining* with ethnicity to become the primary focus of inequality in contemporary Malaysia?

Fundamental to the examination of class linked to ethnicity is the central theme of this thesis, namely the scope, efficiency and equitable approach of the EPF based provision of income for the elderly beyond retirement. Is ethnicity a factor in the adequacy of income provision for the elderly, or in this instance does class transcend ethnicity as the major determinant for the quality of life beyond retirement? As noted in Chapter 2, the former Prime Minister Dr Mahathir extolled the virtues of a future focussed Asia, which has sought to maintain firm links with traditional social and cultural values. It was suggested that the use of the rhetoric Asian values was employed to deflect possible criticism away from an old age incomes policy that is failing to deliver on its key objective, to ensure the accumulation of adequate savings to fund a lengthening old age and retirement (EPF, 2004).

It would be impossible to embark upon any analysis of contemporary Malaysia, without first turning one's attention to the complex and all pervasive concepts of ethnicity and ethnic affiliations. Whilst whole swathes of social science literature have focussed solely on this single conundrum, namely what it means to be Malaysian, it is not the intention of here to engage solely in a critical appraisal of others work. Rather, explicitly throughout this chapter and implicitly in others, this thesis would seek to apply an ethno-class based analysis of the performance and functioning of the EPF and its stated aim of financial security in old age (EPF, 1999, 2005).

To engage in such an analysis of contemporary Malaysian society, it could be argued that one is imposing a 'westernised' perspective onto a situation in which the concept of class is at best understood in a piecemeal fashion. A situation in which ethnicity and ethnic affiliation are of far greater relevance to the individual citizens one may have shoe-horned into relevant, though convenient, socio-economic groupings. However, to ignore the relationship between individuals, their place in the socio-economic hierarchy that undoubtedly exists in Malaysia and access to power would be to abandon any notion of critical analysis. A more accurate portrayal can be presented if one were to take both ethnicity and class as part of the same material process (Boulanger, 1992) and of greater relevance here is the *intertwining* of ethnicity and class and the institutional implications of such on the ability of the elderly to access adequate income beyond retirement. Malaysia is a highly developed capitalist nation, which incorporates difference based on both ethnicity and economic power, between and across social groupings. The foundations of the modern Malaysian state, which were effectively put in place through the implementation of

the NEP in the early 1970s, inextricably bound together these two notions. That is, that ethnicity should not be a defining label which limits an individual's access to economic and political power. Thereby ending the closed class system, which saw the Malays as agrarian rural based, the Chinese as entrepreneurial urban based and the Indians as plantation based labour within the immediate post colonial economy.

Contemporary Malaysian society is cross cut by socio-economic and cultural fractions. In part what this chapter will seek to examine is the extent to which institutionalised ethnic identities can be viewed as a response to the economic and political inequalities experienced by Malaysia's main ethnic groups. Brown (1994: 206) presents a useful discussion on the possibility of ethnicity and ethnic affiliation offering 'an ideological channel which is employed for antithetical purposes by various contending class and class-fraction groups'. This can be taken both in the context of the NEP, through the promotion of Malay culture as the basis for a national identity, and more contemporary socio-economic plans such as Vision 2020.

Within the terms of this thesis then, ethnicity should be understood as a concept best explained as an institutionalised shared or perceived identity of a social group (March and Olsen 1998). In the context of contemporary Malaysia, ethnic identity is incontrovertibly bound up with notions of culture. It is the stated aim of the political establishment to achieve the representation of a common Malaysian culture, which draws heavily upon that of the Malay constituency (Kahn, 1992). It is this notion of a collective identity incorporating specific cultural codes, which forms the basis of the concept ethnicity. To each ethnic community, identity and belonging is to be found in language, dress, religious belief and custom. Each is an expression or manifestation

of difference, which in the case of Malaysia affects all aspects of social, political and economic life (Nagata, 1979; Ahmad, 1993; Neher and Marlay, 1995).

Communalism, in the Malaysian context, can best be understood as a representation of Malaysian social and political life along ethnic lines. That is, it is a description of the ethnic division of contemporary social life, which is seen to affect the overlapping areas of Malaysian society. This can, at times, be seen to be to the exclusion of all else, indeed Ahmad (1993: 145) comments that 'Every political issue tends to be transformed into a communal one'. It is this institutionalised notion of ethnic division and discord that can be in part presented as a contributing factor to the portrayal of Malaysian society as riven by ethnicity to the exclusion (or seemingly so) of all else. The contention here then is that class and class analysis, in conjunction with ethnicity, has much to contribute to furthering our understanding of Malaysian society and more specifically to the continued existence of poverty in old age.

To aid clarity and understanding it would serve a purpose to reiterate the point first raised at the beginning of this chapter, namely that Weber's model of class will be employed, thus enabling an accommodation of the distinction between economic, political and status difference current in the socio-economic division of contemporary Malaysia. To enable this form of analysis to be useful, it would pay dividends to take a small amount of time to lay some foundations of Weber's approach to the concept of the relationship between class and collective action which will enable this thesis to operationalise such an approach with respect to contemporary Malaysian society. What this section is interested in is establishing a meaningful way in which to view Malaysian society thus enabling something of substance to be said with relation to the

potential growth of inequality and social exclusion specifically amongst the increasingly elderly section of the population.

Nagata (1979), Brown (1994) Crouch (1996) and Kahn (1997), to varying degrees, take note of the western bias of much class based analysis, but all are equally quick to establish the notion of a clear understanding of social inequality in Malaysian society. These authors differ in their preferred approach, for instance Nagata (1979) bases her system of stratification on the universality of vertical rank based upon wealth, education and piety whilst insisting on an awareness of this understanding as being culture-specific. Kahn (1997) too, argues for a cultural specific understanding of class arguing that in the case of Malaysia one can discern 'a process of accelerated social and cultural differentiation of the population of Malaysia, a process moreover that cannot be explained by or reduced to some underlying process of class formation, but which instead can only be conceptualised within a broader, multidimensional understanding of the project of modernity Malaysia-style' (Kahn, 1997: 86). This thesis is, on the whole, in agreement with Kahn that a multi-dimensional understanding of contemporary Malaysia should be sought. However, clearly such a broad based task is beyond the scope of this thesis. What is within the bounds of achievability, however, is to try to make sense of how Malaysian society is now organised in the way that it is, and which differs markedly from that which preceded it. And to ask the question, how does this translate into the way in which individuals are able to prepare economically for old age or not?

Weber (1968: 302) provides a usefully concise definition of his view of both what a class is and of what he terms class situation. In the case of the latter Weber states that

‘Class situation means the typical probability of (1) procuring goods (2) gaining a position in life and (3) finding inner satisfactions, a probability which derives from the relative control over goods and skills and from their income-producing uses within a given economic order’. In the case of offering a definition of a class Weber (*ibid*) is equally direct, ‘Class means all persons in the same class situation.

- a) A “property class” is primarily determined by property differences,
- b) A “commercial class” by the marketability of goods and services,
- c) A “social class” makes up the totality of those whose class situations within which individual and generational mobility is easy and typical’.

Anthony Giddens argues that in *Economy and Society*<sup>1</sup> Weber (1968) offers an explicit discussion of the concept of class and in doing so provides a ‘dichotomous model...his viewpoint strongly emphasizes a *pluralistic conception of classes*. Thus Weber’s distinction between ‘ownership classes’ (*Besitzklassen*) and ‘acquisition classes’ (*Erwerbsklassen*) is based upon a fusion of two criteria ‘on the one hand...the kind of property that is usable for returns; and on the other hand ...the kind of services that can be offered on the market’ (Giddens, 1992: 79, original emphasis). Giddens is clear that there are distinctions between and within classes which are based, in the case of those who are ‘propertyless’, on the ‘degree of ‘monopolization’ of ‘marketable skills’ which they possess’ (1992: 79).

Weber viewed the market as both a social phenomenon and as a community which required interaction/co-operation, though not necessarily leading to collective action,

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<sup>1</sup> Giddens cites Max Weber *Economy and Society* (1968) vol. 2, pp.926-40 and vol. 1, pp. 302-7 as his source.

rather leading to self-interested co-operation of individuals for their own ends.

Albrow (1990: 263) makes it clear that Weber's interest in the market was 'because it represented the polar opposite to bonding on the basis of love, fraternity or purely personal attraction'. Here could also be added bonding on the basis of shared ethnic/cultural identity which in this instance could be seen to inhabit the same space as Weber's fraternity. In the market social relations were built upon the economic principle, which views each individual as seeking to maximise their advantages through exchange with others.

By arguing that Malaysia has shifted from an ethnic based society to an ethno-class based society, this thesis is not simply stating the obvious. It may perhaps, appear simplistic to take note of the processes of industrialisation which have occurred in Malaysia in the last 30 or so years, but this has fundamentally undermined the notion of ethnicity determining occupation and thus to a greater extent individual and, most importantly, prior *group* socio-economic position. It is the advent and current domination of the global capitalist economic market, as Malaysian society has undergone social and economic change, which chimes with Weber's view of the concept of economic action which Albrow (1990: 265) states 'carried with it always the potential for the disruption of established social relationships'. Furthermore, Albrow (1990: 265) seeks to clarify Weber's description of the market as being the 'antithesis of solidarity, of collective action for a common cause or of altruistic self-sacrifice...importantly, it was also the source of another perspective on social structure...It drew attention to the fact that individuals were placed in situations of control over resources, of chances to take advantage of that control. In capitalist society it was the basis of class position'. Thus this thesis argues that the ongoing

shift from a purely ethnically based model of stratification, to one in which ethnicity becomes a characteristic of a wider relationship to power and status within the class based capitalist economic system, as is the case in contemporary Malaysia, can be best employed to describe the unequal and disadvantageous position which individuals are increasingly finding themselves in, in old age. As Giddens (1992: 79) clearly states 'Class is thus an 'objective' characteristic influencing the life-chances of men'.

It would be useful, however, to present at least a rough outline of the constituent members of the socio-economic classes as employed in this thesis. The analysis of the class structure employed in this thesis uses occupational categories as signifiers of class. Drawing upon the work of Higgott and Robinson (1985), Jomo (1990) and Crouch (1996) it is intended that the constituent members of each class, or class fraction, will be defined following the model used by the Ministry of Labour, that is employing seven main occupational classifications. Taking both (i) professional and technical and (ii) administrative and managerial as fractions combining to form the upper middle class, then (iii) clerical and (iv) sales are representative of the lower middle class. Although Crouch (1996) chooses to omit the group represented as (v) service, due to the wide-ranging nature of this category, it will be included here, whilst acknowledging its problematic nature due to the variance in its composition (Jomo, 1990). The working class will be subdivided into those who could be said to broadly represent the rural and urban working class, that is (vi) agricultural and (vii) production. See Table 6.1 below.

**Table 6.1 Occupational/class structure 1957, 1970 and 1990 (%)**

	1957	1970	1990
Middle Class	15.5	20.0	32.6
Working Class	18.9	27.3	27.6
Agriculture	56.4	44.9	28.3

Source: Jomo K. S. (1990: 82); Crouch (1996: 181)

Occupying the top of the hierarchy are those who have greatest access to power, both political and economic. It should be stressed, however, that the three main ethnic groups are to be found in all classes and class fractions, the differential populations are represented below in Table 6.4 (p 215). Therefore, though it may be regarded as simplistic or crude, this chapter will present the relationship between class and ethnicity employing the image of vertical pillars (ethnicity) cross cut by horizontal bars (class) representing the different socio-economic strata relating to occupation, income and status (Brown, 1994).

*Class and ethnicity: a developing relationship.*

To set this discussion in context it is necessary to briefly revisit some well-worn routes, which trace the development of the contemporary Malaysian socio-economic categories as deriving from the influence of the colonial administration. As noted in Chapter 2, it was the expansion of British rule into Peninsular Malaysia for economic reasons which brought about the first census based distinctions between the three main ethnic groups into their quite distinctive areas of employment. Malays remained for the most part wedded to the land as farmers and main providers of labour in rice production. Their ownership of land made the prospect of paid employment in the dangerous developing tin industry all the less likely and it was the demand from the international market in the 1850s which led to a large influx of Chinese labour and capital under the British colonial administration. At this juncture, it should be noted

that there already existed a sizeable and economically vibrant Chinese population mainly centred on the Straits Settlements. Similarly, as the growing plantation industry took hold in the Federated Malay States and as plantation owners diversified from coffee to rubber so the need for labour increased. The colonial administration controlled immigration and was well placed to meet the labour shortage, encouraging the immigration of Tamil labourers from India. Not until the Great Depression were immigration controls put in place, although by this point in time the demographic structure of the society had altered beyond recognition (see Table 6.2).

**Table 6.2: Population by ethnic group in Peninsular Malaysia (millions)**

<i>Date</i>	<i>Malays</i>	<i>Chinese</i>	<i>Indian</i>	<i>Total</i>
1911	1.22	0.69	0.24	2.34
1921	1.38	0.85	0.44	2.91
1931	1.57	1.29	0.58	3.79
1947	2.16	1.89	0.54	4.92
1957	2.8	2.33	0.68	6.28

Source: Adapted from Snodgrass (1980: 24) in Jesudason (1989: 29).

In percentage terms, Jesudason (1989) notes that in 1921 there existed a balance between the indigenous Malay population (48 per cent) and the immigrant Chinese (29.4 per cent) and Indian (15.1 per cent) populations (Jesudason, 1989: 29).

However, a decade later the Malays (44.7 per cent) were reduced to a numerical minority in relation to the Chinese (39 per cent) and Indian (14.2 per cent) aggregate population (Nagata, 1979: 11). Although as Jesudason (1989) and others (Nagata, 1979; Keyes et al, 1994) note little intermarriage occurred between the three main ethnic groups, with religion, language and strict community ties acting as powerful

barriers. So here we have the notion of class by ethnic labour, clearly delineated and with little sense of exchange or crossover between distinct cultures. Rather the point can be made that the open door immigration policy, which saw labour directed and controlled, firmly established cultural diversity and identity, based on ethnic affiliation.

As noted in Table 6.1 above, the extent to which, at the time of independence, Malay concentration in agriculture not only represented a mainly rural based population, but also indicated the poor socio-economic position in relation to the commercial urban-based Chinese population. By 1970 little had changed. The state had failed to address foreign domination of the economy and had, by and large, adhered to the informal agreement between the MCA and UMNO which left the Chinese position in the economy undisturbed and the Malay domination of the political sphere unchallenged (Crouch, 1996).

It is against this economic background that the twin pronged NEP (1970-1990) was announced in the Second Malaysia Plan (2MP) 1971-1975 and elaborated upon in the Outline Perspective Plan (1971-1990). Dressed up as an attack on poverty experienced by all sections of Malaysian society (Prong 1), it was in actual fact a programme of positive discrimination in favour of the Malay population through the reduction of ethnic economic imbalances (Prong 2). As was noted in Chapter 2, although this programme was aimed at the advancement of Malays, in terms of economic power, it would be wrong to suggest that the main target was the Chinese commercial sector. In effect the NEP targeted foreign owned companies, abandoning the previously laissez-faire approach and employing re-distributive measures through

the establishment of state corporations and trust agencies to ensure that the profile of Malays in the commercial sector was raised. The NEP set a target of 30 per cent of share capital to be Malay owned by 1990. As Table 6.3 below indicates, the task was indeed sizeable, given the size of the overwhelmingly Malay agricultural sector (56.4 per cent) at the time of independence and this despite prior limited efforts to encourage Malay entry into modern economic activities (Crouch, 1996).

Although the claim of the NEP was to eradicate poverty, specific objectives were not set until the publication of the Third Malaysia Plan (3MP) 1976-1980. Up to 1970 there is evidence of class by ethnic labour and reflected in this to a greater extent access to economic power. What is striking is the differential of political power that existed between the three main ethnic groups. As explained in Chapter 2, the Bargain institutionalised the Malaysian political economy and confirmed the pole position of the Malays as the holders of political power, following on from the position the Malay ruling elite occupied under the colonial administration. The crisis point for the Malay establishment came with the threat to this political power as a result of the elections in May 1969. The threat of political power following that of economic power, that is drifting to the Chinese or non-Malay community, resulted in state interference in the economy in order to achieve a greater share of the economic power, as well as meeting pressures from the emerging of Malay middle class. The NEP can therefore be seen as state restructuring of the socio-economic structures in order to benefit Malays, but not to the detriment of the Chinese and Indian communities. This fell under the second prong of the NEP which aimed to narrow the differences between Malay and non-Malay incomes by reducing disparities in the ownership and control in modern sectors of the economy and reducing reliance on employment based in the

agricultural, or traditional economic sector. In short, the state sought to urbanise a defined section of society through a process of fast track industrialisation, greater access to employment opportunities and higher educational achievement. The net result of this would be the breaking of the relationship between ethnic identity and occupation, thereby abandoning the notion of class by ethnic labour. Ethnic affiliation was to be replaced by a Malaysian national identity accessible and attractive to all sections of society. In effect, the promotion of Malay culture as the basis for the new national identity, specifically in the spheres of language and education, coupled with the Islamic revival of the 1970s, ensured the continuation and reinvigoration of communalism. What is clear is that the implementation of the NEP by the Malay UMNO dominated Barisan Nasional transformed Malaysia's class structure. This saw a decline in traditional agricultural occupations and a rapid growth of the Malay presence in urban-based working and middle class occupations. As Crouch (1996) notes, industrialisation and rapid economic growth would still have occurred, resulting in the expansion of both middle and working classes. However, the makeup of these enlarged classes would have remained, in the majority, non-Malay. The primary benefactors of the NEP therefore were deemed to be the Malay community, in terms of both objectives of the policy. The anti-poverty drive also disproportionately benefited the Malay community as poverty was, and is to a greater extent, defined as rural based, a point which will be addressed below.

The rapid urbanisation of mainly young Malays saw an equally rapid decline in agricultural based labour which is clearly demonstrated in Table 6.3 below. At the time of independence the agricultural sector represented 56.4 per cent of the total workforce. By 1990, the end of the NEP, this had declined to 28.3 per cent, although

the composition of this much-reduced sector is still predominantly Malay, 76.4 per cent (Crouch, 1996: 183-4). As was noted elsewhere, internal migration from rural to urban settings is likely to increase levels of rural based elder poverty, and indeed may increase levels of elderly Malays facing poverty and exclusion due to the higher proportion of Malays living in rural areas

**Table 6.3 Occupational structure, 1957, 1970 and 1990 (%)**

	1957	1970	1990
Middle Class	15.5	20.0	32.6
Upper middle class	(4.0)	(5.9)	(11.3)
Lower middle class	(11.5)	(14.1)	(21.3)
Working Class	18.9	27.3	27.6
Agriculture	56.4	44.9	28.3

Source: Crouch, 1996:183, Table 2 – Note 1990 figures include Sabah and Sarawak.

However, careful attention must be paid with regards to these statistics. On closer examination tables 6.3 and 6.4 clearly demonstrate that although the agricultural sector declined sharply, the destination of the majority was not, as may have been expected, the production sector or urban working class. Rather the main destination was the rapidly expanding white-collar employment sectors constituting the urban middle-classes where Malays now constituted 48.1 per cent as opposed to 33.6 per cent in 1970. Malay employment in the service sector similarly displayed an appreciable increase, nearly doubling from 6.8 per cent to 12.4 per cent over the same period.

Two important points should be noted. With regards to the figures for the agricultural sector of the working class, the data for 1990 refers to all of Malaysia including Sabah and Sarawak (East Malaysia) where agricultural employment is higher. Similarly the production sector of the working class is smaller, as are the middle class sectors,

thereby displaying a tendency to understate the major trends in the occupational structure. Secondly, the occupational destinations for the majority of Malays within the middle class is skewed in favour of those which fall under the general heading of government employees, teachers, nurses being especially prominent occupations (Jomo, 1990). This is confirmed by the figures which show an under representation in other middle class sectors and reflects the recruitment policies enshrined in Article 153 of the constitution, and reaffirmed under auspices of the NEP (Nagata, 1979; Higgott and Robinson, 1985; Milne and Mauzy, 1986).

**Table 6.4: Class composition of ethnic communities, 1970 and 1990 (%)**

	Bumiputera		Chinese		Indian	
	1970	1990	1970	1990	1970	1990
Middle class	12.9	27.0	28.6	43.2	23.4	27.3
Working class	18.0	23.2	41.6	33.8	24.7	34.8
Agriculture	62.3	37.4	21.2	13.5	41.0	23.4
Services	6.8	12.4	8.6	9.5	10.9	14.5

Source: Crouch, 1996: 185, Table 4

As the data in Table 6.4 confirms, the NEP has, over its twenty-year life span, wrought substantial and far-reaching changes upon the socio-economic and communal structure of the labour force.

Middle class occupations, as a percentage of the Chinese labour force, rose rapidly during the tenure of the NEP. Over the twenty-year period the number of Chinese in middle class occupations rose by 14.6 per cent to 43.2 per cent in 1990. Conversely the percentage of Chinese employed in both the rural and urban sectors of the working class declined from an aggregate figure of 62.8 per cent to 47.3 per cent by the year 1990. The service sector saw only a minimal rise of 0.9 per cent.

The Indian community saw a far less meteoric rise in those employed in middle class occupations. As the figures in Table 6.4 show, numbers rose from 23.4 per cent in 1970 to 27.3 per cent by 1990. The same period saw a sharp decline in the numbers employed in the rural working class, down from 41 per cent to 23.4 per cent. Whilst those in the urban working class rose by just over 10 per cent, and those employed in the service sector rose by just over 3.5 per cent; 24.7 per cent to 34.8 per cent and 10.9 per cent to 14.5 per cent respectively.

No longer can the stereotypes of the Malay peasant, the entrepreneurial Chinese, or the Indian plantation worker be employed to describe the communal nature of the Malaysian labour force. That is not to say that communalism any longer affects allegiance within the new occupational structure. Rather, the communal division of the modern socio-economic structure remains a viable and divisory concept, one which has played and continues to play an important role in the continuation of Malay cultural and political hegemony.

Reasons for the explosion in the percentage of the labour force employed in middle class occupations can be attributed in part to state intervention and also partly to the rapid expansion in both secondary and tertiary education (Crouch, 1996), a situation which again predominantly favoured the Malay community. This not only drew rural populations to urban centres, but also provided the necessary recruits to the middle class professions. Drawing upon data from the Fourth Malaysia Plan (4MP) and the Second Outline Perspective Plan (OPP2, 1991-2000), Crouch (1996: 188) demonstrates how the increased Malay participation in tertiary education, (1970 to 1990), was reflected in increasing Malay presence among doctors (4 to 28 per cent),

dentists (4 to 24 per cent), architects (4 to 24 per cent), engineers (7 to 35 per cent) and accountants (7 to 11 per cent).

### *The eradication of poverty?*

The eradication of poverty irrespective of race was one of the two main objectives of the NEP. It is the intention here to examine the ways in which definitions of poverty have been employed by the state. Acknowledge any discrepancies that may cast doubt over the official data available. Note the disparity between rural and urban incidences of poverty and analyse the success, or otherwise, of the NEP in its avowed aim. This will go some way to highlighting the need to address present arrangements for the provision of income into old age, which are reliant on the individual maintaining long periods of employment, but which do not take account of low wages.

The first point on which our attention should be focussed, is that concerning the definitions of poverty employed by the Malaysian government in its estimation of the scale of the task it set itself and the success of its strategies. The combating of poverty requires in the first instance for a poverty line, or some agreed upon defined criteria, to be established. The target of anti poverty strategies being, understandably, to raise the income of those families and individuals who are judged to be below this line and therefore in poverty. If one were to take at face value the figures relating to the reduction of poverty over the time-span of the NEP, then progress can be said to have been impressive at the very least. However, as Anand (1983), Jomo (1990) and Crouch (1996) indicate, the trick is in the interpretation. In the first instance the government initially declined to set a poverty line, or indicate an acceptable level of

income towards which those individuals said to be in poverty would be moved. Secondly the methods that were employed to calculate levels of poverty have altered over time and between government agencies. This raises two particular issues concerning the veracity of the official data ‘the possibility of poverty eradication by statistical manipulation or even by redefinition of the poverty line’ (Jomo, 1990: 145), that is, is the official data measuring incidence of the same phenomena over the given time period. This issue of validity is worthy of note, but lacking alternative sources of data this chapter shall warily employ the data sets produced by the BN led government.

**Table 6.5: Peninsular Malaysia: Incidence of Poverty, 1970 – 1999 (%)**

1970	1975	1983	1984	1990	1995	1997	1999
49.3	43.9	30.3	18.4	15.0	8.7	6.1	7.5

Source: Adapted from Jomo, 1990: 147-8; Crouch, 1996: 189-90; Hashim, 1998: 49; 8MP, 2001:57, Table 3.1 – figures for 1995-99 include Sabah and Sarawak

Table 6.5 indicates that the overall level of poverty for Peninsular Malaysia, which in 1970 stood at 49.3 per cent, had decreased substantially to stand at 17.3 per cent in 1987. By the end of the NEP in 1990 the levels of poverty recorded had dropped below the target figure of 16.7 per cent to stand at 15.0 per cent. In absolute terms, in 1970 792,000 households fell below the poverty line (Jomo, 1990; Crouch, 1996). However, as stated above, one should be wary of taking at face value the official data sets. Jomo (1990: 149) highlights some of the more noticeable discrepancies that occur between data published periodically by the government. For instance he cites the widely held belief that two poverty lines, set at 1970 figures, existed and were employed by two different governmental departments. The lower being a monthly figure of RM25 per capita, which he estimates as representing an average family monthly income of RM140. The higher figure, set at RM33 gave an average family

monthly income of RM185, 32 per cent higher. This he claims can in part explain the tremendous reduction in poverty, as detailed in the 5MP (1986), that occurred between 1983 and 1984. This data saw a staggering reduction in the number of poor households in Peninsular Malaysia of 32.7 per cent, from 717,600 to 483,000 in absolute terms.

With the publishing of the Fifth Malaysia Plan (5MP, 1986) a new and more expanded concept of income was created. The new wider scope of income, which included such public services as health, education, transport as well as owner occupied housing, places doubt over the validity of the scale of poverty reduction failing as it does to compare like with like (Jomo, 1990). In a similar vein the Mid Term Review of the Fifth Malaysia Plan (1989) (MTR5MP) included the first publication of a Poverty Line Income (PLI). This was defined 'on a basis of a minimum expenditure level to secure a certain standard of living and updated annually using the Consumer Price Index to reflect changes in price levels'. The PLI 'is about \$350 per month for a household of 5.14 persons in Peninsular Malaysia' (MTR5MP, 1989: 45 cited in Jomo, 1990: 151 – for a fuller discussion see also Hashim, 1998: 149-153). Jomo (1990) raises two further points of interest, the first being the absence of separate PLIs for urban and rural areas which could be taken as an indication of an underestimation of urban poverty. This point is taken up by Hashim (1998) who notes that most other Asian states, including Malaysia's near neighbours, set different urban/rural PLIs with the urban being the higher of the two. Hashim (1998: 162) argues that not only do prices vary by location, but that the employment of a single PLI across urban and rural areas assumes that patterns of

consumption for both household types are similar, without taking any account of household size.

The second point of interest highlights the fact that the government employs an absolute, rather than a relative, definition of poverty, claiming to monitor the incidence of poverty in relation to a poverty line. Hashim (1998) notes that in contradiction to this, the government claims to define poverty relative to the standard of living prevalent in Malaysia. However, Hashim (1998: 161) argues that 'a poverty line which is updated only for inflation over a long period of time ceases to reflect relative deprivation. It would only do so if the Malaysian standard of living had remained constant over the past two decades. Given that real economic growth rates averaging 7.8 percent per annum were achieved during the 1970s and 6.8 percent per annum during the 1980s, general living standards in Malaysia have greatly improved.' This, Jomo (1990) argues, can result in the growth of income inequality whilst the poverty rate declines. As income inequality grows, those earning relatively less will find it increasingly difficult to generate sufficient savings through the EPF to fund life in old age.

As Table 6.6 clearly demonstrates the period of rapid economic growth during the 1970s and 1980s resulted in the reduction of families existing below the poverty line. Of the 792,000 households deemed to be in poverty in 1970, 706,000 or 89 per cent were to be found in largely Malay rural areas. This again returns to the primary objective of the NEP, which though stating the eradication of poverty regardless of race, was in effect of greater benefit to the rural Malay population. However, the success of the NEP in its declared aim must be placed in context. There still remain significant numbers in poverty both in rural and (in percentage terms) urban locations.

In fact the decline of poverty in urban areas has been sluggish, falling by only 10 per cent from a level of 85,900 in 1970, to 77,500 in 1990. Rural poverty, which we have noted is mainly Malay, has on the other hand declined by approximately 52 per cent from 706,000 in 1970 to 371,400 in 1990 (Crouch, 1996: 190). Why the disparity in rates of decline? In the first instance Crouch (1996) argues that the single most important means of escaping rural poverty has been migration to urban areas. In times of strong economic growth this can lead to reduced rates of unemployment and greater prosperity. This was addressed by the Barisan Nasional (BN) through sanctioned illegal labour, mainly Indonesian migrants, taking jobs in the plantation and construction industries, thereby depressing wage increases for unskilled labour. However, in periods of economic decline, as experienced by Malaysia in the mid-1980s and again during the regional slump in 1997-98, urban unemployment rises and downward pressure on wages particularly in the lower skilled sectors is increased. Rural wages remain depressed during both economic cycles, thereby maintaining a greater degree of resistance to the downward trend in official poverty figures.

**Table 6.6 Peninsular Malaysia: Number of Poor Households, 1980 – 1999.**

Year	Total (000s)	Agriculture (000s)	Non-Agriculture (000s)	Rural (000s)	Urban (000s)
1970	791.8	582.4	209.4	705.9	85.9
1975	835.1	576.5	258.6	729.9	105.2
1980	666.1	443.7	222.4	568.5	97.6
1983	717.6	497.6	220.0	619.7	97.9
1984	483.3	na	na	402.0	81.3
1985	601.9	379.4	222.5	501.5	100.4
1987	485.8	na	na	403.2	82.6
1990	448.9	na	na	371.4	77.5
1995	418.3	na	na	319.0	99.3
1997	332.4	na	na	267.5	64.9
1999	409.3	na	na	306.6	102.7

Source: Hashim, S. 1998, p. 49 Citing Malaysia (1981: 34-35, 1983: 80, 1989: 52, 1993: 58); 8MP (2001: 57, Table 3.1 – figures for 1995-99 incorporate Sabah and Sarawak)

The decline in poverty rates for the three main ethnic groups have reflected the general trend over the given time period (Table 6.7), with the greatest decline noted in the rural, and predominantly Malay areas, although this still accounts for more than 80 per cent of all poor households (Hashim, 1998). By 1990 poverty rates amongst Malays had fallen to 20.8 per cent, with the Chinese and Indian rates standing at 5.7 per cent and 8.0 per cent respectively. Crouch (1996) acknowledges the questionable veracity of the official data on poverty reduction. However, he argues that other social indicators such as lower infant mortality rates, greater life expectancy, higher primary school enrolment rates, greater access to healthcare and the development of supply routes for the basic utility services lends credence to the significance of the overall downward trend.

**Table 6.7: Incidence of poverty by ethnic group (1970 – 1990).**

	1970 (%)	1976 (%)	1984 (%)	1990 (%)
Malay	65.0	46.4	25.8	20.8
Chinese	26.0	17.4	7.8	5.7
Indian	39.0	27.3	10.1	8.0

Source: Adapted from Crouch, 1996: 189-90 and Hashim, 1998: 53. Table 2.8

In concluding this section of the chapter, it would serve a purpose to recall the central theme, which is that although ethnicity is a substantial and forceful concept of (dis)unity in contemporary Malaysia, it is class which determines an individual's ability to access adequate income during retirement. It has been demonstrated that ethnicity permeates all classes and class fractions, but that socio-economic status no longer relies to the extent it once did on an individual's ethnicity. That is to say, class by ethnic labour can, to a greater extent, be consigned to an historical perspective. This is not to dismiss the role or relevance that ethnicity and cultural identity plays in

everyday life in contemporary Malaysia. Indeed, such factors have been identified as *one* of the endogenous institutional pressures working across or against the need and desire for social policy reform.

It is clear from the figures displayed above that the NEP may well have achieved its aim of a reduction of poverty to 16.8 per cent. Indeed official figures indicate that this level was undercut by the end date 1990. What the official data sets also highlight are discrepancies in the methods of measurement. This in turn leads to an underestimation of urban poverty due to the employment of a single PLI. The data also reveals the extent of restructuring of the socio-economic framework, which has seen a rapidly expanding middle class become the immediate destination for up an urban migratory Malay workforce, by-passing the traditional route of the urban working class occupations.

It is of interest to note, however, that disproportionate though it may have been in favour of the Malay community, the restructuring of the socio-economic framework included and benefited both the Chinese and Indian communities. This clearly indicates the rise in prominence of class as the primary indicator of the ability of the elderly to accumulate adequate funds to provide income into retirement under the Employees Provident Fund which, as a contributions based retirement plan, is reliant on long periods of employment. Furthermore, this does not take adequate account of low wages, which, as highlighted, have remained depressed for those in semiskilled and unskilled employment. Poverty may well have been reduced in accordance with the official data, but as Jomo (1990) and Hashim (1998) note, this does not acknowledge the importance of growing income inequalities. However, the point is

that class, and its attendant inequalities have come to form an increasingly significant part of the common consciousness of all Malaysians (Goh, 2002).

### Adding gender to the mix

What this section aims for is not a detailed analysis of the role of gender in Malaysia, rather a more general approach has been adopted, which seeks only to highlight ways in which gender and gender inequality give rise to increased risk of poverty in old age for current and future cohorts of Malaysian women, calling into question the ability of the EPF to meet its core objective (EPF, 1999; 2005).

**Table 6.8: Labour Force Participation Rates by Gender and Age – Peninsular Malaysia 1957-1990**

Age Group	Participation Rates (%)											
	1957		1970		1975		1980		1985		1990	
	M	F	M	F	M	F	M	F	M	F	M	F
15-19	60.0	27.9	52.3	33.0	54.3	39.4	47.9	33.5	43.7	28.2	44.1	31.4
20-24	92.7	31.2	87.1	41.9	94.0	56.4	91.1	54.0	90.7	58.3	89.1	63.9
25-29	-	-	93.5	38.4	98.1	46.3	92.4	44.6	98.1	49.2	97.4	53.9
30-34	-	-	94.4	39.0	98.9	47.5	98.0	40.5	98.8	47.3	98.5	50.2
35-39	-	-	94.0	40.0	98.8	52.4	98.2	42.7	98.9	48.5	98.8	47.8
40-44	-	-	93.2	40.0	98.7	52.1	97.7	43.8	98.4	50.4	98.5	48.8
45-49	-	-	91.5	40.7	97.2	53.2	96.6	41.4	97.9	48.7	97.2	48.5
50-54	-	-	86.7	36.6	93.2	49.4	92.7	36.5	93.5	40.0	93.3	40.9
55-59	-	-	75.6	29.2	83.3	37.5	77.4	30.8	76.6	32.6	71.3	29.4
60-64	87.6	22.3	65.2	23.7	72.0	28.5	68.6	25.0	67.1	23.9	59.9	24.0
15-64	90.0	30.8	83.4	36.3	86.0	37.3	86.6	39.3	84.6	44.6	84.4	46.8

M = Male F = Female

Source: Department of Statistics, 1960 and Siti Rohani Yahya, (1993), "Patterns and Trends of Labor Force Participation of Women", Paper submitted to Women and Development Project (HAWA).

Source: Adapted from Ahmad, A. 1998: 20, Table 5

As Table 6.8 suggests, there is evidence to substantiate the claim that there has been a change in the labour force participation rates of women, as well as the role occupied within and outside of the paid labour market. Furthermore, as Table 6.9

demonstrates, there has been a significant decline in both self employed women and those categorised as unpaid family workers, from a high in 1957 of 24.6 per cent and 19.1 per cent to 11.9 per cent and 11.5 per cent respectively. Indeed in the report *The Progress of Women Since Independence* (KPWK: 2003), from which this data was sourced, states that ‘a decrease in the number of unpaid family-helper workers and own account workers indicates an improvement in women’s status’ (KPWK, 2003: 55). This is somewhat of an over statement given that there is common place evidence to suggest that women now carry out the ‘double-shift’ of paid work as employee and unpaid domestic labour. Indeed a little later in the same chapter, the report offers analysis of the distribution of employed women by age groups and employing data from the Department of Statistics (2000) declares that the percentage of dual-income families has increased with the percentage increase of married working women rising from 55.3 per cent in 1990 to 58.4 per cent in 2000.

**Table 6.9: Distribution of Employed Persons by Employment Status and Gender, 1957-2000**

Employment Status	Male					Female				
	%					%				
	1957	1970	1980	1991	2000	1957	1970	1980	1991	2000
Employer	-	4.2	4.0	3.6	3.9	-	2.3	3.0	2.0	0.8
Employee	56.8	49.3	59.6	64.1	73.8	56.3	36.9	53.5	70.8	75.8
Own Account Worker	38.4	31.9	28.3	28.3	19.6	24.6	18.0	23.8	16.7	11.9
Unpaid Family Worker	4.8	14.6	8.1	4.0	2.7	19.1	42.8	19.7	10.5	11.5
Total	100	100	100	100	100	100	100	100	100	100

Note: Data for 1957 are for Peninsular Malaysia only and excludes ‘employer’ category

Source: Ministry of Women, Family and Community Development (KPWK), 2003:55, Table 3.2

There is data in the OPP3 (2001: 151) which looks at the expected increases in female labour force participation rates from 1990 to 2010. Such data expects there to be only a modest 4.5 per cent increase in the numbers of women engaged in the formal sector

over the 20 year period which equates to less than one in two women employed in the formal labour market by the year 2010.

That there has been an increase in female participation in the paid labour market is not unusual, given the economic growth and investment in manufacturing, particularly in the electronics industry where women comprised 75 per cent of the labour force.

What is perhaps worth highlighting here is the relatively low paid and insecure employment destinations of many women workers. To prelude this, it should be stated that in the year 2000, women were predominantly located in two sectors of the labour market, these being manufacturing at 27.1 per cent and services at 27.4 per cent (KPWK, 2003: 58). These figures; however, differ from those presented in the 8<sup>th</sup> Malaysian Plan (8MP, 2001). As shown in Table 6.10 below, those women employed in the corresponding category of Production and Related Workers was lower at 22.6 per cent, whilst those women employed as Service Workers was reported as 12.1 per cent. Such discrepancies can be easily explained by noting the different categories used, so for instance a similar though higher figure for female service sector employment can be produced if the categories Sales and Related Workers and Service Workers are collapsed together, producing a figure of 29.5 per cent. Similarly if Agricultural Workers and Production and related Workers are collapsed together then a figure of 27.4 per cent is produced, which is again slightly higher than those produced by the Ministry of Women and Family Development (KPWK, 2003). Whilst such discrepancies may have intrinsic interest, it does not alter the fact that women are, in general, over represented in lower paid and insecure employment. Evidence to support the effects of such insecure and low paid employment can be found in a United Nations pamphlet entitled *Social Policies in*

*Malaysia* (2003). The pamphlet cites the 8MP (2001), and notes that ‘In 1999, the incidence of poverty in female headed households was approximately 16 per cent, more than double the national incidence of 7.5 per cent’ (UN, 2003: 44).

**Table 6.10: Employment Distribution by Occupation and Gender  
1995 and 2000 (%)**

Occupation Category	1995		2000	
	Male	Female	Male	Female
Professional, Technical & Related Workers	8.4	12.7	8.9	13.5
Administrative & Managerial Workers	3.9	1.8	4.7	2.2
Clerical and Related Workers	7.5	17.5	7.1	17.5
Sales and Related Workers	10.5	11.6	11.1	12.1
Service Workers	9.4	14.4	9.5	17.4
Agricultural Workers	21.9	16.6	20.4	14.8
Production and Related Workers	38.3	25.4	38.4	22.6
Total	100.0	100.0	100.0	100.0

Source: Adapted from 8MP, 2001: 560 – Table 20.3

A contributing factor the increased female participation in the formal labour market has been the increased female access to education at all levels. Figures released in the 8MP demonstrate that equal access to education combined with increased investment in educational facilities has resulted in educational enrolment reflecting the gender split across the whole population. In short, this is evidenced by figures which show that ‘At the primary and secondary levels, enrolment of female students was about half of the total enrolment, while at the upper secondary level, female students accounted for about 66 per cent of total enrolment in 2000. Intake of female students into public universities expanded significantly from 50 per cent in 1995 to 55 per cent in 2000’ (8MP, 2001: 560-1). However, there are noticeable differences between the course choices of males and females, with females dominating enrolment onto Arts and Humanities courses at a rate of 65 per cent of all enrolment. This may give some indication of the occupational destinations for such students. Furthermore, the

extension of educational opportunities for women has, in part at least, contributed to the declining fertility rate as more women opt for a career and so choose to marry later and have children at a later age. This may have short term economic benefits for both the economy and the individual; however, it does infer that women are leaving the labour market at a stage at which they could properly expect to gain career advancement leading to higher wages. This results in opportunities for younger employment entrants, but also spells disaster for individuals seeking to save monies through the EPF to see them through old age. It is precisely this dual effect of exiting the labour market, though not always permanently, combined with the increase in domestic labour and increases in life expectancy for women particularly which was noted in Chapter 3.

### *Conclusion*

Throughout this chapter, there has been an emphasis on the changing structure and basis of Malaysian society, changes which have been brought about as a result of direct government intervention in both the economic and social spheres, and which impact upon the efficacy of the EPF to enable individuals to accrue sufficient savings to fund life beyond retirement. It is fair to say that ethnicity no longer relates as directly to socio-economic status as it once did. However, one should not go too far and dismiss communalism as an historical concept. The contemporary world appears to have re-discovered a form of communalism, and ethnic identity and tradition remains an important aspect of Malaysian social and cultural life. Where the current situation differs from previous eras, is that there is no longer as strong a relationship between ethnicity and occupational status. As shown above, Malays may not now be literally sons and daughters of the soil, but there persists a degree of advantage

dependent on ethnic group. Many more Malays have progressed up the socio-economic hierarchy as a result of preferential treatment under the NEP which saw large scale recruitment, and positive discrimination in favour of Malays into the public services. It is the continuing *intertwining* of class and ethnicity which this chapter has sought to highlight and which carries with it implications regarding individuals' ability to save enough money to stave off poverty in old age.

If one adds gender to the mix, then the picture becomes more complex. Again ethnicity is a contributory factor, if only with regards to the increased levels of rural to urban migration which took many young women to the Export Processing Zones and employment in manufacturing industries. The increase in labour force participation rates for women since independence, whilst not matching those of men, nevertheless should indicate that more women are able to accrue enough contributions to their EPF accounts for their retirement income. However, as intimated above, women are still expected to provide unpaid domestic labour, and are likely to take career breaks as a result of child birth and child rearing at the time at which promotion and wage increase would be most beneficial to the levels of savings. Women predominantly work in the low paid, more insecure sectors of manufacturing and services. The exception to this is the point at which the combination of ethnicity and socio-economic status comes into play. State policies have institutionally embedded the relationship between ethnicity and employment. Due to the NEP more Malays, both male and female, have found employment in the public sector which in itself is perhaps unremarkable. However, in terms of social provision, including pensions, the public sector provision is both extensive and generous (Asher, 2000; Gough, 2004), thereby disproportionately benefiting a certain class faction of the Malay community.

In this instance the institutionalised social welfare arrangements which emphasise individual provision better serves those in more stable and better paid public sector employment. This has clear benefits for an increasing Malay middle class who have benefited from the positive discrimination legislation originating in the NEP.

As is demonstrated in both Chapters 3 and 6, those in the private sector, regardless of ethnicity, are reliant on an individual savings scheme which is neither universal nor suitable to the current and future economic realities of the twenty first century.

However, the socio-economic changes which have taken place over the last 30 or so years call into question whether the EPF remains 'fit for purpose'. It is the increasing growth in income inequality, benefiting the few and disadvantaging the many, which cuts across the vertical pillars of ethnicity (Brown, 1994) bringing to the fore the growth of class as the locus of disadvantage. To put it simply, those who earn less and are in less secure employment are least well placed to save enough money for retirement when, as Chapter 3 states, the EPF requires long term contributions. Even those able to satisfy lengthy contributions are likely to find that their savings will be insufficient as the average life expectancy increases. It is those in the lower socio-economic classes in general, and women in particular, who are at greatest risk of poverty in old age and for whom the EPF will fail to provide the financial security in old age which the organisation states to be its primary responsibility (EPF, 2004).

Thus far the thesis has argued that a combination of exogenous and endogenous pressures have combined to call into question the continued 'fit for purpose' nature of the EPF. These pressures have produced four key challenges namely institutional stasis, engagement with the global economy, population ageing and the intertwining

of class and ethnicity. In the next chapter Singapore is employed as a comparator case to highlight possible pitfalls for Malaysia should the EPF continue to be the only vehicle for the provision of income in old age for the majority of the Malaysian population.

## Chapter Seven

### **Risks and pitfalls for the EPF: Singapore as comparator**

This thesis has argued that, due to exogenous and endogenous pressures, the Malaysian EPF can no longer be considered 'fit for purpose' in response to the social and economic changes which have taken place over the last 30 years. In Chapter 3 it was argued that the Malaysian EPF was attempting to spread itself too thinly over too many areas of need, and in the process was moving away from its central aim. The main focus of this chapter is to highlight the political/ideological institutionalised arrangements common to Malaysia and Singapore both in terms of the socio-cultural institutions which promote individual provision, and the embedded institutional mechanisms of the EPF and Central Provident Fund (CPF), whose respective aims are to provide incomes for old age. In many respects, despite being 'younger', the Singaporean CPF has provided examples to Malaysia both of what can be achieved by employing the provident fund model as the keystone of an approach to social welfare, but also importantly the pitfalls of such expansion.

It would be useful at this point to remember that not only do both states have key similarities, but that Singapore, whether by design or default, has implemented reforms to the CPF which have been mirrored by later reforms to the EPF. Indeed, as Ramesh (2003: 3) notes 'Policy makers in Malaysia and Singapore have recognised provident fund's potentials for promoting both economic and social development long before World Bank began to promote the idea in the mid-1990s. The two governments have indeed gone further and employed it for financing health care and housing and,

to a lesser extent, tertiary education'. Further key similarities can be easily summed up as a shared colonial past, a brief post independence union and similar ethnic mix – albeit with the important difference that Malays are the main ethnic group in Malaysia whereas the Chinese are the main ethnic group in Singapore. That they are geographical neighbours is obvious, but ties such as Singapore's dependence on Malaysia for fresh water supply requires both states to rub along together despite the regularly fractious nature of their relations. Both states have followed similar development paths, early reliance on manufactures based FDI before moving into 'value added' production, albeit with Singapore in advance of Malaysia. Both are under the authoritarian rule of a dominant political party and both retain so called 'emergency' powers such as detention without trial as a weapon against those who do not tow the party line.

The CPF and the EPF are both fully funded defined contribution schemes which are based upon contributions from employers and employees paid into dedicated accounts whose primary objective is the provision of individual savings for income in old age (Asher 1994, 1999). Ramesh (2003: 2) notes that during early economic development the governments of the two states made use of the accrued savings 'for investment in development projects without inflationary consequences'. Both the Singaporean CPF and its' Malaysian counterpart have played a huge part in the increase in home ownership levels. In fact 92% of households in Singapore are owner-occupier which ranks Singapore as one of the highest home ownership nations (CPF Annual Report 2000). Similarly, the 1999 EPF annual report notes that the highest number of withdrawals in 1999 was for housing, up by 25.59% on the previous year and totalling RM2.54 billion. Similarly, both funds require a certain proportion of savings to be

ring fenced for withdrawal after members retire. In the case of Singapore this was instigated in 1986, a full 14 years before Malaysia adopted a similar approach with the introduction of the Account 4 in 2002 as was detailed in Chapter 3.

In short there is much to compare, although the contention here is not so much that Singapore does not provide a good example for Malaysia to follow but that the CPF provides a close comparison for analysis. In particular, an analysis of the CPF facilitates an assessment of the EPF which takes account of the difficulties which Singapore still needs to address, such as coverage, adequacy and ethnic based inequalities, and which Malaysia could well do with avoiding. As noted above, Malaysia has in the recent past followed the Singaporean lead with regards to a minimum sum scheme in an attempt to ring-fence a substantial proportion of savings for the purpose of funding life into old age. However, neither state has formulated a means by which all members of the labour force can derive long term benefit from private savings or, in the case of the low paid, reach the required levels of savings to satisfy the requirements of such schemes. By examining the approach of Singapore, it will be shown that Malaysia will not solve the issues highlighted in this thesis by following the Singaporean approach to old age incomes provision.

This chapter, then, has two key aims. In the first instance it will examine the dominant provident fund mechanism through which individuals seek to fund life in old age in Singapore. This will entail a discussion of the embedded institutional mechanism, the CPF, to Singapore's perhaps idiosyncratic approach to welfare provision. It will be shown that overwhelming reliance on provident funds, poorly supported by a mean and restricted public assistance programme, to finance lengthening life old age is a

misguided approach. Secondly it will be shown that poverty in old age has an ethno-class dimension and the explicit and implicit conclusion that will be drawn is that, given the available evidence from Singapore, Malaysia should refrain from emulating the CPF and instead approach the problem of incomes for old age from a different angle and employ a more solidaristic funding mechanism. The chapter supplies further evidence to support the central theme of the thesis, namely that an old age incomes policy which reflects the socially embedded ethno-class relations, privileging one ethno-class faction over others, and which is founded on an individual savings scheme, without a minimum guaranteed periodic payment, is unequal to the task.

In order to achieve the set aims, the chapter will give a degree of context to the later discussion. To this end it will examine selected political and social aspects of Singapore, namely the manner in which the, broadly one party, system governs the state and the pluralistic nature of Singaporean society, which nevertheless draws upon a broader notion of 'Asian values' (Hill, 2000). There will be a brief discussion of the economic strategy employed by Singapore since the formation of the fully independent Republic in 1965. The chapter will then draw upon data to illustrate the pre-eminence of the CPF as the *de facto* social security mechanism in operation in Singapore, highlighting the expanded role of the CPF beyond old age income and into housing and healthcare financing. The chapter will then address a key issue facing both Malaysia and Singapore, the rapid demographic shift to an ageing population, ethnic pluralism and gender, before concluding with a comparative discussion commenting upon the shortcomings of a social welfare system which over relies on individual savings accounts and fails to offer any meaningful guarantee of an old age free from the risk of poverty.

It is necessary to advance a disclaimer at this point. Obtaining contemporary public data sets from the various arms of the Singaporean state has proved somewhat problematic, and as such there is a degree of historicity to the data presented in this chapter. This does not in any way seriously detract from the claims made herein as, in the main, such conclusions as are presented can be arrived at from both the use of other more contemporary sources such as international NGOs, as well as authoritative secondary sources. It is; however, appropriate to note such difficulties in advance.

### **Singapore Inc**

Singapore is a multi-ethnic society divided in general between the Chinese (77.7 per cent), Malay (14.1 per cent) and Indian (7.1 per cent) communities. The annual population growth rate for the period 2000 – 2015 has been estimated at 1.1 per cent, well below the accepted rate of replacement of 2.1 per cent (UNDP, 2002). It has been well documented that Singapore has enjoyed rapid and, so far, long lasting success as a state incorporated. Since separation from Malaysia the Peoples Action Party (PAP) has manufactured an economic climate which has, for extended periods, brought about year on year growth in the economy. The paternalistic state has enabled Singapore to switch from a precarious future, to one which not only has surpassed casual expectations, but which continues to perform well within the global economy. This has all been achieved against a backdrop of few natural resources, ethnic diversity and ongoing regional tensions.

It is a measure of Singapore's success that by the mid 1990s per capita income in the city-state was second only to that of Japan in the Asian region. However, it would be wrong to assume that the future will mirror the past. That efforts have been directed,

in the main, to economic stability and the viability of the state as a self sufficient independent entity has been achieved at a cost of institutionalised opposition to state led social welfare policy. In a long line of similar, and continuing, pronouncements emanating from senior officials in the Singaporean government, former Prime Minister Goh stated that Singapore needed to ensure that 'the disadvantaged do not expect and cannot demand that they be looked after by the State as a matter of right' (cited in Williams, 1996: 164). More recently it has been suggested that the continued avoidance of the welfare state should be viewed as an integral aspect of the 'Singapore model' of development (Quah, 1998). What the rhetoric cannot mask; however, is that such a single-minded approach has resulted in a potentially serious and far reaching problem, namely how Singapore's rapidly ageing and ethnically diverse population will be able to afford the lengthening period of retirement.

The Central Provident Fund (CPF) has long been held in high esteem by such global institutions as the World Bank, which has in the past proclaimed that individualism and the market are the required approaches to issues of income security and economic development. This is in itself a misguided belief, as the evidence from Singapore appears to suggest that not only are individual accounts under funded and therefore unable to meet with members' expectations, but that few other forms of saving are employed on a voluntary basis. Chee (1994) has argued that the provision of income for the elderly will fall far short of public expectations. Further it was claimed that by the year 2000, 19 per cent of men and 34 per cent of women would reach age 60 with minimal or zero balances accrued under the CPF. In addition to this it has been estimated that approximately 23 per cent of those who are members of the CPF will have a final balance of less than S\$10,000 when they reach retirement age in 2015

(Lee, 1998). This figure falls far short of that required to fund an extended period of old age, which, on current figures published by the Singaporean government, will last on average twenty years. Unsurprisingly, it is those who earn the least who are most at risk from poverty in old age. However, it is worth noting that research indicates that even for those who are able to take advantage of alternative schemes, mandatory contributions to the CPF have had a detrimental effect on other forms of individual savings. Aspalter (2002: 182) cites figures which suggest that 'three in ten Singaporeans do not save anything beyond what goes into their CPF, and for those who earn less than S\$1000 a month, almost half do not save because they are barely able to cope with daily living expenses'. It is therefore accurate to suggest that although the CPF acts as an efficient low cost savings scheme which accounts for little or no state spending, it reduces the level of private savings and fails to offer social protection to those who are most in need. In short the development of the CPF into a full-blown alternative to tax based forms of central state provision has left the fund in something of a quandary, how will the growing numbers of elderly Singaporeans fund life beyond retirement? This is a recognised issue both for Singapore and to a lesser (though increasing) extent Malaysia, and as such has led the World Bank to review its promotion of the individual and the market as the natural and best providers of income for life beyond retirement.

According to Ramesh (2000: 243), Singapore 'presides over one of the highest standards of living and budget surpluses in the world'. However, public expenditure on health and social security are well below public spending on education, and this reflects the ethos of the ruling elite for whom western style welfarism is an anathema. As shown in Table 7.1, there has been a slight increase in the level of social security

spending as a percentage of GDP, but this is due not to increased generosity per se, but rather to increased numbers of pensions paid to retired civil servants and military personnel. Figures for public expenditure on education reflect the construction of a meritocratic society in Singapore. It has been this continued (in relative terms) high social spending in the education sector which has enabled the Singaporean labour force to react to the demands of an increasingly connected global market.

**Table 7.1 Selected social spending indicators as a percent of GDP**

	1972 - 79	1980 - 89	1990 - 95	1998a
Income maintenance	0.28	0.37	0.53	na
Health	1.45	1.42	1.12	1.1
Education	3.00	4.73	4.08	na

*Source: Adapted from Ramesh (2000) and UNDP (2002)*

*(a) figures only available for health*

### *The CPF led approach to welfare Singapore-style*

The CPF was established under the British colonial administration in 1953 and the legislation came into force in 1955. As in the Malaysian case the primary reason for initiating the CPF was for the sole purpose of providing retirement funds for expatriate workers. In the intervening years the CPF has developed into the main source of income protection for elderly Singaporeans. The provident fund mechanism operates as a compulsory savings scheme which draws contributions from both employers and employees. The CPF is compulsory for all private sector employees, excepting casual, part time workers and foreign nationals. Those who are self-employed are encouraged to join the scheme on a voluntary basis, but as in the case of Malaysia only a small percentage opt to do so. Interestingly Lee (1998), citing Asher (1991), calculates that there has been a significant decline in the number of

Singaporeans contributing to the CPF. Asher's figures show a decline of approximately 6 per cent between 1981 and 1989, down from 81.4 per cent of the total labour force to 75.7 per cent respectively. Ramesh (2000: 245) using figures from the 1997 CPF Annual Report states that active members accounted for only 43.6 per cent of the membership 'who formed approximately two thirds of the labour force'. Taking figures from the 2000 CPF Annual Report, then one can see that there is a slight increase in terms of active membership which accounts for 1,272,856 of the total membership (44.19 per cent), but this forms a negligible increase in terms of the labour force covered. The most obvious conclusion drawn from these figures is that approximately one third of the total labour force is not able to receive the benefits of membership of the CPF. It comes as no surprise to discover that it is those most in need of CPF protection in retirement who form the majority of this 30 per cent. As is the case Malaysia, hawkers, petty traders, part-time workers and those engaged in low paid and insecure casual labour or unpaid domestic labour in Singapore are, in effect, left to their own devices to secure some form of income beyond retirement.

As the main stay of 'welfare' in Singapore, the CPF has undergone periods of reform throughout its forty odd years of existence. During these reforms the issue of nation building has in part superseded that of retirement protection. For instance during the mid to late 1960s when the state of Singapore was in its infancy, home ownership Singapore style was linked to a sense of belonging and a sense of place in an effort to instil feelings of nationalism across the multi-ethnic population. The Singaporean state has been fundamentally pragmatic in its approach to economic sustainability and has not shrunk from using the CPF as a tool to shore up economic policies. It is possibly only in Singapore that such a paternalistic and authoritarian approach has

yielded such dividends at the cost of a sense of reduced personal freedom. There are signs that such an approach is, to a small degree, softening but it would be wrong to suggest that Singapore is approaching anything like a liberal parliamentary democracy.

### *Public Assistance Scheme (PAS)*

Where Singapore differs from the Malaysian approach is with regards to wholly public funded cash assistance. The Singaporean PAS reflects the government's view that assistance should not be available to all those in poverty, and suggests images of the deserving and undeserving poor. As such it operates under stringent means testing and is available only to the destitute, chronically ill and the aged (Lee, 1998; Aspalter, 2002). Benefits, which are set at S\$200 per month for single adults, S\$295 for married couples and S\$530 for a family of two adults and two children, are recognised by the state as below that which is necessary for subsistence (Ramesh, 2000). The figures for those applying for public assistance is expected to rise in future years as an increased numbers of Singaporeans face life beyond retirement with insufficient funds accrued under the CPF, in particular it is women and the Malay population who are most at risk (Lee, 1998; 2001).

In addition to the above schemes, the Singaporean government has dispensed cash and tax benefits on an ad hoc basis (Ramesh and Asher, 2000; Ramesh, 2000; Aspalter, 2002). A short and selective summary includes housing grants for low-income families from a minimum of S\$800 to a maximum of S\$16,000 per year. Increased tax relief for those who cohabitated with their elderly parents, periodic payments towards utility bills where elderly relatives live with their careers, as well as

one off payments to CPF Medisave accounts of all Singaporeans age 21 and over, amounting to S\$100 million in 1997. In March 2000, the government announced a S\$250 CPF top-up payment which was given to 1.5 million Singaporeans, amounting to S\$381 million. Further to this the government announced another S\$2 billion CPF top-up in August 2000 (CPF Annual Report, 2000).

There is however, a question mark over the efficiency and equitability of such ad hoc payments. Ramesh and Asher (2000) argue that individuals are unable to plan their savings effectively as one off payments and tax rebates can be in response to external economic factors. Furthermore such rebates as are announced do not specifically target those most in need, since 'the rebate is set as a percentage of total tax payable, the benefit flows disproportionately to high income earners. Indeed, it is not available to the vast majority of Singaporeans, as roughly 70 per cent of the adult population do not pay any income tax' (Ramesh with Asher, 2000: 77). As Ramesh (2000) notes, such benefits do not impose any structured long-term commitments on the state. The chapter will now move on to look at the structure of the CPF in more detail.

### *Central Provident Fund*

The CPF is a fully funded defined contributions scheme and has developed from its initial aim of providing income in retirement into a 'comprehensive social security plan which has provided many working Singaporeans with a sense of security and confidence in their old age' (CPF, 2002). Today it is a compulsory scheme for all employees excepting foreign workers, the civil service, those who are self employed and casual workers in low paid, part time employment. Contributions are divided between both the employer and the employee, and each member's contributions are

subdivided into 3 separate accounts which are broadly concerned with old age, housing and health. However, concerns persist that contributions to the CPF will prove inadequate in providing an old age income for Singapore's growing elderly population.

### *Structure*

As with the Malaysian EPF, the CPF is arranged into separate accounts. In Singapore, each member's contributions are divided into three dedicated accounts, which each receive 75, 15 and 10 per cent of contributions respectively, as follows:

- *Ordinary Account* (75 per cent) - from which savings can be used to purchase housing, pay for insurance (e.g. DPS) and for investment and education.
- *Medisave Account* (15 per cent) – which can be used for hospitalisation expenses and approved medical insurance
- *Special Account* (10 per cent) – which is for old age, contingency purposes and investment in retirement related financial products.

When a member reaches age 55 a Retirement Account is set up to hold the required amount under the Minimum Sum Scheme, which was instigated in 1986 in order to ring-fence an amount judged necessary to meet an individual's basic welfare needs in old age. Under this scheme minimum balances in the Retirement Account are set to reach S\$96,000 by July 2007 rising to S\$120,000 by July 2013 and split equally between cash and property. The balance in this account can be used to purchase a life annuity, deposit with an approved bank or remain in their retirement account to earn interest.

The rates of contributions to the CPF have varied since its inception. In part, variations have been as a result of reduced contributions to facilitate economic recovery as was the case in the mid 1980s and again in response to the recent and ongoing recession brought about in part by the 1997 regional financial crisis. Prior to this event, contribution rates for those aged 55 and below were set at 40 per cent of earnings split equally between employer and employee. As a result of the economic downturn employers contribution rates were reduced by 10 percentage points as of January 1999, as part of a S\$10 billion cost reduction package to help business weather the aftermath of the 1997 financial crisis (CPF Annual Report, 1999). It was expected that rates would be restored to 40 per cent of wages, split equally. However, as at January 2001 the contribution rates were set at 36 per cent of earnings, incorporating a higher employers contribution of 16 per cent (Table 7.2). In response to the economic downturn experienced in the aftermath of the terrorist attacks on the World Trade Centre on 9<sup>th</sup> September 2001 rates were again reduced in an effort to lessen the burden on, and therefore cost to, employers.

**Table 7.2: Allocation of CPF contributions as of 1 January 2001**

<b>Age Group</b>	<b>Ordinary Account %</b>	<b>Special Account %</b>	<b>Medisave Account %</b>	<b>Total %</b>
35 years and below	26	4	6	36
Above 35 – 45 years	23	6	7	36
Above 45 – 55 years	22	6	8	36
Above 55 – 60 years	10.5	0	8	18.5
Above 60 – 65 years	2.5	0	8.5	11
Above 65 years	0	0	8.5	8.5

Source: Adapted from Tan (2001) Table 15-4, p. 328

As Table 7.3 demonstrates the total contribution rates for those aged 50 and below is now set at 33 per cent of wages, 7 per cent lower than before the 1997 crisis.

However, the allocation of contributions to the varying accounts will change as a result of the findings of the Inter-ministerial Committee on the Ageing Population, formed in 1998, which recommended that greater emphasis should be placed on accumulating funds in members' Special and Medisave accounts to age 60 and maintaining the increase to the Medisave account after age 60 (Tables 7.2 and 7.3). In effect contributions to the Ordinary account will be reduced to facilitate this shift in policy.

**Table 7.3: CPF contribution rates and allocations (%) as of 1<sup>st</sup> October 2003**

Aged Group	Employer	Employee	Total (%) of wage	Per cent credited to		
				Ordinary	Special	Medisave
to age 35	13	20	33	22	5	6
35 - 45	13	20	33	20	6	7
45 - 50	13	20	33	18	7	8
50 - 55	11	19	30	15	7	8
55 - 60	6	12.5	18.5	10.5	0	8
60 - 65	3.5	7.5	11	2.5	0	8.5
Above 65	3.5	5	8.5	0	0	8.5

Source: [/www.cpf.gov.sg/cpf\\_info/goto.asp?page=Online/ContriRa.asp](http://www.cpf.gov.sg/cpf_info/goto.asp?page=Online/ContriRa.asp) (accessed 09/09/05)

### *Coverage and Investments*

As at the end year 2004, the CPF had a membership of 3 million. Of this total figure, only 1.3 million (44.5 per cent) were active contributors which is equal to approximately two thirds of the labour force (CPF Annual Report, 2004). Lee (2001) estimates that 25 per cent of the working population have no CPF coverage, including unpaid family workers as well as temporary and part-workers. Asher (1994) notes that under the provisions of the CPF Act the Board of the CPF must invest members accumulated funds in government bonds, from which interest is derived. Citing

figures for 1990, Tan (2001) notes that according to the CPF Act interest is based on the average of savings and fixed deposit rates of four local banks, subject to a minimum of 2.5 per cent. In addition to this, funds in the Special and Retirement Accounts earn an additional 1.5 per cent (minimum 4 per cent) interest.

The way in which interest earned on members' contributions is calculated was amended in July 1999 to better reflect prevailing market conditions and to enhance the rate of return on CPF savings. Interest rates are now adjusted quarterly and the new calculation gives an 80 per cent weighting to 12 month fixed deposits and 20 per cent weighting to month end savings deposit rates (CPF Annual Report, 2000).

However, Ruyter (1998: 2) notes that 'Real rates of return have averaged a negative 0.33 per cent per annum from 1987 to 1996'. In effect then members were losing money over this specified period. What is important to note here is that the reliance on market conditions which in turn reflect the prevailing conditions in the global market, coupled with a system of tracking local deposit rates has left the individual CPF member vulnerable to the vagaries of the global economy.

Events far beyond Singapore could, and do, impact upon the projected levels of savings held by the CPF. There is little to shield ordinary Singaporeans from global economic events, such as the downturn in the global economy in 2000, many of which can't be predicted. Setting a headline minimum rate of return of 2.5 per cent does not take into account the effects of inflation which as Ruyter (1998) demonstrates can eat away at any notion of profit over an extended period. This is further compounded by the encouragement by the state for individuals to invest part of their CPF savings in

equities in order to enhance the rate of returns, but also increasing exposure to the risk of market failure.

Singapore's preference for privately funded individual schemes to provide for an individual's old age is further emphasised by the introduction of the wholly voluntary Supplementary Retirement Scheme (SRS) on 1<sup>st</sup> April 2001. The SRS is operated by the private sector including the Development Bank of Singapore, the Overseas Union Bank, United Overseas Bank and the Overseas-Chinese Banking Corporation, and as with the CPF tax benefits are part of the deal. Contributions are eligible for tax relief, investment returns are tax-free and 50 per cent of withdrawals from the SRS upon retirement are also tax-free. Singaporeans can contribute up to 15 per cent of annual income whilst for non-Singaporean citizens or Permanent Residents the contribution rate is 35 per cent both of which are subject to an income cap of S\$72,000. As noted above, there is data which shows that additional saving, over and above that accounted for by the CPF, is rare. Certainly the Singaporean government has attempted to target the self-employed, albeit at a reduced rate, but only those with already sufficient CPF balances will benefit from the introduction of the SRS.

### *Singapore's political landscape*

Following the failed union with Malaysia between 1963 and 1965, Singapore came fully under the rule of the People's Action Party (PAP) which had been and continued to be dominated by the towering figure of Lee Kuan Yew for the next 30 or so years. The rule of the PAP had quickly become and remains authoritarian in its approach to internal politics. The extent of this authoritarianism has seen the state intervene in the minutiae of the private sphere, from a total ban on chewing gum to state policy on

family size which saw the inauguration of the 'two is enough' campaign which was later superseded by a similar initiative exhorting (particularly educated Chinese) Singaporeans to go for 'three or more if you can afford it'. This modernist eugenics approach to nation building will be investigated further below with reference to the role of Singaporean women and the ascription to 'Asian' values by the state.

In the immediate post-colonial period 'nation building' was the objective. Singapore had to start from virtually zero and in some way structure a society that was capable of surviving the hostile regional climate of the time. Quah (1998: 106) argues that the PAP had to manufacture a Singaporean nationality in order to combat 'the twin threats of communism and communalism'. In a similar manner to Malaysia, Singapore has sought to stifle political and ethnically pluralist opposition. Such action has been possible in both states due in part to the continued existence of colonial legislation designed to combat the threat of a post World War Two communist insurgency such as the Internal Security Act.

### *Economic development*

Singapore has developed from a declining colonial entrepôt to the leading immediate regional economic power despite its size and inauspicious beginnings. From the period of self-rule to its expulsion from the Federation of Malaysia in 1965, Singapore relied upon its larger neighbour Malaysia as both a source of raw materials and a market for the goods it produced. Tremewan (1994: 31) has argued that 'The PAP leadership initially saw Singapore's expulsion in 1965 as a severe blow because without a sizeable internal market and a hinterland the ISI (Import-Substitution Industrialisation) policy could not work for Singapore. Its economy appeared to be

back where it was prior to the merger: declining entrepôt trade and rising unemployment'. However, it is worth remembering that the PAP had, as its central aim, the emergence of a fully independent and viable Singapore. It was to these ends that Lee Kwan Yew focussed both the political clout of the PAP and the efforts of the public in achieving levels of economic growth which would, in effect, facilitate the construction of Singapore Inc. In the immediate post independence era, economic growth was staked upon export-oriented industrialisation through low wage labour intensive manufacturing (Tremewan, 1994; Ramesh, 1995).

In order to achieve early economic growth both Malaysia and Singapore courted foreign capital with the aim of establishing home based foreign owned export oriented manufacturing plants. The main point of difference is that of timing. Singapore began its economic and industrialisation development approximately a decade ahead of Malaysia and this also held true for the shift to *value added* production which took place in the 1980s in Singapore and the late 1990s in Malaysia. In pursuance of its economic strategy, the PAP leadership neutered industrial opposition through draconian labour relations legislation and maintained low labour costs through the establishment of a National Wages Council in 1972. The PAP also invested heavily in improving Singapore's infrastructure as well as providing a substantially reduced rate of taxation applicable to profits from manufactured exports (Ramesh, 1995).

During the 1960s and 1970s this economic strategy was successful as Singapore enjoyed average annual growth rates of above 8 per cent, but by the end of the decade other NICs were catching up and providing alternative and more cost effective manufacturing bases. Spurred on by the deep recession in the mid 1980's, Singapore decided to abandon its low wage labour intensive model in favour of value added

capital intensive manufacturing, still utilising foreign capital, but also supporting home grown enterprises in a bid to expand production away from Singapore in order to cut dependency on developed western nations (Yeung, 1998). Ramesh (1995: 248), in an article examining economic globalisation and policy choices, states that 'A deliberate policy to promote local firms to relocate production abroad is unparalleled in the world, and exhibits a unique level of the state's commitment to globalisation.' What remains unclear is the extent to which Singapore, through state aided industry, can maintain its current and enviable position in a region still feeling the aftershocks of the 1997 economic crisis.

### *Ageing in Singapore*

Average life expectancy (at birth) has grown from 69 years in 1970 to stand at 77 years by 1996 (Cheung, 1999). The annual population growth rate has fallen from 2.3 per cent for the years 1975 to 2000, and is expected to average 1.1 per cent for the years 2000 to 2015 (UNDP, 2002). This is reflected in a drop in fertility rates from 2.6 for the period 1970 to 1975, to 1.6 for 1995 to 2000. Singapore's population is set to age rapidly over the next 30 years. In the year 2000 the proportion of the population aged under 15 stood at 21.49 per cent (of total population), this is forecast to fall to 14 per cent by 2015. According to estimates by the CPF approximately 7 per cent of the population were 65 or above in 2000 and this is set to increase to 19 per cent by the year 2030. The old age dependency ratio, that is those above 65 to those aged 15-64, will rise from 10 per hundred to 35 per hundred in the same time period (CPF Annual Report, 2000). This however, does not tell the whole story as it is expected that the 'old old', that is those 75 years old and above, will experience the fastest growth over the next 30 years. Lee (1998) citing figures from Chen and

Cheung (1988) indicates that in 1980 the number of elderly over 75 was approximately 30,000; this figure is expected to increase to 243,000 by 2030. It should also be noted that amongst the elderly population, it is women who are most likely to be at risk of poverty due in part to greater longevity, late entry in the labour force, lower pay and so lower CPF balances. Lee (1998: 296), citing figures from the 1986 Survey of the Aged Living Community, argues that 'over 90 per cent of elderly women depended on their children and/or grandchildren for financial support. This problem is likely to increase in the next two decades as more of the older generation of women, who have little education and therefore earn less and save less, retire'.

**Table 7.4 Labour force participation rates of older persons, 1970 – 1990 (%)**

Aged Year	Men						Women					
	55 -- 59		60 -- 64		65+		55 -- 59		60 -- 64		65+	
	1970	1990	1970	1990	1970	1990	1970	1990	1970	1990	1970	1990
Singapore	75.9	68.7	57.7	47.6	32.7	20.3	16.2	20.7	13.4	11.7	6.5	4.6
Malaysia	87.4	72.0	76.2	61.7	49.1	42.0	31.9	33.9	24.2	27.3	13.7	18.4

*Source: Adapted from Clark, 2002:67 in Asher et al 2002*

If this proves to be the case then it would seem unlikely that the rate of decline, as illustrated in Table 7.4, for those beyond retirement age to cease activity in the labour market will continue unabated. It would be reasonable to assume that economic activity of the elderly, albeit in the informal sector, will remain at present levels and may even increase if data from the 1986 Survey of the Aged Living Community is proved accurate. However, these fairly general figures do not tell the whole story. As we have noted the ethnically plural nature of Singaporean society presents the state with a variety of issues and problems, which are unevenly spread across the three main ethnic populations.

### *Ethnic pluralism in Singapore*

Ethnicity as a national concept, one in which the promotion of society over rules the needs and desires and wishes of its constituent parts, is institutionally embedded in the fabric of Singaporean society. The very reason for Singapore's independence is linked to the political institutional arrangements which were agreed at the end of the colonial period. Such arrangements resulted in an ethnic balancing act in which, the then, Malaysia envisaged a Chinese Singapore as a threat to the political primacy of Malays in the post colonial era. Subsequently the Chinese threat was expelled through separation and left to fall or prosper with little to go on.

In spite of the portrayal of Singapore as a Chinese city-state, it is multi ethnic in composition, both helped and hindered by the large ex-patriot community which accounts for a sizeable proportion of the labour force. Indeed the model which is often cited is a society comprising of CMIO (Chinese-Malay-Indian-Other). It is interesting to note that under the category 'Other' there is foreign nationals and Singaporean Eurasians (Brown, 1998). Ethnicity has always been a live topic, both in terms of unifying the disparate factions into a unified Singaporean society capable of achieving the economic development targets set by the state, and more latterly coming to terms with a shrinking Chinese majority and an emboldened relationship with East Asia, and China in particular, which would not have been possible in the 1960's and 1970's. In the case of the former, Wee (2002: 152-3) cites the 1966 National Pledge which sought to inculcate a meritocratic (Brown, 1994) approach to economic prosperity based on hard work and the primacy of community or nation, stating as it does, that 'We, the citizens of Singapore, pledge ourselves as one united people,

regardless of race, language or religion to build a democratic society, based on justice and equality, so as to achieve happiness, prosperity and equality for our nation’.

However, as both Wee (2002) and Brown (1998) argue, the ethnic mix that makes up Singaporean society has been used as a tool to promulgate the legitimacy of the PAP, both as a unifying political and economic entity and as a focus of internal threat against which only the PAP can safeguard the interests of the disparate groups in Singaporean society. It is this notion of serving the needs of different ethnic communities which is of concern here, the larger picture of the use of identity as a nation building tool is documented in greater depth elsewhere (see for instance Hill and Lian, 1995; Chua, 1997; Brown, 1998; Wee, 2002). One way in which the PAP government sought to enhance party legitimacy as a by product, or dual aim, of creating a sense of national solidarity was through the extensive and comprehensive public housing scheme under the aegis of the Housing Development Board (HDB) which is regarded as the most comprehensive and successful scheme in existence. It has been suggested that an unwelcome consequence of providing public housing, has been the rapid nuclearisation of the family (Chua, 1995). This is both as a consequence of economic prosperity, which sees individuals and elderly couples buying privacy (Chan, 1997), and in direct opposition to the wishes of the government which promotes individual and family provision over the meagre offerings of the state. True to its hands on approach to social change, the government, once aware of the numbers of young singles (those under 35) attempting to purchase their own homes, prevented such attempts by stopping individuals from applying for public housing flats, returned the deposits of those who had already applied, forcing such

individuals to seek alternative, though more costly, private developments (Chua, 1982 cited in Chua, 1995: 117).

The promotion of a peculiarly Singaporean Asian identity which originates not from some innate cultural tradition, but rather from the state which seeks to reinterpret disparate cultures into a unifying concept which, it is hoped will equip the citizenry with a value system which most closely resembles the preferred future profile of the city state as envisaged by its PAP leaders. This, it should be noted in passing, is open to reinterpretation dependant upon the prevailing regional and global conditions of the time. Thus the creation of a Singaporean identity which takes account of the pluralist nature of society does so in strictly pragmatic terms, based upon the notion of what best suits the needs of the nation, society or community as a whole (see Rodan, 1996; Chua, 1997; Jayasuriya, 1998 and George, 2000 for a fuller discussion of the changeability of preferred values Singapore style). There remains, however, the rather precarious and somewhat disadvantaged position of the Malay community and in particular the future elderly Malays. Governments' efforts to protect the ethnic balance in Singapore have led the state to effect policies that are more attractive to the majority Chinese community. It should be noted that, as detailed below, some of these policies particularly those concerned with the family have been brought into legislation as a result of past economic success.

Rather it is the economic position of the Malays in Singapore and in particular their prospects in the ageing society, which sees the Malays as a poorly provided for community under the current arrangements for income in old age. Lee (2001) notes that due to prior educational attainment and discrimination in the labour market,

Malays are over represented in the lower paid sectors which generally give little or no retirement benefits. Added to this is data which Lee (2001: 173-4) suggests indicates the predicament of elderly Malays, that being a lack of CPF saving which inevitably increases both the burden on their children and indicates a higher than expected application to the Public Assistance Scheme (PAS) 'However, given the strict criteria and the inadequacy of the PAS to meet even the minimum household expenditure, a certain proportion of those with small or no CPF balance will face financial difficulties upon their retirement. In short, Malays who have moderate and no exposure to the CPF will have problems maintaining their incomes when they retire at 55 and may likely slip into poverty'.

It would appear there is little to be gained for a sizeable proportion of the Malay community from the PAP policy of initiating ad hoc payments to individual's CPF accounts. An increased reliance on the PAS will only further burden poor Malay families who are expected to provide for elderly relatives. It is true that the state has made available educational bursaries for children from low income families (less than S\$750 a month) as well as providing housing grants of S\$30,000 for couples who purchase HDB apartments on the same estates as their elderly parents. However, these are discretionary payments and do not constitute an added long term responsibility for the state to secure adequate income for either those in poverty or those at risk from poverty in old age. The consequences of insecure or non existent income streams into old age is certainly problematic for the Singaporean Malay population; however, as a reflection of the communal nature of Singaporean society, the real challenge to current arrangements will come if and when increasing numbers of the Chinese community fail to save enough through the CPF. It is the case in

Singapore as in Malaysia, that women are at greatest risk of poverty in old age, and it is this constituency to which is attended to in the next section.

### *Women and the family*

One area in which traditional values have been placed at the fore of both governmental rhetoric and policy has been that of the dual role of women in terms of labour force participation and provider of domestic labour and the next generation of Singaporeans. Pyle (1997) argues that Singapore has never really enjoyed the 'traditional' Asian family form in terms of multi-generational cohabitation, due in part to its history as a destination for migrant labour. Even in the last thirty years, the state has swung from anti to pro-natalist policies as the economic success demanded greater female participation in the labour force which in turn had a detrimental effect on the fertility rate resulting in the current below replacement rate level.

However, true to its type as a state which legislates for the minutiae of everyday life, the PAP led government has attempted, somewhat crudely to engineer the future population both in terms of ability and, perhaps more controversially in a multi-ethnic society, in terms of ethnicity. The problem as the PAP saw it was that too few educated, higher income middle class women were having children in their early twenties and too many lower income, lower class and less educated women were producing more children. As Chua (1995), Pyle (1997) and Ramesh (1992; 2000) all note it was the Chinese majority who were producing too few children and the Malays who were producing too many. In an attempt to rectify this issue the state in a rather heavy-handed initiative introduced allowances which it was hoped would have the desired effect on both Chinese and Malay fertility rates. As Ramesh (2000: 246)

details, in order to achieve desired objectives, tax incentives were provided for women bearing more children and for those bearing children at an earlier age (below 28 years). The total tax allowance for women having two children before age 28 and then going on to have two more children would amount to a tax holiday of S\$60,000 over 21 years. As both Ramesh (2000) and Pyle (1997) note these tax allowances were accompanied by childcare subsidies, a more flexible approach to balancing homework commitments and priority in housing applications. Conversely the incentive for lower income and less educated women to have fewer children took the form of a S\$10,000 credit to the women's CPF account if she was both under 30 and underwent sterilization after the birth of her first or second child (Pyle, 1997).

*A pursuit of 'Asian values' or pragmatism writ large?*

Both Malaysia and Singapore have made some use of the notion of 'Asian values' to defend their individual approach to welfare, relying as it does in both case on individual provision and traditional support from the family. The Singaporean state has periodically undergone a shift in approach to both the business of maintaining its electoral advantage which in part has oscillated between attempts to create a more open form of political discourse and the more sure-footed approach of authoritarianism which has served the PAP well since independence. Part of this scene shifting has been the, albeit brief, espousal of 'Asian values' as a mechanism by which Singapore could be said to be at the forefront of economic prosperity and social stability. Rodan (1996) has argued that the end of the Cold War and the subsequent demise of a discernible communist opposition, which had served both Singapore and Malaysia well as a source of external threat with which to maintain draconian laws, led to the adoption of the Asian values discourse as a mechanism with which to

promote difference from others, notably the more democratic West, and thus shore up domestic authoritarianism. The espousal of characteristics such as family and community first an emphasis on education and personal savings (Rodan, 1996: 330) gave focus to the claim that it was these cultural difference that had enabled, in this case, Singapore to achieve high levels of economic growth and societal prosperity. This claim to legitimation through the espousal of Asian values was earlier presented by Jones and Brown (1994: 83) who have argued that the Singaporean state was 'quite explicit in stating that its deployment of 'Asian values' as a political rhetoric is necessary to counteract the allegedly fissiparous implications of the rapid social changes experienced by Singaporeans'.

However, despite the repressive nature of the Singaporean state, it would be wrong to suggest that many of the policies of the PAP have not found favour with the public. Certainly the extension of home ownership, low crime rates and continued economic prosperity has created a worthy pool of support for the PAP. The transference of power from the leadership of Lee Kuan Yew to Goh Chok Tong in November 1990 was carried out without incident, especially with the former PM becoming Senior Minister in the Prime Minister's office. The economy continued to grow and the wealth of the nation increased with the per capita income rising from S\$22,000 in 1990 to S\$37,000 in 2000 (George, 2000). In effect little had changed in terms of leadership as the PAP machine carried on regardless. Indeed, the same process of power transference was carried out in August 2004 when Lee Hsien Loong, the son of Lee Kuan Yew took over as Prime Minister from Goh Chok Tong, who in turn became Senior Minister. It is worth noting that a form of liberalisation has occurred in Singapore, in the form of a more participatory style of politics (Hill and Lian,

1995). For instance the instigation of a Speaker's Corner in September 2000 enabled public gatherings to take place without seeking a license. However, it would be wrong to attach too much credibility to such moves, the continuing dominance of the PAP as the party of power is assured for the foreseeable future, and it is the long standing and predicted future path of social policy reform, in particular the entrenched and strident anti-welfarist stance of Singapore reliant as it is on the CPF, which is dealt with in the next section.

### **Issues facing Singapore (and Malaysia)**

Singapore is not immune to the turbulence in the contemporary global economy, and despite its immense success in turning itself into a more than viable city state with few natural resources to call upon, Singapore has not been able to simply ride out the storm brought about by events on a both a global and regional scale. The onset of the global economy has provided Singapore with new challenges as it has attempted to move away from reliance on a weakening manufacturing sector and develop a more service s based economy. It is true to say that Singapore presents itself, and is recognised as a regional economic hub and the rush to service industries, such as the financial services sector, was given greater impetus by the exit of manufacturing related foreign direct investment. In this instance Singapore both planned an exit from a manufacturing based economy, in favour of greater emphasis on value added service sector oriented economy and was a victim of its own economic success in so much that year on year increases in the standard of living resulted in higher costs to inward investors through, in part, increased wages. This led to a movement away from Singapore to lower cost geographical areas, one such being initially Malaysia, which in turn necessitated the active involvement of the government in attracting

replacement sources of investment and employment. Singapore does not suffer from the adverse economic effects of high unemployment. Indeed some 20 per cent of its labour force is comprised of foreign nationals, and as in Malaysia, a favoured response to rising unemployment is the reduction of foreign workers. Investment in new technologies has placed Singapore ahead of its close neighbours and claims that Singapore will be the first cyber based society are well under way to fruition.

However, in one area, even the exhortations of the state have failed to result in a shift towards a positive outcome. Singapore is facing a demographic shift like no other in the region. Figures collated from the CPF Board, suggest that at age 62 Singaporeans can be, on average, expected to live for a further 15 to twenty years. In 2002 the number of Singaporeans aged 65 or older stood at 225,900, by the year 2030 this figure is expected to more than triple to 795,900. At present the ratio of economically active individuals to every elderly person stands at 10:1, by 2030 this will have dropped to 3.5:1 (CPF, 2000)

Singapore's approach to old age income provision has more than a degree of similarity to that which operates in Malaysia. Both were British colonial territories until the middle of the twentieth century. It is this shared colonial history which prepared the ground for subsequent development of the provident fund mechanism as the pre-eminent form of income provision in old age. A point worth noting; however, is that the British colonial administration initiated the forerunner of the Singaporean provident fund as a short-term stopgap measure (Aspalter, 2002). The intention of the administration was to move towards a social insurance based pension which was to cover all workers including the self-employed. A number of government

commissioned reports came to such a conclusion, and indeed the legislation for the development of the CPF into a social insurance pension was made ready for implementation prior to the accession of the PAP led government in 1959 (Chow, 1981). The path taken by the PAP in securing viability of the fledgling Singaporean state through economic development led the development of a welfare system based not on social insurance principles, but on provision through individual savings.

In both Malaysia and Singapore, there are separate old age income schemes for public and private employees. In both cases though there is a slight blurring of the boundaries in so far as the eligibility criteria for junior public sector employees has been tightened and those unable to meet the reformed entry requirements have been encouraged to opt into the provident fund mechanisms. In the case of Singapore, at present only senior civil servants, members of parliament, the judiciary and officers in the armed forces remain able to join the state funded pension scheme (Ramesh, 2000).

Where Singapore differs markedly from the Malaysian model is the extent to which the Central Provident Fund (CPF) acts as provider to meet a broader range of a more fully developed set of social security requirements. In fact, the CPF is regularly referred to by a wide variety of sources as a social security system (W.K.M. Lee, 2001; Aspalter, 2002; CPF, 2002). This is often qualified with the epithet of 'savings plan' which distinguishes the CPF from other, perhaps more traditional, notions of social security in which the state takes more than a regulatory role and acts as a part provider. This difference could be applied to any of the representatives of Esping-Andersen's (1990) three worlds. In short, the CPF is for the most part the main mechanism by which individuals are able to access housing, healthcare and savings

for retirement income. However, as noted below, the CPF itself is experiencing difficulties in meeting such a range of needs, and it is on this basis that the thrust of this chapter, and the thesis in general, argues that Malaysia should not seek to emulate too closely the Singaporean model of over reliance on the provident fund scheme. Rather Malaysia should seek alternative and more equitable methods of securing income for the elderly beyond retirement.

To sum up then, the end result is that a sizable proportion of the population will be unable to save enough through the CPF to generate a post retirement income, let alone save in addition to their monthly contributions. In reality then the CPF is not fulfilling its own vision to be 'A world class social security organisation providing the best national savings scheme for Singaporeans to enjoy a secure retirement' (CPF, 2005). Too few people are able to make sufficiently high contribution over the required period to accumulate the required level of funds. Those who are making regular contributions are faced with low, and in some cases negative returns and are being actively encouraged to seek higher returns through the purchase of equities in the form of unit trusts. This compounds the risk to long term savings by exposing the individual to the up and downs of the global market. As detailed below, there is little in the way of a safety net if an individual or cohort reaches retirement during a down cycle in the global economy. Singapore, which prides itself on its positioning the regional and global economy benefits from its proactive engagement with economic globalisation and is at the same time, is exposing its citizens to the increased risks associated with the global market. However, there are institutional brakes, both political, cultural and societal which make reform difficult. As shown above, there is no political desire to alter the way welfare is done in Singapore. The culture of

individualism and reliance on family is deep rooted in the Singaporean psyche as well as legislated by parliament and the levels of contributions to the CPF, for those who are members, would make further levies for an alternative scheme unworkable. Indeed such arrangements are indicative of an embedded institutional arrangement. Just as was noted in the case of the Malaysian EPF, there is an entrenched acceptance of the status quo which see not only housing paid for out of CPF accounts, but also health care and life insurance. It could be argued that the CPF is a victim of its own early success in that reform would be unpopular and so its developmental path negates the radical reform required if all Singaporeans were to benefit from a more equitable old age income scheme. Indeed, the promotion of individualism it is argued is an institutionalised approach to welfare in both Singapore and Malaysia. This in itself is no bad thing, however, the lack of movement towards alternative, more equitable mechanism carries with it an ethno-class dimension for both societies. Current arrangements privilege certain ethno-class factions over others, in the case of Singapore it is the Chinese majority who benefit most and the Malay minority who are least well served, in Malaysia it is the Malays over others. The important point to note here is in Singapore there is evidence which suggests that increasing numbers of CPF members are failing to save enough to provide them with an adequate income in old age. As Lee (2001) stated Singaporean Malays, and particularly women, are increasingly likely to rely upon Public Assistance benefits. The real challenge to the embedded institutional approach to welfare in Singapore will come when increasing numbers of Singaporean Chinese find themselves reliant on Public Assistance. As always it will be those who are low paid and in insecure employment, in effect those in the lower socio-economic classes, who will be most likely to need financial

assistance from the state, which as was detailed above is neither generous nor easy to access.

### *Conclusion*

The aim of this chapter has been to present Singapore as a comparator case in order to determine whether Malaysia should seek to emulate the development path of the CPF, given the similarities which exist in both states, such as a multi ethnic society, the privileging of an identified ethno-class faction and a demographic shift to an ageing population. To achieve this aim, the chapter has presented a detailed account of the Central Provident Fund which represents the dominant institutionalised mechanism for the procurement of income in old age. In addition alternative, though far less reaching and mean in terms of cash transfers, state schemes have given an insight into the manner in which Singapore addresses the issues of social security in a far less stable economic future. The PAP dominated government maintains a strong aversion to long term state responsibilities, preferring instead to strive to maintain individual and family provision whilst initiating ad hoc benefits which generally are not targeted at nor received by those individuals and families most in need. As the former Senior Minister S. Rajaratnam has stated the continuing aim of the Singaporean state is to 'reduce welfare to the minimum' (quoted in Quah, 1998: 115). What such pronouncements appear not to shrink from, is that such an institutionalised approach has resulted in, and will continue to effect, a serious and far reaching problem; namely how the rapidly ageing population will be able to afford the lengthening period of retirement.

It has been argued elsewhere that the CPF has reached the limits of its applicability to the changing nature of Singaporean society (Holliday and Wilding, 2003) and that at the very least major reform would be required in order to enable the current institution to meet the future needs of its members (Low, 1999). The current preference on behalf of the state for ad hoc payments do not represent the best policy for ensuring equity, nor do they allow individuals to better plan their savings strategy.

Further to this it could reasonably be claimed that the CPF has in part become redundant. Singapore claims a home ownership rate of well over 90 per cent, in this instance there appears little reason to continue with authorised withdrawals from members' Ordinary accounts for the purchase of housing, especially if this is used to purchase a second property. The benefits accrued for old age match neither the expectations, nor the needs of individual members or specific communities. Data presented in this chapter highlights the ethno-class dimension of the current institutional base. It is Singaporean Malays who are disproportionately more likely to require income supplement through the PAS and this will increase substantially over the next two to three decades. Indeed given the recent shifts in the global economy, and in the Southeast Asian region itself, economies and labour markets are more fragile than previous experience had indicated. This will have a direct impact upon individuals' ability to contribute to their old age savings through the provident fund mechanism. In short there will be fewer 'ideal' members of the CPF, which given that the scheme as it currently stands does not offer coverage to a sizeable minority of the population, will further inhibit the ability of individuals to meet their economic needs in old age. In addition, Ramesh and Asher (2000) argue that the use of members Medisave account to could lead to inflationary pricing in the health sector,

further straining the resources of the most needy. Those who are at greatest risk of poverty in old age are women due to the dual burden of work and caring responsibilities and cultural restraints which can inhibit female participation in the labour market (Davidson 1996).

There are two major institutionalised obstacles to future social policy reform in Singapore. In the first instance the Singaporean state is avowedly against any welfare expansion which would place long-term commitment on the state, preferring to propound the notion of individual and family provision as the Singaporean way. Secondly, the CPF as it currently stands is a useful macro-economic tool which enables the state to counter downturns in the economy through manipulation of contribution rates for business, thereby going some way to maintain FDI and aid local enterprises. More recently, former Prime Minister Goh stated that in the case of a deep recession lasting 2 or 3 years the state would allow individuals to draw upon their CPF savings to pay for daily living requirements (The Straits Times Interactive, 1/11/2001). This not only has a negative impact on members' final balances, but also transmits mixed messages to the population as a whole with regards to saving towards retirement income.

So then, is the Singaporean 'model' one to emulate and should Malaysia seek a similar developmental path with regards to future social security reform? Based on the evidence contained in this chapter the answer would have to be no. This is not to argue that there have been no benefits or advances made under the current Singaporean approach, this chapter has clearly proven this not to be the case as the example of home ownership would testify. In addition the administrative efficiency

of the CPF is a good example of cost effective management of resources which diverts the minimum from members' accounts and makes individual monitoring of accounts far easier through heavy investment in ICTs. However, as this chapter has also demonstrated, there are clear pitfalls in relying solely upon the provident fund mechanism. Unless Malaysia is seeking to further entrench the risk of poverty in old age and increase the burden on individuals and families through the states refusal to countenance extending social security, then to follow the CPF and insist upon a greater member involvement in 'managing' individual accounts, despite investor inexperience, whilst making little impact upon wage inequality – which to a greater extent accounts for low contributions and so low final balances for the majority of members – will not address the needs and concerns of an increasingly ageing society.

There are parallels between the developmental paths of both provident funds thus far, with Singapore leading the way, an example being the instigation of a minimum sum scheme. To take this as a case in point, it can be argued that in its self such a scheme is both laudable and sensible. However, if individual members cannot meet the minimum sum target then, in the case of Singapore, they are left apply for the wholly inadequate PAS or rely on family members topping up their account, the result of which is to spread the risk of poverty and financial insecurity trans-generationally.

These are very real pitfalls which Malaysia would do well to avoid as it begins to approach the issues of an increasingly older population, increasing income inequality and a shift to a class based society which favours one ethno-class faction over others. There are alternatives to such a residual approach which, as this thesis argues, would see the existing institutional base replaced with a more equitable mechanism. This

should take the form a social insurance based pension offering a minimum income guaranteed to last the increasing length of old age and thereby removing some, though not all, of the burden from individuals and families ill equipped to meet the challenge.

## Chapter Eight

### Conclusion

This concluding chapter will summarise and distil the material discussed in the preceding chapters. The key aim is to make clear just why this thesis has argued that the Malaysian EPF is no longer 'fit for purpose'. To this end this chapter will revisit the broad framework of endogenous and exogenous pressures which broadly affect a number of states, but which come together and coalesce around the current arrangements for old age incomes in Malaysia. The 1997 economic crisis which affected Southeast Asian states differentially was not solely an economic crisis; rather it was also a social crisis. In Malaysia, as in others states in the region, it put paid to the taken for granted assumption that existing welfare systems, based on long term economic growth and high rates of (male) employment were sufficient to meet the needs of the population (Croissant, 2004). For the first time, the myth of the family as 'traditional' welfare provider continuing to be equal to the task it had performed admirably in the past was exposed (Jomo, 2001). Regardless of the future role of the family as welfare provider, growing inequality in Malaysia will contribute towards increased levels of poverty amongst the growing number of older people. As Ramesh (2002: 156) states 'even if the family structure in the region remains intact and the aged continue to be looked after by the family, there will be people who face financial difficulties. Poor people often have poor relatives who do not have the resources to look after their elderly kin.'

In an era of heightened global interconnectedness and increased competition for economic growth, employment and trade, any state which maintains a pension system that relies solely on any one form of provision is doomed to fail a proportion of its citizens. This is compounded in a system in which the individual bears the responsibility for old age income and where the level of risk to which individuals are exposed is increasing. At the most basic level, in a system which relies on individual savings there will be those who simply are not covered by such a scheme, be it those who are self employed, those who find employment in the informal sector or those whose work history results in contribution gaps. Added to this there will be others on low incomes in insecure employment who are not able to accrue enough credits, or put more plainly cash, to provide an income for as long as their post retirement life lasts. Figures detailed in Chapter 3 illustrate that increasing numbers of Malaysians who are employed in the private sector are failing to save enough for old age. This has nothing to do with a wilful disregard for the need to save, as in the case of the EPF saving is mandatory. Rather it is a combination of barriers and pressures, both endogenous and exogenous, which place increasing numbers at risk of poverty in old age.

Malaysian society has undergone massive social change in the last 30 or so years. Malaysia is no longer a predominantly rural based economy with few opportunities for economic development. Ethnicity has ceased to be the main focus of social division it once was. Instead social class defined by occupation and access to status and power increasingly cuts across ethnic identities (Brown, 1994). In part, this is a result of state intervention in the economy and as a driver of social change through policies such as the NEP and NVP. As was noted in Chapter 6, this does not mean

that one should dismiss or ignore the continuing importance of ethnicity in contemporary Malaysia, but rather that an *intertwining* of ethnicity and class has taken place which impacts upon the ability of individuals to save enough money for life beyond retirement. There has been a massive shift from an agricultural to an industrialised urban economy in which the realisation of Dr Mahathir's Vision 2020 is a distinct possibility. However, this process has not been without cost, and increasingly such costs are being borne by those who are least able to bear them. It is this ethno-class dimension which sees the growing Malay middle classes privileged over others, which will put increasing strain on Malaysian society. The rise in income inequality, insecure employment and a rising cost of living in urban areas have put the low skilled and their families at increasing risk of poverty across the life course. However, it is not just those engaged in the urban industrial economy who are at risk of insecurity and poverty, those who exist on the margins of the formal economy are often newly arrived migrants from the rural areas. In most cases it is the young who make this journey, leaving behind elderly relatives who are dependant upon remittances or intergenerational transfers sent 'home' by those who have left. Furthermore those who have migrated may be able to send remittances back to rural bound elderly relatives, but at what cost to themselves and their families economic security? Insecure work and low wages will impact upon the ability of the low skilled to earn enough money to cope with the expense of day to day living, let alone put monies aside for savings. Nowhere is this more evident than in the ability to provide oneself with an income for old age accrued through individual savings.

However, having demonstrated that extensive social change has taken place, this must be qualified in so far as it has been shown that institutional arrangements impede

change and reform at a variety of levels. There are institutionalised social and cultural expectations which persist in Malaysia and which continue to view the family as *the* source of cash and care. In Malaysia this has been defined by Yaacob (2000) as *balas jasa* or repaying parents. There are institutionalised political and economic arrangements which reinforce this familialism and which promote individualism as the 'Asian' way. Ethnic identities and communalism similarly act as inhibitors to change as tradition is invoked as part of a broader Malaysian identity. The issue here is that there are no alternatives in place at present, if and when as expected, societal change leads to the current gaps in traditional provision widening resulting in more and more individuals and families falling through. Furthermore there is a tension which exists between the need and desire for change on the one hand and an institutional counter pressure which resists change and prefers the status quo.

This preference for continuity originates not only from the political establishment who continue to promote individualism as the Asian way in an attempt to head off calls for increase state expenditure on social welfare, but also from individual members of the EPF. For many Malaysians the EPF serves its purpose as a savings scheme which enables increasing numbers to purchase housing and service housing loans, whilst at the same time generating interest on savings. Added to this, however, is the facility that the EPF has in the past presented as a low cost source of capital for the state, whether this be to part finance mega projects or to service unexpected budget deficits as in the case of the post crisis 1998 budget. In this respect then there is institutional inertia which is accepted at least by some and promoted by other interested parties. There maybe, as Asher (2001) contends, an intellectual awareness in Malaysia for the need for reform but this has yet to translate itself into sustained

social and political pressure for, nor acceptance of, a reform process which would change the role and nature of the EPF. Indeed in his statement in the EPF Annual Report (2005: 29) the Chairman acknowledges that 'traditional schemes...can no longer be sustained' and that 'many countries have begun to develop a new multi-pillar pension system' but despite that, 'the EPF will continue to play an active role in...the development of (the) social security system of the country'.

The labour movement in Malaysia has historically been weak and remains so. The MTUC may periodically castigate the EPF for low dividend rates, but in its 12 point memorandum to the chairman of the EPF in 2003 the MTUC called for increased contributions from both employers and employees in order to enable individuals to accrue more savings to see them through old age (Labour Resource Centre, 2003). What such a proposal fails to acknowledge or come to terms with is that individuals alone cannot secure a comprehensive and equitable pension system, especially if other points on the memorandum such as increasing the proportion of EPF contributions available for housing were implemented.

To counteract such 'domestic' institutional arrangements are the pressures which derive from Malaysia's engagement with the global economy. Here it is the desire and the need to curb costs to both the state and the international sources of FDI, which restricts the necessary radical reform of old age incomes policies. Malaysia needs to remain attractive to FDI in order to maintain and promote economic growth and to combat unemployment. However, there are now alternative, cheaper destinations for manufacturing based FDI, namely China, India and Vietnam, and Malaysia is in the

process of changing its economic base away from manufactures export led growth to value added exports, reliant on a skilled and flexible labour force.

There is a direct relationship between world events and the operation of the Malaysian economy. External shocks, both economic and conflict based which may take place far away from Southeast Asia, do nevertheless impact upon Malaysia. An example of this is given by the World Bank (2004: 5) which in its predictions for rates of FDI into Malaysia for 2005 predicted that a slowing of economic growth in 'major source countries of Malaysian FDI (the US and Japan) in 2005, combined with continued expansion of China's manufacturing industries and opening up of its services' sector, could result in a further decline in total investment in Malaysia'. This introduces increased insecurity into the labour market, particularly those in the affected sectors such as electronics manufactures which is a disproportionate employer of women and has a negative effect on an individual's ability to save for old age.

However, the external pressure of economic globalisation does not render the Malaysian state helpless or without choice. The effects of what happens in the global economy are passed through a local institutional filter and it is at this point that choice exists (Campbell, 2004). National governments are concerned with both the needs and the requirements of the economy and their population. Globalisation is not imported wholesale into national economies, nor are the needs of the electorate ignored by national governments, even in the semi-authoritarian state that is Malaysia. Economic globalisation does affect social policy choices of national governments but the effects are lessened because national governments continue to set their own policy

agendas. It is Malaysia's internal, national institutions, be they cultural, political or economic which act as a barrier to external global pressures.

A key pressure which straddles both the endogenous and exogenous is that of ageing. Indeed, as noted in Chapter 5, international organisations such as HelpAge International (2002) claim that ageing has become a defining global issue and as such will shape both future economic and social policies. However, age in itself is not the issue, just as increased longevity is not a crisis rather an achievement. Age becomes an issue if political or social institutional arrangements hinder rather than smooth the demographic shift to an ageing society. Such policies cannot be reactive, they must be proactive. In the case of Malaysia this means raising the retirement age and therefore early access to EPF funds. There is little reason for continuing with the policy which sees all public sector workers forced to retire upon reaching their fifty sixth birthday. Nor, given the current life expectancies, is there a strong case for continuing with a blanket retirement age of 60 in the private sector. If, as the figures show, EPF balances are exhausted within 3 years for 70 per cent of members, then enabling individuals to work beyond age 60 would go some way to addressing this issue. The Malaysian government cites the pressure of unemployment amongst the educated young as a reason for maintaining current arrangements, but this does not obviate the introduction of flexible retirement.

This thesis is not arguing that the statutory retirement age should increase overnight, but rather that a phased raising of the retirement age would be both politically and socially more acceptable. Similarly, the introduction of a system of flexible retirement could be introduced over a number of years to take account of the need for

employment opportunities for educated young Malaysians whilst enabling those at or close to the retirement age to continue working and saving, albeit at a reduced rate. Here the Malaysian EPF can learn from the Singaporean CPF. Under current CPF arrangements employer and employee contributions are lower for those aged 55 and above than for younger workers (see Table 7.4) thus facilitating the retention of older, more expensive (at least in wage terms) employees. However, as was argued in Chapter 7 the CPF itself, despite or more accurately because of its expanded remit will be unable to fully cater for all Singaporeans leaving those who earn least, Singaporean Malay women, without the required level of savings and thereby more reliant on the mean and discretionary Public Assistance. Clearly there are pitfalls in relying solely on the provident fund mechanism as the only vehicle for old age income

Even so this is not going to be a cure all solution. The EPF is a good mechanism for generating individual savings, but individual savings themselves are not enough to meet the need of increasing numbers of elderly people who are living longer. As shown in Chapter 3, the EPF only covers approximately 50 per cent of the labour force. Even allowing for those covered by the public sector Pension Trust Fund this still leaves approximately 45 per cent of the labour force are without coverage of any sort. Even those fortunate enough to be members of the EPF do not fare well as dividend rates, the interest paid on contributions, have not matched the rate of return of domestic banks (Valdes-Prieto, 1999; Palacios, 1999). Added to this is the shift towards increasing the levels of investment in equities at both an institutional and individual level. Such a policy carries inherent risks which are disproportionately borne by individuals and somewhat inevitably by those with least saved, these being

the low paid, and those with contribution gaps who are predominantly women. As was demonstrated in Chapter 4, domestic pensions policy is inexorably linked to the ebb and flow of the global economy. An investment strategy which increases exposure on the global equities market is inherently at risk of failure for a number of reasons which include investor inexperience, economic shocks and downturn and the herd mentality of institutional investors (Reisen, 2001; Mann, 2000). An article in *Malaysiakini* (09/07/04) highlighted the risk of increased exposure to equities by the EPF stating that the EPF's return on investment had dropped from 6.556 per cent in 1999 to 5.089 per cent in 2003 a reduction of 1.467 per cent or the equivalent of RM437 million. The concern here is if professional investment managers at the EPF fail to maintain a steady return on investments, what chance for the individual EPF member.

However, the performance of fund managers though relevant, is not the main issue facing the EPF. The key concern for both the organisation and its members is the plain fact that there simply are not enough ideal members. By this is meant that a scheme which relies on individual savings requires the individual to save consistently over an extended period of time. This requires two basic elements, firstly few or no gaps in employment and secondly a decent wage from which contributions are drawn. As was shown in Chapter 6 women and the low skilled immediately fall into an *at risk* category as both groups will fail to meet the two basic requirements. If, as was noted, early withdrawals from members' accounts are increased for housing and health care then this will simply result in less monies being available to fund life beyond retirement. Ethnicity is also a factor in the avoidance of poverty in old age. As this thesis has shown, Malays are privileged over Chinese and Indian Malaysians. Such

arrangements are institutionally embedded in legislation such as the NEP and its successors which, for instance, set quotas for Malay access to Higher Education and access to Public Sector employment. This form of positive discrimination is more likely to reduce the threat of poverty in old age, either through higher paid employment or through generous public sector provision.

In short, the Malaysian welfare system is under pressure to reform to take account of current deficiencies. As is clearly stated by Ramesh (2002: 156 – my emphasis) ‘The only way social security benefits can be delivered in a *comprehensive and equitable* manner is for the state to provide them directly, from its own general revenues. Programmes that depend on the contributions from employers and/or employees unavoidably exclude the majority of the population... While publicly funded schemes are no doubt expensive, they are both effective and equitable, especially if the tax system is progressive, as they allow collection of contributions according to income, regardless of employment status, and distribute benefits according to need’. What this requires then is a rethinking of social welfare policy and the ways of doing welfare in Malaysia. The old model of economic growth as the driver of social policy is outdated for the current global era. For sure the Malaysian economy will still need to maintain its attractiveness in order to lure in the much coveted FDI, but the state can no longer rely on failing traditional welfare systems, nor can the eradication of poverty be achieved by economic growth alone. As more Malaysians enter the formal labour market they do so in the insecure export led growth industries. As was detailed in Chapter 4, more than two thirds of exported manufactured goods were from the electronics sector which also saw the highest numbers of redundancies in the year 2001/02. In a system which relies on individual savings, women are

disproportionately at risk of poverty in old age due to low wages, career breaks to fulfil social care arrangements, gender based income inequality and a longer life expectancy. This is further exacerbated in times of economic crisis, the effects of which are felt keenest in the sectors of the labour market which are the main employers of women. The 1997 crisis highlighted the failings in the welfare system and maintaining the status quo is not an option if poverty and inequality are to be avoided.

Malaysia is in a better position than some of its regional neighbours in that the demographic shift to an ageing society is set to take longer. Nevertheless, there are a number of measures which Malaysia needs to adopt if the effects of such a shift are to be lessened, if not avoided. These would include:

- The introduction of a universal social insurance based pension which covers *all* Malaysians financed from general taxation
- Increase the retirement age to better reflect average life expectancy
- Implement a minimum wage structure to boost earnings and savings
- Social care pension credits towards new pension scheme to negate employment breaks
- Address gender wage inequality, thereby boosting women's financial independence and their ability to save
- Refrain from privatising the Malaysian health service which will increase costs on old age and disproportionately affect women

Malaysia has a window of opportunity of about 15 years in which to set in place arrangements which at the very least would prevent increased numbers of elderly Malaysian from falling into poverty in old age. The implementation of a social

insurance based pension scheme would enable this to be achieved in a comprehensive and equitable manner for all Malaysians and would be consistent with the EPF's own stated objectives.

To achieve the core aims as originally stated, the EPF should be reformed to reflect its primary responsibility of saving for financial security in old age. To facilitate this, there should be a halt on further reforms which draw monies away from this core objective. The evidence from Singapore in Chapter 7 clearly shows that ethnic and class divisions will be exacerbated if individual savings remain as the central plank of old age incomes policy in Malaysia. As has been demonstrated, there are clear institutional pressures which thus far have slowed the pace of necessary social policy reform. Change is a complex process, and the EPF has found it difficult to adapt to the rapid social and economic changes which have taken place in Malaysia and at present, the fund does not appear capable of meeting its primary responsibility which is to ensure the financial security of its members in old age.

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