MALAYSIA ECONOMIC MONITOR

Unlocking Women's Potential

November 2012

THE WORLD BANK

MALAYSIA ECONOMIC MONITOR
NOVEMBER 2012
UNLOCKING WOMEN'S POTENTIAL

World Bank Office—Bangkok
Country Director: Annette Dixon
Chief Economist: Bert Hofman

Comments to:
Mathew A. Verghis
mverghis@worldbank.org
Frederico Gil Sander
fgilsander@worldbank.org

30th Floor, Siam Tower
989 Rama I Road, Pathumwan
Bangkok 10330, Thailand
+66 (0) 2 686-8300
www.worldbank.org/my

Acknowledgements

The Malaysia Economic Monitor was prepared by Frederico Gil Sander (task team leader), Intan Nadia Jalil, Ximena del Carpio and Katherine Sarah Patrick, with substantive contributions from Reena Badiani and Yuki Ikeda and further inputs from Hamid Alavi, under the overall guidance of Annette Dixon, Sudhir Shetty and Mathew Verghis. Contributions from the Economics Department of Bank Negara Malaysia (BNM) are gratefully acknowledged. The team wishes to thank Shubham Chaudhuri, Annette Dixon, Andrew Mason, Sudhir Shetty and Mathew Verghis for helpful comments, suggestions and guidance.

This report benefited from fruitful discussions, comments, and information from the Economic Planning Unit, BNM, Department of Statistics, Ministry of Finance, Ministry of Women, Families and Community Development, PEMANDU, TalentCorp, Ministry of Human Resources, Ministry of Trade and Industry and numerous other Government ministries and agencies. We also thank representatives from PETRONAS, the Federation of Malaysian Manufacturers, the American Malaysian Chamber of Commerce, the United Nations Development Programme, and academics from the Institute of Strategic and International Studies, Singapore Management University, and analysts at several financial and rating institutions for helpful discussions.We are indebted to the Economic Planning Unit for their collaboration with the World Bank and in particular their assistance in the launch of this report.

Thanks are also due to Datin Dr. Rehana Kassim from the National Association of Women Entrepreneurs Malaysia (NAWEM), Dr. Rashila Ramli and Dr. Madeline Berma from the National Council of Women's Organisations (NCWO), and Puan Norjanah Hj Razali from Biro Wanita Sarawak for helping organize focus group discussions. The team also thanks forucs group participants in in Kuala Lumpur and Kuching for their insights.

Sofia Busch, Anna Elicaño and Trinn Suwannapha provided excellent assistance in external relations and web production, Indra Irnawan designed the cover, and Noppakwan Inthapan, Angkanee Luangpenthong and Ornsaran Manuamornprovided extensive support. Cover photos by Bazuki Muhammad/Reuters (three women), Megat Firdaus Megat Ahmed (Malaysia's 55th National Day Celebrations), Mark Edwards (factory worker), C.C Yong/New Straits Times (doctor), and Sobri Sudin/New Straits Times (staff of Malaysian Meteorological Department).

ABBREVIATIONS

AFC	Asian Financial Crisis
ASEAN	Association of Southeast Asian Nations
AUD	Australian dollar
BETP	Bumiputera Economic Transformation Programme
BNM	Bank Negara Malaysia
BR1M	Bantuan Rakyat 1Malaysia (1Malaysia People's Assistance)
CA	Current account
CAGR	Compound Annual Growth Rate
CCI	Communications and Content Infrastructure
CEDAW	United Nations Convention on the Elimination of all Discrimination Against Women
CEIC	CEIC Macroeconomics Database
COL	Cost of Living
CPI	Consumer Price Index
DOS	Department of Statistics
E&E	Electrical and Electronic
E&O	Errors and Omissions
EAP	East Asia and the Pacific
EDU	Education Delivery Unit
EIU	Economist Intelligence Unit
EPF	Employees Provident Fund
EPP	Entry Point Project
EPU	Economic Planning Unit
ETP	Economic Transformation Programme
EU	European Union
FAOstat	Food and Agriculture Organization Statistics
FDI	Foreign Direct Investment
FLFP	Female Labor Force Participation
FWA	Flexible Work Arrangements
G&S	Goods and services
G20	Group of 20 emerging economies
G3	Group of 3 advanced economies
GDP	Gross Domestic Product
GEM	Gender Equity Model
GFCF	Gross Fixed Capital Formation
GFS	Government Finance Statistics
GLCs	Government Linked Companies
GST	Goods and Services Tax
GTP	Government Transformation Programme
HIP	High Impact Programmes
HPS	High Performing Schools
IFS	International Financial Statistics
IHH	Integrated Healthcare Holdings
ILO	International Labour Organization
IMF	International Monetary Fund
IPI	Industrial Production Index
IPO	Initial Public Offering
JKM	Social Welfare Department
JPN	State Education Department
JUSA	Civil Service Premier Post
KAR1SMA	1Malaysia People's Welfare Programme
KK1M	1Malaysia People's Textiles Shop
KL	Kuala Lumpur
KLCC	Kuala Lumpur City Centre
KOILAF	Korea International Labor Foundation
KPI	Key Performance Indicator
KR1M	Kedai Rakyat 1Malaysia (1Malaysia People's Shop)
KTM	Malaysian Railways
KV	Klang Valley
LFP	Labor Force Participation
LINUS	Literacy and Numeracy Screening
LNG	Liquefied Natural Gas
LRT	Light Rail Transit
MA	Moving Average
MACC	Malaysia Anti-Corruption Commission
MEM	Malaysia Economic Monitor
MENA	Middle East and North Africa

MGS	Malaysia Government Securities
MIER	Malaysian Institute of Economic Research
MNCs	Multi-National Corporations
MOF	Ministry of Finance
MOH	Ministry of Health
MOHR	Ministry of Human Resources
MRT	Mass Rapid Transit
MWFCD	Ministry of Women, Families and Community Development
NEM	New Economic Model
NFP	Network Facilities Providers
NGO	Non-Governmental Organizations
NHRC	National Human Resources Centre
NKEA	New Key Economic Area
NKRA	National Key Results Areas
NSP	Network Services Providers
NTEP	National Talent Enhancement Programme
NWCC	National Wages Consultative Council
O&G	Oil and Gas
OECD	Organisation for Economic Co-operation and Development
OMT	Outright Monetary Transactions
OPR	Overnight policy rate
PCE	Private Consumption Expenditure
PDRM	Royal Malaysian Police
PEMANDU	Performance Management and Delivery Unit
PEMUDAH	The Special Taskforce to Facilitate Business
PICS	Productivity and Investment Climate Survey
PISA	Programme for International Student Assessment
PMI	Purchasing Managers Index
PPD	District Education Department
PPI	Producer Price Index
PPP	Public-Private Partnerships
PR1MA	1Malaysia People's Housing
PSD	Public Service Department
Q/q	Quarter-on-quarter
RAPID	Refinery and Petrochemical Integrated Development
REER	Real effective exchange rate
RM	Ringgit Malaysia
SA	Seasonally-Adjusted
SAAR	Seasonally-Adjusted Annualized Rate
SBPA	New Civil Service Remuneration Scheme
SCWO	Singaporean Council of Women's Organisations
SIP	School Improvement Programme
SISC	School Improvement Specialist Coaches
SME	Small and Medium Enterprise
SOCSO	Social Security Organization
SPM	Sijil Pelajaran Malaysia
SPNB	Syarikat Perumahan Nasional Berhad
SRI	Strategic Reform Initiative
SSM	Malaysian Remuneration Scheme
STPM	Sijil Tinggi Persekolahan Malaysia
TERAJU	Bumiputera Agenda Steering Unit
TERAS	Program Syarikat Bumiputera Berprestasi Tinggi
TFP	Total factor productivity
TIMSS	Trends in International Mathematics and Science Study
TVET	Technical and Vocational Education and Training
UIS	Unemployment Insurance Scheme
UK	United Kingdom
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UPT	Urban Public Transport
US	United States
USD	United States Dollar
WB	World Bank
WDR	World Development Report
Y/y	Year-on-year
YTD	Year-to-date

TABLE OF CONTENTS

BOXES

FIGURES

TABLES

EXECUTIVE SUMMARY

ECONOMIC DEVELOPMENTS AND OUTLOOK

The Malaysian economy maintained a vigorous pace in the first nine months of 2012 despite external headwinds. Continuing a trend in the past two years, Malaysia's stronger-than-expected GDP growth in the first nine months of 2012 was driven by rapid expansion of domestic demand while external demand (and export-oriented industries) stagnated due to continuing global uncertainty.

Investment from both public and private sources was a key driver of growth. Gross fixed capital formation surged in the first three quarters of 2012, taking the share of investment in GDP to the highest level since 1997, spurred by high-value private and public projects in oil and gas, real estate and infrastructure. In addition, both private and public consumption remained robust, with private spending propped by cash transfers, a tight job market and higher civil service wages, while public expenditure was buoyed by spending on higher wages as well as on supplies and services.

Inflation declined throughout the year as food prices stabilized and fuel prices declined. Benign inflation dynamics were underpinned primarily by supply factors, namely a decline in fuel prices following trends in global oil prices, and by a moderation in food inflation. Consistent with the robust economy, demand-side pressures appeared to build, however, with the output gap in positive territory and high capacity utilization.

The government is likely to meet its deficit target for 2012 despite significant expenditure out-runs. Revenue collections for 2011 are likely to exceed their original target on improvements on both tax and non-tax receipts. However, additional revenues are expected to be absorbed by additional government consumption, while capital expenditures are estimated to shrink for the year as a whole.

Heightened external risks and declining inflation have been offset by domestic strength, leading Bank Negara to keep monetary policy in a holding pattern. On one hand, strength in domestic demand, rising real estate prices and a positive output gap call for a resumption of the normalization of interest rates while declining inflation rates and heightened external risks call for easing. Given these opposing forces, Bank Negara Malaysia (BNM) has decided to keep its benchmark interest rate (the overnight policy rate, OPR) unchanged throughout 2012.

The overall current account balance registered the smallest surplus in 10 years. This was attributed partly to the slower growth of exports of commodities adding to continued weakness in E&E exports, but primarily to the sharp deterioration of the non-commodity current account balance due to strong imports of capital goods that accompanied the surge in investments. Portfolio flows returned in the third quarter following aggressive measures by central banks in advanced economies, but FDI remains below levels from 2011.

Propelled by domestic demand, Malaysia's economy is likely to weather a weak global environment and grow by 5.1 percent in 2012 and by 5.0 percent 2013, absent a new external shock. In 2012, Malaysia has performed well in the context of weakening demand from advanced economies as well as China. This dichotomy can be sustained into 2013 due to momentum in investment growth, a positive feedback loop between the implementation of investment projects, fiscal policy and private consumption, and a likely floor in commodity prices. However, a new external shock could lead to significant deviations from the baseline.

The sustainability of Malaysia's favorable near-term outlook into the medium-term hinges on the implementation of structural reforms. With a significant portion of investments being in the oil and gas sector, investments in real estate being partly linked to recycling of commodity revenues, and oil revenues supporting public investments, Malaysia's near-term outlook owes much to commodities. While these investments are part of a sound strategy to ensure sustainability of resource revenues, they also bring risks related to possible shocks to commodity prices and, conversely, that increasing commodity prices may lead to "Dutch disease" and a loss of competitiveness in tradable manufacturing and services sectors. To mitigate these risks, Malaysia needs to accelerate the implementation of productivity-enhancing reforms to boost capabilities and competition in the economy, and thus raise productivity of non-commodity sectors.

UNLOCKING WOMEN'S POTENTIAL

Malaysia's impressive growth record is matched with important advances in gender equality. Along with a transformation of its economic structure and dramatic poverty reduction, Malaysia's sustained economic growth over the past three decades has been matched by a narrowing (and even reversal) of gender gaps in education enrollment and literacy, increased women's labor force participation, as well as the incidence of wage work and real earnings.

However, significant challenges remain to unlock the potential of women to fully contribute to the economy. Significant gender gaps in economic opportunities remain. The main challenge is to raise female labor force participation (FLFP), which at less than half of the female working age population is low for Malaysia's level of development. In addition, Malaysia shares with many countries the challenges of avoiding a misallocation of talent due to segregation of women into certain fields of study, industries, and types of jobs. The latter is likely to be especially salient in Malaysia given the small number of women who are entrepreneurs and managers.

Closing gender gaps in economic opportunities could substantially leapfrog Malaysia to high-income status. Estimates of Malaysia's "absent women" – women who could be expected to be in the labor market given Malaysia's level of development – range from 500,000 to 2.3 million, representing a drain from the country's talent pool. Moreover, women are underrepresented in management and leadership positions. Reducing the number of "absent women" and enhancing the management talent pool with greater number of women is estimated to increase income per capita by 23 percent.

Malaysia's low participation of women in labor markets is linked to a pattern whereby women do not return to work after marriage and childbearing. Similar to other East Asian countries FLFP declines after women reach child-bearing age but differently from other countries, in Malaysia participation does not rise again several years later. This pattern suggests that the participation of Malaysian women older than 26 is more sensitive to life-cycle transitions relative to their peers in other countries, which is supported by the finding that married women – whether in urban or rural areas – have the lowest participation rate. In addition, Malaysian women also retire earlier than their male counterparts.

Married women who leave the workforce do not return due to difficulties reconciling work and family responsibilities. 67 percent of women not in the workforce cite 'housework' and other family duties as a reason compared to 2 percent of men.

Relatively low secondary enrolment rates are also linked to low FLFP. While gender gaps in secondary education have been closed, given that Malaysian women with post-secondary qualifications are 70 percent more likely to work, the relatively low secondary enrollment overall also contributes to the "absent women" phenomenon.

Gender segmentation in education and labor markets is clearly visible. In the workforce, Malaysian women are under-represented in engineering, architecture and other 'non-female' fields, an extension of gender streaming in higher education. Although this is not a problem for Malaysia alone, the sorting of entrepreneurs and managers by gender does seem to be more severe in Malaysia with potentially large economic costs. In addition, an earnings gap exists linked to different returns to education profiles for men and women.

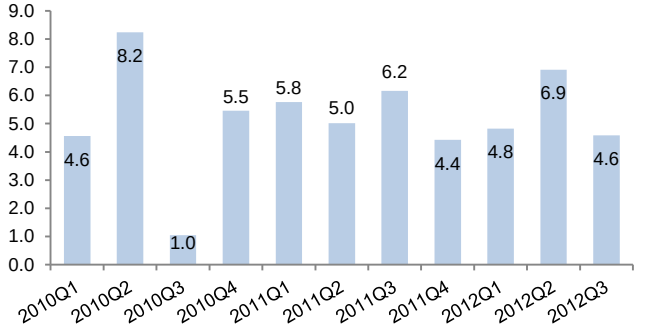
Education alone is not sufficient to close gender gaps as social norms and formal institutions continue to affect the choices of all women. Low participation and segmentation (and the attendant earnings gap) are mainly driven by social norms that see women as being primarily responsible for childcare and housework while men are expected to be the main financial provider. These beliefs are supported by formal institutions, such as prohibitions for women to work under certain conditions, which often discriminate by gender, even if indirectly.

In the long-term, norms need to evolve for gender gaps to be bridged; in the meantime measures can be put in place to help men and women balance responsibilities. Changing prevailing social norms takes time. In the medium-term, supportive measures at all stages of the life-cycle can be put in place, ranging from flexi-work arrangements and expanded childcare options, to incentives for more female participation in 'non-female' educational fields and job types. While current initiatives to leverage on women's talent are laudable, other policy options must be explored, evaluated, and tailored, to enable Malaysian women to fully contribute to Malaysia's transformation towards a high-income, inclusive and sustainable economy.

THE MALAYSIAN ECONOMY IN PICTURES

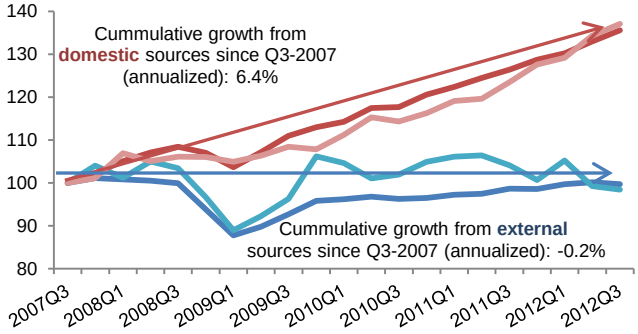
GDP growth remained robust

Real GDP, seasonally adjusted, annualized change from last quarter, percent



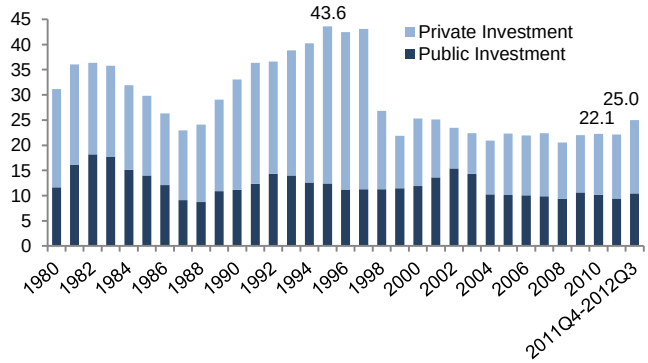
Domestic demand has been driving growth

Real GDP index (2007 Q3 = 100)



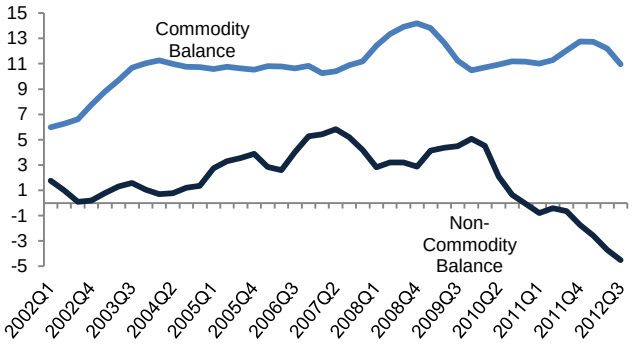
Investment accelerated markedly in 2012

Investment as a share of GDP, percent



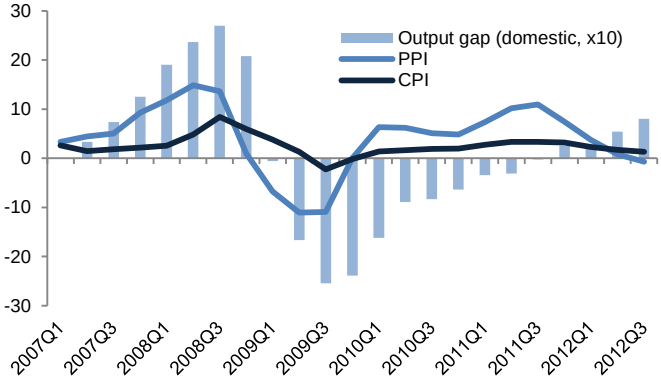
Capital goods imports drove the current account lower

Balances, 4-quarter rolling sum, percent of GDP



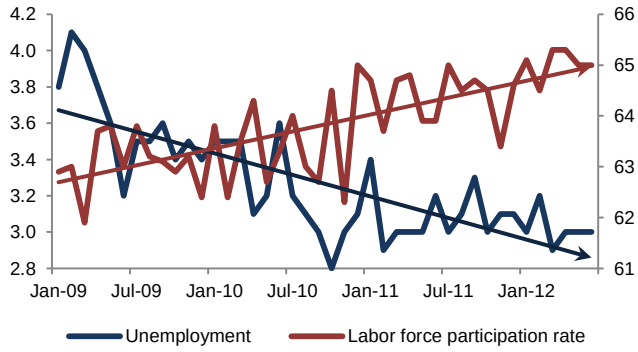
Inflation moderated thanks to supply-side easing

percent



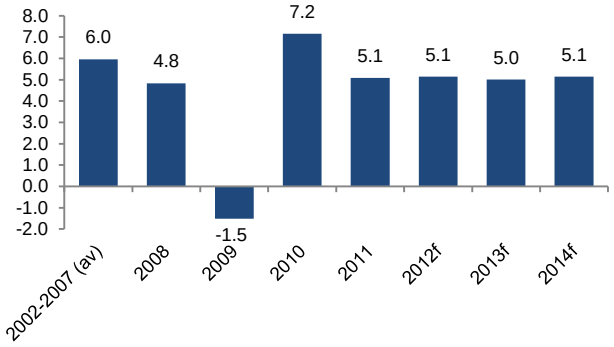
Labor markets tightened

Unemployment rate (left); Labor force participation rate (right)



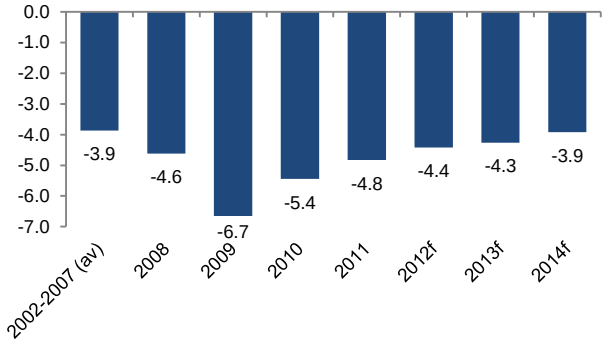
Growth momentum continues into 2013

Actual and forecast real GDP growth, percent



Fiscal consolidation is expected to continue

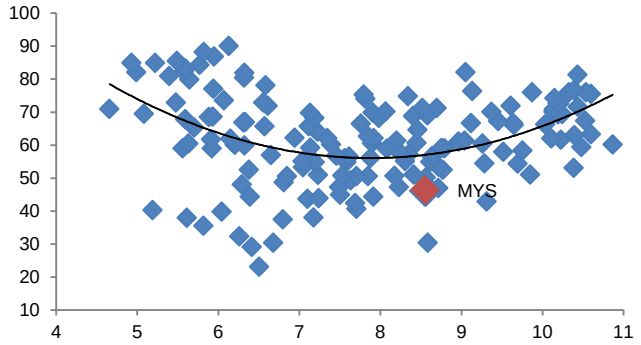
Balance of the Federal Government, percent of GDP



UNLOCKING WOMEN'S POTENTIAL IN PICTURES

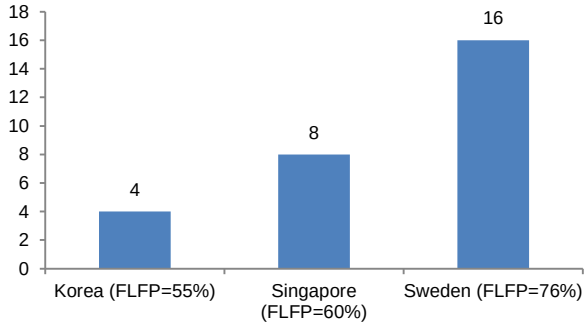
Malaysia's women's labor force participation is low

Female labor force participation rate, percent (vertical axis),
GDP per capita, logs, (horizontal axis)



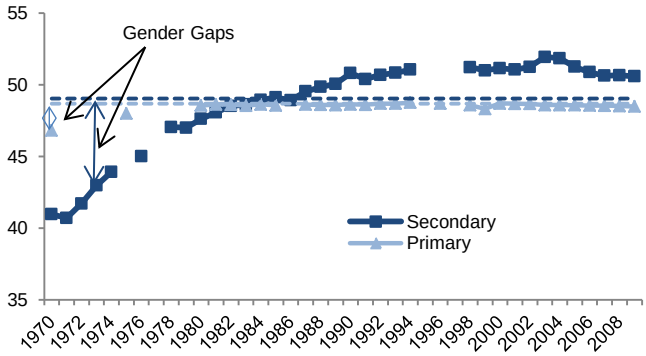
Significant gains from closing gender gaps

Potential gains in GDP per capita from raising FLFP to the levels of different countries (percent)



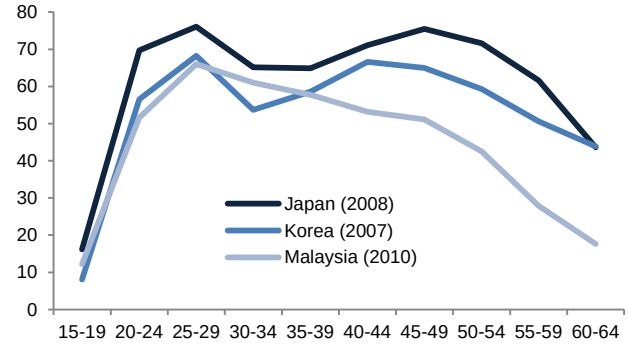
Gaps have closed in primary and secondary education

Gross primary and enrollment, percent



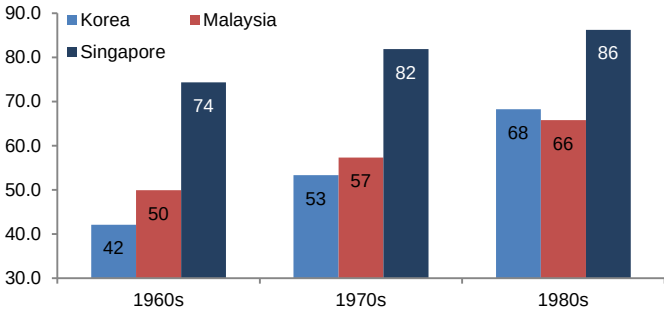
Malaysia's participation profile is single-peaked

Women's labor force participation by age group, percent



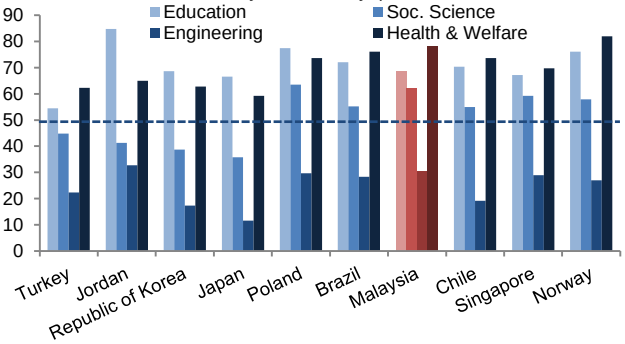
Women's participation has increased with new generations, but gaps remain

Labor force participation of women 25-29, by birth cohort, percent



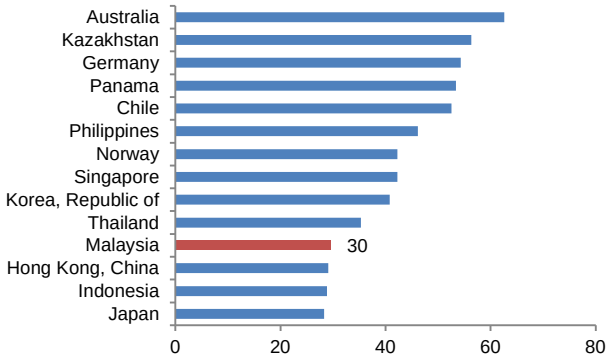
Malaysia's challenges with gender streaming in education are common to many countries

Women's share of enrollment, by field of study, percent



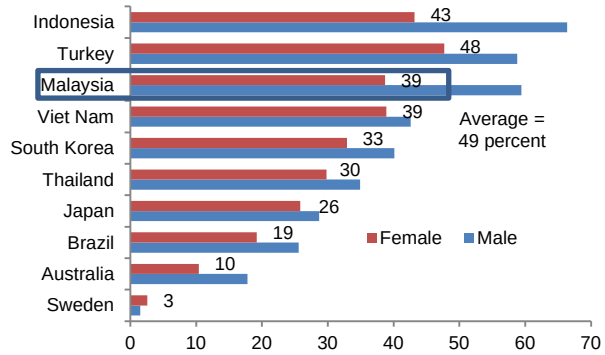
There are relatively few managers who are women

Managerial gap index (100 = no gap)



Social norms are a key driver of gender gaps

Percent of respondents who agree that men should have priority for jobs



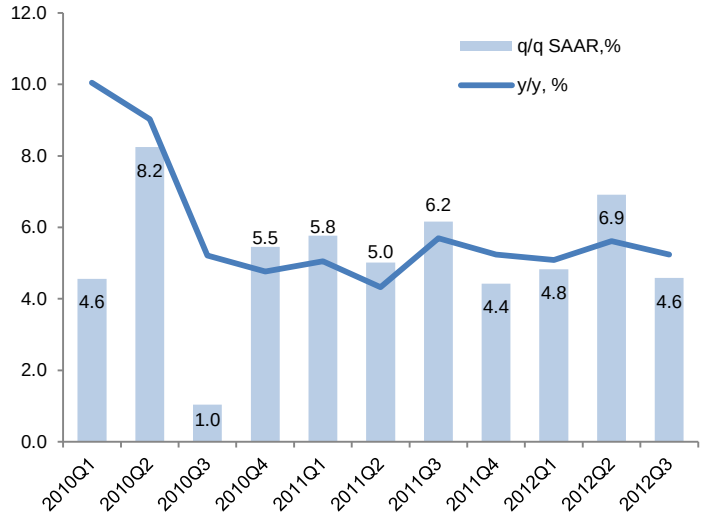
1. RECENT ECONOMIC DEVELOPMENTS

Strong growth despite weakening external environment

The Malaysian economy maintained a vigorous pace in the first nine months of 2012 despite external headwinds. Real Gross Domestic Product (GDP) expanded by 5.3 percent in the first three quarters of 2012 compared to the same period in 2011. On a sequential (quarter-on-quarter, seasonally-adjusted annualized) basis, the pace of GDP growth slowed to 4.6 percent in the third quarter from 6.9 percent in the second quarter and 4.8 percent in the first quarter of 2012 (Figure 1). On a year-on-year basis, real GDP expanded by (an upwardly-revised) 5.1 and 5.6 percent in the first and second quarters, respectively, and by 5.2 percent in the third quarter. The slowdown in growth in the third quarter was in line with regional peers (with the exception of China; Figure 2). GDP growth in the first nine months of 2012 exceeded the World Bank's earlier estimate of 4.4 percent largely due to a significant outperformance in fixed capital formation as well as an unexpectedly positive contribution from inventories (Figure 3). Performance in these two items more than offset the larger-than-expected negative contribution from net exports, which contracted sharply as the external environment was even weaker than anticipated and higher investments led to a surge in imports of capital goods. Malaysia's performance in the first nine months of 2012 continues a trend in the past two years that has seen rapid expansion of value-added absorbed by domestic demand (and, in parallel, production by domestically-oriented industries) while external demand (and export-oriented industries) stagnates (Figure 4)[1].

Figure 1. Growth moderated somewhat in the third quarter of 2012…

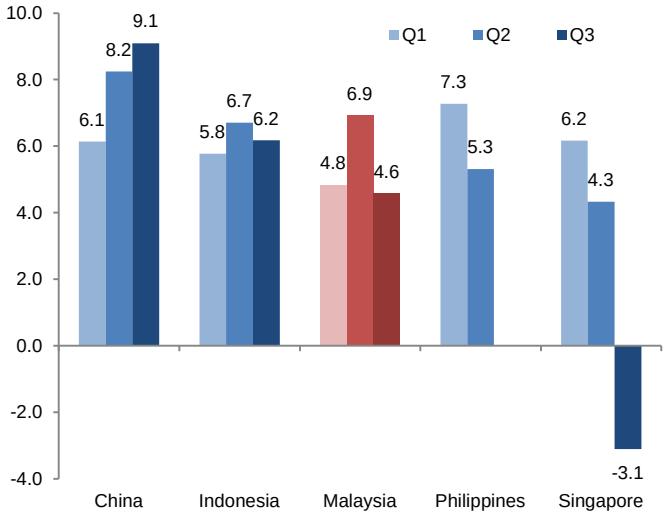
GDP adjusted for inflation and seasonal fluctuations, change from the previous quarter, annualized (bars), and previous year (line), percent



Source: CEIC and World Bank staff calculations.

Figure 2. …in line with most regional peers

GDP adjusted for inflation and seasonal fluctuations, change from the previous quarter, annualized, percent

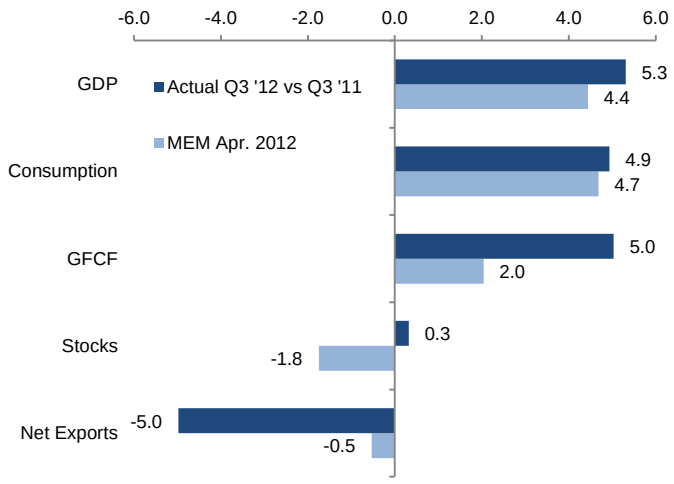


Source: Indonesia, Philippines and Singapore: CEIC; Malaysia: World Bank staff calculations; China: National Bureau of Statistics of China.

[1] In this report, export-oriented industries include palm oil, rubber, petrochemicals, mining and quarrying, electrical and electronics manufacturing, accommodation, and transport & storage. All other industries are considered domestically-oriented. This definition differs somewhat from BNM's definition of export-oriented manufacturing industries, as BNM includes wood and textile manufacturing among external industries. See Box 1 for details on the value-added estimates.

Figure 3. Growth exceeded expectations…

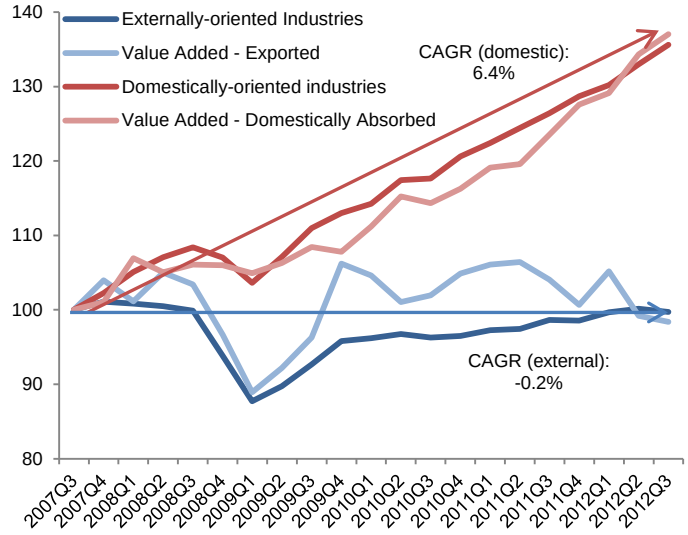
Contributions to the year-on-year growth rate, percentage points



Source: World Bank (2012a) and CEIC.
Note: Figures may not add up due to rounding. Q3 in this figure refers to the first three quarters combined.

Figure 4. … thanks to robust domestic demand

Index of seasonally-adjusted real value-added, 2007Q3 =100



Source: CEIC and World Bank staff calculations.
Note: See Footnote 1 for the definition of externally and domestically-oriented industries. See Box 1 for an explanation of the decomposition of value-added between domestic and external absorption.

Box 1. How much value-added is exported or absorbed domestically?

Gross domestic product represents the value-added produced in the economy. This is immediately observed in the production approach to national accounts, which sees the economy as all the different sectors involved in the domestic production of goods and services. Value-added is the net output of a sector after adding up all outputs and subtracting intermediate inputs, and GDP is the sum of the value-added in all the sectors. The expenditure approach to national accounts considers the demand side: everything that is consumed, invested or exported in an economy can only have two sources: domestic production or imports. Therefore, all consumption, investment and exports, subtracting the value of imports, must also equal the value-added of domestic production.

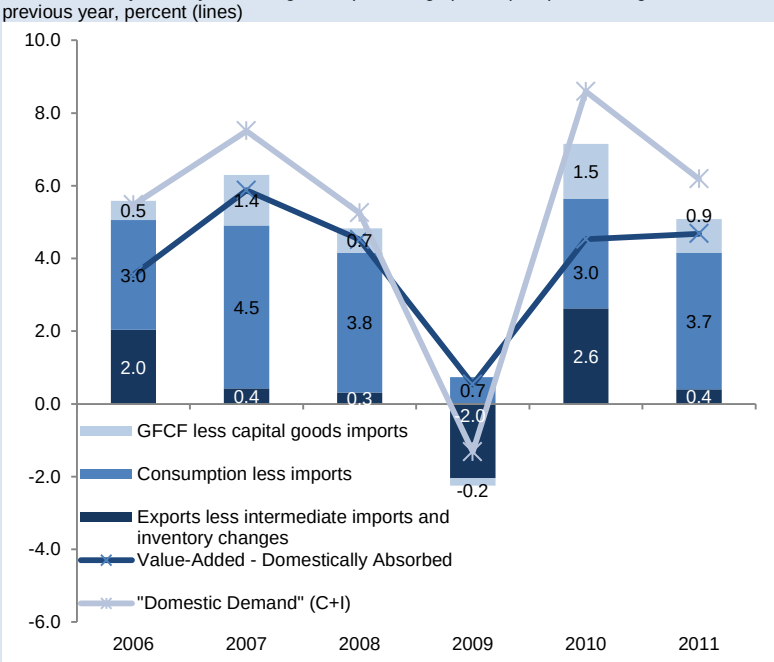
The expenditure approach does not identify whether domestic value-added is used domestically or exported. Because consumption, investment and exports all use imports as well as domestic production, the expenditure-side aggregates do not adequately capture the final use of domestic value-added, which is ultimately the variable of interest. Therefore, "external demand," as commonly used (exports less imports), may or may not reflect actual demand for the value-added produced in the economy. For example, if export demand is strong but investment surges, leading to a spike in the demand for imported machinery, "external demand" growth could be negative. Similarly, export growth may be high, but if exports have an increasing import-component, the value-added of export industries could be declining even as gross exports increase. Similarly, "domestic demand" could expand even as production for the domestic market declines if it is met primarily with imports.

Domestic sources have represented most of the demand for value-added produced in Malaysia. We break down gross imports by main demand component using data on imports of consumer goods, capital goods and intermediate goods. The relevant imports are subtracted from the gross value of the demand component to generate an estimate the domestic value-added that is used in Malaysia (the "domestically absorbed" value-added), and the domestic value-added that is exported. Figure 5 suggests that domestically-absorbed value-added is less volatile than the traditional measure of "domestic demand" would suggest, and it has had a predominant contribution to growth since 2006. Fixed investments, while critical to ensure the economy's long-term productive capacity, absorb relatively little domestic value-added in the near term since over 40 percent of gross

fixed capital formation by value is imported. Investment net of capital goods imports has surged in 2012 because of the increased contribution of investment in structures, which has a high level of domestic value-added. Inventory changes are aggregated to exports for two reasons. First, it is not possible to know which intermediate goods to attribute to inventories or the production of exports, and second, given the high import content of exports (about 60 percent), it is reasonable to assume that to a large extent inventories are related to exporting industries.

Figure 5. Estimates of expenditure-side macroeconomic aggregates on a domestic value-added basis

Contribution to year-on-year GDP growth, percentage points (bars) and changes from the previous year, percent (lines)



Source: CEIC and World Bank staff calculations.

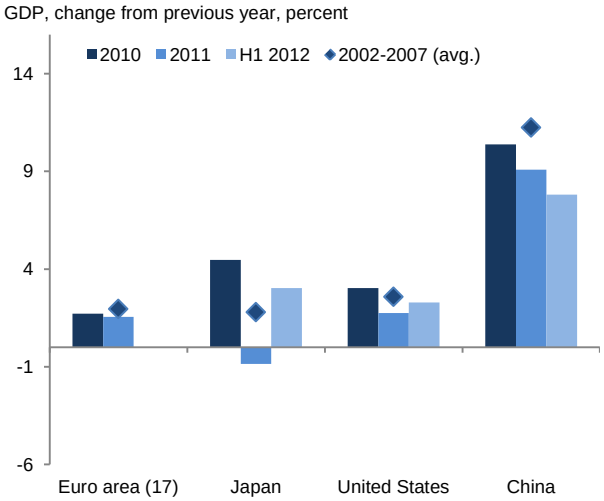
The estimates for value-added absorbed by the demand-side of the economy are in line with the domestic or external orientation of Malaysia's different industries. In Malaysia, the industrial structure can be approximately divided between export-oriented industries and domestically-oriented industries. Export-oriented industries include palm oil, rubber, petrochemicals, mining and quarrying, electrical and electronics manufacturing, accommodation, and transport & storage. Figure 4 suggests that the estimated value-added absorbed by external demand has generally followed the output in the export-oriented industries. The picture that emerges from Figure 4 is striking: value-added absorbed by external demand has been flat since 2007, similar to the production of export-oriented industries. Meanwhile, domestic demand – and those industries catering to it – has been expanding strongly, with minimal interruptions even during the global financial crisis.

Exports slowed further as the global economy provided a challenging backdrop

Global trade and industrial production moved lower in the second quarter of 2012 as concerns about the European sovereign debt crisis deepened, but some green shoots appeared by the third quarter. Global industrial production accelerated in the first three months of the year, only to decline again in the following three months. Nevertheless, the balance of industrial production in the first half was positive due to growth in developing countries and some improvement in activity in the US. This offset weakness in Europe, which posted an outright contraction of nearly 0.25 percent (Figure 6). China, Malaysia's main trading partner, also decelerated substantially, with GDP growth in the first quarter at the lowest levels since the global financial crisis. Trade volumes followed the same pattern, contracting by 1.5 percent at an annualized pace in the second quarter of 2012 from 3.8 percent growth in the first quarter. The global economic environment improved in the third quarter as the risks of an extreme event in Europe were allayed, US labor and housing markets appeared to show some green shoots of a more robust recovery, central banks in

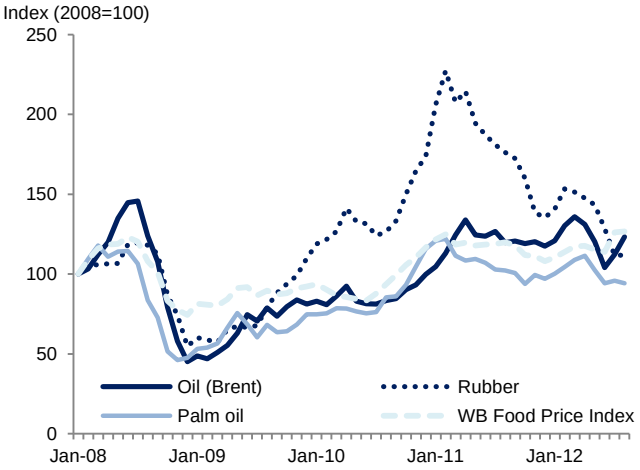
advanced economies took aggressive action, and the Chinese economy accelerated modestly on a sequential basis. Improvements have been modest, however, and can be best characterized as averting further deterioration.

Figure 6. The recovery in advanced economies lost momentum in 2011



Source: CEIC, World Bank staff calculations.

Figure 7. But commodity prices remained firm



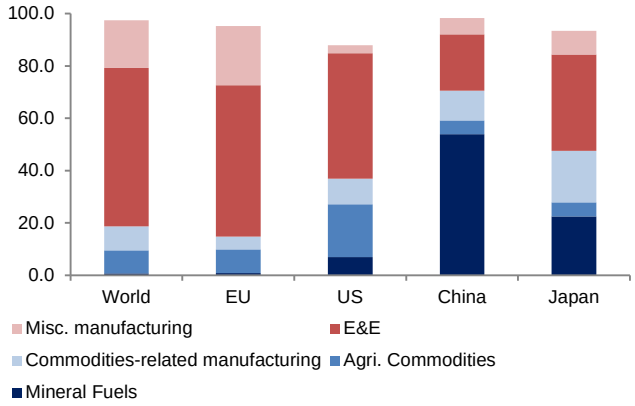
Source: World Bank Development Economics Prospects Group
Note: World Bank Food Price Index for emerging markets.

Commodity prices declined only modestly despite weakening demand from advanced economies and China. The combination of ample liquidity from central bank's responses to the recent weakness as well as earlier tensions in the Middle East resulted in only modest declines in the prices of commodities since the second quarter of 2012 despite the added factor of moderating growth and demand from China (Figure 7). As growth in China appeared to pick up and additional monetary expansion was announced (e.g. the European Central Bank's Long-Term Refinancing Operations), oil prices showed signs of rebounding, rising to USD 110 per barrel (Brent) in the third quarter of 2012 after falling by USD15 to USD103 in the previous quarter. Liquefied Natural Gas (LNG) prices in Japan (the relevant benchmark for Malaysia's LNG exports) jumped over 40 percent since the Fukushima disaster but only 9 percent since September 2011. In terms of Malaysia's other export commodities, prices of rubber and palm oil continue to decline, partly as a result of the slower pace of China's growth. Rubber prices tumbled by about 16 percent between January and October, while palm oil prices declined by over 20 percent. Global food prices, on the other hand, continued to rise in the first three quarters of 2012 after moderating in the second half of 2011, though this was driven primarily by grains (wheat and corn) that are not a large component of Malaysians' food basket.

The second export engine (commodities) lost steam, and exports slowed to a crawl. Exports of goods and services grew by 2.6 percent in nominal terms (0.6 percent in real terms) in the first nine months of 2012, slowing down from a 7.9 percent expansion in the same period in 2011. The effect of moderating demand from China and Japan, Malaysia's largest markets for agricultural commodities and a significant market for fuels and commodity-related manufacturing (Figure 8), spread weakness to Malaysia's commodity exports, which had been performing well until recently. Due to a combination of lower prices and output, commodity-related exports decelerated sharply to 2.3 percent in the first nine months of 2012 from a 25.5 percent expansion in the same period of 2011 (in nominal terms). Shipments of LNG plummeted due to production bottlenecks in the second and part of the third quarter of 2012 (mining output was up just 0.5 percent in the first nine months), while the value of rubber shipments declined by 42 percent, partly due to the decline in rubber prices but also production as rubber output declined 9.5 percent during the period. Meanwhile, shipments of non-commodities remained subdued in line with the weak economy in the major importing countries (the US and especially Europe), expanding by only 1.9 percent in the first three quarters compared to the same period in 2011, a small improvement over flat growth a year earlier. Exports to major OECD trading partners declined on a year-on-year basis for the first three quarters of 2012, led by exports to the EU, which contracted by 13 percent as a consequence of the crisis there (Figure 9). As commodity exports further added to the drag on growth, monthly exports have yet to return to pre-crisis levels on a seasonally-adjusted basis.

Figure 8. China is a key importer of commodities from Malaysia…

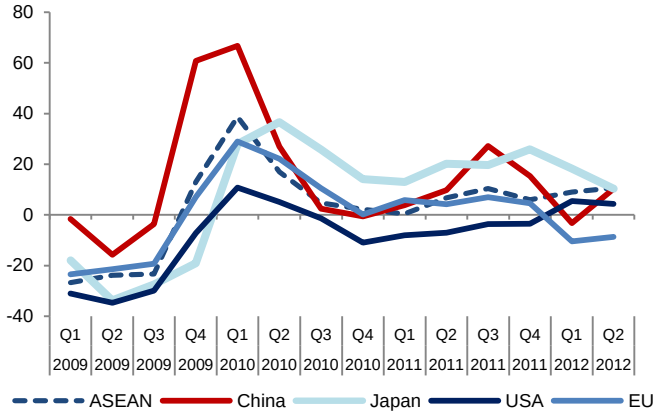
Contribution to total exports by destination, Jul 2011-Aug 2012



Source: CEIC and World Bank staff calculations.
Notes: 1. Products defined by the following categories: Mineral Fuels, Crude Materials Inedible and Animal, Vegetable Oils and Fats (Agricultural Commodities), Chemicals and Manufactured Goods (by material) (Commodities-related Manufacturing), Machinery and Transportation (E&E), and Miscellaneous Manufactures. 2. Exports to the EU approximated by exports to France, Germany, and the UK. Exports to ASEAN approximated by exports to Indonesia, Myanmar, Philippines, Singapore and Thailand.

Figure 9. … and along with Japan a fast-growing market for Malaysia's exports

Change from the previous year, percent



Source: CEIC and World Bank staff calculations.

A boom in investments propelled domestic demand

Investment from both public and private sources was a key driver of growth. Gross fixed capital formation surged by 22 percent in the first three quarters of 2012, taking the share of investment in GDP to 27 percent, the highest level since 1997. Growth slowed in the third quarter to 7.3 percent on a sequential basis (seasonally-adjusted, annualized rate – SAAR) following rapid growth of 29.1 and 31.7 percent in the previous two quarters, respectively. The private sector added about 65 percent of the expansion in fixed investment in the first three quarters, with the public sector (including GLCs) contributing the additional 35 percent. Inventories surprisingly contributed positively to growth, adding 0.3 percentage points to the year-on-year growth rate in the first nine months. Overall investment (fixed and inventory) expanded by 22 percent in the first three quarters of the year.

Investments were concentrated in three areas: oil and gas, real estate, and infrastructure. Investment in structures expanded by 28 percent over the first nine months and contributed, respectively, 2.3, 3.5 and 2.9 percentage points to year-on-year GDP growth in the first three quarters of 2012. In line with the surge of investments in structures, output of the construction sector surged by 40 and 34 percent in the first and second quarters (quarter-on-quarter, SAAR) before slowing to 11 percent in the third quarter; on a year-on-year basis, the sector expanded 18.7 percent for the first nine months of 2012. PETRONAS started work on its Refinery and Petrochemical Integrated Project (RAPID) project in Pengerang, Johor, and work continued on the Sabah Oil and Gas Terminal. Public investments in infrastructure also contributed to the surge in construction activity, with the initial foundation work starting for the MRT, the ongoing LRT extension, the Second Penang Bridge, and the double-tracking of railway lines in Southern Peninsular Malaysia. On the private side, investment in structures was driven mainly by high-end residential projects in the Klang Valley and Iskandar Malaysia. Equipment (and other) investment was also robust, expanding by 17 percent from the previous year. In addition to equipment investments associated with the oil and gas projects above, a critical mass of initial contracts for major ETP projects have now been awarded and many contractors and sub-contractors started making equipment investments in anticipation of the commencement of the projects. Public equipment investment was also linked to infrastructure projects, as well as the purchase of new A380 aircraft by Malaysia Airlines.

Private and public consumption remained robust. Cash transfers such as the Bantuan Rakyat 1Malaysia (BR1M), a tight job market and higher civil service wages appear to have propped up private consumption, which remained resilient in the face of softer commodity prices, somewhat stricter credit conditions, and greater uncertainty on the external front. Household consumption expanded by 8.5 percent in the third quarter of 2012 from the previous year,

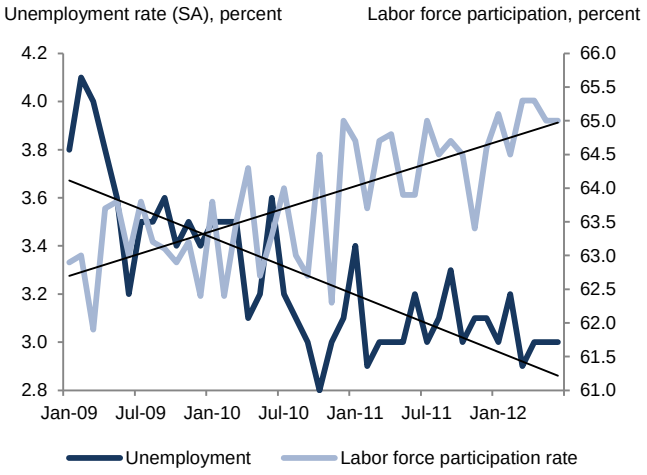
bringing average growth in the first nine months of 2012 to 8.3 percent. Consumption indicators demonstrated a mixed trend, with spending on big-ticket items (such as cars) perhaps circumscribed by the imposition of Bank Negara's new rules for household loan applications, but otherwise keeping to the vigorous pace observed in 2011. Meanwhile, growth of public consumption moderated to 2.3 percent in the third quarter from 10.9 percent in the second quarter, bringing growth in the first three quarters of the year to 7.2 percent from the same period in 2011. This pace represents a sharp reduction from the 16.1 percent growth registered by public consumption in 2011.

Labor markets remained tight, and wages showed signs of a pick-up

Unemployment has declined below pre-crisis levels. The seasonally-adjusted unemployment rate remained stable at 3.0 percent in the second quarter and declined further to 2.8 percent in August (Figure 10). For comparison, the average unemployment rate for 2002-2007 was 3.4 percent. Meanwhile the number of Malaysians employed or looking for a job increased as a share of the working-age population, leading the labor force participation rate to go up by 0.2 percentage points to 64.7 percent in August. Figure 10 suggests two simultaneous trends since 2009, towards higher labor force participation and lower unemployment, both signs of robust job growth. Indeed, Malaysia created 298,000 jobs between August 2012 and August 2011 and the employment rate increased from 62.5 to 63.0 percent.

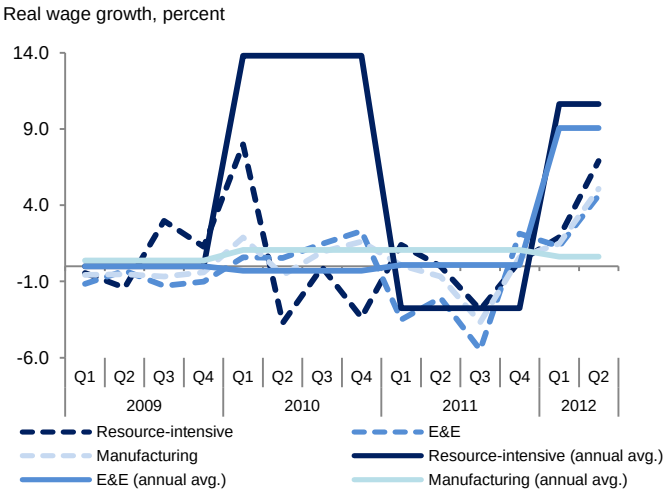
Manufacturing wage growth has accelerated. Although the unemployment rate had been declining for the first half of the year, labor market tightness had not been reflected in wages until recently. Manufacturing wages (adjusted for inflation) increased by 6.6 percent in August 2012 and an average of 8.5 percent for the first half of 2012 (Figure 11). Average manufacturing wages in sectors related to petroleum, plastics, chemicals and rubber products, which have performed better historically compared to average manufacturing wages, posted a 7.4 percent drop in July 2012, compared to a year-on-year increase of 10 percent in the first half of 2012. Wage growth recovered by 3.5 percent in August 2012 however. By comparison, average wages in the electrical and electronics sector rose by 8.5 percent increase in August 2012 year-on-year. This is a 6.0 percentage point increase over the 2011 wage growth in the sector.

Figure 10. The unemployment rate is now below pre-crisis levels while labor force participation is up



Source: CEIC and World Bank staff calculations.
Notes: Seasonal adjustment by World Bank staff.

Figure 11. Wages are starting to rise, particularly in non-resource industries



Source: CEIC and World Bank staff calculations.

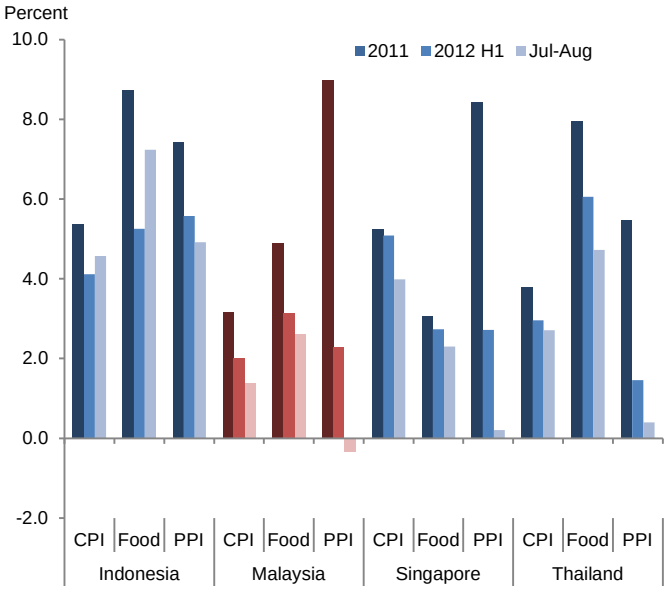
Inflation has been on a declining trend

Inflation continued to decline into the third quarter of 2012 as food prices stabilized and fuel prices declined. Consumer price inflation (CPI) has been on a downward trend in 2012, decelerating from 2.3 percent in the first quarter, to 1.7 percent in the second quarter and 1.4 percent in the third quarter. Benign inflation dynamics were underpinned primarily by a decline in fuel prices following trends in global oil prices, and by a moderation in food inflation, which declined from 5.2 per cent in the fourth quarter of 2011 to 2.6 per cent in the third quarter of 2012. Although headline inflation declined uniformly across the country, food inflation was higher in Sarawak, where it averaged 3.9 per cent in the third quarter compared to 2.4 per cent for peninsular Malaysia and 2.8 percent in

Sabah. The trend towards lower inflation in 2012 was region-wide, although Malaysia continued to experience the lowest headline inflation rates among regional peers, likely due to more extensive subsidies (Figure 12). While consumer price inflation may not reflect underlying inflation pressures due to price controls and subsidies, producer price inflation (PPI) has also declined, contracting by 0.7 percent in the third quarter. While producer price inflation has turned negative, the difference between producer and consumer prices in Malaysia remains among the highest (least negative) in the region.

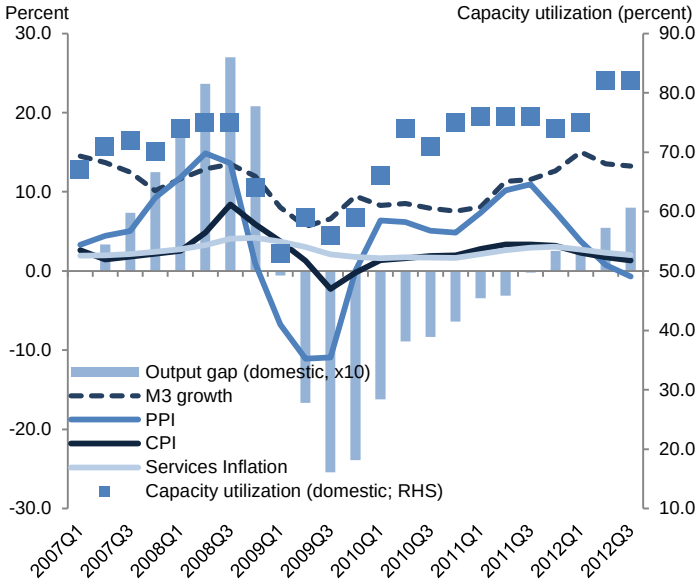
Supply factors were the main drivers of lower inflation while demand-side pressures increased. Decelerating inflationary trends were underpinned primarily by supply factors, notably moderating global prices for fuel and domestic food prices, as reflected in a sharp deceleration of the producer price index (Figure 13). Demand-side factors pointed towards greater pressures on inflation, as the unemployment rate declined, capacity utilization increased and the output gap remained positive in 2012. Services inflation, which is relatively less influenced by supply factors, rose above overall CPI for the first time since 2010 though it remained fairly benign at 2.3 percent on average in the first nine months of 2012. Broad money (M3) growth decelerated in the second quarter as credit expansion remained strong but the pace of expansion moderated, suggesting that monetary policy was becoming somewhat less accommodative on the face of increasing demand-side pressures.

Figure 12. Inflationary pressures have declined among major ASEAN countries in 2012



Source: CEIC, IMF (IFS) and World Bank staff calculations.

Figure 13. Supply factors were the main drivers of lower inflation but demand factors also played a role



Source: CEIC and World Bank staff calculations.
Note: Output gap and capacity utilization rates for domestic oriented sectors. Output gap calculated using the Hodrick-Prescott filter to estimate potential GDP.

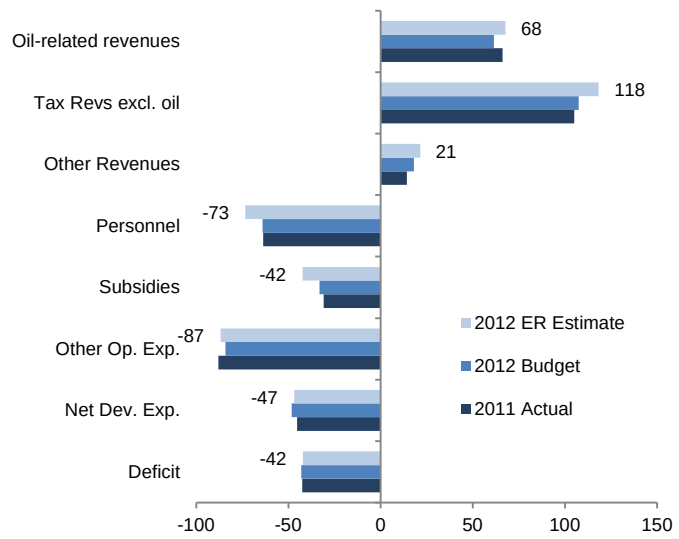
Fiscal and monetary policies balance restraint and stimulus

Despite higher expenditures, deficit target likely to be met in 2012

The government is likely to meet its deficit target for 2012 despite a significant growth in expenditures. For the first nine months of 2012, the deficit of the federal government was RM22.4 billion, 31 percent higher compared to the first nine months of 2011. This was driven by expenditure growth of 12 percent compared to revenue growth of 9 percent during the period. Nevertheless, the government is expected to continue on the path of fiscal consolidation. In its Economic Report announced alongside the 2013 Budget, the Government reported that the deficit of the Federal Government for 2012 was expected to come in below its original target of RM 43.0 billion at RM 42.3 billion, equivalent to 4.4 percent of projected 2012 GDP, compared to RM42.5 billion or 4.8 percent of 2011 GDP in the previous year (Figure 14).

Figure 14. Revenues are likely to exceed targets and ensure a smaller deficit even with higher expenditures

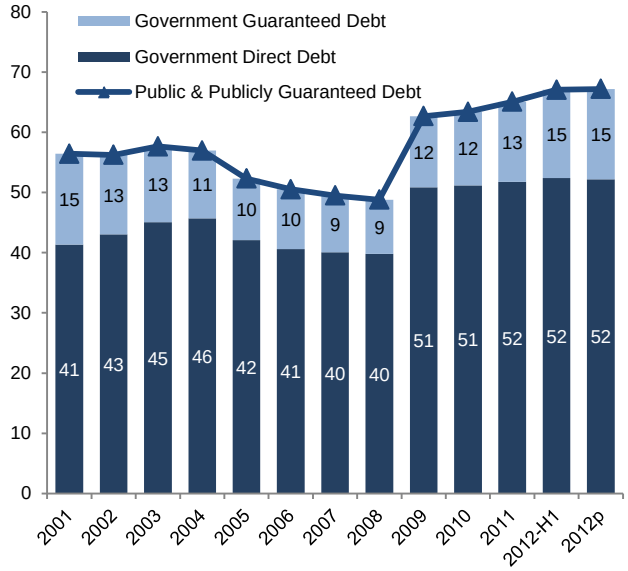
Federal Government finances, RM billions



Source CEIC, MOF, and World Bank staff calculations.
Note: 'Personnel' includes emoluments, pensions and gratuities.

Figure 15. Guaranteed debt climbed in 2012 even as direct debt remained stable

Percent of GDP



Source: CEIC, MOF and World Bank staff calculations.

Revenue collections for 2012 are likely to significantly exceed their target on improvements on both tax and non-tax receipts. Revenues are projected to exceed the original target (from the 2012 budget) of RM 187 billion by 11 percent as both oil and non-oil revenues expanded on firm oil prices, buoyant economic activity and greater efforts in tax collection. As of September, 81 percent of the revenue target for 2012 had already been met. Considering that (non-oil) tax effort declined significantly over the previous decade as oil revenues increased as a share of overall revenues, improvements in tax administration can yield further revenues in corporate, income, and excise taxes. Indeed, as a result of enhanced enforcement and economic growth, corporate income taxes were up by 31 percent in the first half of the year. Oil-related revenues are expected to comprise 33 percent of revenues in 2012, and the non-oil primary deficit is likely to come in between 9.5 and 10 percent of GDP, below its level in 2011.

But additional revenues are expected to be absorbed by additional government consumption. Operating expenditures (81 percent of estimated 2012 expenditures) were up 18 percent (year-on-year) in the first half of 2012 and are expected to increase by 11 percent for the year as a whole, exceeding the original budget allocation by 11.5 percent or RM 21 billion.[2] The Government increased spending on wages, pensions, and transfers. Of particular note is the Bantuan Rakyat 1Malaysia (1Malaysia Peoples' Assistance or BR1M) program, direct transfers of RM500, originally targeted at an estimated 56 percent of households earning less than RM3,000 a month, but ultimately reaching 4.3 million or about 2/3 of households.[3] BR1M added RM2.2 billion to subsidy spending totaling RM18.5 billion, with the latter contributing 20 percent of growth in operating expenditures. Spending on 'personnel' (encompassing emoluments, pensions and gratuities) was up 12 percent in the first half of 2012 and is expected to come in 14 percent above the original budget. Development expenditure (net of loan recoveries) surged by 27 percent in the first half of the year compared to the same time period last year but is estimated to shrink by 3 percent for the year as a whole and come in 3 percent below the amount allocated. This may have already taken place in the third quarter, when the pace of overall expenditure growth declined to 12 percent. Overall expenditures for the first half of 2012 increased by 20 percent from the same period in 2011, suggesting that the outperformance of GDP in the second quarter was supported by government spending.

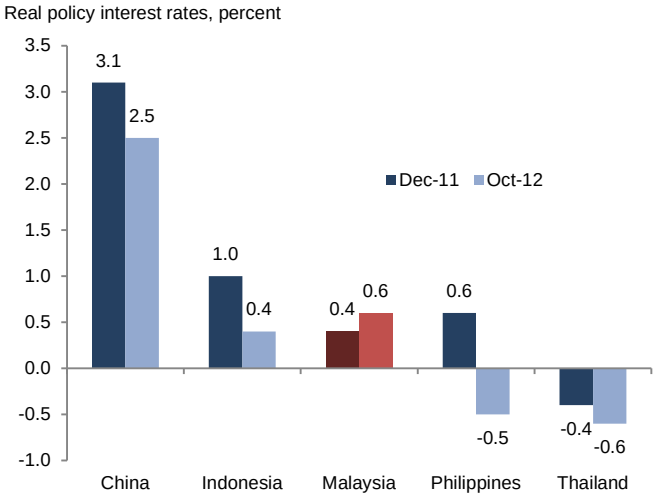
[2] A supplementary budget of RM13.8 billion was approved in mid-2012, and according to the Economic Report estimates a second supplementary budget of about RM 6 billion will be necessary.
[3] Source: Economic Report 2012/2013, p. 12.

In some cases, capital expenditures have been undertaken off-budget and the amount of government guarantees has increased. The reduction in capital expenditures has in some cases been offset by off-budget measures. Federal Government guaranteed debt increased by RM 16 billion or 1.8 percent of GDP in the first six months of 2012. This compares to an increase of direct debt by 2.3 percent of GDP.[4] As a result, while the Federal Government debt-to-GDP ratio is projected to end 2012 at 52 percent, below the Government's target of 55 percent, public and publicly guaranteed debt is expected to increase from 65 to 67 percent of GDP (Figure 15).

Monetary policy pulled in two directions; stands still

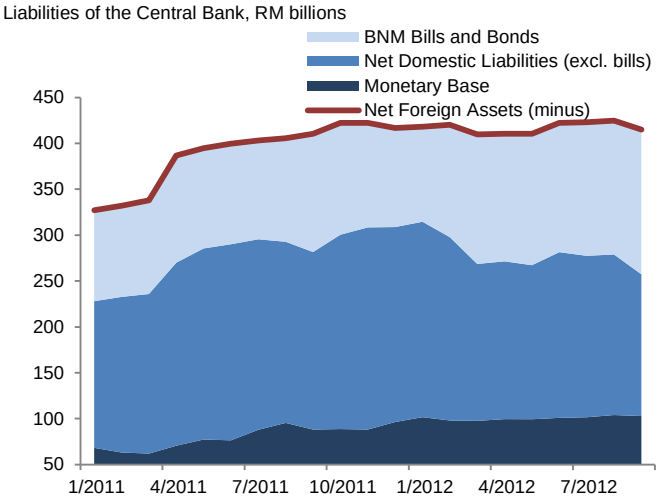
Heightened external risks and declining inflation have been offset by domestic strength, leading Bank Negara to keep monetary policy in a holding pattern throughout the year. Monetary policy has been pulled in two directions in 2012: on the one hand, factors calling for a resumption of the normalization of interest rates initiated in 2010 include the strength in domestic demand, rising real estate prices and a positive output gap; on the other hand, factors that suggest further monetary accommodation include declining inflation rates, heightened external risks, and further monetary easing by G3 and other ASEAN central banks. Given these opposing forces, Bank Negara Malaysia (BNM) has decided to keep its benchmark interest rate (the overnight policy rate, OPR) unchanged at 3.0 percent throughout 2012. In contrast, most ASEAN central banks as well as the People's Bank of China cut policy rates to prevent the transmission of weakness from the external environment to the domestic economy (Figure 16). At 0.6 percent, the real policy rate remains below its 2007 level of 1.5 percent, and monetary policy remains supportive of economic growth but watchful of emerging risks.

Figure 16. Policy rates in ASEAN and China were cut, whereas they were steady in Malaysia



Source: CEIC.
Note: Calculated subtracting expected inflation for the following year from the policy rate.

Figure 17. Liquidity conditions were stable in 2012 following expansion in 2011



Source: BNM and World Bank staff calculations.

Liquidity conditions were stable in 2012 as foreign inflows moderated. Capital inflows moderated in 2012, which, combined with overall Ringgit strength, drove net foreign assets in the economy down 0.3 percent since January compared to a 24 percent increase in 2011. Capital flows in 2011 were only partially absorbed, and the monetary base expanded by about 1/3 of the increase in net foreign assets or 57 percent (Figure 17), though this expansion was partly due to the increase in required reserves. Accordingly, private sector liquidity, as measured by broad money (M3), expanded by 14 percent in 2011. In contrast, in 2012 the monetary base and broad money have been generally flat since January. Even as capital flows slowed in 2012, domestic demand expanded strongly and BNM maintained the size of its sterilization portfolio, although the composition shifted towards BNM securities and away

[4] These include guarantees for major investment projects such as the MRT, oil and gas projects, development of the Tun Razak Exchange, and developments in Iskandar.

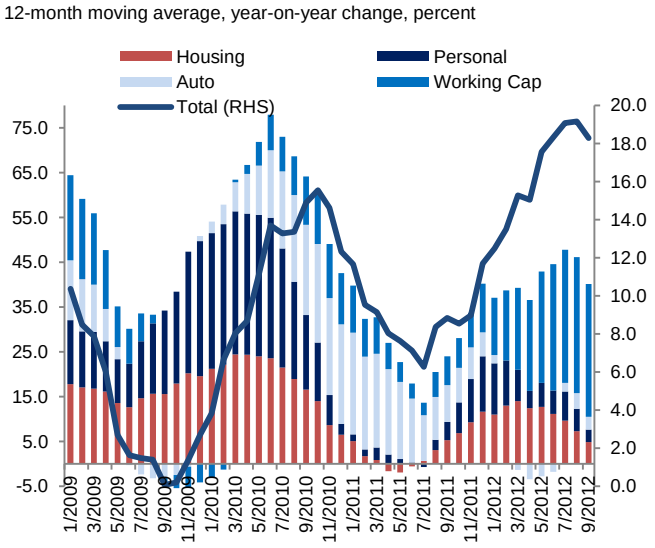
from direct borrowing and repos: the stock of BNM bonds and bills outstanding increased by approximately RM 50 billion in the first nine months of 2012, whereas other domestic liabilities declined by RM 58 billion.

Domestic credit conditions remained supportive of economic activity

Growth of credit to businesses increased, while credit to households moderated. Loans continued to grow by 11.9 percent as at end-September 2012 (compared to 13.8 percent a year earlier). Credit to businesses increased while household credit moderated somewhat. Total financing extended through financial institutions and the capital markets to the business sector expanded by 13.7 percent as at end-August 2012 compared to 13.4 percent as at end-August 2011. Banking system loans to businesses expanded by 13.5 percent as of end-September 2012 (compared to 14.1 percent a year earlier). Business demand for funds from the capital markets was also higher, with new issuances of private debt securities amounting to RM 98 billion from January till September this year (compared to RM 69.6 billion in 2011). Financing via the equity market also increased to RM21.3 billion in the first three quarters (compared to 8.8 billion a year earlier). The increase in financing to businesses was primarily for working capital in line with investment activities driven mainly by the domestic-oriented and commodity-related sectors (Figure 18).

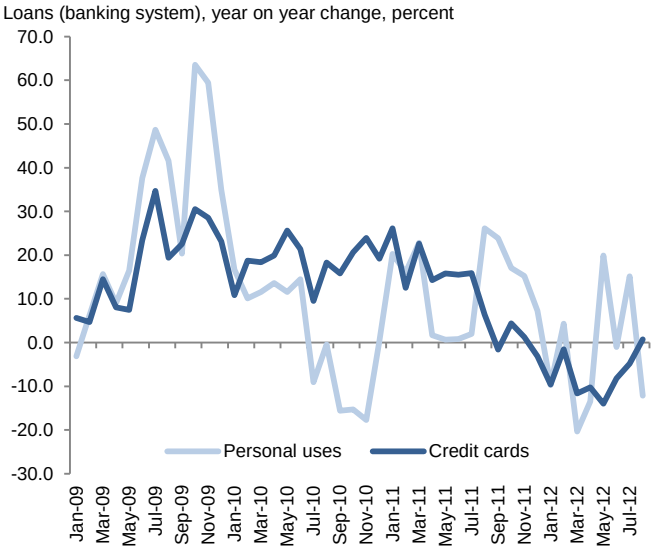
Macro-prudential measures led to moderating personal and credit card loans but household debt continued to climb. Outstanding household loans growth was sustained at 11.9 percent as at end-September 2012 (compared to 12.5 percent a year earlier). Loans for personal use and credit cards moderated during the same period. Loans for personal use and credit cards moderated during the same period (Figure 19). The moderation may be attributed to the various macro prudential measures implemented for the past two years in ensuring a prudent and sustainable level of household debt. As of the third quarter of 2012, household debt stood at 76.7 percent of GDP, 2.5 percentage points higher than 2011 levels of 74.2 percent of GDP.

Figure 18. Loans to businesses expanded...



Source: CEIC and World Bank staff calculations.

Figure 19. ...but personal loans and credit card growth moderated



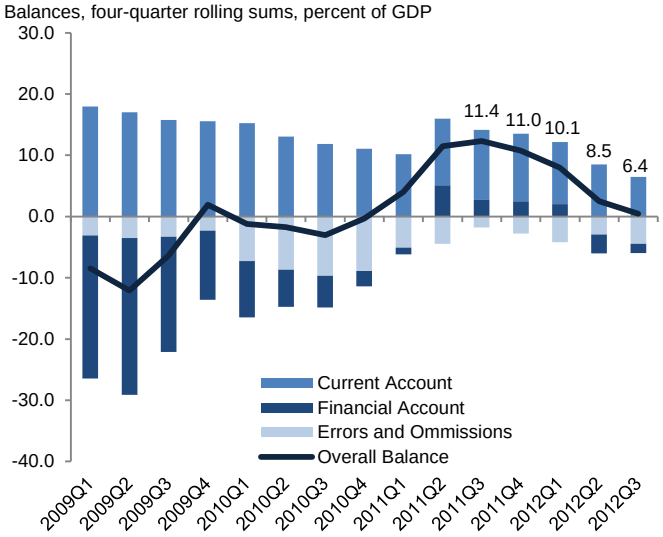
Source: Bank Negara Malaysia.

Banks remained well capitalized despite the vigorous credit growth and persistent headwinds from the Eurozone crisis. Risk-weighted and core capital ratios stood at 14.8 and 13.0 percent respectively as of September 2012, above levels required by national authorities and Basel III standards though lower than the 15.1 and 13.2 percent in early 2012. Tier 1 capital comprised 87.6 percent of total capital, while capital in excess of the minimum 8 percent regulatory requirement remained high at RM 73.3 billion. Asset quality improved further with the ratio of non-performing loans declining to 2.2 percent as of August 2012, an improvement compared to the ratio of 2.7 percent as at end-2011.

Malaysia's external position narrowed

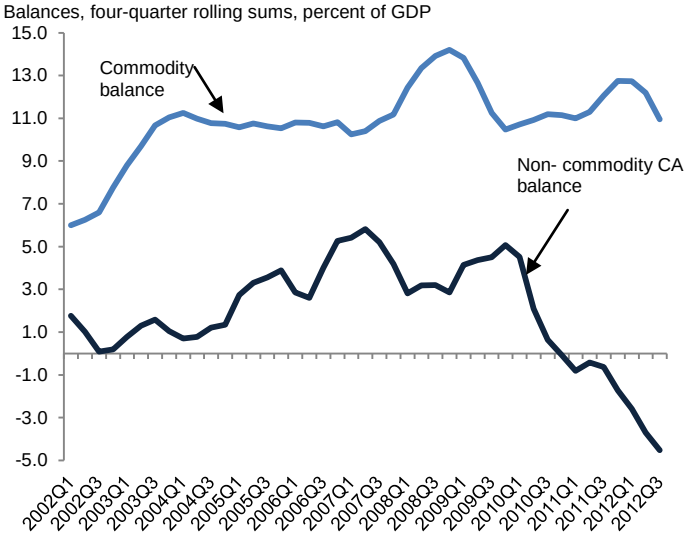
The overall current account balance registered the smallest surplus in 10 years as the non-commodity current account balance plummeted decisively into negative territory. The current account surplus continues to narrow in 2012, with the four-quarter moving average posting a surplus of 6.4 percent of GDP in the third quarter compared to a surplus of 8.5 percent in the previous quarter, continuing a trend that has been seen since the fourth quarter of 2011(Figure 20). This was attributed to the slower growth of exports of commodities since the second quarter, but primarily to the sharp deterioration of the non-commodity current account balance, which has been negative since the first quarter of 2011 (Figure 21). The slowdown in the commodity balance reflected mainly lower production and prices of, respectively, crude palm oil and rubber during the period. Manufacturing exports expanded moderately as E&E exports continued to remain weak owing to slower external demand. In contrast, imports of capital and consumption goods were strong, driven by the robust expansion in domestic demand, particularly investments. This decline in the non-commodity trade balance, allied with larger outflows on the income account, led to the sharp deterioration of the non-commodity current account balance.

Figure 20. The current account posted its smallest quarterly surplus in more than 10 years...



Source: CEIC and World Bank staff calculations.

Figure 21. ... as the non-commodity balance dropped sharply



Source: CEIC and World Bank staff calculations.
Notes: Commodity-related exports include food, beverages & tobacco; mineral fuels & lubricants; chemicals; animal and vegetable oils and fats. Non-commodities include manufactured goods and miscellaneous categories.

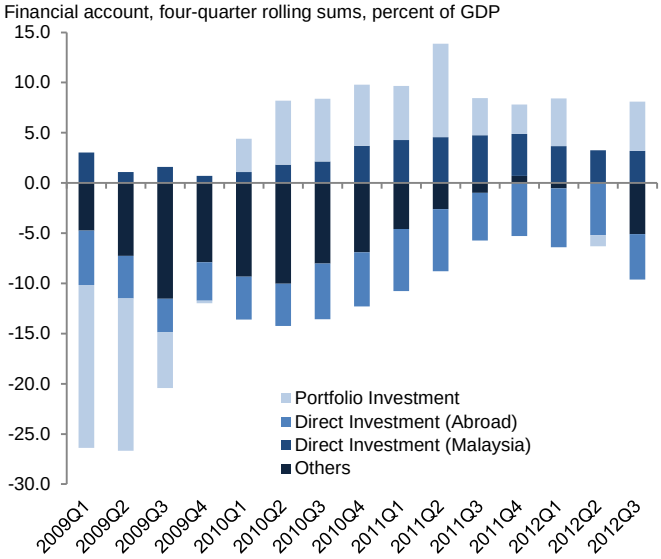
Net foreign direct investment (FDI) contracted in the first half of the year along with the deterioration of the global outlook. Net FDI inflows contracted by 23.2 percent in the first nine months of 2012 compared to the same period in 2011, although the contraction took place in the first half, with net FDI up 5 percent in the third quarter from the previous year (Figure 22). The contraction in the first half was driven by investors from the G3 economies of Europe, US and Japan (especially the latter two): net FDI from G3 economies plummeted by 80 percent between the first half of 2011 and the first half of 2012. In terms of sectors, net FDI contracted in manufacturing and services, but expanded in the mining sector led by the strong investments in the oil and gas industry described earlier (Figure 23). Investment in services overall contracted, but direct investment in the information and communications expanded, partially offsetting lower inflows to wholesale and retail trade and other services.

Portfolio flows turned negative in the second quarter due to heightened concerns regarding the Eurozone debt crisis before recovering in the third quarter on further easing by central banks in advanced economies. Portfolio inflows surged in the first quarter, reaching 11.2 percent of quarterly GDP, but this was partly reversed in the second quarter despite a major initial public offering (IPO, of Felda Global Ventures, an oil palm plantations company that raised USD 3.25 billion). Foreigners added just RM 1.7 billion of Malaysian Government Securities (MGS) in the second quarter, compared to RM 7.6 billion in the first quarter, when foreign holdings of MGS reached 39 percent of the total

outstanding MGS. Portfolio flows jumped again in the third quarter to 11.7 percent of GDP as monetary conditions globally were eased and investors returned to Malaysia's stock market, which saw another large IPO, of Asia's largest hospital operator (IHH Healthcare, for USD2 billion). Foreigners also returned to government bond markets, buying RM 8.1 billion of MGS in the third quarter.

Figure 22. As the global environment weakened, FDI declined and portfolio flows turned negative

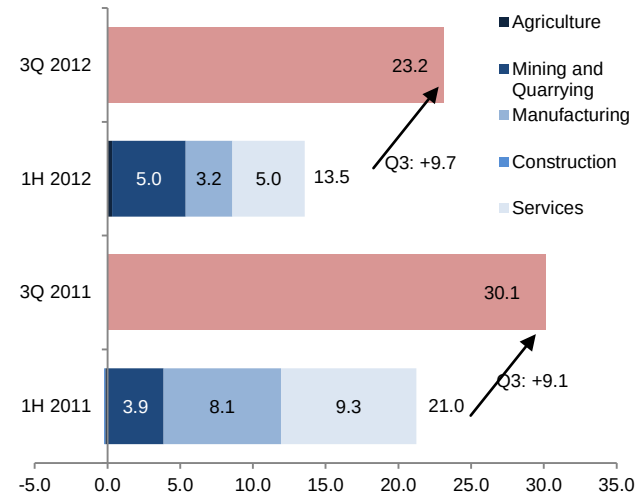
Financial account, four-quarter rolling sums, percent of GDP



Source: CEIC and World Bank staff calculations.

Figure 23. FDI in manufacturing and services contracted in the first half of 2012 but mining FDI increased

Net FDI inflows by sector, year-to-date, RM billions

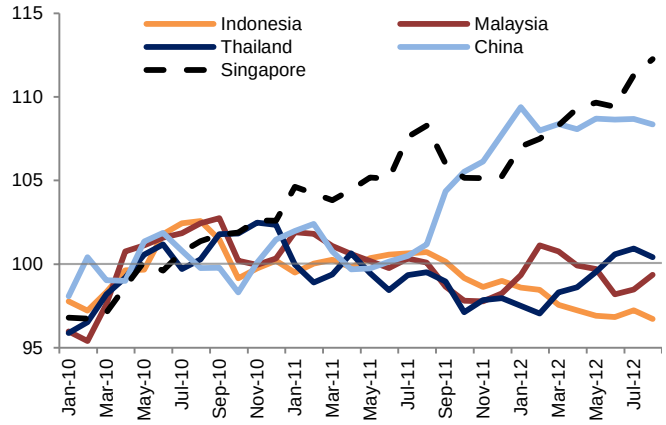


Source: CEIC.
Note: Sectoral breakdown not available for 3rd quarter YTD.

The Ringgit has been range-bound in 2012. The appreciating trend of the nominal exchange rate that began in 2005 was interrupted by the global financial crisis but resumed in February 2009. This trend was interrupted again in September 2011, when the intensification of the Eurozone crisis led to a renewed deterioration in investor sentiment, capital outflows, and currency depreciation. For the past year, however, the nominal exchange rate has been relatively stable, trading within a narrow (+/- 3 percent) range around RM 3.10/USD. The real effective exchange rate (REER) depreciated for most of 2012 given the stability of the nominal exchange rate and declining inflation, but seemed to resume a modest appreciation trend in the third quarter along with improved growth prospects. Nevertheless the REER remains around its 2010 level, in contrast to China and Singapore (which saw appreciation of close to 10 percent in the period) and similar to Thailand and Indonesia (Figure 24).

Figure 24. Malaysia's real effective exchange rate has been stable around its 2010 value

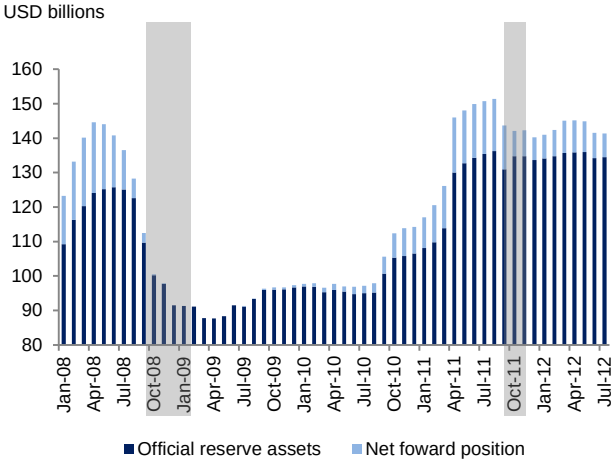
Index, 2010=100



Source: Bank for International Settlements.

Figure 25. Reserves have returned to the levels prior to the Eurozone crisis but the net forward position declined

USD billions



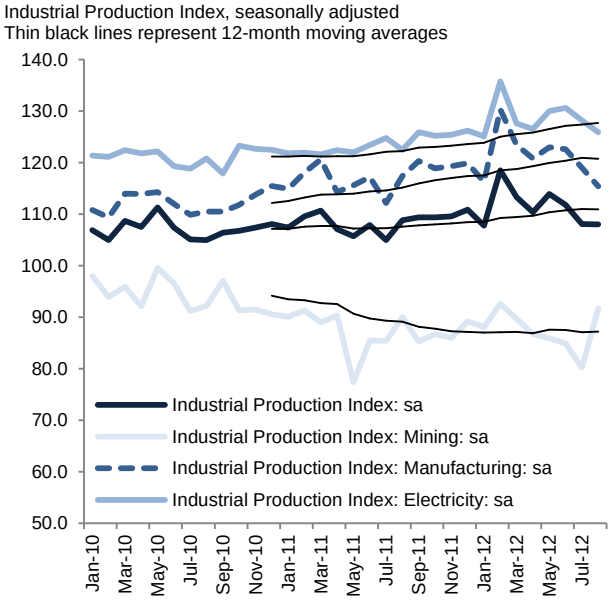
Source: IMF.

External reserves remain significant and provide an adequate buffer to volatility in flows. Net international reserves steadily increased throughout the period from January 2012 to reach a high of USD 136 billion in May 2012 (Figure 25). However, in the following months, reserves declined slightly before increasing again in September. As of end-October 2012, the external reserves amounted to USD 138.3 billion. This level of reserves is sufficient to finance over 9.3 months of retained imports[5] and is 4.2 times the short-term external debt. While the reserves level remained stable, the reduction in the net foreign exchange forward position from April onwards indicate more injection of foreign exchange liquidity into the system.

High-frequency indicators point to a slower but still robust fourth quarter

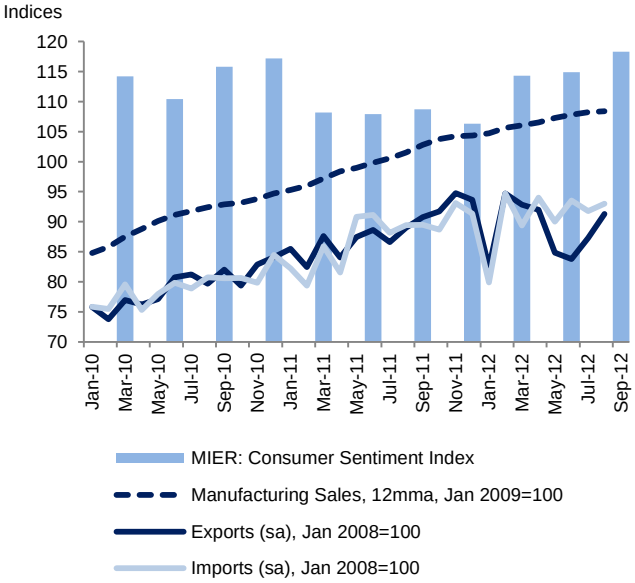
Recent indicators for the Malaysian economy are mixed. Overall production, as well as manufacturing and electricity production have been on a general declining trend since June, with all three dipping below their twelve-month moving average in the third quarter of 2012. This is in line with the weakness in external demand that drives much of the manufacturing sector. Mining production on the other hand, appears to be picking up modestly since July (Figure 26) following a sharp decline a month earlier due to maintenance issues in LNG production. Demand-side indicators appear to be slowly improving. While exports declined in the first nine months of 2012, they appear to be on a generally upward trend since August reflecting the recovery in mining production. Meanwhile, imports seem to have stabilized. Sales of manufactured goods continue to expand, including for auto sales, which began to improve in June from a declining trend in the first half of the year. Consumer confidence has been on an upward momentum since the dip in the fourth quarter of 2011, correlating with strong consumption growth throughout the year (Figure 27).

Figure 26. Industrial production declined in August



Source: CEIC and World Bank Staff calculations.

Figure 27. Demand indicators have been mixed



Source: CEIC and World Bank staff calculations.

[5] Retained imports are gross imports less re-exports.

2. ECONOMIC OUTLOOK

Momentum in domestic demand to be sustained in the near term absent a global shock

Propelled by domestic demand, Malaysia's economy is likely to weather a weak global environment and grow robustly in 2013. In the first half of 2012, Malaysia performed well in the context of weakening demand from advanced economies as well as China. This dichotomy can be sustained into 2013 due to three factors. First, there is momentum in investment growth. A number of projects that contributed to the surge in investment in the first half of 2012 will continue to contribute a larger amount of value-added to the economy in the near term. Second, there is a positive feedback loop between the implementation of investment projects, fiscal policy and private consumption. This feedback loop operates primarily through the labor markets, which have been tight and will support continued growth in consumption. Finally, commodity prices are unlikely to decline significantly in 2013, providing support to fiscal policy as well as investment growth, much of which is linked to commodities.

This fairly benign outlook comes with three important caveats. First, the global outlook for 2013, while weak, is still expected to be an improvement over 2012.[6] Should a new shock lead to a significant deviation from this baseline, exports would contract and commodity prices would decline, which would unravel the favorable dynamics described above. Second, domestic fiscal policy will have to walk a fine line towards needed consolidation without disrupting the growth momentum. Finally and most important, important structural reforms are required to ensure that growth is sustained not only into 2013 but into the medium-term. In that regard, greater focus on reforms that facilitate the growth of the non-resource sectors in the economy is critical.

Global environment still weak, but tail risks decline

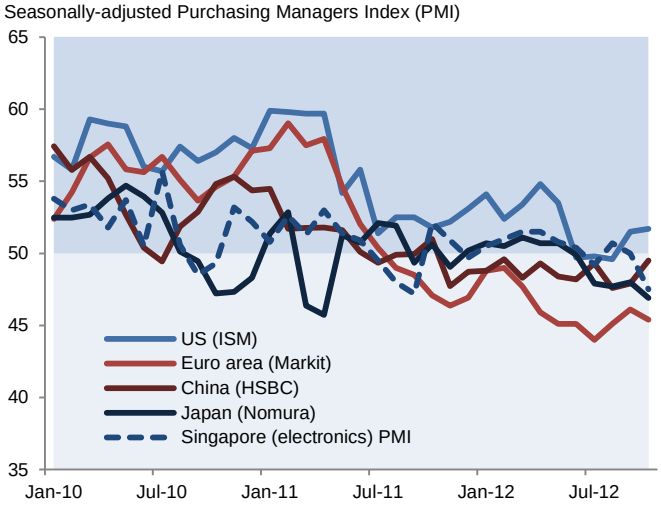
While the recovery of advanced economies is likely to remain anemic and significant risks persist, policy action has averted the most immediate threats. Following a short bout of optimism in early 2012, the European debt crisis escalated again in May as Spain was forced to bail out major banks. After increasing for three months between December 2011 and February 2012, the Purchasing Managers' Index (PMI) for the Euro Area took a turn for the worse, and in July reached its lowest point in over three years (Figure 28). The PMIs for Japan and the US also signaled a worsening of conditions between June and August. Developed economy central banks reacted aggressively to this situation, with the European Central Bank announcing in August it was ready to buy bonds in the secondary markets without a pre-set limit under its Outright Monetary Transactions (OMT) program. Along with a limited pick-up in US housing and labor markets (the unemployment fell below 8 percent for the first time since 2008), this led to some improvements in the third quarter, although not enough to reverse the deterioration in the outlook that took place between May and August.[7] Threats of a disorderly default in Europe have been reduced in the short term, but longer-term structural issues and associated risks remain. Similarly, in the US, failure of policy makers to reach an agreement over the "fiscal cliff" could lead to a large drag on US growth in 2013 that would likely reverse the modest but steady improvements observed in labor and housing markets.

Growth in China is likely to accelerate only modestly. As the European debt crisis flared up and the global economy continued to struggle, Chinese growth prospects dimmed (Figure 29). Between April and September the consensus growth forecast for 2012 was cut by 0.7 percentage points, whereas 2013 growth projections were reduced by 0.4 percentage points. There was also concern that the political transition in China would limit policy makers' willingness to undertake significant actions to counteract slowing growth. Nevertheless, in recent months the Chinese economy appears to be accelerating, though modestly, with GDP expanding in sequential terms both in the second and third quarters of 2012. China's PMI in October is back to the levels observed in February and analysts expect growth to accelerate from 7.7 percent in 2012 to 8.1 percent in 2013, a level that is still below that registered in recent years.

---

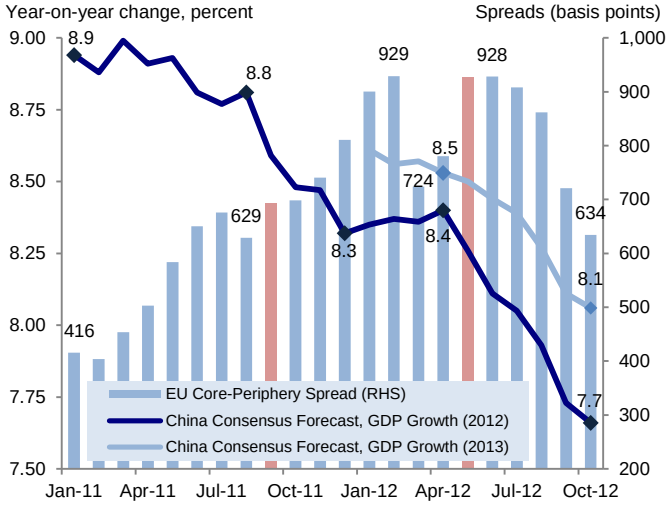
[6] In its October World Economic Outlook (WEO), the IMF maintained that growth in the world economy, as well as advanced economies, was likely to accelerate in 2013, from 3.3 percent to 3.6 percent and 1.3 to 1.5 percent, respectively.
[7] In the October WEO, the IMF reduced its global forecasts compared from April.

Figure 28. Purchasing managers' indices remain in negative territory despite some recent improvement



Source: Haver, Markit Economics (Euro area), HSBC (China), Institute of Supply Management (US), CEIC (Singapore).
Note: Scores above 50 reflect expansion.

Figure 29. The deterioration of the European debt crisis led to a more pessimistic outlook for China



Source: Consensus Economics, OECD stats, World Bank staff calculations.
Note: Core includes Austria, Belgium, Finland, France, Germany, and Netherlands; Periphery includes Greece, Ireland, Italy, Portugal and Spain.

The continuation of aggressive monetary policies in high-income countries carries risks for emerging economies. Central Banks in Europe, the US and Japan continue to intervene aggressively to provide support to the recovery of their economies. In addition to the OMT in Europe, the US Federal Reserve is likely to keep interest rates near zero until unemployment crosses a threshold, while the Bank of Japan has also stepped up its interventions to halt the appreciation of the yen. This renewed injection of liquidity in the global economy might be welcome by economies that are slowing in 2012 – as was the case in China or Brazil – but complicates monetary policy-making in countries like Malaysia where growth has been resilient, potentially attracting large capital inflows, as was the case in early 2011. On the other hand, high levels of global liquidity are likely to provide a floor to commodity prices.

Commodity prices are likely to remain near current levels as ample liquidity and continued supply concerns provide a floor but sluggish demand growth limits the upside. In addition to ample global liquidity that tends to lead to a potential "financialization" of commodities, supply concerns persist as tensions in the Middle East have increased, with continued violence in Libya, Syria and the Gaza Strip, and new sanctions in Iran leading to a significant reduction in that country's oil exports. While these factors put upward pressure on prices, slow growth in advanced economies, including Japan, which has become a major importer of LNG, as well as China, suggests that prices of energy commodities are likely to remain range-bound. Absent commodity-specific shocks, agricultural commodities have tended to move in line with energy commodities. Tensions between China and Japan over islands in the South China Sea led to a sharp decline in auto sales in China, which may be linked to the decline in rubber prices. A stabilization of auto production and sales should therefore lead to stabilization in rubber prices, although a return to 2011 prices is unlikely in the near term.

The Malaysian economy is likely to maintain its momentum

Domestic demand remains the main growth driver in the economy, with investment growth showing significant momentum. The value-added of goods and services consumed or invested in Malaysia is expected to expand by 9.7 percent in 2012 and 6.5 percent in 2013, compared to 7.2 percent in 2011. Domestic demand as defined in the national accounts (total consumption and investment) is expected to contribute 9.5 percentage points to GDP growth in 2012, up from 6.2 percentage points in 2011 (Table 1). The contribution of domestic demand is expected to slow but remain high in 2013 at 6.0 percentage points. The negative contribution from external demand not only reflects the weak export outlook, but also the strength in capital and consumer goods imports, which are linked to the strength in domestic demand.

The investment surge that started in 2011 is expected to continue (albeit with some moderation) into 2013. Considering a baseline scenario of firm, if not increasing energy prices, as well as the availability of financing through the capital markets and the banking system (i.e. assuming the Eurozone crisis does not lead to a deterioration in financial flows), the fundamental drivers for investment growth remain largely intact even in the context of sub-par growth in the global economy. A number of large investment projects have been initiated and short of a severe shock are unlikely to be stopped. PETRONAS has begun to roll out a large investment plan averaging RM 60 billion per year (about 31 percent of 2010 investment) for the next five years, much of that in Malaysia. Specific investments include regasification terminals in Sungei Udang (Melaka), Pengerang (Johor) and Lahad Datu (Sabah), the Sabah Oil and Gas Terminal and Sabah-Sarawak Gas Pipeline between Kimanis and Bintulu, the development of Gumusut-Kakap Oil and Gas field, and the floating LNG facility in Kanowit (Sarawak). While these are considered public investments, they catalyze significant private investments as well. In addition, projects under the Economic Transformation Programme (ETP) such as the MRT are continuing apace, as is broadband roll-out, although the lower development budget for next year suggests Federal Government investments will not make a major contribution to growth. Additional projects such as the Tun Razak Exchange (commercial real estate) are expected to start construction in 2013 and will add to growth. As a result of favorable prospects and the strong growth in the first nine months, real gross fixed capital formation is expected to surge from 6.5 percent in 2011 to 19.9 percent in 2012. The high base in the first half of 2012 leads to some moderation to a still-robust 7.0 percent growth in 2013.

Private consumption is set to remain robust in the second half of 2012 and into 2013 as cash transfers compensate for a moderation in commodity prices. The drivers of private consumption growth in 2012 – tight labor markets and support from fiscal policy in the form of civil service bonuses and cash transfers – are strongly in place in the second half of the year and likely to continue to support private consumption into 2013. The next round of cash transfers are expected to be paid in January, to an expanded group of beneficiaries. Meanwhile, civil servants will also be receiving a bonus in January. Fiscal policy drivers will remain in place probably through the first half of 2013, while the momentum in domestic demand is likely to continue to support firm labor markets. Agricultural commodity prices are likely to weaken, however (Figure 31), and credit expansion to households is starting to moderate following measures imposed by BNM to contain rising household debt. Private consumption is projected to grow by 8.3 percent in 2012, moderating to 6.7 percent in 2013.

Government consumption is likely to grow in 2012 and early 2013, but fiscal consolidation implies a slowdown in the growth rate in 2012 and especially in 2013. Growth in government consumption will slow to 4.7 percent in 2012 before contracting sharply in the second half of 2013, when (full-year) growth is expected to decline to 2.8 percent. Overall consumption (public and private) is expected to contribute 4.8 percentage points to growth in 2012 and 3.8 percentage points in 2013, down from 5.4 percentage points in 2011 primarily on account of a lower contribution from government consumption (1.9 percentage points in 2011).

Table 1. GDP growth is expected to be maintained…

Year-on-Year Growth Rates, percent

	2011	2012f	2013f	2014f
GDP	5.1	5.1	5.0	5.1
Domestic demand	7.3	10.9	6.5	7.4
Final consumption	8.9	7.6	5.9	5.7
Private sector	7.1	8.3	6.7	6.8
Public sector	16.1	4.7	2.8	1.4
GFCF	6.5	19.9	7.0	10.6
Change in Stocks				
External demand	-7.4	-33.2	-11.6	-24.9
Exports of G&S	4.2	0.9	3.6	6.2
Imports of G&S	6.2	6.0	5.0	8.6

Source: CEIC, World Bank Staff calculations and projections

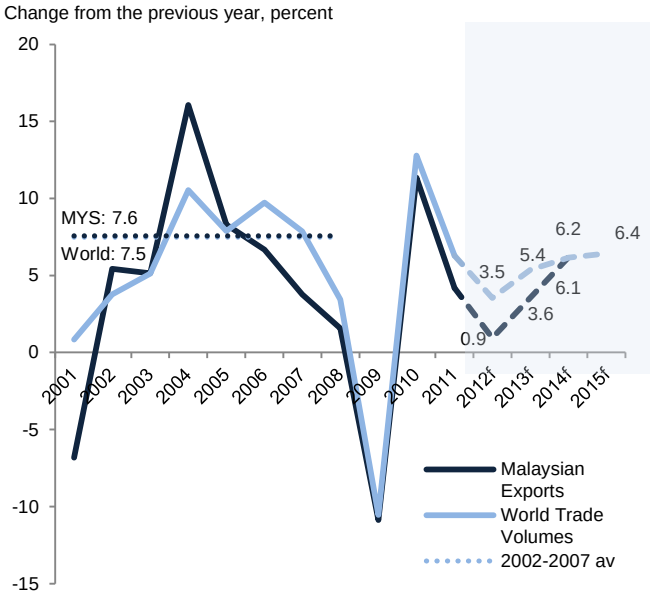
Table 2. … thanks to strength in domestic demand

Contributions to GDP Growth, percentage points

	2011	2012f	2013f	2014f
GDP	5.1	5.1	5.0	5.1
Domestic demand	6.2	9.5	6.0	6.9
Final consumption	5.4	4.8	3.8	3.7
Private sector	3.5	4.1	3.4	3.6
Public sector	1.9	0.6	0.4	0.2
GFCF	1.5	4.7	1.9	2.9
Change in Stocks	-0.7	0.0	0.3	0.3
External demand	-1.1	-4.3	-1.0	-1.7
Exports of G&S	4.3	0.9	3.4	5.9
Imports of G&S	-5.4	-5.3	-4.4	-7.6

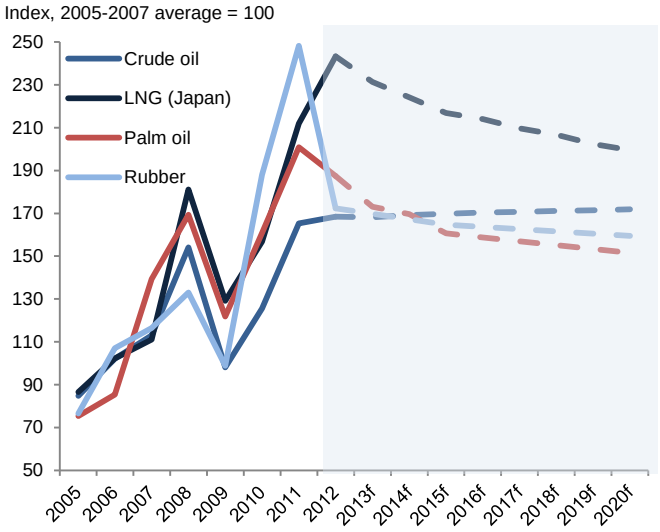
Export growth will be modest in 2012 and early 2013, but is expected to pick up in the second half of 2013 and into 2014, assuming global conditions improve. Exports of goods and services are expected to grow in real terms at a modest pace of 0.9 percent in 2012 before accelerating somewhat to 3.6 percent in 2013. This compares with 4.2 percent growth in 2011 and a pre-crisis export growth rate of 7.6 percent, and is in line with trends in global trade volumes (Figure 30). Commodity-based exports are likely to continue to weaken in 2012 and early 2013 as mining output remains subdued and palm growers look at softer palm oil prices as an opportunity to replant aging trees. Mining output and exports are only likely to recover in late 2013 or 2014, when recent investments in the sector start coming online. Exports of non-commodities, notably E&E, are likely to remain subdued given the lack of improvement in growth prospects in the major consumer markets of the US and Europe for the rest of 2012 and the first half of 2013. A more decisive recovery in growth rates in Malaysia's major trading partners, including China, into the second half of 2013 could bring upside risks to export forecasts.

Figure 30. World trade volumes are not expected to return to pre-crisis levels in the medium-term



Source: CEIC, World Bank Development Economics Prospects Group and World Bank staff calculations.
Note: World Bank forecasts as of September 2012.

Figure 31. Commodity prices are projected to remain stable or decline in coming years



Source: World Bank Development Economics Prospects Group.
Note: World Bank forecasts as of September 2012.

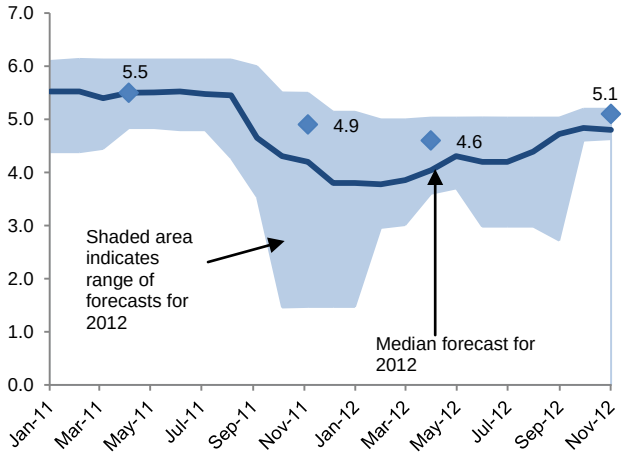
In summary, on a year-on-year basis Malaysia is expected to register real GDP growth of 5.1 percent in 2012 and 5.0 percent in 2013. On a sequential basis, the expectation is for growth to slow down in the fourth quarter. Growth is then expected to accelerate in 2013 to average 6.1 percent, although the high base of 2012 leads to the lower year-on-year growth rate. The World Bank's forecast for 2012 is above the consensus forecasts as of early November (Figure 32), which would not yet have incorporated the third quarter numbers, and higher than the 4.6 percent forecast in the April 2012 edition of the Malaysia Economic Monitor mainly due to the stronger-than-expected performance of domestic demand, especially investment (fixed and inventories), in the first nine months (Figure 33). On the other hand, the weakness in the external sector has been longer-lasting than originally expected. The 2013 GDP growth forecast lies slightly above the median consensus forecast of 4.8 percent but given the higher base assumed in 2012 it implies a somewhat more optimistic view of sequential growth. Although the headline growth rate for 2013 is similar compared to the April 2012 Malaysia Economic Monitor, it reflects a more negative view of the external environment in 2013, with the projection for export growth reduced from 9.0 percent to 3.6 percent, whereas the projections for domestic demand were revised upwards.

The outlook for 2014 is predicated on a continued global recovery. GDP growth is expected to remain robust in 2014 at 5.1 percent, a similar pace to 2013. Projections for 2014 assume that the recovery of advanced economies will pick up in earnest by that time, therefore warranting a more substantial pick up in exports to 6.2 percent. External demand continues to contribute negatively to growth, however, given the momentum in fixed investment and parallel

requirement for capital goods imports. The continuation of the global recovery also underpins the sustainability of the investment boom, which leads to a further increase in the contribution from domestic demand in 2014.

Figure 32. Forecasts for 2012 growth have improved throughout the year…

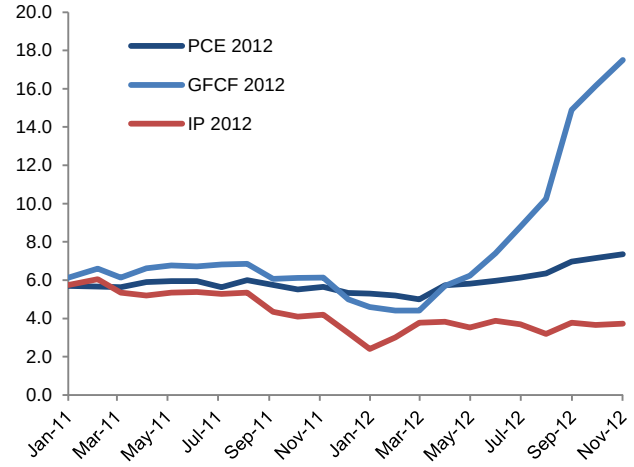
Consensus forecasts of real GDP (2012), year-on-year growth, percent



Source: Consensus Economics.

Figure 33. … as expectations about investment growth surged following the positive surprise in the first half

Consensus forecasts of real GDP components (2012), year-on-year growth, percent



Source: Consensus Economics.
Note: PCE refers to Private Consumption Expenditure.

Inflation to pick up modestly from low levels

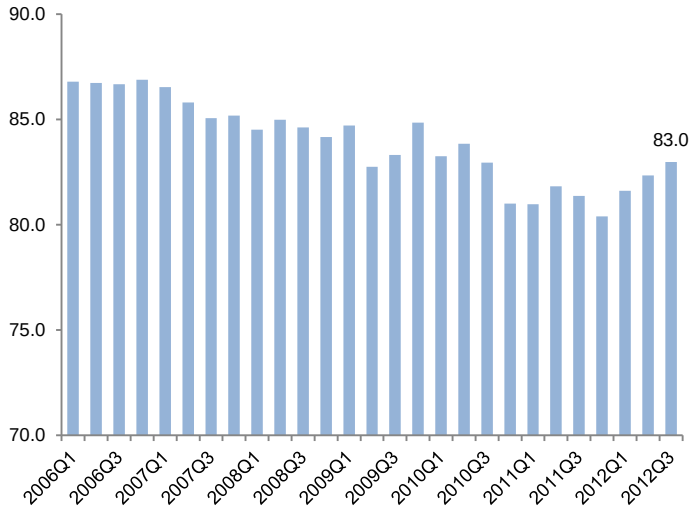
Consumer prices are likely to pick up modestly in 2013 given the low base in 2012, wage growth, and the possible fiscal measures in the second half of 2013. Malaysia's headline inflation rate is projected to come at around 2.0 percent in 2012, lower than the earlier forecast of 2.7 percent in the April 2012 Malaysia Economic Monitor and in line with consensus estimates for a reading of 1.7 percent. The forecast for 2013 is 3.0 percent, above the median consensus forecast of 2.4 percent but in line with the Government's forecast. The forecast for 2013 is higher compared to the average rate observed during the 2002-2007 period (2.2 percent) given the low base in 2012, the expected impact of higher wage growth (including from the introduction of the minimum wage) and the possible impact of fiscal measures such as subsidy rationalization (which, if it takes place, is expected to be gradual). Although the introduction of a goods and services tax (GST) is unlikely to take place in 2013, 'sin taxes' on alcohol and tobacco could be increased, which would add to inflation in the near term. Although demand-side pressures could build up in 2013, historical experience suggests that the key risks to inflation come from the supply-side, especially global commodity prices. In addition, should the GST be implemented in 2013 or subsidy rationalization advance at a faster pace than anticipated, some upside for inflation would be possible.

Higher investment and sluggish exports will shrink the current account

The current account balance is expected to narrow significantly as capital goods imports continue to grow at a fast pace and export demand remains below par. The robust investment growth that is forecast for 2012-2014 implies an equally robust demand for capital goods imports. Equipment investment is estimated to have an import content of approximately 83 percent based on the average for the last four quarters (Figure 34). Investment in structures also has relatively high import content (cement and copper wiring, for example, imports of which were up 6 percent in volume terms in the first nine months of the year compared to the same period in 2011). The surge in imports is expected to narrow the trade balance further, which along with continued outflows from the income account would lead the current account surplus to narrow as a percentage of GDP from 11.0 percent in 2011 to 7.7 percent in 2012 and 5.8 percent in 2013 (Figure 35). The further narrowing of the current account surplus in 2013 compared to 2012 is related to the projections for somewhat lower commodity prices and export volumes, since as highlighted in Figure 21 the commodity balance is a key determinant of the current account. Box 3 provides a more in-depth look at the implications of Malaysia's investment boom to the external position and implications for policy.

Figure 34. The share of equipment investment that is imported has been rising in recent quarters

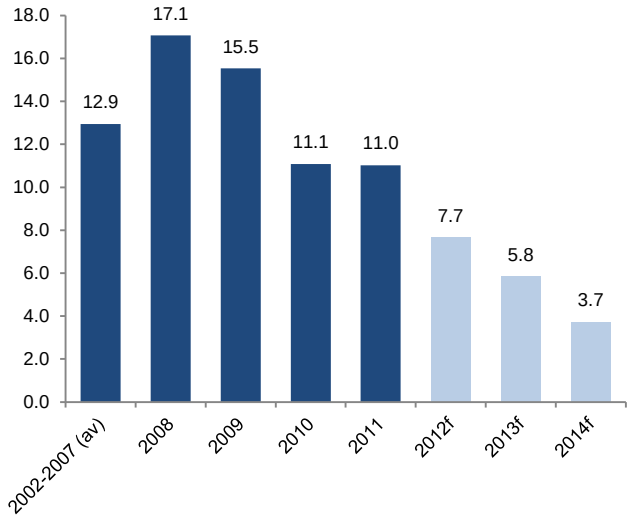
Capital goods imports as a share of investment in equipment and others, four quarter average, percent



Source: CEIC, World Bank Staff projections.

Figure 35. The current account is expected to remain in surplus, albeit a narrowing one

Current account balance, as a percent of GDP



Source: DOS, World Bank staff projections.

Fiscal and monetary policies supportive of growth

The 2013 budget offers a clear signal that the deficit will be reduced, but the details are clouded by the imprecision of budget estimates. While the 2013 budget clearly points to fiscal consolidation in 2013, as Figure 36 illustrates, for the past seven years actual operating expenditures have outstripped budgeted allocations by at least 10 percent.[8] On the other hand, revenues have also exceeded budget projections, by an average of 8 percent.[9] Combined with the consistent but small underperformance of actual (net) development spending, this has meant that the fiscal deficit (in nominal terms) has generally exceeded original targets by a small margin. Accordingly, the allocation for emoluments for 2013[10] will almost certainly prove to be an underestimation. This is particularly so given that an expansion of the civil service, in the form of additional police and education personnel, has been anticipated in the 2013 Budget, in addition to another half-month bonus for the civil service to be distributed in January 2013 (see Box 2 for additional details of the 2013 budget). Other budget items may not have deviations of a similar magnitude. Execution of development spending typically picks up towards the second half of a plan period, and 2013 marks the mid-point in the 10th Malaysia Plan. Revenue out-performance is possible, but significant outperformance is not likely or at least very risky, as the budget assumption of slightly weaker commodity prices is appropriate.

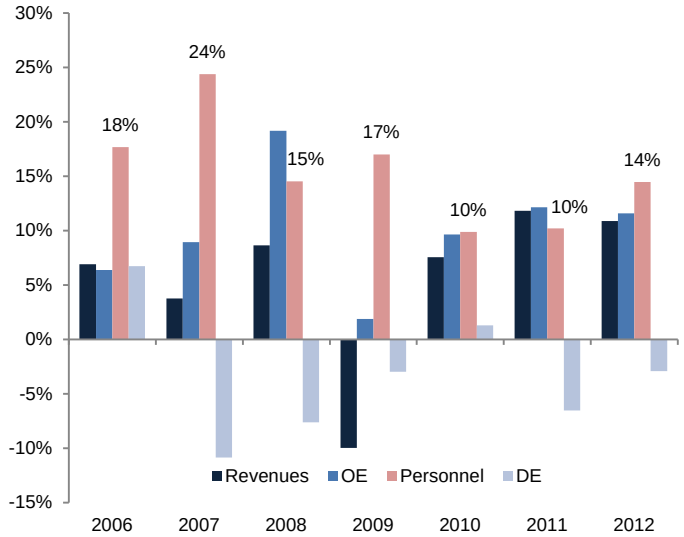
Notwithstanding uncertainties about details, some consolidation is likely to materialize, and the fiscal bottom line remains solid in any case. Malaysia has the levers to contain the deficit, and sufficient assets to offset the debt, so fiscal sustainability is not in question, at least for the near-term. To put Malaysia's fiscal situation in context, the entire debt of the Federal Government is only slightly larger than the net assets of PETRONAS, of which the Government is the sole shareholder.[11] With respect to 2013 the budget speech does suggest, though indirectly, that the Government may resume its subsidy rationalization plan following elections that must take place by June of 2013. The hike of 'sin taxes' is also possible next year, with the introduction of a goods and services tax (GST) likely to come in 2014 or 2015. Finally, the Government is likely to make a significant effort to continue to deliver consolidation to keep at bay any

[8] This is due to several factors, some exogenous to the budget process (normal forecasting errors by ministries or macroeconomic shocks), but some structural. For example, some measures announced in the budget speech are not incorporated in the budget estimates submitted at the same time to parliament; such measures are only incorporated later through a supplementary budget.
[9] Except for 2009, when revenues contracted on lower commodity prices.
[10] The budgeted amount for emoluments for 2013 is RM58.6bn, against estimated emolument spending of RM59.2bn in 2012. Source: Economic Report 2012/2013.
[11] The Malaysian Government has other significant assets; the example of PETRONAS simply illustrates the fact that a look at the overall balance sheet of the government would paint a more favorable fiscal picture than a sole focus on the liabilities side.

risks of a downgrade from credit rating agencies. As a result, the deficit is expected to come in at 4.3 percent of 2013 GDP, above the Government's target of 4.0 percent of GDP but below the projected deficit for 2012 (4.4 percent; Figure 37). Assuming momentum for fiscal consolidation picks up in late 2013, the 2014 deficit is projected to contract more meaningfully and come in below 4 percent of GDP.

Figure 36. Personnel expenditures tend to exceed the budget by at least 10 percent

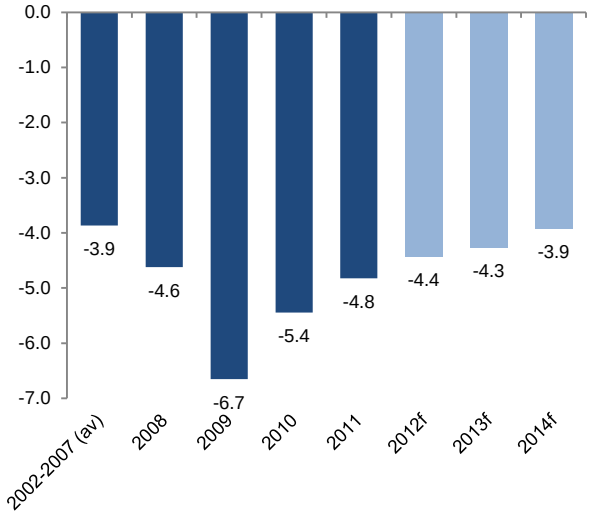
Deviation of actual expenditures from budget, percent



Source: MOF, World Bank staff calculations.
Note: "Personnel" includes emoluments, pensions & gratuities; OE and DE refer to operating and development expenditures.

Figure 37. Despite higher expenditures, the federal balance is expected to improve

Balance of the Federal Government, percent of GDP



Source: MOF, World Bank Staff projections.

The debt-to-GDP ratio is projected to increase slightly in 2012, stabilize in 2013 and start to decline in 2014. Although the fiscal balance is predicted to improve in 2012, the ratio of federal debt to GDP is expected to increase slightly from 51.8 percent of GDP in 2011 to 52.2 percent of GDP in 2012, a level that is expected to remain constant in 2013. As both fiscal consolidation and economic growth pick up further steam in 2014, the federal debt is expected to fall to 51.2 percent of GDP. Therefore, short of a new shock to the economy, federal debt levels are likely to remain below the Government's stated target of 55 percent of GDP. However, as pointed out in Figure 15, the level of guaranteed debt should be closely monitored as it has increased significantly in 2011 and 2012 and its trajectory is more difficult to anticipate compared to the direct debt.

Box 2. Highlights of Budget 2013

The 2013 budget continues to signal the Government's intent to move from broad fiscal transfers such as fuel and universal education subsidies, towards transfers that are more directly targeted at needy populations. This was clear in several passages of the budget speech, as well as in the increase of transfers targeted at specific groups and notably the second round of the 1Malaysia People's Assistance (BR1M) transfers. However, few measures were offered on the first part of the strategy (i.e. away from untargeted subsidies) and targeting benefits towards the poor and vulnerable can be improved.

The main initiatives in Budget 2013 with fiscal implications were: (i) extension of the BR1M program; (ii) another round of bonuses for civil servants; (iii) revisions to personal income tax. Budget 2013 penciled in RM 3 billion for a second round of disbursements under the BR1M and extended the program to unmarried citizens above 21 years old earning less than RM2,000 a month, who will receive a lower amount of RM250 instead of the RM500 granted to households earning less than RM3,000 a month. Budget 2013 also promised a 1.5 month bonus for civil servants in addition to increases to civil service pensions, which will cost an additional RM600 million a year. Finally, the Budget proposed amendments to personal income tax, namely by reducing the individual income tax by 1 percentage

point for each grouped annual income tax exceeding RM2,500 to RM500,000. This is estimated to remove 175,000 taxpayers from paying income tax, thus reducing the size of an already narrow tax base (currently an estimated 20 percent of the population pays income tax).

The second round of BR1M will benefit approximately another 10 percent of households, in addition to the 67 percent of households that benefited from the initial BR1M disbursements. While reaching most of the bottom 75-80 percent of the income distribution likely represents an improvement over targeting outcomes of fuel subsidies, outcomes are very broad compared to cash transfer programs in other countries, which target narrower segments of the population (the bottom 20 to 40 percent) and because of their more targeted nature are able to provide higher levels of benefits and have a greater impact.

Additional fiscal measures were targeted at various groups: civil servants, senior citizens as well as youth, the urban middle class, retired military personnel and small entrepreneurs. In addition to the extension for unmarried individuals who are at least 21 years old in the second round of BR1M, youths aged between 21 and 30 years old earning RM3,000 and below will also be eligible for a one-off RM200 rebate for the purchase of a 3G smartphone from authorized dealers. For the urban middle class, additional allocations were provided for affordable housing and medium-cost apartments under PR1MA, Syarikat Perumahan Nasional Berhad (SPNB) and the National Housing Department, as well as improvements to the My First Home scheme. In addition, a group insurance coverage scheme for hawkers and small business owners will be established, with the Government providing an allocation of RM16 million per annum. Finally, an RM200 incentive will be provided to all military personnel.

The development budget was reduced by 4.2 percent, but RM2.5 billion were provided to implement projects under public-private partnerships, excluding debt guarantees. Available development allocations remain focused on commodities-related sectors. Apart from an RM 2 billion boost to the existing Green Technology fund, key development expenditure items in the Budget include a ten-year full tax allowance for investments in petroleum refining activities, RM722 million for agricultural development and a total of RM 696 million for the palm oil sector. Meanwhile, initiatives to increase productivity in high-value-added sectors such as manufacturing and professional services were more limited, but enabling investments in rural and urban infrastructure are being scaled up. Overall, RM9.4 billion were earmarked for the transport subsector including RM4.2 billion to improve access and connectivity of urban public transport. In addition, a substantial allocations were provided for rural basic infrastructure (RM3.2 billion) and urban public transport (RM233 million).

While Budget 2013 promised further declines in the headline fiscal deficit in 2013, fiscal reform measures were limited. As noted above, the budget was mostly silent on the subject of subsidy rationalization. The proposed cut in sugar subsidies (the only subsidy reform measure announced in the Budget) by RM0.20 a kilogram still falls below the RM0.34 per kilogram increase in sugar subsidies implemented in January, thus leaving subsidies at the same, or even higher, level than in September 2011. In addition, this reduction may well be offset by the RM1.5bn allocated for stabilizing cooking oil prices.

Civil service reform has been put on hold. The New Civil Service Remuneration Scheme (SBPA) proposed in budget 2012 and which was to have been implemented on 1 January was cancelled following protests by civil service trade unions. Instead, the Government announced changes for the current Malaysian Remuneration Scheme (SSM), namely by adjusting the existing matrix salary schedule to reflect minimum-maximum salaries with increments ranging from RM80 to RM320 for grades 1 to 54. The annual increment for Jusa grades will remain according to the SSM. Although the Government remains committed to reforming the civil service, at this point no further announcements have been made regarding the exit policy for civil servants proposed in the SBPA or the initiatives to promote greater mobility between the public and private sectors. In addition, the Government also announced salary adjustments of 13 percent for employees in the management and professional group from grade 1 to 54, nine percent for the Jusa A, B and C grades, eight percent for the staff grades 2 and 3, and seven percent for staff grade one and the Chief Secretary to the Government.

Monetary authorities signal few changes in the near term as some accommodation is still needed given a weak external environment. In its October policy statement, BNM stated that it expected the global economy to continue to experience slow growth, but that sustained expansion in domestic activity was likely to offset the weaknesses in the external sector. While BNM noted that inflation may increase in 2013 compared to 2012, levels were expected to remain modest. BNM signaled that it viewed key risks as external, and that it would continue to monitor global developments closely for their potential impact in Malaysia. One such development likely to ensure few policy changes is the commitment from central banks in advanced economies to keep interest rates at historically low levels at least for the entirety of 2013. To the extent that there are inflationary pressures from strong domestic demand, raising interest rates in Malaysia would have the impact of increasing the interest rate differential with those advanced economies and attracting larger capital inflows. Therefore, any need to tighten monetary policy in 2013 would more likely be exercised through liquidity and macro-prudential rather than interest rate measures.

Risks to the outlook center on the global environment

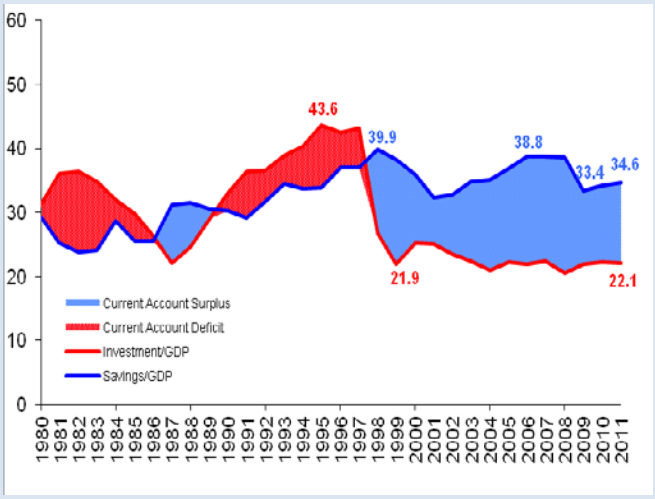
The outlook for 2013 and 2014 remains vulnerable to shocks to commodity prices and the global economy. Projections for 2013 assume a recovery of advanced economies and continued (albeit modest) acceleration of sequential growth in China, which along with accommodative monetary policies in advanced economies provide a floor to commodity prices. Sharp declines in commodity prices, which may be linked to shocks to external trading partners, could lead to a slowdown in investments in the oil and gas sector, increasing financing difficulties for firms. Box 3 discusses the implications of the current investment boom to the current account and associated risks. An exogenous shock would also have a negative effect on consumption through an income effect to small holders. Finally, elections have to be called by June 2013 and their proximity could raise near-term risk perceptions.

Box 3. Implications of Malaysia's Investment Boom to the Current Account

The investment boom in Malaysia in the first half of 2012 has led to a substantial narrowing of the current account surplus, from an average of 13 percent of GDP between 2002 and 2007 to approximately 4 percent of (seasonally-adjusted) GDP in the second quarter. Does this development bring concerns with respect to external sustainability and how should policy makers react?

Figure 38. A current account surplus reflects high savings relative to investment

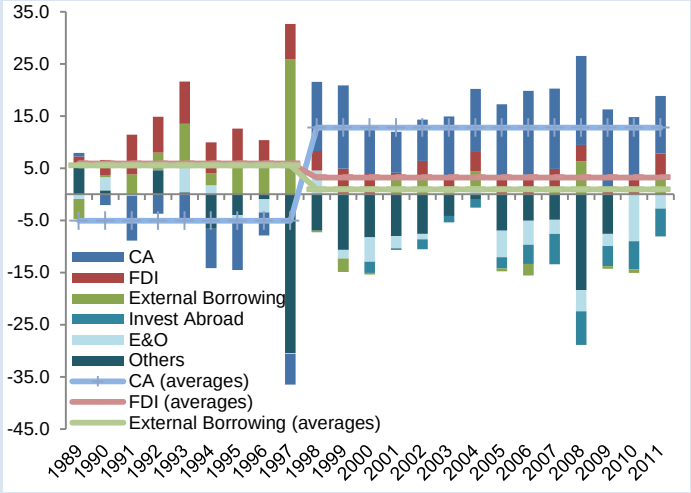
Percent of GDP



Source: DOS Malaysia, World Bank staff calculations.

Figure 39. Current account deficits prior to the AFC were financed by FDI and foreign borrowings

Percent of GDP



Source: CEIC, World Bank staff calculations.

To answer this question, it is pertinent to start by looking back to the historical trend of investments beginning in the 1990s. In the decade prior to the Asian Financial Crisis (AFC), investments rose strongly (from close to 20 percent of GDP to a peak of 44 percent). A major reason for the spike in investments was the simultaneous construction of major infrastructure projects during the period, such as the Kuala Lumpur International Airport, the new

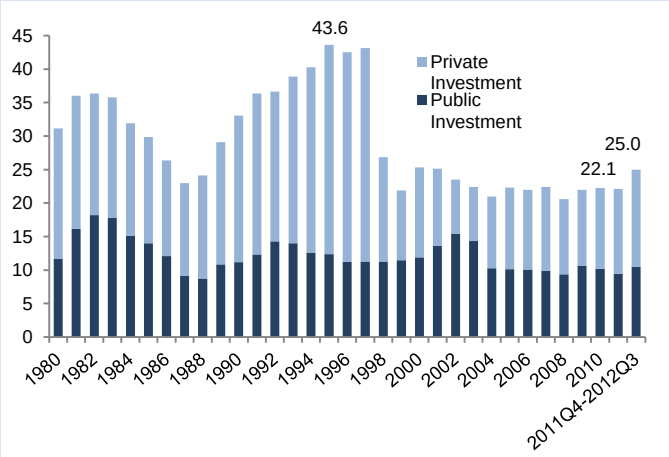
administrative capital in Putrajaya, the National Sports Centre (built for the Commonwealth Games in 1998) and the Kuala Lumpur City Centre (KLCC). As investment growth quickly outpaced the increase in national savings (Figure 38), Malaysia ran current account deficits. While a large portion of the deficit was financed by Foreign Direct Investment (FDI), foreign borrowings also played an important role (Figure 39). Even if one excludes the spike in foreign borrowing in 1997 (which was related to capital outflows rather than the current account), Malaysia was increasing its stock of foreign borrowing by 3 percentage points of GDP per year prior to the AFC, which increased external vulnerabilities.

In the post-AFC period, Malaysia reverted to current account surpluses as exports led the recovery, initially helped by a weaker Ringgit that was initially pegged to the US Dollar. Export receipts grew robustly throughout the 2000s, mostly driven by rising commodity prices, particularly crude oil, liquefied natural gas (LNG) and palm oil, in line with the structural up shift in global demand of commodities that paralleled China's impressive growth during the decade. While commodities account for only about a quarter of total Malaysian gross exports, the very low import content of these exports ensures that any elevation on prices will lead to an increase in the current account surplus.

While exports surged and kept savings rates high, investment languished. In terms of public investment, as the Government had embarked on significant spending to boost aggregate demand in the economy post-AFC, and fiscal consolidation led to a curtailment of capital expenditures. In addition, many government-linked companies (GLCs) also deleveraged and restructured their debt during this period. As a result, public investments moderated significantly in the early to mid-2000s which was a major reason behind lower public investments. The slowdown in private investments, although similar to that observed in other countries affected by the AFC, has more elusive causes. As a result of higher export growth and low investments, the current account deficit disappeared, and so did the need for foreign borrowing, while FDI levels declined.

Figure 40. The investment share, while increasing, is still much lower than that in the 1990s

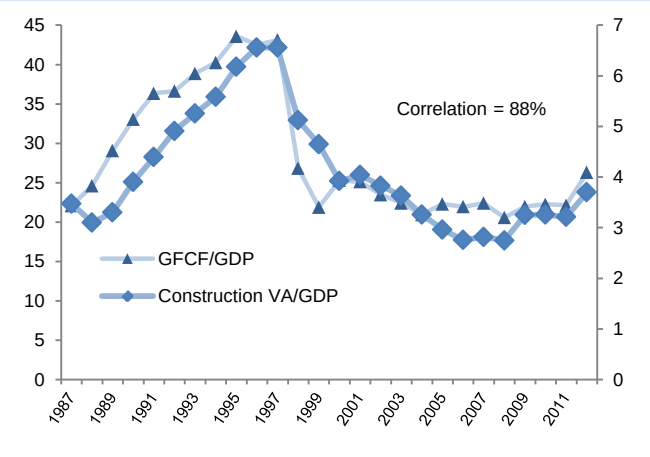
Investment share in GDP, by public and private sources, percent



Source: CEIC, World Bank staff calculations.

Figure 41. Construction also remains at a much lower share of GDP compared to pre-AFC

Share in GDP, GFCF (left) and construction (right), percent



Source: CEIC, World Bank staff calculations.

Recent developments suggest a pick-up in the share in gross fixed capital formation (GFCF): as of the first half of 2012, GFCF accounts for a 25.6 percent share of GDP, higher than the average registered between the years 2000 and 2011 (22.6 percent; see Figure 40). Should this increase bring concerns of a return to the pre-AFC situation of current account deficits and high external vulnerability? The current situation is different from prior to the AFC for several reasons: first, current levels of investment are still far below those seen during the early 1990s; second, unlike in the 1990s a significant portion of the investment boom is linked to commodity sectors and will be generating foreign exchange once they become operational; third, commodity prices are unlikely to decline sharply in the near-term (while investments are gestating), suggesting that a current account surplus can persist even in the context of a continuation of the current investment boom; fourth, Malaysia has significant external savings that it can draw upon to finance a possible current account deficit if investments were to accelerate further; and finally, the exchange rate regime is more flexible compared to before the AFC.

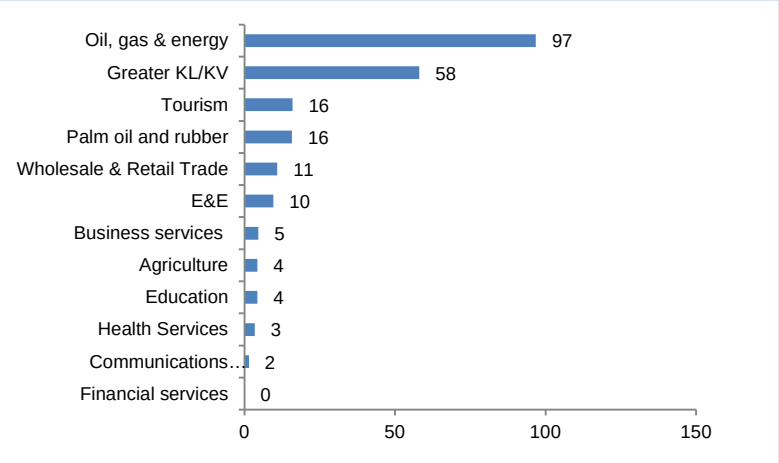
Investment levels are still moderate in comparison to pre-AFC levels as construction has only started to accelerate. The current uptrend could be explained largely by the rapid expansion in the construction sector (1H 2012:18.9 percent; see Figure 41), with the development of large infrastructure, residential and office projects. Investments in the oil and gas sector have also increased the demand for structures such as floating rigs, pipeline and other related construction materials. However, at 3.7 percent of GDP as of the second quarter of 2012, the construction sector remains much smaller compared to its size in 1997 (6.5 percent of GDP). In real terms, output of the construction sector is still below what it was in 1997, whereas Malaysia's economy has nearly doubled in that period. A continuation of current trends for many quarters and years will be required before the relative magnitude of investment returns to levels observed before the AFC.

While the current investment boom and that before the AFC both included higher investments in infrastructure and real estate, the current boom has a more significant component of investments in the commodity sector. Of the ETP projects announced to date, over half are in oil, gas, energy, palm oil and agriculture (Figure 42). This is important because these investments are expected to directly generate foreign earnings once they mature, therefore supporting an inter-temporal current account surplus as well as sustainable financing for future investments.

Related to the previous point, commodity prices are likely to remain firm in the near term due to both fundamental and technical reasons. On the fundamental side, demographic changes (especially urbanization) and fast growth China and other emerging markets are expected to continue, even if at a somewhat lower pace compared to the previous decade. This puts an upward pressure on commodity demand, while supply responses will still take time to come online. Outside of fundamental factors, the accommodative monetary policy of central banks in advanced economy is expected to persist for at least another two years, while tensions in the Middle-East and other oil-producing countries, which also tends to drive up commodity prices, remain high. Firm levels for commodity prices will support Malaysia's external position while the investments gestate, and will provide healthy levels of foreign receipts to the commodity-related investments.

Figure 42. Over half of all investments committed to date under the ETP are in the commodity sectors

RM billions



Source: PEMANDU, CIMB.

Finally, if Malaysia had to run a current account deficit, that would not necessarily increase external vulnerabilities. The weak export performance in the first half of 2012, in tandem with rising imports, could potentially lead to further deterioration in the current account position, possibly turning into a current account deficit and a negative savings-investment gap. By itself, this would not be a bad outcome; policy makers have to understand that the flip side to this is a capital account surplus and higher domestic investments creating the enabling environment for higher growth in the future. Importantly, Malaysia would be able to tap on the savings accumulated during the 2000s as a source of financing for these investments.

Therefore, at this time, concerns about the current account appear limited. But the same factors that support a solid external position pose other challenges for policy-makers.

The first concern is a near-term one: higher levels of capital goods imports could put downward pressure on the exchange rate. But a large share of investment, especially investment in structures, represents domestic value-added, and if higher domestic investments are financed by the repatriation of overseas assets, there may be pressure for Ringgit appreciation. There is thus some potential for cyclical volatility in the exchange rate depending on the timing of imports as well as the repatriation of overseas assets that needs to be managed.

A related concern is volatility in commodity prices. The challenge for policy-makers will be to distinguish between cyclical shocks and long-term structural trends. While there are structural reasons for commodity prices to remain relatively elevated in the near-term, as noted above, the reduction in transportation costs of gas from the US and wider applicability of natural gas to the transportation sector, as well as the development of second-generation biofuels could lead to a structural decline in prices. A cyclical downturn in prices may affect the profitability of businesses in this sector, leading to pull back and delays in investment decisions by businesses, and would suggest a role for monetary policy to keep the investment momentum; monetary policy would be less helpful if the downturn were structural.

The third and perhaps major concern is of a longer-term nature. The rise in commodity and commodity-related exports that would result from the investments in oil and gas, while ensuring a sustainable current account position, would also put more structural pressure on the exchange rate, making Malaysia vulnerable to a Dutch Disease, which would have adverse implications for the competitiveness of the export-oriented industries in the manufacturing and services sector. This has been explored in the April 2012 Malaysia Economic Monitor.

Policy makers will have therefore to distinguish between cyclical and structural movement in the exchange rate. While foreign exchange management is useful in reducing short-term volatility in the exchange rate, long-term exchange rate trends should reflect rather than influence structural changes in the economy. This is especially so as the undercurrents of the structural transformation, especially higher commodity revenues, are likely to result in a stronger Ringgit in the long run. A stronger Ringgit in a rising import environment will reduce costs to businesses, just as a weaker Ringgit in a rising exports enhances revenues. The response to such structural trends should focus on productivity-enhancing reforms to ensure the economy remains competitive externally with a stronger Ringgit.

Strengthening the structural reform agenda is key for Malaysia's medium–term outlook

The sustainability of Malaysia's favorable near-term outlook into the medium-term hinges on the implementation of structural reforms. Malaysia's near-term outlook owes much to commodity sectors. A large portion of investments has been directly in the oil and gas sector, the expansion in public consumption and investment has been financed to a significant degree by commodity revenues (present and future), and investments in real estate are, to some extent, also linked to the recycling of commodity revenues. These investments are part of a sound strategy: if commodities are Malaysia's goose that lays golden eggs, it is sensible to tend to the goose to ensure that it continues to provide for the country into the future. However, even a goose that is well taken-care could become sick as commodity prices have crashed in the past. In addition, as highlighted in the April 2012 Malaysia Economic Monitor, if commodity prices do continue to increase, Malaysia could lose competitiveness in tradable manufactures and services through "Dutch disease" unless productivity-enhancing reforms are undertaken. A sensible strategy, which is advocated in the New Economic Model, is that Malaysia should walk on two legs: strengthen its commodity sectors to leverage on the country's innate comparative advantages, while undertaking structural reforms to boost capabilities and competition to raise productivity of non-commodity sectors, especially services.

Progress on Malaysia's key structural challenges – competitions and capabilities – could be accelerated. The Government has made progress on the delivery of public services under the Government Transformation Programme (GTP), and built on that progress with a second version of the GTP Roadmap, setting new targets and extending the implementation of existing policies within the new timeline of 2013-2015 (Table 3). While the first round of the GTP met

or exceeded most of its targets, the targets, set under the GTP's National Key Result Areas (NKRAs) were often narrow, consisting of 'low-hanging fruits' that could be achieved within two years. Noteworthy public service improvements under the first GTP include better access to rural infrastructure, increases in pre-primary enrollment, and larger investments in public transport. The second GTP roadmap contains promising initiatives with respect to education and corruption (for example, insertion of the corporate liability provision into the MACC Act brings the statute on par with UK's Bribery Act and US' Foreign Corrupt Practice Act). Improving public service delivery is an important objective, and the GTP has made some important contributions in that regard. However, it is the Strategic Reform Initiatives (SRIs) under the Economic Transformation Programme (ETP) that are tasked with addressing structural challenges, and there is more room for implementation of the SRIs to be accelerated.

Improving the link between initiatives under the transformation programs and the over-arching structural reforms would enhance implementation. Although 37 out of the 51 policy measures outlined in the NEM have been included within the SRIs, with the remaining 14 spread out amongst other initiatives deemed "natural homes" (NKEAs, NKRAs), there are important differences between the specific measures recommended in the NEM and their implementation. For instance, while both the NEM and SRIs contain public finance reform measures, there are no SRIs regarding right-sizing the public sector to reduce the wage bill or civil service pension reform. Given that the personnel bill is the largest component of the Government's operating expenditures, and has been rising rapidly for the past decade, this exclusion would mean that public finance reform measures implemented in the medium-term would be missing a foundational component. It also seems to be the case that some policy measures relevant to the structural reform agenda appear to have been taken, but have received limited follow-up, partly because they are de-linked from the transformation programs. A case in point with respect to right-sizing the Government was the audit of civil servant posts that was highlighted in the 2011/2012 Economic Report, but no further information on the findings and follow-ups from this audit have been announced. The critical area of education, while coordinated within a single unit in PEMANDU, is also split between SRIs, NKEAs and NKRAs – and now the new Education Blueprint, which will have a new implementing agency within the Ministry of Education working alongside PEMANDU. While there is an attempt to coordinate the implementation of these reforms, their sheer number creates challenges.

The Preliminary Report of the National Education Blueprint has a number of promising initiatives. The Preliminary Report of the National Education Blueprint, which is being subjected to review before being finalized this December, recommends 11 operational and strategic shifts to transform the education system between 2013 and 2025, directed at uplifting the Malaysian education system to a high-level, competitive, international standard. Initiatives under these shifts include moving from 6 to 11 years of compulsory education, extending the Literacy and Numeracy Screening (LINUS) Program under the GTP to include English language literacy, raising the entry bar for teachers, allowing for some operational autonomy for schools, and increasing decentralization via district-specific programs. The coordination with the GTP 2.0 as the "first wave" of the Education Blueprint is a promising sign of coordination in policy implementation. The focus on improving pre-primary education (also taken up in the GTP 2.0) is also well-founded. While the importance of early childhood education is well recognized (see for example Heckman, 2006) Malaysia ranks 36 out of 45 countries covered in a recent report by the Economist Intelligence Unit in a "starting well index," suggesting significant progress is possible and needed.

The plan stops short of addressing some of the more fundamental challenges impeding Malaysia's education system, however. These include the existence of multiple parallel education structures, the lack of autonomy in Malaysian schools, and the absence of a comprehensive program to improve the declining standard of English, including setting stricter standards. While the Blueprint recommends medium-term measures such as the aforementioned LINUS extension for English, introducing a new, less examinations-oriented curriculum, and a competency- and performance-based career progression system for teachers, substantive shifts in direction such as the formation of a single national education system and instituting English as a compulsory pass subject alongside Bahasa Malaysia, as well as greater school-level autonomy over teachers' appointments and curriculum, remain absent. Critically, the Blueprint does not address the increased polarization of the education system, with wealthier parents sending their children to private (or in some cases vernacular) schools, leaving poorer (and poorer-performing) students in the National Schools. This trend might lead to significant increases in inequality if left unaddressed. With respect to implementation, a new Education Delivery Unit (EDU) is being set up to monitor and implement the Blueprint, including measures under GTP 2.0. Adequate coordination between EDU and PEMANDU will be critical to avoid duplication of implementation efforts and dilution of reform effectiveness.

The Government Transformation Programme moves on to the next stage

The Government is stepping up the implementation of the Government Transformation Programme (GTP). The first GTP Roadmap outlined targets under six National Key Results Areas (NKRAs) to be met by 2011, most of which generally had been met or exceeded. Following this, a second version of the GTP Roadmap was released in June this year, after a lab process similar to that preceding the first version of the GTP. The document outlines a continuation of most of the initiatives implemented under the first Roadmap and includes new measures intended to bridge certain gaps and refine implementation, with delivery targeted for 2015 (see Table 3). Notable proposed measures under the GTP Roadmap 2.0 include those under the Assuring Quality Education NKRA, i.e., refining the Literacy and Numeracy Screening (LINUS) Programme, establishing standards for pre-schools, and focusing on transforming District Education Offices. The last measure is particularly welcomed as it could serve as a helpful first step towards structural changes towards greater decentralization. Meanwhile, the Anti-Corruption NKRA will focus on transforming responsible institutions and processes, namely, the Malaysian Anti-Corruption Commission (MACC), the Auditor-General's reporting processes, and government procurement.[12]

Refining targets for NKRAs under GTP 2.0 reflect the challenging task of identifying the right data to measure public service delivery. This is particularly true of crime, where public perceptions appear at odds with statistics showing a reduction in crime since 2009, or corruption, where targets based on perception indicators were not met despite the implementation of a number of initiatives. If crime statistics do not capture the underlying public concern – perhaps due to the challenge of unreported crime – the NKRA target fails to reflect its underlying objective. Therefore, under the Reducing Crime NKRA in GTP 2.0, targets on the perception of private safety have been added (2015 targets of an 85 percent score in public satisfaction of police services and a 65 percent public safety perception index). Perception indicators bring concerns of a dilution of the target (although the original targets to reduce index crime and break-ins remain) and of shifting resources towards public relations rather than crime-fighting, but in some cases can usefully complement 'hard' or process indicators. In that regard it is encouraging that the targets to improve Malaysia's Transparency International corruption perception rankings will be maintained in the Fighting Corruption NKRA even though they were not met in 2011.[13] The challenges of identifying the right targets highlight the importance of undertaking rigorous impact evaluation of new policies in the GTP, which for example could complement perception reports with household survey or other methods.

Measures under the cost of living NKRA could be better targeted and integrated with measures to support low-income households. As noted in Box 2 above, while the shift towards targeted transfers, as well as from a focus from addressing absolute to relative poverty are welcome, these measures still need to be inserted into a broader framework for modernizing social protection efforts towards a more comprehensive system with a robust targeting mechanism that would allow higher levels of benefits (with higher impact) to be adequately targeted at the neediest beneficiaries. Currently, social assistance programs are fragmented between those that target poverty eradication (such as the 1AZAM program, which is included in the Low-Income Household NKRA) and those that target broader groups (such as the BR1M 2.0, which could reach as much as 80 percent of households, and that are included in the COL NKRA). International experience suggests that integration of social protection increases efficiency. For example, if the BR1M were targeted at only the bottom 40 percent of households, within the same budget, additional benefits of approximately RM600 could be paid to the bottom 20 percent of households.

Table 3. New measures under GTP 2.0 build on earlier progress

NKRA	Measures under GTP 1.0 (2010-2012)	New measures under GTP 2.0 (2013-2015) - In addition to extending GTP 1.0 measures
Cost of Living	*Supply outlets targeted at low-income earners* Development of Kedai Rakyat 1Malaysia (KR1M) Menu Rakyat 1Malaysia Klinik 1Malaysia	*Supply outlets targeted at low-income earners* Kedai Buku 1Malaysia Kedai Kain 1Malaysia(KK1M)

[12] GTP 2.0 targets making improvements to MyProcurement, namely to publish results on direct negotiation deals and details of government procurement, such as advertisement of quotation and tender as well as tender documents and tender results for public's view, and hence allow for greater transparency into government's procurement process. In addition to that, a database on market price will be made available to assist Ministries in benchmarking product prices.
[13] Publication of the actual target will take place after Malaysia's 2012 Corruption Perceptions Index is released.

NKRA	Measures under GTP 1.0 (2010-2012)	New measures under GTP 2.0 (2013-2015) - In addition to extending GTP 1.0 measures
Cost of Living (cont.)	*Cash transfers* Incentives for taxi drivers Cash assistance of RM 500 for households with income of RM 3,000 and below RM 100 cash assistance for school children from Year 1 to Form 5 nationwide. RM 100-200 book voucher to all Malaysian students 1Malaysia Rakyat's Welfare Programme (KAR1SMA)	*Other indirect subsidies* PR1MA housing Kad Siswa 1Malaysia (discount cards for full-time students of institutions of higher learning)
	Special Funds Special Housing Fund Commercial Agro Fund	
Crime	*Reducing Index and Property Crime* Inmate rehabilitation and upskilling	*Reducing Index and Property Crime* Prevention of house break-ins Prevention of vehicle theft Rehabilitating drug addicts and users
	Increasing Safety Perception Index PDRM's Omnipresence Programme Black Spot Initiative	*Increasing Safety Perception Index* Extending PDRM's Omnipresence Programme Community Policing PDRM Communications Unit Women's Awareness Campaign
	Arrest cases brought to trial	*Increasing the number of investigation papers brought to trial*
	Public satisfaction with police Triage counseling rooms established in 39 police stations Balai League Table Sistem Semakan Online	*Public satisfaction with police* Outfitting all police stations with triage counseling units Reducing police response time from 15 to 8 minutes.
Corruption	*Enforcement Agency* Monitor compliance unit activities Monitor "Name and "Shame" Corporate Integrity System Malaysia	*Enforcement Agency* Special Committee On Corruption to answer questions regarding MACC Annual Report in Parliament Executive Review Committee in MACC Project Management Office on Prevention Streamline oversight committee
	Grand Corruption Complete prosecution of corruption cases within one year Whistleblower Protection Act 2010	*Grand Corruption* Improve political financing governance framework Insertion of Corporate Liability Provision into MACC Act
	Government Procurement Implementation of comprehensive Integrity Pact for PPP projects Upgrading MyProcurement and integration with related procurement portals	*Government Procurement* Project Management Office on Prevention Fast-tracking access to the Auditor General's Performance Audit Report Action Committee on Auditor General's report Auditor General's online dashboard Putrajaya Inquisition Guidelines for middle-men/lobbyists
		Education and Public Support Setting up of Corruption Prevention Secretariat in Teacher's Training College Training of Members of Parliament Incorporate anti-corruption element in textbooks in primary and secondary schools
Rural basic Infrastructure	*Rural Basic Infrastructure* 7,000 km of rural roads (3,147 km achieved) Access to piped water for 360,000 households (310,472 achieved) Electricity for 131,200 households (93,712 achieved) Housing for 50,000 households (50,000 achieved)	*21st Century Village* Establishing state-driven modern integrated farms Private sector-driven fruit and vegetable farms Enhancing village co-operatives
		Driving Youth Entrepreneurs Annual business plan competition for youth, aimed at implementing 39 rural-based businesses arising from the competition by 2015

NKRA	Measures under GTP 1.0 (2010-2012)	New measures under GTP 2.0 (2013-2015) - **In addition to extending GTP 1.0 measures**
Urban public Transport (UPT)	*Increasing capacity of inter- and intra-city trains* Introduction of 35 four-car sets for the Kelana Jaya LRT line Increasing daily passenger capacity	*Enhancing the rail system* Enhancing KTM Komuter Extending the Kelana Jaya and Ampang LRT lines Expanding KL Monorail capacity
	Enhancing the bus experience Upgrading of 1,102 bus stops in Sepang, Subang Jaya, Ampang Jaya, Selayang, Shah Alam and elsewhere Introduction of 470 RapidKL buses	*Transforming Malaysia's taxi system* Implementation of centralized taxi service system Introduce a new taxi business model
	Refurbishing and re-designing Pudu Sentral	*Managing travel demand* Enhancing parking control and management Implementing journey planners
	Integrated Terminal Bersepadu Bandar Tasik Selatan (Transport Terminal)	*Enhancing the integration of the UPT system* Park 'n' ride Bike facilities Walkways/bus stops/feeder services Effective integration of bus and rail services "Pedestrianisation" for last-mile
		UPT enabling project Reviewing public transport fares in the Greater Kuala Lumpur/ klang Valley Set up a bus driver's academy to build numbers and enhance performance Create a joint enforcement task force to monitor the UPT system Establish a watching brief for public transport initiatives elsewhere in the country Revitalising Greater Kuala Lumpur through the introduction of car-free zones
Low income households	*Managing poverty cases* Utilize e-Kasih database system to monitor and manage low-income households Introduction of the 1AZAM programme to provide economic opportunities for low-income households	*Managing poverty cases* Expanding the e-Kasih database Ensuring a more granular and targeted 1Azam programme Extensions to 1AZAM: 1AKRAB, a mentoing programme, clear criteria for 'second chances'
	Moving households into higher income categories Reducing households in the extreme poor category by 99.6 percent Reducing the number of poor households by 15,868	*Introducing innovative and sustainable opportunities* Work voucher scheme Department of Women's Home Managers Programme Branchless banking Micro-sourcing Agriculture support for Orang Asli communities
	Providing entrepreneurship and skills training Training provided for 3,900 women entrepreneurs	*Enhancing social support to enable economic development* Enhancing the insurance scheme for 1AAM participants Enhancing shelters for the homeless via Anjung Singgah Home help for vulnerable groups Ferry in Temenggor for Orang Asli community Expand education initiatives to improve Orang Asli well-being
	Increasing home ownership for poor households Providing 35,095 low-cost homes under Projek Perumahan Rakyat and Perumahan Awam	*Enhancing delivery of health services and housing, as well as nutrition levels in the interior* Improving health and housing facilities for the Orang Asli and Penan community, including nutrition programmes
		Engaging NGOs and other community organizations Expedition of tax exemptions for NGOs Establish awareness campaigns and NGO resource matching

NKRA	Measures under GTP 1.0 (2010-2012)	New measures under GTP 2.0 (2013-2015) - In addition to extending GTP 1.0 measures
Improving student outcomes	*Increasing pre-school enrolment rates* Harmonize support for government pre-schools Improve and harmonize quality of teachers and teacher assistants across all government pre-schools Increase the number of pre-school classes in urban (poor), rural and remote areas via Public-Private Partnerships	*Increasing pre-school enrolment rates* Ensure national standards for pre-school and childcare Upskilling of pre-school teachers
	LINUS LINUS for Bahasa Malaysia literacy LINUS screening (9 screenings for Years 1-3, with 3 screenings per year) Training of remedial teachers Students assessment levels – Construct 8 (Literacy) and Construct 10 Numeracy)	*LINUS* LINUS for English literacy from Years 1-3 6 screenings for Years 1-4, with 2 screenings per year Achieve 12 constructs to re-enter mainstream curriculum
	New Deals (Principal and Teacher Performance) Annual reward for principals and teachers in top performing schools and most-improved schools Rewards tied to school overall and individual performance Principals receive RM7,500. Top 5% Teachers receive RM1,800 and 95% receive RM900	*New Deals (Principal and Teacher Performance)* Link with new Principals and Teachers charters
	School Improvement Programme (SIP) School rankings and banding Teacher coaches (SISC) and Principal (SIP) coaches School improvement action plan	*School Improvement Programme* Extend SIP and SISC coaches to be full time in State (JPN) and District (PPD) Improvement Programme
	High Performing Schools (HPS) Expand number of HPS from 66.	*High Performing Schools* Focus on quality control of HPS and ensure autonomies are fully utilized

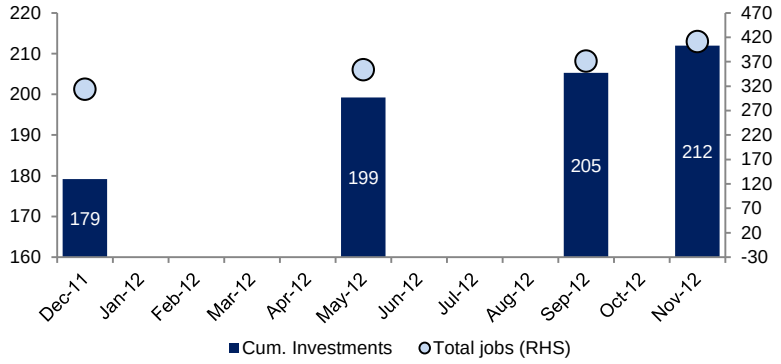
Source: PEMANDU.

Implementation of ETP investments has stepped up, but structural reforms have yet to pick up pace

The ETP continues to make progress with respect to investments. Although the value of announced investments has declined due to the deterioration in global economic conditions, 2012 witnessed the commencement of several big-ticket Entry Point Projects (EPPs) under the ETP. These include the construction of the KV MRT as well as the awards of initial contract for PETRONAS' RM60 billion Refinery and Petroleum Integrated Development (RAPID) project in Pengerang, Johor. The investments in these EPPs directly and indirectly contributed to the surge in public and private investments in the second quarter of 2012. According to PEMANDU, between January and November of this year, 35 projects under the twelve National Key Economic Areas have been announced, potentially contributing investments of RM32.8 billion and the creation of nearly 100,000 jobs by 2020. Within the ETP framework, this brings the total value of committed investments and potential job creation to RM212.0 billion and just under 411,000 respectively (Figure 43) against 10 year targets of RM1.7 trillion and 3.3 million jobs.

Figure 43. Investments committed under the ETP grew more slowly in 2012 due to the deterioration in the global environment

Number of projects



Source: PEMANDU.

High-value investments are concentrated in the commodities-linked and real estate sectors. Although figures for realized investments and job creation are not readily-available and it is difficult to link firm-level investments with national account aggregates, progress on the ground is very much visible. This is particularly the case when it comes to infrastructure and real estate projects related to the Greater KL NKEA. Indeed, of the total committed investments of RM52.2 billion spread over the 48 projects announced between January and November 2012, around 80 percent are linked to the real estate or commodities sectors (see also Figure 42)[14]. While there is no doubt that these investments will ultimately contribute towards economic growth, questions arise as to whether non-commodity sectors in the economy are not receiving as much focus. For instance, in the first eleven months of 2012 only two EPPs were announced in the electrical and electronics NKEA: the RM4 billion investment for a new wafer fabrication plant by Infineon and a RM 270 million investment by National Instruments Malaysia to set up a training and research facility. Although Malaysia has benefited from the commodities-price supercycle over the last seven years, there is still a need to drive other sectors of the economy further up the value chain, for substantive transformation of the economy to take place, and to prevent the effects of 'Dutch Disease'.

While incremental progress continues to be made on SRIs, substantive reforms have yet to gain momentum. PEMUDAH's efforts to improve the business environment have borne fruit, with Malaysia being placed 12th in the 2013 World Bank *Doing Business* rankings, up from (a revised) 14th position in 2012. The bulk of Malaysia's improvements in the rankings were related to construction permits, tax payments and property registration, all of which are linked to relevant SRIs implemented last year (see Table 4, Malaysia Economic Monitor, April 2012). In addition, significant steps were made in reducing the government's role in business through the IPOs of IHH Healthcare Berhad (a subsidiary of Khazanah Nasional) and Felda Global Ventures Holdings (Table 4). On the other hand, some substantive policies have seen less progress, such as the implementation of the Goods and Services Tax (GST) and subsidy rationalization. Indeed, although the subsidies rationalization had been a key proposal of the New Economic Model (NEM), its implementation has been 'frozen' since June 2011 due to rising cost of living and public sensitivity in the run-up to the 13th General Election.

Implementation details for the liberalization of services sectors remain opaque and the coherence between regulatory reforms and foreign ownership liberalization is unclear. The Government recently announced the liberalization of an additional six sub-sectors, namely legal services, medical specialist services, dental specialist services, international schools, private universities and telecommunications – Network Facilities Providers (NFP) and Network Services Providers (NSP), bringing the total number of sub-sectors liberalized to 15 out of the 17 announced. The remaining two (engineering services and architectural services), as well as a new sub-sector (quantity surveying), are pending amendments to the relevant legislations. However, no guidelines exist at the moment for the sectors that have been liberalized, contrary to the recommendation in the NEM Part II (which recommended guidelines should be issued within two months of the announcement). Moreover, no clear information is available to potential investors in these sub-sectors.[15] Importantly, while the NEM correctly placed 'behind the border' reforms (improving domestic regulations) with 'at the border' reforms (i.e. liberalization), the two reform areas have been placed under different SRIs and coordination between both efforts is unclear, especially without the benefit of guidelines or other information.

The implementation of the minimum wage is proceeding on schedule despite concerns expressed by some firms. In terms of implementing the minimum wage under the human capital SRI, the Minimum Wages Order was gazetted in July 2012, and will take effect on 1 January 2013 for employers hiring six or more workers and on 1 July 2013 for firms employing five or fewer employees. In September, the National Consultative Council responsible for the implementation of the minimum wage issued guidelines for the implementation, and is currently weighing applications to temporarily defer the scheme (see Box 4).

---

[14] Real estate projects include Sepang International City and Sentral Garden City under the Greater KL NKEA, and commodity-related projects include the RM4.1 billion investment in developing the LNG Terminal Project in Pengerang by the Dialog-Johor State-Royal Vopak consortium, and around RM 17.6 billion in investments in the palm oil and agricultural sectors.

[15] PEMANDU has noted however that business entry processes for the 15 sub-sectors have been mapped and this information for investors will be available on the MITI website before the year ends.

Greater use of modern monitoring and evaluation tools would help secure better results. Some GTP targets have been refined and improved following audits, a practice that should be lauded and encouraged. As part of the review of the GTP, audits were conducted to evaluate whether the results reported to PEMANDU reflected actual improvements that the performance indicators were trying to achieve. In the case of numeracy and literacy scores, it was found that the results did not adequately reflect actual knowledge of the students being tested, which has led to a restatement of the KPIs and a refinement of the indicators for GTP 2.0. This is a very good example of the importance of monitoring and evaluation to the success of the Government's transformation programs, and how such monitoring and evaluation differs from simply collating KPIs from service providers. Another good example is the SME Masterplan, which was announced earlier this year (See Box 5). On the other hand, what would seem like an ideal candidate for a rigorous evaluation, the implementation of the TUKAR program under the Distributive Trade NKEA, has not benefited from a similar effort. Rather, the KPI of the TUKAR program is simply the number of shops that received the intervention. While the Ministry of Domestic Trade keeps track of sales of participants, there was no attempt to select a sample of shops within the group of participants, and a similar sample of shops among non-recipients to have an accurate estimate of program impact according to modern impact evaluation techniques. This is a missed opportunity, since in theory TUKAR is a promising initiative, and should be scaled up and serve as an example to other countries if it could be shown rigorously that it is improving the profitability of those businesses receiving the intervention.

Table 4. Progress on SRIs remains incremental

SRI	MAIN POLICIES	LATEST DEVELOPMENTS (January – November 2012)	COMMENTS
Competition, Standards & Liberalization	Competition Act 2010	• Malaysia Competition Commission set up in April 2011 • Law came into force on 1 January 2012	• The record of enforcement of the law, especially with respect to GLCs, will be critical to its effectiveness.
	Multiple standard development agencies	• Amendment to Standards Act to enable appointment of multiple standard development agencies has been gazetted on 9 February 2012 • MOH has introduced the "Food Safety is the Responsibility of the Industry" program to facilitate compliance with food hygiene and safety requirements by SMEs	• Implementation of the amendments is ongoing.
	Services sectors liberalization	• 15 out of 18 sub-sectors have been liberalized to-date: (1) Accounting/Taxation (2) Courier (3) Dental Specialist (4) Departmental & Specialty Stores (5) Incineration (6) Int'l Schools (7) Legal (8) Medical Specialist (9) Private Hospital (10) Private Universities (11) Skills Training (12) Telco application services provider (13) Telco NFP & NSP (14) Technical & Vocational Schools (15) Technical & Vocational Schools (for special needs students); • Three remaining sub-sectors are in final stages of legislative amendments.	• Although business process maps are expected to be produced by the end of the year, there are no public guidelines at this point, including for those sectors that have been liberalized since January 1st. • Coordination with behind-the-border regulatory reform is uncertain.
Public Finance	Accrual accounting	• New accounting policies have been drafted	• Implementation of GFS in the MOF is ongoing.
	Transparent procurement	• E-bidding's original threshold value was reduced from RM200,000 to RM50,000 for the procurement of goods and services and implemented in April 2011; savings estimated at RM 25mn in 2011	
	Rationalization of incentives		
	Improve Tax Collection	• Enhancement of audits & en- forcement implemented in the second half of 2011. Estimated additional revenue of RM 67 mn	• While tax collection has increased substantially, the share of the improvement directly attributed to the SRI appears to be small.

Public Finance (cont.)	Implementation of GST		• Delayed.
	Expenditure control		• Consolidation is proceeding at a moderate pace, but no structural measures undertaken.
Public Service Delivery	Business Process Reengineering	• 405 of 761 business licenses identified to be abolished	• Improvements can be seen in Malaysia's moving up the rankings in the World Bank's Doing Business survey.
	Real-time performance monitoring & counter rating system	• Counter rating system implemented in 82 police stations in Selangor	
	Increase the talent pool in the civil service	• SBPA announced in Budget 2012	• SBPA postponed indefinitely in April 2012.
Human Capital Development	Modernize labor legislation	• Minimum Wage Order gazetted in July 2012 and implementation guidelines issued in September.	• Implementation to start in January 1, 2013 for firms employing 6 workers or more and on July 1st for firms employing 5 or fewer workers. Firms have been allowed to request deferment of implementation on a case-by-case basis.
	Upskilling, reskilling and upgrading the workforce	• National Occupational Skills Standards for TVET Curriculum in O&G launched • Pilot batch of eco-nature guide training programs • NTEP launched covering 5 states/regions and 550 placements across Malaysia • MyProCert program launched October 2011 for business services & CCI • E&E PSDC Fastrack attracted 104 apprentices with 101 of them recruited	• Measures are helpful, but fall short of being structural.
	Strengthen human resource management	• National Human Resources Centre (NHRC) launched	
	Leverage on women's talent to increase productivity	• Measures announced in May to provide incentives for firms to train women returning to the labor force	
	Undertake a labor market forecast and survey program	• The Institute of Labour Market Information and Analysis was set-up to provide comprehensive and timely labor market information	
	Enhance labor safety net by introducing unemployment insurance	• MOHR has appointed the ILO to undertake a comprehensive study and to propose recommendations on the design of the UIS	• The study is in progress.
Government's Role in Business	Divestment from GLCs through listing, paring down of stakes or outright sale	• 11 divestments have been completed in 2011 and 1 in 2012 • High profile divestments include PLUS, EON Capital, Pharmaniaga, Felda and Proton	• High profile divestments between April and October include IHH Healthcare and Felda Global Ventures.
Narrowing Disparity	Market friendly, transparent, needs and merit-based programs to support Bumiputera SMEs Capacity building programs provided to Bumiputera as well as non-Bumiputera SMEs with a focus on building talent,	• Bumiputera Economic Transformation Programme (BETP) launched • Setting up of TERAJU, which will lead the BETP and drive Bumiputera participation through new and existing initiatives • TERAJU has launched TERAS – a program to increase Bumiputera SMEs' participation in the economy.	

Narrowing Disparity (cont.)	identifying new technologies and enhancing collaboration		

Source: PEMANDU

Box 4. Minimum Wage

The Prime Minister of Malaysia, Najib Razak announced the adoption of a minimum wage for the country on 30 April 2012. As recommended by the National Wages Consultative Council (NWCC), the minimum wage is set at RM900 a month for Peninsular Malaysia and RM800 a month for Sabah and Sarawak, and expected to benefit around 3.2 million private sector workers apart from those in domestic employment. The minimum wage would take effect on 1 January 2013, six months after the Minimum Wages Order was gazette on 1 July, to allow for open negotiations for wage restructuring between employers and employees. Small firms with no more than five employees have been given an extra six months for implementation. The NWCC will recommend a minimum wage every two years.

The minimum wage of RM900 is around 49.9 percent of the 2010 national mean wage of RM1,804. However, in 2009, a study of by the Ministry of Human Resources on the National Employment Return found that 33.8 percent of the 1.3 million private sector workers covered in the study were earning less than RM700 a month. It is estimated that the new wage rate will have a greater impact in Sabah and Sarawak, where mean wages are RM577 and RM758 respectively, compared to Peninsular Malaysia, where the minimum wage will be 20.4 percent the average wage of RM1,313 a month.

The minimum wage will potentially have a net positive impact on the economy by putting more money in the hands of workers, thereby spurring domestic consumption, albeit with some cost-push inflationary effects. In addition, there may be some productivity impacts. The World Bank found that over the past decade, wage growth has been lagging behind productivity improvements, at 2.6 percent per annum compared to 6.7 percent per annum, suggesting wage suppression and an inefficient labor market, particularly for low-skilled workers. Malaysia has a much higher presence of low-skilled labor (70 percent of the labor force) compared to its neighbors – Singapore (51 percent), Taiwan (67 percent), and South Korea (65 percent)- the bulk of which consist of foreign workers. The minimum wage therefore, could incentivize firms to move up the value chain by weakening the dampening effect of suppressed wages. Indeed, given Malaysia's currently tight labor force, the minimum wage could help attract more Malaysians to participate in employment.

It is also unlikely that the minimum wage will negatively impact Malaysia's competitiveness, given that most of its regional peers have already enforced a minimum wage. Malaysia's minimum wage is most comparable to Thailand's, which is set at a daily rate of THB300, or about RM30 daily. By comparison, the daily minimum wage for those working six days a week in Malaysia is RM34.62. Meanwhile, within the region, Taiwan and Hong Kong have the highest minimum wages, at around RM1500 per month, while the provincial minimum wages in China ranges from around RM270 to RM600 a month. (China does not have a national minimum wage).

While public response has been largely positive, around 4,500 firms out of a total 650,000 registered companies in the country have applied for temporary deferment from applying the minimum wage, in order to extend the open negotiations period. This could be due to the fact that while the minimum wage applies to those currently paid below the statutory figure, firms will have to restructure the wages of their total labor force due to upward adjustments made at the low levels, which would therefore impact cost structures more significantly than expected. This especially applies to firms with sensitive margins, most of which have a largely foreign labor force: rubber glove makers for instance, who expect to spend an additional RM150 million a year for around 2,500 foreign workers, have been amongst the most vocal in demanding for a deferment in the enforcement of minimum wage, citing that the increase in labor costs could cause a ripple effect on their suppliers and ancillary service providers.

As stipulated by the Minimum Wages Order, the definition of "minimum wage" is the lowest basic salary paid to workers, whether hourly, daily, or monthly. It does not include "non-wage" payments such as housing, food, fuel, and utilities allowances, medical benefits, contributions to pension funds, travelling allowances, as well as gratuities, bonuses and out-of-pocket expenses

In addition, the following sector-specific stipulations apply:

- Hotels: employers may convert all or part of the service charge meant for distribution to the employee, to form part of the minimum wages
- Plantations: where the Special Gratuitous Payment of RM200 is implemented, the employer may convert all or part of the payment as part of the minimum wages. Any terms and conditions relating to the eligibility for such payment shall be void. However, if there is balance owed, the terms and conditions pertaining to such eligibility for the remaining payments shall continue to apply
- Security Services: where security incentive is payable to employee as provided for in the Wages Council Order (Wages Regulation Order) (Statutory Minimum Remuneration of Private Security Guards in Peninsular Malaysia) in 2011 and the Wages Council Order (Wages Regulation Orders) (Statutory Minimum Remuneration of Private Security Guards in Sabah and Sarawak) 2011, the incentive may be restructured as part of the minimum wages

Although the Minimum Wages Order does state that the restructuring of wages cannot make workers worse off in terms of total wages received, there is some room for employers to reduce the amount of non-wage payments and benefits such as the benefits and allowances listed above, as well as commissions for those involved in sales. For instance, a study by the UNHCR found that employers in Hong Kong have amended the employment contract to state the exclusion of paid meal breaks and rest days to offset rises in labor costs. Such unilateral amendment of employment contracts is particularly rampant in the food and catering, cleaning, security guard, tourist and elderly care sector. Hence, effective enforcement of the minimum wage policy is imperative to ensure compliance with the spirit, and not just the letter, of the law.

As highlighted in the April 2012 Malaysia Economic Monitor, it should be emphasized that a minimum wage is not the most effective tool to address income inequality or poverty. Rather, it is typically used to substitute for collective bargaining as well as to drive employment and productivity effects, in addition to second-round effects on the macroeconomy. Indeed, the stated objectives for Malaysia's minimum wage policy, apart from safeguarding workers' social welfare, is also for improving firm's competitiveness, increasing labor productivity, as well as reducing the country's reliance on unskilled migrant labor.

In order to generate the expected positive impacts on productivity and consumption while mitigating any negative impacts on welfare as well as disinvestment, effective implementation of the minimum wage policy is important. Country examples have shown that apart from getting the wage level, coverage, as well as the structure of the implementation body (in this case the NWCC) right, among the enforcement factors that should be taken into account are:

- Strong, independent enforcement body
- Accuracy and accessibility of wage and employment records for monitoring by compliance officers and inspectors
- Allowing employees to access their own records to encourage transparency and trust
- The existence of mechanisms for employees to report non-compliance
- Widely available and legible information on the minimum wage mechanism and related implementation details
- Effective penalties for non-compliance, which increase with severity and frequency of the offence
- Predictable and evidence-based periodic reviews of the level of the minimum wage.

Box 5. SME Masterplan

Malaysia aspires to join the ranks of high-income countries by 2020 through growth that is both inclusive and sustainable. To achieve this, the economy will need to significantly increase private investment and productivity. Accordingly, a key element of Malaysia's New Economic Model (NEM) is to re-energize the private sector. Because SMEs make up all but one percent of Malaysia's private sector, these enterprises are set to take a key role in attaining NEM goals and Malaysia's aspiration to achieve high-income status and inclusive growth by 2020.

The SME Masterplan which was prepared in collaboration with the World Bank, charts policy directions for comprehensive SME development across all ministries and agencies and different economic sectors, including policies and strategies aligned to the New Economic Model and 10th Malaysia Development Plan and aimed at achieving a high income status. It envisions "Globally competitive SMEs that enhance wealth creation and contribute to social well-being". While most businesses will remain small, Malaysia hopes to see global champions emerge from a growing pool of locally-owned SMEs.

The SME Masterplan departs from other Masterplans in that it is evidenced based on strong monitoring and evaluation, thereby making the SME Masterplan a live document that will be adjusted as realities and competitive conditions change. It aims to reduce the number of programs aimed to support SME development to those that are guided by the following principles: (a) designed only to address market failures, information asymmetries, with equity concerns addressed by other social programs; (b) programs would improve welfare and maximize impact on SME development at lowest cost; and in most cases would be transitory in duration until market imperfections are addressed; and (c) programs would be made based on sufficient information and analysis, and will be adjusted based on monitoring and evaluation built in these programs.

In keeping with this vision, the SME Masterplan is based on the following policy goals: (a) Enhancing the productivity of SMEs; (b) increasing the rate of business formation; (c) increasing the number of high growth and innovative SMEs; and (d) increasing the rate of formalization. And to support these strategic goals, six focus areas were identified, namely Innovation and Technology Adoption; Access to Financing; Human Capital and Entrepreneurship Development; Access to Market; Legal and Regulatory Environment; and Infrastructure.

To unlock the growth potential of SMEs, the Masterplan addresses the constraints in all of the 6 focus areas through 32 initiatives and the following six High Impact Programmes (HIPs):

- HIP 1: Integration of registration and licensing of business establishments to create a single registration point by interfacing of the current National Business Registration System (MyCOID) and the National Business Licensing System.
- HIP 2: Technology Commercialization Platform to remove market barriers to innovation by providing handholding to SMEs that have innovative ideas to proceed from proof of concept to the commercialization stage.
- HIP 3: SME Investment Programme (SIP) to provide early stage financing through development of investment companies which would invest in potential SMEs in the form debt, equity or a hybrid of both.
- HIP 4: Going Export (GoEx) Programme offers customized assistance through a matching grant to new SME exporters or those venturing into new products or markets to overcome the information barriers.
- HIP 5: Catalyst Programme to create homegrown champions through a targeted approach with support in the area of financing, market access and human capital development.
- HIP 6: Inclusive Innovation to empower the bottom 40% of the income group to leverage on innovation to promote transformation of communities focusing on microenterprises.

Implementation of the SME masterplan has commenced in 2012, and will continue for a period of 9 years.

Source: SME Masterplan

3. UNLOCKING WOMEN'S POTENTIAL

Unlocking women's potential is smart economics

All over the world, women tend to engage in low-productivity, low-paying activities. Men and women face a number of choices over their life cycle with respect to the tasks that they are engaged in. They must first decide on how much time to spend acquiring education. They must then choose whether to engage in unpaid work at home, and whether to participate in market work (i.e. for financial gain). If market work is chosen, they also must choose a sector and occupation. Globally, there are stark differences in the choices made by men and women along these dimensions, with women concentrating in low-productivity, low paid tasks relative to men (World Bank, 2011b).

Gender equality implies a shift of women towards higher-productivity tasks, with potentially significant growth dividends. The World Bank's World Development Report 2012 (World Bank, 2011b), focused on Gender Equality and Development (see Box 6), argues that the promotion of gender equality is both the right thing to do and smart economics because it (1) contributes to higher productivity and income growth; (2) helps invest in the next generation, and (3) enhances the quality of decision making. The report bases its findings on a growing body of research that shows the negative effects of gender inequality on economic development[16]. This chapter is focused on gender gaps in economic opportunities and the potential contribution to higher productivity and income growth that would result from closing those gaps (Table 5).

Table 5. How do gender gaps in economic opportunities impact economic outcomes?

Gender gaps in...	...lead to
Education	• Reduced human capital stock in the economy • Employment segregation by sector and occupation
Home vs. Market work	• Underutilization of human capital and talent
Sectors and occupations	• Distorted allocation of talent (especially managerial talent) • Earnings gaps, which discourage women from entering the labor market, reduce savings for old-age and spending on children

Source: Authors.

Malaysia's impressive growth record is matched with important advances in gender equality. Malaysia's sustained economic growth over the past three decades has been accompanied by a transformation of its economic structure, dramatic poverty reduction, and significant advances in many dimensions of gender equality. There has been a narrowing (and even reversal) of gender gaps in education enrollment and literacy. Women's labor force participation has increased, as have the incidence of wage work and real earnings, all of which have created new economic opportunities (World Bank, 2012a). Not only are there more women contributing to the economy in the labor force, but there are also more women in management positions today in the public sector, including leading some of the countries' key institutions such as the Central Bank and, until recently, the Securities Commission.

Despite these advances, significant challenges remain to maximize women's contributions to Malaysia's economy. Literacy rates for women, while high at about 91 percent, are still lower than men's, and gender streaming in higher education leads to potential misallocation of talent in the labor markets. Only 46 percent of Malaysian women of working age report that they are currently working (in both the formal and informal sectors) or looking for work.[17] This figure is lower than in most countries at or above Malaysia's income level and suggests that many of the 54 percent

[16] See Goldin, 1990, Hill and King, 1995, Dollar and Gatti, 1999, Tzannatos, 1999, Klasen, 2002, Klasen and Lamanna, 2009, World Bank, 2011b 2011, Cuberes and Teignier, 2012b 2012, World Bank, 2012 2012b. Economic theory also clearly shows that gender gaps in employment lead to reductions in the stock of talent available in the economy, thus leading to distortions in the allocation of talent across occupations and economic sectors (Esteve-Volart, 2009).
[17] Based on the 2010 Labour Force Survey (latest available).

of women who are not working can be considered "absent" from Malaysia's labor markets. Women – especially poor women – earn less than men on average. Malaysia also has the lowest representation of women in elected office in the East Asia region, barring Mongolia and Myanmar (World Bank, 2012a), and few women in corporate boards. It also appears to have among the lowest levels of women entrepreneurs according to a cross-section analysis of the World Bank's Productivity and Investment Climate Surveys (PICS) and ILO data.

To reach its goal of becoming a high-income nation, Malaysia will need to tap into all human resources in the country—women and men. As Table 6 indicates, the biggest challenge for Malaysia with respect to economic opportunities for women relate to labor force participation. Gender equality matters for Malaysia's development primarily because the "absent women" represent a skills and brain "drain" from the Malaysian workforce. With skills shortages being the main bottleneck in Malaysia's path towards a high income economy, women are an under-utilized resource that needs to be harnessed for Malaysia to achieve its aspirations. In addition, employment segmentation and the distortion in the allocation of talent in the labor market remains a challenge – and one that will become increasingly important as Malaysia increases the participation of women in the labor markets.

Table 6. What are the key challenges in the Malaysian context?

Areas		Gender Gap[a]	Status
Education	1. Literacy	90.7% (w) vs. 95.4% (m)	High literacy, but gender gap persists
	2. Primary Enrollment	96.2% (w) vs. 96.3% (m)	High rates, no gender gap
	3. Secondary Enrollment	70.8% (w) vs. 65.9% (m)	Reverse gender gap, but low rate
	4. University Enrollment	45.4% (w) vs. 35.2% (m)	Reverse gender gap
Home vs. Market Work	1. Labor force participation	46% (w) vs. 79% (m)	Large gender gap, larger than most countries
Sectoral and occupational segmentation	1. Education streaming	30.2% (w) in engineering	Gender streaming present but not higher than most countries
	2. Earnings gap	92:100 (w:m)	Earnings gap appears lower than most but likely to be underestimated
	3. Women in management	31:69 (w:m)	Need better baseline study
	4. Women entrepreneurs	1.4% (w) vs. 4.7% (m)	Gap appears larger than most countries

Source: Authors, UNESCO Institute for Statistics, Department of Statistics, Malaysia, Labour Force Survey 2010, ILO Laborsta, World Bank staff calculations, Grant Thornton.

Note: a. Data for 2011 (women in management); 2010 (literacy, education streaming, FLFP, earnings gap), 2009 (secondary and tertiary enrollments), 2008 (women entrepreneurs, defined as women identifying as employers), 2005 (primary enrollment),

The New Economic Model (NEM) and the 10th Malaysia Plan recognize the importance of unlocking women's talent to achieve higher and more inclusive economic growth. The 10th Malaysia Plan sets out an ambitious target to increase women's labor force participation to 55 percent in 2015, within the broader framework of labor market reform. Women are also part of the Economic Transformation Program: as part of the Strategic Reform Initiative on Human Capital Development, a Roadmap for Leveraging Women's Talent was developed outlining measures targeted at all stages of a woman's career (see Box 12). Notable initiatives under the Roadmap include setting a minimum target of 30 percent of women in decision-making positions in the corporate sector by 2016, incentives to increase the number of childcare centers, and tailored internship and job placement opportunities for women.

This chapter is organized as follows: the first part explains why improving women's economic opportunities is critical to Malaysia's high income agenda and provides estimates the benefits of increasing employment opportunities for Malaysian women. **The second part briefly reviews gender gaps in education.** It confirms that in this area gender gaps have been largely eliminated or reversed. **The third part is about women's labor force participation.** It analyzes the participation rate from different angles and attempts to understand its drivers. **The fourth part looks at segregation in labor markets** and its implications for women's earnings. **The fifth part looks at the fundamental causes of low participation and employment segregation: institutions, both formal and informal.** Formal institutions include the legal framework as it affects women, and informal institutions include gender norms. **The final part provides policy options**

to unlock women's talent. It presents ongoing efforts and additional initiatives and policies tried in other countries with potential for success in the Malaysian context.

Box 6. The World Development Report 2012 on Gender and Development

The World Development Report (WDR) 2012 on Gender Equality and Development argues that gender equality is both the right thing to do and smart economics – for two main reasons. First, gender equality can have large impacts on productivity. For an economy to be functioning at its potential, women's skills and talents should be engaged in activities that make the best use of those abilities. When women's labor is underused or misallocated—because they face discrimination in markets or societal institutions that prevents them from completing their education, entering certain occupations, and earning the same incomes as men—economic losses are the result. Second, greater control over household resources by women leads to more investment in children's human capital, with dynamic positive effects on economic growth.

The conceptual framework of the WDR 2012 posits that gender outcomes can be understood through the responses of households to the functioning and structure of markets and institutions, both formal and informal. Families decide how many children to have and when, how much to spend on education and health for daughters and sons, how to allocate different tasks (inside and outside the household), and other matters that influence gender outcomes. They make these choices on the basis of the *preferences, incentives, and constraints* of different family members, and in relation to their relative voice and bargaining power.

Preferences are shaped by gender roles, social norms, and social networks (which the report groups under the label informal institutions). *Incentives* are largely influenced by markets (including the markets for labor, credit, land, and goods), which determine the returns to household decisions and investments. *Constraints* arise from the interplay of formal institutions (comprising all that pertain to the functioning of the state) and markets but also reflect the influence of informal institutions. Voice and bargaining power of household members are defined by a range of factors, including their ownership of and control over resources, their ability to leave the household (exit options), and social norms. In this way, household decision making, markets, formal institutions, and informal institutions combine and interact to determine gender-related outcomes.

Source: World Bank (2011b)

Why is gender equality critical to Malaysia's high income agenda?

At least 500,000 – and as many as 2.3 million – Malaysian women are "absent" from the labor market. Women are "absent" from Malaysian labor markets in the sense that the number of women working or looking for work as a share of all working-age women is lower in Malaysia compared to other countries of similar or aspirational income levels. Numerical estimates can be derived by comparing the number of women that would be expected to be in the labor markets based on Malaysia's current and aspirational income levels, and the actual number of women in the labor force. A conservative estimate that includes all countries as potential benchmarks finds that Malaysia would be expected to have an additional 500,000 women in the labor force, which would bring the participation rate of women close to that of Chile and slightly lower than that of Indonesia (Table 7). This estimate is conservative because it includes in the statistical analysis all Middle Eastern and North African (MENA) countries, which have exceptionally low participation rates for women. A similar estimate excluding MENA countries results in an estimate of close to 900,000 absent women, and would result in a participation rate similar to Brunei. If Malaysia were to look at Canada as a benchmark, potentially two million additional women could be participating in the labor market. The impact of these absent women in Malaysia's talent pool could be as large as the "brain drain" of Malaysians who migrate to overseas job markets.

Table 7. Estimates of Malaysia's "Absent Women"

	Estimated FLFP (%)	"Missing Women"
Regression (all countries)	52.3	504,169
Same level as Indonesia	53.2	576,419
Regression (excl. MENA)	57.0	896,881
Same level as Singapore	62.9	1,386,748
Same level as UK	69.3	1,921,397
Same level as Canada	74.2	2,330,738

Source: World Development Indicators, World Bank staff calculations.

A preliminary growth accounting exercise suggests that a growth dividend of approximately 0.4 percentage points per year could arise from bringing some of these "absent women" back into the labor markets. Growth accounting exercises (see for example Hall and Jones, 1999) entail decomposing growth rates into the contributions from growth in physical capital through fixed capital formation (investments in machines and structures, adjusted for depreciation), human capital (labor inputs adjusted for quality of labor, as approximated by education level), and total factor productivity (TFP, which is the residual). The growth rate of human capital in the economy is normally a function of demography and the expansion in education, but increases in the labor force participation would also lead to a higher growth rate of human capital and therefore GDP.[18] We simulated the impact of increasing women's labor force participation on Malaysia's growth rate over the period between 2000 and 2010. During that period, human capital growth contributed approximately 2.8 percentage points of the 4.6 percent growth rate, with the remainder contributed by growth in physical capital and total factor productivity.[19] If during the same period women's labor force participation had increased from 46 to 57 percent[20] instead of remaining flat, and assuming no changes in total factor productivity and rates of gross fixed capital formation[21], the growth rate is estimated to have been higher by 0.4 percentage points per year (i.e. the growth rate would have been 5.0 percent vs. 4.6 percent).[22] If higher labor force participation by women leads to lower fertility (see Box 9 below), growth in GDP per capita would have been even higher than 5.0 percent.

Taking into account the misallocation of managerial talent in addition to low participation, one estimate puts the cost of Malaysia's gender gaps at 23 percent of income per capita. When women are excluded from entrepreneurship, a larger fraction of men become entrepreneurs and, as a result, the average talent of entrepreneur decreases. A recent study (Cuberes and Teignier, 2012b[23]) estimates the potential impacts of reducing both managerial and participation gender gaps in labor markets. In the case of Malaysia, eliminating the gap in entrepreneurship would lead to gains of 7 percent of income per capita, whereas eliminating the gap in labor force participation would yield an additional gain of 16 percent of income per capita. Therefore, Malaysia could experience a 23 percent increase in output per capita if women's labor force participation were the same as men, and if the share of women entrepreneurs were the same as men's. Table 8 shows that the cost of having women absent from the labor force in Malaysia is higher than for other countries in the region such as Hong Kong, China, Thailand, and Singapore. The same study found that the increase of output could be on average 15.3 percent for the East Asia and Pacific Region and 17 percent for upper-middle income countries.

---

[18] In exogenous growth models, this would a one-off increase in the level of GDP, whereas endogenous growth models would predict a permanent increase in the GDP growth rate.
[19] This figure assumes returns to education as follows: zero for no degree, 5 percent for primary, 10 percent for secondary and 15 percent for tertiary education.
[20] 57 percent is the level predicted by Malaysia's income level in the regression excluding MENA countries.
[21] This is a strong assumption, as it ignores general equilibrium effects that may well result in higher investment or productivity growth stemming from changes that would lead to higher women's labor force participation.
[22] The exercise takes into account the fact that women not in the labor force have a different educational profile compared to women in the labor force.
[23] The authors develop and calibrate a theoretical framework and then perform simulations using country-specific data to analyze the effects of gender gaps in the labor market on factor allocation and average productivity.

Table 8: Significant income losses due to gender gaps in the labor markets

Country	Ratio female-to-male of entrepreneurs as a fraction population	Ratio female-to male of labor force participation	Gender gap managers (fraction of women excluded from managerial positions relative to men)	Gender gap labor force (fraction of women excluded from the labor force relative to men)	income loss due to gender gap	income loss due to managers gender gap	income loss due to labor force gender gap
Malaysia	0.29	0.56	0.73	0.44	**0.23**	0.07	0.16
Indonesia	0.37	0.58	0.71	0.42	**0.22**	0.07	0.15
Hong Kong, China	0.28	0.76	0.74	0.24	**0.16**	0.07	0.09
Thailand	0.36	0.82	0.66	0.18	**0.13**	0.07	0.06
Philippines	0.45	0.62	0.60	0.38	**0.19**	0.05	0.14
Singapore	0.41	0.71	0.63	0.29	**0.17**	0.06	0.11
EAP	...	...	0.57	0.28	**0.15**	0.05	0.10
Upper Middle Income	...	...	0.55	0.34	**0.17**	0.05	0.12

Source: Cuberes and Teignier, 2012a and b.

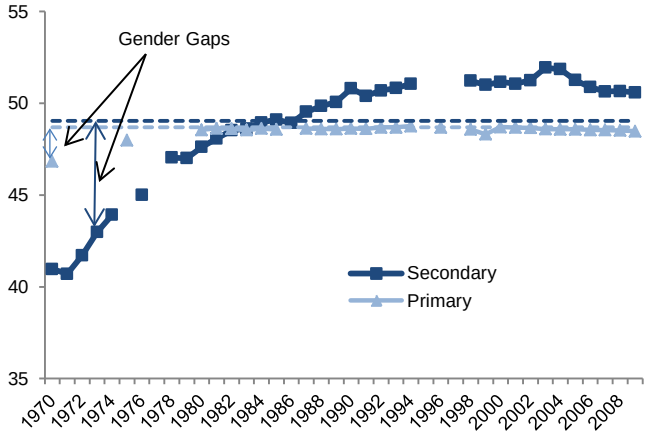
Gender gaps in education have been largely closed and often reversed

More women are enrolled in secondary and tertiary education than men

Malaysia has eliminated gender gaps in primary and secondary education enrollments more than two decades ago. Women's gross enrollment ratios in primary school have been similar to that of boys since the 1970s and the gap was essentially closed by 1980. Women's participation in secondary education expanded later, but by 1990 the share of girls in secondary education was actually larger than their share in the population (Figure 44). Despite these important advances, at 71 percent, enrollment rates of women in secondary education are below peers of similar income levels (Figure 45), though the reverse gender gap suggests even lower enrollment rates for boys. Women are still under-represented in technical and vocational secondary education programs, although their share in these programs increased rapidly between 1998 and 2009, from 33 percent to 43 percent.

Figure 44. The share of girls enrolled in secondary school has been higher than their share in the population...

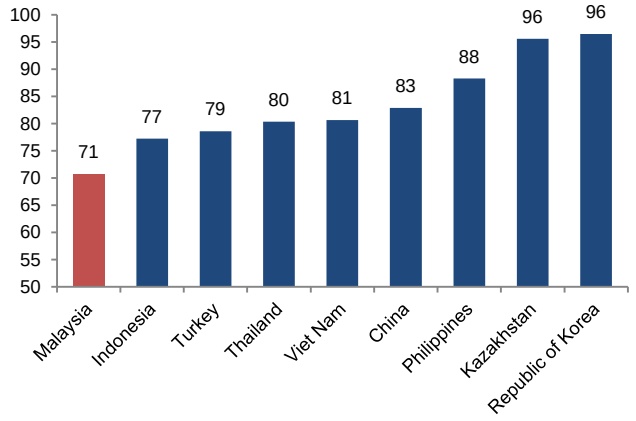
Share of women enrolled in primary and secondary education, percent



Source: UNESCO Institute for Statistics.
Note: Dotted lines represent the share of women in the appropriate school-age population.

Figure 45. ... but further improvements to the enrollment rate are possible

Women's gross enrolment in secondary education, percent



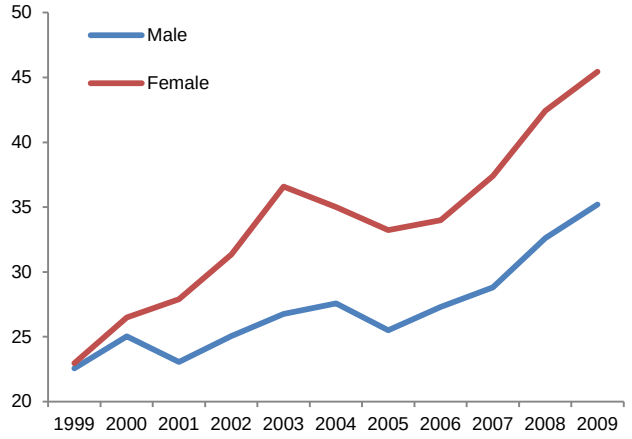
Source: UNESCO Institute for Statistics.
Note: Data as of 2010, except for Malaysia and the Philippines (2009). Includes technical and general programs.

The rates of Malaysian women educated at the post-secondary level have increased rapidly over the last two decades. Women's gross enrollment ratio in tertiary education (certificate, diploma, degree) increased nearly 20 percentage points between 2000 and 2009, while men's enrollment ratios climbed 10 percentage points (Figure 46). Not only are Malaysian women more likely to get a post-secondary education than men, they also tend to go further

in their studies. As shown in Figure 47, over 50 percent of all women received a university degree or higher. On the other hand, half of all males graduate with a certificate or diploma level.

Figure 46. Enrollment rates in tertiary education grew faster for women in the 2000s

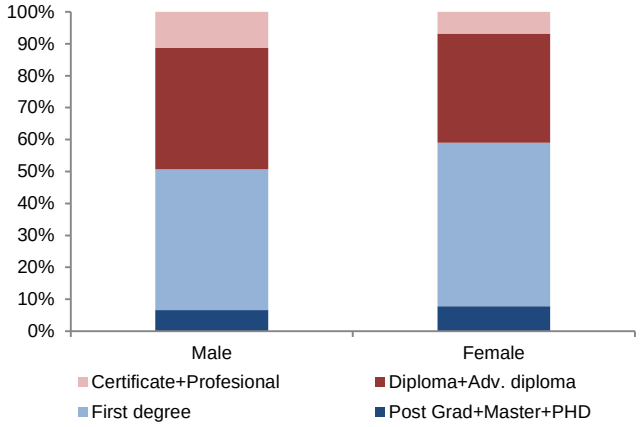
Gross enrolment in tertiary education, percent



Source: UNESCO Institute for Statistics.

Figure 47. Malaysian women tend to go further in their studies compared to men

Shares of post-secondary degrees, percent



Source: Ministry of Higher Education (2010).

The reverse gender gap in enrollments seen in Malaysia is not uncommon in Asia. When more girls than boys attend school, a "reverse gender gap" emerges. This is the case in Malaysia at the secondary and tertiary levels. In primary education, ratio of female-to-male enrollment is approximately 1, but in secondary education it is 1.10 and female-to-male enrollment in tertiary education is 1.3. Malaysia's experience is not dissimilar to several other countries in the region[24], notably China, the Philippines, and Thailand (Figure 48 and Figure 49).

Figure 48. Many countries in Asia have seen a reverse gender gap in secondary…

Ratio of female-to-male enrolment in secondary education, by country

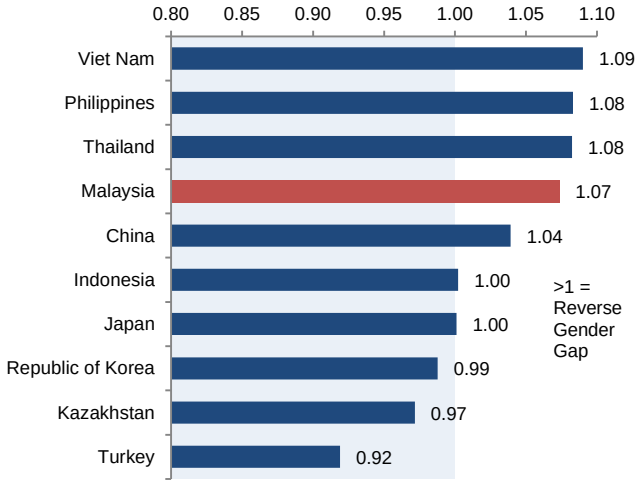
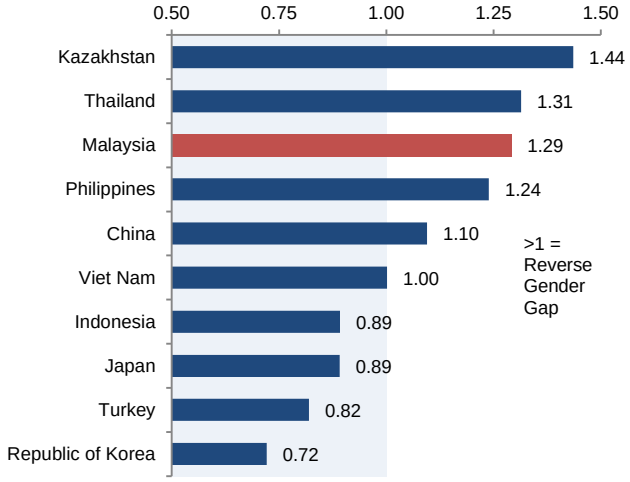


Figure 49. … and tertiary education

Ratio of female-to-male enrolment in tertiary education, by country



Source: UNESCO Institute for Statistics.
Note: Data as of 2010, except for Malaysia and the Philippines (2009).

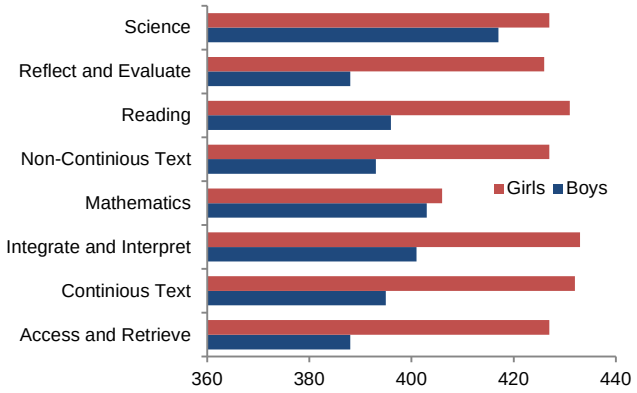
[24] In Malaysia's case, part of the reason for the high female to male ratio in tertiary enrolment have been attributed to gender-based differences in attitudes towards higher-education, as well as planning horizons.

A reverse gender gap is also evident in test scores

Young Malaysian female students outperform males in international standardized tests. Results of the Trends in International Mathematics and Science Study (TIMSS) indicate no evident female disadvantage in math and science scores among Malaysian students. On the other hand, in the Program for International Student Assessment (PISA) exam[25], Malaysian girls performed better than boys across the board, but especially in reading and related skills (Figure 50). In fact, the (reverse) gender gap in reading skills is larger than the rural-urban gap, with girls in non-urban schools scoring 5 percent higher than boys in urban areas. Malaysian girls out-perform boys both in overall scores, and relative to the performance of their peers in other countries (Figure 51), suggesting that the (reverse) gender gap in Malaysia is more pronounced than elsewhere.

Figure 50. Girls outperform boys, especially in reading and related subjects…

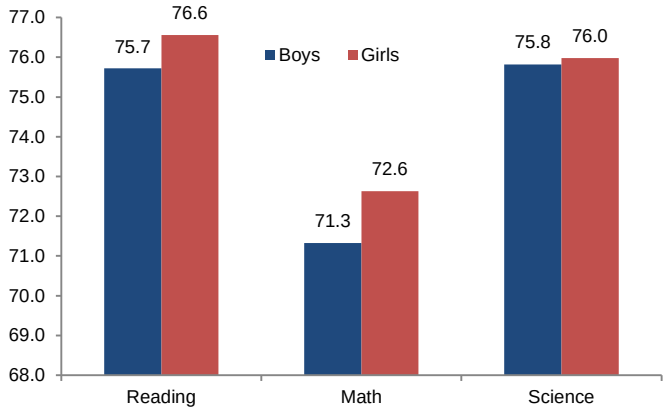
Scores in PISA tests (2010), by gender and subject area



Source: OECD, Program for International Student Assessment.

Figure 51. … and the gap remains when viewed from a "distance to the frontier" perspective

Ratio of PISA score of Malaysian students to the top performer, by gender, percent



Source: Program for International Student Assessment.
Note: Top performers vary according to gender and subject; excludes Shanghai.

Raising labor force participation is the key challenge

The key challenge for Malaysia is to translate the narrow gender gaps in education into lower gender gaps in participation. The main message of the previous section was that women have been able to acquire increasingly greater amounts of human capital through the education system. As such, women's labor market potential represents a major resource for the country that could be better utilized to maximize economic performance. Yet, both overall and even among the new generations, much of this human capital is not utilized to its full potential. This section looks at the current landscape of women's labor force participation, recent trends, and their drivers.

Current participation levels are low

Less than half of working-age Malaysian women participate in the labor market. Women's labor force participation[26] is defined as the share of women between ages 15 and 64 that are either employed or seeking employment.[27] In Malaysia, women account for half of the human resources in the country and in 2010, about 9 million or 67 percent of all women were of working age. However, among this group, only 46 percent were engaged in (or were looking for)

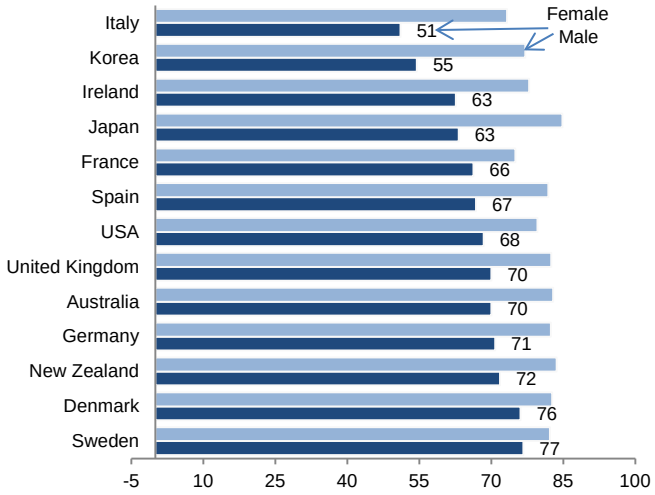
[25] The exam tests student's knowledge and skills in reading, mathematics and scientific literacy and allows for comparability in proficiency across students around the world.
[26] The terms "Women's Labor Force Participation Rate" or "Female Labor Force Participation Rate" are equivalent and used interchangeably in this report.
[27] According to the ILO definition, persons are considered employed if, during the reference week for the survey, they (a) did any work at all (at least 1 hour) as paid employees; worked in their own business, profession, or on their own farm, or worked as unpaid workers in an enterprise operated by a member of the family; and (b) all those who were not working but who had jobs or businesses from which they were temporarily absent because of vacation, illness, bad weather, etc. Persons whose only activity consisted of work around their own house (painting, repairing, or own home housework) are excluded, as are those who perform only volunteer work for religious, charitable, and other organizations.

any type of productive work, whether as wage workers in formal or informal companies, self-employed, or unpaid workers in a family business.

Malaysia's level of labor force participation among women is the lowest in East Asia and below the level that would be expected given its level of development. The labor force participation rate of Malaysian women is significantly lower than that observed in high income OECD countries (Figure 52), and the lowest in East Asia (Figure 53). The difference between the participation rates of men and women, known as the "participation gap", is estimated to be approximately 15 percentage points on average in East Asian and Pacific countries (World Bank, 2012; data as of 2009). In contrast, Malaysia's female-male participation gap is almost three times larger, at 44 percentage points. Although the predicted labor force participation in middle-income countries like Malaysia is already lower on average compared to both lower and higher income countries (see Box 7), Malaysia's female labor force participation is even lower than the levels predicted by its income per capita. Panels (a) and (b) of Figure 54 show that Malaysia performs better than countries in the Middle East and North Africa (MENA), but participation rates are lower than all but two non-MENA countries of the same or higher level of income (Turkey and Malta).

Figure 52. Women's labor force participation is low compared to both OECD…

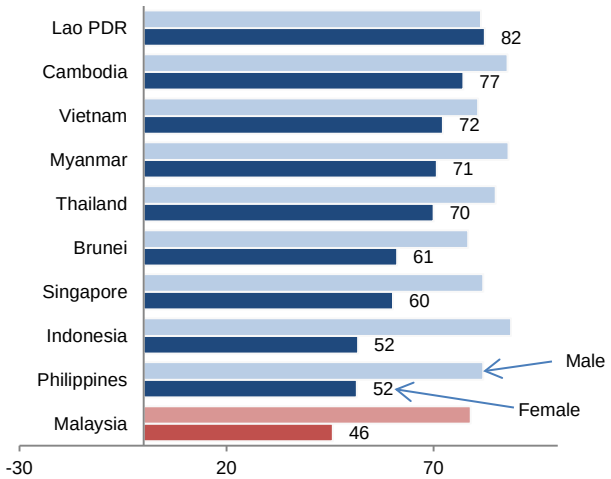
Labor force participation rates, percent



Source: OECD Employment Outlook 2010.

Figure 53. … as well as its ASEAN neighbors

Labor force participation rates, percent



Source: Labor Force and Social Trends in ASEAN, 2008.

Figure 54. Malaysia's labor force participation rate is low for its level of development

Female labor force participation (y axis), percent and income per capita (x axis), logs

Source: World Development Indicators, World Bank staff calculations.

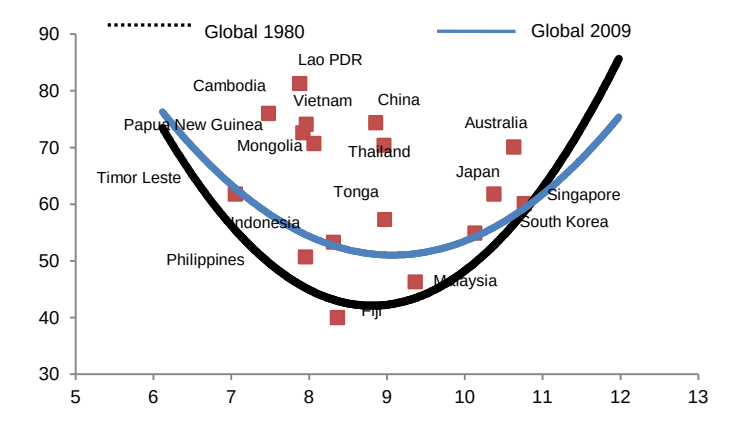
Box 7. Cross-country Patterns of Women's Labor Force Participation and Income Levels

International experience suggests that the labor force participation rate of women, especially married women, first declines and then rises as countries are further along in the development continuum. Labor force participation displays a U- or crescent-shaped trajectory. The initial decline in the participation rate is due to the movement of production from the household, family farm, and small business to the wider market, and to a strong income effect. But as countries get richer, the income effect weakens and the substitution effect strengthens, pulling women back into the labor market (Goldin, 1995, Tansel, 2001, Fuwa, 2004, Sultana, 2009)

In poor, agricultural economies, female participation tends to be high due to economic necessity and because agricultural work and family responsibilities can easily be combined. However, in middle-income countries dominated by the manufacturing sector, female participation declines in part because most new jobs are difficult to combine with family responsibilities. Female participation rates are higher in high-income countries that have large service sectors and a highly educated workforce, in part due to more attractive working conditions. This finding holds both across and within countries over time (Fatima and Sultana, 2009, Fuwa, 2004, Tansel, 2001)

Figure 55. Female labor force participation follows a U-shaped pattern

Female labor force participation (y axis), percent and income per capita (x axis), logs



Source: World Bank (2012a).

The stylized U-shaped curve holds for countries in the East Asia and Pacific region, as well as globally. It can be seen in Figure 55, which depicts the relationship between economic development (as captured by income per capita) and female labor force participation across the globe between 1990 and 2009. The position of the East Asian and Pacific countries relative to the rest of the world is depicted in red. Two key features emerge. First, the U-shape pattern holds across countries for both periods of time. Second, the participation rate associated with each level of development has increased between 1990 and 2009, as can be seen by the upward shift in the U-shaped pattern over time.

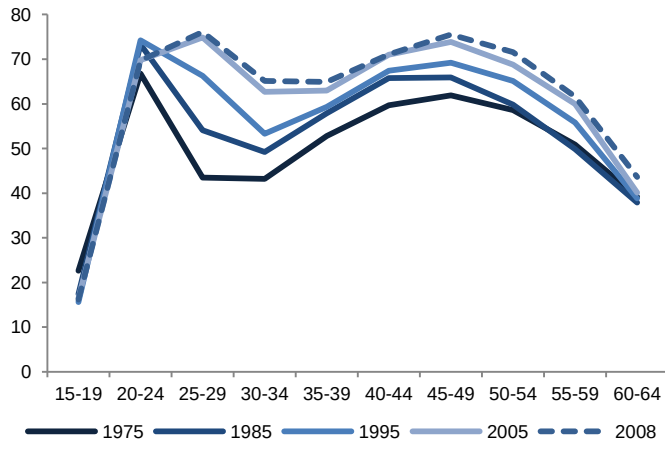
Source: Excerpts from Toward Gender Equality in East Asia and the Pacific, World Bank, 2012a

Malaysia is the only country in East Asia with an age-participation profile that declines steadily after early adulthood and the lower participation rates of older cohorts contribute substantially to low overall participation rates. In most developed countries, the pattern of female labor force participation over the life-cycle tends to show an initial peak in early years, when women enter the labor force, then a decline as they marry and have children, but then a second peak as they re-enter the labor force after child birth (see Box 8). Figure 56 and Figure 57 illustrate this pattern for Japan and Korea, which show participation by age groups. In contrast, Figure 58 shows a single-peaked pattern for Malaysia when looking at participation across different age cohorts in 1980, 1990, 2000 and 2010. Female labor force participation rates are at their highest (65 percent) when women complete their formal schooling years (24

through 26 years of age) and decline steadily with age thereafter, as older cohorts enter into child-bearing and child-rearing years. The decline in participation by age suggests that relative to their peers in other countries, the participation of older Malaysian women is more sensitive to life-cycle transitions, which causes the average participation rate in Malaysia to be lower compared to those countries.

Figure 56. Women's labor force participation is double-peaked in Japan…

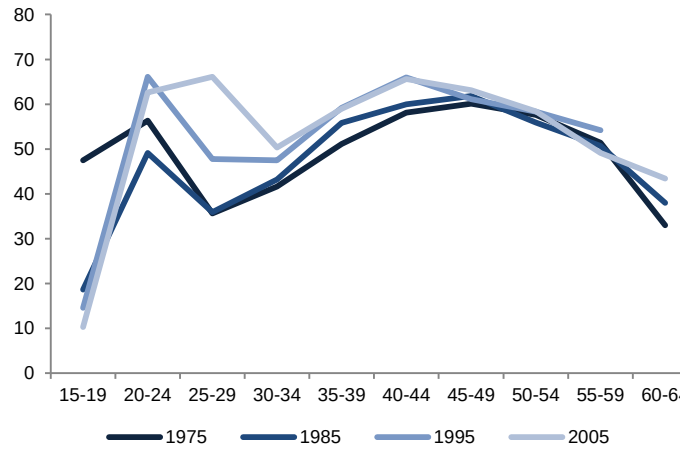
Women's labor force participation rates by age group, percent



Source: ILO Laborsta.

Figure 57. … as well as in Korea…

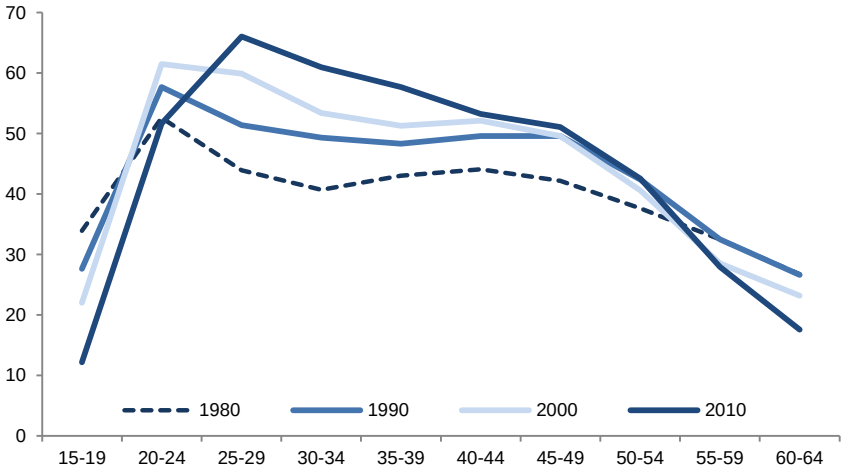
Women's labor force participation rates by age group, percent



Source: ILO Laborsta.

Figure 58. …but is single-peaked in Malaysia

Labor force participation rates by age group, percent



Source: CEIC.

Box 8. Patterns of female labor force participation over a life cycle

Three patterns of female labor force participation over a life-cycle have been observed in the East Asia and Pacific region (Horton, 1996, World Bank, 2012a):

- The "plateau" pattern, which mostly occurs in poorer countries, displays fairly flat female labor force participation until women reach their early 50s, and then declines into old age. This pattern describes a situation in which female labor force participation is less sensitive to life-cycle effects.
- The "double-peaked" or "M" pattern is generally observed in more industrialized countries; it is characterized by high participation rates prior to marriage and childbearing years, then by a sharp decline during childbearing years, and subsequent return to the labor force once children get older;

- A "single-peaked" pattern exhibits higher rates of participation at younger ages; participation then falls after the peak has occurred. This is a more extreme version of the double-peaked pattern and characterizes a labor market in which few women return to work after marriage and childbearing. In East Asia, this pattern can only be seen in Malaysia.

The evidence suggests that rural and urban females may fall into different categorizations, and that these categorizations may evolve over time. For example, in Indonesia the profile of urban women has evolved from a plateau pattern to increasingly represent a double-peaked pattern commonly found in more advanced economies.

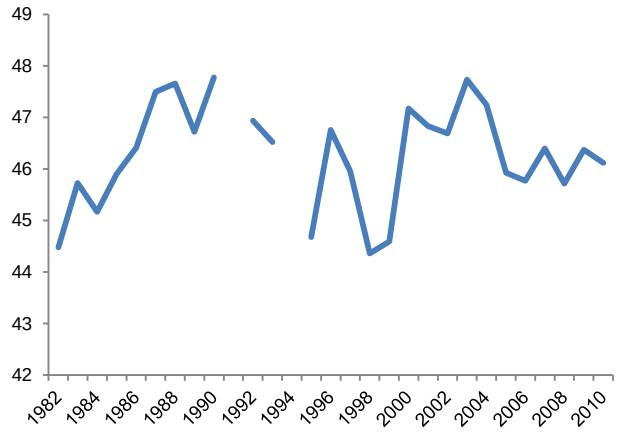
Source: Excerpt from Toward Gender Equality in East Asia and the Pacific, World Bank, 2012a

Trends have been positive, but gaps persist

Malaysia's age-participation profile has evolved over the last three decades, as younger generations have acquired more education and then show a greater inclination to participate in the labor market. Female labor force participation increased rapidly in the 1980s, was volatile during the 1990s, and remained within a narrow range around 46-47 percent since 2000 (Figure 59). But the underlying trend over the past 10 years was generally a positive one. Lower labor market participation rates for the youngest cohort of women (15-24) largely reflects the growing numbers of women staying in school longer to complete secondary and tertiary education (Figure 60). These younger women are entering the labor market in greater numbers after education has been completed. In 2010, women aged 25-39 are more likely to participate in the labor market than they were in previous years. Approximately 60 percent of women aged 30-34 were participating in the labor force in 2010, compared to 53 percent in 2000, 49 percent in 1990, and 41 percent in 1980. The sustained and substantial increase in participation of women in this age-group over a 30 year period is impressive, and partly reflects the impact of the rapid expansion of women's educational attainment. Participation rates and patterns of women between 45 and 55 have however remained stagnant since 1990.

Figure 59. Since 2000, the female labor force participation rate stayed within a narrow range…

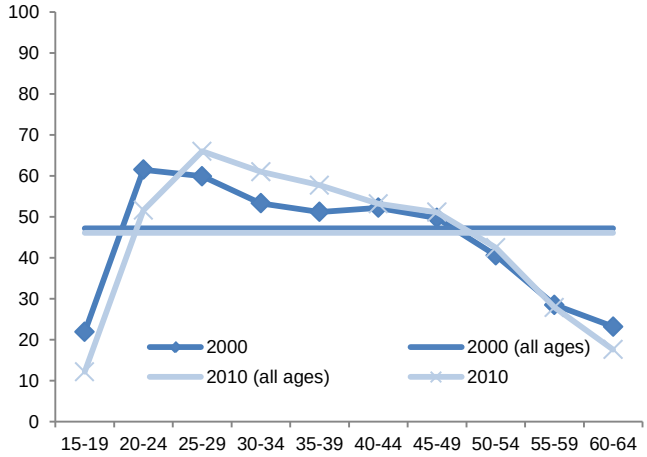
Women's labor force participation rate, percent



Source: DOS – Labour Force Survey Time Series Data.

Figure 60. … as younger women were more likely to continue their education

Women's labor force participation rate by age group, percent



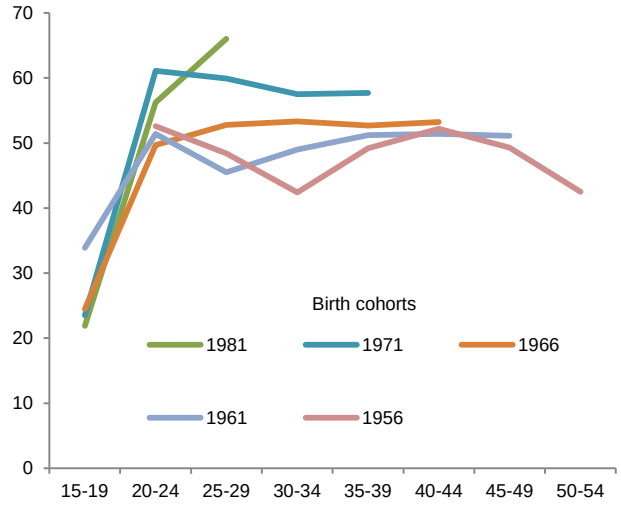
Source: CEIC.

Viewing labor force participation by different birth cohorts provides a different picture of women's labor force participation in Malaysia. Different generations can display quite distinct patterns of labor force participation due to rapid changes in education acquisition, the availability of new economic opportunities in growing sectors, and urbanization (Mammen and Paxson, 2000). Figure 61 shows the pattern of women's labor force participation in Malaysia by birth cohort and suggests that the generations of women born after the mid-1960s have not seen large declines in labor force participation in their 30s but, by contrast, display a plateau-shaped labor force participation common to many other countries in the region (World Bank, 2012a; see Box 8).

Although participation rates of 25-34-year-old women have increased with each generation, a gap with other countries remains even among the generation born in the early 1980s. Participation of 25 to 29 year olds is 16 percentage points higher for the generation born in the early 1980s, compared to those born in the early 1960s, as shown in Figure 62. Over each generation, Malaysia has been closing the participation gap for this age group with Singapore. Participation rates among young Malaysian women are higher, and have been growing faster than that of urban Indonesian women. The difference between the labor force participation of 25-29 year-old Malaysian and Singaporean women was 24 percentage points for the generation born in the 1960s, but about 20 percentage points for the generation born in the 1980s. However, a significant gap still remains between participation in Malaysia and Singapore, even among the youngest generations. In addition, it is noteworthy that Korea, which started with the lowest participation rates for women born in the 1960s among the countries analyzed, moved faster and overtook Malaysia with the generation born in the 1980s.

Figure 61. Women of younger generations are participating more…

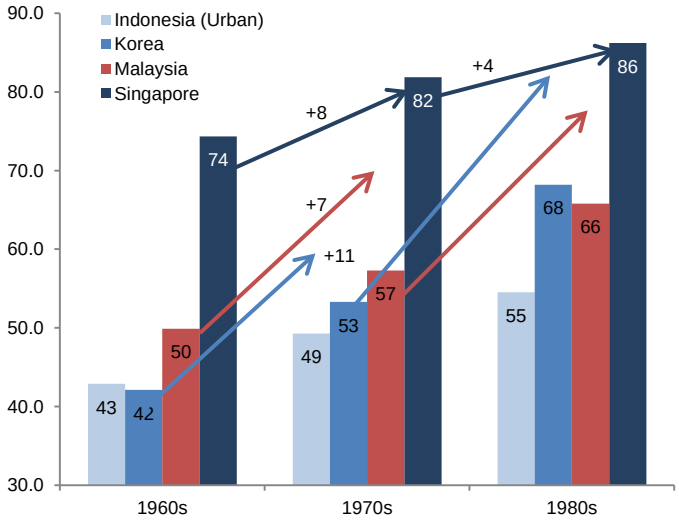
Labor force participation rates by age group and birth cohort, percent



Source: Laborsta, ILO and CEIC.

Figure 62. … partially closing the gap with other countries

Labor force participation rates of 25-29 year-olds by birth cohort, percent



Source: Laborsta, ILO.

Understanding the drivers of female labor supply in Malaysia is crucial in targeting effective policy interventions. We now turn to the *proximate* causes of low participation by analyzing the socio-economic characteristics that are associated with different levels of participation.[28] The analysis concludes that low levels of education and marriage are most strongly associated with low levels of labor force participation. An examination of the *fundamental* causes behind these correlations is undertaken later, as the drivers of low participation are similar to those of segmentation in occupations and sectors – namely formal and informal institutions.

Are the data reliable?

The first question that needs to be addressed is whether labor force surveys accurately capture women's employment and labor force participation. This question is often raised in the context of a misconception that statistical surveys do not attempt to capture informal work or self-employment. It is true that Malaysian *employer* surveys are not designed to capture sporadic or informal work, but Malaysia's Labour Force Survey (which surveys households) follows the ILO international standards described earlier, and clearly asks women whether they worked "for pay or profit or for family

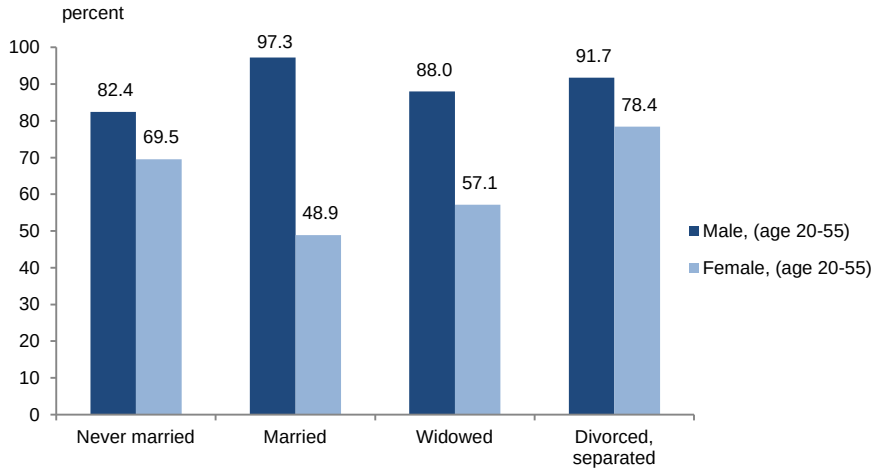
[28] The first set of estimations measures the effect of these variables on a sample of "all" women—married, never-married, divorced/separated, and widowed—between the ages of 15 and 55 years of age. Most results reported here, unless specified, reflect the first estimation ("all"). The second set of estimations measures the effect on "married" women living with her husband and other family members. The third set of estimations measures the effect of these characteristics on "never-married" women between 23 and 55 years of age and living with at least one male adult.

gains (include own-account work)"[29]. In addition, when women declare they are not employed or seeking employment, the choices they are offered for reasons – "housewife", "further studies", etc. – further clarify the meaning of "employment." Nevertheless, men and women are likely to have different views on what constitutes "working" that influences the way they respond to the survey. First, women may not identify certain activities (cooking, caring for children, cleaning) as work, even when they receive compensation for it (for example, by selling some of the food they cook, or helping care for a neighbor's child). Since women are more likely to be employed in such non-traditional jobs, working from the home and working part-time, this could lead to a lower measure of participation. Conversely, because their identity is more closely tied to being employed, men will be more likely than women to have an elastic definition of work – and therefore to respond affirmatively in the labor force survey. While there is probably some truth to this hypothesis, it is difficult to test, and it is in any case unclear why Malaysian women would have such different views of 'work' compared to their peers, for example in Indonesia, Thailand or Bangladesh. At a minimum, the data suggest that, compared to women in other countries, the types of work that Malaysian women perform are relatively more different – and less productive – than that done by men, and therefore that productivity gains are still likely from raising women's labor force participation.

Married women have the lowest levels of participation

Marriage is strongly associated with low levels of labor force participation, reflecting the difficulty that women encounter in balancing work with family obligations. Malaysian women who are married are less likely to work, especially if they have children. Married women are 18 percent less likely to participate in the labor market than non-married women. Less than half of married women ages 20-55 are in the labor force compared with 70 percent of women who never married and 78 percent of divorced or separated women (Figure 63).[30] Married women with young children are even less likely to work – but the impact of young children appears small. Having a young child living in the house (age 5 or less) is estimated to reduce the probability of women's work by only 2 percent overall, and 5 percent for married women (though the effect is statistically significant). This low magnitude is somewhat surprising, but consistent with Malaysia's single-peaked profile of female labor force participation, suggesting that it is marriage and child-bearing more generally, not the age of the child, that drives women's labor force participation. This finding may also be related to the lack of evidence of a causal link between Malaysia's relatively high fertility rate and low labor force participation (Box 9): if low participation was being caused by the larger number of young children that Malaysian women care for over their lifetimes due to high fertility, this figure would likely be higher.

Figure 63. Married women have the lowest labor force participation



Source: Department of Statistics, Labour Force Survey, 2010.

[29] See DOS, Malaysia Labour Force Survey 2011 questionnaire, page 12.

[30] Divorced or separated women's higher participation is associated with several factors. First, there is a higher rate of divorce among employed women because they are better able to support themselves economically without their spouse and therefore have a lower threshold for divorce (Iverson et al. 2005). Second, divorced or separated women are working because they are likely to be the heads of household and cannot count on others to support themselves and their dependents.

Women point to the difficulty of reconciling labor market activities with family obligations as a main reason for not working. Two-thirds of the women in the labor force survey declared that they did not work because they were engaged in 'housework' (Table 9). While some of this housework, as discussed earlier, could well be under-reported market activities, at a minimum it reflects the fact that women find that they need to stay in the home, primarily due to the need to take care for children. The Malaysian Population and Family Survey 2004 also found that the main reason of women drop out in labor market was due to child care (55 percent). Malaysian women from different age cohorts who participated in the focus group discussions agreed that it is difficult to balance work and family. As a result, many women prefer to stay out of the formal labor force or choose to work on their own. This effect could be neutralized if there are outside child care options or other caretakers for the children, including family members and domestic workers.

Table 9. Number and Percentage Distribution of Persons Outside Labor Force by Reasons for not Seeking Work, Stratum and Sex, 2010

	Total			Urban			Rural		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Schooling	38.2	64.4	27.5	38.8	63.9	27.8	37.1	65.4	27.0
Housework	**48.2**	**2.0**	**67.1**	**47.0**	**1.7**	**66.8**	**50.5**	**2.7**	**67.6**
Going for further studies	1.7	2.9	1.2	1.7	2.8	1.2	1.8	3.2	1.3
Disabled	1.9	4.6	0.9	1.6	3.7	0.7	2.5	6.5	1.1
Not interested	0.6	1.5	0.3	0.6	1.2	0.2	0.8	1.9	0.3
Retired	6.1	17.7	1.3	7.5	20.7	1.7	3.3	10.9	0.6
Others	3.3	7.0	1.8	2.9	5.9	1.6	4.1	9.4	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Department of Statistics, compiled by Ministry of Women, Families and Community Development.

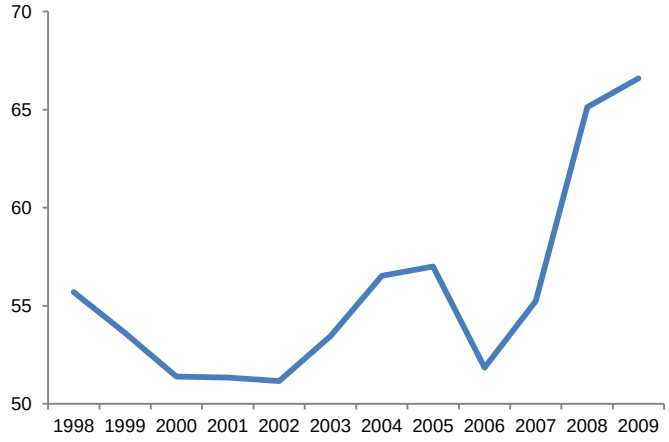
Lack of affordable and high quality childcare options outside the home influences women's decision to stay out of the labor force. While enrollment in pre-primary education has been increasing, especially since 2006 (Figure 64), enrollment remains below the levels in high-income countries (Figure 65). Further increases in enrollment will require expanding availability and affordability of pre-primary education. A recent report titled "Starting well: Benchmarking Early Education across the World", analyzed and ranked preschools in 45 mostly middle- and high-income countries (Economist Intelligence Unit, 2012). The report finds that Malaysia's preschool system ranks especially low in availability (41 of 45) and 32 of 45 in affordability. Concerns about quality must also be allayed, as a large number of child care centers are unlicensed, and many child minders lack basic training. The EIU report ranks Malaysia 35 of 45 in quality, with an overall rank of 36 out of 45 countries for pre-school education.

Even when their children attend pre-primary or primary school, many women may find it difficult to return to the labor force due to relatively short school hours. School hours devoted to public schooling are not well coordinated with the working day. In general, Malaysian public school hours last between 7.30 am to 1.00 pm for the morning session and 1.00 pm to 6.30 pm for the afternoon session (if available). In addition, there are a large number of school holidays throughout the year. This means that families will still require childcare options for the frequent times when school is out of session.

Grandmothers often take up child care duties, but this often implies that participation of younger women comes at the expense of older women staying out of the labor force. In Asia, caretaking of children falls mostly in the purview of women both as mothers and grandmothers (Thang and Mehta, 2012). Evidence from other countries shows that apart from parents, grandparents are the most common provider of informal childcare, with the main reason being the trust and reciprocity that is shared between kinship. This is also likely the case in Malaysia. Figure 66 shows that in Malaysia only 27 percent of women between the ages of 46 and 65 living in households with young children (5 years of less) are in the labor force whereas women of the same age group but not living with young children have a participation rate 10 percentage points higher. The difference in the participation rates could be associated with high childcare costs, which encourage women to stay at home as caregivers for their grandchildren.

Figure 64. Enrollment in pre-primary education increased significantly since 2002…

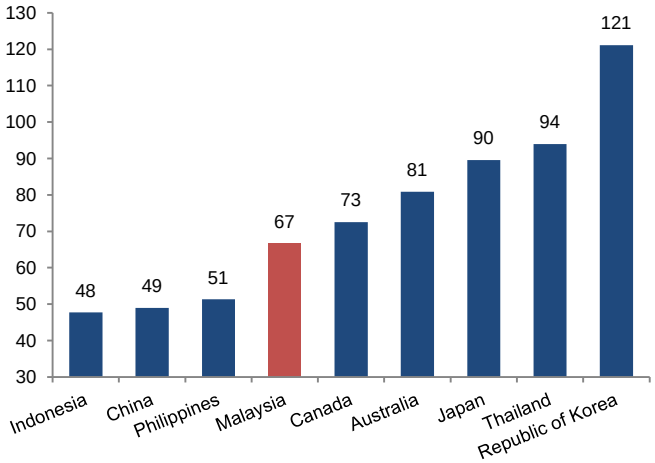
Enrollment in pre-primary education, percent



Source: UNESCO Institute for Statistics.

Figure 65. … but further progress is needed for Malaysia to catch up with high income countries

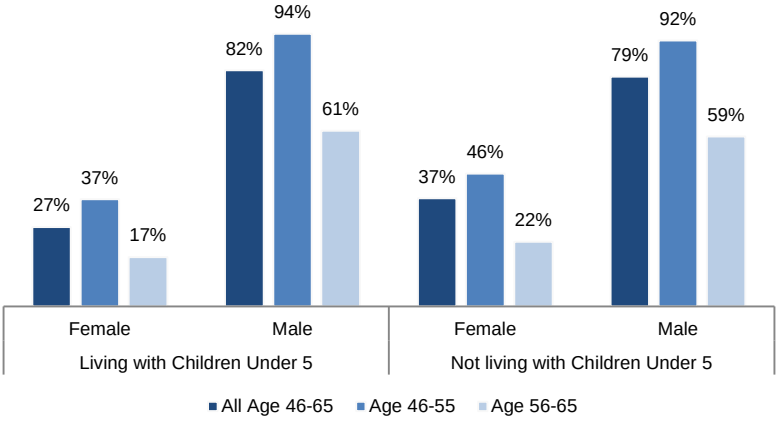
Enrollment in pre-primary education, percent



Source: UNESCO Institute for Statistics.
Note: Data as of 2010, except for Malaysia and the Philippines (2009).

Figure 66 Women over 45 are less likely to work when they have to take care of young children

Labor Force Participation of Women and Men over 45, Living with/without Children Under 5 Years Old , percent



Source: Department of Statistics, Labour Force Survey, 2010

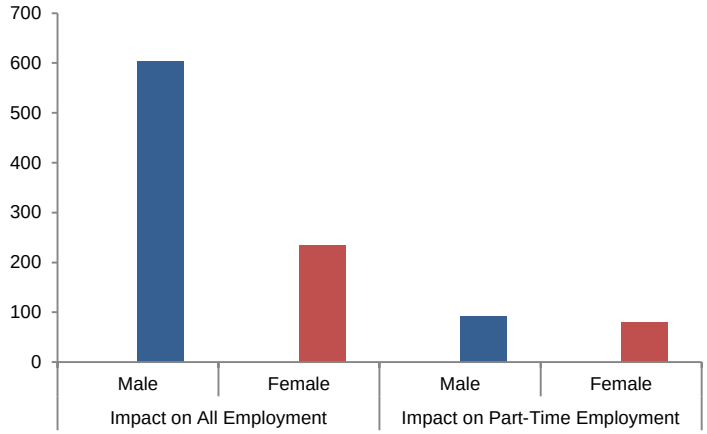
Domestic workers, who are typically immigrants, also play a role helping some women manage household responsibilities, but are not accessible to most women. Many educated women (who therefore have high opportunity costs of their time) hire domestic workers to allow them to participate in the labor force. Indeed in Singapore the extension of work permits to immigrant domestic workers was meant to explicitly facilitate the increase of women's labor participation (Yeoh, 2007). A study by Barone and Mocceti (2010) finds that immigrant workers who supply household services enable Italian women, especially highly skilled women, to spend more time at work.[31] They also find that higher incidences of immigrant labor specialized in domestic work substitute for childcare. To examine whether the inflow of immigrants affects Malaysian's women labor participation we use micro level data drawn from labor force surveys to estimate the impact of the presence of immigrants (in household work as well as other sectors in the economy) on women's employment. The results show that for every one thousand immigrants in the economy about 235 jobs are created for Malaysian women, 80 of them part-time (Figure 67). The impact on women's work varies broadly by economic sector; for instance, the impacts are very positive and significant for women working in

[31] Italy is a good example as it also has a relatively low rate of women's labor force participation (51 percent, and only 41 percent work 40 hours or more), and Italian women are expected to do much of the household work (on average four hours per day in domestic tasks).

the services sector (especially in finance, business and real estate, insurance, health and other high value-added services). On the other hand, the impact is negative for women in the manufacturing sector. Though the analysis does not indicate if the impacts are through substitutability of women in household activities or complementarities in the productive sector, it appears that immigrant labor has an overall positive effect on women's employment.

Figure 67. Immigrants support women's employment

Impact of Immigrant Labor on Employment of Malaysians, by gender.



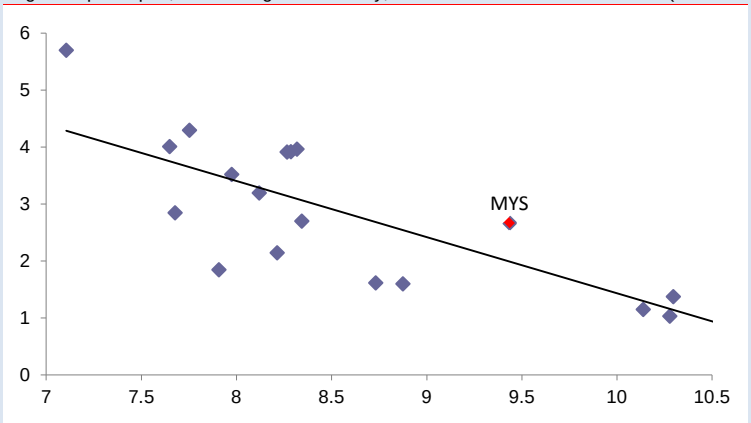
Source: Department of Statistics, Labour Force Survey, various years.

Box 9. Is high fertility linked to Malaysia's low female labor force participation?

Malaysia's fertility rate is high relative to its level of income (Figure 68)[a] and the analysis of drivers of labor force participation finds evidence that marriage and childbirth are associated with lower labor force participation rate. Are high fertility rates a fundamental driver of Malaysia's low female labor force participation rates?

Figure 68. Fertility rates are correlated GDP per capita

Fertility rates, births per woman, (vertical axis);
Log GDP per capita, Purchasing Power Parity, constant 2005 international USD (horizontal axis)



Source: World Development Indicators.

Globally, there is a strong correlation between fertility and labor force participation of women, but the direction of causation is less clear: is it that lower fertility increases women's ability to seek work outside the home by reducing their household-related work, or is it that higher labor force participation increases the opportunity costs of having children and reduces fertility? Few studies are able to convincingly establish whether fertility causes reductions in women's ability to work or vice versa, but there have been some attempts, including looking specifically at Malaysia.

In a recent study, Norehan and Nor'Aznin (2011) argue that for Malaysia, Indonesia, Thailand and the Philippines,

higher levels of women's labor force participation have a reducing effect on total fertility rates and not the other way around. The direction of this finding is opposite from most studies that also manage to establish unidirectional causality between fertility rates and labor force participation. In particular, Bailey, 2006; Cruces and Galiani, 2007; Bloom et al 2007 find that fertility has a negative effect on women's labor supply, and not the other way around. For instance, Bloom et al. (2009) find that the effect of fertility is strongest for women ages 20 to 39, with an additional child being associated with a reduction of approximately four years of paid work over a woman's lifetime. To complicate matters even further, a more recent rigorous study or countries in Latin America find that there is no effect of having children on women's labor force; in other words, children do not present a barrier to participate in paid work in these countries (Aguero and Marks, 2008).

Note: a: The fertility rate used for Malaysia is that in the World Development Indicators and United Nations Population Division, which differs from the fertility rate reported by the Department of Statistics for methodological reasons.

Higher levels of education are strongly associated with labor force participation

Post-secondary education has a positive and significant impact on women's labor force participation, whereas lower secondary and below do not. More specifically, women with a university degree are 42 percent more likely to work than women with no formal education or primary only. This is related to the fact that 70 percent of women with post-secondary degrees are economically active, in contrast to participation rates under 50 percent for women with secondary education or below (Table 10). There is evidence of some convergence between the genders at higher education levels, but a gender participation gap remains even at the tertiary level (Psacharopoulos and Tzannatos, 1987, Jaumotte, 2003, World Bank 2011b, World Bank 2012a). As shown in Figure 69 and Figure 70 women with post-secondary and tertiary education levels are very active in the labor market across all age groups. Among young, university-educated workers the participation gap is small, but there is a clear divergence in rates between men and women at the SPM (secondary) and lower levels. A reason why women with lower education levels not only exit the labor force after marriage and do not return but in many cases refrain from joining the labor force in the first place may be the high incidence of underemployment and low wage work, the latter related to the labor market segmentation that is discussed below.

Table 10. Labor force participation by education level (percent)[a]

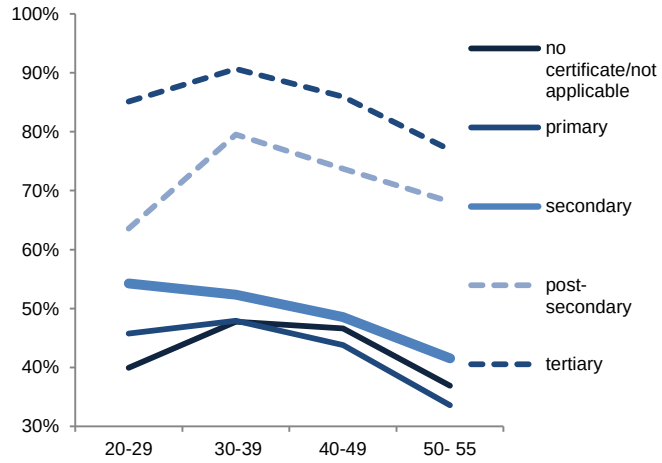
2010	no certificate/ not applicable	primary	secondary[b]	post-secondary[c]	tertiary[d]
Male[e]	91.5	95.2	92.1	84.7	95.7
Female[e]	42.9	43.0	51.3	69.5	86.9
Gap	**48.6**	**52.2**	**40.8**	**15.2**	**8.8**
Male[f]	*84.3*	*94.5*	*96.5*	*92.2*	*78.4*
Female[f]	*40.1*	*43.7*	*53.5*	*65.6*	*68.1*
Gap	***44.2***	***50.8***	***43.0***	***26.6***	***10.3***

Source: Department of Statistics, Labour Force Survey, 2010, World Bank staff calculations
Notes: a: For ages 20-55. b: SPM. c: STPM, certificate, diploma. d: Degree and above. e: World Bank definition, includes only individuals that completed the educational level. f. Standard definition of the Department of Statistics, includes both individuals that completed the education level and those that reached the education level but have not completed it (either because they dropped out or because they are still enrolled).

Therefore, as women acquire more education, their participation will tend to rise, but education alone is not sufficient to close the gender gap in labor force participation. Three observations relevant to policy-making can be made with respect to Figure 69 and Figure 70. First, as confirmed by statistical analysis, continuing to increase enrollment of women in education, especially at the secondary level where a gap remains (not with men, but with their peers in other countries), will support the objective of raising women's participation in the labor force over the long run. Second, even young, educated women participate less in the labor force compared to men, suggesting the need to go beyond education. Third, this is especially true for older women: the participation gap between women 50-55 with university degrees and their male counterparts is over 15 percentage points, indicating that a substantial amount of talent in older women is not being fully utilized.

Figure 69. For women, there are large differences in participation based on level of education…

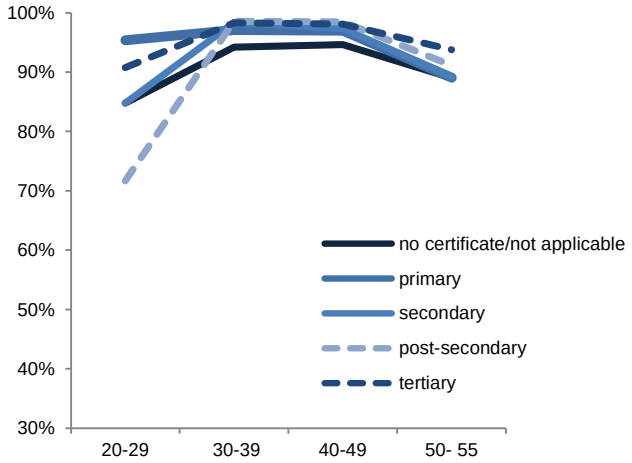
Labor force participation of women by educational level and age, percent



Source: Department of Statistics, Labour Force Survey, 2010.
Note: World Bank definition. See notes to Table 10.

Figure 70. ... unlike what is observed with men

Labor force participation of men by educational level and age, percent



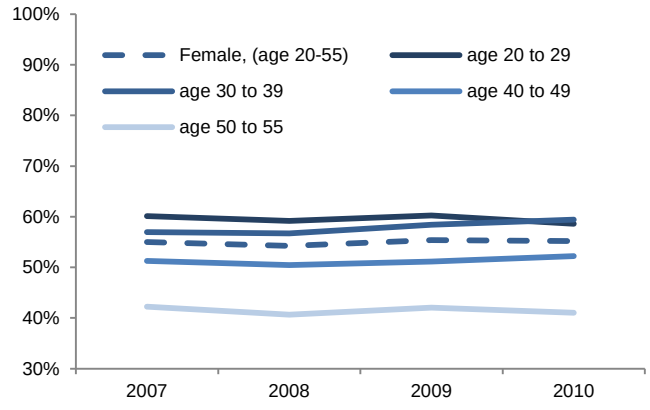
Source: Department of Statistics, Labour Force Survey, 2010.
Note: World Bank definition. See notes to Table 10.

Participation among older women is particularly low

While the participation of younger women has been increasing, older Malaysian women exit the labor market before the retirement age and before their male counterparts. Figure 71 and Figure 72 show that the rate of participation for women 49 years of age or older is well below that of younger women or men of any age. Figure 73 illustrates how early women retire from the labor market in Malaysia. The rates at which women over 50 working in advanced manufacturing and public service exit the labor force before the formal retirement age are even more dramatic (Figure 74). Women in agriculture tend to stay engaged in the labor market for longer, as agricultural activities tend to be self-employment, where pension savings are not mandatory. Men exit the labor market later than women on average, and similar to women, those in agriculture tend to stay engaged in the labor market the longest[32].

Figure 71. Older women have participation rates almost 20 percentage points lower than younger women…

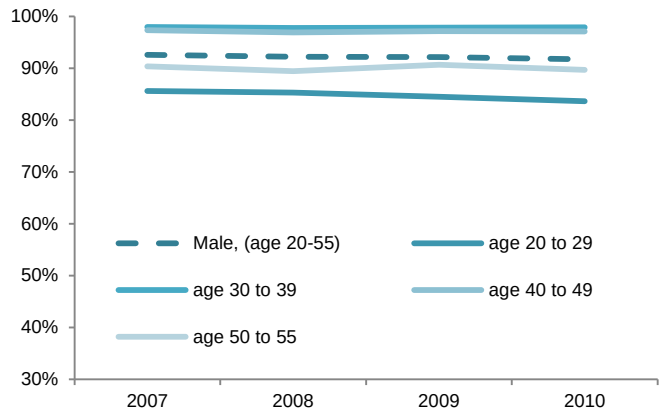
Labor force participation rates of women by different age cohorts, percent



Source: Department of Statistics. Labour Force Survey (2010).

Figure 72….and almost 50 percentage points lower than older men

Labor force participation rates of men by different age cohorts, percent



Source: Department of Statistics. Labour Force Survey (2010).

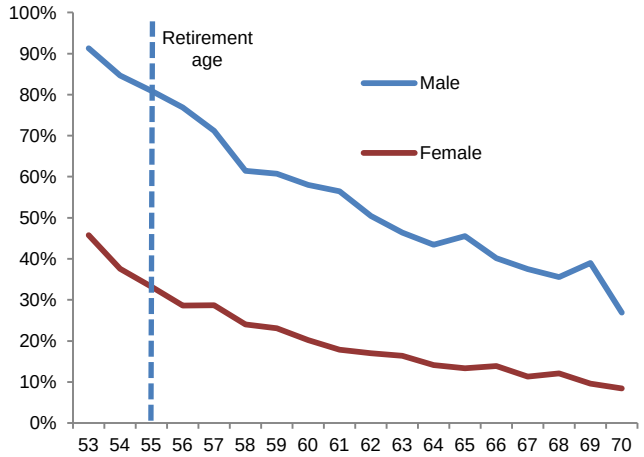
Longer-term evidence suggests that the rate of dropout of the oldest cohorts has increased, as women appear to be retiring earlier and in greater numbers. Age-participation profiles at ten year intervals between 1980 and 2010 (Figure

[32] The mandated retirement age does not cover the agriculture sector, which may be one reason why many older men and women enter agricultural work after age 50.

58) suggest that participation of women over the age of 55 dropped over the last 30 years. Women over the age of 55 are the only age group to participate less now than they were in 1980. The sharpest declines occurring for those between 60 and 65, whose participation rates have dropped by 5.5 percentage points since 2000, from 23 percent in 2000 from 17.5 percent in 2010.

Figure 73. By the statutory retirement age, just over 1/3 of women are working

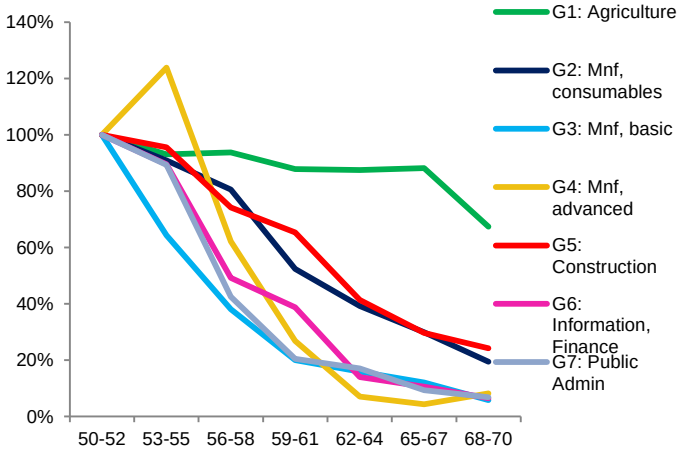
Participation rate by age, percent



Source: Department of Statistics. Labour Force Survey (2010).
Note: Statutory retirement age in the private sector.

Figure 74. Early retirement appears more prevalent in manufacturing, public administration and finance

Index of employment by industry (employment at age 50-52 = 100)



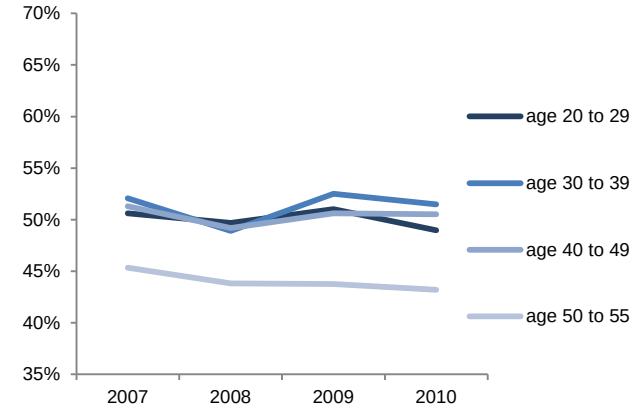
Source: Department of Statistics. Labour Force Survey (2010).
Note: Each line represents the proportion of women that work in each sector, at a given age group. Estimates are set to 100 at age 50 - 52, and can decrease or increase thereafter depending on whether there are movements in or out of the sector by women in a given age group.

Women in urban areas are more likely to be married – and to work

Urbanization is associated with higher levels of women's participation, but this is likely linked to a higher share of married women in rural areas. Women living in rural areas below 50 years of age are less active in the labor market compared to women living in urban areas (Figure 75 and Figure 76). However, when the results are restricted to married women only (living with her husband) the negative effect of living in rural areas disappears, indicating that married women living in rural areas are not less likely than married women in urban areas to work and suggesting that urbanization affects women's labor force participation primarily through a lower probability of marriage (or, equally likely, of a higher age of marriage). Malaysia's experience is different from that of most other countries, where female labor force participation tends to be higher in rural areas (see Box 10).

Figure 75. Rural women are less likely to participate...

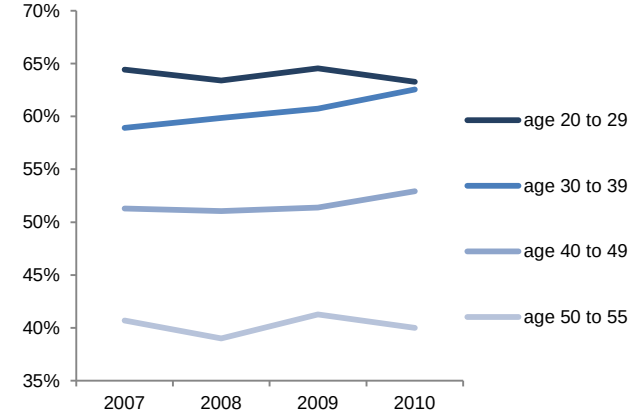
Labor force participation of rural women, percent



Source: Department of Statistics, Labour Force Survey, 2010.

Figure 76. ... compared to men

Labor force participation of rural men, percent

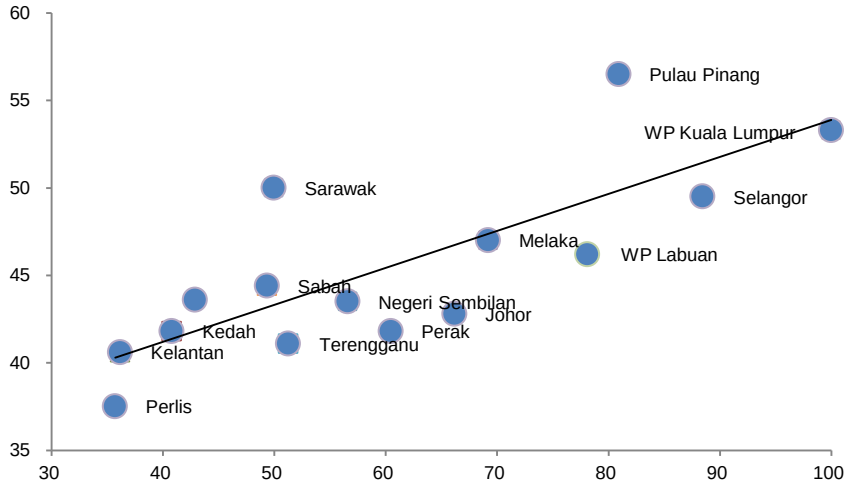


Source: Department of Statistics, Labour Force Survey, 2010.

Variation in women's labor force participation across states largely reflects patterns of urbanization. The labor force participation rate for prime-working-age women in Perlis is 47 percent whereas the rate for the same group of women in Pulau Pinang is 65 percent. The difference between Perlis and Pulau Pinang's FLFP could be partially accounted for by the levels of urbanization in those states (Figure 77). Given the smaller difference in the labor force participation rate of men in rural and urban areas, there is accordingly much less variation in their labor force participation by state compared to women.

Figure 77. Geographic differences in participation largely reflect urbanization patterns

Women's labor force participation (vertical axis); Urbanization rate (horizontal axis), by state



Source: Department of Statistics and World Bank staff calculations.

Box 10. Agriculture and labor force participation

Ester Boserup (1970) was one of the first researchers to observe that different forms of agriculture were linked to differences in gender roles. Boserup identifies important differences between *shifting* and *plough* cultivation. Shifting cultivation (an agricultural system in which plots of land are cultivated temporarily then abandoned) is labor intensive and uses hand-held tools like the hoe and the digging stick. In contrast, plough cultivation (which is practiced in settled plots that are cultivated repeatedly), is much more capital intensive, using the plough to prepare the soil. Unlike the hoe or digging stick, the plough requires significant upper body strength, grip strength, and burst of power, which are needed to either pull the plough or control the animal that pulls it. Because of these requirements, when plough agriculture is practiced, men have an advantage in farming relative to women.

Given the important role of soil preparation in agriculture, which accounts for about one-third of the total time spent in agricultural tasks, societies that traditionally practiced plough agriculture – rather than shifting cultivation – developed a specialization of production along gender lines. Men tended to work outside of the home in the fields, while women specialized in activities within the home. This division of labor then generated norms about the appropriate role of women in society. Societies characterized by plough agriculture, and the resulting gender-based division of labor, developed the belief that the natural place for women is within the home. These cultural beliefs tend to persist even if the economy moves out of agriculture, affecting the participation of women on activities performed outside of the home, such as market employment, entrepreneurship, or participation in politics.

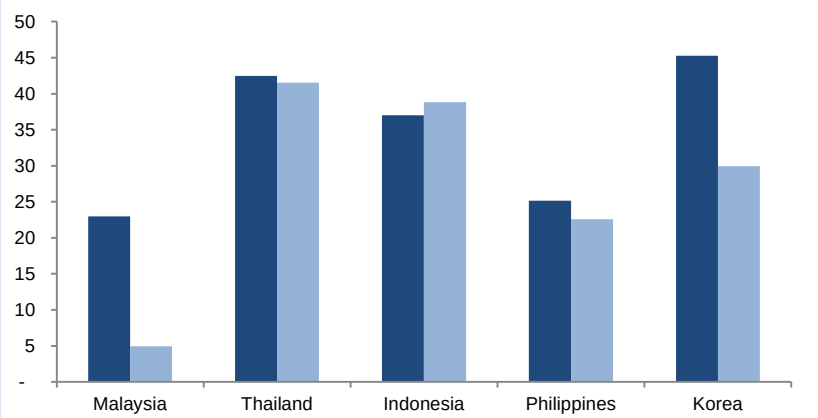
Alesina, Giuliano and Nunn (2011) test this hypothesis and find that descendants of societies that traditionally practiced plough agriculture, today have less equal gender norms, measured using reported gender-role attitudes and female participation in the workplace, politics and entrepreneurial activities.

Unlike African societies, Asian societies have traditionally practiced plough agriculture, but there is significant

variation within the continent with respect to the role of paddy rice. Paddy rice is labor intensive, with harvesting traditionally done by hand and accounting for a large share of the time spent by agricultural laborers. Hence, Asian societies where paddy rice production was prevalent saw greater participation of women in agricultural activities, a trend that continues to this date (Figure 78) and partly explains the pattern observed in many East Asian countries that labor participation among rural women is higher than for their urban counterparts.[a]

Figure 78. Countries that produce more rice tend to have a higher share of women in the agricultural labor force

Women as a share of the agricultural labor force (dark bars), percent; and Rice as a share of total agricultural output by volume (light bars), percent



Source: World Development Indicators, FAOstat.
Note: Volumes exclude sugar cane.

In Malaysia, the lower participation rates of rural women may be linked to the low proportion of women in the agricultural labor force (23 percent of total agricultural employment). This may be partially due to the main types of crops grown in Malaysia (palm oil and rubber), which are produced in plantations and require relatively lower labor inputs compared to traditional rice farming, more prevalent in other East Asian countries, and which required more intensive inputs from the entire household. Opportunities in the non-agricultural sector may generally be limited for both men and women, and what opportunities there are favor a largely male labor force; for instance apart from offshore financing Labuan's economy is largely driven by the oil and gas sector. These findings reinforce the importance of creating broader economic opportunities for women living in geographic areas where labor markets are not well developed.

Source: Extracts from Alesina, Giuliano and Nunn (2011); authors.
Notes: a. In her original paper, Boserup (1970) notes that Thailand, Cambodia, and certain districts in India have high levels of women's participation in agricultural labor despite rice being a 'plough' crop because of the limited availability of wage laborers in those areas and the prevalence of family farms. This additional argument certainly applies to Malaysia as well, where a large fraction of plantation labor has comprised of migrant laborers.

Sorting on the basis of gender, rather than talent, leads to inefficiency

Occupational and sectoral segregation by gender is likely to be detrimental for labor market efficiency and welfare. This is because segregation implies that men and women are not working in occupations or industrial sectors to which they are best suited and most productive but are rather choosing their work based on other factors. This trend reduces overall incomes and aggregate productivity. International evidence suggests that women with college degrees tend to choose fields of education with lower returns to education and experience (World Bank, 2012a). This phenomenon, which has been referred to as "education streaming," leads to occupational segregation, which reduces the number of jobs available to women and the wages they make (Horton, 1999). Gender streaming in education ultimately affects the type of work that women and men do and, importantly, their respective abilities to take advantage of existing and emerging economic opportunities. To the extent that education streaming leads to sub-optimal choices from the perspective of allocating talents to jobs, it will also lead to economic losses.

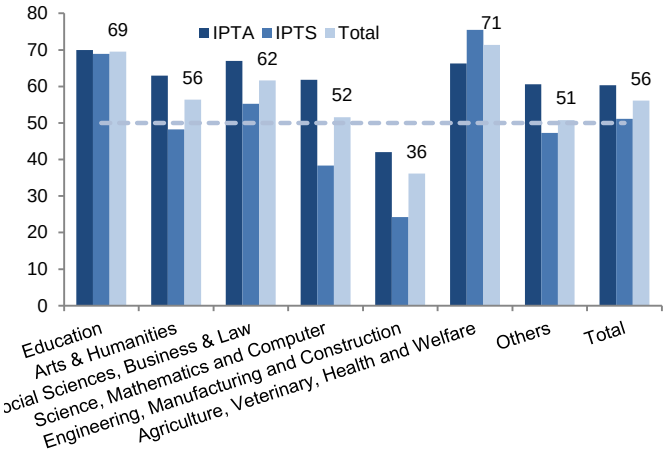
Girls concentrate in "female" fields of study and economic sectors

Malaysian girls perform at least as well as boys in science and mathematics and yet they still go primarily into traditionally-female courses after secondary school. In 2011, 70 percent of students enrolled in education and health, agriculture, veterinary and welfare careers were women, while 64 percent of students in engineering, construction and manufacturing were male (Figure 79). In the sciences, women were most commonly concentrated in nursing, health sciences and applied sciences while men were more evenly distributed across all science fields (National Graduate Tracer Study 2010).

Although gender streaming in education is a problem common to all countries – developed and developing – Malaysia would benefit from encouraging women to pursue 'non-female' careers. Figure 80 shows that Malaysia's gender profile of different fields of study is not appreciably different compared to other countries of both higher and lower income. The share of women enrolled in engineering, manufacturing and construction programs is below 30 percent in most countries, and Malaysia actually does better than many advanced Asian countries such as Japan and Korea. Similarly, the share of women in education and health and welfare professions (which includes a large number of nurses) tends to be close to 70 percent in most countries, similar to Malaysia. While not unique to Malaysia, the challenge of narrowing gender stream gaps will become increasingly important as Malaysia adds more women to the labor force.

Figure 79. Women are over-represented in education and health, under-represented in engineering

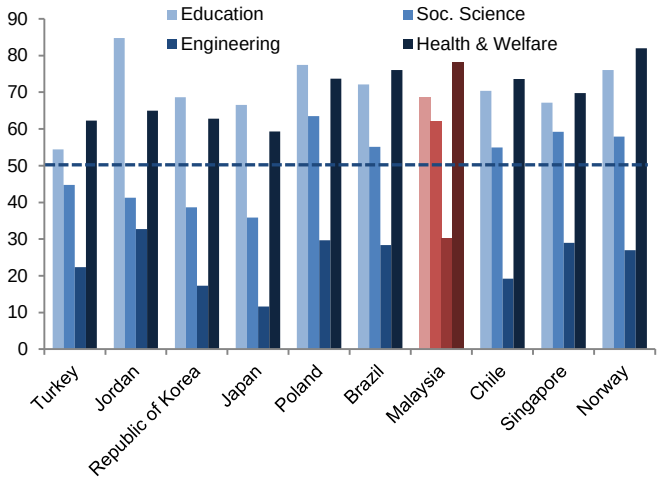
Enrollment of women in selected career paths, percent of total



Source: Ministry of Higher Education Malaysia (2011).

Figure 80. Malaysia's challenges in reducing gender streaming in education are common to many countries

Enrollment of women in selected career paths, percent of total



Source: UNESCO Institute for Statistics.

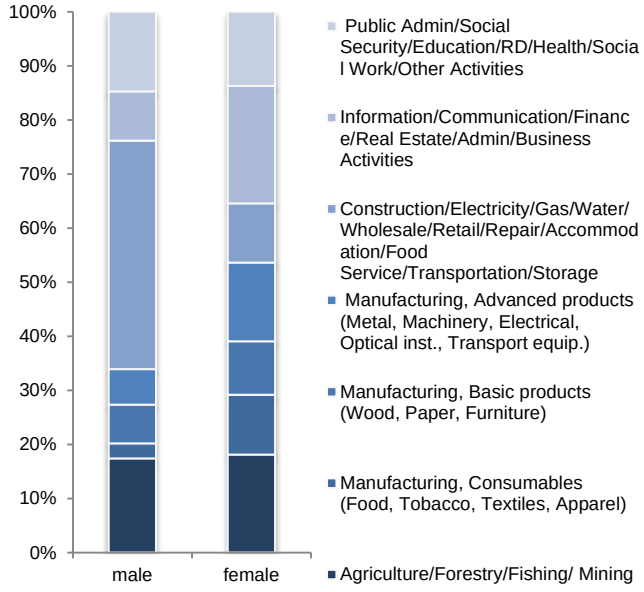
Gender streaming in education may be linked to the observed sectoral differentiations between women and men. Global evidence finds that men and women tend to work in different economic sectors, industries, occupations, and types of firms across the world (Anker, 1998, Boserup, 1970, World Bank, 2012a). As shown in Figure 81 and Figure 82, occupational segmentation is also present in Malaysia: women sort into information, communications, and administrative industries while a larger percentage of men work in construction, electricity, agriculture, and mining.

In contrast to many other East Asian and OECD countries, patterns of occupational and sectoral sorting by gender suggest that Malaysian women work in higher-paying sectors. An analysis of the difference in earnings between men and women suggests that women employed in wage labor are in sectors that pay better, on average, than sectors where men occupy a relatively larger share. Women are less likely to work than men in elementary occupations and as blue-collar workers, and are more likely than men to work in the government sector and white-collar occupations. Also of note is the pattern observed earlier that differently from other countries, Malaysian women have a particularly low participation in agriculture, which is a relatively low-paying sector. In other contexts, labor market sorting has been found to contribute to gender wage and earnings gaps. Differences in occupational and industrial sorting explain a greater fraction of gender wage gaps in the East Asia and Pacific region and across the world than differences in human capital (Ñopo, Daza, and Ramos, 2011, Sakellariou, 2011). Since women are underrepresented

in the wage labor market in Malaysia, a key challenge will be to ensure that the women entering into the labor market do not sort into occupations on the basis of gender rather than on the basis of talent.

Figure 81. Men concentrate in construction, utilities and low value-added services

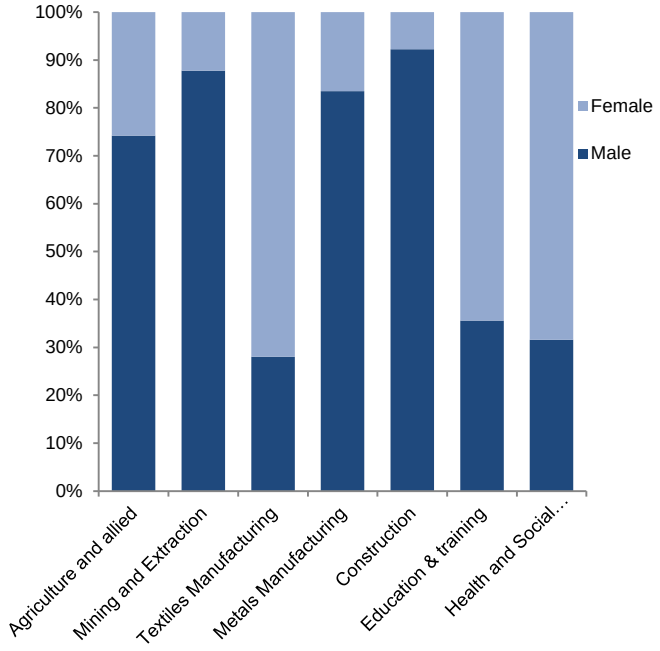
Share in employment, percent



Source: Department of Statistics, Labour Force Survey, 2010.

Figure 82. Gender streaming is seen in specific industries such as mining

Share in employment, percent



Source: Department of Statistics, Labour Force Survey, 2010.

Few women managers and entrepreneurs suggests meaningful occupation segregation by gender

Differences in occupation suggest distortions in the allocation of talent. One in ten women in the Malaysian labor force works as an unpaid family worker, compared to only 3 percent of employed men (Figure 83). Figure 84 shows that a greater percentage of women work as technicians and in clerical and service occupations than men, while a greater percentage of men work as managers. In the private sector, a recent survey suggests that the share of senior management who are women in Malaysia is about 30 percent, in line with other emerging economies but still suggesting a significant misallocation of talent (Table 11). In the public sector, the Federal Government achieved its target of having at least 30 percent of management positions filled by women (by 2011, 31.5 percent of top managers were women; see Figure 85). However, the percentage of women on boards in GLCs remains low and it appears to be decreasing in recent years (Figure 86).

Table 11. About 30 percent of senior managers are women

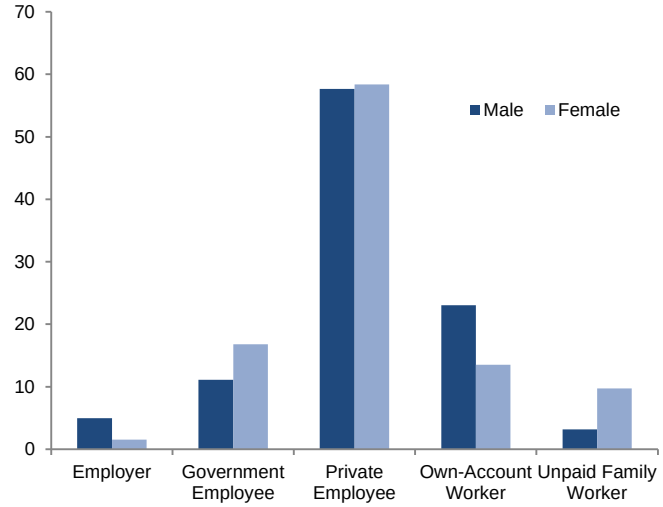
Average Percentage of Women in the Senior Management of the Business for Top 10 Countries

	2004	2007	2009	2011
Philippines	39	50	47	35
Russia	42	34	42	36
Thailand	n.a	39	38	45
Poland	36	23	32	31
Mainland China	n.a	32	31	34
Malaysia	**n.a**	**23**	**31**	**31**
Taiwan	31	29	31	30
Mexico	27	20	31	n.a
Armenia	22	22	29	n.a
Brazil	n.a	42	29	n.a

Source: Grant Thornton, compiled by MWFCD.

Figure 83. More men are employers, while more women are unpaid family workers

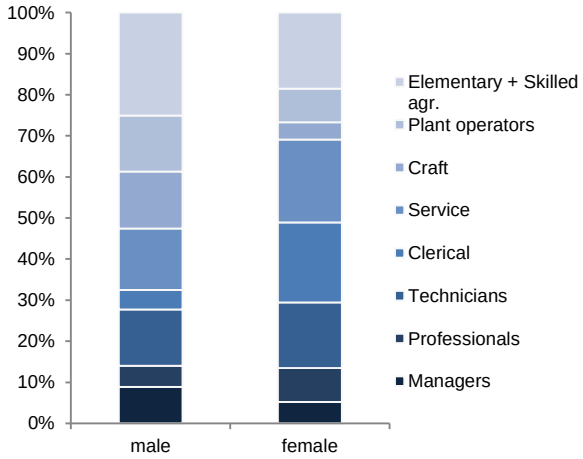
Share in employment, percent



Source: Department of Statistics, Labour Force Survey, 2010.

Figure 84. More men are managers, although more women are professionals

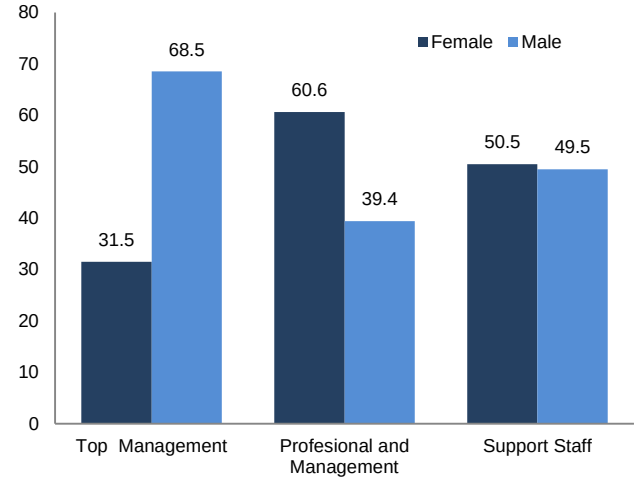
Share in employment, percent



Source: Department of Statistics, Labour Force Survey, 2010.

Figure 85. The public sector achieved its target of having at least 30 percent women in top management

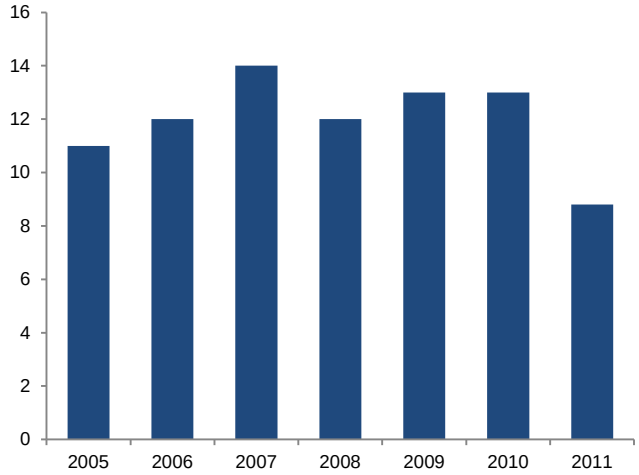
Public sector personnel by occupational level, percent



Source: Public Service Department, 2011.

Figure 86. The number of board members of GLCs that are women has decreased in 2011

Percentage of female board members in GLCs

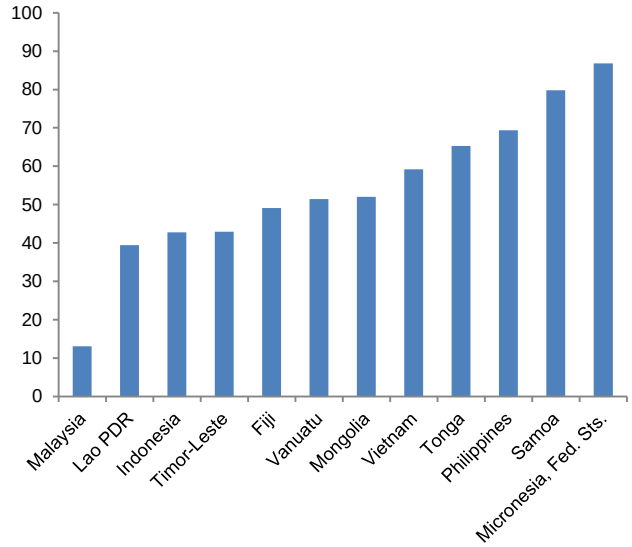


Source: Ministry of Finance.

The number of Malaysian women entrepreneurs also appears to be particularly low. Compared to other countries in the region where data is available, Malaysia has the lowest percentage of women's ownership of businesses (Figure 87). In addition, women only constitute 15 percent of employers in Malaysia and the share of women who report being "employers" as a share of women's employment is relatively low in Malaysia at 1.9 percent compared to 2.9 percent in Singapore and 3.5 percent in Korea. To isolate the entrepreneurship gap from the participation gap, an index can be constructed by dividing the share of female employers in women's employment by the share of male employers in men's employment. Figure 88 suggests that a significant entrepreneurship gender gap exists and suggests that challenges related to economic opportunities go beyond women's participation in the labor force.

Figure 87. Female participation in firm ownership is low

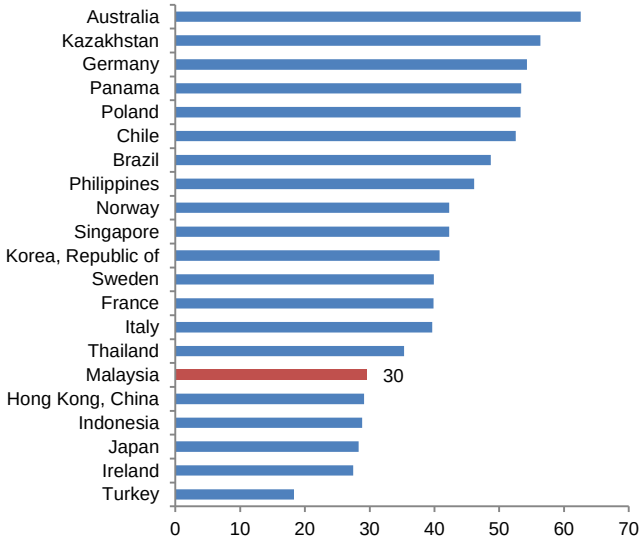
Percentage of surveyed firms owned by women, percent



Source: World Bank Enterprise Surveys.

Figure 88. There are disproportionally more men who are entrepreneurs

Index, 100=gender parity



Source: ILO Laborsta.

A wage gap exists – but does not appear linked to employment segregation by gender

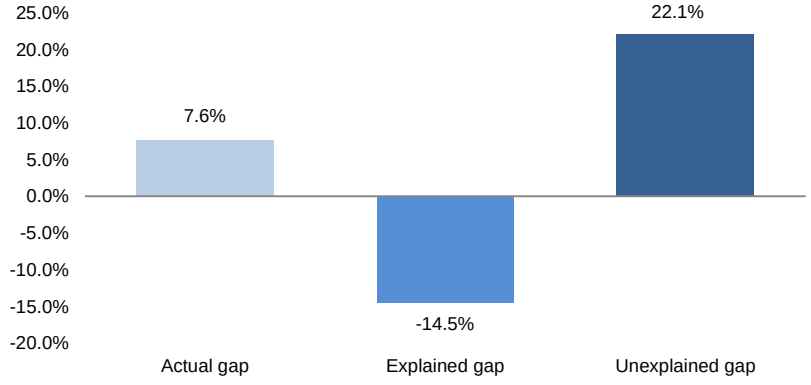
On average, Malaysian women make 92 sen for every Ringgit that a man makes. Differences in labor force participation, in time spent in productive and reproductive activities, and the sectors in which men and women work contribute to, are themselves determined by gaps in women's earnings, which evidence suggests also have important economic implications (see Box 11). In Malaysia, women employed in wage labor are estimated to be paid 7.6 percent less than their male counterparts on average (Figure 89), indicating that a woman makes 92 sen for every one Ringgit a man makes. The estimate of the earnings gap is as large as 11 percent when part time workers are included, and it varies dramatically by sector: in manufacturing, it is as high as 33 percent whereas in services it is closer to 8 percent. The gap in Malaysia appears narrower than in other East Asian countries. It should be noted that this analysis can only be undertaken for men and women who conduct wage labor, and that these individuals may not be representative of the labor force or the working age population. In many settings with lower female labor force participation, the women found in the wage labor market are more likely to be better skilled, in observable as well as unobservable ways, thus suggesting a smaller gender wage gap. Since female labor force participation in Malaysia is lower than in other East Asian countries, the non-representativeness of females among wage workers is likely to be a particular concern.

Differences in characteristics of men and women do not explain the earnings gap and, in fact, suggest that women working in the wage labor market should be paid more than men as they have more favorable attributes on average. Wage gaps can emerge if the characteristics of men and women in the labor markets differ – for example if men have higher levels of education. To understand the earnings gap in Malaysia, an investigation applying a standard decomposition method is used to identify the influencing factors that determine wage gaps and to quantify their effects (Oaxaca, 1973). This method separated the gap in earnings between men and women into a part that is due to differences in the characteristics of men and women – such as their education levels, sectoral, industrial and occupational affiliation – and differences in the returns to these characteristics, for example gender differences in the return to an extra year of education. The first part is commonly referred to as the "explained component" of gender wage gaps, while the second component is the "unexplained" component. As well as reflecting differences in returns to characteristics, the unexplained component may also include unobserved characteristics. Women in the wage labor market have higher education and are more likely to be working in relatively well remunerated occupations on average. If women in the labor market had faced the same return as men for their education, they would have earned more than men since, on average, they have higher education levels. Since women in wage employment

are, on average, younger than men, this implies they have less experience and earn less. Overall, the analysis suggests that based on the characteristics of men and women in wage employment, women should be paid 14.5 percent more than men (Figure 89). This means that in one sense the "actual" wage gap for these women is closer to 22 percent, in line with the regional average.

Figure 89. Women earn less than men despite having characteristics that would suggest higher earnings

Earnings gap in the overall labor market, percent

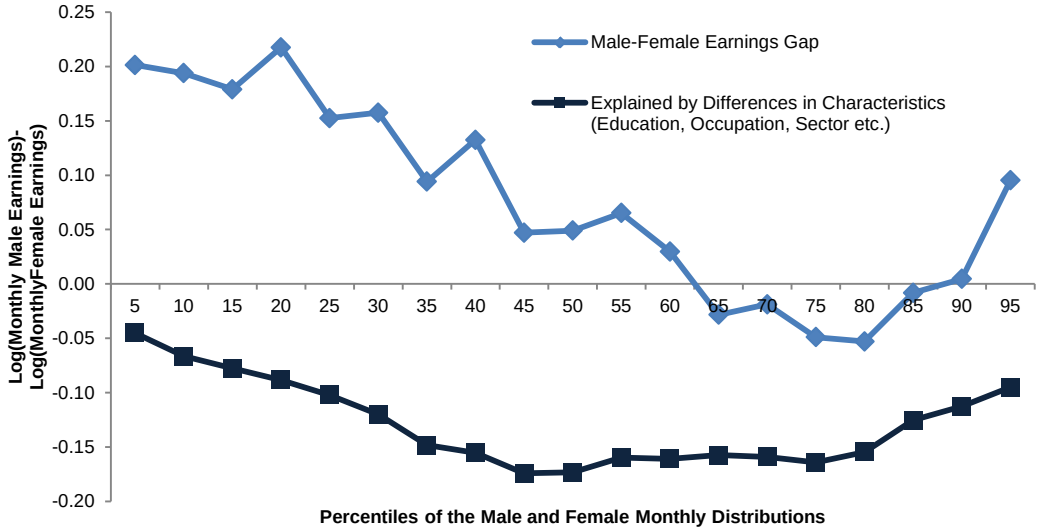


Source: Department of Statistics, Labour Force Survey, 2010 and World Bank staff calculations.

Differences in earnings between men and women are highest among low paid workers. Gender wage gaps in Malaysia are greatest between the lowest paid men and women, who typically have lower education levels and are found in the lowest paying occupations (Figure 90). This is consistent with evidence from a number of other countries in the East Asia region, including China, Indonesia and Thailand, which suggest that gender wage gaps are wider at the bottom end of the wage distribution than at the top (World Bank, 2012a). In contrast, in OECD countries, gender wage gaps tend to be wider at the top than at the bottom of the wage distribution (Albrecht, Björklund and Vroman, 2003; Arulampalam, Booth and Bryan, 2007, de la Rica, Dolado and Llorens, 2005). Although the gender wage gap is greatest among lowest paid workers, female workers in this group look similar to their male counterparts, suggesting that the gap should be small. In contrast, in better paid occupations women tend to have higher education and to sort into more desirable occupations. If these women were paid the same return to education and occupation as men, the analysis suggests that they should be paid more than men.

Figure 90. The earnings gap is especially large for poor women

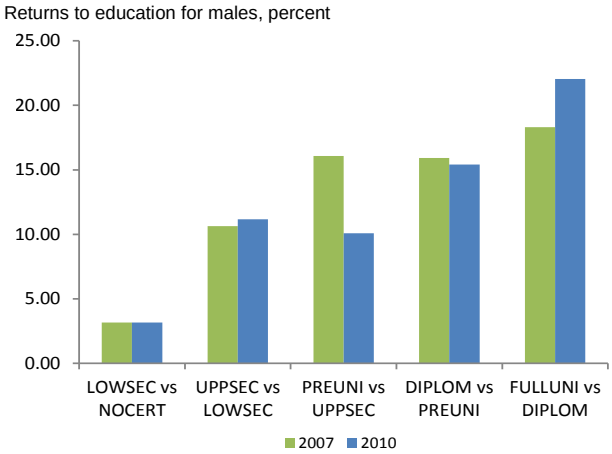
Earnings gap at different points in the earnings distribution



Source: Department of Statistics, Labour Force Survey, 2010 using estimation method from Forpi et al. (2009).

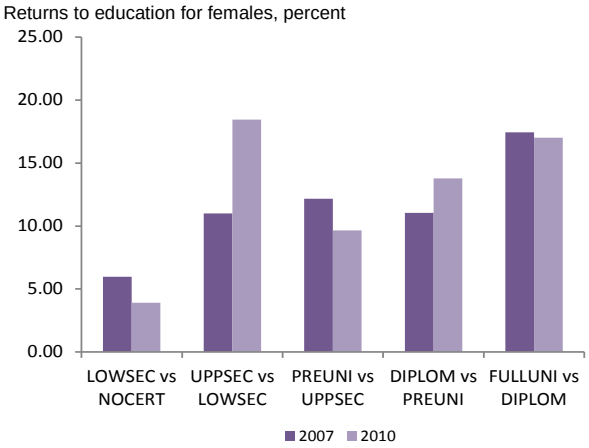
Part of the earnings gap may be explained by different returns to education between men and women. Figure 91 and Figure 92 show that for both men and women, the marginal returns for lower secondary education are the lowest among all education levels for 2007 and 2010[33]. This implies that one year of additional schooling prior to Form 3 of secondary school yields no more than 4 percent increase in income for men and no more than 6 percent for women. For both genders there is a clear jump in returns to education when moving from lower secondary to upper secondary schooling, especially for women. Such a sharp contrast between returns to high and low levels of education is consistent with the earlier pattern whereby women with post-secondary and higher education tend to participate the most in labor markets.

Figure 91. For men, returns to education are highest at the tertiary level…



Source: Department of Statistics, Labour Force Survey, 2010.

Figure 92. …whereas for women is upon completion of the upper secondary level



Source: Department of Statistics, Labour Force Survey, 2010.

While all tertiary educated workers see clear wage premiums, Malaysian men received higher returns to tertiary education than women with the same qualifications. Women workers, on the other hand, realize their highest returns when completing upper secondary level in 2010. Figure 91 and Figure 92 shows that a university degree yields approximately 1-5 percent higher returns for men compared to women. In 2010, men experienced the highest marginal returns after completing a four-year university stage. Whatever the reasons, an implication of women's high returns to education after completing secondary school is that they may have less incentive to pursue higher levels of education (post-secondary), at which point participation rates increase significantly. Gender-streaming may also occur post-education, with women who have tertiary qualifications in science, technology and mathematics opting for more 'family-friendly' but relatively lower-paying occupations within these fields.

Nevertheless, the main difference in wages between men and women is due to differences in earnings on average between men and women – that is, differences in earnings that cannot be attributed to characteristics or returns. These average differences are commonly attributed to discrimination, but caution should be applied in doing so since they also reflect unobserved characteristics that vary between males and females, such as experience or tenure, the intensity of work conducted and work place characteristics. Differences in experience due to transitions in and out of the labor market are likely to be important in explaining wage gaps among men and women later in their careers. A large component of the gender gap in earnings in OECD settings is attributable to women having more career interruptions and shorter work hours (Bertrand, Goldin, and Katz 2010). Studies show that apart from personal characteristics, earning gaps between men and women persist in part as a result of occupational and hierarchical (meaning that women get stuck in low-level positions in a sector) segregation (Fernandez, 2009) and deeply held perceptions by employers of women being less productive (Ismail, 2011). Further analysis into the factors that contribute to persistent wage gaps show that employer's perceptions of women's lower capacity to perform compared to men, despite having higher levels of education in many cases, continue to play a role in compensation

[33] Returns are computed from the base category of having lower certificate level and no formal schooling.

decisions (Bertrand, Goldin and Katz 2010, Bayard et al. 2003). Finally negative perceptions against female workers do not only nurture the gender wage gaps, but also affect women's career choice and their willingness and ability to re-enter the work of choice. Though earnings is still an important determinant for whether to enter and stay in the labor force and what career to select, recent evidence shows that gender stereotypes, and the presence of discrimination against women are important determinants of women's labor market decisions (Klasen and Lamanna, 2009, World Bank, 2012a).

Box 11. Closing gender gaps in earnings is also smart economics – the Australian Experience

A study by the National Centre for Social and Economic Modeling (NATSEM) in Australia estimated the value to the economy of reducing the gender wage gap in Australia. The study used Average Weekly Earnings Survey data from the Australian Bureau of Statistics and found a gender wage gap of 17 per cent in 2009. Over the period of 1989 to 2009, the size of the wage gap remained fairly constant, fluctuating slightly between 15 and 17 percent.

In order to quantify the contribution of particular variables to the wage gap in Australia, the study used a simulation methodology developed by Olsen and Walby (2004). This approach moves the average characteristics of women to those of men, and quantifies how much the wage gap would be reduced and how much women's wages would improve if this were to occur. Using this simulation methodology, the study found that the key determinants of the gender wage gap in Australia include industrial segregation (25 per cent), labor force history (seven per cent), under-representation of women with vocational qualifications (five per cent) and under-representation of women in large firms (three per cent). However, "being a woman" (the unexplained portion) accounts for a very large 60 per cent of the wage gap. This finding is in line with other literature and represents that part of the wage gap which is due to discrimination or other differences between men and women not captured by differences in their measured characteristics.

The study also found that the gender wage gap has a substantial effect on Australia's economic performance measured in terms of GDP per capita. The study estimated that a decrease in the gender wage gap of 1 percentage point from 17 per cent to 16 per cent would increase GDP per capita by approximately AUD 260. This equates to around AUD 5,497 million (2007 dollars) or 0.5 per cent of total GDP, assuming that the Australian population is held constant. If the wage gap were closed entirely (that is, if women earned the same as men) the study estimated that GDP would grow by around USD 93 billion, or 8.5 per cent of GDP.

The study measured the impact of the wage gap on macroeconomic performance both in terms of its direct impact on economic growth and through several indirect channels, including investment, fertility, hours of work and labor force participation. Diagnostic analysis of these results showed that while the relationship between the gender wage gap and economic growth was negative for each of these variables, except labor force participation, only the hours of work channel was statistically significant. This suggests that based on the assumptions of the model used in the study the negative impact of the gender wage gap on Australia's macroeconomic performance stems primarily from the disincentives to work more hours associated with women's earnings being lower than men's. In other words, a narrowing of the gender wage gap could lead to significantly more hours of work, and thus to greater economic growth.

However, the study noted that a woman's ability to work more hours is determined by a number of factors including the availability of appropriate and affordable child care. Further, increased hours of work for women has other implications, including the ever increasing struggle to balance work and 'life', and the division of household labor and care arrangements between men and women.

Source: "The impact of a sustained gender wage gap on the Australian economy", a study conducted by The National Centre for Social and Economic Modeling (NATSEM), University of Canberra for the Office for Women, Department of Families, Community Services, Housing and Indigenous Affairs (FaHCSIA), Australia, November 2009.

The fundamental causes of gender gaps: informal and formal institutions

Social norms around the role of women in the household drive low participation and segmentation

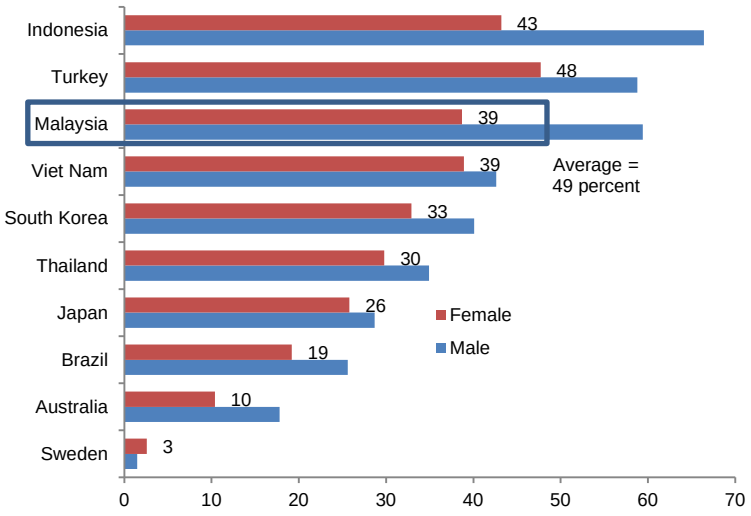
The discussion so far has taken for granted that it is women's responsibility to ensure that children and the household are tended to. This assumption is largely based on cultural norms which see women in reproductive as well as or instead of productive ones. While it is not the place of this chapter to question such social norms, it is important to identify those with economic implications. In particular, we focus on two social norms that have a direct impact on women's labor force participation: first, women, but not men, should care for children and tend to the home; second (and conversely), women's labor force participation is optional, especially when men earn sufficiently higher income.

Social norms and practices influence preferences, values and the social behavior that govern gender relations and outcomes. Social norms regarding women's traditional role in the household and in society can affect women's education decisions and economic participation (see for example Chamlou et. al, 2011). Men normally focus on their single productive role and conduct their other roles sequentially; women are more likely to play these roles simultaneously and have to balance competing uses of their time (Blackden and Wodon, 2006, World Bank, 2012a). A study using the World Values Survey data to measure the effect of cultural attitudes towards work and gender finds that attitudes of household members and family are important determinants of women labor force participation (Giavazzi et. al, 2009).

Only two percent of men who are not in the labor force are engaged in "housework", compared to two-thirds of women. Table 9 provides strong evidence that women are in practice far more likely to be dedicated full-time to housework compared to men. Malaysian women who participated in qualitative research stated that the majority of housework, child rearing, and the care of the elderly are considered the responsibility of women across the socio-economic and education spectrum. Participants further stated that these social norms start from an early age, where girls are expected to work around the house while boys have fewer household responsibilities. Similarly, in focus group discussions with Malaysian university students, the male participants said that they would be unwilling to be a full-time stay-at-home dad, unless they get paid "a lot" to do so. This has been seen elsewhere in the region. In Beijing and Nanjing, China, for instance, even when a wife's income represents a larger share of the couple's combined income, women still do the majority of the household work. Both men and women justified this in terms of their gender roles in the household (Zuo and Bian, 2001, Kim et al. 2010, World Bank, 2012a).

Figure 93. Nearly half of Malaysians think men should have more right to a job than women when jobs become scarce

Respondents agreeing with the statement: "When jobs are scarce, men should have more right to a job than women.", percent



Source: World Values Survey Databank.

The converse of the norm that women are solely responsible for taking care of the home is that men are expected to be the main financial provider of the family while women's employment is optional. Social expectations of men's roles in society can influence men's economic participation decisions and affect gender relations (World Bank, 2011b, World Bank, 2012a). When participants in the World Values Survey were asked whether they agreed with the statement "when jobs are scarce, men should have more right to a job than women," 49 percent of Malaysians (including 39 percent of women) agreed, compared to 2.1 percent in Sweden (Figure 93). This also reflects the norm that women have no reservations about being financially dependent on their husbands.

This cultural norm may be associated with the empirical finding that women living in households where someone else has high educational levels are less likely to participate in the labor market. Having a member in the household with education at or above post-secondary levels reduces women's likelihood of working. A plausible explanation is that the other household members with higher level of education are able to earn a sufficient level of income to support all family members, thus reducing both the need and incentive for female members to work, especially when combined with the expectation that women's earnings are secondary. Where the prevailing norm is that men are the primary breadwinners, the probability of women being employed declines with household income and husband's education level (which is correlated with income) controlling for other factors. Studies from other countries indicate that women's employment decisions are often contingent upon their husband's income and education (Cohen and Bianchi, 1999). In the case of Malaysia, the estimation for married women takes into account this concern by including the husband's expected income level (divided by the number of all household members). Patterns of participation according to husband income follow an inverted U, initially rising but declining as incomes increase. For all women living with an adult male, married or never-married, as the male's wages increase women are more likely to work in paid labor outside the home. But for married women, the effect is only up to a point given that the relationship is not linear and eventually declines.[34]

Low levels of entrepreneurship may be linked to norms about women's autonomy within the household. One of the key findings of research on the role of intra-household bargaining over family decisions is that even though there is a positive association between education (and wealth) and bargaining power in the household, the relationship is not perfect, indicating that social norms play an important role in the decision making process in the household. In other words, one cannot expect that wealthier and/or more educated women have full control of their actions in societies where social norms dictate that males are still primary decision makers (World Bank, 2012a). For example, in qualitative research, participants of different ages, educational backgrounds and gender in Malaysia were told a hypothetical scenario of a couple named Abdul and Azlina. Azlina was interested in starting her own business by investing her own savings; however, Abdul does not support his wife's business. Respondents overwhelmingly said that it would be extremely difficult for Azlina to go ahead with her small business without Abdul's support. On the other hand, if Abdul decided to open a business, and Azlina was not supportive of his idea, respondents responses ranged from saying it would be easy, or if it was difficult, he would still go forward with his plan.

Gender bias in Malaysian school textbooks may reinforce social norms that lead to gender streaming. Various studies have analyzed the differences in depictions and attitudes towards males and females in Malaysian school textbooks (Saedah, 1990, Chandran, 2002, Liew, 2007, Mohamad Subakir et. al., 2012). The forms of gender bias found range from the visual (illustrations) to the textual. The latest analysis of Malaysian school textbooks (Mohamad Subakir et. al., 2012) found that illustrations adhere to stereotypes of gender roles, i.e., where it is only the women who are depicted as "wives, mothers, nurturers", and whose role is relegated to the "private sphere" of the home whereas depictions of the outdoors were typically populated by male characters.[35] The prevalence of gender bias in educational materials

---

[34] One hypothesis that is not considered in this chapter is the one espoused by Ross (2008), that higher resource revenues are linked with a low level of women's labor force participation. The finding that the probability of women working declines with the income of the household, coupled with the fact that extractive industries are more likely to employ men, suggests that to the extent resource rents are passed through to the wages of the mostly male workers, female labor force participation would decline. This hypothesis does not seem to be applicable to Malaysia for two main reasons: First, employment in mining is fairly small and could not account for Malaysia's low overall female labor force participation. Second, the explanation of gender differences in agricultural employment are more plausibly linked to the modes of agricultural production rather than resource rents.

[35] In addition, there were even illustrations of female students serving food to male students. In examining the words used in relation to male and female characters in English textbooks, Mohd Faiez et. al. (2011) found differences in traits and behaviors exhibited by male and females. Males were portrayed as brave, optimistic as well as being over-confident and arrogant, a phenomenon also

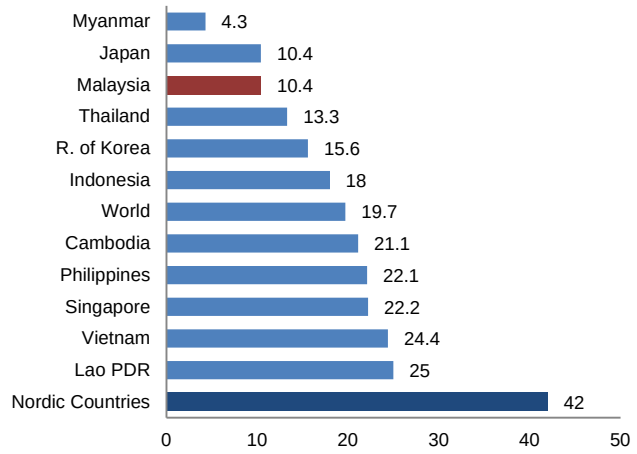
has been shown to reinforce negative cultural and social norms. Indeed, the 2007 Education for All report (UNESCO 2006:2) identifies "stereotypes [that persist] in learning materials and, too often, [differing] teachers' expectations of girls and boys" as two issues that negatively affect gender equality.

Cultural norms also drive occupational segregation when women are perceived to be less effective managers. Peer evaluations for a cross-cultural study of women's leadership effectiveness in Malaysia and Australia found that Malaysian female managers were perceived as less effective in their leadership styles than Australian female managers. 23 percent of Malaysian female managers and 38 percent of Malaysian male managers from the sample said that women in their organization were not as effective as leaders. However, in Australia, only 4 percent of female managers and 11 percent of male managers felt that women were less effective leaders (Jogulu and Wood, 2008).

Perceptions about women in politics and women's low participation in that arena, as well as few leadership positions in the private sector, can reinforce one another. Studies from other countries, including India and the United States, have found that increase in female labor force participation increases female political influence. This is likely due to networking and role model affects; women who enter the workforce are more likely to meet other people to engage in conversations about politics, and therefore build networks, promote collective action and develop their civic skills (Sapiro, 1983, Schlozman, Burns and Verba, 1999, Chhibber, 2003, Ross, 2008). If a woman works from home or is not participating in the labor force, which is the experience of over half of women of the working age population in Malaysia, she is less likely to form social networks, raise endorsement or even have the confidence to run for elected office. Malaysia has one of the lowest female representations in parliament in the region. The number of parliamentarians in Malaysia is only higher than Myanmar and Mongolia, and well below world averages (Figure 94). Data from the World Values Survey show that a high percentage of men and women in Malaysia-- over 76 percent of men and almost 65 percent of women over age 30-- believe that men make better political leaders than women, and these percentages are higher than every country in the region that participated in the survey (Figure 95). Such gender norms and societal expectations about women's perceived lower ability to participate in the public sphere hinder their political participation.

Figure 94. Malaysia has proportionally fewer women in parliament than many of its neighbors

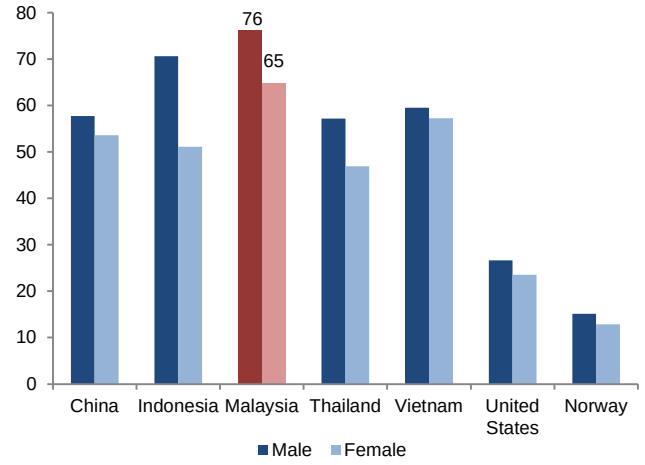
Representation of women in parliament, percent



Source: Inter-Parliamentary Union, 2011.

Figure 95. Who makes a better political leader?

Share of respondents responding that men do, percent



Source: World Values Survey.

reported by Saedah (1990) in an analysis of Malay-language textbooks. Meanwhile, females were "patient, punctual and attentive". In terms of professions, these textbooks typically restrict the role of women to the domestic, or 'passive' sphere, as maids, housewives, teachers, and nurses, while men are portrayed in more career-oriented professions such as doctors, engineers, politicians, and pilots (Haique and Chandan, 2011).

Formal institutions provide limited support

Eighteen years after Malaysia ratified the United Nations Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), implementation of the Convention's articles still needs to be strengthened. Malaysia ratified CEDAW in 1995. Since then, the country has made some progress in developing institutions to support equal treatment for women, including in the area of employment. However, Malaysia continues to hold reservations to parts of key provisions in CEDAW. This includes provisions relating to granting citizenship rights of children born to Malaysian women and non-Malaysian fathers, eliminating discrimination in terms of rights to enter into marriage and specifying a minimum age for marriage, the requirement to modify cultural and social norms with a view to eliminating the propagation of stereotypical roles for men and women, and women's participation in developing public policy and in public office[36].

Enforcement of laws prohibiting gender discrimination has been uneven. In 2001, Article 8(2) of the Federal Constitution was amended to include a prohibition against gender discrimination in addition to existing prohibitions against discrimination on the basis of religion, race, descent and place of birth. However, the interpretation of "discrimination" in this case has been left to the courts and legislative bodies (Zarizana, 2008; Women's Aid Organization, 2012). In a 2005 landmark decision, the Federal Court dismissed an 11-year wrongful termination suit brought against Malaysian Airlines by a former flight attendant who was fired because she became pregnant citing amongst others that "the nature of the job (of flight stewardesses) … is certainly not a conducive environment for a pregnant women to be in"[37]. On the other hand, in 2011 the Shah Alam High Court declared that the Ministry of Education's action in revoking a teaching job offer owing to pregnancy was gender discrimination, and unconstitutional. Nonetheless, Malaysia the amendment to the Federal Constitution has not been accompanied by a comprehensive review of legislations that may be discriminatory.

The latest amendments to the Employment Act 1955 represent an advance, but still do not provide comprehensive protection and sufficient flexibility to accommodate the needs of working women. Amendments to the Employment Act 1955 that came into force on 1 April 2012 contained at least two amendments specifically relating to women – extension of maternity benefits and the criminalization of sexual harassment. However, some parts of the Act retain discriminatory features. For example, Articles 34 and 35 state that women cannot work the same night hours as men or in all industries across the economy. Employers can also still ask prospective employees about their family status during a job interview, which could prejudice a hiring decision against women with children. Even if women are hired, employees with minor children do not have any additional legal rights to a flexible or a part-time work schedule (Women, Business and the Law, 2011), nor are there any provisions for employers to provide break time for nursing mothers. Certain parts of the new amendments related to women in the workplace provide more opportunities for discrimination, or do not provide adequate protection. For example, the prohibition against termination of an employee during entitled maternity leave has been relaxed. With regards to the sexual harassment provisions, while employers are required to examine claims of sexual harassment at risk of paying a fine, several loopholes remain: among others, employers are still not required to adopt the Sexual Harassment Code of Practice, therefore are still able to decide on what actions constitute harassment, there is no possibility of compensation or apology to the complainant, and employers can only take action if the perpetrator is another employee, not a contractor or a visitor to the workplace.

Part-time and flexible working arrangements have not been the norm in Malaysia. The Government has recognized this and as part of the effort to encourage flexible working arrangements it has introduced the Employment (Part-time Employees) Regulations 2010. This is a subsidiary legislation to the Employment Act 1955. This Regulation provides for the minimum conditions to be fulfilled by employers when employing part-time employees, including EPF and SOCSO contributions. The Government is also encouraging Listed Companies to disclose in their annual reports their policies and practices to support women in employment, such as through flexible work arrangements (FWA) & Support

[36] Articles 5(a), 7(b), 9 para. 2, 16.1(a) and para. 2. Although these reservations do not mean that Malaysia will not implement policies that comply with the spirit of these provisions, ratifying them signals seriousness of intent by adding the weight of an international treaty,

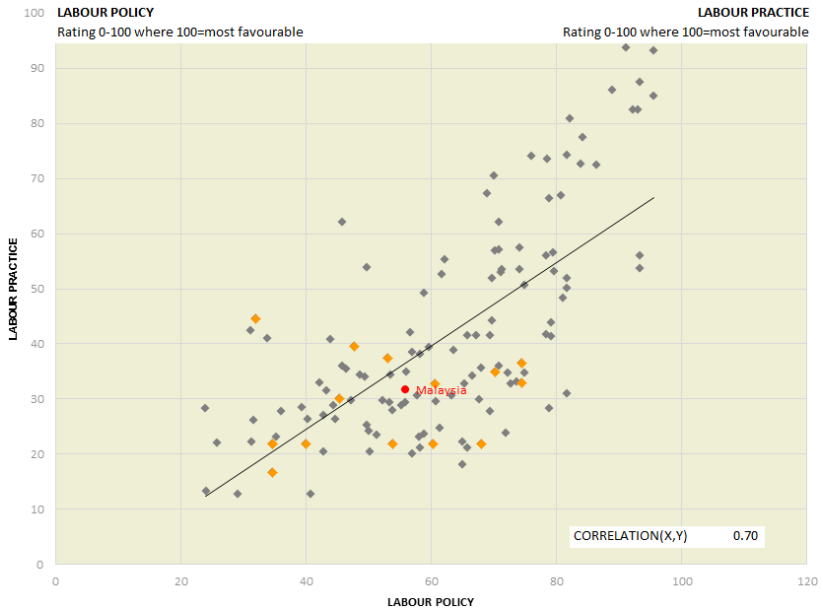
[37] Beatrice AT Fernandez v Sistem Penerbangan Malaysia [2004] 4 CLJ 403 (Court of Appeal) and [2005] 2 CLJ 173 (Federal Court)

Facilities Many MNCs and professional services have adopted flexible work arrangements. However, more can be done to encourage adoption across all companies in Malaysia.

Where Malaysia has put forth initiatives to ensure equal protection under the law, employers' behavior toward hiring women and women's compensation compared to men remain unequal. As presented in Figure 96, the most recent Women's Economic Index shows that labor regulation in Malaysia is half way favorable to women, scoring 55 in a score that goes from 0 to 100 (where 0 is least favorable), while labor practice is only one-third favorable, with a rank of 31 (EIU, 2012). The four overall areas (related to labor and non-labor) highlighted as needing improvement are: access to childcare, the practice of equal pay for equal work, maternity and paternity leave provisions, and political participation of women.

Figure 96. Labor practices trail labor policies in Malaysia

Correlation between Labor Policy and Labor Practices across Countries, 2011



Source: Women's Economic Index, Economic Intelligence Unit, 2012.

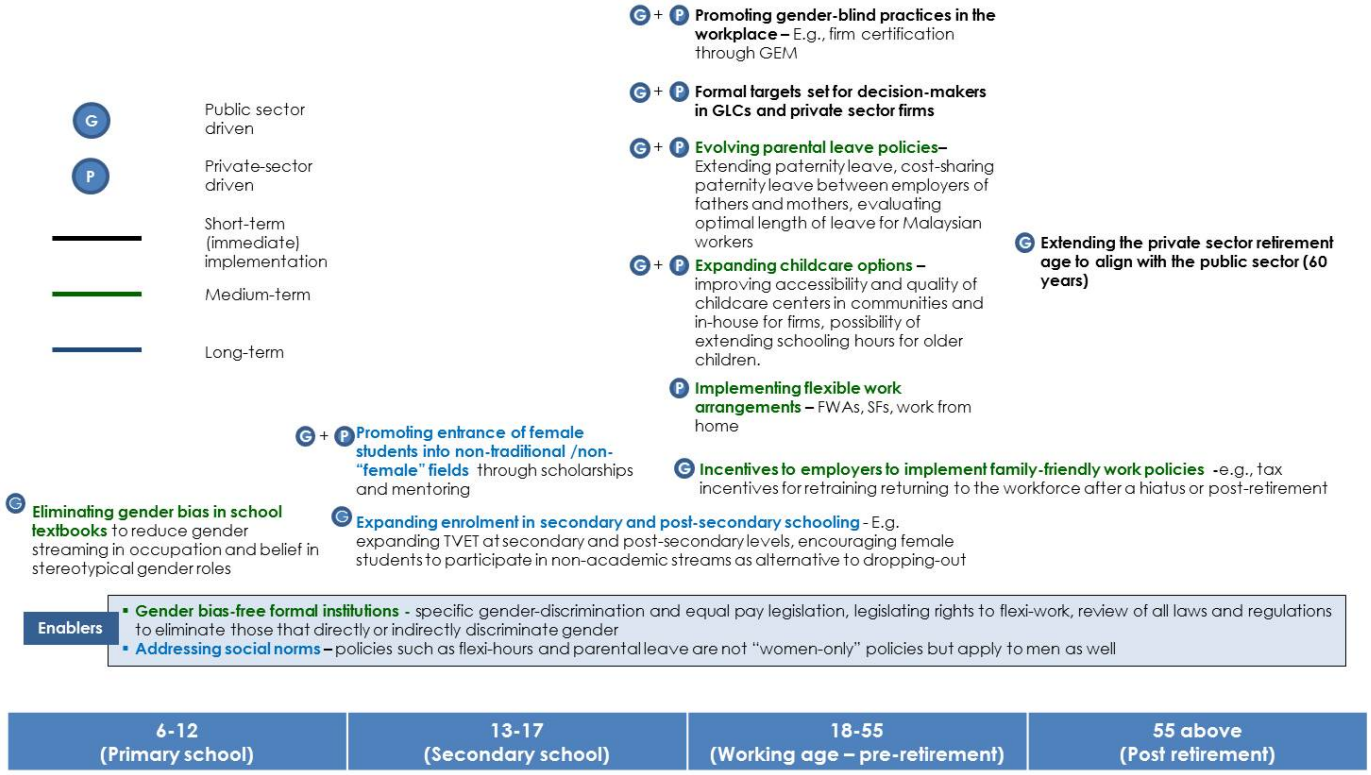
Efforts along many dimensions are required to narrow gender gaps in economic opportunity

The earlier discussion suggests that education, social norms and institutional factors are key drivers of gender gaps in economic opportunities in Malaysia and in particular of the "absent women" phenomenon. These findings have important policy implications. As women get more educated, they tend to join the labor market in greater numbers whereas men enter the labor force with or without further studies. Therefore, a "gender neutral" policy of raising secondary and post-secondary enrollments will likely help build human capital more generally, and also raise women's labor force participation. But education alone will not result in fully closing gender gaps, which as the discussion showed persist even among educated women. Gender streaming in education also suggests that even as more women acquire education and join the labor market, they may sort into potentially lower-paying occupations. Multiple tracks of policies and initiatives should be simultaneously put in place to ensure that women have access to the required training and skills needed to participate actively in the workforce, that they are fairly treated in the workplace, and that both social norms and formal institutions are transformed in such a way that they are more conducive to working women. Beyond this, empowering women by strengthening their role in leadership and decision-making not only increases the managerial talent pool, but also provides aspirations and mentors for other women to emulate, creating a virtuous cycle of economic participation and influence.

Policy interventions to address the three main sources of gender gaps – education, norms and formal institutions – encompass both cross-cutting and specific measures in five broad areas: (1) policies in the **education** sector that improve enrolment, those that reduce segmentation in occupations post-education and those that contribute to reducing gender stereotypes; **(2)** Measures to **ease women's home-based responsibilities**, such as flexible work

arrangements (FWAs), changes to parental leave policies and improved child, and increasingly, elderly care; **(3)** measures to reduce occupational streaming by promoting the involvement of women in public and private **leadership and decision-making** positions; **(4)** Strengthening **formal institutions** to eliminate all forms of gender-based discrimination; and **(5)** in parallel, as Malaysia's population begins to age, there is a need to examine in more detail the reasons behind **women's early exit from the labor force**. Figure 97 illustrates the ways in which different policy interventions, driven by both the public and private sector, can be applied throughout the life-cycle. While the majority of interventions to increase women's economic participation are related to those who are working, foundations can be built earlier, both to increase participation and to reduce gender segmentation.

Figure 97. Policy interventions to unlock women's talent are tailored throughout the life-cycle



Source: Authors.

The Government's stepped-up efforts to narrow gender gaps in economic opportunities are welcome, but greater attention to the role of education and gender norms is needed. Malaysia has put in place policy programs to improve women's labor force participation and entrepreneurship, the most extensive of which is the Leveraging Women's Talent Roadmap launched last year (Box 12). The programs address the major gaps in terms of participation and sorting of women into non-managerial roles. However, the programs would benefit from addressing gender norms more directly to have a larger impact, including those that lead to streaming in education. Moreover, it should be clearly recognized that increasing secondary and post-secondary enrollment of both boys and girls will be a critical component of reducing the participation gap. Narrowing gender gaps, and especially tackling longstanding norms is difficult and a challenge faced by all countries developed and developing. Therefore, policy makers will need to experiment and evaluate various measures in order to discern the most optimal policy mix appropriate to the Malaysian context.

Box 12. Measures by the Government to Increase Women's Labor Force Participation

In the past several years, the Malaysian Government has implemented various policy interventions, programmes and initiatives targeted at increasing women's labor force participation. Apart from amendments to the Federal Constitution and Employment Act highlighted in previous sections, in the area of labor legislation, regulations for

part-time work were enacted in 2010. Given that housework has been stated as the primary reason for women to stay out the labor force, more flexible working arrangements are expected to encourage female labor force participation.

As part of the Human Capital Strategic Reform Initiative under the Economic Transformation Programme, the Government has outlined several initiatives to leverage women's talent. Its stated targets are to (1) increase female LFP from 46 to 55 percent; (2) increase the percentage of women in decision-making positions to 30 percent by 2016; and (3) increase childcare enrolment from 4 percent to 25 percent by 2020. In order to achieve these targets a Leveraging Women's Talent Roadmap was developed which buckets the initiatives into programmes tailored for every stage of a woman's career and general life-path: developing the ability to secure the right job (0-3 years), providing support and flexibility (3-10 years), developing the right skills (above 10 years), and 30 percent of women in decision-making positions (above 15 years). Amongst the initiatives and incentives that have been established include;

- Internships and job placement opportunities
- Increasing the number of childcare centers (800 public childcare centers have been targeted to be set-up by December 2012) by among others, providing incentives and grants for the establishment of childcare centers, establishing child-minder training programmes, providing a subsidy to civil servants earning below RM3,000 a month who send their children to government-run childcare centers, and establishing 1Malaysia Childcare centers.
- Adoption of the Policy of at Least 30 percent of Women in Decision Making in Corporate Sector in June 2011
- Launching a Women's Director's Registry as well as training qualified women under a Women's Director's Programme. As at September 2012, 34 women have been trained under the programme
- Encouraging Listed Companies to disclose in their annual reports their policies and practices to support women in employment, such as through flexible work arrangements (FWA) & Support Facilities
- Providing a Double Tax deduction incentive on training expenditure for Companies that re-employ women after a career break
- Programmes targeted at increasing women's economic contribution:
    - Women Franchise Programme
    - Women Directors' Programme
    - Home Working Programme
    - The Single Mother Skills Incubator Programme
    - Talent Wanita Portal (to attaract professional women return to the workforce)
    - 1Azam
    - Purple DNA Project
    - Women Exporters Development Programme
    - Financial aid programmes:
    - Entrepreneur Economic Fund
    - Rural Economy Financing Scheme
    - Financial assistance under Amanah Ikhtiar Malaysia

Other major initiatives currently being reviewed are possible amendments to the Employment Act 1955 which will allow women to work night shifts, as well as the promotion of flexible working arrangements.

Given that most of these measures have only recently been implemented, the evidence of their effectiveness has yet to be seen. It should be noted however, that rigorous measuring of baselines and monitoring of progress will contribute towards formulating the most optimal mix of policies to achieve the objective of increasing women's labor force participation and contribution to Malaysia's economic growth.

Education policies to raise participation and reduce gender segmentation

A "gender blind" policy of rapidly increasing secondary and post-secondary enrollments would help narrow the participation gap. Paradoxically, although gender gaps in education have been closed, the education system is a

contributor to low participation as women, but not men, who do not continue beyond secondary education, are less likely to enter the labor force. Therefore, a key component of a strategy to increase women's labor force participation must include a vigorous effort to increase enrollment in secondary and post-secondary education. To this end, the commitment to move compulsory schooling from 6 to 11 years in the latest National Education Blueprint should be augmented by increased efforts to develop multiple pathways in post-secondary education. Nevertheless, the target of 100 percent enrollment in secondary education by 2020, if achieved, would go a long way to support higher participation by women.

Policy interventions to actively promote entrance of women into non-traditional fields of study are needed to reduce subsequent occupational segmentation. As more women join the labor market, Malaysia needs make concerted efforts in education and labor market policies to prevent females from sorting into lower-paying occupations and lower-productivity sectors, which represents a distortion in the allocation of talent with negative economic implications. While recent initiatives such as increased budgetary commitment for the Malaysia Skill Certificate training, the Dual Training colleges and Industrial Training Institute are a step in the right direction, they should also be accompanied by initiatives that ensure a high participation by female students in the technical and vocational fields. One option is to offer scholarships to girls and women to study fields such as engineering or accountancy. Other approaches use female role models and encourage female pupils into non-traditional careers. In the US, the Science Connections program offered monthly science workshops for girls as well as a summer science weekend for the family to foster girls' interest in science (World Bank, 2012a).

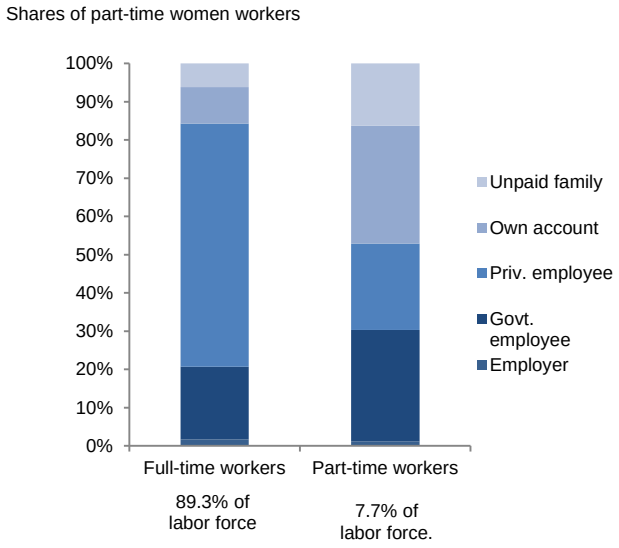
Malaysia should also ensure that the education system does not play a role in reinforcing stereotypes of gender roles. Intuitively, this would mean that the Ministry of Education, in vetting the content of textbooks submitted for approval should ensure that these books depict men and women in a variety of similar occupations, and do not restrict women to "employment that is an extension of their domestic and maternal activities" (UNESCO, 2009). In addition UNESCO, in its Methodological Guide to Promoting Gender Equality Through School Textbooks (2009), emphasizes that illustrations should not reinforce the gender stereotypes in relation to space, and that textbooks should have equal depictions of non-domestic and non-occupational activities (i.e., leisure or sports). Schools should also ensure that both girls and boys have equal access and opportunities for student leadership positions.

Flexible work arrangements and improved childcare facilitate reconciling family and work

Policies to reconcile work and family must recognize that norms about women's roles may take time to change, but should also advance their transformation whenever possible. Although ideally socio-cultural norms should evolve such that both men and women do not face barriers to participate in the workforce, pragmatically the prevailing norms – such as those that lead to women carrying the lion's share of family- and home-based responsibilities – will take time to change. As such, measures should be put in place that would reduce the burden of housework for women or better enable them to combine home with market work. Primarily these measures would be policies and initiatives that would broaden the provision of good quality child (and increasingly, elderly) care by other providers, as well as incentives to encourage the take-up of these alternatives. Flexible work arrangements and parental leave policies can also help, including in starting to address the issue of norms.

Working mothers facing inflexible work-schedule demands often resort to lower-paid (or unpaid) household-based work. Working mothers face trade-offs that put them at an economic disadvantage (Waldfogel, 2001) by limiting them to household-based activities or lowly remunerated part-time work. Unfortunately, despite evolving technologies and skill needs many employers have been unable to adjust to a growing number of workers with dual responsibilities, and as a result they fail to consider family-friendly policies as an option that can yield positive results. Instead, many employers continue to offer jobs for traditional full-time workers, rather than make innovations to attract and retain a broader base of talent. Figure 98 shows that part-time work is rare among working women, though the incidence of part-time work is double for women compared to men (roughly 4 percent of men and 8 percent for women work part-time); and in the case of women, many part-time workers (20 percent) do so in unpaid family work. To tackle this problem, some employers exercise innovative practices; two key innovations are: flexible working arrangements (either flextime, part-time, telework), and the establishment of parental leave systems that provide job guarantees to women who temporarily interrupt work for childcare (World Bank, 2012a).

Figure 98. Own-account workers are a large share of women who work part-time



Source: Department of Statistics, Labour Force Survey, 2010.

Flexible work arrangements supported by incentives and evidence of its economic benefits to employers, along with easing the labor regulatory code, can catalyze their adoption throughout the Malaysian economy. Statutory approaches to flexible work arrangements include (1) protecting against potential discrimination of those who have flexible work arrangements and (2) providing access to flexible work arrangements for workers who are not currently on such arrangements but would like to try it. Part-time work, which is particularly important to many working mothers, is often cited as the most important of flexible working arrangements. This arrangement can be a way for women to stay in the labor force during childrearing years, and can keep women (and their skills) engaged and up-to-date. Research from the United States suggests that the lack of quality part-time work is an important factor in the decision of college educated mothers to leave the labor market (Stone, 2007). The lack of part-time work opportunities contribute to the United States having the lowest rates among OECD countries for women above the age of 25 with tertiary education in the labor force (OECD Employment Outlook, 2007, Gornick and Hegewisch, 2010). But one important consideration worth highlighting is that some studies show that long spells in part-time work can be detrimental for women by trapping them in lower-responsibility level (lower paying) jobs; thus it is also important to provide clear pathways for women into full-time work.

Evidence suggests that more flexi-work or working from home may have positive impacts on productivity. In discussions with focus group participants, many employers expressed concern about flexible working hours, saying that if their employees worked at home, they would be more likely to become distracted by other household tasks and become less productive. A recent experiment, known as "work from home", conducted in 13,000 NASDAQ listed Chinese multinationals found that home-working led to a 13 percent performance increase, of which approximately 9.5 percent was from working more minutes per shift (meaning fewer breaks and sick-days) and 3.5 percent from more calls per minute (from a quieter working environment). Home workers also reported improved work satisfaction and their job attrition rate fell by 50 percent (Bloom et al., 2012).

Work-family policies that provide support for both women and men responsible for children, elderly and disabled have become increasingly important tools to help women's participation. Generally, parental leave policies include maternity leave, paternity leave, and/or leave for both parents, and unpaid leave. Parental policy is meant to help parents employed prior to the birth (and in some case the adoption) of a child to remain home in order to recover from the birth and/or care for the child. In most cases parental leave policies mandate that the job of the parent on leave is protected and in some cases there is some form of wage replacement during the leave period. The length of leave period for mothers mandated by law in Malaysia is 90 days for the public sector (with a maximum of 300 days over the length of service) and 60 days for the private sector. European countries have longer leave periods, ranging

from 11 months in Italy to 3 years in Germany; and in many cases some form of wage replacement (e.g. flat amount, proportional to their previous wage) is provided. Some studies find that the OECD average of 10 months leave is the optimal amount because it is long enough to ensure parental bonding, improved health outcomes and maternal interest to remain attached to her job (Waldfogel, 2001). Longer periods on the other hand, have been criticized in various studies for having a negative effect on women's ability to reenter the labor force, and on her wages and overall career advancement. To avoid influencing women to leave the labor force many OECD countries have opted to offer a blend package which includes parental leave for the first months after child birth, and childcare options (economic support through subsidies or non-cost public options) thereafter.

Parental leave policies are currently evolving in Malaysia; unlike in other countries, parental leave provided by private firms must be fully covered by employers indirectly making women more expensive than men. Parental leave is an area of policy where Malaysia differs greatly from OECD countries in that it places the cost burden solely on the (woman's) employer and offers shorter leave periods, which makes women workers more costly to employers. Malaysian women have 60 days of maternity leave in the private sector[38] and 90 days in the public sector, where one-hundred percent of wages are paid for by the employer. Men working in the public sector get one week of paternity leave whereas men in the private sector (as of 2011) do not have a legally mandated leave benefit (World Economic Forum, 2010). These differences in parental leave offered to mothers and fathers reinforce social norms that discourage a more equitable division of child-rearing responsibilities between men and women. Furthermore, employer-paid maternity leave will likely reduce employers' incentives to hire female workers because of the additional costs of hiring women, particularly among younger age groups (World Bank, 2012a).

To start addressing norms, it is important to implement family-friendly work policies not as "policies for women" but rather policies for both men and women. As discussed in previous sections of the Report, the primary reason given by Malaysian women for not being part of the labor house is "housework", i.e., responsibilities within the home and family. Ultimately, reducing the burden of housework on women will require a shift toward norms of shared responsibilities for caring for the home, children or the elderly. Labor market policies and initiatives can support this shift. For instance, policies related to parental leave must capture paternity as well as maternity leave, and flexible working hours and arrangements must apply to both men and women – and men in particular should be encouraged to take advantage of them.

Broadening the supply of affordable child (and elderly) care has clear positive impacts on increasing women's labor force participation. Affordable childcare has been shown to increase women's re-engagement in the workforce (Berlinski and Galiani, 2007, Naudeau et al., 2011).[39] In particular, affordable childcare (through subsidies or indirect grants) has been shown to increase the labor force participation of more educated mothers and free up grandmothers from their traditional care role (Schlosser, 2005, Naudeau et al., 2011, World Bank, 2012a). The Japanese Government put in place subsidies for day care and long-term care (for elderly and disabled), and extended the hours for care services. Like Japan, Korea recognized the potential impact that childcare centers could have on women's decision to come back to work. The Government put in place the First Basic Plan on Low Birth and Aging Society which among many strategies increases the number of publically controlled childcare centers, increases childcare leave and leave benefits, allows for shorter working hours for parents with infants, and introduced incentives to support and strategies attract women back to the labor force after childbearing or childrearing (KOILAF, 2006, Ducanes and Abella, 2008).

Malaysia has put initiatives into place to increase childcare options. These include the Permata Negara early childcare program and joint UNICEF and Suruhanjaya Syarikat Malaysia program to establish childcare centers in the workplace (Chiam, 2008, SSM and UNICEF, 2010) and have been followed by incentives to child care center providers in the form of establishment grants and tax deductions. In addition, the Income Tax Act has provisions for

[38] However, local and foreign banks have extended full paid maternity leave from 60 days to 90 days (12 weeks) effective from 10 August 2010.

[39] In OECD countries, a number of studies find that childcare costs negatively impact rates of women's labor participation and that the provision of subsidized childcare raises their participation (Anderson and Levine, 1999, Blau and Currie, 2006, Chevalier and Viitanen, 2002, Del Boca, 2002, Gelbach, 2002, Gustafsson and Stafford, 1992, World Bank, 2012a).

tax deductions to be provided to employers for the purpose of establishing childcare centers near or at the workplace (UNDP, 2007). However, as of 2009 only 436 registered child care centers were established at workplaces (EPU, 10th Malaysia Plan) and child care expenses are not deductible from individual income taxes.[40] The 10th Malaysia Plan anticipates increasing the number of community-based nurseries and day care centers under the Social Welfare Department, and actively promoting corporate social responsibility programs to sponsor the establishment of licensed day care centers in partnership with NGOs. In 2010, the Government announced a 10 percent tax reduction per year, for 10 years, for employers that establish childcare centers in their workplace. The initiative also includes grants (of RM 80,000) to government agencies for the renovation and refurnishing of childcare centers in government offices, and subsidies (of RM 180 per month) for government servants utilizing the services and earning salaries below RM 2,000 (MWFCD Website, 2010). In addition, grants for the establishment of childcare centers have been provided under the Leveraging Women's Talent sub-SRI (see Box 12), along with training for child minders. To date, 470 childcare centers have been set up under the program in 2012, with training provided to 3, 308 minders. Evidence from other countries suggests clear benefits of these interventions. In Argentina, a large-scale increase in the availability of free public preschools nationwide had an estimated impact on increased maternal employment of 7 to 14 percent (Berlinski and Galiani 2007). A similar study, also conducted in Argentina, found that mothers whose youngest child just made the age cutoff for preschool eligibility had a 13 percent higher labor force participation rate to work than mothers whose youngest child just missed the age cutoff (Berlinski, Galiani and McEwan, 2008).

When pursuing childcare options, it is important to do a cost-benefit analysis of the different arrangements possible to ensure breadth of coverage, affordability, and quality. Pre-school and school services are active early childhood development initiatives, however, they often do not cover the whole working day, are closed for substantial parts of the year, and often do not offer flexibility in response to increasingly non-standard working times. Due to this variability, studies have found a much stronger impact of investment in formal daycare services than of investments in pre-school facilities on female labor force participation rates (Jaumotte 2003). Formal daycare services do not always have the same quality as early childhood development initiatives. There are many way in which policy makers can support childcare in Malaysia; but it is important to highlight that countries like the US and UK have a thriving private and private-public sector childcare system where costs are shared between workers, employers and public sector providers. The index presented in the benchmarking study (Economist Intelligence Unit, 2012) used a guideline for what makes a good childcare center; this criteria outlined in Table 12 can help improve both preschool and daycare childcare options in Malaysia.

Table 12. Possible Key Indicators for Benchmarking Early Education

Availability
Preschool enrollment ratio, pre-primary age (1 year) at 5 or 6 years
Preschool enrollment ratio, relevant age-group
Early childhood development and promotion strategy
Legal right to preschool education
Affordability
Cost of a private preschool program
Government pre-primary education spending
Subsidies for underprivileged families
Subsidies for preschool aimed at including underprivileged child
Quality
Student-teacher ratio in preschool classrooms
Average preschool teacher wages
Curriculum guidelines
Preschool teacher training
Health and safety guidelines
Data collection mechanisms
Linkage between preschool and primary school
Parental involvement and education programs

Source: Economist Intelligence Unit.

[40] Women, Business and the Law Database (accessed at: http://wbl.worldbank.org).

The Government can help families discern quality childcare options from non-quality options, as well as incentivize centers to improve their services, by putting in place a unified certification system. Like many other countries, Malaysia can set up and enforce a stringent licensing and certification system for childcare centers. Doing so will not only improve quality of childcare and the reputation of the centers but also reduce the research costs for families actively looking to enroll their children. According to the national Social Welfare Department (JKM), which issues childcare licenses, more than two-thirds of the 3,200 childcare centers in Malaysia remain unlicensed. Childcare center certification can assure families that childcare centers fulfill government-mandated requirements and are up to the standards set by the state. Certification requirements may include highly-trained teachers or care-giving professionals including staff education and training development, a low caregiver-child ratio (under 1-20), sanitation practices, and following safety procedures to ensure the care and protection of the children.

Other modalities of care benefits exist but the context in which they have been tried differ dramatically from those in Malaysia and the evidence remains mixed or thin. Some countries are also experimenting with early childhood benefits which provide cash grants to all families of children below three years of age to compensate them for either staying home to care for the children (foregone income) or for costs of non-family provided care. In theory this option is appealing to countries so as to not impose one way of care or another on families; instead, it allows them to make optimal options based on their circumstances (opportunity costs, preferences). Nordic countries, where fertility rates are low compared to Malaysia and women's labor force participation is higher than in Malaysia, have experimented with this modality the most; however, there are no proper evaluations showing the effect on labor force participation and the criticism is that it takes resources away from establishing proper childcare centers which provide a longer term solution to most parents.

Childcare beyond school hours should also be taken into account. When considering expanding childcare options, policy makers also need to take into account children of school-going age. As previously discussed, one of the possible reasons for the women not returning to the workforce after their children have presumably started school may be the unavailability or inaccessibility of childcare beyond school hours, particularly given the relatively short schooling period in Malaysian public schools. Hence, one possible option could be lengthening the school day, an approach followed by Vietnam and Chile, where female labor force participation increased for the latter (Contreras et. al., 2010).

The provision of tax incentives to encourage firms to retrain and reemploy women after a career break requires evaluation, as evidence of their efficacy is thin. Another approach to consider would be to facilitate the return of women to the workforce after a hiatus. Malaysia is currently in the midst of implementing (starting in 2013) an initiative to entice firms through a double tax deduction, to reemploy women and train them after career breaks. This initiative is part of the Talent Wanita initiative, managed by the Talent Corporation and the Ministry of Women, Family and Community. The tax incentive is meant to incentivize firms to expand their hiring efforts beyond the usual candidates and to consider reaching out to professional women that have been temporarily absent from the labor market. Though this initiative is in principle very appealing and potentially effective, there is not enough evidence from other countries or examples in other settings to know whether it will yield the results intended; thus, it would be ideal to conduct a proper evaluation of this initiative to ascertain its effectiveness.

Policies to close managerial gaps and create role models

Following the success obtained in the public sector, Malaysia may consider using targets to increase women's representation in management in the private sector. A survey of 101 companies worldwide concluded that companies that had three women for every ten members in a management committee performed better organizationally and financially (McKinsey, 2007). As discussed above, over the past three years Malaysia has successfully reached its target of having over 30 percent of women hold public sector top management post; also, about 61 percent of professional and lower level managers were women in the public sector in 2011. However, voluntary affirmative actions in other countries have received mixed results. In 2006, affirmative action policies were introduced in Korea to eliminate gender discrimination in the workplace. Analysis on the impact of the program found that the near-voluntary nature of the program, the large number of firm exemptions from the program and the program's lack of enforcement mechanisms, prevents it from addressing pre-existing gender distribution bias and

gender segregation in the labor market (Cho et. al., 2010). While other studies have examined how affirmative actions affect corporate performance (Sheridan, 1998, Strachan, Burgess and Sullivan, 2004, Cho et. al., 2010), the challenges of the Korea affirmative action program illustrate the need for a systematic mechanism to make meaningful change toward gender equality in the workplace. For instance, in Norway, the only country where corporate quota legislation is in effect, female representation on boards has increased, and studies have found a strong positive correlation between the share of female board members and women's presence amongst top executive and top earners (World Bank, 2011b).

Companies could be enticed to meet pre-set targets by helping them recognize women's potential contribution and asking them to regularly report their progress and their challenges to meeting the targets. According to a recent report by Deloitte (2011), various European countries such as France, Belgium, Netherlands and Norway established quotas and/or targets through regulatory mandates; Norway became the first country to set up legal quotas in 2005. The consequences for non-compliance are severe (dissolution of the company) and companies are mandated to also disclose the state of diversity within the company. Currently about 31 percent of posts on boards and leadership positions in companies are held by women in Norway. Other countries such as Germany and the Netherlands have established recommendations and targets (30 percent is the most common target); even though these are not mandatory, they are under a mandate to either comply or explain. Explanations must be done annually in the company's annual report. In Singapore, there are no quotas established but a new initiative was put in place by the Singaporean Council of Women's Organizations (SCWO) to facilitate the advancement of talented women in senior leadership and boardrooms. The Board Agender initiative is new but the SCWO has been advocating for companies to recognize women's potential contribution. In June of 2011, the Malaysian prime minister announced that the cabinet approved a new policy to promote gender equality in the country. The policy mandate states that Malaysian private sector companies have until 2016 to achieve a target of at least 30 percent senior leadership roles held by women; similar to the public sector initiative implemented in 2004, which has now reached its goals. Despite the strong impetus to the private sector (including GLCs) to follow suit, they have yet to follow the Government's lead on setting targets to have more female representation in their management and boards.

Formal institutions can be strengthened to reduce gender bias

Eliminating gender discriminatory legislation will set a strong foundation for the total elimination of gender discrimination. Although Malaysia has made great strides in ensuring that its legislative system is free of gender discrimination, more work can be done. First, a review of legislation to eliminate direct or indirect gender bias should be conducted: examples given previously were Articles 34 and 35 of the Employment Act which prohibits women from working under certain conditions. Other lacunae that should be remedied, to build a strong foundation for gender equality, are specific legislation prohibiting gender discrimination in the workplace, instituting formal equal pay for equal work laws for the private sector, and strengthening sexual harassment legislation. Beyond the broader framework of anti-discrimination legislation, gender-neutral labor legislation can lead to increased female labor force participation, labor laws can also be formulated to provide strong support to initiatives that would otherwise be voluntary: Sweden for instance, guarantees parents of children under age eight the right to work reduced hours in the same job with the same salary, and this has increased female labor force participation as well as reduced occupational segmentation.

Gender-blind hiring policies and women-friendly work arrangements and benefits should be promoted. Encouraging companies to promote greater transparency in recruitment and promotion procedures can level the playing field for women and help achieve greater female representation, particularly at a managerial level. Strengthening organizational support, including networking, mentoring and family friendly initiatives are one way to promote female leadership in business (Mattis, 2001, World Bank, 2011b, World Bank 2012a).Firm certification is one way to promote gender equality in the private sector and to encourage women to reach their labor market potential. The Gender Equity Model (GEM) firm certification tool is a public-private partnership designed and implemented in Mexico, and replicated in Argentina, Chile, Colombia, the Dominican Republic, and the Arab Republic of Egypt. An impartial and independent agency accesses firms' compliance in four areas: recruitment, career advancement, training and sexual harassment. Firm certification then validates and recognizes gender equity actions in private firms. Findings from the GEM in Mexico show that participating firms have eliminated pregnancy discrimination from recruitment

practices. In addition, 90 percent of participating firms report that workers' performance and productivity have increased (World Bank, 2012a).

Understanding the forces behind women's early exit from the labor force will become increasingly important

As the population in Malaysia begins its aging process, persuading Malaysian men and women to stay in the labor market longer will be critical to avoid labor shortages. Besides aging, the retention of older, skilled workers is needed for Malaysia's structural transformation to a high-skilled economy. Like more developed neighboring countries including Singapore, Japan, and Korea, changes in the Malaysian economy—away from physically demanding industries to more knowledge-based and capital intensive—will require more skilled and experienced workers to into later ages in order to avoid having to import talent from abroad; this trend is pertinent for Malaysia, given that Malaysian women, who pursue higher levels of education, also tend to exit earlier than men. These three countries also provide examples of measures that can be implemented to attenuate demographic pressure; for instance, Japan and to an extent Korea have raised their retirement age (Japan to 65), and have put in place programs to encourage the rehiring of retired workers. Following an examination of the factors behind the early exit of Malaysian women from the workforce, the Government may wish to consider these policy options to persuade highly-skilled women to remain engaged in formal economic activity.

One way to avoid having older women fall into poverty or vulnerable conditions after retirement age is by providing retraining options for them to stay in the labor market and encouraging companies to make part-time work available to retirees willing to work. Analysis conducted on gender differences in income sources of the elderly in Peninsular Malaysia found that men who had a pension or had retirement income reported more income sources and higher mean incomes as compared with women. Among the elderly living alone, women are more vulnerable to poverty. These elderly often find themselves relying on their adult children for financial and social support (Masud, Haron and Gikonyo, 2008). A way in which Singapore dealt with encouraging older workers to stay in the labor force and easing their re-entrance was by providing re-training programs, encouraging part-time work and various forms of financial incentives. Though the motivation of the Government was to deal with demographic pressures, indirectly, the Government was also helping older workers prolong their work lives and be able to be economically independent for longer (Ducanes and Abella, 2008). OECD countries recognized age discrimination was influencing rehiring behavior by firms and in response some countries passed anti-age-discrimination legislation and put in place public information campaigns to tackle ageism. In France, Australia, UK and Finland, employers were not only informed about antidiscrimination legislation but they were also given tools on how to manage a more age diverse workforce and informed them of the benefits. Positive impacts have been observed in some of these countries (OECD, 2011).

Malaysia's legal retirement age for the private sector in 2010 was 55 years of age and (recently) 60 for the public sector and government-linked companies, while the statutory retirement age in neighboring countries are at least 2 years more. For instance, in Singapore the retirement age is 62 and in Thailand and Indonesia it is 60. In order to address concerns related to longer life expectancy and other related demographic and economic factors, the Government of Malaysia recently tabled a bill in parliament to increase the retirement age in the private sector from 55 to 60 years of age, following a similar increase in the public sector which is now in effect. Healthier lifestyles and better health services will continue to extend people's life expectancy well beyond 60, which requires a large life savings amount.

Conclusions

Paradoxically, despite the educational gender gap being reversed, women's education – particularly at the post-secondary level – remains an important driver of gender gaps in economic opportunities. Secondary enrolment rates for Malaysian girls are relatively low for the country's income level, which has important repercussions for female labor force participation given the fact that young women who do not continue past secondary education are far more likely to leave the labor force after marriage compared to their counterparts with post-secondary qualifications. On the other hand, while secondary enrolment rates for young men have fallen behind young women's, this does not have as much impact on men's labor force participation. While relatively low secondary education participation for both genders is a concern in its own right, improving secondary enrolment rates has the added benefit of narrowing

the gender gap in labor force participation. Hence, gender-blind policy measures such as the commitment in the National Education Blueprint for 100 percent enrolment at all levels of education up to upper secondary are laudable and can be accompanied by efforts to expand avenues for female secondary education, such as increased enrolment for young women in TVET.

However, education alone is insufficient to close the gender gap in labor force participation. Gaps in labor force participation exist even among educated women: controlling for education attainment, women participate less in the workforce compared to men. In addition, women go into female fields of study and industry, and occupation segregation is seen in the small number of women managers, suggesting that there is gender-based sorting. This sorting effect becomes increasingly distortionary as more women join the workforce. In addition, a gender earnings gap exists – meaning that controlling for education, women still make less than men, reflecting different returns to education and other factors.

Additional research should be conducted to better understand the implications of gender segmentation in education and labor markets. The finding of a relatively small gender earnings gap, and that women tend to sort into higher paying sectors and occupations may be potentially misleading due to selection bias in the data, as explained above. Moreover, there is conflicting evidence on the share of women managers and entrepreneurs, with some sources showing a more significant gap than others. Better understanding the nature of segmentation in labor markets will help address underlying issues and ensure that the benefits from higher participation are not dampened by inefficient gender-based sorting once women enter labor markets.

Transforming institutions – formal and informal – are the key to unlocking women's potential in Malaysia. The prevalence of gender-based gaps in labor force participation as well as occupational segmentation means that a shift in institutions is required, particularly in terms of informal social norms. The low participation of married women in the workforce, as well as the 'single-peaked' age-profile for females, points towards the fact that Malaysian women generally find it difficult to reconcile family with work commitments, and due to prevailing social norms which deem that women should primarily be responsible over home-based responsibilities, choose to exit the workforce. In the long-term, fully unlocking women's potential will require a more balanced view of women's responsibilities.

References

Albrecht, J., Björklund, A. and S. Vroman. (2003). Is there a glass ceiling in Sweden?. *Journal of Labor Economics, 21*(1), 145-177

Anderson, Patricia M., and Phillip B. Levine. (1999). *Child care and mothers' employment decisions* (NBER Working Papers 7058). Cambridge MA: National Bureau of Economic Research

Anker, R. (1998). *Gender and jobs: sex segregation of occupations in the world.* Geneva: International Labour Organization

Alesina, A. F., Giuliano, P., & Nunn, N. (2011). *On the origins of gender roles: Women and the plough* (NBER Working Paper 17098). Cambridge, MA: National Bureau of Economic Research.

Arulampalam, Wiji, Booth, A. L. and Bryan M. L. (2007). Is there a glass ceiling over Europe? Exploring the gender pay gap across the wage distribution. *Industrial and Labor Relations Review 60*(2),163-186

Bailey, B., and Bernard M. (2003). Establishing a database of gender differentials in enrollment and performance at the secondary and tertiary levels of the caribbean education systems. Georgetown, Guyana: Canada-Caribbean Gender Equality Fund Programme II (CARICOM)

Barone, G. and Mocetti, S. (2010). *With a little help from abroad: the effect of low-skilled immigration on the female labor supply* (Economic Research Unit Working Paper). Rome: Bank of Italy

Bayard, K., Hellerstein, J., Neumark, D. and Troske, K. (2003). New evidence on sex segregation and sex differences in wages from matched employee-employer data. *Journal of Labor Economics 21*(4), 887-922.

Berlinski, S., and Galiani, S. (2007). The effect of a large expansion of pre-primary school facilities on preschool attendance maternal employment. *Labour Economics 14*(3), 665–80

Berlinski, S., Galiani, S., & McEwan, P. J. (2008). Preschool and maternal labor supply: Evidence from a regression discontinuity design. *Economic Development and Cultural Change*. Retrieved from http://www.webmeets.com/files/papers/LACEA-LAMES/2008/453/Berlinski_Galiani_McEwan.pdf

Bertrand, M., Goldin C., and Katz, L. F., (2010). Dynamics of the gender gap for young professionals in the financial and corporate sectors. *American Economic Journal: Applied Economics 2*(3), 228-55.

Blackden, C. M. and Wodon, Q.(Eds.) (2006). *Gender, time-use, and poverty in sub-saharan africa*. Washington, DC: World Bank.

Blau, D. M., and Currie, J. (2006). Preschool, day care, and afterschool care: who's minding the kids?. In Hanushek, E. A. and Welch, F. (Eds.). *Handbook of the Economics of Education - Volume 2*. Amsterdam, London: North-Holland

Bloom, D. E., Canning, D., Fink, G. and Finley, J.E. (2007). *Fertility, female labor force participation, and the demographic dividend* (Harvard Initiative for Global Health Program on the Global Demography of Aging Working Paper No. 25). Cambridge, MA: University of Harvard

Blumberg, R. L. (2007). *Gender bias in textbooks: a hidden obstacle on the road to gender equality in education*. Background paper prepared for the UNESCO Education for All Global Monitoring Report 2008 Education for All by 2015: will we make it?. New York: UNESCO

Borjas, G. J. (2003). The labor demand curve is downward sloping: re-examining the impacts of immigration on the labor market. *Quarterly Journal of Economics 118*(4), 1335-1374.

Boserup, E. (1970). *Woman's role in economic development*. London: George Allen and Unwin Ltd.

Chamlou, N., S. M. and Ahmed, H. (2011). *Understanding the determinants of female labor force participation in the Middle East and North Africa region: the role of education and social norms in Amman* (AlmaLaurea Working Papers 31). Rome: Almalaurea University Consortium

Chevalier, A. and Viitanen, T. (2002). The causality between female labour force participation and the supply of childcare. *Applied Economics Letters 9*, 915-918

Chhibber, P. (2003). Why are some women politically active? The household, public space, and political participation in India. *Islam, gender, culture, and democracy: findings from the World Values Survey and the European Values Survey*, 4, 186.

Chiam, H. K. (2008). Childcare in Malaysia: then and Now. *International Journal of Childcare and Education Policy. 2*(2), 31-41.

Cho, J., Kwon, T. and Ahn, J. (2010). Half success, half failure in Korean affirmative action: an empirical evaluation on corporate progress. *Women's Studies International Forum 33*, 264-273.

Cohen, P. and Bianchi, S. (1999, December). Marriage, children and women's employment: what do we know?. *Monthly Labor Review*, 22-31.

Contreras, D., Sepúlveda, P., & Cabrera, S. (2010). The effects of lengthening the school day on female labor supply: Evidence from a quasi-experiment in Chile. Centro de Microdatos, Departamento de EconomíaUniversidad de Chile. Santiago: University of Chile

Cruces, G., & Galiani, S. (2007). Fertility and female labor supply in Latin America: New causal evidence. *Labour Economics, 14*(3), 565-573.

Cuberes, D. and Teignier, M. (2012a). *Gender inequality, factor allocation, and aggregate productivity*. Washington D. C.: World Bank

Cuberes, D. and Teignier, M. (2012b). *Gender gaps in the labor market and aggregate productivity.* Washington D. C.: World Bank

D'Amuri, F. and Pinotti, P. (2010). *Immigration and natives' labor market outcomes: evidence from Italy* (Bank of Italy Mimeograph). Rome: Bank of Italy

Davis, J. (2002). *Boys to Men: Masculine Diversity and Schooling*. Paper presented at the School Leadership Centre of Trinidad and Tobago, Port of Spain, Trinidad, August 6-8.

de la Rica, S., Dolado, J. J. and Llorens, V. (2005). *Ceiling and floors: gender wage gaps by education in Spain* (IZA Discussion Papers 1483). Bonne: Institute for the Study of Labor (IZA).

Deaths of infants at childcare centres – unlicensed centres and unskilled childminders. (2012, August 2012). *Kuala Lumpur Post.* Retrieved from http://www.kualalumpurpost.net/deaths-of-infants-at-child-care-centres-unlicensed-centres-and-unskilled-childminders/. Last accessed: 22 November 2012

Del Boca, D. (2002). The effect of child care and part time opportunities on participation and fertility decisions in Italy." *Journal of Population Economics, Springer 15*(3), 549-573

Deloitte Global Services. (2011). *Women in the boardroom: a global perspective*. London: Author

Dollar, D. and Gatti, R. (1999). *Gender inequality, income and growth: are good times good for women?* (World Bank Mimeograph). Washington, D.C.: World Bank

Ducanes, G., & Abella, M. (2008). Labour shortage responses in Japan, Korea, Singapore, Hong Kong, and Malaysia: a review and evaluation. Geneva: International Labour Organization. Retrieved from http://digitalcommons.ilr.cornell.edu/intl/50/

Dunne, M., and Leach, F. (2005). Gendered school experiences: the impact on retention and achievement in Botswana and Ghana. *Researching the Issues 56*. London: Department for International Development

Economist Intelligence Unit. (2012). *Starting well: Benchmarking early education across the world* (Report commissioned by the Lien Foundation). London: The Economist Intelligence Unit

Esteve-Volart, B. (2009). Gender discrimination and growth: Theory and evidence from India". Esteve-Volart, B. (2004). Gender Discrimination and Growth: Theory and Evidence from India. *STICERD-Development Economics Papers-From 2008 this series has been superseded by Economic Organisation and Public Policy Discussion Papers.*

Farrè, L., Gonzales, L. and Ortega, F. (2009). *Immigration, family responsibilities and the labor supply of skilled native women* (IZA Discussion Paper 4265). Bonne: IZA

Fatima, A. and Sultana, H. (2009). Tracing out the U-shape relationship between female labor force participation rate and economic development for Pakistan. *International Journal of Social Economics 36*(1/2,)182-198

Fernandez, J. L. (2009, December) .Intra-occupational gender earnings gaps in Malaysia. *Jurnal Kemanusiaan 14*,

Figueroa, M. (2000). Making sense of the male experience: the case of academic underachievement in the english-speaking caribbean. *IDS Bulletin 31*(2).

Fuwa, M. (2004), Macro Level gender Inequality and the Division of Household Labor in 22 Countries. *American Sociological Review 69*(6).

Gelbach, J. B. (2002). Public schooling for young children and maternal labor supply. *American Economic Review 92*(1),307-322

Goldin, C. (1990). *Understanding the gender gap: an economic history of American Women*. Cambridge: University Press

Gornick, J. and Hegewisch, A. (2010). *The impact of 'family-friendly policies' on women's employment outcomes and on the costs and benefits of doing business* (World Bank Commissioned Report). Washington D. C.: World Bank

Gustafsson, S. and Stafford, F. (1992). Child care subsidies and labor supply in Sweden. *Journal of Human*

Resources, *27*(1), 204-230

Hall, R. E., & Jones, C. I. (1999). Why do some countries produce so much more output per worker than others?. *The Quarterly Journal of Economics, 114(1),* 83-116.

Hanna, R. and Leigh, L. (2009). *Measuring discrimination in education* (NBER Working Paper 15057) Cambridge MA: National Bureau of Economic Research

Haque, M. S. and Chandan, S. K. (2004). Discourse of gender: conflicting ideologies vs. Social policies. *BRAC University Journal, vol. I*(2), 21-32

Heckman, J. (2006). *The economics of investing in children* (UCD Geary Institute Policy Briefing 1*)*. Dublin: UCD Geary Institute

Hill, A.M. and King, E. M. (1995). Women's education and economic well-being. *Feminist Economics 1*(2), 1-26

Horton, S. (1999). Marginalization revisited: women's market work and pay, and economic development. *World Development 27*(3), 537-82.

Jariah, M., Sharifah, A. H. and Gikonyo, L. W. (2008). Gender differences in income sources of the elderly in Peninsular Malaysia. *Journal of Family Economics Issues* 29(4), 623-633

Jaumotte, F. (2003). *Female labor force participation: past trends and main determinants in OECD countries* (OECD Economics Department Working Paper 376). Paris: OECD

Jogulu, U. and Wood. G. (2008). A cross-cultural study into peer evaluations of women's leadership effectiveness. *Leadership & Organization Development Journal 29*(7), 600 – 616

Kim, S., Fong, V. Yoshikawa, H., Way, N., Chen, X., Deng, H. and Lu, Z. (2010). Income, work preferences and gender roles among parents of infants in urban China: a mixed method study from Nanjing. *China Quarterly 204*, 939-59.

Klasen, S. (2002). Low schooling for girls, slower growth for all? Cross-country evidence on the effect of gender inequality in education on economic development. *World Bank Economic Review 16*(3), 345-73.

Klasen, S. and Lamanna, F. (2009). The impact of gender inequality in education and employment on economic growth: new evidence for a panel of countries. *Feminist Economics 15* (3), 91-132.

Korea International Labour Foundation (KOILAF). (2006). *The government announced the first basic plan on low birth and aging society*. Seoul: Author

Lavy, V. (2008). Do gender stereotypes reduce girls' or boys' human capital outcomes? Evidence for a national experiment. *Journal of Public Economics 92*(10-11), 2083-2105.

Liew, P-C. (2007). An analysis of gender and ethnic representations in Chinese and Malay primary school reading textbooks: grades 2—6 (Doctoral dissertation). Available from ETD Collection for Tennessee State University.

Malaysia Department of Statistics. (Various years). *Labour Force Survey*. Putrajaya: Department of Statistics Malaysia

Marks, J. (2001). *Girls know better: educational attainment of boys and girls*." London: CIVITAS— The Institute for the Study of Civil Society

Martino, W. and Berril, D. (2003). Boys, schooling and masculinities: interrogating the 'right' way to educate boys. *Educational Review 55*(2), 99-117.

Mattis, M. (2001) Advancing women in business organizations: Key leadership roles and behaviors of senior leaders and middle managers. *Journal of Management Development 20*(4), 371 – 388.

McKinsey & Company. (2007). *Woman matter : gender diversity, a corporate performance driver.* New York: Author. Retrieved from http://www.mckinsey.com/locations/paris/home/womenmatter/pdfs/Women_matter_oct2007_english.pdf

Mehta,K. and Thang, L. (2012). *Experiencing grandparenthood: an Asian perspective*. New York: Springer

Ministry of Higher Education, Malaysia. (2011). Graduates Tracer Study 2010

Mohamad Subakir, M. Y., Bahiyah, A. H., Zarina, O., Kesumawati, A. B., Fuzirah, H. and Azmah, M. (2012). A visual analysis of a Malaysian English school textbook: gender matters. *Asian Social Science 8*(12), 154-163

Mohd, F. I. M. J., Mohamad Subakir, M. Y., Bahiyah, A. H., Yuen, C. K., Zarina, O. and Azhar, J. (2011). Verbs and gender: the hidden agenda of a multicultural society. *3L: The Southeast Asian Journal of English Language Studies 17*(Special Issue), 61 - 73

Mukherjee, H. (2010). *Access to and equity in higher education – Malaysia* (World Bank Mimeograph). Washington D. C.: World Bank

Naudeau, S., Kataoka N., Valerio, A., Neuman, M. J. and Elder, L. K. (2011). *Investing in young children: an early childhood development guide for policy dialogue and project preparation*. Washington, DC: World Bank.

Norehan, A. and Nor'Aznin, A. B. (2011). The causal relationship between fertility and women labor force participation: evidence for the four selected ASEAN countries. *European Journal of Social Sciences 26(2*), 154-158.

Ñopo, H., Daza, N., and Ramos, J. (2011). *Gender earnings gaps in the world* (Background paper for the WDR 2012). Washington D. C.: World Bank

Oaxaca, R. (1973). Male-female wage differentials in urban labor markets. *International Economic Review 14*, 693–709.

OECD. (2011). Helping older workers find and retain jobs. In *Pensions at a Glance: Retirement Income Systems in OECD and G20 Countries*. Paris: OECD Publishing.

Ottaviano, G. I. P. and Peri, G. (2006). *Rethinking the effects of immigration on wages* (NBER Working Paper 12497). Cambridge MA: National Bureau of Economics Research

Sheridan, A. (1998). Patterns in the policies: affirmative action in Australia. *Women In Management Review 13*(7), 243-252.

Psacharopoulos, G. and Tzannatos, Z. (1987, July 6-10). Education and female labor force participation. Paper presented at the 6th World Congress of Comparative Education.

Rahmah, I. (2011). Gender wage differentials in the malaysian services sector. *African Journal of Business Management Vol. 5*(19), 7781-7789.

Ross, M. L. (2008). Oil, Islam and women. *American Political Science Review 102*(1), 107

Saedah, S. (1990). An analysis of gender stereotypes in malay language elementary reading textbooks: implications for malaysian schools (Doctoral dissertation). University of Pittsburgh.

Sakellariou, C. (2011). *Determinants of the gender wage gap and female labor force participation in EAP* (Paper commissioned for the EAP Gender Report). Washington D.C.: World Bank

Sapiro, V. (1983). *The political integration of women*. Urbana: University of Illinois Press.

Schlozman, K. L., Burns, N., and Verba, S. (1999). What happened at work today?: A multi-stage model of gender, employment, and political participation. *Journal of Politics 61*(01), 29-53.

Strachan, G., Burgess, J. and Sullivan, A. (2004). Affirmative action or managing diversity: what is the future of equal opportunity policies in organizations? *Women in Management Review 19*(4), 196-204.

Suruhanjaya Syarikat Malaysia and UNICEF. (2010). *Establishment of a Childcare Centre at the Work Place by Corporate and Business Employers* (Best Business Practice Circular 1/2010). Kuala Lumpur: Suruhanjaya Syarikat Malaysia

Tansel, A. (2001). *Economic Development and Female Labor Force Participation in Turkey: Time-Series Evidence and Cross-Province Estimates* (ERC Working Papers 0105). ERC - Economic Research Center, Middle East Technical University

Tzannatos, Z. (1999). Women and labor market changes in the global economy: growth helps, inequalities hurt and public policy matters. *World Development 27*(3), 551-569.

Teoh, C. W. (2008, March 9). Childcare Crisis in Malaysia. *Straits Times Indonesia*. Retrieved from http://www.thejakartaglobe.com/international/childcare-in-crisis-in-malaysia/503557

Torben, I. Rosenbluth, F. and Soskice, D. (2005). *Divorce and the gender division of labor in comparative perspective* (Oxford University Papers), Oxford: University of Oxford Press

UNDP. (2007). *Measuring and monitoring gender equality: Malaysia's Gender Gap Index.* Kuala Lumpur: UNDP Malaysia

UNESCO. (2006). *Education for all report 2007: strong foundations*. New York City, New York: Author

UNESCO. (2009). *Promoting gender equality through school textbooks: a methodological guide*. New York City, New York: Author

UNICEF. (2004). What about the boys?. In *The State of the World's Children*, 58-69. New York: Author.

Waldfogel, J. 2001. Family friendly Policies for Families with Young Children.Employee Rights and Employee Policy Journal. 5:101-22

Women's Aid Organisation (Ed.), on behalf of the Malaysian CEDAW Alternative Report Group. (2012). CEDAW and Malaysia: Malaysian non-governmental organisations' alternative report assessing the government's progress in implementing the United Nations Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). Petaling Jaya: Women's Aid Organisation

World Bank (2011). *Women Business and the Law*. Retrived from http://wbl.worldbank.org/data/exploreeconomies/malaysia/2011#getting-a-job

World Bank. (2011b). *World Development Report 2012: Gender equality and development*. Washington, D.C.: World Bank.

World Bank. (2012a). *Toward gender equality in East Asia and the Pacific*. Washington, D.C.: World Bank.

World Bank. (2012b). *Developing skills for innovation and high income economy in Malaysia*. Internal Report to the Ministry of Human Resources of Malaysia

World Economic Forum. 2010. *Global Gender Gap Report 2010*. Japan: World Economic Forum

Yeoh, B. S. A. (2007). *Singapore: hungry for foreign workers at all skill levels*. Retrieved from Migration Policy Institute, Migration Data Hub website; http://www.migrationinformation.org/datahub/countrydata.cfm?ID=570

Zuo, J., and Bian, Y. (2001). Gendered resources, division of housework and perceived fairness: a case in urban China. *Journal of Marriage and Family 63*(4), 1122-33.

.