International Journal of Business and Technopreneurship
Volume 3, No. 2, June 2013 [261-276]

2008 Economics Crisis in Malaysia: Implications on the Economy, Society and Safety Nets

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ABSTRACT

Malaysia`s experience with the 2008 financial crisis was very different from that of 1998. Notwithstanding the differences, the country was not spared of the negative setbacks. Many sectors of society felt that the impact. The impact of an economic crisis on export and industrial output deteriorated and investments declined. At the national level, income reduction could be due to lower demand for goods and services, rising unemployment, and reduced investment or remittances. Crisis also vividly affected private or public spending on education, health, and even food. The non-existence of comprehensive social safety nets (SSNs) for formal and informal sector is a cause of concern as this may exacerbate economic and social instability in times of economic shocks. This paper remains a review examining Malaysia's setbacks caused by the 2008 crisis. The focus would be on the financial sectors and the implication the crisis had on society at large. Following the review, the paper suggested that government advance comprehensive social safety nets programs and job placements to improve the living standard of the citizens. The programs should be based on special training and education and implemented with a government- private collaboration.

Keywords: Malaysia, economic crisis, social impacts, social safety nets.

Unlike 1998, the 2008 economic crisis did not emerge in Asia or Malaysia. However it was due to the weaknesses in the United States (US) financial industry which escalated into a severe international financial crisis and deep slump in global trade and recession by the late 2008 (Khoon & Mah-Hui, 2010). Being a small open and export- dependent economy, Malaysia has not been spared from this external shock. The negative repercussion was transmitted to the Malaysian economy in the fourth quarter of 2008. The global financial crisis was transmitted to Malaysia mainly through the financial and trade channels (James et al., 2008). Export and industrial outputs deteriorated and investments declined. Consumer sentiments were also adversely affected. As a result, the growth domestic products (GDP) growth in the fourth quarter of 2008 was significantly lower (at 0.01%) compared with an average of 5.9% in first nine months of the year.

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It was fortunate that Malaysian banks had a negligible exposure to securities linked to the United States (US) subprime loans and Malaysian financial institutions and banks were better prepared than they were during the Asian financial crisis (Bank Negara Malaysia, 2008). Although Malaysia did not witness sharp downturns as compared with that of 1998; the 2008 may create a longer recession than the one in 1998[3].

Impact on the Financial Sector in Malaysia

Malaysia was relatively unaffected by the financial turmoil in the first half of 2008. The financial and economic domains worsened in the second half 2008 and in the first quarter of 2009. Real gross domestic products (GDP) grew only 0.1% year-on-year (YOY) in the fourth quarter of 2008 compared to a 4.7% YOY growth in the third quarter of the same year. The average GDP growth was 5.9% YOY in the first nine months of 2008. Real GDP fell by 6.2% in the first quarter of 2009, the first time growth was in negative territory since 2001. The declined performance in the first quarter of 2009 confirmed the expectation the Malaysia faces a full-blown recession for the year 2009. The decline was mainly due to drastic contraction in export value of 27.9% YOY in January 2009.The sharp decline in exports adversely affected economic growth particularly in the manufacturing sector, which contracted 19.1% in the first quarter of 2009 (Bank Negara Malaysia, 2009).

Like other Asian countries, Malaysia suffered capital flight sine the second quarter of 2008. Banks and financial institutions in the United States (US) and the West reduced their international businesses and focused their home markets. There was a big drop in funds flowing into Malaysia with net financial and capital flows falling from RM-37.7 billion in 2007 to RM-118.5 billion in 2008 (Bank Negara Malaysia, 2009). Malaysia was one of the countries affected by portfolio investment out flows in 2008 (Khor, 2009). The reversal of the portfolio capital flows due to repatriation by foreign participants affected the stock market significantly, with the Kuala-Lumpur Composite Index (KLCI) falling from 1393 points in January 2008 to 876 points in December 2009. There is a strong correlation between changes in net portfolio equity flows and stock prices in Malaysia (Khoon & Mah-Hui, 2010). Foreign direct investments into Malaysia plunged 98% from RM-15.9 billion in the second quarter of 2008 to RM-0.3 billion in the third quarter. For the full year, foreign direct investment decreased by 17% compared to year 2007. Direct investment by Malaysian companies increased to RM 50.2 billion in 2008 (Bank Negara Malaysia, 2009).

[3] Star Biz Week, round table discussion on the impact of the global financial crisis in Malaysia, 28, February, 2009. The panellists in the discussions were Dr. Lim See Yan (Former Deputy Governor of Bank Negara Malaysia), Professor Mohamed Arif Kareem (Executive Director of the Malaysian Institute of Economic Research), and Ms Tang Beng Ling (Meridian Asset Management Sdn. Bhd. Chief Investment Officer)

Since its de-pegging from the US Dollar in 2005, capital flows have had a significant impact on the Malaysian Ringgit (RM) (Ooi, 2008). Generally, capital outflows depress the price of Malaysian Ringgit; since the beginning of 2009 the Malaysian Ringgit has lost almost 6% of its value against the US Dollar from RM 3.464 to RM 3.693 currently (Bank Negara Malaysia, 2009). This decline in the value of the Malaysian Ringgit is primarily due to the declining demand in exports and portfolio capital outflows. The depreciation of the Malaysian Ringgit may help to improve the export performance of the country, limiting the negative impact from the global recession (Khoon & Mah-Hui, 2010).

The impact of the crisis on the Malaysian banking system was relatively modest at domestic banks had negligible exposure to United States (US) sub-prime loans products. Also, domestic banks have strengthened and built significant buffers during the decade after the Asian financial crisis. At end of 2008, the risk-weighted capital ratio (RWCR) of the banking system and core capital ratio (CCR) were maintained at high level of 13.1% and 10.6% respectively (Bank Negara Malaysia, 2009). Non-performing loans were healthy levels. They peaked during the Asian financial crisis at 18.5%; since the ratio has declined to 2.6% in 2008 (Bank Negara Malaysia, 2009).

The most worrying drop had been in manufactured exports, particularly electronics, electrical machinery and appliances which together account for 40% of Malaysia`s exports. In the fourth quarter of 2008, total manufactured exports declined 20% quarter to quarter, led by semiconductors and electronics. Agricultural and natural resources exports also dropped as commodity prices tumbled. In the same period, palm oil exports dropped 32% and crude oil 33% quarter to quarter (Bank Negara Malaysia, 2009).

The impact of the crisis on the financial and trade route is working its way through the real economy in terms loss in output trade and jobs. Recent data released by the Malaysian Department of Statistics showed that industrial production index (IPI) of Malaysia for January 2009 fell 19.8% on a year-on-year basis, and 4.0% on a month-on month basis. The contraction in January was due to a drop in three indices, namely, manufacturing (26.3%), mining (5.8%), and electricity (12.5%). Contraction in manufacturing output was due to decreases in sub-sectors such as electrical and electrical products, petroleum, chemical, rubber and plastic products (Department of Statistics Malaysia, 2009).

Social Impact in Malaysia

Systematic assessment of the social impact of an economic crisis involves understanding several rounds of impacts. First is the impact of an economic crisis on income. At the national level, income reduction could be due to lower demand for goods and services, rising unemployment, and reduced investment or remittances. At the household level, crisis is a negative shock to income, largely from the depreciation in the value of assets, job losses, lower remittances, and possibly inflation. Secondly income reduction inevitably translates into consumption cuts, being private or public spending on education, health, even food and other items. Both income reduction and spending cuts are most likely to cause increases in both income poverty and non-income poverty. Third and as a consequence, particularly if hunger is a result, the social fabric would be damaged, potentially leading to disorder, social unrest, environmental degradation, and so on (Wan & Francisco, 2009).

Malaysia`s high dependence on food imports has translated into higher food costs for a large proportion of the population, particularly the urban poor and those in rural areas who are net purchasers of food. The lower purchasing power of many households, especially poorer ones, means that there is a real risk that some families could fall back below the poverty line while those already below it will need significant additional help. "Poorer women and children are particularly at risk since higher food prices can worsen their already precarious nutritional status" (UNDP, 2009). National levels of employment and unemployment are very much related to the economic base of a country and its growth rates. The impact of the crisis on unemployment in Malaysia is not quite as alarming as compared to that in other countries. The unemployment rate was relatively stable and low during the crisis. Even during the depths of the crisis in the first quarter of 2009, the unemployment rate increased by only 0.9% to 4.0% from 3.1% in the fourth quarter of 2008. It then declined to 3.6 in second quarters of 2009, reflecting slowdown in economic deterioration and the implementation of two stimulus packages by the government (Department of Statistics Malaysia, 2009). The latest available data on poverty show that the incidence of poverty for Malaysia increased from 3.6% in 2007 to 3.8% in 2008 (Mat Zin, 2009).

According to ministry of Human Resource Malaysia, from October 2008 to May 2009 the number of permanent retrenchment was about 25, 128 workers. Other negative effects include voluntary separation schemes which involved 8,471 workers, temporary lay-off 8,196 workers and pay cut recorded the highest number of people, with the total of 34,384 (UNDP, 2009). According to Bank Negara Malaysia, on employment outlook in the manufacturing, services and construction sectors, 24% of the companies stated that they would reduce number of jobs in 2009 (Bank Negara Malaysia, 2008).

Clearly, the crisis is expected to exert negative impacts on social spending that are substantial in many developing Asian countries. In Malaysia, for instance, the reduction in per capita private health spending over 2008–2009 amounts to almost 6% points. In addition, Malaysia is expected to lose 2.8% increase in per capita private health spending from 2009 to 2010, if no appropriate protection program is implemented. In terms of per capita public health spending, the difference amounts to 6.6% points over 2008–2009 and 3.1% points over 2009–2010. From 2008 to 2009, the short-run crisis impact on per capita private health spending is most serious for Malaysia (-5.8 % points loss in spending growth), followed by Thailand (-5.1 % points), and Viet Nam (-5.7 % points). From 2009 to 2010, the loss is quite high in Viet Nam (-3.7 % points loss), Malaysia (-2.8% points), and Indonesia (-2.6% points). Turning to public health spending, the short-run crisis impact is most serious in Malaysia from 2008 to 2009 and from 2009 to 2010 (-6.6 and -3.1 % points losses, respectively). In terms of per capita public education expenditure, the negative short-run crisis impact is highest in Malaysia over 2008–2009 and 2009–2010 (-4.6 and -2.9 % points, respectively) (Wan & Francisco, 2009).

Existing Safety Nets in Malaysia

Existing Legislations

The statutory provisions in Malaysia pertaining to the retrenchment of a worker are found in the Employment Act 1955 and its subsidiary legislation, the Employment (Termination and Lay-Off Benefits) Regulations 1980, the Labor Ordinance of Sabah, the Labor Ordinance of Sarawak and the Industrial Relations Act 1967. The Employment Act 1955 prescribes the minimum benefits for a worker who comes within its scope, which includes a person who is employed to perform manual labor. Manual labor is defined as duties which are purely physical in nature with very little or no mental effort (Colgate Palmolive (M) *Sdn. Bhd.* (Private Limited Company) versus Cheong Foo Weng and 12 others, [2002] 2 AMR 2107, at 2136). An unskilled worker is therefore covered by this Act and is entitled to the benefits prescribed by the Employment (Termination and Lay-Off Benefits) Regulations 1980, if he is retrenched. The entitlement of the retrenched worker depends on his tenure of service and wages. The tenure of service must be continuous for a period of at least 12 months whilst what amounts to wages is prescribed in the Employment Act 1955. There are three key issues regarding the Act for the protection of the unskilled. First, it does not apply to all who are employed in Malaysia. The Employment Act 1955 applies to West Malaysia and the Federal Territory of Labuan only (Devadason & Meng, 2009).

In addition, there are several crucial issues that prevailing related to workers. First, the multipurpose withdrawals that are allowed for housing, education and medical purposes may render the retirement benefits insufficient. Second, the retrenched unskilled workers may end up in dire straits given the inadequacies in the current protection schemes. The plight of these workers becomes even more critical as there is no welfare program for the unemployed in Malaysia (Devadason & Meng, 2009).

Pension Fund

The Public Service Pension Scheme established under the Government Pension Ordinance of 1951 (revised Pension Act 1980) provides pensions to civil servants. A permanent government officer is eligible for a non-contributory government pension that she/he is confirmed and has completed no less than three years of recognized service. The scheme covers retirement benefits for officials in the federal, state and local public service; employees of state enterprises, judges and members of Parliament. However only pensionable officials qualify for benefits under the scheme; temporary and part-time officials are excluded. The maximum monthly retirement pension available under the scheme is 50% of final salary. Pensions for Federal civil servants are paid out of federal government general revenue. State enterprises, statutory authorities and local governments contribute 17.5% of the employees' monthly salary in respect of their employees; the employees themselves do not contribute anything (Doraisami, 2005).

The Employment Provident Fund (EPF), Malaysia also provides employment, injury and invalidity benefits under the Employees' Social Security Act 1969, called Social Security Organization (SOCSO). It consists of two separate schemes; the Employment Injury Scheme which was implemented in 1972 and the Invalidity Pension Scheme introduced in 1974. All employers employing one or more employees are covered under the Act. The Act however applies only to those employees earning less than RM 2,000 per month. Once an employee is covered, then cover continues to be valid regardless of income. The main groups exempted are domestic servants, casual workers, military and police personnel. The contribution rate for the Employment Injury Scheme is approximately 1.25% of wages and is wholly paid by the employer. For the invalidity Pension Scheme, the rate of contribution is 1.0% of wages shared equally between the employer and the employee (Doraisami, 2005).

According to Haron et al., (2006) and Masud, Haron, and Hamid (2006), most of the elderly in Malaysia today worked prior to their retirement age in menial jobs with low pay such as being a laborer or a farmer. Among the female elderly, half were never involved in the labor force (Masud et al., 2006). As far as elderly persons are concerned (who are poor and do not have the ability to earn), most of their income comes from transfers such as money from children, *zakat* (i.e., an Islamic taxation compulsory upon Muslims to help designated beneficiaries which includes the destitute and the poor) and public assistance; such as, *Bantuan Orang Tua* (Assistance for the Elderly) provided by the Department of Public Welfare (Haron et al., 2006). Since formal income support such as a pension is not widespread in Malaysia, elderly income security is heavily dependent on non-formal sources, especially transfers from adult children and grandsons.

Social security programs in Malaysia offer different levels of benefits to different groups of workers with those in government employment receiving the best benefits and those in the informal sector virtually nothing. The main social security programs in Malaysia are the Employee Provident Fund (EPF), Employment Injury and Invalidity Benefits Scheme and the Old Age pension scheme for the Civil Service and Military. There are other schemes such as the Teachers Provident Fund (TPF) the Malaysian Estates Staff Provident Fund and a handful of statutory and private provident funds but they are rather small and do not play a crucial role in the social welfare system in Malaysia (Ramesh, 2000).

Health Insurances

The elderly in Malaysia face increasing health care expenditure, and this present a major challenge to health care financing systems. Existing health insurance schemes are embedded in the EPF, which 10% is used as a contribution for health benefits. The fund enrols mainly private sector workers and the self-employed, with some government employees also contributing. The Social Security Organization (SOCSO) manages a social security system covering all working Malaysian citizens and their dependants. There are also commercial providers of private health insurance, but the penetration is not significant. The ongoing health system reform to introduce universal health insurance coverage in Malaysia is facing the challenge of fulfilling the equity objective without triggering an escalation in health care costs (Sidorenko & Butler, 2007).

Rehabilitation Programs for Poor and Disabled Children

Children have been largely protected from the adverse impact of the economic crisis due to the social safety nets that were already in place. The government's provision of universal benefits, notably free education and health care, as well as subsidies on a number of essential commodities, have been able to ensure that most children and poor families do not fall through the gaps, But concerns remain with regard to the comprehensiveness of the social safety nets, with only limited coverage rates of programs specifically targeted at poor families and children, and many particularly vulnerable children out of reach of school-based social interventions such as school feeding programs (Netto, 2009).

With improvements in health care, disability and developmental problems in childhood have become more important health problems. Global developmental delay, cerebral palsy, intellectual impairment, hearing impairment, vision impairment, autism, mental health problems have become more important concerns in recent years. It is important to detect these early as data suggests that, early detection and intervention offer better long term outcomes and better family well-being. The actual number of children with disability locally is not available. The Department of Social Welfare’s figures of 170,455 registered children and adults with disability are a gross underestimated. Possibly the best indication of the true rate of children with significant disability is from international studies, which suggests that more than 10% of all children have developmental problems and that the rate detected increase with age. Applying a rate of 10% to the population of children under 15 years of for 2005 population figures suggests that more than 850,000 children have a disability, with at least one third of these being severe and requiring rehabilitation. However, the rehabilitation program for disabled is not sufficient and available in Malaysia (Amar, 2008).

Public /Social Assistance for Elderly People

Under this scheme, monetary benefits and other benefits in kind such as clothing and food parcels, as well as apprenticeship training and small business launching-grants are provided by the government and administered by the Department of Social Welfare, under the jurisdiction of the Ministry of National Unity and Social Development. This scheme is strictly means-tested, and low income is the principle determinant of eligibility. However benefits are not provided for claimants who have relatives that are liable and able to support them. The Federal government sets limits for the amount of public/social assistance given to claimants. Benefits are based on the total monthly income of a family. Monthly allowances are given at a rate of RM 80 per person, up to a maximum of RM 350 per family. Old folks above the age of 60 years who are destitute, not able-bodied and do not have any relatives to depend on for support are eligible to apply for assistance of RM 130 a month. There is a tendency for benefits to be biased towards claimants in the urban areas as most rural dwellers are excluded either through ignorance or through the administrative procedures of receiving and processing applications in the large urban centers (Mat Zin, 2007).

Finding solutions to the issues that have been suggested first requires a shift in developmental emphasis to small and medium enterprises that produce for the domestic and Association of South East Asian Nations (ASEAN) markets. This in no way implies that the markets of developed economies would be excluded from consideration. Second, the government should favor the building of infrastructure. Many aspects of transportation that have been ignored in the last decade should be revisited. This includes improving urban transportation and rapid travel between cities. Third, the government should re-involve itself in education and training, as well as the provision of health care and low-cost housing. There are three aspects to government expenditure in these areas: improving human capabilities over the long term; enabling the economy to benefit from ensuing multiplier effects through the construction industry, by the building of clinics, schools, and community colleges; and releasing savings for consumption purposes (Nambiar, 2009).

Social Safety Nets Programs during Financial Crisis

Like other countries, to counter the recession the Malaysian government introduced the stimulus packages to revive the economy. The Government had originally allocated RM 206 billion for both the operating and the development expenditure for 2009. However, when the indicators were showing that Malaysia was also moving into negative growth territory, the Government introduced the first stimulus package worth RM 7 billion on 4 November 2008 to avoid a possible recession in 2009. The distribution of the money is as follows:

- Construction, upgrade and maintenance of social infrastructure and public amenities, especially school, hospitals and roads in rural areas (RM1.8 billion)
- Investment fund to boost private sector investment, especially Foreign Direct Investment (FDI), via grants, soft loans, and equity capital, with priority given to high-value-added strategic sectors and high-impact projects (RM 1.5 billion)
- Construction of low-cost and affordable housing (RM 1.2 billion)
- Upgrade, repair, and maintenance of police and armed forces' stations, camps, and living quarters (RM 0.5 billion)
- Maintenance and improvement to the public transportation sector (RM 0.5 billion)
- Speed up the High Speed Broadband Project (RM 0.4 billion)
- Skills training program, targeted for sectors/industries like tourism, health, construction, and business process outsourcing (RM 0.3 billion)
- Social program, i.e., early child hood education and *Rakan Muda* or youth program (RM 0.3 billion)
- Human Capital Development via allocation of youth training program by private training institution (RM 0.2 billion)
- Rejuvenate viable abandoned housing projects (RM 0.2 billion)
- Small and medium enterprises (RM 0.1 billion) (Mat Zin & Shahadan, 2009).

Under the first package, workers can opt to reduce their contributions to their Employees Provident Fund to 8% from 11% in 2008 and 2009 and those with existing housing loans can choose to extend their repayment periods of 25–30 years now. This package has been criticized as being rather late as business conditions and consumer sentiments in Malaysia had turned to new lows, while the amount (equivalent to about 1% of GDP) is too small. Thus, when the economy worsened, the Government decided on a second package, which was announced on March 2009 (Mat Zin & Shahadan, 2009).

The second package is worth RM 60 billion (almost 9% of GDP) or about US$ 16 billion and is being allocated over 2009–2010 according to four thrusts: reducing unemployment and increasing employment opportunities (RM 2 billion); easing the burden of the people, in particular, vulnerable groups (RM 10 billion); assisting the private sector in facing the crisis (RM 29 billion); and capacity for the future (RM 19 billion). Of the RM 60 billion, RM 15 billion is fiscal injection, RM 25 billion guarantee funds, RM 10 billion equity investments, RM 7 billion private finance initiative and off-budget projects, and RM 3 billion in tax incentives (Mat Zin & Shahadan, 2009).

Under the first thrust, to assist retrenched workers and unemployed graduates, the Government will create 163,000 training and job placement opportunities in the public and private sectors. Incentives will be given to employers to recruit and train local workers so as to reduce dependence on foreign workers. In order to encourage employers to engage retrenched workers, the Government proposes that employers who employ workers retrenched from July 2008 be given a double tax deduction on the amount of remuneration paid, not exceeding RM 10,000 per month, and this is limited up to 12 months remuneration per employee, applicable from 10 March 2009 to 31 December 2010 (Mat Zin & Shahadan, 2009).

Ever mindful of the objective of eradicating hardcore poverty by 2010, in the second thrust of easing the burden on people, especially vulnerable groups, the Government provides assistance to various sectors. Among the beneficiaries are oil palm and rubber smallholders whose incomes have fallen due to falling prices through replanting, integrated farming, and livestock breeding. Various subsidies, incentives, and assistance for fuel consumption, food security (including subsidies to avert price increases of necessities, such as sugar, bread, and wheat flour), scholarships and educational assistance, as well as social welfare programs, are provided (Mat Zin & Shahadan, 2009).

RM 674 million will be allocated as subsidies to avert price increases of necessities such as sugar, bread, and wheat flour; and RM 480 million to ensure that toll rates are not increased. An additional RM 200 million was allocated to construct low-cost housing, and house buyers will be given tax relief on interest paid on housing loans of up to RM 10,000 a year for 3 years. Public infrastructure and school facilities also received allocation for improvement while basic amenities in rural areas are to be increased. In order to raise people’s income, the Government will issue *syariah*-compliant savings bonds amounting to RM 5 billion this year that will mature over 3 years, with an annual return of 5% and will be paid quarterly to bond holders (Mat Zin & Shahadan, 2009).

The government mechanism that provides social support to the poor and needy is the Malaysia Social Safety Net Programs. It involves various ministries and government agencies, including the Ministries of Health, Education, Housing and

Local Government, Human Resources, Agriculture and Agro-based Industry, Entrepreneur and Cooperative Development, Rural and Regional Development, and Women, Family and Community Development. The social support given comes in various forms, which include financial aid; food, fertilizer and fuel subsidies; free education, textbooks and uniforms; affordable hospital care; and skills training. The allocation for the Malaysia Social Safety Net program was raised from RM 350 million to RM 850 million in 2008. An important aspect of this social support is the Federal Welfare Aid given via the Social Welfare Department under the Women, Family and Community Development Ministry (Abidin & Rasiah, 2009).

A revised Malaysia Social Safety Nets programs and a new Social Safety Nets Card were introduced in February 2009. Welfare aid was given to the hardcore poor who, according to the Economic Planning Unit, were those with a household monthly income of less than RM 430 in Peninsular Malaysia, RM 520 in Sarawak and RM 540 in Sabah. In 2009, these were revised to RM 720 in Peninsular Malaysia, RM 830 in Sarawak and RM 960 in Sabah. These amounts, however, form an unregulated standard as the poverty line income only serves as a guide or as the initial entry point for aid eligibility (Abidin & Rasiah, 2009).

Final approval will depend on investigations by welfare officers who will look into factors like the living condition of the families, the number of children and dependants, age of applicant or head of household, physical disability, and health conditions due to disease or illness. There are doubts as to the efficiency and effectiveness of this program as it is based on discretion instead of steadfast regulation. Several measures are focused specifically on human development. These include providing training and creating employment opportunities, extending financial support for education at Masters and Doctor of Philosophy (PhD) levels, and attracting skilled workers by granting permanent residence status. In addition, there will be subsidies for basic food items, improvement of healthcare facilities in the rural areas of Sabah and Sarawak, financial assistance to and improvement of daycare centre's, shelter homes and childcare centre's, and access to financial capital through government guarantee schemes, such as the Working Capital Guarantee Scheme and Industry Restructuring Loan Guarantee Scheme (Abidin & Rasiah, 2009).

An allocation of RM 700 million for training and creating employment opportunities is expected to provide 100,000 training opportunities and job placements through collaboration between the Government and private sector. In addition, Special Training and Re-Training Programs for retrenched workers and the Dual National Training Scheme to enhance the skills of those currently employed have been introduced through the following (Abidin & Rasiah, 2009):

i. On-the-job training for 1,000 unemployed graduates in the financial sector by the Securities Commission and Bank Negara Malaysia for a two-year period.
ii. 2,000 training opportunities and job placements in government-linked companies, particularly in the services sector.
iii. Attachment training programs by *Perbadanan Usahawan Nasional Berhad* for 2,000 graduates and those with skills certificates for a period of six months to one year. Qualified participants will receive financial assistance to venture into business.
iv. 500 graduates to be encouraged by *Tunas Mekar* to venture into business and to add value to existing small and medium enterprises (SMEs).

Conclusion

Though there are safety nets in Malaysia, the country still needs major improvement. Formal sectors employees are covered by EPF, a contributory pension program, and by an insurance program (SOCSO) that helps workers who are victims of industrial accidents. There is no program that offers minimum income protection against adverse business cycles or other shocks to income. The non-existence of comprehensive social safety nets (SSNs) for the formal and informal sector is a cause of concern as this may exacerbate economic and social instability in times of economic shocks (Abidin & Rasiah, 2009). There is no doubt that the financial turmoil has presented economies across all regions with difficult and unforeseen challenges and the major concern over Malaysia now is the pace and the ability to recover from the economic downturn. The effectiveness however, is depending on the measure of implementation. To ensure the effectiveness of the stimulus polices, the policy makers need to ensure a transparent way of implementation, continuous monitoring to avoid misuse of the disbursement, with timely and accurate adjustment. Malaysian financial sector is strong and fundamentally stable, hence, is less affected by the current crisis. However ongoing measures should be taken to strengthen the financial sector to facilitate its ability in assisting policy makers to promote economic activities through liquidity provision during the recession period.

One of the major steps taken by the Malaysian government in ensuring robust fundamentals, especially in dealing with economic crisis like those of 2008 is restructuring its economic model. The New Economic Model (NEM) as proposed is to overhaul the nation`s economy. NEM will generate benefits for all Malaysians, irrespective of race under its inclusive growth goal and approach. The pro-poor growth warrants that no groups be marginalized and essential needs of the people will be satisfied. Under the NEM, inclusiveness will enable all communities to contribute to and share in the wealth of the country. It points out that a key challenge of inclusive growth is the design of effective measure that strikes a balance between the special positions of the *Bumiputera* (son of land) and legitimate interested of difference groups.

Malaysia's Gross National Income is projected to increase close to RM 1.7 trillion (US$ 524 billion) in 2020 under the government's economic transformation programme from RM 600 billion (US$ 188 billion). As a result, it would raise Malaysia's per capita income from RM 22,000 (US$ 7,000) to at least RM 49,500 (US$ 15,000) in 2020. The ETP will result in a significant growth in the job market, a shift towards higher paid jobs and strengthening of the skills base. "The initiatives under the 12 NKEAs are projected to create an incremental 3.3 million jobs, of which 63% will be in the middle-and high-income segment compared to the current 43 per cent. Consistent with the strategy to make the private sector the primary driver of economic growth, 92% of the NKEA funding will be private investment, with public funding. The policies and programmes included the 1Malaysia Concept, the Government Transformation Programme (GTP), the National Key Result Areas (NKRA), the New Economic Model (NEM) and the 10th Malaysia Plan (2011-2015)."The target groups likely to benefit the most are the future leaders, those set to become professionals upon graduation from the universities and those who could not enter tertiary institutions but are equipped with skills.

The proposal for NEM generally call for the income of 40% of the population who earn less that RM 1,500 a month to be lifted through various policy changes that aim to transform the structure of the economy. The ultimate goal is to lift gross domestic product per capita from US$ 7,000 to US$ 15,000 within the next 10 years. To lift the income of the 40% of the population would be achieved through education. Rural schools should receive the best in terms of teachers and facilities. These are the people that really require help and if they are able to get the best education, it will only take one generation to get them out of the low income. However it is not the intention of the NEM to make Malaysia become a welfare state. The reason for the drastic drop in private investments, both domestic and foreign, is the poor investment climate created by distortions and inefficiency associated with the implementation of the country’s New Economic Policy, the bureaucratic red tape and high level of corruption at all levels faced by investor and the public, distrust over the impartially of the judicial and police institutions, decline in the standards of education, shortage of skilled labour, lack of meritocracy in the public sector, and the continuous and increasing brain drain from Malaysia. The NEM would strengthen affirmative action policies, but recipients would be based on capacity, needs and merit. Existing patronage system will have to be replaced by a system that will be based on merits. The present practice of providing subsidies will not be eradicated, however, this time the right target group must meet the strict criteria.

Before any overhauling can be undertaken, the NEM advisory council has cautioned that better social safety nets are needed. There will be many sectors in society that will find it difficult to adapt to changes brought by implementing new policies. Not only will individuals find difficulties in adapting, industries too will probably be dislocated. It is feared that preference of the NEM will be given to industries that can create high value in the economy. Older and smaller industries might not get the support they are used to. Hence, better safety nets should be developed for these older and smaller industries, to assist then transform and move up the value chain. As argued by Asher (2008), progress in reforming and strengthening social safety nets is no likely to be either smooth or rapid. The need for a strong political commitment and capacity, as well as extensive institutional and regulatory reforms required are not easy to achieve, Unfortunately, progress in these reforms will take time.

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