CHAPTER 2
BRIDGING THE DIVIDE: TACKLING INCOME INEQUALITY IN MALAYSIA

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2.1 INTRODUCTION

After gaining independence in 1957, Malaysia has made impressive progress in economic and social development. The economic development of Malaysia not only was maintained but apparently increased during the 1960s (Jomo, 2017). Malaysia now is known as one of the developing countries globally which has higher level of economic growth contributed by various economic sectors mainly services and manufacturing and to a lesser extent from commodity and agriculture. With expansion into the robust service and manufacturing sectors, Malaysia now has grown and emerged as a leading exporter of parts, components and electrical equipment (World Bank, 2023).

Malaysia has steadily grown and transformed its economy rapidly. On average, Malaysia's growth rate was 6.32% per annum in terms of real GDP from the period between 1971 and 2013 (Haseeb et al., 2014). Specifically, from the period between 2009 and 2019, the GDP per capita (constant 2015 USD) for Malaysia has rose from USD7,675.23 to USD11,114.54 in 2009 and 2019, respectively.

In addition, with a trade to GDP ratio averaging over 130% since 2010, Malaysia is considered as one of the most open economies in the world. In line with the aim of maximising the benefits and spread of income growth and creation of job opportunities, approximately 40% of employment in Malaysia has been linked to export activities. As a growth engine of the Malaysian economy, Malaysia also ranked third among Southeast Asian countries. In a broader sense, among Asian countries, Malaysia ranked eighth in 2013 in terms of foreign direct investment (FDI) inflow (Haseeb et al., 2014).

Despite many challenges in terms of Malaysian economic development, Malaysia has made significant progress towards sustainable and inclusive development. Indeed, sustainable and inclusive development has been a key principle in the nation's development planning. Malaysia aimed to grow its economy from 4.0% to 5.0% in 2023 (Bank Negara Malaysia, 2023). By 2024, Malaysia has projected to achieve the transition from an upper-middle-income economy to a high-income economy, with a growth rate of 5.4% since 2010 (World Bank, 2023). Overall, Malaysia's development performance strongly encourages sustainable, inclusive and effective economic growth ensuring improvement in the economy of its people and the economic development of the country despite various challenges faced.

2.2 INCOME INEQUALITY

Income inequality has risen in many countries in recent decades and brought considerable attention around the world (Keeley, 2015). Basically, income inequality is defined as an unequal distribution of income involving a wide range of participants in economies (International Monetary Fund, 2014; Subramaniam et al., 2021). Generally, the rise in income inequality contributes towards large income gap in society, especially between the rich and the poor (Mohamad et al., 2021; Subramaniam et al., 2022). In this context, poor people have limits in getting opportunities in their lives and maintaining social stability, eventually reducing their well-being. Countries with widening income inequality also cause detriment to their economic growth (Keeley, 2015; Masron & Subramaniam, 2019; Mohamad et al., 2021; Subramaniam et al., 2022; World Bank, 2013; World Bank, 2023).

It is important to note that income inequality is linked to various factors, including a range of domestic and global factors. Several past studies proposed in the empirical literature and theory that the causes of rising income inequality include the growing role of technology in economic circulation, the impact of trade globalisation, financial globalisation, education, corruption and the gap between the wages of high and low-income workers (Bastagli et al., 2012; Dabla-Norris et al., 2015; Keeley, 2015; Mohamad et al., 2021). All these factors can be a contributor to income inequality issue in many countries. In Asia, for example, around 80% of jobs in Indonesia are in the informal sector which contributes to inequality in several ways. This may come in the form of informal sector workers are paid less than formal jobs. In the context of income inequality, technology also have some impact on income inequality where technology can destroy old jobs and create new ones. Some middle- and low-skilled workers are destroyed while at the same time technology made high-skilled workers even more valuable, thus having an impact on peoples' livelihoods (Keeley, 2015; Mohamad et al., 2021).

Looking at the impact of rising income inequality on societies and countries, reducing income inequality is often viewed as a concern and among the main drivers for economic growth of a country (Mohamad et al., 2021; Ostry et al., 2014; Thorbecke & Charumilind, 2002; World Bank, 2023). Essentially, the theoretical perspective of income inequality traces back to Kuznets curve hypothesis (Batabyal & Chowdhury, 2015; Keeley, 2015; Kuznets, 1955; Mohamad et al., 2021; Subramaniam et al., 2022). According to Kuznets, at the initial phase of low economic growth, income inequality increases. However, after reaching a certain higher level of income, income inequality starts falling, moving towards an inverted U-shaped curve which represents more equality in income distribution.