UNITED NATIONS
MALAYSIA, SINGAPORE,
BRUNEI DARUSSALAM

# COUNTRY ANALYSIS (CA) FOR MALAYSIA

## UNITED NATIONS COUNTRY TEAM (UNCT) IN MALAYSIA

OFFICE OF THE UN RESIDENT COORDINATOR
MAY 2025

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# 1. INTRODUCTION

This Malaysia UN Country Analysis (CA) report is based on a larger body of research prepared from 2023 onwards by both external consultants and in-house authors. The CA provides a frank, comprehensive and independent review of national development challenges, and it seeks to inform the development, and guide implementation of the second United Nations (UN) Sustainable Development Cooperation Framework (CF2) - the main strategic planning instrument for UN programming and advocacy for the period 2026 to 2030.

This CA offers both an analysis and synthesis of Malaysia's development progress and is supported by an accompanying evidence base (the separate *CA inventory*). In keeping with best practice, the CA adheres to three key principles:

**Fully Integrated** - adopting a systems-based approach, blending analyses to offer joined-up insights and conclusions.

**Forward-looking** - eschewing snapshot-type methods, reviewing the current but also foresight of development trajectories and serving as a living document, allowing for regular updates.

**Evidence-based and up to date** - drawing on multiple sources, along with assessments and analyses which can be regularly updated.



photo: canva

In line with the revised global UN guidance,[1] the updated CA fulfils two substantive requirements: first, it is an assessment of how things are now and why – the internal and external contexts and the key challenges; and second, an analysis of the causal drivers, bottlenecks and constraints, and the likely future trajectories. The CA relies on several interlocking assessments – including Sustainable Development Goals (SDG) progress, Leave No One Behind (LNOB), and human rights-based analysis.

The CA text and CA Inventory are living sources, and as such will be subject to regular updates. The Inventory has been compiled in library database format and will be made available internally. The CA is supported and informed by two separate but related reporting processes. The first is the Futures and Foresight exercise, which is a key input to the CA analysis itself. The second is the Prevention of Sexual Exploitation and Abuse (PSEA) Rapid Assessment, which has now been fully incorporated into the CA.

As noted, the CA constitutes the evidence-gathering stage for the new Cooperation Framework (CF2). In doing so, it also takes account of the four strategic priorities set out in the current CF1: People - focused on social services reforms and social norms; Planet - environment/ climate change, de-carbonization, resilience and combating degradation; Prosperity - inclusive and sustainable economic growth, enabling equity and decent work, and Peace - social cohesion, governance, and human rights, community relations alongside institutional strengthening.

The CA compilation process has reviewed important national policy documents: the Shared Prosperity Vision (SPV) (2019), the Twelfth Malaysia Plan (12MP) (2021-2025), the Midterm Review of the 12MP (MTR 12MP), the Voluntary National Review (VNR) of SDG progress (2021), the Ekonomi Madani framework (2023), and the guidelines for the Thirteenth Malaysia Plan (13MP) (2024). As noted, the updated CA considers the changing external environment, specifically:

Aftermath of the COVID-19 pandemic and recovery and ongoing human development deficits.

Global instabilities, including the effects of conflict, and knock-on impacts on prices and trade.

Renewed global and national urgency around climate change and biodiversity loss.

[1] In 2020 the UN issued new guidance on the preparation of CAs, this aimed to make them more agile, current, and hence, useful to UN in-country planning and activities. Guidance also prescribed the structure and approaches discussed in this introduction.

As noted, the CA fully reflects a two-stage strategic foresight exercise undertaken by the UNCT in concert with the UN Pulse global facility. The first stage included three online horizon scanning sessions held in May 2024 and convened under the auspices of the three current UN Cooperation Framework 2021-2025 (CF1) Results Groups - People, Planet and Prosperity, and Peace. The second exercise included dedicated sessions at the CA/ CF workshop in June 2024 to crystallize future trajectories and the likelihood and materiality of future events.

CA findings and analyses were shared and discussed during a series of sessions with external stakeholders. These included: key government counterparts, civil society, the private sector, and the diplomatic corps. Feedback has been incorporated within this CA text.

In addition to this introduction, this CA has four parts: the first, offers a rapid situation analysis on Malaysia's recent developmental performance; the second provides commentary on the current national policy response; third, in charting a way forward the text sets out the key threats and opportunities under four headings; and fourth, the wider future context is set out.



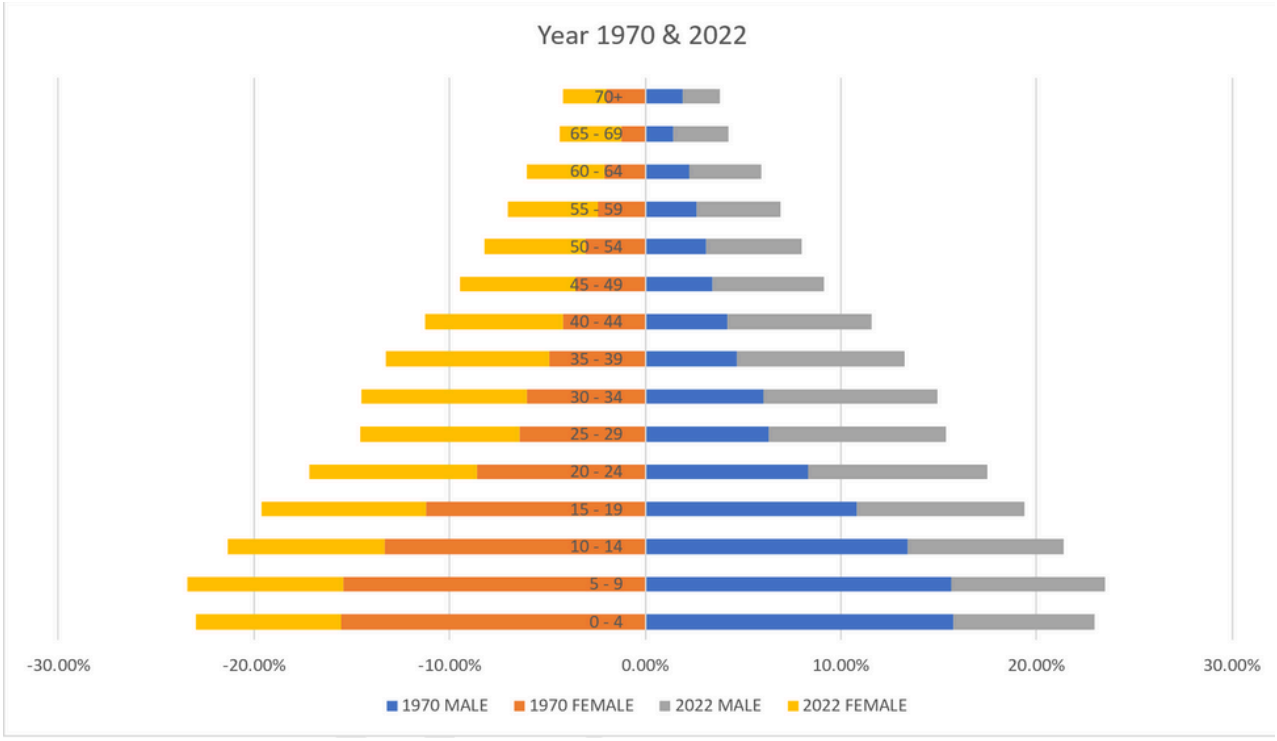

1 CA/ CF workshop in June 2024

# 2.SITUATIONAL ANALYSIS

**Malaysia, an Upper-Middle-Income Country with a population of 34.1 million, has progressed remarkably since its independence**[2]. It has successfully navigated its demographic transition and has transformed itself from an economy dependent on two primary commodities (rubber and tin) to a diversified, industrialised powerhouse. GDP per capita has increased manyfold from MYR816 (USD190)[3] in 1957 to MYR54,612 (USD 11,649) in 2023, an average growth rate of around 7 per cent per annum.[4]

## FIGURE 1: POPULATION PYRAMID, 1970 AND 2022

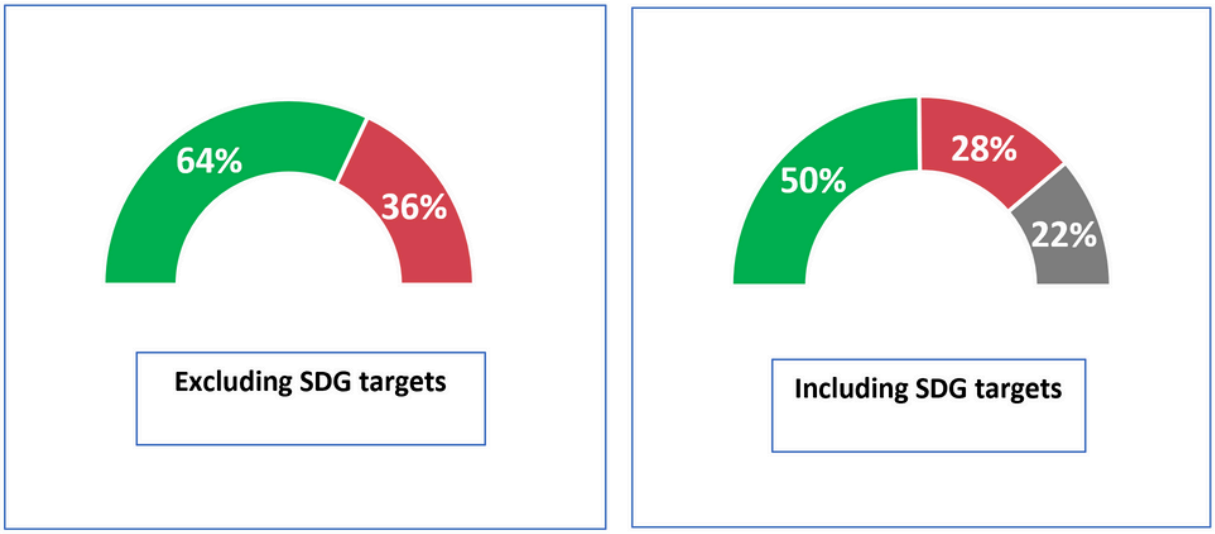
[5]




[2] DOSM, Demographic Statistics Quarter 2 2024, sex disaggregation not provided, but is based on a 52/ 48 male/ female ratio.
[3] Exchange rate of USD 1 = MYR4.28, based on 24th January 2023,
[4] DOSM. Malaysia Economic Statistics: National Accounts.
[5] DOSM, Population Censuses, 1970, 2021

**Malaysia has performed well on wider development criteria, and progress on the 17 Sustainable Development Goals (SDGs) is encouraging.** Hardcore poverty has virtually been eliminated, and absolute poverty fell from 49.3 per cent (1970) to 6.2 per cent (2022).[6,7] Child and infant mortality rates are almost on par with developed countries; life expectancy (at birth) climbed to 74.8 years (males 72.5, females 77.4) in 2023,[8] enrolment in primary school is close to 100 per cent, while for secondary school, it stands at approximately 90 per cent.[9] Public utility coverage is extensive - about 95 per cent of households have access to water, electricity and sanitation facilities.[10] A UN-In-house SDG Assessment found that Malaysia is on-track on around 64 per cent of SDG targets, excluding targets lacking sufficient data and 50 per cent including targets lacking data.

**FIGURE 2: AGGERATE SDG PERFORMANCE PER INITIAL UN IN-HOUSE ASSESSMENT (2023/ 24)**

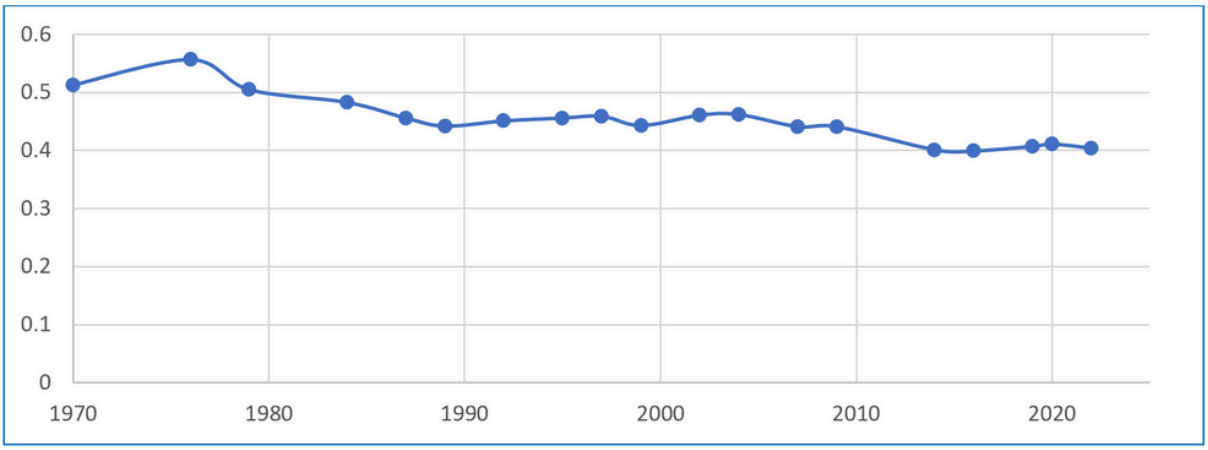



Key: On-track ■ off-track, missing ■ or insufficient data ■; Source: Authors' calculations

**However, as the analysis shows, several important SDG weaknesses have still to be addressed.** Food and nutrition outcomes are below where they should be, and Malaysia faces a double burden of stunting and obesity. Income inequality remains high (with a Gini coefficient of 0.404 in 2022). Gender equality metrics, including relevant SDG5 targets, are generally lagging. Women's low participation in the labour market (56.5 per cent, compared to 83.1 per cent for men in May 2024)[11] both denies women rightful opportunities and impedes Malaysia's economic growth. Research by the World Bank projected that removing employment barriers faced by women could boost income per capita by 26.2 per cent in the long run.[12] Malaysia's progress on climate change and environmental SDG targets is highly challenged. SDG underperformance also applies to governance and several of the targets under SDG16. Malaysia somewhat lags behind peer High-Income and Upper-Middle-Income Countries in terms of openness and transparency. Similarly global Malaysia's metrics for voice and accountability score below regional averages.

[6] The 2019 poverty rate was revised following revisions of the poverty basket and methodology.
[7] DOSM, 2020. Household Income and Basic Amenities Survey 2019.
[8] DOSM online, accessed 19th May 2024
[9] DOSM, 2021. Gross Enrolment, Children Statistics, Malaysia, 2021, noting that national data includes only citizens and regular migrants.
[10] DOSM, 2020. Household Income and Basic Amenities Survey 2019.
[11] DOSM 2024, Labour Force Statistics, see https://storage.dosm.gov.my/labour/lfs_month_2024-02_en.pdf
[12] World Bank, 2019. Breaking Barriers Towards Better Economic Opportunities for Women in Malaysia. Available, accessed on-line

## FIGURE 3: GINI COEFFICIENT FOR MALAYSIA, 1970-2022




Source: Authors' calculations based on DOSM data

**The global COVID-19 pandemic posed serious challenges to Malaysia's development and served to underline the level of vulnerability to external shocks.** The economy experienced a contraction of -5.6 per cent in 2020, and this had severe effects on businesses, especially SMEs, and both unemployment and underemployment increased, particularly among the elderly and youth (including graduates).[13] The poverty rate increased from 5.6 per cent in 2019 to an estimated 8.4 per cent in 2020. While very positively, it has since fallen back to 6.2 per cent in 2022, this remains above the pre-pandemic level. There were also major distributional effects, with more than 600,000 households from the middle 40 per cent (the M40) income group slipped below the threshold for the bottom 40 per cent (the B40) category.[14] To mitigate the negative impacts of the pandemic, the Government allocated MYR 92 billion (USD 21 billion) in direct fiscal injections, including cash transfers to households and wage subsidies.[15] various sources have indicated these measures had a material effect - supporting GDP, and ameliorating increases in unemployment and in poverty[16].

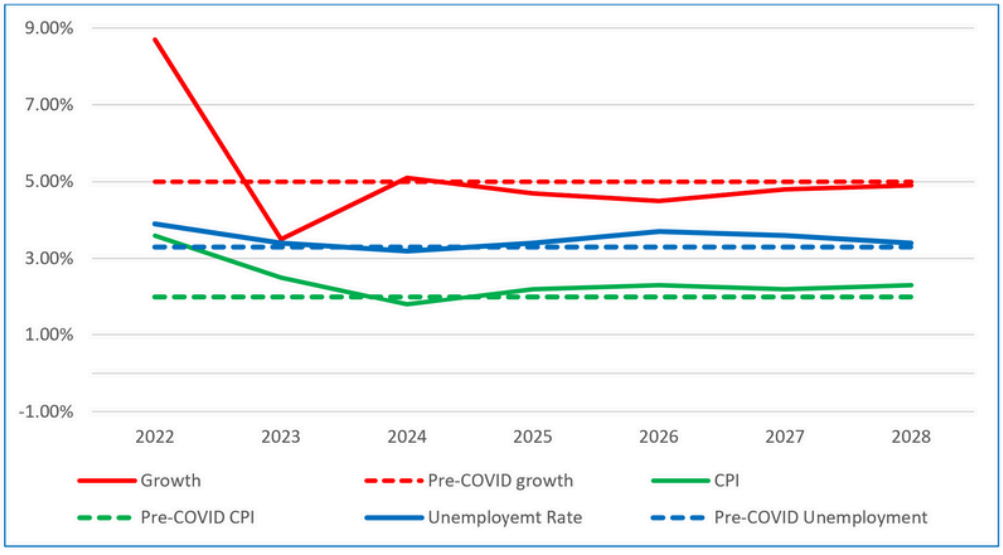
**Encouragingly Malaysia recorded a strong economic recovery from 2022 onwards, however, this has been imbalanced between areas and groups, and greater efforts are needed to ensure socioeconomic inclusion**. Social protection is suboptimal, and existing fiscal constraints have weakened redistribution and resilience. Social protection schemes, especially for informal workers, children, caregivers, women, persons with disabilities, older persons, migrants, refugees, and stateless persons, need to be further strengthened. Post-COVID, gaps have also emerged in key human development (health and education) indicators. Positively, these issues have been taken up by the Government as part of the Ekonomi Madani Framework, which has come to greatly inform public policy responses in recent years.

[13] DOSM, 2020. Report of Special Survey on Effects of COVID-19 on Economy and Individual.
[14] DOSM. 2021. Household Income Estimates and Incidence of Poverty: Malaysia 2020.
[15] Ministry of Finance (MOF). 2021. MOF to propose raising COVID-19 Fund ceiling to MYR110 billion.
[16] See UN Macro Model Report No. 2: Case Study and forthcoming UN report - Moving in the right direction for all workers: Enabling a human rights based social contract for informal sector workers and migrants in Malaysia.

**The impacts of the Ukraine and Middle East conflicts on supply chains and hence global inflation had complex but generally negative effects on Malaysians.** Crude oil prices more than doubled[17] between 2020 and 2022, coal prices increased by one and a half times, and natural gas prices jumped six-fold. This has benefited Malaysia's oil sector through higher profits, and given oil is a major source of revenue, the net fiscal change was positive. Yet these changes also heavily impacted households and strained the public budget via higher subsidy costs. Overall inflation increased by 5.9 per cent between 2020 and 2022, with transport and food prices growing at a higher pace; the price of eggs by 23 per cent and chicken by 19.2 per cent.[18] Hikes in global interest rates compounded these pressures; the US Federal Reserve and European Central Bank increased rates to 4.4 per cent[19] and 2.5 per cent,[20] respectively in 2022. Malaysia's central bank also increased its policy rate to 2.75 per cent. Impacts varied across the income distribution, with low-income groups faring worse. In mitigating the impact of the higher cost of living, the Government continued to subsidize, (fuel, foodstuffs, and electricity) but in 2024, began to reduce this support. Additionally, although total subsidies were MYR 80 billion (USD 18 billion) in 2022, half of this sum was for fuel, which benefited better-off households the most.

**The wider trajectory of the economy while also complex, has remained positive.** High global oil prices and post-pandemic spooling-up of activity were very positive for growth in 2022, GDP grew by a striking 8.7 per cent. This in turn, delivered greatly improved government revenues and lower debt ratios. Weak global and domestic demand in 2023 slowed the economy (growth of 3.7%), yet the pressures ultimately stabilized, and output rebounded in 2024 (growth rising to 5.1%). The economic impacts of the Ukraine crisis were, again, a double-edged sword, boosting national income while also hiking the prices of basic staples. This mixed pattern of price changes has likely also cemented inequalities between groups and regions. Positively, unemployment fell throughout the period, and in 2024 reached pre-Covid levels.

## FIGURE 4: ACTUAL & PROJECTED GDP GROWTH, UNEMPLOYMENT & INFLATION (EIU)




Source: Authors' calculations based on DOSM data

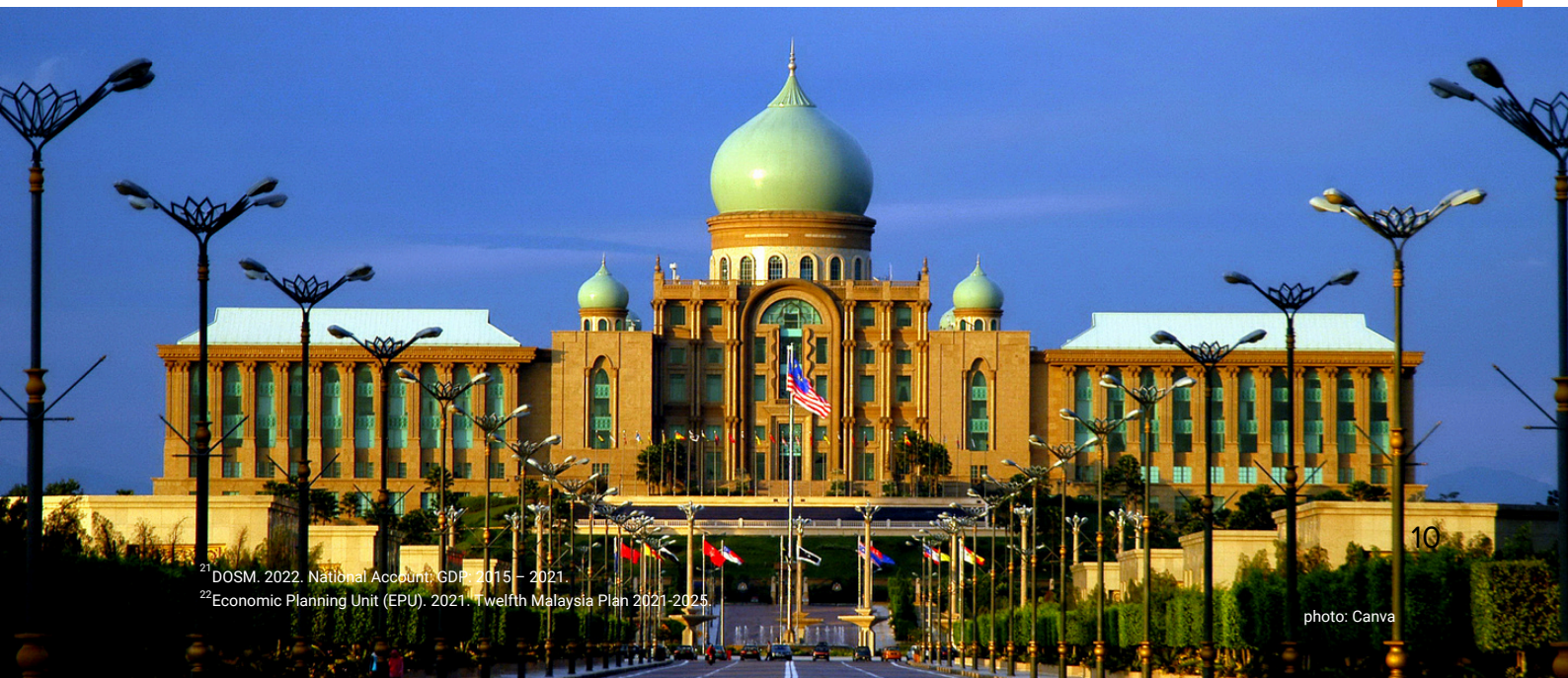


[17] World Bank Commodities Price Data (The Pink Sheet), 2023
[18] The FAO Food Price Index tracks the monthly change in international prices of food commodities
[19] Board of Governors of the Federal Reserve System
[20] European Central Bank, 2023. Key ECB Interest Rate

# 3.NATIONAL DEVELOPMENT STRATEGY AND POLICY DIRECTIONS

**Malaysia's growth strategy is anchored in the Twelfth Malaysia Plan (12MP), as updated by the Unity Government's Ekonomi Madani framework, as Malaysia seeks to achieve annual growth of around 5 per cent, potentially accelerating further under the Thirteenth Malaysia Plan (13MP).** The economy continues to be led by the services and manufacturing sectors, which currently contribute 81 per cent of value-added (2023). It is worth noting that the share of services in GDP increased from 45 to 57 per cent of GDP between 1987 and 2021, while the share of manufacturing to GDP declined from 31 to 24 per cent between 2000 and 2021.[21] In response, the Government is seeking to grow manufacturing and high-value services, and several high growth high value subsectors (energy transition, technologies, digital tech and services, and electrical and electronics) are expected to play a major role in the economy. Further focuses are transforming MSMEs into a new driver of growth and greatly enhancing women's participation in the labour market.[22] Draft planning guidelines for the new cycle of the Plan seek a more radical economic transformation – focused on further structural change.

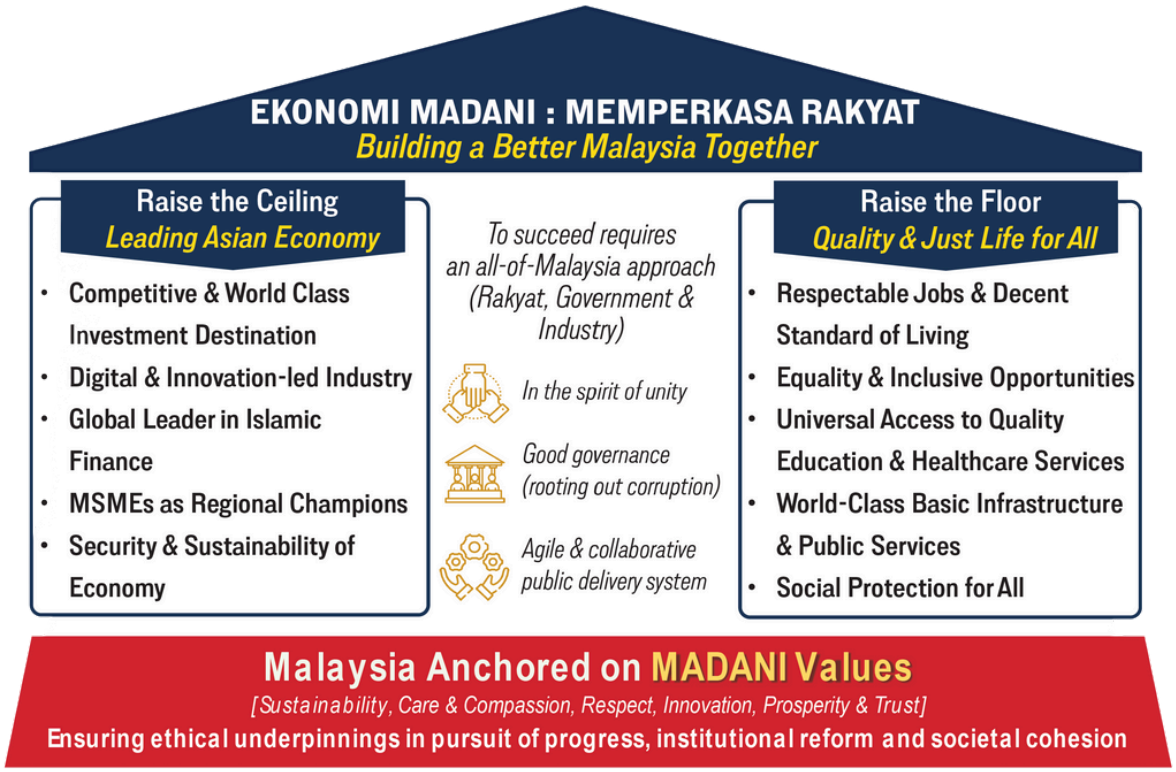
**The Government aims to strengthen wellbeing and inclusivity, thereby addressing development gaps – in the language of Malaysia Madani vision by both raising the floor and raising the ceiling.** On the economic side, this involves maximining but also making growth more equitable, favouring lower-income groups and lagging regions, and boosting the level of female labour force participation. Wider SDG improvements are sought by way of improving access to healthcare, providing more affordable housing, strengthening efforts to eradicate hardcore poverty, and delivering enhanced social protection programmes. Ekonomi Madani explicitly commits to securing ambitious changes in human development, with Malaysia's global HDI rank targeted to climb from 62nd to the top 25.



[21] DOSM. 2022. National Account: GDP, 2015 – 2021.
[22] Economic Planning Unit (EPU). 2021. Twelfth Malaysia Plan 2021-2025.

photo: Canva

## FIGURE 4: ACTUAL & PROJECTED GDP GROWTH, UNEMPLOYMENT & INFLATION (EIU)




Source: Ministry of Finance, accessed online

**Public finance remains the primary source of funds for the country's SDG priorities. However, restricted domestic fiscal space requires the Government to adopt innovative strategies to optimise the public finances.** This includes a need to increase the State's ability to engage new sources of and funding opportunities and build stronger tax revenues (such as reforms of indirect taxes, enabling greater progressiveness in direct taxes, adoption of asset/ wealth taxes and roll-out of a carbon tax). The Government can tap these to help finance under-served segments of the economy and development projects that involve high potential risks, long gestation periods or offer below market rates of return, yet also have long-term sustainable development benefits.

**Malaysia has attracted considerable international finance via foreign direct investment (FDI) in various sectors, and this has strengthened over 2023 and 2024.** The Government has been promoting FDI in the digital economy, healthcare, biotechnology, and renewable energy. In addition, Malaysia has a well-developed bond market and has been actively issuing sovereign bonds to attract international investors. It also has well-developed financial markets and an open policy towards external investment, which has helped to attract international portfolio flows. The country's stock market is the second largest in Southeast Asia, and foreign investors have unfettered access. However, Malaysia is not immune to global economic and political developments, and these can greatly affect the stability of portfolio investment. In recent years, global capital markets while remaining orderly are also prone to volatility.

**Digitalization is one of the four key policy enablers in the 12MP, and this focus is retained in the MTR and Ekonomi Madani, and latterly in the 13MP.** The size of the digital economy in Malaysia was USD 21 billion in 2021, with 81 per cent of Internet users consuming digital services.[23] The Government expects the digital economy to grow by 14 per cent annually to USD 35 billion by the end of 2025, and job creation is expected to reach 500,000 during the same period.[24] One of Malaysia's priorities in digitalisation is to promote the take up of 4th industrial revolution (4IR) technology. Malaysia launched its National 4IR Policy in 2021 and aims to dramatically increase efficiency in manufacturing and services.[25] However, digital safety and security have received insufficient attention, and this is at odds with the current global emphasis (noting the focus given within the Global Digital Compact). A further specific dimension is online exploitation, including sexual harassment and abuse of women, children, and young people.

**Malaysia has been a strong advocate for the environment at the global level and has recognized the strategic importance of climate change and other threats.** Notably, in October 2021, Malaysia co-sponsored a resolution at the United Nations (UN) Human Rights Council (HRC) highlighting the human rights implications of environmental damage and climate change, especially on vulnerable women and men.[26] Malaysia also co-sponsored a related HRC resolution that establishes the position of a Special Rapporteur to promote and protect human rights in the context of climate change. The 12MP aims to achieve at least 20 per cent of terrestrial and inland water areas being conserved through gazettement and other effective area-based conservation measures.

**Sustainability is a core theme of Malaysia's 12MP and the MTR 12MP, and the green economy is actively being promoted**. Malaysia has formulated a Green Technology Master Plan for the period 2017-2030, which encompasses awareness, enabling markets, human capital development, research and development and institutional frameworks. The Government pledged at COP26 and has reiterated at successive meetings of the COP, to reduce greenhouse gas emissions (GHG) intensity of GDP by 45 per cent by 2030.[27] Malaysia is currently revising its climate change ambitions under NDC 3.0 and aspires to achieve net zero by 2050. The country is dependent largely on the forestry sector to deliver this via reduced deforestation, managing protected forests sustainably, implementing forest certification programmes and other initiatives.

**Nevertheless, regulatory frameworks and incentive structures are not yet sufficiently focused on delivering sustainable consumption and production practices**. Specifically, regressive universal fuel subsidies do not promote sustainable use. While noting the Government's stated intentions to rationalize subsidies and its ending of diesel price support, it continues to subsidize petroleum (but noting also, its exploration of options to deliver on this pledge). Malaysia is still effectively promoting carbon emissions, and petrol is dramatically cheaper compared to neighbouring countries (except Brunei).



[23] Google, 2021. E-Economy SEA 2021: Malaysia Report.
[24] Malaysia 2021. Digital Economy Blueprint.
[25] EPU, 2021. National Fourth Industrial Revolution (4IR) Policy.
[26] See UN Human Rights Council, October 2021, Resolution 48/ 13. Accessed online.
[27] EPU, 2021. Twelfth Malaysia Plan, 2021-2025.

**Further gaps and unmet needs for progress on climate change have yet to be addressed.** These include ensuring the completeness of the GHG inventory, closing gaps in the historical record and data quality, monitoring, reporting and verification; centralizing data collection and compilation, and preserving institutional memory for conducting greenhouse gas inventories. The Madani Government has enabled and empowered Malaysian Green Technology and Climate Change Corporation (MGTC) to fulfil some of these needs, but further efforts will be needed.

**Malaysia has made progress in natural resources management and environmental conservation, but major challenges remain.** The average proportion of government green procurement (GGP) for selected green products and services was 20.7 per cent during the 2016-2019 period, exceeding the target of 20 per cent. Weather and flood forecasting and early warning systems in selected areas have become more integrated. The national recycling rate of household waste exceeded the 30 per cent target, reaching 30.7 per cent by 2020. Under the 12MP, the GGP is expected to achieve resilient development with a higher target of 25 per cent GGP by 2025. Additionally, the target for household waste recycling is set at 40 per cent alongside a 67 per cent reduction in Hydrochlorofluorocarbon (HCFC) consumption by 2025.

**Moreover, sustainability is not well integrated into consumption and production patterns.** There is a large appetite for plastic production and use, low circularity, high waste generation, poor waste management practices and a low level of awareness among citizens. Malaysia has still not ratified two international conventions, the Stockholm Convention on Persistent Organic Pollutants (POPs) and the Minamata Convention on Mercury.

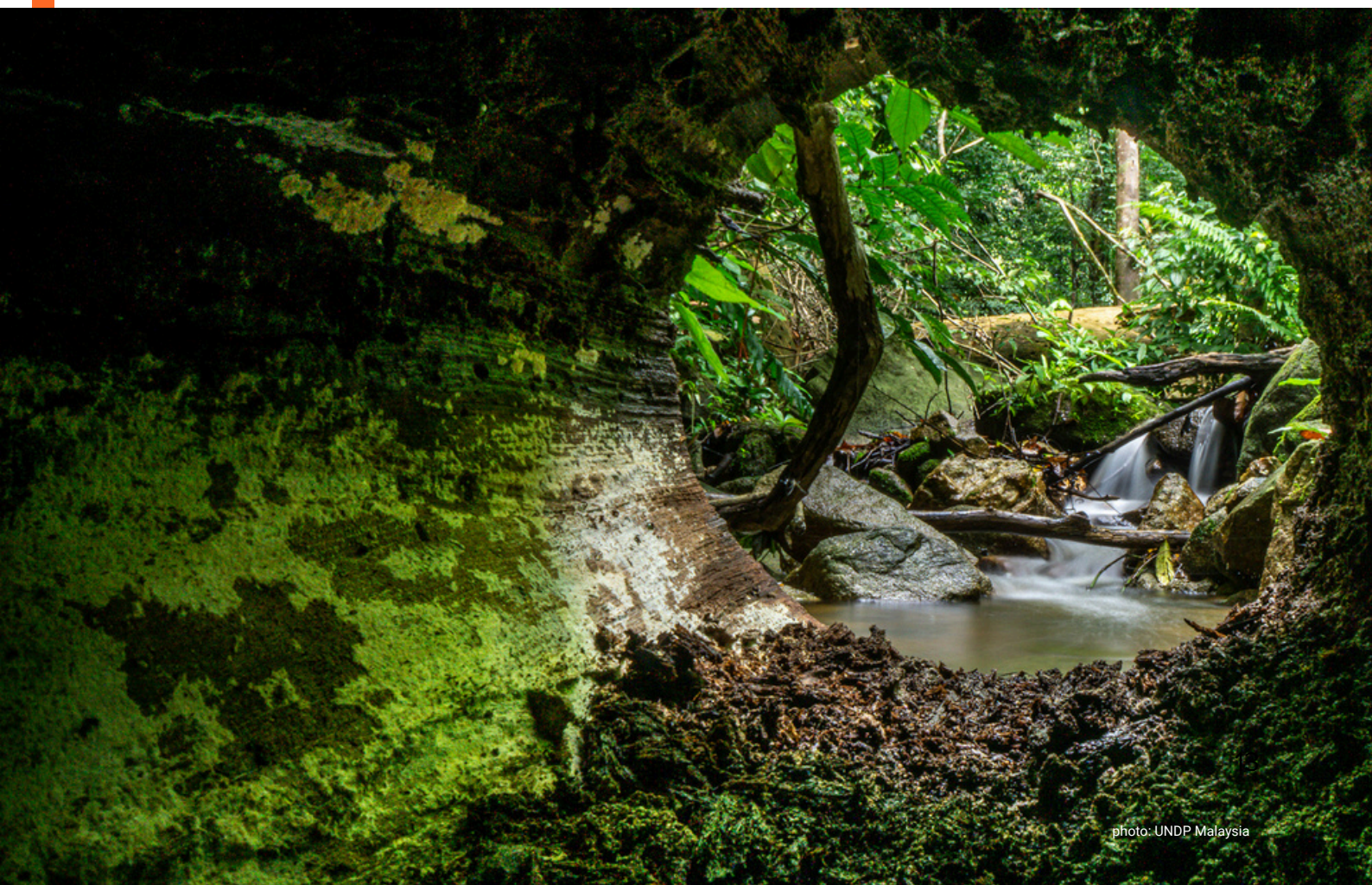


photo: UNDP Malaysia

**Sustaining marine life remains a priority for Malaysia yet remedial efforts remain inadequate for the challenges faced.** Current fish stocks (32 per cent of virgin stock) are far below the sustainable level (50 per cent), and there is a need for immediate action. Marine Protected Areas (MPAs) are key instruments to conserve biodiversity, and as of 2016, Malaysia had established 68 marine protected areas covering 15.10 million hectares, or 3.3 per cent of coastal and marine areas. However, this is well below the target of 10 per cent given in the National Biodiversity Policy 2022-2030 and considerably lower than the global target of 30 per cent. Moreover, while protected areas in relation to marine areas have increased, the number of coastal areas with excellent status has declined. The number of areas scored by the Malaysia Marine Water Quality Index as excellent, declined from 60 to 37 stations from 2017 to 2019. Similarly, stations ranked excellent in estuary and island areas declined from 15 to 3 and from 47 to 34 stations, respectively.[28] The percentage of forest areas as a proportion of total land area declined from 55.3 per cent in 2018 to 54.9 per cent in 2019. The percentage of important sites for terrestrial and freshwater biodiversity increased from 9.6 per cent to 10 per cent in the same period.[29]

**Malaysia's role in multilateralism, development cooperation and contributions to regional and international progress are evolving as it transitions towards High Income Country (HIC) status.** Malaysia has shown interest in deepening its development cooperation efforts and this parallels its increasing international engagement on climate change. Its commitment to multilateralism was further signalled by its election to the Human Rights Council in 2022.



photo: UNDP Malaysia



[28] EPU, 2021. VNR 2021.
[29] Malaysia's Fourth Biennial Update Report to the UNFCCC; https://unfccc.int/sites/default/files/resource/MY%20BUR4_2022.pdf

# 4.MOVING FORWARD: KEY OPPORTUNITIES AND THREATS

**Malaysia faces ongoing challenges in an era characterized by volatility and uncertainty. Equally, the Unity Government's Malaysia Madani agenda opens-up new opportunities for reform and development progress.** Drawing on both static needs-based, and foresight and futures analysis. Barriers and risks to sustainable and inclusive development can be grouped into four dimensions, as set out below.

### (a) Improving but still challenged governance and state-capacity constraints

**The new Government has delivered much needed political stability, but the policymaking context remains exposed to a series of risks.** Underpinned by tensions between progressive and conservative forces in society at large, and intense political contestation, questions have also emerged around Malaysia's long-run constitutional settlement. Positively the Government has worked to protect and reinforce unifying national values and institutions.

**In spite of positive developments, adherence to human rights frameworks merits further improvement.** While Malaysia's Constitution makes clear rights-based commitments, the country has only ratified three of the nine core global human rights treaties. Moreover, it has adopted large numbers of reservations, which limit the reach and impact of the adopted treaties. Yet Malaysia still engages positively on rights issues; it has issued standing invitations to Special Procedure mandate holders and in 2022 became a member of the UN Human Rights Council. With the support of OHCHR, Malaysia is the first country to establish a National Recommendations Tracking Database (NRTD) 2.0 and has set up a National Mechanism for Implementation, Reporting and Follow-up of Universal Periodic Review (UPR) recommendations.

**The 2023 UPR round, for which final hearings took place in early 2024, found that challenges remain in ensuring the protection of the human rights of specific groups, including rights to equality and non-discrimination, access to justice and socio-economic equity.** There is a need to ensure effective and meaningful inclusion and non-discrimination for all, but particularly for a series of vulnerable groups.[30]. The position of undocumented (including stateless) people is also problematic, absent of effective legal identity, members of this group are unable to access key public services and secure basic livelihoods.



[30] Including among others: migrant workers, refugees, asylum seekers, persons with disabilities, children, women, people living with HIV, indigenous people, and LGBT+ persons

**Human rights challenges are balanced by positive directions on law reform.** Malaysia's parliament passed two bills on death penalty sentencing, removing the mandatory death penalty with alternative sentences in relation to 11 crimes, including murder, treason, and terrorism, affording judges the discretion to consider mitigating circumstances and commute sentences.[31] The new laws apply retroactively, allowing those on death row to seek a review of their sentences.[32] There is also movement to address gender-based discrimination within the law, notably via proposals to amend the constitution to allow Malaysian mothers to confer their nationality to their children born overseas to non-national fathers.

**Specific concerns remain regarding police accountability and due process and operation of the 1959 Prevention of Crime Act (POCA) and the 2015 Prevention of Terrorism Act (POTA).** These focus on detention, and detention without trial. Parliament also voted to extend for another five years the provision allowing preventative detention in the Security Offences (Special Measures) Act (SOSMA). The Malaysian Human Rights Commission, SUHAKAM, has continued to raise concerns about ill-treatment by law enforcement. According to Civil Society Organisations (CSOs) reports, incidents during investigations were occurring, especially where detention was under security laws.[33]

**Positively, Parliament passed the Independent Police Conduct Commission Act (IPCC) in 2022, but this has also been the subject of controversy.** The IPCC is conceived as an independent body to provide oversight and accountability for the Royal Malaysian Police (RMP). However, the IPCC law has met with criticism by CSOs, legal experts and academics regarding independence and impartiality. In 2022, the Malaysian Bar Council and CSOs submitted separate memoranda calling for revisions.

**Institutional quality, accountability and transparency remain ongoing challenges.** The National Anti-Corruption Plan (NACP), launched in 2019, highlighted political pressures as bottlenecks to reform efforts. The most recent Plan, launched in May 2024, focuses on institutional and administrative weaknesses. This NCAP estimated that some MYR 277 billion was lost in the five years to 2023 due to corruption and maladministration, and in 2020, public funds amounting to MYR 620 million were lost due to financial mismanagement by federal ministries and departments.[34] Government accountability was also highlighted in the Auditor General's Annual Report for 2023. The current Prime Minister has stated that MYR10 billion (USD 2.3 billion) can be saved from government procurement if leakages[35] (due to corruption and mismanagement) are eradicated.

[31] [Abolition of Mandatory Death Penalty Bill 2023 and Revision of Sentence of Death and Imprisonment for Natural Life (Temporary Jurisdiction of the Federal Court) Bill 2023

[32] OHCHR press release: https://www.ohchr.org/en/press-releases/2023/04/malaysia-un-experts-hail-parliamentary-decision-end-mandatory-death-penalty

[33] [Suaram, 2022. Human Rights Report Malaysia 2022 Overview: Civil and Political Rights. Accessed online see link: https://www.suaram.net/_files/ugd/359d16_efcb5140cb814a56ae4e9502b66936a9.pdf

[34] BERNAMA, 2021. Govt must act on MYR620mil losses highlighted in audit report, says Agong. FMT.

[35] BERNAMA, 2023, Anwar: MYR10b can be saved from leakages in govt procurement system

**Malaysia also faces unfavourable perceptions in terms of voice, accountability and anti-corruption efforts compared to its aspirational peers.** Malaysia scored 53 out of 100 points and was listed as "partly free", according to the Freedom of the World 2023 Report.[36] Freedom of expression, opinion and assembly are regarded as potentially restricted under these benchmarks, as a result of various frameworks. The human rights group SUARAM have documented an increase in cases under the Sedition Act and CMA in 2023 and 2024.[37] Nevertheless there are also positive dynamics such as the Government's consideration of a freedom of information law.

**The civil service is facing capacity and developmental constraints, which have wider implications for efficiency and effectiveness.** Metrics such as the World Bank's Worldwide Governance Indicators, suggest that Malaysia's government effectiveness has fallen in recent years and lags other comparable countries.[38] Equally, Malaysia is struggling to adopt digital public service delivery. Its ranking on the UN e-Government Development Index has fallen within a decade from 32nd place in 2010 to 47th place in 2020.[39]

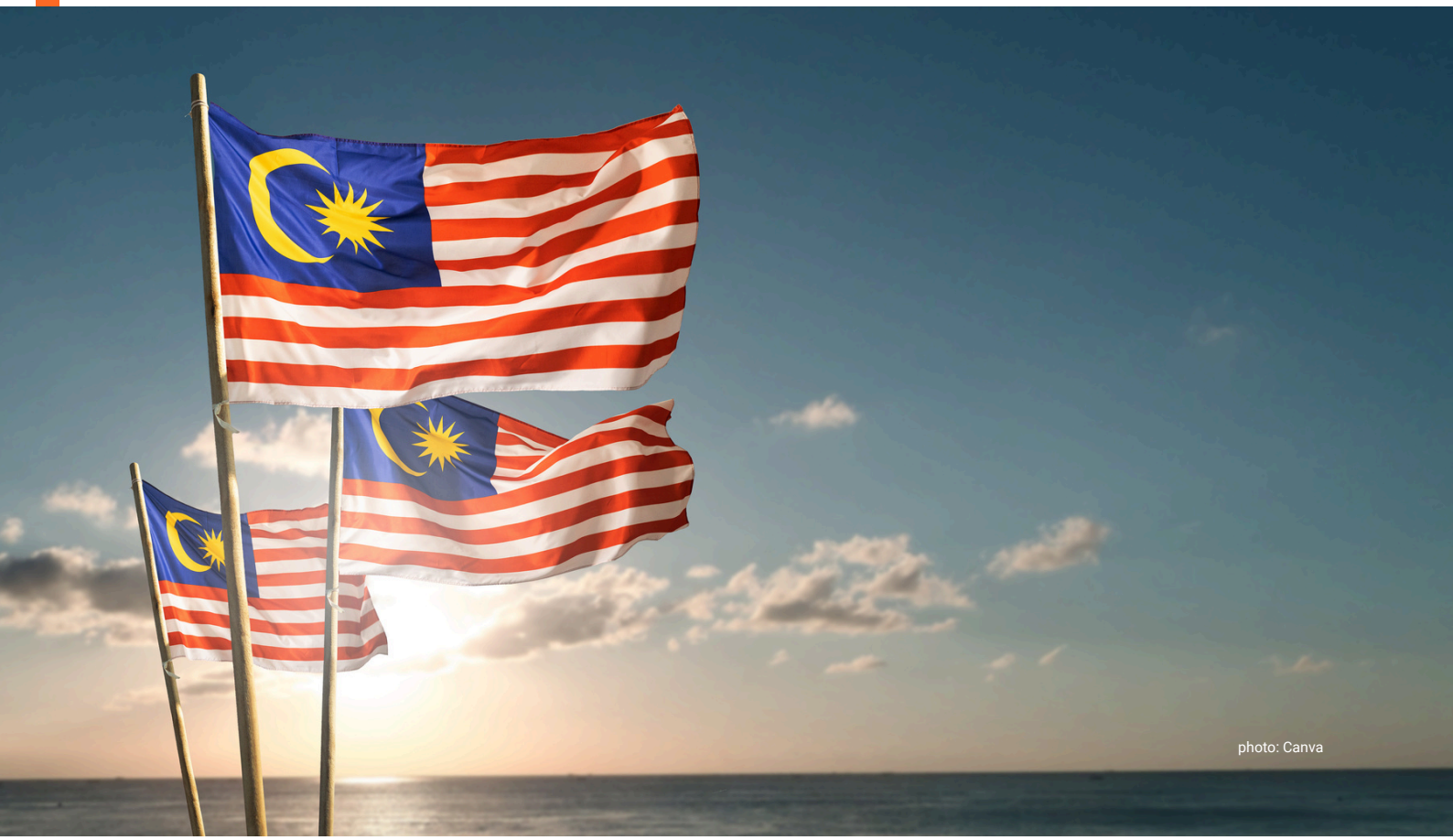


photo: Canva

[36] Freedom House, 2023, see: https://freedomhouse.org/explore-the-map?type=fiw&year=2024
[37] Suaram, 2023. Human Rights Report Malaysia 2023: Civil and Political Rights. Accessed online see link: See: https://www.suaram.net/_files/ugd/359d16_ab54282901d049e1bd30ce834f143354.pdf
[38] United Nations, n.d. World Governance Report.
[39] United Nations, n.d. Country Information Malaysia

### (b) Barriers to inclusive economic development

**Despite undoubted long-run development success, and improved economic growth in recent years, deep-seated structural constraints remain, and will likely weaken the quality of growth going forward.** Constraints include significant income and wealth inequalities between groups and between areas; productivity deficits linked to labour market challenges and to limited technology transfer; aging demographics, which affect labour supply and increase the dependency burden; and core-state capacity constraints. These issues raise questions over the core economic model and its ability to deliver an inclusive and sustainable HIC transition. Encouragingly the substance of the Ekonomi Madani agenda recognizes and seeks to address many of these challenges.

**Economic disparities and inequalities are a long-standing challenge for Malaysia, and although there has been progress, the level of inequality (with a Gini coefficient of above 0.40) remains comparatively high.** Addressing this chronic national challenge requires an understanding of the core underlying drivers, which comprise both size distribution factors, alongside the group/ spatial dimensions. Recent evidence suggests that the latter which refers both to locational and ethnically driven disparities, is sizable in Malaysia accounting for in excess of 20 per cent of total inequality. We note that the Malaysian Government recognizes these pressures and continues to prioritize the reduction of inequalities.

**Public resources are a key concern and while recent efforts to expand the tax base are very welcome, the fiscal position and indebtedness continues to constrain wider national development progress.** Malaysia's revenue to GDP (including both tax and non-tax revenue) is low and projected to be 15.6 per cent of GDP for 2024 (a considerable decline from 21 per cent in 2007). Malaysia's tax-to-GDP ratio is estimated to be 11.3 per cent of GDP in 2024, well below Asia and Pacific countries, which average above 20 per cent, and OECD countries, which average above 30 per cent.[40] Moreover, the share of tax revenue from personal income and taxes on consumption are both chronically comparatively lower[41]. Capital spending, termed Development expenditure (DE) in Malaysia, is financed almost entirely by debt. Federal government debt (excluding liabilities) stood at 64.3 per cent of GDP in 2023, an increase over 61.0 per cent of GDP in 2021.[42] The debt service to revenue ratio was estimated to be 16.4 per cent in 2023, higher than in 2022 (15.1 per cent).

**While the level and quality of Foreign Direct Investment (FDI) has improved in recent years, these vital resource flows are still insufficient and tend to focus on low value-added activities and low-skilled labour-intensive activities.** The Government's ongoing efforts to address this, specifically targeting 20 per cent growth in both domestic and foreign investment, are pertinent and timely. And in recent years, the diversity of FDI sources shows better performance outcomes. In 2022, the biggest investor was China, with about one-third of total FDI, followed by the United States (18 per cent), Netherlands (13 per cent), Singapore (8 per cent) and Japan (7 per cent).

[41] OECD, 2022. Revenue Statistics in Asia and the Pacific.
[42] OECD, n.d. Tax on personal income.

**The digital economy is a major new source of growth, which Malaysia is keen to embrace, but potentially hampered by the slow adoption of digital and Industry 4.0 technologies and a lack of supporting infrastructures.** These are vital in supporting step-changes in productivity, and for Malaysia's progression to HIC status. Yet too few in businesses in Malaysia have fully adopted these technologies. Indeed, recent data show that only 37.8 per cent of businesses had a web presence;[43] only 44 per cent of SMEs use cloud computing, versus 85 per cent in Singapore;[44] and fixed broadband penetration below 40 per cent.[45] The main challenges are the costs incurred (digital hardware, connectivity, and software fees), and while improving, still relatively low levels of digital literacy, and a lack of digital talent.[46] Promisingly, internet penetration is high – at around 96 per cent, with approximately 99 per cent of the population owning a mobile device.[47] Mobile service apps, ride-hailing and online payment systems are widespread, with Malaysia leading the region. Yet digital divides do exist - between certain groups and localities, and albeit to a lesser extent, between men and women.

**The labour market faces several challenges, of which women's participation (noting a female rate of around 57 per cent versus over 80 per cent for men in 2024) and a sizeable gender wage gap (33 per cent unadjusted, 14 per cent adjusted) are major issues.** These gender variations limit household incomes and drive gender inequalities, but they also constrain the wider economy. A major issue is the availability - access and affordability - of quality childcare as well as early childhood education. Women's disproportionate share of unpaid care and domestic work plays a significant role in inhibiting women's ability to participate equally and fully in the workplace; past data suggest that over 60 per cent of women were not in work due to care and family responsibilities. The economic knock-on impacts are given by reduced labour supply, losses of allocative efficiency and overall weaker productivity growth. Positively, the Government has recognized this issue within the Ekonomi Madani framework.



[43] KRI, 2020. Digitalisation of firms: Challenges in the digital economy.
[44] KRI, 2020. Digitalisation of firms: Challenges in the digital economy.
[45] MCMC, 2021. 1Q 2021 Communication and Multimedia Facts and Figures.
[46] The Malaysian Reserve. 21 Oct 2021. Post-pandemic growth: Address barriers to business digital transformation
[47] DOSM, 2022. ICT Use and Access by Individuals and Households Survey Report, Malaysia, 2021

photo: Canva

**Sustained high youth unemployment and long-term over-reliance on low-cost external migrant labour will ultimately impede productivity and inclusive growth.** Youth unemployment at 10.5 per cent (June 2024) remains higher than the overall national rate of 3.3 per cent. Graduate unemployment and underemployment are further concerns; the country currently produces more graduates than high-skilled jobs. Long-term overreliance on low-skilled, and insecure migrant labour likely suppresses wages at the bottom of the wage distribution, and in the longer run, likely impedes technological adoption and investment in human capital. This underlines the intersection of socioeconomic rights and economic performance.

**Ongoing improvements in business practices and corporate conduct merit further strengthening through better regulation, greater incentives and nudges and awareness building.** It is important to recognize the value of business-driven Economic, Social and Governance (ESG) initiatives and the Business and Human Rights agenda in delivering sustainable and inclusive growth. Moreover, that such efforts also have the potential to simultaneously drive commercial success. In order to deliver these gains, however, regulatory and business associations' efforts need to be better synergized, and greater emphasis given to engagement with micro-, small and medium-sized enterprises (MSMEs).

**(c) Barriers to socioeconomic inclusion**

**Malaysia navigated Covid-19 well, in terms of infections and fatalities, but the pandemic exposed a lack of resilience, with sizeable increases in deprivations and interrupted development trends, which disproportionately affected certain groups and areas. This suggests a general lack of resilience to external shocks.** The national poverty rate increased to 8.4 per cent in 2020 and remained at 6.2 per cent in 2022 (up from 5.6 in 2019) and lagging regions, notably Sabah and several of the northern Peninsular States saw much larger increases. The Government's ability to support the population via increased social spending was also constrained, with the net stimulus being below that deployed by comparator countries. While larger, and officially promoted withdrawals from the Employees Provident Fund (EPF) did stimulate domestic demand and mitigate pressures on households, this also poses a serious future challenge as workers may not have enough money to retire. Estimates suggest that almost 3.7 million contributors (30 per cent) will have a nearly zero balance, and another 1 million will have less than MYR 2,500 (USD 583). Due to these withdrawals, median savings for the bottom 40 per cent dropped by 60 per cent; for the middle 40 per cent, it dropped by 17 per cent, yet savings for the top 20 per cent increased by 8 per cent. It is recognized, again, that Government is currently addressing these issues.

**Household vulnerability is further exacerbated by high personal debt levels.** The household debt-to-GDP ratio, at 81.2 per cent in 2022, is the second highest in the region after Thailand (89.3 per cent). More worryingly 40 per cent of these borrowers are from lower-income groups who earn less than MYR 5,000 (USD 1,166) per month (in 2022).[48]

[48] Bank Negara Malaysia

**Although less marked than economic inequalities, social disparities, including in health and education remain significant challenges.** These inequalities often mirror economic differentials, and there are sizeable group differences. Life expectancy differs strikingly between ethnicities and states; Malaysian Chinese females are expected to live the longest at 81.2 years (comparable to levels in HICs), while Malaysian Indian males live only 70.2 years in 2021 (lower than many LMICs). Similarly, poor health and nutrition outcomes are more prevalent in lower-income groups. Gaps in educational attainment are also apparent and these worsened during the pandemic.

**Spatially driven social deprivations are also apparent, Eastern Malaysia and north-eastern states of Peninsular Malaysia lag behind core states and territories.** In Peninsular Malaysia, Kelantan records the highest level of poverty at 13.2 per cent versus a national average of 6.2 per cent (in 2022). While Sabah and Sarawak are major producers of oil and gas, their socioeconomic development lags others; poverty rates in Sabah and Sarawak are 19.7 and 10.8 per cent, respectively, and eight of the ten poorest districts are in Sabah.[49] There also are gaps in terms of access to basic services and political participation.

**Refugee, stateless and undocumented people (and their families and children) face compounded deprivation.** While facing distinct challenges, these groups' exclusion is rooted in their lack of effective legal status. They have limited access to basic services, including education and healthcare, and are largely excluded from others, including social assistance, welfare services and legal protections. Additionally, they face discrimination and xenophobia, and are at higher risk of exploitation. There are also major geographical dimensions, notably the large undocumented populations in urban centres and in the State of Sabah.

**Inequalities can have an intergenerational character, and the new Government's focus on education and skills training is commendable. Yet these efforts would benefit from adoption of a wider children and youth-focused approach.** This includes delivering high-quality early childhood care and development service, strengthening foundational (literacy, numeracy, and socio-emotional) skills, Technical and Vocational Education and Training (TVET) and work skills training, improvements to learning assessment systems and reducing the prevalence of child malnutrition. The quality of preschool education has been directly linked to the development of cognitive and social skills, and educational outcomes. Addressing malnutrition among children and youth, is vital, as stunting (which is high at 21 per cent) has measurable negative consequences in health, cognition and productivity in the long-term. Food insecurity is a significant contributing factor to inadequate nutrition, leading to other health issues, such as anaemia. About 4 million children (23.7 per cent) experienced food insecurity in terms of reliance on a limited number of cheap foods, and 20.8 per cent (3.5 million) households reported an inability to feed their children with a variety of foods due to financial constraints. This is compounded by a lack of awareness and knowledge, and the marketing of unhealthy food.

[49] 12th Malaysian Plan

**In overall terms the taxation system is likely regressive, and its reform offers major opportunities for combating income inequality.** While wage income is taxed progressively, income from capital gains, inheritance and dividends are largely not taxed. Unlike in developed countries, high earners in Malaysia generally pay relatively lower taxes than an average wage earner. The Government has made several positive reform efforts including rolling-out taxes on dividends and on capital gains. However, introduction of a Low-Value Goods Tax on small purchases from e-commerce outside Malaysia (from April 2023) and the retention of a zero tax on Electric Vehicles, which largely benefit higher income groups, have moved the tax system in the opposite direction. The mooted reintroduction of the Goods and Services Tax (GST) (a value-added tax) would need to be accompanied by progressive tax reforms in order to avoid further worsening the position.

**In spite of ongoing reform efforts, social assistance remains fragmented, only partially aligned with life cycle needs and lacks adequacy.** Current subsidies mostly benefit higher income groups, and certain programmes are only accessible to those who are in standard forms of employment.[50] This excludes homemakers/unpaid providers of care, most of the self-employed, and informal workers (and women are overrepresented in each of these groups). The undocumented population (which also includes refugees and stateless people) are wholly excluded from social protection, and even regular migrants' access is restricted. There is no universal social assistance provision (even for children, persons with disabilities, or the elderly). Current programmes have little impact on reducing inequality; in Europe and North America, these and fiscal policies reduce the Gini coefficient by 12 to 20 percentage points, versus barely two percentage points in Malaysia.[51]

**Outcome performance on food security is complex and the policy mix needs to respond to a double burden of stunting and obesity.** These opposing nutritional phenomena require a nuanced response to address different population cohorts. A strength of Malaysia's food security, its ranking on affordability, is also coming under stress, noting that affordability has increasingly been achieved by food safety nets alongside price controls and subsidies. Malaysia has begun to record larger food trade deficits as Government agricultural policy is geared more towards commodities such as palm oil and rubber rather than food production.[52] The big challenges confronting Malaysia's food security system include overconcentration of import sources for certain food items, increasing risks from regular and extreme climate events, and low overall productivity.

[50] KRI, 2021. Building Resilience.
[51] World Bank. 2021. Aiming High: Navigating the next stage of Malaysia's development.
[52] FFTC, 2015. Transformation on Agricultural Sectors in Malaysia through agricultural policy.

**While Malaysia's education system has delivered many successes, there is danger that it is becoming polarized along ethnic and religious lines. Moreover, questions are being raised about the system's ability to meet the higher standards and expectations associated with HIC transition.** The education system is accommodative of cultural pressures, with several parallel systems: national schools - taught in the national language and Tamil and Mandarin; national religious schools; private religious schools, private schools; and international schools. Factors impeding educational quality include teacher capacity and challenges with the implementation of policy reforms. Recent global Programme for International Student Assessment (PISA) test data has suggested that Malaysia lags comparator countries (including UMICs and ASEAN member states) on reading, mathematics, and science.

**In light of large numbers of undocumented children living in Malaysia, providing the basic human right of universal access to education to all, without prejudice, remains in question.** While there may be ad hoc provisions that enable undocumented children to receive basic primary education - via civil society-delivered Alternative Learning Centres (ALCs) - refugees and stateless persons in Malaysia are denied access to formal public education and forced to rely on often informal parallel community-based learning. Moreover, ALCs vary greatly in quality, offer very few places and can be expensive.

**(d) Climate change, biodiversity, and pollution challenges**

**Adoption of the National Energy Transition Roadmap (NETR) in 2023 marked a major milestone on delivering Malaysia's decarbonization aspirations. Nevertheless, concrete implementation efforts and actions are now needed.** The NETR provided Federal leadership on policy directions and practical efforts to decarbonize, in line with the Government's aspiration of carbon neutrality by 2050 (first stated at COP26). However, a lack of progress continues to be raised by various stakeholders. The issues include federal-state frictions (over natural resources), and still limited government capacity and low environmental awareness. While rationalization of fuel subsidies has begun, adoption of a carbon tax and/or a mandatory carbon trading scheme has yet to be introduced. Yet, positively, the Government has promoted voluntary carbon trading;[53] the Bursa Carbon Exchange (BCX) carried out its inaugural carbon credit auction in 2023, with nearly RM8 million in carbon credits sold[54].

**The Government has rightly prioritized biodiversity conservation, but these efforts are somewhat impeded by a lack of public awareness and conflicting economic interests**. Although there have been efforts to ensure palm oil production is sustainable, only about half (54.6 per cent) of these plantations are certified as sustainable under Malaysian Sustainable Palm Oil (MSPO) standards. Wavering commitment to ecosystem restoration is concerning as Malaysia has experienced severe loss and damage. According to WWF Malaysia, while almost half of Malaysia is legislated as Protected Areas and Forest Reserves, many of these areas are degraded, fragmented, or deforested. Most of the lost and threatened Malaysian forests are biodiverse lowland forests, peat forests that are rich carbon sinks, and coastal wetlands that are natural buffers against erosion.

[53] The Edge Markets, 2021. Domestic carbon trading to be implemented in phases from end of next year – minister.
[54] Bursa Malaysia. BCX successfully completes Malaysia's inaugural carbon credit auction. Link here

**While circular economy and green growth approaches are becoming well-established in policy circles, system-wide reforms will be needed to deliver effective resource optimization. This is especially pertinent to the production and use of plastics.** Malaysia is a major global plastic producer, with over 1,300 manufacturers,[55] contributing 4.7 per cent of GDP. In 2018, Malaysia's annual plastic resin consumption was 76 Kg per capita (with packaging being the largest component) and ranked 8th globally for the mismanagement of plastic waste.[56] In 2021, the Government launched the Malaysia Plastics Sustainability Roadmap (2021-2030), setting more integrated and holistic directions for plastic production, consumption, recycling, and waste management, including mandated extended producer responsibility from 2026. Efforts are needed to bring this to fruition and to engage more systematically on the consumption side to bring about a fully circular economy.



photo: canva

[55] Malaysia, Ministry of Energy, Technology, Science, Climate Change and Environment (MESTECC) (2018). Malaysia's Roadmap Towards Zero Single-Use Plastics 2018-2030: Towards a sustainable future. file:///C:/Users/SEO/Downloads/Malaysia-Roadmap-Towards-Zero-Single-Use-Plastics-2018-2030-m-min.pdf

[56] Ibid

# 5.INSIGHTS TO GUIDE FUTURE UNCT FOCUS AREAS

**This CA was supported by the application of a two-stage strategic foresight exercise , which engaged the entire UNCT and drew on external expert inputs from civil society and academia.** This analysis helped to define, first, the coming challenges and opportunities (the future context faced) and, second, by coupling this with thinking on UNCT comparative advantage, to suggest broad future directions for UN programming and advocacy.

**Key insights on the trends and dynamics emerging from this exercise can be clustered under four broad descriptive headings:**

- The social economic risks and potentials of rapid technological advancement globally, noting that Southeast Asia and Malaysia itself, are the key focuses of these rapid changes.
- Ever more problematic climate change dynamics, and worsening drivers of environmental damage, versus improving but still potentially inadequate (global) policy responses.
- National threats to community relations and social cohesion versus Malaysia's inherent strength in unity between peoples.
- Increasingly strained institutional quality in Malaysia, including some political volatility.

**Noting the availability of solutions, and hence opportunities alongside challenges, the analysis offers four channels which the UN and its agencies might support Malaysia via programming and the exercise of UN normative mandates:**

- **First, regarding the transition to a new economic model** (associated with HIC status), analysis centered on sustainable consumption and production (e.g., greening businesses, energy transition, new incentives, and nudges) and a more inclusive economic (e.g., full employment and participation – especially women and youth, skills development, and innovation).

- **Second, on rapid adoption of new technologies and know-how as enabling progress** across the sustainable development agenda – economic, social, and environmental.

- **Third, by facilitating a renewed social contract** that dissipates collective tensions, guarantees human rights, and is rooted in Malaysia's tradition of uniting its diverse national communities.

- Additionally, given that global dynamics (notably, geopolitics, trade and investment flows, and climate change) and regional pressures (cross border issues, such as pollution and migration) are a major source of uncertainties (in all domains), **a fourth channel of support was identified to enable responsive and adaptive risk governance.** This includes regional partnerships, advanced surveillance and the adoption of cutting-edge data and analytics.



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