

# PERSPECTIVE

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## **Bracing for Low Fertility in Malaysia**

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### **EXECUTIVE SUMMARY**

- Malaysia's total fertility rate (TFR) has been at below-replacement level since 2012. In 2018, Malay TFR, at 2.4, was twice as high as that of the Chinese and Indians. The overall fertility will not dip to an ultra-low level in the near future as the fertility of the Malays (the majority group) has only been falling rather gradually over the last decade.
- The continuing decline in fertility has resulted in labour shortage and rapid population ageing, accompanied by the influx of migrant workers. The rapid rise in old dependency poses a great challenge to the social security system.
- Wide ethnic differentials in fertility have resulted in the shrinking proportion of the minority groups, and the erosion of their political influence.
- The government is monitoring the pace of fertility decline, and measures are being taken to enable women to combine work with childbearing.

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## INTRODUCTION

Socio-economic progress in Malaysia has resulted in continuing fertility decline to below-replacement level, with some segments of the population already having the lowest fertility rate in the world. Since the mid-1980s, labour shortages had prompted a shift in the programme thrust from family planning to family development to slow down the rate of fertility decline. Despite this shift, the Malaysian government has continued to provide direct support to the delivery of family planning services, aimed at improving maternal and child health. Couples are free to determine the number, timing, and spacing of children.

A country's competitiveness depends on its pool of human resources. Malaysia has always accorded high priority to education and skills training to provide a sufficient pool of well-educated and highly skilled labour. Human capital is closely linked to demography, with causation running both ways.

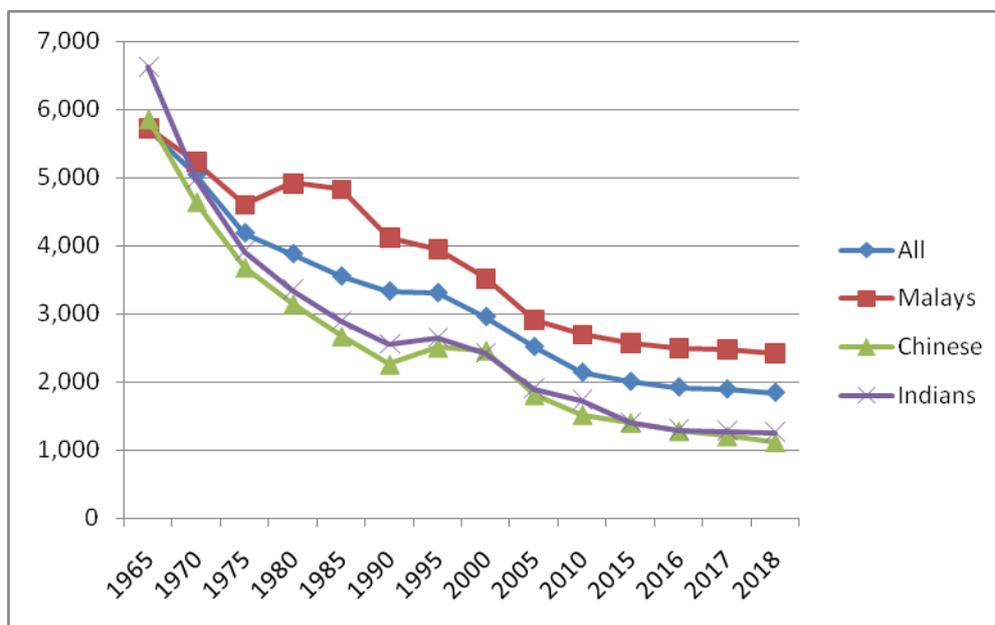
Malaysia's fertility decline provided a demographic dividend, as the working-age population was growing faster than the non-working age population. The demographic dividend facilitated socio-economic development, which in turn led to a further decline in fertility. Malaysia's current total fertility rate (TFR) at 2.0 for the period 2015-2020 is quite close to a number of Southeast Asian countries, but higher than that of Singapore (1.2) and Thailand (1.5). For countries that have reached a low fertility level, the concern is whether it will continue to go down further, resulting in severe labour shortage, rapid aging of the population, and the breakdown of the family system.

## RECENT FERTILITY TRENDS AND DIFFERENTIALS

Malaysia's economy and society have undergone fundamental changes which have impacted on the demographic transition. Malaysia's TFR began to decline from 6.3 children per woman in 1958 to 5.6 in 1965, even before the launching of the family planning programme in 1966. The demographic target of the programme was to reduce the rate of population growth from 3% per annum to 2% in 1985. In the first decade of the programme, the TFR fell by 26% to reach 4.2, followed by two decades of gradual decline to 3.9 in 1986, and 3.2 in 1996. The pace of fertility decline picked up at the turn of the century, dropping to 1.8 in 2018.<sup>1</sup> Urbanization, rapid economic growth, declining infant mortality rate, rising education and female workforce participation, postponement of marriage and childbirth, and increased contraceptive use have all contributed to declining fertility in Malaysia.

The pace of fertility decline differed widely across the main ethnic groups. The Malays and other indigenous groups (collectively known as the Bumiputera) had undergone a more gradual fertility transition, and the community has had the highest fertility since 1970. In 2018, Malay TFR, at 2.4, was about twice as high as that of the Chinese and Indian communities in the country. Chinese and Indian Malaysians dropped to replacement-level fertility soon after entering the new millennium and are now having an ultra-low level at around 1.1 and 1.3, respectively (**Figure 1**).

**Figure 1: Total fertility rate by ethnicity, Malaysia, 1963-2018**



Source: DOSM (various years), Vital Statistics, Malaysia

The fertility level is highest in the predominantly Malay states of Terengganu (3.1) and Kelantan (3.0), and lowest in the ethnically-diverse state of Penang (1.3), Kuala Lumpur (1.5) and Selangor (1.7). Sabah and Sarawak, with a high proportion of the non-Muslim indigenous population, also have a very low TFR of 1.4 and 1.6, respectively.<sup>2</sup> The ethnic fertility differential can be partly attributed to the fact that the Malays are less urbanized than the Chinese and Indians, and fertility is inversely correlated to urbanization.

Malaysia has a substantial diaspora of about 1.5 million people, comprising mostly young skilled workers of Chinese descent.<sup>3</sup> These migrants are concentrated in Singapore and a few developed countries. The continuous emigration of young Chinese has exacerbated the low fertility of the community.

One long-standing consequence of the mismatch between national economic growth rates and declining fertility has been labour shortages. The rate of growth of Malaysia's labour force, at 3.1% per annum during the period 1980-2000 and 2.0% subsequently, was way below the rate of growth of the economy. The shortfall in the labour force resulted in the influx of foreign workers and their dependents, increasing from 63,700 in 1980 to 0.7 million in 1990, 1.4 million in 2000, 2.3 million in 2010, and 3.15 million today.

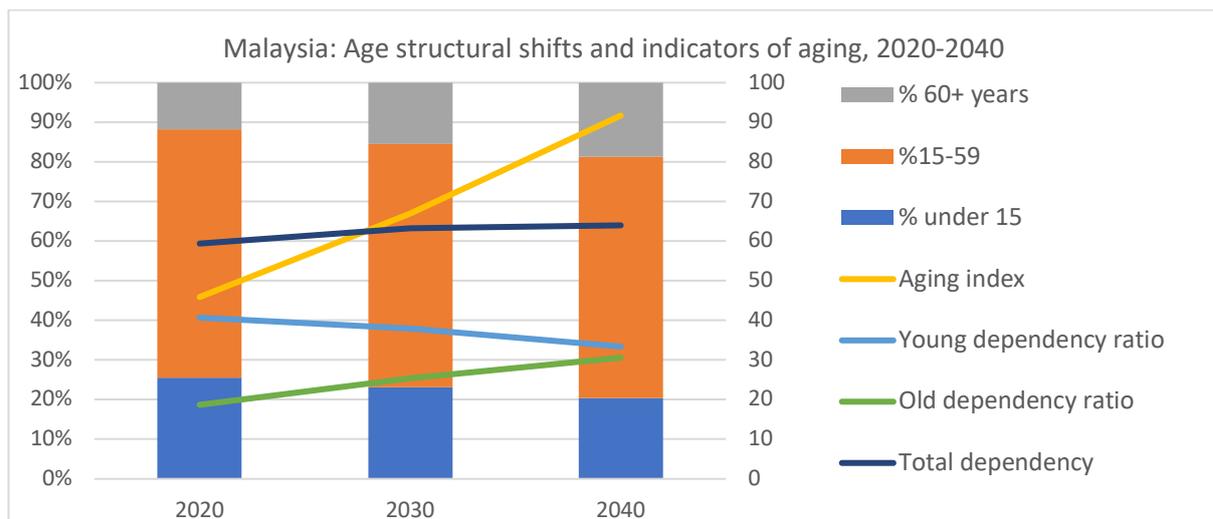
Non-citizens workers now make up close to 10% of the total population. The 2018 Labour Force Survey reported a total of 2.23 million foreign workers in the country, making up 15% of the labour force. Foreign workers comprised 59%, 29%, 25%, and 10% of the workers in agriculture, construction, manufacturing, and services, respectively. The actual number of migrants could be much higher because undocumented or illegal migrants were not enumerated in population censuses and surveys. Efforts to reduce the number of foreign workers have not been successful due to the demand for labour and employers' preferences for these workers.

**IMPLICATIONS OF MALAYSIA’S PROJECTED DEMOGRAPHY**

Sustained fertility decline and rising life expectancy have led to significant age structural shifts. The median age of the population increased from 17.6 years in 1970 to 29.2 years in 2020, and it is projected to reach 36.3 years in 2040.<sup>4</sup>

Between 2020 and 2040, the proportion of the population aged below 15 will decrease from 25.6% to 20.4%, and the proportion aged 15-59 will also decrease slightly from 62.7% to 61%, with a corresponding rise in the proportion of older adults from 11.7% to 18.7% (**Figure 2**). The aging index (proportion of those aged 60 and older over those aged below 15) is projected to rise from 45.9% in 2020 to 91.7% in 2040. Over the same period, the young dependency ratio will decrease from 40.7% to 33.4%, while the old dependency will increase from 18.7% to 30.6%, such that the total dependency ratio will rise from 59.4% to 64%. This indicates that the number of people in non-working age tiers will be increasing more rapidly than the number of working age population, marking the end of the first demographic dividend.

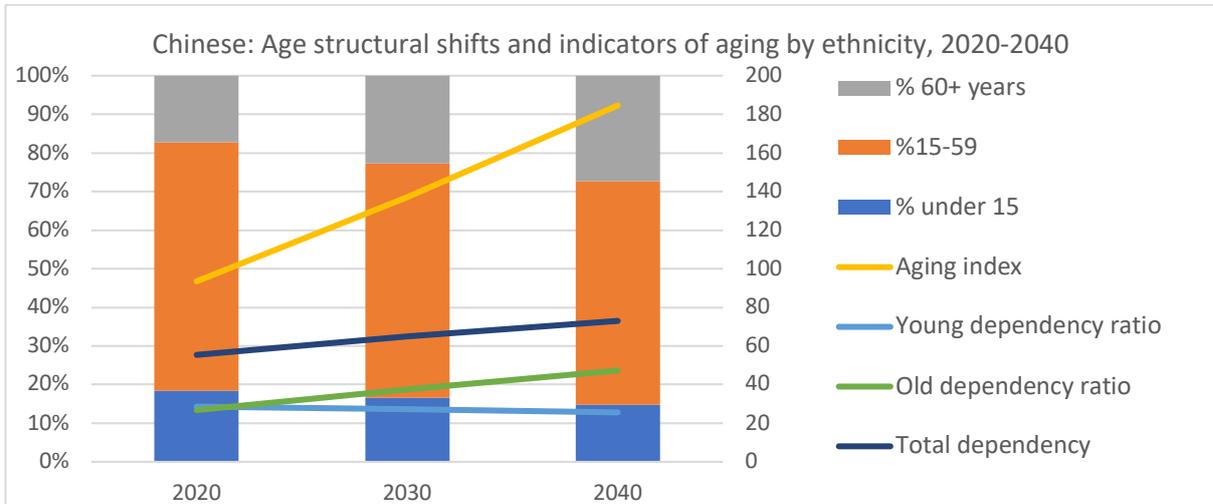
**Figure 2. Malaysia: Age structural shifts and indicators of aging, 2020-2040**



Source: See Appendix 1

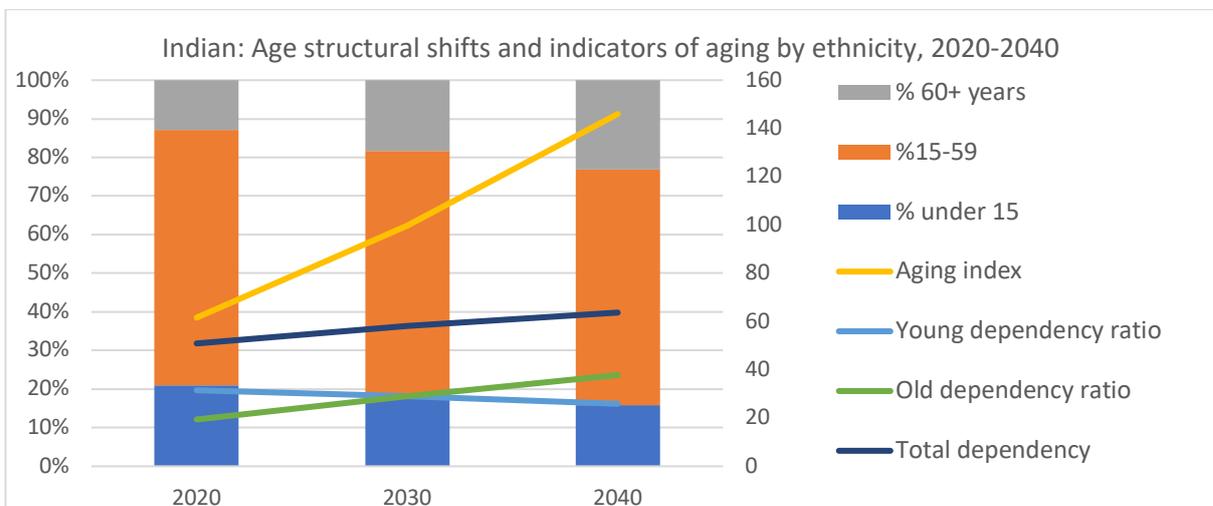
The Chinese community is the most “aged” in Malaysia, and the proportion aged 60 and over will rise from 17.2% in 2020 to 27.4% in 2040 (**Figure 3**). The aging index among the Chinese will rise from 93.5% in 2020 to 137% in 2030 and 184.6% in 2040. The old dependency ratio will increase most rapidly among the Chinese, from 26.8% in 2020 to 47.3% in 2040, resulting in a high overall dependency ratio of 73%, as compared to 63.7% for the Indians (**Figure 4**) and 61.6% for the Bumiputera (**Figure 5**). In 2040, the old dependency for the Chinese will be almost twice as high as that of the Bumiputera.

**Figure 3. Chinese: Age structural shifts and indicators of aging by ethnicity, 2020-2040**



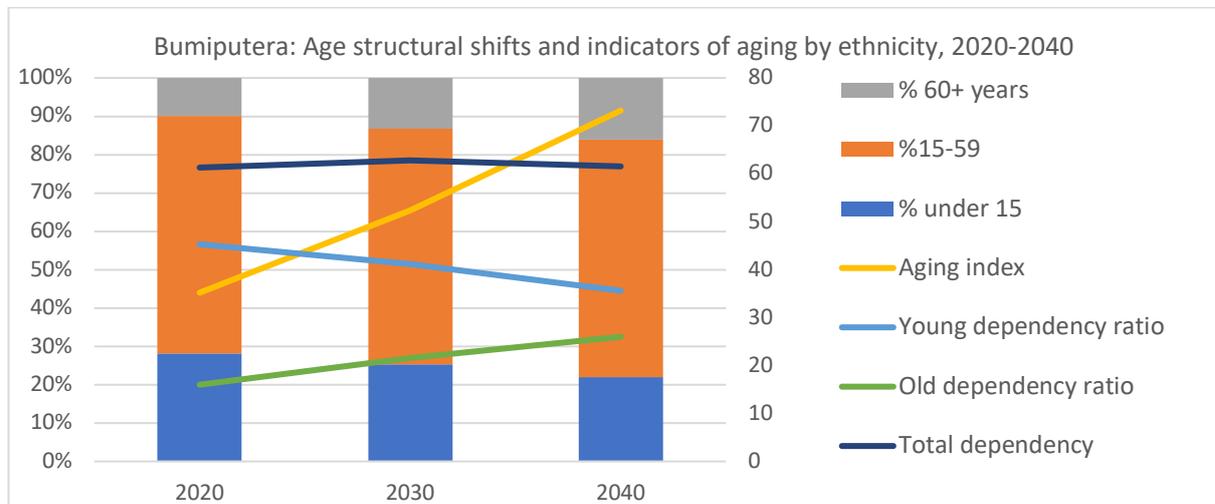
Source: See Appendix 1

**Figure 4. Indians: Age structural shifts and indicators of aging by ethnicity, 2020-2040**



Source: Appendix 1

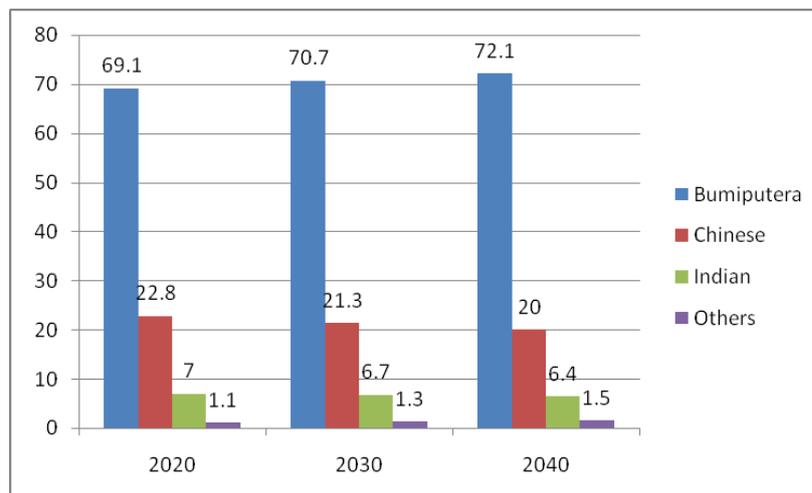
**Figure 5. Bumiputera: Age structural shifts and indicators of aging by ethnicity, 2020-2040**



Source: See Appendix 1

Owing to the differentials in fertility and emigration, the ethnic composition of the population will continue to change. The Bumiputera proportion will increase from 69.1% in 2020 to 72.1% in 2040, with a corresponding decrease in the Chinese and Indian proportion from 22.8% and 7% to 20% and 6.4%, respectively (Figure 6). The changes in the ethnic composition will have an effect on the future course of fertility decline, as the majority Bumiputera community has been undergoing a more gradual fertility transition.

**Figure 6: The projected ethnic composition of the Malaysian population, 2020-2040**



Source: DOSM, 2016, Population projection, Malaysia, 2010-2040

The shift in the ethnic composition will also have important implications for the politics of the country. The major political parties are ethnicity-based, and the political parties tend to gain their votes by appealing to their communities. The solid support of the Chinese and Indian voters enabled the Pakatan Harapan (PH) coalition to defeat the Barisan Nasional (comprising UMNO, MCA, MIC and Gerakan), which had ruled the country since Independence, in the 14<sup>th</sup> General Election on May 9, 2018. However, the PH government

lasted only 22 months, and fell on 29 February 2020, following the defection of Members of Parliament from two of its component parties to form the Perikatan Nasional (PN) with the Barisan Nasional, Parti Agama SeMalaysia and the Gabungan Parti Sarawak coalition. The fall of the PH government was followed by a change in state government in three states, namely Johore, Melaka and Perak, from PH to PN. In the new cabinet announced on 12 March 2020, there is only a solitary minister each from the Chinese and Indian community. With dwindling voter bases, the roles of the Chinese and Indians in politics and governance will continue to diminish.

With an aging population, the crude death rate is expected to rise further, and this will lead to the continuing decline in the crude natural rate of increase from the present level of 1.0%, barring a significant reversal in the fertility trend. The fertility level of the Chinese and Indian communities has already reached a very low level, and its scope for further decline is limited. The pace of fertility decline of the Malay and other indigenous communities has slowed down over the last decade. Hence, it is likely that the overall fertility will drop to, and remain, close to the replacement level shortly. There may even be a slight upturn temporarily, due to the tempo effect. With rising age at marriage and childbearing, the TFR, which is a period rate, is probably underestimated, as some of these women may catch up with childbearing later.

Although fertility has fallen to replacement level, the population will continue to increase for a couple of decades due to the growth momentum. According to the latest population projection by the United Nations, the Malaysian population will increase slowly to peak at 42 million around 2060, and then begin to decline. The contraction of the working-age population (15-59) will occur sooner, by 2045.

## **POLICY RESPONSES**

Malaysia aspires to be a developed nation by 2030 (revised from 2020 set previously). The labour shortage is likely to weigh down economic growth. The Malaysian government's Strategic Action Plan for Sustainable Development Towards 2030 adopted in 2017 highlighted the downside risk of continuing fertility decline, which will result in difficult-to-overcome demographic challenges. The Plan calls for the creation of an environment that is conducive to family formation. The strategies to maintain the TFR at between 1.9 and 2.1 until 2030 include diversifying childcare options suited for different communities, instil greater care for the needs of mothers, assist couples struggling with sub-fertility, lower the cost of child-raising, and provide pro-fertility incentives. The government provides a 10% tax rebate to companies for the cost of setting up childcare facilities in their workplace. Efforts are being made to promote work-life balance, and flexible working hours are being piloted in some government departments.

The 2020 federal budget also provides RM500 monthly incentive for two years for women aged 30 to 50 who return to work; an RM300 hiring incentive each month for two years for employers; extends income tax exemptions for women returning to work until 2023, and increases maternity leave from 60 days to 90 days.

The rise in non-communicable diseases (NCDs) brought about by population aging has strained the healthcare facilities. Measures are being taken to train more geriatricians and

improve geriatric and long-term care facilities. Efforts are being made to promote healthy living through health education to curb NCDs. In terms of social protection, the Employee Provident Fund (EPF) and Pension (for civil servants), which cover a little less than two-thirds of the older adults, are inadequate to meet the financial needs for the daily living of the older people. Most retirees use up their EPF savings within five years (Holzmann, 2014).<sup>5</sup> Free and subsidized health care services are provided in government hospitals and clinics to older persons to alleviate their financial burdens.

The 2010 population census showed that 17% and 24% of youths aged 15-19 and 20-24 were not schooling and not working. In 2015, the double-digit youth unemployment rate was one of the highest among developing countries. Many youths were unemployed due to a lack of suitable skills. The government has placed great emphasis on technical and vocational training (TVET) to improve the employability of these youths. The Mid-term Review of the 11th Malaysia Plan (2016-2020) reported that the intake of students in TVET programmes has increased as a result of continuous promotional efforts. In 2016-2017, 86% or 132,444 of 154,086 students from B40 households graduated from the TVET programmes. The intake of SPM (form 5) leavers into TVET programmes was targeted to increase from 169,242 in 2017 to 225,000 in 2020. Enrolment in secondary schools increased from 77.4% in 2000 to 82% (85.4% for females and 78.8% for males) in 2018, while enrolment in institutions of higher learning rose from 25.6% to 45.1% (49.9% for females and 40.7% for males) over the same period.<sup>6</sup>

## **SOME RECOMMENDATIONS**

As stated in the Mid-term Review of the 11th Malaysia Plan, “the overdependence on low-skilled foreign labour, has perpetuated a labour-intensive economy, suppressed wages and served as a disincentive to automation, thus impeding efforts to increase productivity”. Hence, efforts must be made to move up the value chain. The education system needs to be revamped to produce the human capital that can produce high value-added goods and services. There is also a need to elevate the role of TVET, and to pursue meritocracy. The continued influx of foreign labour calls for a more coherent migration policy, especially in dealing with illegal migrants. Malaysia is losing valuable human resources through the emigration of high-skilled workers. The World Bank’s Economic Monitor (World Bank, 2011) listed “social injustice” as the second most important reason to migrate (60 percent of those surveyed), after “career prospects” (66 percent).<sup>7</sup> There is a need for policy changes to arrest the brain drain. The measures may include consistent implementation of the incentives to retain the skilled workers and to encourage those who have left, to return.

Despite efforts to better utilise Malaysia’s human resources, the female labour force participation rate is still relatively low, and an estimated 2 million potential women workers are “missing” from the labour force. However, the expected rise in female labour force participation as more women gain access to tertiary education, will suppress fertility levels. Owing to the incompatibility of modern sector jobs and maternal roles, women either quit their jobs for childbearing, or avoid childbearing. To prevent the fertility from falling further and to enable more women to participate in the labour market, the government, with support from the corporate sector, must step up efforts to provide childcare services and more flexible work arrangements to meet the needs of working women.

Diminishing family support and care for the elderly due to the shrinking family size and increased female labour force participation have affected older peoples' quality of life. There is a need to consider alternative care arrangements, such as old folk's homes and retirement villages. Older people with vast experience and expertise represents a valuable pool of human resources, and they can continue working in their previous jobs or take up new jobs, including caring for the young and the old, with the use of technology. The retirement age may be raised from the current 60 years to 65 years. The young generation must begin financial planning early to be well prepared for retirement. Financial literacy courses can be introduced in schools and in informal education.

**Appendix 1: Age structural shifts and indicators of aging by ethnicity, 2020-2040**

	2020	2030	2040
<b>Malaysian citizens</b>			
% under 15	25.6	23.2	20.4
%15-59	62.7	61.3	61.0
% 60+	11.7	15.5	18.7
Aging index	45.9	67.0	91.7
Young dependency ratio	40.7	37.9	33.4
Old dependency ratio	18.7	25.4	30.6
Total dependency	59.4	63.3	64.0
<b>Bumiputera</b>			
% under 15	28.1	25.3	22.0
%15-59	62.0	61.4	61.9
% 60+	9.9	13.3	16.1
Aging index	35.2	52.4	73.2
Young dependency ratio	45.3	41.2	35.6
Old dependency ratio	16.0	21.6	26.0
Total dependency ratio	61.3	62.8	61.6
<b>Chinese</b>			
% under 15	18.4	16.6	14.8
%15-59	64.4	60.7	57.8
% 60+	17.2	22.7	27.4
Aging index	93.5	137.0	184.6
Young dependency ratio	28.6	27.3	25.6
Old dependency ratio	26.8	37.5	47.3
Total dependency ratio	55.4	64.8	73.0
<b>Indians</b>			
% under 15	20.9	18.4	15.8
%15-59	66.3	63.3	61.1
% 60+	12.9	18.4	23.1
Aging index	61.6	99.8	146.0
Young dependency ratio	31.5	29.1	25.9
Old dependency ratio	19.4	29.0	37.8
Total dependency ratio	50.9	58.1	63.7

Source: DOSM, 2016, Population projection, Malaysia, 2010-2040

<sup>1</sup> DOSM. (2017). *Malaysian Economics Statistics - Population - Time Series 2016*. Putrajaya: DOSM; DOSM. (2019). *Vital Statistics, Malaysia, 2018*. Putrajaya: DOSM.

<sup>2</sup> DOSM. (2019). *Vital Statistics, Malaysia, 2018*. Putrajaya: DOSM.

<sup>3</sup> G. Hugo. (2011). Migration and Development in Malaysia. *Asian Population Studies*, 7(3), 219-241.

<sup>4</sup> R. Chander. (1976). *1970 General Report: Population Census of Malaysia*. Kuala Lumpur: Department of Statistics; United Nations. (2019). *The 2019 Revision of World Population Prospects*. New York: United Nations.

<sup>5</sup> R. Holzmann. (2014). *Old-Age Financial Protection in Malaysia - Challenges and Options*. Kuala Lumpur: Social Security Research Centre, University of Malaya.

<sup>6</sup> World Bank. (2020). *World Development Indicators*. Washington DC: World Bank.

<sup>7</sup> World Bank. (2011). *Malaysian Economic Monitor: Brain Drain*. Bangkok: World Bank.

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