

# PERSPECTIVE

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## **Mixed Signals: Malaysia's 2018 Federal Budget and Education**

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### **EXECUTIVE SUMMARY**

- Malaysia's 2018 Federal Budget allocates copious funds for education.
- Under the banner of the TN50 – National Transformation 2050 – an upcoming development blueprint, the budget supports efforts to adapt to the digital economy and finances school upgrading. However, the overall transformational thrust remains unclear; the TN50 brand largely co-opts existing programmes rather than launches new initiatives.
- The budget speech generously allocates funding to support the Technical and Vocational Education and Training (TVET) Master Plan and its plans to centralize, under the Ministry of Human Resources (MoHR), the current disparate system. Follow-through will be crucial, but difficult, as signaled by the speech's promotion of technical institutions not under the MoHR's jurisdiction.
- On education financing, the speech highlights infrastructure spending, giving scant attention to quality of schooling.
- Higher education receives a boost, in contrast to severe cuts in recent years, but it remains to be seen whether this funds injection marks a policy revision or is merely stopgap relief.

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## INTRODUCTION

Malaysia's 2018 Federal Budget, rolled out by Prime Minister and First Finance Minister Najib Razak on 27 October 2017, lived up to expectations of lavish pre-election spending – but also touched on significant policy matters.<sup>1</sup> The budget speech is an annual platform for updating progress, sustaining programmes and signaling priorities, through fund allocations, fiscal incentives and policy pronouncements. The latest edition, delivered on the cusp of an election year, supplies a blend of voter outreach and policy substance, evidenced in the budget's handling of education.

This Perspective focuses on education, the centrepiece of the budget speech's second and third thrusts, entitled "towards TN50 aspiration" and "empowering education, skills and training, and talent development". Education also appears in sections dealing with equitable distribution and Bumiputera economic transformation. The budget speech makes abundantly clear that education will feature prominently in Barisan Nasional's 2018 re-election campaign and its crafting of a long-term vision under the TN50 banner. The budget sustains Malaysia's record of substantial financial support for primary and secondary schooling, and boosts funding for post-secondary education, while also affirming plans for reconfiguring technical and vocational education and increasing public university funding after a series of severe annual budget cuts.

However, while funding allocations for education have been sustained or bolstered, the 2018 budget also raises some important and unresolved issues. First, the incorporation of TN50 elements lacks groundbreaking initiatives and mostly rebrands existing programmes; attachment of this slogan comes across as rushed and cosmetic. Second, the commitment to reconfigure and centralize Malaysia's sprawling Technical and Vocational Education and Training (TVET) system is necessary and commendable, but the budget also boosts funding for institutions that may reinforce the position of disparate training providers. Third, while the 2018 budget raises allocations for public universities and thus halts the preceding trend of steep budget contractions (2014-2017), it is unclear whether public defunding will resume again in order to meet public-private funding targets by 2020.

## TN50: REFORMING OR REBRANDING?

TN50, a long-term national development plan announced one year ago, in Najib's 2017 Budget speech, has unfolded since January 2018, promising a "bottom up" transformation blueprint ushering Malaysia to 2050. It claims to represent the voice of the people and their aspirations through town hall meetings, surveys and consultations, in contrast to past "top down" modes of development planning<sup>2</sup>.

The inclusion of TN50 in the 2018 Budget speech, immediately following the first segment assessing macroeconomic conditions and laying out fiscal policies surrounding investment,

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<sup>1</sup> The Budget Speech can be downloaded at: <http://www.treasury.gov.my/pdf/budget/speech/bs18.pdf>. The Ministry of Finance has also published a summary of 2018 Budget Touchpoints ([http://www.treasury.gov.my/pdf/budget/speech/Touchpoints\\_2018\\_BI\\_Final.pdf](http://www.treasury.gov.my/pdf/budget/speech/Touchpoints_2018_BI_Final.pdf)).

<sup>2</sup> Lee, Hwok-Aun (2017) "Malaysia's *Transformasi Nasional 2050* Brings Bold New Style, but to What End?" ISEAS Perspective 2017 No. 31. Singapore: ISEAS.

trade and industry, confirms the importance attached to this agenda. Education also receives the mammoth's share of programmes under the TN50 banner, indicating the centrality of education in Malaysia's long-term mission to be a "top 20" nation in the world by 2050.

"Education for TN50 Generation" commits in principle to science, technology, engineering and mathematics (STEM) education, and designates considerable funding for computer science instruction and smart classrooms. Concerns over the "fourth industrial revolution", facilitated by digital technology and artificial intelligence, have permeated Malaysia's policy discourses lately, and have surely recurred in TN50's public consultations.

At the same time, TN50's insertion in Budget 2018 comes across as hasty and premature, going against the grain of its commitment to be a 'bottom-up' process that collates and coalesces people's aspirations towards delivering a bold and transformative blueprint for the future. Before aspirations and priorities have comprehensively and methodically filtered up to the promised TN50 Final Document, the government is already making policy commitments and allocations in its name.

TN50 appears to add impetus to initiatives that bolster education in ways that equip Malaysia for foreseeable economic challenge. However, the cornerstone of the country's principal education policy document, the Education Blueprint 2013-2025, is the quality of schooling – in view of the broad access already achieved.

There is no mention of education quality, and no indication of its priority rank within this statement-making budget speech. Indeed, the proposals largely subsume existing programmes – scholarships, research funding, book vouchers, the *Skim Latihan 1Malaysia* (SL1M) apprenticeship, and public university funding – into the TN50 sphere, rather than express path-breaking initiatives more consonant with TN50's lofty ambition.

The rather casual co-optation of education institutions, programmes and expenditures as instruments of TN50 suggests that the education system will continue to be utilized for promoting popularity and inducing partisan fealty. The permeation of partisan politics onto Malaysia's education fabric is evidenced by Najib's tangential, celebratory nod to the recent university student council elections, which saw widespread victory for overt loyalists.

## **SKILLS TRAINING AND WORKFORCE DEVELOPMENT**

The budget speech is more straightforward and technocratic in its handling of the increasingly prioritized and important field of TVET. Malaysia's continued economic progress rests considerably on upgrading skills, and Budget 2018 aptly maintains funding for scholarships and financial support, including provision for training of rail engineers, in view of the construction of the East coast Rail Link and the Kuala Lumpur-Singapore high-speed rail. While the economic viability and political motivation of the ECRL have been questioned, these initiatives demonstrate good foresight and anticipation of skill needs of this transport subsector.

Budget allocation for the TVET sector rises, significantly to fund the TVET Master Plan, a prospective overhaul to a disparate system. Plans are under way to merge institutions currently sprawled across seven Federal government ministries, to be centralized within a

new entity called TVET Malaysia, under the jurisdiction of the Ministry of Human Resources (MoHR).

Such reforms are necessary and have been advocated for some time. There is a solid case for MoHR, as the custodian of the National Occupational Skills Standards and overseer of labour market developments, to have stewardship of this education sector<sup>3</sup>. However, this venture will continually need to resolve differences across the many parties and to strive for compromise, and establish the MoHR's authority. Indeed, the budget speech highly profiles RM2.5 billion designated for higher education and training programmes operated by MARA, which assures the Bumiputera development agency of its political importance but may also induce resistance to relinquishing MARA's autonomy and its special purview to provide for the ethnic community.

The budget speech also affords prominence to remedial programmes for graduate unemployment, specifically, the *Skim Latihan 1Malaysia* (SL1M) and MARA's Graduate Employability Training Scheme. A mandate is placed on government contractors, to allocate at least 1% to SL1M. "Unemployable" graduates and skills mismatch are perennial problems – recently highlighted by Bank Negara in the central bank's 2017 annual report – and such interventions are filling a pressing gap. At the same time, the structural roots of the malaise, deriving from the education process in universities, do not receive attention.

The basis for funding Malaysia's universities is increasingly hinged to university rankings, and conforming to the calculus of the rankings system elevates research over teaching. Notably, the budget speech is silent on upgrading of instructional facilities and pedagogic development. The inculcation of fundamental thinking skills and discipline-specific knowledge, and courage to undertake challenging fields, which are entwined with the broader diagnosis of the lack of confidence and versatility among graduates, barely features as a policy driver, even while these deficiencies are at the forefront of assessments of the graduate unemployment problem. A budget speech is, of course, not the platform for expounding education policy. Nonetheless, the priority signaled for 2018 remains much more remedial than curative.

## **EDUCATION FINANCING**

Education financing encompasses public subsidies to sustain operations or invest in new capacity, and assistance to students through grants, social transfers and loans. Malaysia maintains its track record of generous basic education funding in budget 2018. The Ministry of Education is allocated RM44.5 billion for operating expenditures, and RM1.45 billion for development. The budget speech follows the template of preceding years, providing updates on funding allocations for upgrading of facilities across the gamut of school types: national, vernacular, missionary, residential, and government-aided religious schools. Among new initiatives highlighted for 2018 are spending on facilities for more technological capability and skills for the future economy, as discussed above, with an additional and noteworthy emphasis on the requirement that new facilities be constructed using industrial building systems.

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<sup>3</sup> World Bank. Malaysia Workforce Development: SABER Country Report 2013. Washington, DC: World Bank, 2013.

The most salient change in funding trends of Budget 2018, however, is in higher education, which enjoyed increases in allocations after a few years of severe cuts. The need for a break was palpable. In August, the Minister of Higher Education even expressed a hope that his Ministry's budget would not be further constricted in 2018<sup>4</sup>. Total expenditure of the Ministry, encompassing operating and investment expenditure, rose from RM12.7 billion in 2012 to RM15.1 billion in 2014, then fell over three consecutive years, to RM14.8 billion (2015), RM13.3 billion (2016) and RM12.1 billion (2017)<sup>5</sup>. The rate of university budget slashing was steep: 12% in 2015, 15% in 2016, and 19% in 2017<sup>6</sup>. Concurrently, the share of development spending in overall university expenditures also slid from 18.5% per year in 2012-2014 to 16.9% in 2015-2017.

The pain was quite evenly dispersed, but the drop was precipitous for research universities on a few occasions. University of Malaya took the biggest hit in 2016, when it suffered a 27% shortfall from the previous year, while the National University of Malaysia's (UKM) allocation fell by 31% in 2017.

The reversal brings some measure of relief, but whether this signals a recommitment to boosting public funding remains to be seen. It is unclear whether this constitutes one-off aid or a shift in the approach to public university funding. When the Minister of Higher Education pleaded for reprieve from defunding, he also added that 10 out of 20 public universities are now 70 per cent dependent on public funds, ahead of the 2020 target. The government has programmed for public coverage of university expenses to be reduced from 90% to 70% by 2020.

Moreover, he omitted to mention that rapid cuts to public funding would directly contribute to the share of public funding dropping. To take a simple example, a university receiving \$80 from public funds and generating \$20 on its own would be contributing 20% of total revenue. If the government cuts the public grants to \$60 while the university maintains \$20 from other sources, the university's share automatically rises to 25% (\$20 out of \$80). This technically reduces the share of public subsidies, but potentially to the detriment of the universities' overall financial resources.

In 2015, the Higher Education Blueprint presented a new funding formula that did not suggest slashing public subsidies as the means for reducing the share of public funds in total university revenue. Indeed, it implied that public funding would be sustained, while private sources increased. In pursuit of the target of 30% public funding by 2020, and perhaps vindicated by the continual rise of Malaysia's universities in the QS world rankings, it is distinctly possible that federal budget cuts to universities will resume again, after an uptick in 2018.

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<sup>4</sup> "Higher Education Ministry hopes no more cuts to education in 2018 Budget", *New Straits Times*, 15 August 2017 <<https://www.nst.com.my/news/nation/2017/08/268146/higher-education-ministry-hopes-no-more-cuts-education-2018-budget>>.

<sup>5</sup> "After 2017's 20pc cut, public universities' operating budget goes up" *The Malay Mail Online*, 28 October 2017 <<http://www.themalaymailonline.com/print/malaysia/after-2017s-20pc-cut-public-universities-operating-budget-goes-up>>.

<sup>6</sup> "Budget 2017: Public universities suffer almost 20pc spending cut" *The Malay Mail Online*, 22 October 2016 <<http://www.themalaymailonline.com/malaysia/article/budget-2017-public-universities-suffer-almost-20pc-spending-cut>>

The role of higher education in expanding opportunity and reducing inequality receives continual attention. Notably, Budget 2018 includes assistance targeted at the Orang Asli (indigenous peoples of Peninsular Malaysia), the most disadvantaged community in Malaysia, with the provision of RM3,000 to help households prepare for children's enrolment in institutes of higher learning.

While pockets of disadvantage prevail, and the under-achievement of groups like the Orang Asli merit special intervention, the higher education sector also presents useful and effective options to grant preferential treatment on the basis of socioeconomic background rather than ethnicity. On this front, budget 2018 appears to move in the opposite direction, with overwhelming allocation to Bumiputera programmes – alongside introduction of an ethnic Indian quota in public universities, despite the admissions system's self-claimed 'meritocracy' – and little indication that socioeconomic disadvantage will be systematized as a basis for extending preferential treatment, and importantly, for facilitating inter-generational upward mobility.

## **CONCLUDING THOUGHTS**

Malaysia's budget 2018 concludes with a pre-election rallying call. The plethora of handouts is conspicuous and widely noted, but the budget speech also intends to be a harbinger of transformative policy. Amidst the pronouncement of programmes and initiatives, and commitment to fund social assistance and infrastructure, the absence of schooling quality as a policy and public expenditure priority also stands out, which falls short of the transformative aspirations of TN50.

Allocations for tertiary education, encompassing TVET and universities, reflect the priority placed in these institutions, but challenges remain in consolidating the dispersed TVET system and determining the direction of public university funding. The TVET Master Plan and planned administrative merger is warranted, but the budget's strong support for existing agencies in the technical education supply system, particularly MARA, suggests that centralization under the Ministry of Human Resources will have major hurdles to surmount.

Higher education received increased allocations, after four successive years of cuts. However, the budget cuts have also accelerated the attainment of the targeted 70% reliance on public funds – more by bleeding public subsidies than by boosting alternative financial resources. The increased allocations for 2018 also discernibly responded to criticisms toward the budget cuts, which reduced capacity to conduct research and teaching. Budget 2018 brings relief, but it is already incumbent on budget 2019 to clarify whether this is a blip in a strategy of continually diminishing public funding, or a policy revision toward a slower and steadier rebalancing of public and private sources.

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