Title: Urbanization Policy in Malaysia and its Impacts
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Having lived in Singapore for six years, I had always been amazed by the spatial organization of the city-state. Everything has been ordered and organized so that the town functions effectively, with highways all around the city centre, enabling the traffic to be regulated as well as with neighbourhoods where you find everything a household needs so that you do not need to take your car to go to the groceries. And when you do, the public transport system of buses and subway lines enables you to travel around the island easily.

Even though Singapore is physically located in South East Asia, it defers greatly from its neighbours, a difference that is striking. You just have to cross the 1km bridge separating Singapore from the capital of the state of Johor, Johor Bahru in Malaysia to notice this difference. Suddenly, you feel like you’ve entered an chaotic town, which developed anarchically and is congested with traffic and pollution.

Whereas Singapore is the symbol of a western style developed, high income country, Malaysia as a newly industrialized country (NIC) is still considered a developing country.

Because I have always lived in European or North American-style developed cities but have travelled abundantly in developing countries all across Asia, I chose to do my research paper on Malaysia, in order to understand better the pattern of urbanization of my neighbouring country.

Concerning the time period I chose for my research: 1970s to 2000s (even if some data may cover some very recent developments) is a strategic choice corresponding to the launch of the New Economic Policy (NEP) in 1971 which had enormous consequences on the development of the country, including urbanization. The NEP ended in 1990, but it remains very interesting to examine the evolution of the development trends after such intense government backed policies ended.

Urbanization is the shift from a rural to an urban society. Urbanization is therefore
characterized by a rural-urban migration of people, which leads to an increase in the number of people living in urban areas, such as cities. The causes of urbanization are various but people often migrate to urban areas in order to find work, escape famines... Therefore urbanization leads to the development of large urban conurbations and has implications on people’s patterns of life and habits. It leads to both an adaptation from the people who migrate as well as an adaptation of the landscape and organization of the city to respond the best it can to its new inhabitants’ needs.

Malaysia has achieved remarkable economic growth since its independence in 1957 and is now one of the most urbanized developing countries in the world. Its rate of urbanization is so rapid that cities are growing more rapidly in Malaysia than in China. (see FIGURE 1) and if this trend continues, over 70% of the Malaysian population will be urban by 2020 (FIGURE 2). Like any developing country, Malaysia has experienced and still experiences urbanization that translates itself by expanding city sizes around the country. Urban dwellers move towards the cities because they are looking for better living conditions such as access to potable water supply, access to various health services as well as securing gainful employment (FIGURE 3).

Between 1970 and 2000, the urban population ratio in Malaysia grew from 26.8% to 61.8% with a more pronounced increase between 1980 and 2000 (see FIGURE 4). And this growth of urban population is sustained, since in 2010, an estimated of 72% of the Malaysian population lived in urban areas. Indeed, according to the CIA website, the annual rate of change of the rate of urbanization between 2010 and 2015 is estimated to be of 2.4%.

There are three components of urban growth that are significant into explaining the extent of urbanization in Malaysia; these are: natural increase, rural-urban migration with the policies
that affected it, and reclassification of rural areas and agglomeration of built-up areas.

Natural increase refers to the natural population growth that the country experiences. Indeed, if we look at the data, the population of Malaysia was of 13,879,252 in 1980 and of 27,468,000 in 2000. As a result, the cities grow. (see FIGURE 5)

Like in any other country, the cities in Malaysia developed because of the growth of industry and the development of the manufacturing sector, particularly during the NEP in Malaysia. During the NEP, which lasted from 1971 to 1990, the government sought to restructure society. Indeed, the Malaysian government wanted to bring about a more balanced participation of the different ethnic groups in the economy, more importantly by giving more power to the Bumiputera who are the indigenous Malays and urbanize them. Therefore the period of the NEP has been one of intense migrations in the country with Malays becoming the largest urban migrants among the different ethnic communities of the country. In order to promote this urbanization of the Bumiputera the Malays were offered several incentives such as scholarships, loans to set up businesses. These policies were indeed successful because the Malays went from representing 17% of the urban population in the 60s to 44% in 2000.

As we have mentioned before, between 1970 and 2004, the number of urban dwellers in Malaysia went from 2.96 million to 16.44 million. Migration accounted for 40% of urban growth in Selangor and Kuala Lumpur. The inflow of migrants from the rural to the urban areas accounted for about 30% of urban population growth in Malaysia from the 70s to the early 2000s.

It is also important to remember that in Malaysia, urbanization was common to all states unlike in other Southeast Asian countries where an all-dominant megacity such as Jakarta or Bangkok emerged as a result of urbanization. In Malaysia, in 2000, all states had at least 1/3
of their population residing in urban areas. The Federal State of Kuala Lumpur was the most urbanized with a 100% of the territory considered urban, followed by Selangor with 88.3% and Penang with 79.5%. Also, it is important to remember that regionally, Peninsular Malaysia is more urbanized than Sabah and Sarawak, even though these states are still 50% urbanized. (see FIGURES 6&7)

As for explaining this migration with economic models such as the Harris-Todaro model or the Lewis Dual Sector model, we have to be careful on the assumptions that we take into account. Indeed the Harris-Todaro model assumes that people migrate from rural areas to urban ones because they are motivated by rational economic considerations of relative benefits and the decision to migrate depends on expected wages rather than actual wage differential between the 2 sectors. In Malaysia, it is important to remember that the primary incentives to migrate were given by the government who encouraged Malays to move to the cities by providing them with financial incentives. These financial incentives helped them set up their businesses and therefore ensured them substantially better living conditions than the ones they had in the countryside. Therefore, I think it is significant to apply the Harris-Todaro model to the migration process in Malaysia. The NEP reform promised benefits to the migrants and they were therefore motivated to migrate by the higher wages that would be offered to them in the cities.

The third variable concerns the classification of urban areas that has changed over the years in the country. Indeed, before 1970, the definition of urban areas used in the population censuses referred to areas comprised of local administrative units with a population of 1,000 persons or above. But after 1970, the minimum population for an area to be considered urban was increased to 10,000. This change was to reflect a more realistic level of urbanization because areas with population below this size displayed rural socio-economic characteristics,
and keeping the threshold at 1,000 would have over-emphasized the level of urbanization of the country.

These 3 variables offer a comprehensive view of the different factors motivating the development of cities in the country. Even though the natural increase of population and the modification of certain urbanization definitions are significant, the second variable concerning the rural-urban migration motivated by the NEP and the movement of the economy from an agricultural based on to a highly effective manufacturing one is the most important variable explaining the growth of the cities in Malaysia.

In Malaysia, the rate of unemployment in 1985 was of 6.893% and it decreased to 3.002% in 2000. If we look at the data from 2010, we can see that the rate of unemployment has increased slightly to 3.3% but this increase can be attributed to the actual international economic and financial situation of the times (see FIGURE 8).

We can therefore see that in the case of Malaysia, the rate of unemployment moves in the opposite direction as the rate of urbanization. Even though urbanization continues to progress, the rate of unemployment in the country has decreased. The fact that people still migrate to cities and that they are not unemployed means that there are jobs in Malaysia. If we refer to the Lewis Dual Sector model it then means that the threshold point where all the surplus labour of the traditional sector has been absorbed by the manufacturing is not yet reached. The manufacturing sector still has resources to offer to job seekers and so people continue to migrate. This continuous migration can be explained by the growth of GDP and the allocation of GDP shares per sectors in the economy.
Indeed, from 1980 until 2010, Malaysia's average GDP per capita PPP was 7460.92 dollars reaching an historical high of 14730.93 dollars in December of 2010 and a record low of 2336.21 dollars in December of 1980. When looking at FIGURE 9, it seems that Malaysia’s GDP per capita has been growing steadily since 1980, therefore following the trend of the rate of urbanization.

We know that when a country develops, it urbanizes but we also know that its allocation of GDP per sector shifts in the process. Indeed the process of urbanization illustrates a major shift from the agricultural to the manufacturing sector, but it is not because all the surplus rural labour has been absorbed that the economy stops developing. Indeed, once the manufacturing sector has been developed and its productivity is sustained, the economy continues to develop and the service sector starts to be more and more important in terms of share allocation in the GDP. This is what happened in Malaysia. (see FIGURE 10) The service sector develops itself, and services are located in cities. Indeed Kuala Lumpur is considered one of the most important financial centres in the Arab world and many international banks and telecommunications companies set up offices in Malaysia. This can therefore explain the continuous increase in urbanization and the fact that unemployment does not increase: people continue to migrate because they find job in the services sector (FIGURE 6).

As urbanization occurred, the economy and the country developed. Migration occurs from the rural to the urban sector because people are attracted by the higher wages offered by the industrial sector. While developing, economies follow a certain trend where their GDP is less and less dependent on agriculture and more and more on the manufacturing sector. After this, another shift occurs where the services sector develops to become a prominent contributor to GDP.
Urbanization can have a positive impact on development issues such as poverty, inequality and environmental degradation, so long as the appropriate policies are in place to manage the problems and challenges that come from this intense process.

The urbanization of Malaysia from a rural agrarian based economy to an urban based one has lifted the income levels and living standards of both the rural and the urban sectors.

Following the Lewis dual sector model, much of the excess labour that was located in the rural areas and occupied the low productivity sectors has been moved to urban and higher productivity sectors, which means that the migrants have acquired new skills.

It is important to remember that many policy implications of migration theories such as the Harris-Todaro model assume that the consequence of such migration will be urban bias. But this is not what happened in Malaysia, even though the percentage of migration in Kuala Lumpur has been substantially important, major cities develop in each states of the country as we can see in FIGURES 6&7.

This can be explained by the NEP Policy: because the government was behind such a process, it was able to regulate the migration and offer jobs and opportunities in all states equally so that the migration would be inter-state rather than intra-state. When we know that a negative consequence of urbanization and migration is that people often leave their hometowns for good and do not come back, in Malaysia, people were not completely uprooted from their hometowns and stayed within their home-states.

Furthermore, one important benefit of urbanization was that wages and earnings increased for the people who migrated. FIGURE 11 shows the wage growth for a person at his home location and FIGURE 12 the earnings growth. We can see that by staying at their home locations, these people are not likely to experience any significant increase in either wages or earnings. In contrast, by looking at FIGURES 13&14 which represent people with no home
locations we can see that these persons will be much more likely to migrate in response to wage differentials. They will have significant increases in their earnings and wages. This shows that the preference for remaining at home explains why people are not experiencing much wage growth through migration.

Also, overall, urbanization has decreased the degree of inequality in Malaysia, indeed, one of the main problems in Malaysia was the glaring disparities between the different ethnic groups. For example, when we see FIGURE 15, we can see that during the migration period, the GINI coefficient has decreased in Malaysia, reducing income inequality.

Even if urbanization’s main benefits are to improve peoples’ living standards, urbanization can also have negative impacts. The rapid growth of the urban population exerts pressures on the provision of adequate housing, sanitary facilities, proper drainage, garbage disposal, health and educational facilities… In Kuala Lumpur, three main issues which are direct consequences of urbanization are at stake: the existence of some 300,000 squatters; the shortage of low cost housing for low income workers (many immigrants workers come in from Pakistan and Bangladesh to work on construction cites and they are not well hosted); the emergence of urban slum areas in the cities and the suburbs... In this regard, the Malaysian Government has to undertake projects related to these aspects including environmental issues such as water pollution caused by increased urbanization and expanding industries.

Another important consequence is that all the youth move to the cities and therefore the youth population in villages remains at about 10% to 15%, villages are therefore being deprived of able persons to pursue the different programs of rural modernization. Therefore the government should concentrate on improving the work opportunities in rural areas and overcoming the imbalance in socioeconomic life between rural and urban areas. The NEP
encouraged urbanization in Malaysia in order to re-balance wages and opportunities between the different ethnic groups but the goal has never been to completely deplete the countryside of all its population.

These issues illustrate the fact that even though urbanization is a mandatory step toward modernization and development for developing countries, it is a complex process that needs to be addressed and monitored by the state at all times.

Bibliography


Appendixes

FIGURE 1:
FIGURE 2:

Over 70% of Malaysia’s population will be urban by the year 2020

FIGURE 3:
FIGURE 4:
Table 1: Urbanisation levels, urban population growth and tempo of urbanisation, Malaysia

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion of population in urban areas (per cent)</th>
<th>Average annual intercensal population growth rate (per cent)</th>
<th>Tempo of urbanisation (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>1970</td>
<td>26.8</td>
<td>5.2 (3.0)</td>
</tr>
<tr>
<td></td>
<td>1980</td>
<td>35.8 (34.2)</td>
<td>5.8 (6.2)</td>
</tr>
<tr>
<td></td>
<td>1991</td>
<td>50.7</td>
<td>4.8</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td>61.8</td>
<td></td>
</tr>
</tbody>
</table>

Footnote: Figures in parenthesis refer to data released earlier in the official census reports.

Variations in the rate of urban population growth provide another dimension on the nature of the change in the level of urbanisation over time. A commonly used indicator of urban population growth is the tempo of urbanisation which is a measure of the difference in the growth rate of the urban population and that of the total population. The urban growth rates and tempo of urbanisation during the intercensal periods are also shown in Table 1.
In 2000, Kuala Lumpur was the primate city with a population size of almost two times that of the next two largest cities, Johor Bahru and Klang (Figure 3). It is also noted that some of these largest metropolitan towns are also state capitals.

The greater the index value, the greater is the concentration in the largest city. For a group of cities/towns, the PI is the quotient of the largest city divided by the summation of the population of the second and subsequent cities. The rank-size rule means that the second-ranked city is half the population size of the primate city, the third-ranked city is one-third in size and so on.
In 2000, Kuala Lumpur was the primate city with a population size of almost two times that of the next two largest cities, Johor Bahru and Klang (Figure 3). It is also noted that some of these largest metropolitan towns are also state capitals.

Figure 3: Ranking of metropolitan towns, Malaysia, 2000

<table>
<thead>
<tr>
<th>Rank</th>
<th>Metropolitan towns</th>
<th>Population ('000)</th>
<th>Rank</th>
<th>Metropolitan towns</th>
<th>Population ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kuala Lumpur</td>
<td>1,305.8</td>
<td>15</td>
<td>Kota Bharu</td>
<td>251.8</td>
</tr>
<tr>
<td>2</td>
<td>Johor Bahru</td>
<td>642.9</td>
<td>16</td>
<td>Tawau</td>
<td>213.7</td>
</tr>
<tr>
<td>3</td>
<td>Klang</td>
<td>626.7</td>
<td>17</td>
<td>Kajang &amp; Sg. Chua</td>
<td>205.7</td>
</tr>
<tr>
<td>4</td>
<td>Ipoh</td>
<td>536.8</td>
<td>18</td>
<td>Taiping</td>
<td>199.3</td>
</tr>
<tr>
<td>5</td>
<td>Subang Jaya</td>
<td>437.1</td>
<td>19</td>
<td>Kluang</td>
<td>198.2</td>
</tr>
<tr>
<td>6</td>
<td>Petaling Jaya</td>
<td>432.6</td>
<td>20</td>
<td>Alor Setar</td>
<td>186.4</td>
</tr>
<tr>
<td>7</td>
<td>Kuching</td>
<td>422.2</td>
<td>21</td>
<td>Georgetown</td>
<td>181.4</td>
</tr>
<tr>
<td>8</td>
<td>Ampang Jaya</td>
<td>357.9</td>
<td>22</td>
<td>Sungai Petani</td>
<td>175.0</td>
</tr>
<tr>
<td>9</td>
<td>Shah Alam</td>
<td>314.4</td>
<td>23</td>
<td>Selayang Baru</td>
<td>174.6</td>
</tr>
<tr>
<td>10</td>
<td>Kota Kinabalu</td>
<td>306.9</td>
<td>24</td>
<td>Batu 9 Cheras/Sg. Raya/ Suntex</td>
<td>174.0</td>
</tr>
<tr>
<td>11</td>
<td>Seremban</td>
<td>290.7</td>
<td>25</td>
<td>Miri</td>
<td>169.0</td>
</tr>
<tr>
<td>12</td>
<td>Kuantan</td>
<td>288.7</td>
<td>26</td>
<td>Sibu</td>
<td>167.4</td>
</tr>
<tr>
<td>13</td>
<td>Sandakan</td>
<td>276.8</td>
<td>27</td>
<td>Bukit Mertajam</td>
<td>167.3</td>
</tr>
<tr>
<td>14</td>
<td>Kuala Terengganu</td>
<td>255.5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FIGURE 9:

**GDP per capita, 1985-2000**

![GDP per capita chart]

FIGURE 10:

**Allocation of GDP by Sector, Malaysia, 2000**

![Sector allocation chart]
FIGURE 11:

![Wage growth at home location graph]

FIGURE 12:

![Earnings growth at home location graph]
There is a bias in preferences to account for the empirical fact that people prefer to live at their home location. There is also a cost of moving between locations. The model predicts that if a person's wage decreases, then he will be more likely to migrate. People living at their home location will be less likely to migrate.

I estimated the parameters of the model using data from the Malaysia Family Life Survey. The estimates show that wages affect migration decisions. A strong finding from the estimation is that people prefer to live at their home location. This is shown to have a significant effect on migration, as people who are not living at home are more likely to migrate. Government policy at this time made it easier for Malays to migrate, so we allowed the fixed cost of moving to vary with race. However, we found that the differences in fixed cost with race were not significant. Malays are more likely to migrate than non-Malays, indicating that differences in the unemployment and in-kind payment distributions cause this variation.

In this paper, very few characteristics of each location were controlled for. Instead, migration probabilities were estimated as just a function of current wage, expected wages, current location, and moving costs. Accounting for other factors that can affect migration could help improve the precision of the model. In particular, some...
FIGURE 15: