

ECONOMY & DEVELOPMENT

Inequality in Perak

- What is the rate of inequality in Perak?
- What is the comparison between Perak and Malaysia?
- What is the way forward for inclusive growth?

Equality simply means that there should be no glaring differences in living standards, quality of life, or the well-being of the people. In ensuring inclusive growth for Perak, the benefits of economic growth must be felt by the masses and distributed equitably. This will improve the quality of life for the majority of the people, and is necessary to promote social justice and cohesion, particularly in a multiracial society such as Perak.

This can be achieved by reducing income inequality which causes economic instability, social issues, and health problems. In order to determine the effectiveness of policies implemented to this end, the Gini coefficient has been used to measure income gaps between the values of 0 and 1, with 0 signifying complete equality and 1 being complete inequality. *Figure 1* shows a declining trend in Malaysia from 1974-2014. As observed, inequality was highest in 1976 followed a steady decrease.

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INCOME INEQUALITY IN PERAK

The rate of inequality can be seen more clearly in Table 1, which compares inequality of income in Malaysia and Perak from 1974 to 2012, measured by the standard indicator of inequality, the Gini coefficient.

The following observations can be made from Table 1: firstly, it highlights the highest (worst) recorded income inequality in 1976, with the Gini coefficient of 0.557 and 0.525 for Malaysia and Perak, respectively. Since then, the trend has been in decline.

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Remarkably, it appears that income inequality in Perak is more buoyant than in Malaysia as a whole. Income inequality in the state is generally lower than its national counterpart throughout the period of 1974-2014. During this time, the average

of its past policies and that of the other states have to be measured so as to improve effectively and anticipate future challenges more efficiently.

Figure 2 compares Perak's performance in comparison with other Malaysian states within the

YEAR	PERAK	MALAYSIA
1974	0.452	0.530
1976	0.525	0.557
1979	0.447	0.505
1984	0.428	0.483
1987	0.410	0.456
1989	0.421	0.442
1992	0.399	0.459
1995	0.397	0.456
1997	0.381	0.459
1999	0.387	0.443
2002	0.417	0.461
2004	0.393	0.462
2007	0.399	0.441
2009	0.400	0.441
2012	0.417	0.431
2014	0.366	0.401

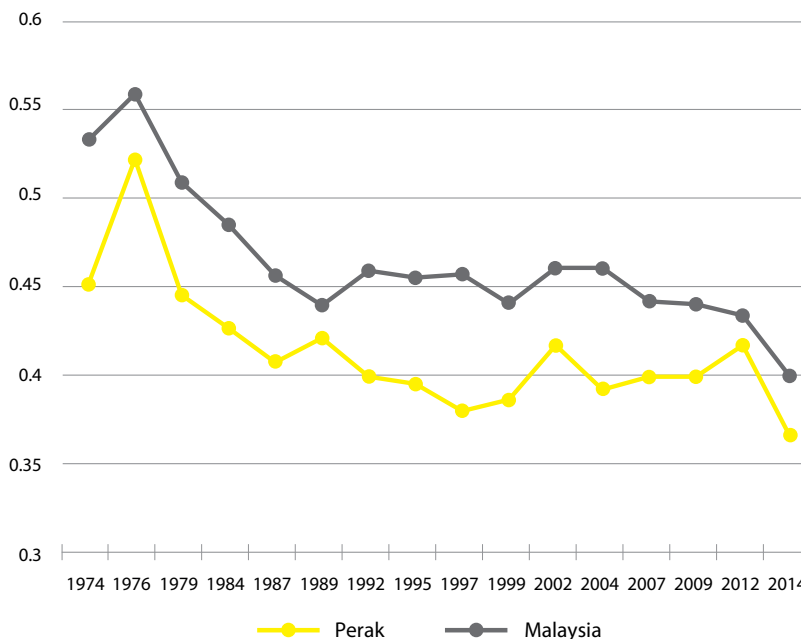


Table 1: Income inequality (Gini coefficient) in Malaysia and Perak, 1974-2014

Figure 1: Gini coefficient trend in Perak and Malaysia, 1974-2014

Source: Department of Statistics, Malaysia, 2015

Source: Department of Statistics, Malaysia; and IDR calculations

Gini coefficient is 0.464 for Malaysia and 0.415 for Perak. These figures indicate that Perak outperforms Malaysia in overcoming income inequality, figure 2 depicts this point clearly.

period of 2012 to 2014. It shows that the most equal income distribution occurred in Pahang (0.354), and the worst in Perlis (0.455). Perak stood at number 5 from the bottom. Despite its unchanged position in 2014, the state had shown much improvement.

WHERE DOES PERAK STAND?

Perak is determined to blaze the trail. The success

It is interesting to note that in just two years (2012 to 2014) Perak surpassed its neighbour, Selangor.

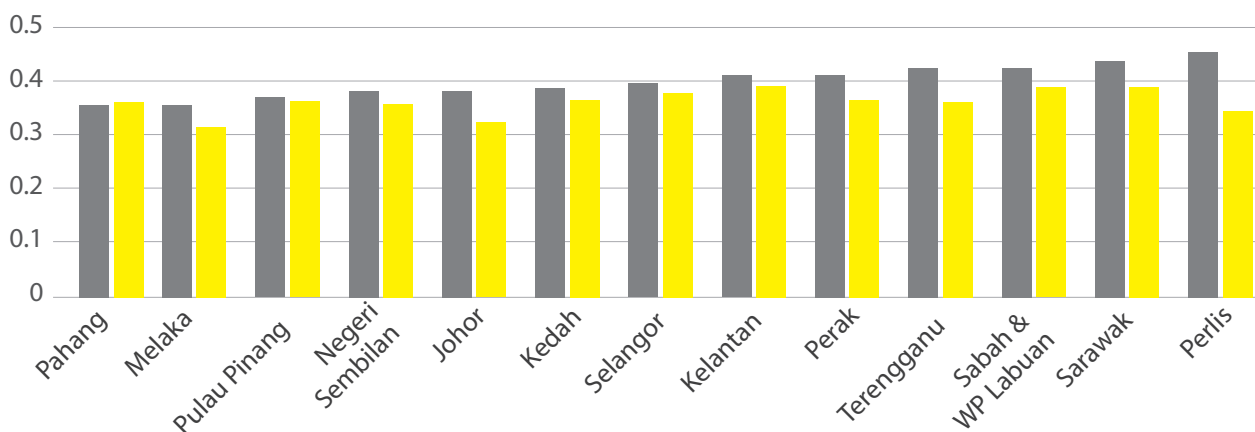


Figure 2: Gini coefficient, Perak and other states in Malaysia, 2012 & 2014

This reversal in trend can be attributed to Perak's commitment to implement a policy of inclusive growth focusing on the lower income demographic, which was announced in 2012.

THE WAY FORWARD

The state appears on to be on the right track in leveling income inequality. This must be reinforce so it result in income and economic growth which is inclusive.

- 1) The state should improve education standards as this increases the graduation rate from upper secondary school to tertiary level. Perak's talents must be retained with existing mechanisms like PEKA.
- 2) The state needs to tighten its operations by preventing leakage of resources, which is a major cause of income inequality.
- 3) The state needs to have comprehensive Household Expenditure Survey (HES) and Household Income Survey (HIS) data from the Department of Statistics (DOS) in order to perform more detailed analyses and introduce a well-informed policy on the issue of inequality. With the use of such available mechanisms, inequality can be targeted better.

Agriculture in Perak

- What is the economic contribution from the agricultural sector?
- What is the employment situation in the agricultural sector?
- What is the agricultural income trend?

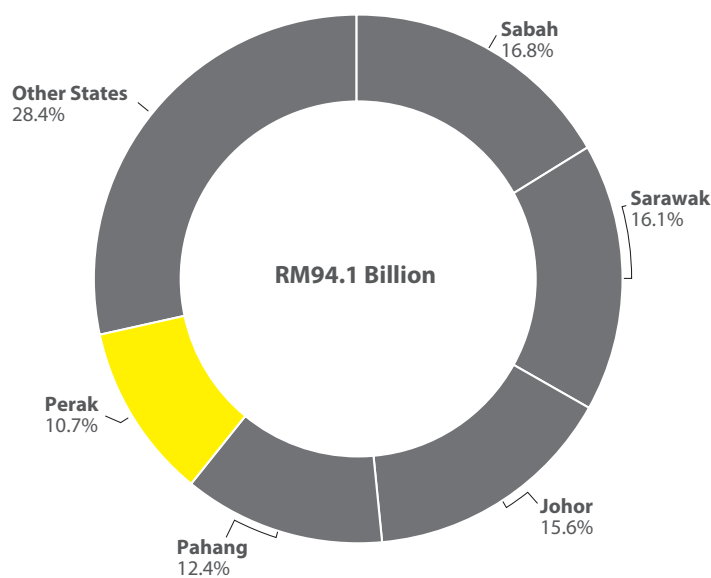


Figure 1: Agricultural contribution by state, 2015

Source: Department of Statistics, Malaysia, 2015

Increased agricultural output and productivity contribute substantially to the economic development of the country. Agriculture creates employment and generates income for the entire state because it is also a means of subsistence for the low-income group.

Out of Malaysia's GDP of RM1.2 trillion in 2015 (at current prices), the agricultural sector accounted for RM94.1 billion. As shown in Figure 1, 10.7% of this figure comes from Perak. The states of Perak, Pahang, Johor, Sarawak and Sabah were the top contributors in the agriculture sector with a total share of 71.6 %.

PERAK AGRICULTURAL TREND

The agricultural sector plays a strategic role in economic development, including creating a spill-over effect into other sectors. Perak's agriculture is currently the third-largest contributor to its GDP, thus there is no denying its significant role. In fact, its contribution of 17.3% was almost equal to that of manufacturing (18.3%) in 2015. As it represents a sizeable portion of the state's GDP, the strengthening of the agriculture sector spurs overall economic performance.

In 2010 the sector contributed 19.9%, and the figure fell to 17.3% by 2014, remaining unchanged in 2015 (Figure 3).

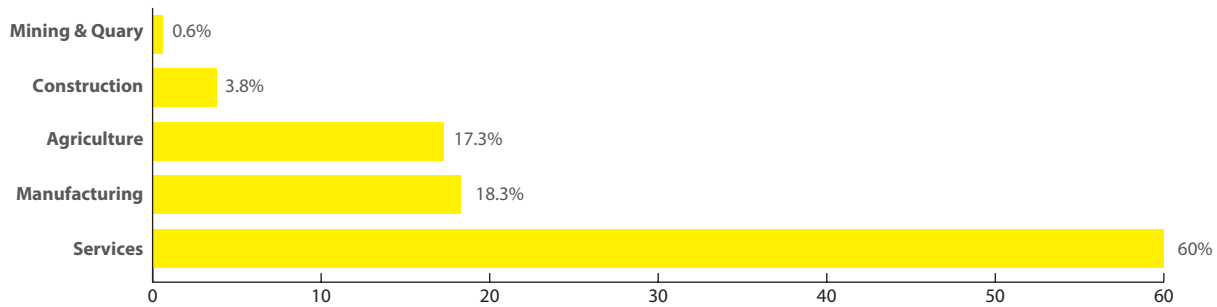


Figure 2: Percentage of economic activity by sector in Perak, 2015

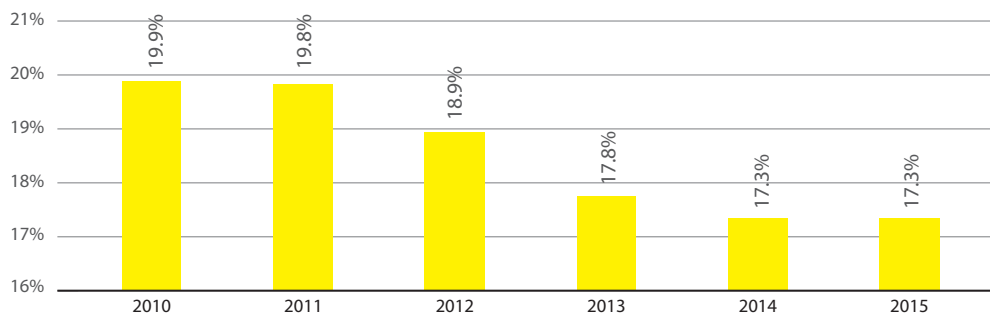


Figure 3: Percentage of Contribution from Agriculture to State GDP

Source: Department of Statistics, Malaysia, 2015

This can be attributed to the decline of global commodity prices. For instance, the price of a commodity such as palm oil, which is for export and not local consumption, have fallen significantly in the last 5 years. Its pricing mechanism is subject to commercial forces on a global level which are out of our control.

Moreover, climate hazards such as El Nino have had a negative effect on the sector’s output between 2015 and 2016. Other factors include low-crop yield, and the painstaking processes of replanting and switching to faster- and higher-yield crops.

Despite the declining trend, the actual value of

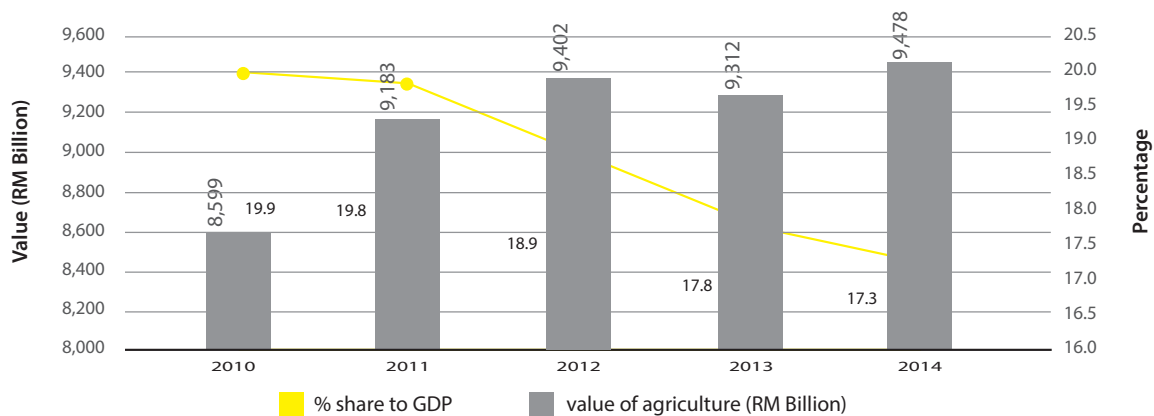


Figure 4: Value of agriculture (RM Million) and percentage share (%) to the state GDP of Perak

Source: Department of Statistics, Malaysia, 2015

Agriculture’s lack of trading continuity is another factor. It is not a preferred vocation among the young, and the average age of farmers in Perak is 54.

output and productivity in agriculture has increased from RM8.6 million in 2010 to RM9.5 million in 2014 (Figure 4). This indicates that the sector is

growing but its contribution to the state GDP is contracting. This is due to the fact that contribution from other sectors such as manufacturing and services is growing at a faster rate.

AGRICULTURE AND HOUSEHOLD INCOME

The number of households in Perak that derive their income from agriculture provides a more accurate assessment of how this field benefits the locals. The

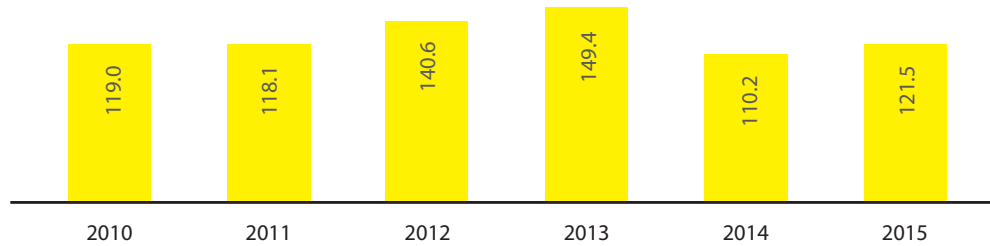


Figure 5: Number of recruitments in Perak's agriculture sector, 2010-2015

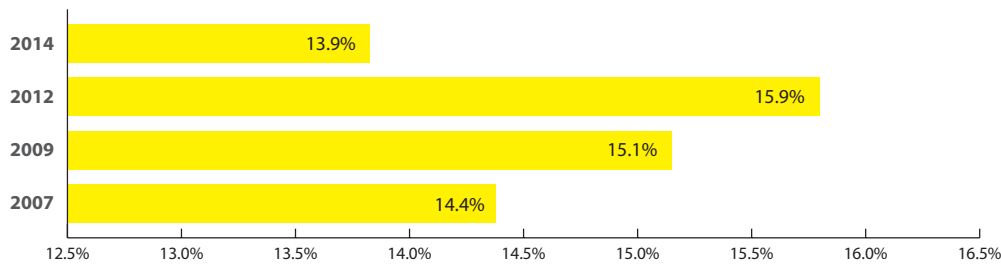


Figure 6: Percentage of Perak households with income from agriculture, 2015

AGRICULTURE AND EMPLOYMENT

Figure 5 shows increasing recruitment from 2010 (119,000) to 2015 (121,500). However, these figures fluctuated between 2014 and 2015. There is a significant drop in employment from 2013 to 2014. This can be attributed to the use of technology, which reduces the dependency on manpower. Moreover, the plummeting commodity prices of and rising cost of production resulted in job cuts.

percentage that benefited was 14.4% in 2007, then 15.9% in 2012 before declining to 13.9% in 2014. This is still a sizeable percentage that depends on agriculture for their livelihood.

Figure 7 shows the steady rise of income from RM1,886 in 2007 to 3,214 in 2014 despite the fall in contribution to GDP. This indicates the versatility of Perak's agriculture sector in adapting to external shock. As the market price of the commodity falls the state is able to grow revenue with other activities in the same sector.

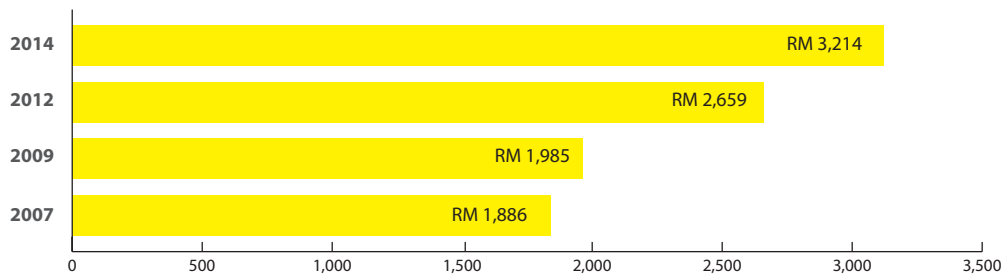


Figure 7: Average household monthly income from Perak's agriculture sector, 2015

Source: Department of Statistics, Malaysia, 2015

THE WAY FORWARD

In order to improve the sector's performance in Perak, we suggest that the state should move in line with the 11th Malaysia Plan, which covers the country's development from 2016 to 2020.

This Plan involves a seven-pronged strategy, starting with improving productivity and ending with the intensification of performance-based incentive and certification programmes.

There is also emphasis on the training and development of youth entrepreneurs in the sector, the strengthening of institutional support, the improvement of market access and logistical support, and a scaling up of access to agricultural financing.

Some of the steps that the state can act on and pay special attention to are:

1. Encourage locals to become agropreneuers, to choose agriculture as an income generating vehicle;
2. Support and promote technological innovation in agriculture;
3. Find new markets and distribution channels to increase the export of agricultural products;
4. Attract domestic and foreign investment, and promote commercial farming in partnership with local communities;
5. Introduce integrated farming systems that maximise land use (achieved through incorporating short- and medium-term cash crops during the perennial crop stage); and
6. Strengthen institutional support for small and medium (SME) agriculture developments.

Spearheading Green Growth with Ecotourism

- What are the strength of Perak in terms of Eco-tourism?
- What are the challenges that need to be overcome?
- What is the way forward?



Source: Malaysia Tourism Department

In 2015 Malaysia received 25.7 million tourist which generated RM 69.1 Billion. However, this rapid growth has brought about the deterioration of the ecosystem, particularly with pollution arising from inadequate waste management. This has marred public perception of the industry. If this environmental degradation is not addressed, repeat visits are likely to decline.

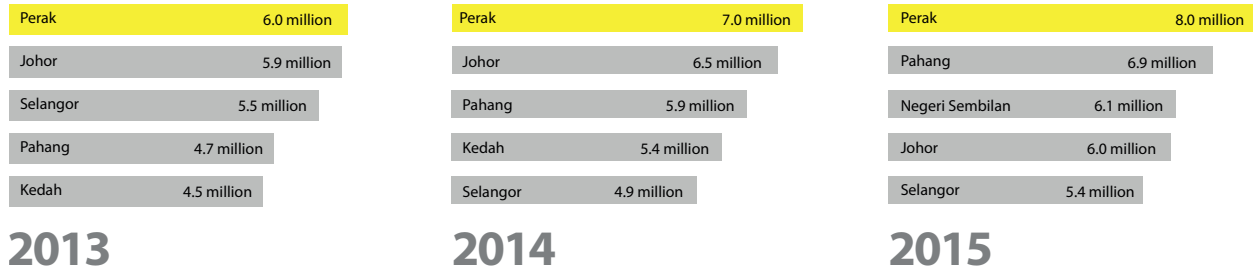
Thus, the state is making its way towards sustainable development. Tourism has started to be more responsible. The ecotourism concept has been emphasised and emerged as an alternative to mitigate the faults of conventional tourism, and meet the principles of sustainability while contributing to the economy.

There has been much discussion and debate regarding the size and growth of the ecotourism market.

But ecotourism is more than the experience of nature and wildlife. It involves the context of engaging with local communities to promote and ensure sustainability.

Ecotourism supporters tend to provide large estimates; others question this growth on contextual grounds. Market size estimates depend on the definition used to describe the market, and the sustainability component of ecotourism is particularly difficult to measure. Yet, most existing estimates are based solely on this component. But ecotourism is more than the experience of nature and wildlife. It involves the context of engaging with local communities to promote and ensure sustainability.

5 most visited state by domestic tourist in Malaysia



Source: Department of Statistic Malaysia

FUTURE GROWTH OF ECOTOURISM IN PERAK

Perak recorded the highest number of domestic tourist in 3 consecutive years from 2013 to 2015 (Figure 2). All in all the total number of Domestic tourist to Perak within that period is 21 million.

Perak has great potential for success in ecotourism because of its abundant natural and cultural resources. There are more than 91 locations (as described in IDR's research report) that can be developed into ecotourism destinations. The Royal Belum State Park is a popular Perak ecotourism destination that recorded a total of 20,000 tourists in 2014. Ecotourism is a priority in the Perak Amanjaya Development Plan.

Another site with high potential to be an ecotourism destination is Kuala Gula, a small fishing village located in the Kerian district, about 50 km west of Taiping and 80 km south of Penang. A recorded total of 7,000 tourists visited in 2015.

ISSUES, TRENDS, AND CHALLENGES

Various demographic, tourism, and other trends will present challenges and opportunities for the natural area managers in the future. To some degree, these trends will put pressure on managers to improve the status quo, take on new responsibilities, and become open to different perspectives. For example, effective resource management will require greater social and political skills.

An overarching issue is the need to deal with ecotourism in a business-like approach when adapting to changes in the marketplace and serving ecotourists as customers. There are two

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general options for tackling this: put natural area management agencies to this task or have them engage the private sector to do it in a partnership.

This does not mean that important resource management objectives should be sacrificed for the demands of tourists or the tourism industry. Indeed, it may be critical for natural area managers to obtain additional political support in order to stay consistent with the objectives. Rather, it means that

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a more flexible, business-like approach can be taken within the constraints of pursuing these objectives. Such an approach will enhance the probability of the state achieving its ecotourism goals in the future.

Based on IDR's research report entitled 'Perak 2030: A Vision for Green Growth and Sustainable Development,' the following have been identified as challenges to the state's sustainable ecotourism development.

1. **Weak data monitoring and statistical recording.**

The framework of statistical data collection is poor. For example, a performance indicator is the occupancy rate of hotels with a record of 47% during the period of 2010 to 2011. This indicator is clearly insufficient for evaluating and monitoring current performance and contribution towards Perak's GDP. This is especially true of ecotourism. Effective management is dependent on applicable and sufficient amount of data on implementation processes.

2. Low quality service provider. Knowledge on biodiversity is an important driver in ecotourism, the lack of which is the biggest constraint to the development of ecotourism clusters. The underdeveloped supporting industries, such as eco-lodge, travel service, and food and beverage, are not of satisfactory quality. Small- and medium-scale operators often fail to embrace and practise the principles of ecotourism.

3. Uncontrolled activities. Due to poor knowledge and monitoring, some income generating activities are inconsistent with environmental protection. Kuala Sepetang, which is known for its untouched mangrove, is also associated with prawn farming, cockle harvesting and fisheries. Furthermore, secondary tourism businesses such as homestays and seafood restaurants are generating waste flowing into the nearest river, which affect the habitat of endangered species such as fireflies, and aquatic life in the mangroves.

Local tourism authorities and tour operators have not been offering high quality narratives and delivering meaningful conservation messages to visitors.

4. **Inefficient marketing and promotional tools.**

Existing campaigns focus on encouraging tourist visits rather than conscious and meaningful tourism. For example, neither the state agencies nor

local tourism groups are able to deliver a variety of tourism products and more value through tourist information centres. This does not compel new visitors to come or extend their visit. It is partly due to the weak collaboration between state agencies and local tourism operators.

5. Inadequate infrastructure. Local tourism authorities and tour operators have not been offering high quality narratives and delivering meaningful conservation messages to visitors. Poor maintenance of cultural infrastructure is also a major factor in the decline of visitors. For example, the turtle conservation and information centre in Pasir Panjang, Segari, cannot garner a steady flow of visitors without the support of government agencies.

THE WAY FORWARD

Strategic actions to boost ecotourism

In order for the state to tap into its ecotourism potential and increase tourism revenues, a series of comprehensive plans has been made:

SHORT TERM PLAN (2016-2020)

1. **Explore and prioritize ecotourism destinations.**

The identification of potential locations for ecotourism development should be done in systematically with short- and long-term perspectives (Nor Hasliza et al., 2014). State agencies and local authorities can then find spots which are economically viable to the state and local community.

2. **Upgrade facilities without compromising nature.**

The upgrading of infrastructures will boost the number of visitors. However, this enhancement must adhere strictly to existing environmental policies and regulations.

3. **Institutional framework for ecotourism.**

A detailed guideline on the principles of ecotourism addressing pressing issues such as

land use and management by state agencies should be established. It should consist of both government- and investor-led approaches to management. With innovative business models led by private enterprises, such value creation can offer visitors new experiences and services that government agencies cannot offer.

MEDIUM-TERM PLAN (2021-2025)

1. Award and certification. The federal government has introduced tourism certifications such as Criteria and Indicator Programme (C&I) and Malaysia Tourism Quality Assurance (MyTQA) to increase the quality of services. A proposed Certification for Sustainable Tourism (CST) aims to integrate the principle of sustainable tourism by identifying good management practices, measuring environmental and social impact as well as the client's perception, and the congruence between the services offered and the product's promotion. CST in Costa Rica, for example, adopts an award system that takes into account ecotourism's environmental, social, and community impact in every scale of operations (Sander, 2010).

2. Sustainable production and consumption (SCP) in tourism. The main principle of SCP is to do 'more and better with less'. Transitioning to SCP practices generates green jobs. Ecotourism is a game changer as this sector has the largest potential for improvement in resource efficiency. The potential areas include CO2 emissions with a projected 52% improvement over business as usual (BAU) scenarios, energy consumption at 44%, water consumption at 18% and net waste disposal at 17%. Therefore, local communities and tour operators who engage in SCP initiatives will gain frontrunner advantage.

LONG-TERM PLAN (2026-2030)

1. Promote conservation awareness. Awareness on the benefits of protecting Perak's natural gifts has to be promoted in local communities. Tour operators should be equipped with knowledge so as to communicate effectively with the visitors. Training programmes will sow positive attitudes and curiosity about the ecosystem and our natural heritage, and awareness on the valuation of ecosystem services.

2. Upgrade research centres into living laboratories for edu-ecotourism hub. Making conservation practices mainstream in local communities through educational institutions, commercial and public entities nurtures a stronger learning environment. Stakeholders can design a loop of direct – indirect - direct conservation from ecotourism activities (Sander, 2010). Creating a learning atmosphere by commissioning research with commercial value, for instance, gives added value to visitors and locals alike. The concept of a living laboratory can deepen the exchange of knowledge and empower the locals.

Source: Department of Statistics, Malaysia; and IDR calculations

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IDR PERSPECTIVE

IDR Perspective is a quarterly publication by Institut Darul Ridzuan that provides analytical insights on Malaysian socio-economic issues, with specific emphasis on Perak. Literary analyses sourced from public data cover the five focus areas: economy, services, society and government, and human capital and environment. It is aimed at keeping the public, decision makers, and scholars in public and private sectors informed.



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