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AN OVERVIEW OF THE SOCIOECONOMIC DETERMINANTS ON NATIONAL'S SECURITY

Nur Surayya Mohd Saudi^{a,*}, Ariffin Ismail^a, Arman Rumaizi Ahmad^b, Mohd Zambri Mohamad Rabab^b,
Chan Peng Cheong^b, Mohd Razali Alias^b, Shahrman Mahmud^b, Hasnol Hisham Abu Hassan^b

^a National Defence University of Malaysia (NDUM), Kuala Lumpur, Malaysia

^b National Resilience College, Putrajaya, Malaysia

*Corresponding author: nursurayya@upnm.edu.my

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ABSTRACT

Socioeconomic development incorporates sustained increase in the economic growth per capita for a country. For instance, economic security is a major element of national security based on the instruments of Diplomacy, Information, Military, and Economic (DIME). As such, this study overview the impacts of socioeconomic issues on Malaysia's stability and security that contribute to the national power. Hence, the selected macroeconomic determinants, namely inflation, employment rate, and military expenditure, were assessed. The research methodology employed in this study had been based on the comparative approach. The study outcomes revealed strong relationships of the selected macroeconomic determinants with both the stability and security of Malaysia. Investment in defence spending is prescribed to promote the economic growth in Malaysia. This study concludes that socioeconomic development plays an integral role in contributing to the security and the stability of Malaysia. Further discussion, analyses, conclusion, and measures are elaborated.

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1.0 Introduction

National power reflects the ability of a country to meet its national objectives (Hartmann, 1973). The nine elements of national power are geography, natural resources, industrial capacity, military preparedness, population, national character, national morale, quality of diplomacy, and quality of government (Morgenthau, 1973). These instruments of national power can be used by a country to influence other countries or international organisations or even non-state actors (Lightning Press, 2014). The economic instrument of DIME ranges from trade policies, fiscal and monetary, embargoes, and tariff to assistance. A developed country, such as the United States with exceptional economic foundation, has the ability of exploiting its economic elements to shape its strategic security environment. For instance, continuous exports of military equipment to other countries contributes a sustainable development of defence industries in securing its economic development.

The government is responsible for ensuring that sovereignty and national security are continuously safeguarded and maintained (NSP, 2019). The national security from the stance of Malaysia refers to the state of being free from any threat, whether internally or externally, to its core values. Economic integrity

is one of the nine core values that must be protected as a weak economy may threaten national security. Hence, it is essential for Malaysia to have strong economy, along with improvements in social conditions, to enhance its national security. (Pinjaman et al., 2019) concluded political stability, government effectiveness, and control of corruption are significant in explaining foreign direct investment while regulatory quality and rule of law are not. With the exception to government effectiveness, the remaining government stability variables that are significant show positive relationship with the inflow of capital where an increase in political stability and control of corruption lead to a higher level of foreign investment. Hence it is proven that government effectiveness and stability will influence the Foreign Direct Investment (FDI) of the country.

One of the strategies of National Security Policy (NSP, 2019) that is related to defence is to enhance the defence and security capacity and preparedness. Since the past decade, the economic development in Malaysia has not been as progressive as expected, thus resulting in small allocation for defence and security spending. The incident in Lahad Datu should be kept in mind as a turning point for the government to allocate sufficient amount of funding for defence. The latest development of Defence White Paper (DWP) has identified the national power to be the pillar to underpin defence initiatives in future (MOF, 2020). The government needs to devise effective strategies to gain Return of Investment (ROI) for investing in defence expenditure, so as to enable the country shape its economic development towards the security and stability of Malaysia.

2.0 Literature Review

An Overview of Socio Economic Determinants

Character and security dynamics are classified into five sectors, namely military, politics, economy, environment, and the people (Buzan et al., 2008). Each sector is composed of several subsections to elaborate the dynamics of security of that particular sector. Precisely, it summarises the dynamic security sector by identifying it as either domestic or global in nature. Buzan rejected the conventional understanding of security and emphasised that security is a peculiar kind of politics that can be applied for plenty of issues. It applies a constructivist perspective that distinguishes the security process from the political process. Economic security is indeed a major element of national security (Ronis, 2011). No matter how one looks at national security, one cannot run away from the need to include economics of the country. The socioeconomic of a country includes its industrial infrastructure to offer employment opportunities and to distribute equal wealth across the country. In fact, a strong connection between national security and economy has been established (Ronis, 2011). Thus, socioeconomic development is significant to ascertain the stability and the security of a country. Inflation refers to increment in public price at a certain period or continuously (Bernstein, 2012). Another study defined inflation as a public rise in higher prices due to imbalance between movement of goods and money flow (Jefferson, 1977). In precise, inflation affects many factors and leads to economic vulnerability (Chen & Tan, 2002). This notion is in line with Hans Morgenthau, who had identified nine elements of National Power, including geography, natural resources, industrial capacity, military preparedness, population, national character, national morale, quality of diplomacy, and government quality. For instance, (Mensikovs et al., 2017) asserted the significant interconnection between social economy and security and highlighted the role of social capital as an important indicator of inequality, and, at the same time, the most important indicator of stability and security.

Unemployment Rate and National Security

Unemployment rate in Malaysia were accessed with some macroeconomic determinants, namely real economic growth rate, trade openness, real Foreign Direct Investment (FDI) growth rate, and inflation rate (Baharin et al., 2012). The study revealed long- and short-run correlations of unemployment rate with trade openness and real economic growth, respectively. Another study reviewed the relevant initiatives implemented by the government to increase the opportunities for the elderly population to be employed and involved in the workforce (Ramely et al., 2016). Optimising and utilising the elderly are crucial to use the available human resources for the country, apart from reducing the lurking burden (e.g., monetary problems, isolated by family, and loneliness). The literature highlights the importance of unemployment rate as a socioeconomic determinant that promotes national security and stability. Unemployment denotes inefficient use of labour resources and reduction in economy size. Figure 1 display the unemployment rate and GDP growth for Malaysia. The graph display an inversed relationship between unemployment rate and

GDP growth whereas an increase in GDP growth reduced Malaysia's unemployment rate. Malaysia reported its lowest level of unemployment in 2014, with a rate of 2.85 percent (WDI,2020). The economy expanded 5.8% in the fourth quarter of 2014 supported largely by strong domestic demand while for the year, the country's GDP grew 6%. For the whole year, the country registered GDP growth of 6%, higher than expectations on the back of growth in the private sector (BNM,2014). On the same year Malaysia ranked the 1st highest GDP growth (6%) amongst Southeast Asia countries and followed by Thailand (6.1%) and Indonesia (5%) (IMF, 2014).

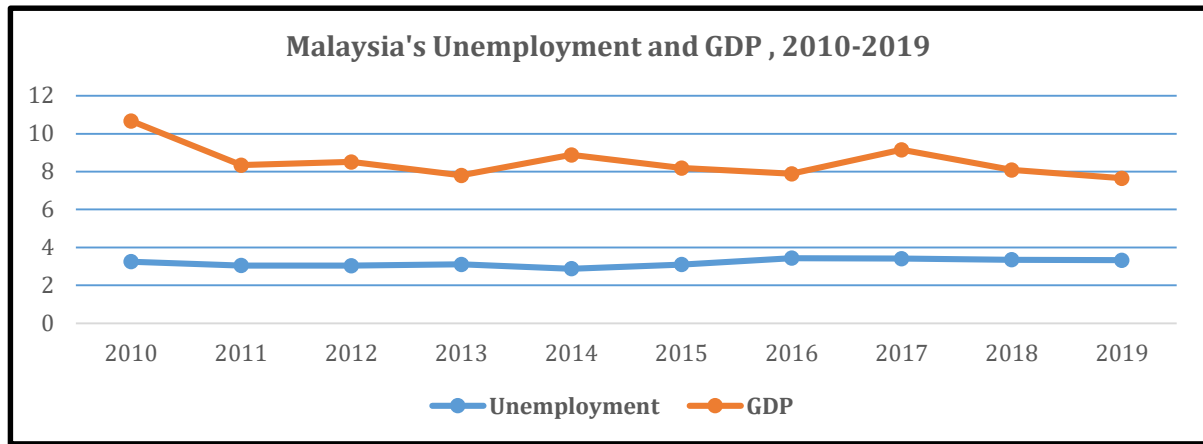


Figure 1: Malaysia: Unemployment rate from 2008 to 2018 (WDI, 2019).

Labour supply needs to be tailored to market requirements in order to control the increasing unemployment rate. The government should offer an incentive of tax reduction for small and medium enterprises that offer job opportunities for fresh graduates. Besides, incentives should be given to industries that run agro-based businesses using natural resources. This can reduce the economic reliance on FDI flows, apart from creating opportunities for local investors to enhance Direct Domestic Investment flows (DDI) (Loganathan et al., 2015). The constraint of addressing unemployment rate in light of IR 4.0 has become stiff at present, mainly due to the worldwide adoption of technology that has reduced human skills, which are substituted by machines and robot. According to the International Labour Organisation (ILO), technological advancement has exerted a more significant impact on unemployment issues. The innovative technological advances have eliminated the less difficult tasks; while simultaneously demanding workers to possess higher levels of skills (Essays, 2018). Low-skilled workers are at risk of losing their jobs to automation, new technologies, and robotics. This increases unpredictable shift in the nature of work and future jobs. In light of industrial revolution, the government should design education syllabus that match the current requirement skills to meet job prerequisites. To date, one's credentials and skills are still inadequate in meeting job duties, as IR 4.0 is controlled by artificial intelligence and digital frameworks. Young graduates face problems in learning new skills applicable for the required jobs, such as Science, Technology, Engineering and Mathematics (STEM). This has caused the unemployment rate to escalate (Essays, 2018). The hike in unemployment rate creates more social issues to the country. The rates of domestic violence, alcoholism, and drug abuse have not only increased, but also prolonged unemployment with financial issues. The society, thus, suffers from increased marriage breakdown, disunity, suicide rates, and crime, especially among the young people (Essays, 2018). Economic problem that leads to social issues can deteriorate the stability and security of a country.

Unemployment is a vital macroeconomic determinant that can influence the economic stability and security of a country, which is in line with the elements of national power derived from (Morgenthau, 1973). The initial aspect refers to the population, as it is not merely the quantity of population that influences national power but the quality of population that is more valuable for national power. Hence, productive human capital and good social well-being of the population are the sources of national power. National power also speaks about national morale, in which population with low morale due to unemployment and followed by social issues will certainly affect the security and the stability of a country. Thus, it is integral for the government to formulate effective human capital policies, regulations, rules, and law firmly, fairly, and consistently, so as to increase employment. In this context the government should look into human capital behavior in terms of wage inequality, minimum wage, productivity and income distributions, as well as job opportunities in the flesh against the safety and security of Malaysia. The people's well-being must be equipped with job securities to retain both security and stability of the country.

Inflation and National Security

Inflation refers to the ongoing increase in public price within a specific duration or continuously (Bernstein, 2012). Inflation is also defined as increment in prices of goods due to the imbalance between movement of goods and flow of money (Jefferson, 1977). Inflation affects many factors and leads to economic vulnerable that can deteriorate the growth of economy in a country (Cheng & Tan, 2002). Based on their understanding, inflation obviously has a great impact on the stability and security of the economy. Hence, inflation is a macroeconomic determinant with a significant impact on both economy and national power. The concern has been discussed by Hans Morgenthau in 1948 in his book entitled 'Politics Among Nations', in which he elaborated the nine elements of national power, inclusive of geography, natural resources, industrial capacity, military preparedness, population, national character, national morale, quality of diplomacy and government quality. The two types of inflation are demand-pull inflation and cost-push inflation. Demand-pull inflation occurs when demand exceeds supply of goods and services. Meanwhile, cost-push inflation happens when the input price of certain goods or services is increased. Maintaining a stable inflation rate has become a challenging issue for most countries (Cheng & Tan, 2002). The common effects of inflation on the economy activities can be linked with the determinants of GDP. The effects of inflation are not only wide ranging, but also can affect the purchasing power of a household or firm. Figure 2 display the inflation rate and Malaysia's GDP growth of Malaysia between 1970 and 2018.

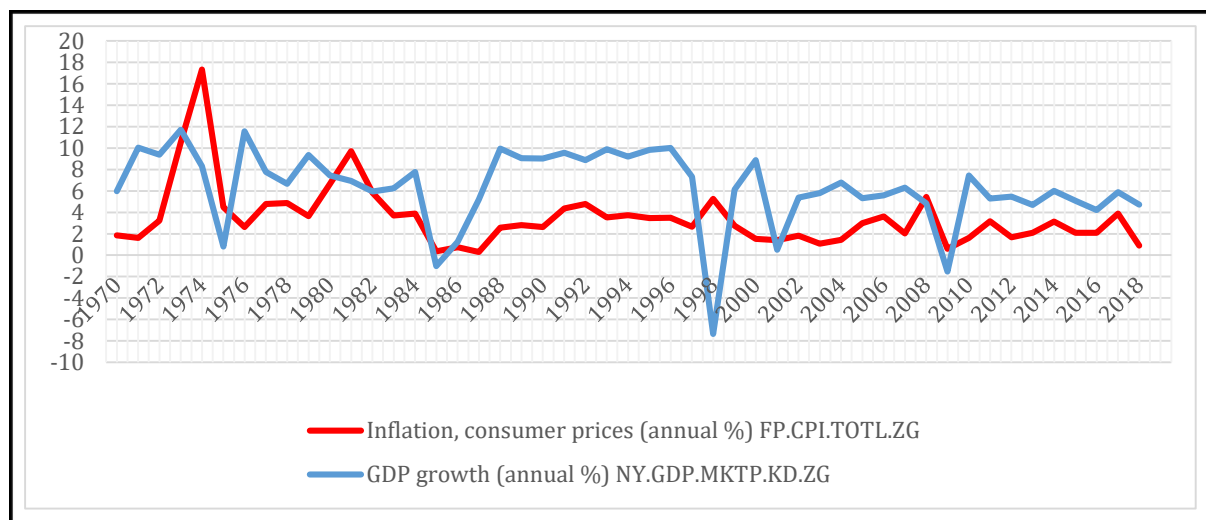


Figure 2: Inflation Rate and GDP Growth of Malaysia (WDI, 2019).

The sudden spike of inflation has a significant impact to the overall economic activities. High inflation is reflecting on the sudden increase of price (price stability), thus eroding the value of money (purchasing power) and creating uncertainty in the economic environment (confidence). Inflation is a price-related phenomenon and it is one of the main macroeconomic determinants that can influence the economic growth of a country (Jusoh, 1990). The inflation can retard the growth of household consumption, firms, and the GDP of a country. Reduction in the level of household consumption deteriorates firm profit, and concurrently, decreases the government revenue from tax collection. In the long run, businesses cease operation, while financial institutions suffer loss due to non-performing loans and lower deposits from investors.

The hike in crude oil prices has affected the cost-push inflation, whereby increment in the cost of production input (oil) is converted into an expensive product. This increased cost can, in turn, affect the prices of goods and services, as producers may pass production costs on to consumers. In long run, inflation can retard the economic growth in a country. The world financial crisis in 1998-1999 is an adverse economic phenomenon that is not directly caused by increment of crude oil price. For instance, it derived from the depreciation of Malaysia's currency over US Dollar, which increased the price of imported goods. Since Malaysia is one of the biggest importers from the US, the weaker currency of Ringgit caused additional cost to consumers. Hence, consumer demand for local products led to demand-pull inflation that increased the price level (inflation) concurrently. Inflation causes uncertainty investment environment that can dampen confidence amidst consumers and reduce GDP growth. Firms may anticipate that interest rates will have to rise to deal with inflation, and this undermines business confidence. Low confidence is likely

to force firms to postponed capital investment. The level of inflation and the GDP growth in Malaysia have a positive nexus, as projected in Figure 2 that concludes, the sudden spike of inflation exerts a significant impact on the overall economic activities. Rising inflation, therefore, not only affects the economy of a country, but also the national security simultaneously.

Defence Expenditure and National Security

Higher GDP denotes greater national power, as the “strength of a nation is found in the value of GDP per capita and total GDP” (Beckley, 2018). A high level of GDP for a country reflects its ability to invest more in defence expenditure by purchasing cutting-edge and powerful weapons, (Beckley, 2018). The GDP per capita offers a rough, but reliable measure of economic and military efficiency that denotes the national power of a country. National power of a country depends on a number of factors, which are called ‘components’ or ‘elements’ or ‘determinants’ of national power. They are also known as ‘capabilities’ or ‘capability factors’ (Frankel, 1969). Some scholars prefer to use ‘determinants of national power. However, more scholars now prefer to use ‘factors/elements of national power’ because no single factor or element is a determinant of national power. There are indeed some elements of national power. Several political scientists have attempted to classify these. A study has classified these into two parts; permanent and temporary elements (Morgenthau, 1973) whereas another study categorised these into natural and social determinants—the former including geography, resources, and population, while the latter economic development, political structures, and national morale (Organski, 1958).

Several studies have linked GDP growth with defence spending to maintain stability and to improve national security. Spending in defence serves as a catalyst in contributing to economic growth (Chen et al., 2014). This includes the domain of public welfare, wherein the private sector can participate as well, such as public infrastructure, education, as well as Research and Development (R&D). There were cases of defence spending of R&D with a spill over effect on civilian domain, such as Global Positioning System (GPS), which is extensively used at present as a navigation system and an integral part of daily routine. In support of this, increase in defence spending may lead to higher employment, increased profit, and greater investment deriving from short-run multiplier effect (Chen et al., 2014). In short, a huge capital investment spent on defence spending would boost economic growth. (Chairil et al., 2013) highlighting the positive correlation between defence spending and economic growth with the above theory. The finding showed that most of the spending went to military personnel. This approach, basically, contributed to employment that resulted in consumption determinant of GDP.

Some studies and discussions highlighted that by taking into account the international commitment of maintaining security and stability, such as the United Nation (UN), some countries still have a valid reason to increase their expenditure in defence. In this case, ‘diplomacy’ serves as an instrument of national power to promote peace. This notion has led to the shift from military spending to allocating more diplomacy and social welfare. Besides, defence spending displayed a negative correlation with economic growth, in which increased military spending raised the threat in economic growth (Aizenman & Glick, 2002). Recent study by (Saudi et al., 2019) assessed the relationship between defence spending and economic growth. In the study, the Autoregressive Distributed Lag (ARDL) tool was employed to analyse the econometric time series between 1979 and 2017. The finding echoed the work carried out by (Aizenman & Glick, 2002) which revealed a negative relationship between defence spending and GDP. The study indicated that 1% increase of defence spending reduced 16% of GDP. This result suggests that increasing defence spending demoted the economic growth in Malaysia.

Despite the negative association portrayed by defence expenditure (Aizenman & Glick, 2002), another study by Saudi et al., (2019), asserted that military preparedness is a national power element that must be supported. Hence, the government should revise an efficient measurement that can translate the increase shares of defence expenditure on GDP as parameters of security investment, and not passive expenditure. Socioeconomic activities, such as marine tourism in Sabah, should encourage more tourists to visit Malaysia with the perception that our defence has the capability to resolved the kidnapping issue (DHS, 2019). Tight monitoring on maritime border, should be able to protect Malaysia’s Exclusive Economic Zone (EEZ) from foreign fishermen incursion, which in turn, will enable our fishermen to freely navigate within our territory and gain more income. Investing in specialised drone to monitor land border can also help relevant government agencies, such as the Immigration Department, to monitor cross border activities, including smuggling and trespassing of illegal immigrants. The potential loss to government must be considered as Return On Investment (ROI). These are some potential cases of how defence can contribute to socioeconomic development, which will eventually contribute to GDP growth. Malaysia should not take

lightly in investing an efficient defence spending as, in the long run, it would boost the economy by promoting more employment opportunities (Saudi et al., 2019). Defence industries can start probing into the new cyberspace domain within the context of IR 4.0. This initiative enables the contribution of export determinants that may improve the GDP in long run. Defence spending, hence, serves as insurance in building the confidence of both the public and the world. This will capture foreign direct investment that can stimulate Malaysia's GDP. Therefore, viable policies on defence spending are crucial to promote economic growth (Saudi et al., 2019).

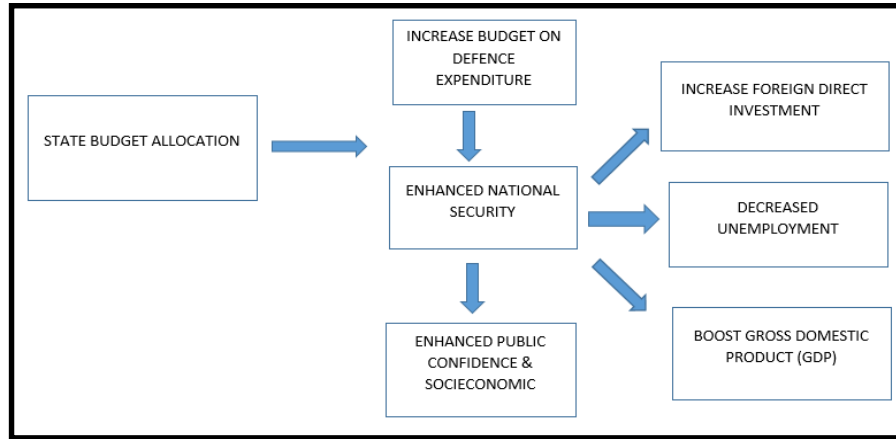


Figure 3: A conceptual diagram of the relationship among the elements of the subject of the research on the socioeconomic – security nexus.

3.0 Conclusion and recommendations

This study overviews the impacts of socioeconomic issues on Malaysia's stability and the security that contribute to the national power. The selected macroeconomic determinants, namely inflation, employment rate, and military expenditure, were assessed. The revealed a strong relationships of the selected macroeconomic determinants with both the stability and security of Malaysia. The rate of unemployment in a country seems to retard economy and create social problems, which will eventually lead to weaker national power. Hence, low-skilled workers are recommended to acquire new knowledge and earn professional certificates, in order to remain competitive in the market, which is in line with the industrial revolution standard. Another suggestion is to utilise vocational education, along with other skills and courses, to prompt the education and skills of the low-skilled workers to shift their nature of work to low-risk jobs involving automation and robotics. Retraining that encompasses of gig economy also can be introduced to low-skilled workers who cannot perform as highly-skilled workers do. This can temporarily help them until they are re-employed. As many countries are facing industrial revolution, a clear blueprint on human capital development should be formulated by embedding education and training level to prepare the younger generations to become highly skilled workers.

Another suggestion is that the government should provide financial assistance, such as unemployment benefit, to help those unemployed to overcome their financial problems until they secure a job. Unemployment benefit in terms of monthly salary to support unemployment family living expenses at a minimum cost is vital to avoid the breakdown of society and the well-being of population. This has been practiced in Australia, wherein allowance is paid to people of working age who are unemployed. The allowance is designed to be temporary and is less generous than age pensions. It is meant to support jobseekers and their family to help with the cost of raising children (Som et al., 2015). In matters related to the inflation, the government should review the monetary policy in order to control money supply and to maintain price level. To control money supply, the government may increase the interest rates to financial institution so as to reduce the loan granted to consumers. An increasing cost of the loan financing (borrowing), will discouraged spending. Nevertheless, an effective monetary policy can curb the inflation. As for fiscal policy, the government should impose higher income tax to increase government revenue.

The defence industry should serve as an economic catalyst to improve socioeconomic development. It is vital to review Defence industry in Malaysia and realigned relevant policies in enhancing sustainable development of Malaysia's economy. The review should weigh in the terms and conditions related to Intellectual Properties (IP), as well as the involvement of local industries. Furthermore, it should place

focus on disruptive innovation related to IR 4.0. The Malaysian National Policy on IR 4.0, which has been launched recently, should be the basis of the revised Defence Industrial policy. This may encourage the local entrepreneurs to participate in the defence industry and become less dependent on foreign countries. The revised defence industrial policy should provide a mechanism to leverage defence spending, in order to mitigate wastage in developing defence capability. The Defence R&D fund also should increase the R&D activities as the fund allocated for this industry was RM31 million in 2019 (MOF, 2019). In conclusion, this study has demonstrated an overview regarding the vital role of socioeconomic development in contributing to the prosperity, the stability, and the security of Malaysia.

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