

**Network of East Asian Think-Tanks (NEAT)
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1. INTRODUCTION

“Inclusive development” does not have a universal definition, but based on various definitions imparted such as by Rauniyar and Kanbur¹, Ianchovichina and Lundstrom², and the United Nations Development Programme³, this concept may be defined in sum as growth coupled with equal opportunities, whereby all of society has equal access and contribute equally to opportunities through non-discriminatory practices, participation in decision-making and sharing of benefits, in line with human development approaches. Consequently, aggregate leaps in development are not considered to be inclusive if these do not benefit all of the citizenry. For instance, the Institute for Development Studies (Sabah) reported in 2008/09 that Sabah continues to lag far behind other states in reducing poverty despite decades spent stressing upon poverty eradication⁴, and in spite of impressive national poverty reduction rates as a whole. Correspondingly, inclusive development should incorporate private organisations in addition to government bodies. These include non-governmental organisations (NGOs) and private firms for their niche expertise in helping to develop and implement effective and long-term development proposals. While privatisation is not a new phenomenon, civil organisations-led development pushes have yet to take off in Malaysia. One notable example is Amanah Ikhtiar Malaysia, a microcredit institution which has

¹ Rauniyar, G., Kanbur, R., (2009), *Inclusive Growth and Inclusive Development: A Review and Synthesis of Asian Development Bank Literature*, Metro Manila: Asian Development Bank, p3.

² Ianchovichina, E., Lundstrom, S., (2009), ‘What is Inclusive Growth’, (10/2/2009), <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1218567884549/WhatIsInclusiveGrowth20081230.pdf>, date accessed 12/6/2012, p2.

³ United Nations Development Programme, (2012), ‘Focus Areas: Inclusive Development’, http://www.undp.org/content/undp/en/home/ourwork/povertyreduction/focus_areas/focus_inclusive_development/, date accessed 12/6/2012.

⁴ Institute for Development Studies (Sabah), (2008-2009), ‘Poverty Mapping in Sabah’, *Berita IDS*, 23:1, <http://www.ids.org.my/current/beritaid/index.shtml>, date accessed 19/6/2012.

benefited thousands of families through its micro-credit and micro-finance initiatives. Similarly at the political decision-making level, truly inclusive development should not rely merely on a centralised government setting policies for the nation as a whole, but rather, various aspects of decision-making must be passed down to states and localities such that these regions retain a reasonable amount of power to freely exercise political authority in order to more efficiently and effectively respond to the needs of their respective communities.

2. MALAYSIA'S NATIONAL POLICIES

Malaysia has achieved so much as a relatively new developing country in both economic and socioeconomic fields. Economically, Malaysia's average GDP growth from 1970-2011 was 6.3 per cent per annum. And today, per capita income is 25 times higher than in 1970 at \$US9,700 in 2011. On the other hand, despite the tremendous growth in income, the inflation rate is kept below average of 3 per cent since 1970.

In developing the national economy, the Malaysian government has strove to focus on reducing socio-economic disparities and to increase overall economic growth through implementing a series of five-year economic development plans known as the Malayan Five-Year Plans, and since 1966, as the Malaysia Plans. These development plans comprise short to medium-term working methods which are meant to produce long-term results in poverty alleviation and the restructuring of society to solidify national unity, to move towards a developed economy status with an effective private sector, to increase international competitiveness and to cultivate a strong human capital base. These plans were set within the broader policy agendas of the frameworks of the three Outline Perspective Plans (OPPs).

	1970 ^a	1989 ^b	2009 ^c
Ethnic			
<i>Bumiputera</i>	64.8	23	5.3
Chinese	26	5.4	0.6
Indians	39.2	7.6	2.5
Others	44.8	22.8	6.7
Strata			
Urban	21.3	7.1	1.7
Rural	58.7	21.1	8.4

Table 1: Incidence of Poverty by Ethnicity and Strata, Malaysia, 1970-2009

Note:

^a *Refers to Peninsular Malaysia only*

^b *Starting 1989, data is based on Malaysian citizens*

^c *From 1999 onwards, calculation of poverty is based on 2005 Methodology*

Source: EPU

2.1 Malaysia's broad policy agendas – OPPs and the New Economic Model

The first OPP was implemented from 1971 until 1990 to pursue the objectives of the New Economic Policy (NEP). These were to achieve full employment for the labour force, expand the income and productivity levels of persons in low-productivity jobs, increasing opportunities for low-productivity occupation workers to move to more productive jobs, reducing existing inequalities between income and racial groups, provision of social services to improve living conditions of urban poor and to modernise rural life, creating a Malay and other indigenous peoples industrial and commercial community, restructuring of sectoral and occupational employment patterns to reflect the national racial composition, expanding education facilities, training facilities, social services and infrastructure⁵. Due to the prominence of racially-identified economic sectors in the decades preceding Independence in 1957, it is argued that the NEP was a necessary tool towards levelling the playing field in order that various segments of society might be included in and benefit equally from the economy.

The second OPP from 1991 to 2000 was set to pursue the objectives of the New Development Policy which, while maintaining the basic goals of the NEP, saw various shifts in focus towards a more balanced development process. These shifts were towards the eradication of hardcore poverty while also reducing relative poverty, the employment and development of the *Bumiputera* Commercial and Industrial Community (BCIC) to increase the *Bumiputera* (“son of the soil” or Malay people of the Malay Archipelago) participation in the modern

⁵ The Economic Planning Unit, Prime Minister's Department Malaysia, 'Third Malaysia Plan 1976-1980: Outline Perspective Plan 1971-90', http://epu.gov.my/html/themes/epu/images/common/pdf/rmk/rmk3/1st_opp.pdf, date accessed 15/6/2012, pp. 51-52.

sectors of the economy, heavier reliance on the private sector in the restructuring objective and finally, the development of human capital⁶.

The Third OPP ran from 2001 until 2010 and aimed to pursue the National Vision Policy, a policy which builds upon earlier development thrusts whilst focusing on creating a globally competitive knowledge-based society and increasing domestic investments⁷. This last OPP continued to maintain and emphasise Bumiputera participation and equity ownership, suggesting that more racially-inclusive development policies have yet to ferment within a national development policy framework.

	Target OPP1	Achieved OPP1	Target OPP2	Achieved OPP2	Target OPP3	Target NEM
	1971-90		1991-2000		2001-2010	2011-2020
Average Annual Growth Rate	(%)					(% p.a. based on current prices)
GDP	8.0	6.7	7.0	7.0	7.5	7.6
Private Consumption	6.2	6.3	7.2	5.5	10.3	9.7
Public Consumption	9.1	7.1	5.8	5.5	7.7	4.8
Private Investment / Gross Fixed Capital Formation (NEM)	8.5	9.4	8.0	2.9	13.7	14.3
Public Investment / Gross Fixed Capital Formation (NEM)	10.1	10.0	-0.4	10.5	1.7	6.7
Exports	7.1	9.2	6.3	12.4	8.1	10.5
Imports	5.2	10.0	5.7	11.4	9.4	12.6
Employment	3.3	3.4	3.1	3.3	3.1	-
Labour Force	3.1	3.3	2.9	3.1	3.1	-
Unemployment Rate	3.6	6.0	4.0	3.1	2.5	-
Share to GNP (%)						
Savings	16.5	30.3	36.2	39.0	33.9	-
Investment	22.3	35.1	34.5	29.0	31.6	-

Table 2: Targets of OPP1-3 and the New Economic Model

Source: EPU, NEAC

⁶ The Economic Planning Unit, Prime Minister's Department Malaysia, 29/1/2012 (last updated), *The Second Outline Perspective Plan, 1991-2000: Chapter 1*, Economic Planning Unit, <http://www.epu.gov.my/chapter1>, date accessed 15/6/2012, p1.

⁷ The Economic Planning Unit, Prime Minister's Department Malaysia, 1/6/2010 (last updated), *The Third Outline Perspective Plan, 2001-2010: Foreword*, Economic Planning Unit, http://www.epu.gov.my/html/themes/epu/images/common/pdf/3rd_OPP_foreword.pdf, date accessed 15/6/2012.

Most recently, the New Economic Model (NEM) was introduced in 2010 and hailed as a new approach to economic development with the three-pronged goals of becoming a developed nation; namely, high income nation, inclusiveness and sustainability. These elements are embedded into the Economic Transformation Programme (ETP)⁸. Slated as a key part of the NEM, “inclusiveness” seeks a balance between *bumiputera*’s special position and the legitimate interests of various groups, guided by affirmative action programmes targeting the bottom 40 per cent of households, transparent processes, access to resources based upon need and merit, and a sound institutional framework⁹.

In line with the NEM, the Government Transformation Programme (GTP) was introduced in 2009 to improve government efficiency and the socio-economic well-being of citizens. It consists of seven National Key Results Areas (NKRAs) which are to reduce crime, fight corruption, improve quality of education, raise living standards of low-income households, improve rural basic infrastructure, improve urban public transport and address the rising cost of living¹⁰.

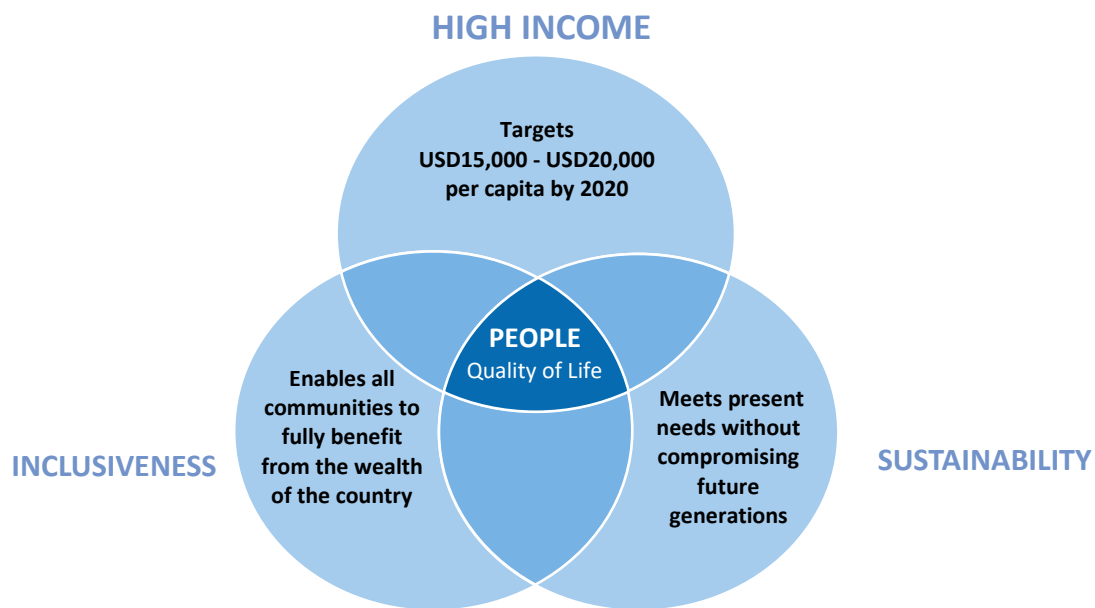


Diagram 1: Goals of the New Economic Model

Source: NEAC

⁸ National Economic Advisory Council, *New Economic Model for Malaysia: Part1: Strategic Policy Directions*, Putrajaya: National Economic Advisory Council, http://epu.gov.my/html/themes/epu/images/common/pdf/eco_stat/pdf/nem.pdf, date accessed 18/6/2012, pp. 3-4.

⁹ *Ibid.*, p10.

¹⁰ Government Transformation Programme, Performance Management & Delivery Unit (PEMANDU), (2011), ‘What are NKRAs: Overview’, http://www.pemandu.gov.my/gtp/What_Are_NKRAs%5E-@-Overview.aspx, date accessed 18/6/2012.

2.2 Complementary economic development plans

The current Tenth Malaysia Plan which runs between 2011 and 2015, 'sets the stage for a major structural transformation that a high-income economy requires'¹¹. Five development corridors have also been created across particular regions to facilitate and intensify regional development, with the target of achieving their individual objectives by 2020 to 2025. These are Iskandar Malaysia, the East Coast Economic Region, the Northern Corridor Economic Region, the Sabah Development Corridor and Sarawak Corridor of Renewable Energy.

2.3 Tracking the progress of past national strategies

With reference to the latest available data from 2009, the progress of achieving the Millennium Development Goals (MDGs) in Malaysia is used as a benchmark in assessing the successes and challenges of past national strategies for economic development. In 2011, the United Nations Development Programme (UNDP) country team in Malaysia published a report detailing the aggregate national progress towards achieving the MDGs from 1990 until 2009¹². In the area of eradicating extreme poverty and hunger, key indicators include the proportion of the population living below US\$1 per day which declined from 17 per cent to 4 per cent while the poverty gap ratio dropped from 3.75 per cent to 0.8 per cent. Nevertheless, the urban poor poverty rate has stagnated at 2 per cent since 2000 and the rural poor continue to constitute a majority of household poverty with some states even seeing an increase in rural poverty between 2007 and 2009, an effect attributed to the financial crisis. With an increase in the share of the poorest quintile in household income from 5 per cent in 1989 to 5.1 per cent in 2009, it is further reported that inequality has persisted as the absolute income gap between the bottom and top household quintiles is wider at RM8,000 from RM4,150 in 1989, resulting from the focus on inter-group inequalities instead of overall inequality.

The number of underweight children aged below five-years, saw a fall in proportion between 1995 and 2008 while the proportion of households below minimum level of equivalent to

¹¹ The Economic Planning Unit, Prime Minister's Department Malaysia, (2010), *Tenth Malaysia Plan 2011-2015: Foreword*, Putrajaya: The Economic Planning Unit, Prime Minister's Department Malaysia, <http://www.epu.gov.my/html/themes/epu/html/RMKE10/img/pdf/en/foreword.pdf>, date accessed 18/6/2012, p iii.

¹² United Nations Country Team, Malaysia, (2011), *Malaysia: The Millennium Development Goals at 2010*, Kuala Lumpur: United Nations Country Team, Malaysia.

food poverty line income dropped from 3.9 to 0.7 per cent. Universal primary education increased slightly from its already high rates of net enrolment ratio in primary education, the proportion of pupils starting grade one who reach the last grade of primary education and the literacy rate for 15 to 24 year-olds.

The promotion of gender equality and the empowering of women also saw the girls-boys ratios in secondary and tertiary education increase to 1:1 and 1.6:1 respectively, the share of women under wage employment in the non-agricultural sector increase 6.3 per cent to reach 37.8 per cent in 2008, and the proportion of seats held by women in national parliament more than double to 10.8 per cent in 2009. Nonetheless, Leete notes elsewhere that Malaysian women's participation in the labour force have barely risen between 1980 and 2005, remaining below other middle and upper-middle income countries, while their involvement in political life is low.¹³

Moving on, the UNDP's figures on mortality rates suggest that Malaysia is on course in reducing child mortality rates. The under-five mortality rate fell from 16.8 per cent to 7.9 per cent in 2007, infant mortality rate from 13.1 per cent to 6.2 per cent during the same, and the proportion of one year-old children immunised against measles in 2008 rose to 94.3 per cent. Maternal health, while marking an improvement in maternal mortality ratio (per 100,000 births) from 44 in 1991 to 28.9 in 2008, is still far from achieving the target of 11 by 2015. Antenatal care coverage also increased from 78 per cent to 96.7 per cent in 2007. Regardless, lacklustre contraceptive prevalence rates, 13 adolescent births per 1000 women in 2007 and a 24.7 per cent unmet need for family planning in Peninsular Malaysia during 2004 suggest difficulty in achieving universal access to reproductive health by 2015.

In the combat against HIV/AIDS, malaria and other diseases, the notification rate (per 100,000 population) for HIV/AIDS fell from 28.5 cases in 2002 to 10.8 cases in 2009 while the number of reported AIDS-related deaths dropped from 1374 in 2007 to 805 in 2009. However, the report notes that a shift to an increase in proportion of cases is due to sexual transmission. Moreover, the number of people with HIV who have received antiretroviral treatment has increased from 3,880 in 2005 to 9,962 in 2009. The incidence of malaria has dropped from 50,000 to 7,000 cases, the number of deaths for malaria and other major

¹³ Leete, R., (2007), *Malaysia: From Kampung to Twin Towers: 50 Years of Economic and Social Development*, Selangor, Malaysia: Oxford Fajar Sdn. Bhd., pp. 263-265, 272-273.

diseases has increased from 571 in 1995 to 1,582 in 2009, and the tuberculosis cure rate under directly observed treatment, short course, dropped from 89.7 per cent in 2000 to 77.6 per cent in 2008. The report also notes that this last decrease is due partially to a higher proportion of patients lost to follow-up and administrative flaws.

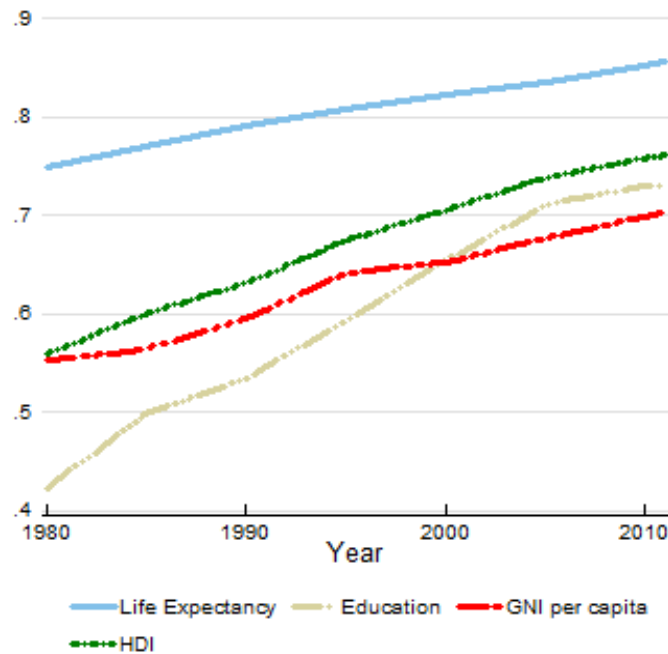
There also remains much that can be done to ensure environmental sustainability. For example, the report notes that total CO₂ emissions per capita and per US\$1 GDP (PPP) have increased from 3.2 tonnes per capita in 1994 to 7.2 tonnes per capita in 2006, the proportion of urban population living in slums fell a little from 108,704 households in 2004 to 99,022 households in 2009 while the proportion using an improved drinking water source was 91.6 per cent in 2009. It remains to be seen whether water supply coverage will reach a targeted 97 per cent of the population by 2015. Meanwhile, consumption of chlorofluorocarbons has dropped from 3383.4 ozone-depleting potential (ODP) tonnes to 173.7 ODP tonnes while halons have dropped to zero from 809.5 ODP tonnes. The proportion of terrestrial and marine areas protected was also at 10.4 per cent in 2010, exceeding the 2010 global biodiversity target. It is also noted that Malaysia's forested land area is still large at 62.4 per cent in 2010.

Lastly, in developing a global partnership for development at the domestic level, key indicators are the numbers of public hospitals and health clinics which have increased while mobile clinics have fallen slightly from 204 to 196 units. However, internet penetration and telephone lines per 100 households are low at 53.5 and 43.7 respectively, the latter a result of higher cellular penetration at 110.6 per 100 inhabitants in 2010.

Overall and at the aggregate level, Malaysia has achieved many MDGs and is on track to achieving most of the remaining targets. Nevertheless, the report stresses the need to ensure that these goals are also attained at a sub-national level, inclusively across all citizens, regions and income-levels. Problem areas include unsatisfactory telecommunications infrastructure to the rural areas in East Malaysia, the scarcity of safe water and improved sanitation in certain states as well as the continued under-representation of women in government and in managerial positions. It is clear that much greater effort will be required in order to attain inclusive development in Malaysia.

The achievements of Malaysia's development strategies are also demonstrated by the rise of its Human Development Index (composed of three dimensions – health, education and living

standards) value of 0.559 in 1980 to 0.761 in 2011¹⁴. Within the same period, Malaysia's life expectancy at birth increased from 67.4 to 74.2, expected years of schooling increased from 9.1 to 12.6 and mean years of schooling increased from 4.4 to 9.5.¹⁵



Graph 1: Trends in Malaysia's HDI Component Indices 1980-2011

Source: United Nations Development Programme

2.3 Changes taking place

Malaysia's comparative advantage in manufacturing and other labour-intensive exports is increasingly declining, ceding this to countries with lower wages such as China. In order to increase and sustain economic growth, it is recognised that Malaysia needs to move up the value chain of production through technological progress, a process that includes a shift towards knowledge-intensive industries and investing in high-skilled human capital domestically¹⁶. Further, the ongoing economic troubles in Europe and the United States

¹⁴ United Nations Development Programme, (2011), *Human Development Report 2011: Malaysia*, United Nations Development Programme, <http://hdrstats.undp.org/images/explanations/MYS.pdf>, date accessed 18/6/2012, p2.

¹⁵ Ibid., p2.

¹⁶ Leete, op cit, pp. 284-285.

suggests that Malaysia should focus on strengthening trade ties with the rest of the high growth Asian region.

For the month of April 2012 and the period of January to April 2012, the Malaysia External Trade Development Corporation (MATRADE) reported that exports to the Association of Southeast Asian Nations (ASEAN) accounted for 27.3 per cent of total exports, an 8.9 per cent increase from April 2011.¹⁷ Specifically, exports to the People's Republic of China grew 16 per cent, exports to the European Union fell by 14 per cent and exports to the United States declined 1.7 per cent¹⁸. The United States' and Germany's share as two of Malaysia's top 10 trading partners had respectively declined to 8.9 per cent and 3.2 per cent in 2011 from 10 per cent and 3.3 per cent in 2010¹⁹.

Another changing reality is, as mentioned before, the rising inequality despite rising income levels. Income disparities within and between regions and ethnic communities ought to be countered with redistributive policies and higher public expenditure targeting persons in the most disadvantageous regions and income levels²⁰.

3. CHALLENGES

Malaysia has come a long way since its independence in 1957. Over the years, the country has demonstrated great resilience in weathering economic crises with no or limited assistance from abroad. However, this argument may not be likely to hold water for long as Malaysia is increasingly becoming more important in the global trade and investment nexus. The urgent task is to break away from the middle income trap, and subsequently, enter the high-income club by year 2020. There will be greater challenges ahead for Malaysia to be more inclusive in its policies, namely:

¹⁷ Malaysia External Trade Development Corporation (MATRADE), (2012), *Malaysia External Trade Statistics: Trade Performance for the Month of April 2012 and the Period of January-April 2012#*, Source: Department of Statistics Malaysia, compiled by MATRADE, p2.

¹⁸ Ibid., pp. 2-3.

¹⁹ MATRADE, 'Top 10 Trading Partners, 2010', <http://www.matrade.gov.my/en/malaysia-exporters-section/33-trade-statistics/1754-top-10-trading-partners-2010>, date accessed 19/6/2012; AND MATRADE, 'Top 10 Trading Partners, 2011', <http://www.matrade.gov.my/en/malaysia-exporters-section/33-trade-statistics/2185-top-10-trading-partners-2011>, date accessed 19/6/2012.

²⁰ Leete, op cit, p293.

- i. **Speed is the key to success.** In OPP1, the emergence of large scale federal and state agencies such as FELDA, FELCRA and MARA was key to reducing poverty and increasing income levels of persons. In the subsequent OPPs, the MNCs, the corporate and private sectors were responsible for creating a wide middle-income class in a relatively short period of time. But progress made over the past half-century has slowed and economic growth prospects have weakened. Considering that the country has less than eight years before the 2020 target, Malaysia needs to realign its resources quicker by continuous structural reform encompassing political, economic and social dimensions.

- ii. **The success of NEM depends on the performances of GTP and ETP.** The announcement of NEM is a direct acknowledgement, or response, by the government that the country needs a comprehensive reform agenda in steering the country out of the middle-income conundrum. The eight strategic reform initiatives under the NEM framework are being channelled through the ETP and GTP programmes. These programmes should not only be thoroughly monitored, but more importantly, evaluated in a fair and transparent manner that reflects the principles of NEM.

- iii. **Malaysia is increasingly becoming more vulnerable to contagion and external economic shocks.** Over the years, Malaysia has managed to cope with the cyclical booms and busts with much resilience as evidenced during the Asian Financial Crisis 1998 and the Global Financial Crisis 2008. As the world's 24th largest trading nation, the country is now more open, globally connected and increasingly becoming vulnerable to external economic shocks because of dependence on export activities. With a budget deficit of five per cent of GDP and debt-to-GDP ratio of 53.5 per cent in 2011, options to weather future economic shocks will be limited.

- iv. **Greater competition from the global market as a result of open economy and Free Trade Agreements (FTAs).** FTAs can bring about greater competition with higher global standards, inculcating a higher level of efficiency and advanced economic conditions. However, Malaysia remains as a small developing economy despite being open and liberal in certain sectors. These 'new age' agreements involve not only removal of tariffs and trade barriers but also include liberalisation of sensitive sectors as well as important social considerations. The challenge is to

structurally reform its economy without hindering the progress of its large and small enterprises.

- v. **Increase wages that commensurate with the increase in productivity.** Wages of migrant workers have suppressed the increase in pay scale and ignore the much needed improvements in productivity as well as reasons to automate production. The introduction of national minimum wage of RM900 for Peninsular Malaysia and RM800 for Sabah and Sarawak will provide some comfort for workers to live above the poverty line. However, this does not guarantee the increase in labour productivity.

- vi. **Owing to the nature of governance, a now more polarised society has increased the complexity of the decision-making process.** The 2008 General Election was a watershed for the ruling coalition of more than 50 years – The National Front. Due to vast differences in political, economic and social developmental stances, the Malaysian community is evidently more divided and heavily opinionated. Recent government decisions are often politicised along racial, religious and monarchical lines. As such, the decision-making process is becoming too complex and slow-moving.

- vii. **Technological advancement and social networking affects the thinking society.** Since the emergence of Facebook and Twitter, the flow of information is now more fluid than ever. The fascination with social networking is compounded with the innovation in wireless telecommunications and flashy mobile devices such as smartphones and computer tablets. Whilst these advancements are deemed to promote greater transparency, it risks becoming a ‘popularity contest’ instead of encouraging greater flow of ideas towards a thinking society.

4. RECOMMENDATIONS

- i. **East Asian countries could take a multi-pronged approach to promoting inclusive development.** The idea of inclusive development could only work if all groups of people participate in the decision-making process, contribute to creating non-discriminatory opportunities and share the prosperity of development together.

This has to be implemented at four levels, namely regional, sub-regional, state/provincial and local community. Each level is responsible for its own development agenda, but as a whole, all four levels are focussed on the same goal which is to include each layer of society in policy formulation.

- ii. **Mainstreaming the elements of inclusive development into regional frameworks and programmes.** The term ‘mainstreaming’ refers to the act of bringing an issue or issues into prevailing current thought or opinion. In this context, mainstreaming seeks to integrate concerns on inclusive development into the design, implementation, monitoring and evaluation of policies and programmes in the political, economic and societal spheres so that an adequate standard of inclusive development is achieved. In doing so, the mainstreamed elements of inclusive development will ultimately be incorporated into national targets and policies.
- iii. **Introduce an ‘inclusiveness checklist’.** A checklist can be used to help East Asian countries become more inclusive in dealing with diverse societal layers. This is not only to take stock of the current state of social development, but more importantly, to ensure that the interests of minority groups are thoroughly considered in policy formulation. This checklist can later be monitored via a scorecard so that its targets are executed and evaluated objectively.
- iv. **Involve more stakeholders from the local level in the decision-making process.** A more inclusive decision requires a broad range of stakeholders, or interest groups, including the often marginalised groups in urban decision-making. Minority groups can be represented right from the community level. This bottom-up approach will ensure that all levels of society are thoroughly considered irrespective of race, gender, religion, class or location.
- v. **Introduce a regional blueprint to support the idea of inclusive development in a sustainable way.** The above-mentioned recommendations do not necessarily need to work as standalone initiatives. A region-wide blueprint that incorporates the elements of inclusive development could also be introduced in order to connect the above-mentioned recommendations into an implementable action plan.