

## CHAPTER 3

### MALAYSIA'S EXPERIENCE IN POVERTY ERADICATION

#### 3.1 Introduction

Similar to many other newly independent developing countries, Malaysia since its independence has pursued a high growth strategy by embarking on the design and implementation of a number of development plans. It is the objective of this chapter to demonstrate how these development plans are carried out successfully in Malaysia, to examine their successes and shortcomings in poverty eradication and to assess the development of policies and programs which are directed mainly to eradicate poverty within the context of the existing development plans.

For convenience, this chapter will be laid out as follows. It starts with a brief introduction. Section two gives background information. Section three reviews the poverty eradication programs in the post-independence period. Section four deals with the measurement of poverty in Malaysia. Section five discusses the debate on the Malaysian poverty line. Section Six reviews the poverty eradication programs in the New Economic Policy (NEP). Section seven focuses on the economic feasibility of the NEP. Section eight discusses the National Development Policy (NDP) and the eradication of poverty. Section nine deals with the Third Outline Perspective Plan (OPP3) and the eradication of poverty. The last section provides concluding remarks.

#### 3.2 Background Information

Malaysia is located in Southeast Asia (see, Map 1). It lies to the south of Thailand and to the north of the Indonesian islands of Sumatra and Singapore. Four hundred miles to the east lie Sabah and Sarawak separated from Peninsular Malaysia by the South China Sea.



Figure 3.1: Location of Malaysia in Southeast Asia

Table 3-1 Population Size and Distribution by Ethnic Composition, 1995 – 2005 (million persons)

	1995	%	2000	%	2005	%	Average annual growth rate (%)	
							7 MP	8 MP
Total population	20.68		23.27		26.04		2.4	2.3
Citizen	19.68	100.0	22.04	100.0	24.66	100.0	2.3	2.3
Bumiputra	12.47	63.3	14.56	66.1	16.59	67.3	3.2	3.6
Chinese	5.22	26.5	5.58	25.3	6.04	24.5	1.4	1.6
Indians	1.49	7.6	1.63	7.4	1.78	7.2	1.8	1.8
Others	0.50	2.6	0.27	1.2	0.25	1.0	-12.7	-1.1
Noncitizens	1.0		1.23		0.38		4.3	2.4

Source: Malaysia (2001:89)

More than half of Malaysia is mountainous and covered with dense tropical forests. The climate is equatorial, with uniformly, warm temperature and high humidity throughout the year. There is abundant rainfall especially during the monsoon months from November through January.

Malaysia is a federation of fourteen states in two geographical segments: twelve in Peninsular Malaysia (formerly known as Malaya) in the west and two in the northern part of the island of Borneo of Sabah and Sarawak (Larson, 1980). The Peninsular states account for 40% (i.e 131574 sq. km) of the total area, (which amounts to 329735 sq. km) while the Borneo states account for 60% – Sarawak (124449 sq. km) and Sabah (73712 sq. km). A vast fertile area in Sabah and Sarawak has not been exploited yet (Sahak, 1984).

The population of Malaysia according to official estimates accounts for 22.712 million inhabitants in 1999 with a population density of 68.4 person per sq. km. Current estimates indicate that the Malaysian population increased at an average annual growth rate of 2.4% during the Eight Plan Period to reach 26.04 million in the year 2005 (Malaysia, 2001).

Malaysia is a multiracial society (Anand, 1983). The main racial group is the Malays (Bumiputra): literally means the son of the soil), who accounts for 66.1 per cent of the Malaysian citizens in 2000 and increases at an annual growth rate of 3.2 per cent. The Chinese accounted for 25.3% and grew at an average annual growth rate of 1.4%, while the Indian population with an annual growth rate of 1.8% amounted to 7.4% (Table 3.1). These ethnic groups differ largely in terms of culture, religion, social custom and belief, language, and communal lines (Anand, 1983). Moreover, historically a wide

discrepancy existed among these groups with respect to sectoral, residential and occupational status. Most Malays reside in rural areas, engage in smallholdings agricultural practices cultivating paddy, and also predominate in farming and fishing. Urban Malays are employed in the civil services, the police, the armed forces and the service sectors.

The majority of Chinese lives in urban settings and has entered the modern sector where they dominate commerce, manufacturing construction, agricultural estates and mining. Most Indians live in the rubber and oil palm estates and some of them live in urban areas and work in professions and services (Larson, 1980). Except for the upsurge of the racial riots in 1969, the three ethnic groups have lived in peace and social harmony has been maintained in the country (Anand, 1983).

### 3.3 The Post- Independence Economic Development Plans and the Eradication of Poverty (1957- 1970)

The Malaysian economy could be classified as a laissez-faire economic system with a highly export-led commodity production. Since independence, a major policy orientation has occurred where the role of the state has changed from the maintenance of law and order of the colonial government to that of development in a rather general sense (Sukor, 1985). Prior to independence and since 1950, Malaysia has witnessed a succession of six five-year development plans. These include the Draft Development Plan (1950-1951) and subsequent First Five Year Malaya Plan (1956-1960). Over this period, planning was conceived as the institutional centerpiece of national development strategy through which successive Malaysian governments defined and applied their economic, social and political development goals (Rudner, 1980). During this period



planning focused mainly on the public sector. The planning role has been narrowly defined and confined merely to forward capital budgeting for government services. Such a planning phase is beyond the scope of this study.

Since independence in 1957 Malaysia's economic development was not so much different from that of the colonial era. However, the development efforts were focused on faster economic growth in order to maximize the GNP. The scope of economic policy was circumscribed by neo-classical free enterprise by a liberal trade policy and foreign capital. This model was supposed to work under the assumption that the problem of poverty and inequality, two crucial economic problems in Malaysia could be resolved through the trickle-down process. There was little focus on inequality in the distribution of wealth and income (Nasseri, 1989). As a result of this policy and to achieve a high economic growth between 1957 and 1970, three five –year development plans were carried out: the First Five Year Malaya Plan (1956 - 60), Second Five Year Malaya Plan (1961 - 65), and the First Five Year Malaysia Plan (1966 - 70). The overall objectives of these plans, which were articulated in the Second Malaya Plan (1961) and the First Malaysia Plan (1966) in a rather similar way, were:

- (i) The attainment of a faster rate of economic growth;
- (ii) A lower degree of economic instability;
- (iii) A lower level of unemployment;
- (iv) The integration of the people and states of Malaysia by promoting the welfare of all;
- (v) A more equitable distribution of income and wealth;
- (vi) A steady increase in the level of income and consumption per head; and
- (vii) An improvement of the standard of living of the rural population and other low income groups by increasing their productivity and the redressal of rural poverty.

Consequently, Malaysia experienced a substantial economic growth. During the Second Five Malaya Plan (1961- 65) the annual growth rates of the real GNP, the GNP and the real GNI were 6.2 %, 7.1 %, and 6.5 %, respectively, while in the First Five Year Malaysia Plan (1966-70), the rates were 7.6%, 5.0%, and 4.1%, respectively. However, these development plans reflected the new government efforts to solve the economic, social and political problems created by the colonial economic system. Moreover, at the time of Independence in 1957, Malaysia enjoyed one of the highest standards of living in Asia (Rao, 1980). In that year the primary sectors (agriculture, forestry and mining) accounted for 45% of the GDP, the secondary sectors (manufacturing and construction) for 11%, and the tertiary sector (services) for 44% of the GDP. Such achievement was attributed mainly to the export earning of tin and rubber. The average annual GDP growth rate in Peninsular Malaysia during 1957 –1970 was 6.4% (Khor, 1983).

The trade-oriented character of the economy with heavy reliance on the production and export of rubber and tin meant that the country was subjected to a high degree of economic instability. There was a need for diversifying the economy as the price of rubber was falling steadily and the known reserves of tin were being rapidly depleted (Aris, 1984). The fall in rubber price affected not only the overall economy but also the employment and income of those engaged in rubber industry. In 1970 more than 26.2% of the total labor force in the country was in this sector (Hirshman, 1982).

In the 1960s it became clear that Malaysia could not continue to rely on primary export as a source of economic development (Yap, 2001). Accordingly, the country embarked on Import-Substitution Industrialization (ISI) to propel economic performance. At the same time oil palm and cocoa production were introduced and Malaysia became the

world's largest producer and exporter of palm oil (Kasper, 1974). By the late 1960s, it became obvious that ISI had become exhausted and that the "easy growth" stage was over and Malaysia turned to export-oriented industrialization accompanied by deficit spending to lift up its economy (Yap, 2001).

Malaysia is usually thought of as the most prosperous country in Southeast Asia (Young, 1980). It was also considered as one of the 'exemplars' in Southeast Asia of the so-called "Asian Miracle" (Chamhuri and Quinones, 2000). This noticeable achievement of the Malaysian economy in the immediate past was founded on the basis that it was the world's leading exporter of tin, rubber and palm oil and has significant reserves of oil and natural gas (Young, 1980). As a result of the rapid growth in its manufacturing sector and the increased investment by the public sector, the overall economic growth rate rose substantially from 6 % in 1960 to 8 % in the mid 1970s (Young, 1980).

However, despite fairly steady and relatively high economic growth and low inflation for over a decade after independence, income inequality increased and poverty remained widespread (Gomez & Jomo, 1999). It is generally argued that over the period 1957-1970, development planning efforts in Peninsular Malaysia, while they succeeded in generating rapid economic growth, were ineffective in bringing about adequate employment opportunities and a reduction in income inequality (Lim, 1983). Past benefits from economic growth had not been shared equally by the various races (Aris, 1984). While inter-ethnic income differences were reduced slightly, intra- ethnic differences grew especially among Malays as shown in Table 3.2.

Table 3.2 Peninsular Malaysia: Ethnic Income Shares by Income Cohort, (1957- 1970) (Percentage).

Income cohort	Malay			Chinese			Indian		
	1957	1970	(Diff)	1957	1970	(Diff)	1957	1970	(Diff)
Top 5%	18.1	24.6	(6.5)	19.6	25.3	(5.7)	19.5	28.2	(8.7)
Next 5%	9.5	11.6	(2.1)	11.9	11.8	(-0.1)	10.0	11.4	(1.4)
Next 10%	14.9	16.3	(1.4)	15.3	15.5	(0.2)	14.2	14.6	(0.4)
Next 40%	38.0	34.8	(-3.2)	36.2	33.5	(-2.7)	36.6	31.5	(-5.1)
Bottom 40 %	19.5	12.7	(-6.8)	18.1	13.9	(-4.2)	19.7	14.3	(-5.4)
Mean income	140	177	-	302	399	-	243	310	-
Median	112	122	-	223	269	-	188	195	-
Gini ratio	0.34	0.47	-	0.38	0.45	-	0.35	0.46	-
Theil index	0.21	0.40	-	0.23	0.39	-	0.25	0.39	-

Source: Tan 1982: 120

Table 3.3 Peninsular Malaysia: Ownership of Share Capital of Limited Companies and Industry 1970

Sector	Malay	Chinese	Indian	Foreigners
Agriculture, forestry & fisheries	0.9	22.4	0.1	75.3
Mining & Quarry	0.7	60.8	0.4	72.4
Manufacturing	2.5	22.0	0.7	59.6
Construction	2.2	53.8	0.8	24.1
Transport and Communication	30.3	43.4	2.3	12.0
Commerce	0.8	30.4	0.7	63.5
Banking & insurance	3.3	24.3	0.6	52.2
Others	2.3	37.8	2.3	31.4
Total	1.9	22.5	1.0	60.7

Source: Law 1985: 26

Table 3.4 Peninsular Malaysia: Ethnic Composition of Employment by Industry, 1970 (%)

Industry	Malay	Chinese	Indian
Agriculture, Forestry & fisheries	68	21	10
Mining	25	66	8
Manufacturing	29	65	5
Construction	22	72	6
Utilities	48	18	33
Transport & Communication	43	40	17
Commerce	24	65	11
Services	49	36	14

Source: Snodgrass, 1980:96

The Malays who constituted the majority of the poor in the rural areas benefited very little, while the Chinese who manipulated the economic strength tended to benefit more from the economic growth (Aris, 1984). Such disparity was clearly designated by Silcock (1963), who estimated that the mean income of the Chinese was 2.4 times as great as that of the Malays in 1957. Between 1957 and 1970 according to one estimate, the lowest earning 20% of households recorded a drop of 30% in real income. Among the Malay rural households, the decline was 40% compared with the Chinese urban households whose income diminished by only 15% (Pang, 1983).

As can be seen in Table 3.2 the statistical evidence on income distribution patterns in 1957-1970 reflects the worsening distribution of income among the three ethnic groups over the sixties. The Gini ratio for the Malays shows a substantial upward shift in income inequality between 1957 and 1970. However, regardless of the increasing government efforts to promote Bumiputra capitalism, Malay ownership of assets in the corporate sector had not increased substantially.

By 1970, Bumiputra ownership of shares in all major sectors of the economy was proven to be negligible (Table 3.3). As portrayed in Table 3.3 a wide gap in terms of the share of capital tends to exist among the various ethnic groups. The Chinese share was considerably higher amounting to 22.5%, whereas foreign control of the economy was almost three times more at 60.7%. The Malays' share in the corporate capital was very low amounting to only 2.4% including the government shares (Gomez & Jomo, 1999).

“ The Malays remained disproportionately poor outside the urban and corporate sector and they were largely found in low productivity peasant agriculture and the public sectors (Table 3.4). As has been clearly seen in Table 3.4 the Malays' share of

employment in all industries in which they underrepresented in the past-mining, manufacturing, construction and commerce-increased significantly.

In short, economic development planning over the post-Independence period, instead of enhancing social stability tended to aggravate interclass inequality and created a sense of frustration among the Malays (Gomez & Jomo, 1999). As we have seen the faster economic growth in the sixties not only maintained the existing gap in income distribution between the rich and the poor and between sectors (urban and rural), but the incidence of poverty worsened (Nasseri, 1989). Irrespective of high economic growth being attained between 1957 and 1970, economic development plans failed to solve the two major problems of poverty and income inequality in the society. This failure together with other causes contributed to the eruption of the May 13, 1969 racial riots in Malaysia, which brought about the New Economic Policy (NEP) (Nasseri, 1989).

### 3.4 Measurement of Poverty in Malaysia

In the preceding chapter the discussion was centered mainly on how poverty as a multidimensional phenomenon was defined, conceptualized and measured. In the present section an attempt will be made to see to what extent these definitions, concepts and measures are relevant in the context of poverty eradication in Malaysia. In this respect it is worthwhile to review in a critical manner the different approaches to the study of poverty in Malaysia before attempting to discuss the New Economic Policy (NEP).

Interest in Malay poverty can be traced back to the work of Za'ba in 1920s (Shireen, 1998). In this regard Za'ba placed more emphasis upon Malay poverty without any attempt to define or measure it (Anand, 1983). However, genuine attempts to study

poverty in a more systematic and scientific way began in 1950s and early 1960s with the pioneering work of Ungku Abdul Aziz (Shireen, 1998). In contrast to the previous attempts to define a poverty line, Aziz (1964) comes out with a new index, which he termed the '*Sarong* Index' of poverty that was based on the long cloths that are traditionally worn by Malaysian men and women. A ratio of per capita *sarong* could be calculated by dividing the number of *sarongs* in the households by the number of persons above age one living in the household. A person who falls below the poverty line of one *sarong* per capita would be considered in extreme poverty. Aziz (1964) argues that to measure the impact of a rural development program on a particular *kampong* (village) we could compare per capita *sarong* indices before and after the implementation of the program.

Anand (1983: 112) put it succinctly that "the *sarong* index employed by Aziz, albeit ingenious, is too susceptible to the vagaries of fashion to be of much practical use." He argues that Aziz himself tend to abandon the *sarong* index and to favor the adoption of the income gap approach.

Anand (1983) defined poverty in relative terms and he stated that for Malaysia the per capita household income level, which cuts off the bottom 40% from the rest of the population, is very slightly under M\$ 25 per month below which an individual would be considered poor.

The government unofficially adopted Anand's poverty line because there were no other indices available in the country (Sahak, 1984). In addition to its obvious limitations, Anand's method of defining poverty or the poverty line also has the disadvantage that poverty cannot be eliminated. As a result he proposed another method where poverty is



defined in relation to contemporary living standards by drawing the poverty line at say half the average level of the society. In this case although the poverty line rises with the general level of incomes, it is no longer true that poverty cannot be eliminated. The per capita income in Malaysia has been estimated at M\$50 per month, so the relative poverty line according to this definition is also M\$25 per month (Anand, 1983).

In the recent study Anand (1991) claimed that for policy purposes the poverty gap is a better yardstick than the incidence of poverty as it can provide an indication of the magnitude of the problem in relation to national income and its components.

The Malaysian government tends to adopt the minimum subsistence income or poverty line income in defining and measuring the magnitude of poverty. In the Third Malaysia Plan, poverty has been defined in absolute terms as deficiencies in the standard of living in terms of caloric intake and nutritional levels, clothing, sanitation, health, education and other socioeconomic variables. As these deficiencies are reflected to a large extent in income levels, poverty in the country has been measured by comparing the absolute level of household's income with the income level required for minimum subsistence or what may be termed a poverty line income. This income takes account of minimum nutritional requirements of each household to sustain a decent standard of living. This definition, however, does not take into account the contribution made by the services provided by the government to the real income of the household (Malaysia, 1976).

In Malaysia both absolute and relative poverty approaches have been applied. In the relative approach a poor household has been defined as one with a total income that falls in the bottom 40% in the national income distribution. This approach was applied in the country only before the development of the absolute approach in 1975 (Sahak, 1984). In

the absolute approach on the other hand, the poverty line income has been taken as an index to separate the poor from the non-poor. According to this approach a poor household in Malaysia has been defined as a household with an income insufficient to purchase a minimum food basket to maintain a household in good nutritional health and to meet its minimum needs for clothing, household management, transport and communication (World Bank, 1980).

The adoption of the subsistence definition of poverty by the Malaysian state is justified on the grounds that such a definition tends to be scientific and value-free, since it seeks to explain poverty objectively as the lack of income required for meeting the minimum necessities of life (Rein, 1970).

### 3.5 Debate on the Malaysian Poverty Line

Employing the same official poverty line for both rural and urban areas in Malaysia adjusted to inflation and used for over two decades has been subjected to many debates (Shireen, 1998). The main debate rests on the fact that, although Malaysia has set different poverty lines for the Peninsula, Sabah and Sarawak, it uses a single poverty line for both rural and urban areas within these three regions.

Poverty lines employed by most Asian countries differ widely between rural and urban areas. This is because the relationship between food energy intake and consumption expenditure varies by region, activity levels, relative prices and taste. Generally, it is argued that for any given consumption expenditure level, the caloric intake in rural areas exceeds that of urban ones (Ravaillon, 1992).

A single poverty line for urban and rural areas assumes that prices are uniform within the region. It also does not reflect price and cost of living differentials faced by households in different locations. To the extent that prices do vary by location, an income level, which can sustain a household at subsistence level in a rural area, may not be able to sustain the same household at that level in an urban area. Certainly, the Malaysian government's policy of price controls on basic food essentials, such as rice, sugar, flour, milk and other items, may be one justification for the use of a single poverty line. However, there are still important elements of the poverty line, such as housing and transport, which have different prices and requirements (for work, school, etc.) in urban and rural areas.

Even if prices were uniform across urban and rural areas, it could still be argued that separate poverty line incomes should be used for urban and rural areas. The application of a single poverty line in both rural and urban areas makes the crucial assumption that consumption patterns for both urban and rural households are similar. It was found that poor rural households spend a greater proportion of their expenditure on food items compared to poor urban households. For example, with household in the expenditure class below RM200.00, 45.5% of total expenditure is spent on food in rural households compared to 38.6% in urban households. Urban households spend more of their income on non-food items with the exception of household furniture, equipment and transport (Shireen, 1998). Thus, differences in food and non-food consumption patterns should thus give rise to different poverty lines for urban rural households.

— To conclude, this section has shown that poverty line income updated for inflation has been used for nearly twenty years. This approach of adjusting the poverty line raises the issue of its relevance as a measure of relative deprivation. Generally, poverty can be regarded

as either state of absolute or relative deprivation. In a situation of absolute deprivation, the poverty line income is defined independently of society living standards. However, if poverty involves relative deprivation, the poverty line is defined in relation to a society's general standard of living.

The Malaysian government claims that poverty is defined relative to the standard of living prevalent in Malaysia (Malaysia, 1986). But a poverty line, which is updated for inflation over a long period of time, ceases to reflect relative deprivation. It would only do so if the Malaysian standards of living had remained constant over the last two decades. Given that real economic growth rates average 9.4% per annum were achieved in 1990 and 7.5% per annum in 2000, general living standards in Malaysia has improved substantially (Malaysia, 1990 and 2001).

### 3.6 The New Economic Policy and the Eradication of Poverty 1971 – 1990

As has been mentioned earlier, development planning policies during the 1957-1970 period coupled with a sharp decline in the major export crops such as rubber, had accentuated further the problem of income inequality and poverty among the major racial groups. Over such a period both the commercial and industrial sectors were still lagging behind and were not commensurate with the growing needs of the most disadvantaged Malay (Aris, 1984).

Despite the effective development programs carried out by the government and the private sector during the 1960s to increase agricultural productivity and raise the income of the rural poor, two fundamental problems persist: widespread poverty and serious racial imbalances (Young, 1980). As a result the New Economic Policy (NEP) was

introduced and incorporated into the Second Malaysia Plan (SMP) 1971-1975 to deal with the economic and social problems confronting the country.

The NEP with its emphasis on redistribution with growth strategy differs largely from the past high growth strategy in three main aspects. First, maintenance of high growth which was conceived so crucial in generating new employment opportunities and mobilizing substantial resources for the restructuring of society and eradicating poverty. Second, the development planning objectives under the NEP must be specified and quantified with the 1970 taken as the base period. Third, direct intervention of the government in the economy to tackle the problem of social and economic imbalances. So during the post 1970 period the government played an active role in the modern sector development to promote the participation of the Malays (Aris, 1984).

The overriding objectives of the NEP were the promotion of national unity through a two-pronged strategy of:

- (a) Eradicating poverty by raising income levels and increasing employment opportunities for all Malaysians irrespective of race; and
- (b) Accelerating the process of restructuring the Malaysian society to correct economic imbalances so as to reduce and eventually eliminate the identification of race by economic function.

The NEP has been premised on the grounds that it will be carried out in the context of rapid structural change and expansion of the economy so as to ensure that no particular group experiences any loss and feels any sense of deprivation in the process. Between 1971 and 1990, the government carried out four five-year development plans. In each of these plans high priority was placed on the eradication of poverty and restructuring of

society, which constitute the two principal objectives of the NEP. Because the research focuses only on poverty eradication, the discussion of the second objective is beyond the scope of this study. In the light of the first objective, and for convenience, the rest of this section will be broken down principally into two main subsections: the first subsection will discuss poverty eradication through rapid economic growth strategy. The second subsection will be devoted to the discussion of poverty eradication through rural development programs and the third subsection deals with poverty eradication through specific development programs.

### 3.6.1 The Eradication of Poverty through Rapid Economic Growth Strategy

The implementation of the NEP pointed out a remarkable shift from the old strategy of rapid economic growth to one of growth with redistribution. However, over the First Outline Perspective Plan (OPP1) (1971-1990), Malaysia has experienced a substantial growth in its annual GDP (1980 price) per capita, which rose from RM 2027 in 1970 to RM 4942 in 1990. This means that the average annual per capita GDP increased by 7.2% over the same period. Between 1972 and 2003, Malaysia has witnessed high growth rates that exceeded the world economy as a whole and some major developed countries as shown in (Appendix A- 1).

During the SMP, the GDP at factor cost grew by 7.4 % per annum in real terms exceeding the original SMP target of 6.8 %. Thus, compared with the revised target of the Mid-Term Review (MTR) of the SMP of 7.8%, the economic growth revealed a slight decline. This decline was largely attributed to the impact of the world-wide recession during 1974 – 75. Although the average annual growth rate of the real GDP was 8.4 % over the period 1971-1974 it was only 3.5 % in 1975.

The Third Malaysia Plan (TMP) 1976-1980 was mainly designed to implement the objectives of the NEP. The strategy adopted is the same as that of the SMP, which is to reduce the incidence of poverty and to restructure society through a growth rather than a redistribute strategy (Lim, 1983). The TMP sets out an ambitious target of 8.4% growth in real GDP per annum. The growth rate achieved was 8.7%, which exceeded the target annual growth rate. The growth rates achieved in 1976, 1977, and 1978 were 11.1 %, 7.6 %, and 7.4 % respectively. The decline in the growth rate in 1977 and 1978 was due largely to the poor performance of the agricultural sector whose value added grew by only 2 % per annum in these two years, compared to the 10.5 % registered in 1976. A severe drought in 1977 affected the production of rubber, paddy and palm oil. The fastest growing sectors were manufacturing, mining, quarrying and utilities achieving annual growth rates of 14.3%, 11%, and 10.2% respectively. Despite favorable macroeconomic performance at the sectoral level, poverty still persists and the income distribution between the racial groups still needs improvement. It is widely recognized that although growth is essential, growth alone cannot ensure equitable share of economic benefits among all citizens (Malaysia, 1979).

### 3.6.2 Poverty Eradication through Rural Development Programs

The rural development strategy adopted by Malaysia to combat poverty resembles the technocratic strategy, which sees the peasants as trapped in a vicious circle that can only be broken by programs that integrate the peasants with the market economy through the introduction of modern agricultural inputs, credit and marketing facilities as well as the construction and improvement of the infrastructure such as irrigation systems and roads. Emphasis is placed on increasing the absolute income levels of the poor households above the minimum level deemed essential for sustenance rather than on income and wealth redistribution (Ishak, 1994).

In Malaysia, development planning efforts have been mainly directed toward rural development. This is because the problem of poverty in Malaysia is predominantly rural and concentrated mainly among Bumiputras and the smallholders (Ishak, 1994). The main thrust of rural development took the form of new land development by the Federal Land Development Authority (FELDA), the provision of facilities such as roads, schools, clinics and irrigation. The objective was to bridge the rural urban gap by filtering the benefits of economic growth.

National efforts towards the eradication of rural poverty have been carried out since Malaysia gained its independence in 1957. To meet the socioeconomic problems the government assumed a more positive role in the economy by accelerating the public expenditure programs. During 1971-1990 the government carried out four five year development plans: the Second Malaysia Plan 1971 – 1975, the Third Malaysia Plan 1976- 1980, the Fourth Malaysia Plan 1981- 1985, and the Fifth Malaysia Plan 1986-1990. As a result the allocation of government expenditure for antipoverty projects amounted to RM 2350 million (26.3% of the federal allocation) in the Second Malaysia Plan, while the allocation for restructuring of society amounted to RM 508 million or 5.6% of the federal allocation. During the TMP, the allocation for antipoverty projects was RM 6373 million or 20.5% of the federal allocation, and the allocation for the restructuring of society was RM 2376 of the federal allocation (Appendix A-2).

Given the progress attained under the SMP and the TMP, (Appendix-3) exhibits the reduction in the incidence of poverty over the twenty-year period of the NEP. A marked decline in the overall incidence of poverty by over almost three times from 49.3% in 1970 to 16.7% in 1990 could be seen with major improvement accruing to the rural areas. Over the same period the absolute number of poor households declined from



706,000 to 390,000 people in the rural areas. In contrast the number of poor households in the urban areas increased substantially from 86,000 to 125,000, although the incidence of poverty declined from 21 % to a low of 9 %. This increase was attributed to the continued flow of excess rural labor into the urban areas of the economy. In 1990, the number of poor households in the rural areas was almost eight times as large as that in the urban areas. By the end of 1990 the ratio had been reduced to 3:1 (Sukor 1985).

As far as poverty eradication is concerned, the principal method used by the government to reduce rural poverty was by absorbing the rapidly growing rural labor force into higher income occupations in the urban industrial and service sectors. Therefore, for the period 1971- 1990 a growth of only 1.7% per annum in rural households was projected as against 6.4 % growth in urban households. This implies a net shift of over 600,000 households out of the rural sector.

Apart from reducing poverty in rural areas through the substantial transfer of labor to other sectors, the planned reduction of poverty in the rural sector would also result from increased opportunities in the rural sector. Thus, the TMP projected a decrease in the number of poor households in the rural areas by about 317,000 during the 1971-1990 periods. While the TMP would not precisely relate this specific reduction in the number of poor households to specific investment in rural areas, it implied that such a reduction would arise almost entirely from public investment in new land development schemes and *in-situ* agricultural development programs (Ishak, 1994).

### 3.6.3 Poverty Eradication through Specific Development Programs

Under the Fourth Malaysia Plan (4 MP), 1981- 1985, some changes were introduced in the strategy to reduce rural poverty in the country. The principal aim of the plan,

however, was to raise the productivity of farmers via *in-situ* development and new land development programs. The plan also stressed that the focus of poverty eradication efforts during the 1980s would be the improvement of the income of the hardcore poor, such as those farm households with uneconomic holdings, agricultural laborers, fishermen, shifting cultivators and mixed farmers.

#### a. In-Situ Development Programs

This is a neo-classical economic approach to rural development and poverty reduction which was incorporated in the NEP, whereby physical, institutional, economic and social infrastructures have been the main thrust in alleviating widespread rural poverty (Sukor, 1985).

According to the Mid-Term Review of the TMP, 1979, the ultimate objective of the *in-situ* development programs is to improve the productive base, employment, and income levels in existing villages and agricultural areas throughout the country, particularly among the poverty groups. However, in the Mid-Term Review of the TMP (1976-80), some \$991 million have been spent on *in-situ* programs, such as drainage and irrigation, farm rehabilitation and replanting to improve farm productivity. Programs such as credit, extension and marketing were also undertaken to improve farm productivity and to increase on-farm employment opportunities, thus reducing rural underemployment.

#### b. New Land Development Programs

One of the most important strategies of poverty eradication followed under the NEP was the large-scale evictions and development of new land, which would provide smallholders with opportunities to cultivate high value crops employing modern techniques on economic size holdings. This program, however, was mainly launched to

eradicate poverty in the rural areas via increasing the productivity of the settlers, increasing job opportunity, increasing the income levels and increasing the quality of life and development.

The Federal Land Development Agency (FELDA) was set up merely to create a new structure of agricultural economic and social relations on model lines (Emsley, 1996). The importance of this program can be seen in the proportion of rural development allocations provided under the various five-year development plans where the allocation for the new land development scheme has accounted for half the total budget of the agricultural and rural development. By the end of 1990, FELDA had developed more than 2072290 hectares and provided job opportunities to 224,700 to settlers' families (Ishak, 1994).

FELDA has been very successful in enhancing the process of agricultural diversification. It has been cited as the showpiece of the Malaysian rural development strategy to eradicate rural poverty. It made a great shift in cash crop production (i.e., the shift from rubber to towards palm oil) such that in 1985 the rubber exports were worth only 0.75 times that of palm oil exports (Emsley, 1996). The impact of this intervention on poverty was very clear in that the incomes of those cultivating palm oil were higher than those cultivating rubber.

Despite the progress achieved by FELDA in combating rural poverty, several shortcomings and policy issues have emerged from such an experience. First, FELDA's model is a high cost method of attempting to reduce rural poverty and the number of beneficiaries seems small for the amount of fund invested in land development (World Bank, 1987). Second, the structure and pattern of the plantation system adopted by

FELDA has given rise to many problems. The fixed land-labor ratio contains a built-in unemployment trap stemming from the population growth on the FELDA schemes. Third, the FELDA's model has failed to overcome the structural problem of income instability. Fourth, the selection of settlers has been identified as another weakness. Fifth, many problems regarding land titles and private ownership remained unresolved. Finally, the substantial expenditure allocation of FELDA has benefited only a minority of the rural poor.

During the Fifth Malaysia Plan (5MP), in the 1986-1990 period, more emphasis has been placed on the strategy of eradicating rural poverty. To achieve the plan target of eradicating rural poverty, further new programs were implemented including the introduction of group farming systems, the initiation of rural industries and rural urbanization programs and the provision of basic services such as education, health, water and electricity. The plan also focused on the problem of the hardcore poor, defined as those whose incomes are less than half the poverty line incomes. To improve the standard of living of these groups, different public sector programs have been re-evaluated and targeted towards their benefits.

### 3.7 The Economic Feasibility of the NEP

The present chapter has reviewed the different policies and programs designed and implemented under the NEP to eradicate poverty. With the implementation of the NEP, the Malaysian government has actively pursued a policy of redistribution with growth. Therefore, the NEP can be perceived as a development plan that attempts to reorient the Malaysian development policy from a strategy of high economic growth being pursued in the post independent era to that of income distribution or growth with redistribution. It took more account of the problems of poverty and economic inequality than its

predecessors. It pledged the government to improve racial economic balance measured in terms of employment patterns, relative income and shares in ownership and control of assets. This was to be achieved in twenty years.

Thus, the achievements and the progress made over the prescribed period under the NEP need to be evaluated against the targets set. In the light of these achievements certain limitations and flaws inherent in the NEP should be examined. Accordingly, this section begins by discussing the achievements of the NEP in terms of poverty eradication. This is followed by identifying the major weaknesses inherent in such a plan.

### 3.7.1 Performance and Achievements of the NEP (1971-90)

Over a period of more than two decades of its implementation, the NEP has achieved noticeable progress towards the fulfillment of its stated objectives. The OPPI was set out over the twenty-year period to monitor the progress attained in the NEP targets. The discussion in this section will be centered on the achievements of these targets under the OPPI by 1990.

#### (i) Growth

Efforts to eradicate poverty and restructure society can be best carried out in the context of an expanding economy. Thus, the achievements of a high rate of economic growth are instrumental to the attainment of the objectives of the NEP. Table 3.5 gives a brief account of the targets and outcomes achieved under the NEP over the Third Malaysia Plan (TMP) and the Fifth Malaysia Plan (5 MP) in terms of the GDP. As Table 3.5 reveals, the overall growth of the economy has reflected a substantial increase during the 5 MP. It grows at a real rate of 6.7%, which exceeds the plan target of 5% but fell short of the 8% per year target of the 1971-1990 period of OPPI. The actual GDP in

absolute terms turned out to be higher at the end of the NEP than what it was projected to be at the beginning of the 5MP also was targeted in the (TMP). The remarkable performance gained at the end of the OPP1 and the beginning of the OPP2 was attributed to the successful implementation of the adjustment measures undertaken since 1983 to consolidate the public sector and reduce its budgetary deficit.

During the 5MP, the agriculture sector average annual growth rate was 4.6% higher than the plan target of 2.6% (Malaysia, 1991a), but lower than the OPP1 target of 5.4% set in TMP. Compared with the manufacturing sector with annual growth rate of 13.7% over the plan period, the relative position of the agricultural sector has deteriorated considerably. The share of the agricultural sector in GDP as shown in Table 3.5 slightly exceeded the plan target by only 0.6%. With the relatively slower growth compared with other sectors in the economy, its share in total output declined further from 22.8% in 1980 to 20.3% in 1985 to 18.7% in 1990. This is due mainly to the declining production of rubber and slower growth of saw logs. Also, during the 5MP, the manufacturing sector expanded rapidly making it the leading sector in the economy and the largest sector in terms of employment creation. Value added in the sector registered a remarkable rate of growth of 13.9% per annum -more than double the Plan target of 6.4%. With this rapid expansion, the sector contributed about 27.0% to GDP in 1990, which overran the Plan target of 20.5% and the OPP1 target of 12.3% set in TMP.

Table 3.5 GDP Targets and Outcomes, 1990

Measure	TMP (OPP1, 1971-90) (in 1970 price)		5 MP (1986-1990) (In 1978 price)	
	Target	Outcome	Target	Outcome
Average growth of GDP (%)	7.1	8.0	5.0	6.7
GDP (\$million)	10708	50097	75599	79103
Share of agriculture in GDP (%)	5.4	5.4	18.1	18.7
Share of manufacture in GDP (%)	12.3	12.2	20.5	27.0

Source: TMP, 1976 and the 5 MP, 1986

## (ii) Poverty Eradication

Poverty in Malaysia was mainly a rural phenomenon and has always been related to the agricultural sector. Poverty is high in both incidence and absolute number in the agricultural sector. As projected by the OPP1, such situation will persist even if the target of reducing the incidence of poverty in Peninsular Malaysia to 15% is achieved. The 4MP has recorded that in 1980, 44.37 thousand of the 666.1 thousand poor households or 6.7% in Peninsular Malaysia were in the agricultural sector. By 1990 even if the targets were reached, still 258.4 thousand out of the total poor households of 459.2 thousand in Peninsular Malaysia or 56.3% would be in the agricultural sector.

However, over the period of the OPP1 (1971-1990) the total number of households taken out of poverty was 332.6 thousand as against the target of 277.9 thousand. Thus, during this period the incidence of poverty has been reduced significantly.

The achievements of the NEP by 1990 turned out to be uncertain and mixed. In terms of poverty reduction, the progress achieved was beyond expectation. Notwithstanding, the NEP had been introduced to achieve specific objectives, mainly the eradication of poverty and the restructuring of society, any deviation of the actual outcomes from the projected targets would imply certain flaws and potential limitations in existing approaches and measures.

### 3.7.2 Limitations of the NEP

Despite the modest achievements of the NEP over the twenty years, some obvious shortcomings associated merely with the implementation of the current strategy could be observed. The achievements as mentioned above are below expectations. Most critics pinpoint the inconsistency of the plan frame as well as to the implementation

difficulties, which jeopardize any possibility of attaining the 1990 targets (Thillainathan, 1976).

Despite the success of poverty eradication programs in reducing the incidence of poverty in rural areas, still the hardcore of persistent poverty has not yet been eradicated. This will call for some new rural development programs, which can be more effective in reducing hardcore poverty.

In relation to income inequality one crucial limitation is that no specific target has been set in the NEP for the growth of income either between ethnic groups and between the sectors or within each of them. Even though some progress has been achieved in the 1970s to reduce income inequality, it still remains large at the end of the period (Lim, 1983).

The NEP has also been criticized on the ground that it places much emphasis on productivity while neglecting land reform. The NEP holds the belief that poverty in rural areas is due mainly to low agricultural productivity. Studies also suggest that the reduction of poverty in rural areas cannot be effected by increasing productivity alone, but requires also an increase in the average land holding as well, since the uneconomic size of land holdings as they are now will not generate sufficient income to raise the landholders above the poverty line (Nasseri, 1989, World Bank, 1980 and Sukor, 1985).

The policy of rural-urban migration carried out in the 1970s had led to undesirable results. First, it encouraged the surplus rural labor, particularly literate young men and women, to migrate to towns and cities for industrial and urban employment. This situation has resulted in large tracts of village agricultural land to remain idle, and



plantations as well as land development schemes were running at a loss for lack of labor (Salleh, 1984). Second, it led to an increase in the number of poor households in urban areas together with the development of urban slums and squatter areas. As they have been conceptualized, the NEP targets would seem to be too rigid and inflexible.

### 3.8 The National Development Policy and Poverty Eradication (1991-2000)

The Second Outline Perspective Plan (OPP2) was formulated within the framework of the National Development Policy (NDP), covering a period of ten years (1991-2000), and pursuing the ongoing thrust of the NEP of eradicating poverty and restructuring society. However, under the OPP2, two development plans have been initiated commencing with the Sixth Malaysia Plan (6MP) (1991-1995), and continuing to the Seventh Malaysia Plan (7MP) (1996-2000). Also, at the end of the OPP2, the Eighth Malaysia Plan (8MP) (2001-2005) was formulated under the NDP, which provides a review of the progress of the NDP.

Unlike its predecessor, the NDP represented a new orientation of development planning towards attaining specific objectives comprising the following. First, to eradicate hardcore poverty and relative poverty. Second, creating employment opportunities and fostering the development of Bumiputra Commercial Industrial and Community (BCIC). Third, enhancing the actual participation of the private sector in the process of restructuring and developing society. Fourth, more emphasis to be placed upon human resource development, which in turn leads to the achievement of the objectives of growth and distribution (OPP2, 1991b: 4).

However, the OPP2 commenced with the development and implementation of the 6MP (1991-1995). Under this plan more emphasis was placed on the qualitative aspects in dealing with the problems of poverty and economic imbalances among ethnic groups. The focus tended to be on selecting specific programs and directing them to the eradication of hardcore poverty. In restructuring society more emphasis is given to the development of Bumiputra Commercial and Industrial Community (BCIC). For convenience this section will be devoted to the discussion of poverty eradication and special emphasis will be given to the eradication of hardcore and relative poverty as well as on the achievement of the distributional objectives.

### 3.8.1 Poverty Eradication

Under the OPP2 the number of poor households as a whole was to be reduced from 619,400 in 1990 to 373,900 by the year 2000. With the implementation of special programs, hardcore poverty, which now constitutes 143,100 households, was to be eliminated totally by the year 2000. With the projected growth of 7% per annum in the OPP2 period these targets were to be achieved and hence the incidence of poverty will be further reduced through the creation of employment and alternative sources of income. In the rural areas past investments in infrastructure and social services such as education will enable the poor to generate employment and income opportunities in off-farm activities. This in turn meant a shift from the traditional agriculture towards wage employment leading to further improvement in the distribution of income in the country (OPP2, 1991b).

#### a. Hardcore Poverty

In Peninsular Malaysia the incidence of poverty was decreased from 15% in 1990 to 5.3% in 2000 (Table 3.6). This indicates a total reduction of about 19900 poor households a year. The incidence of poverty in the rural areas is anticipated to decline

from 19.3% in 1990 to 8% in 2000, while that in the urban areas will be reduced from 7.3% to 3% over the same period. Over the OPP2 period, the number of poor households in Peninsular Malaysia would be reduced from 448,900 in 1990 to 230,000 in 2000.

Similarly, the incidence of hardcore poverty was declined from 3.6% in 1990 to 0.5% by the year 2000. In absolute terms, the number of hardcore poor in Peninsular Malaysia is expected to decline from 107,300 in 1990 to 23,000 by the year 2000. In rural areas, the number of hardcore poor would be dropped from 92,400 in 1990 to 16,000 by the year 2000 that is from a rate of 4.8% to 0.8%. In the urban areas on the other hand, the number of hardcore poor is expected to decline from 14,900 to 7,000 that is from 1.4% to 0.3% by the end of the OPP2 period.

Under the 6MP (1991-1995), the incidence of poverty as a whole was projected to decline from 17.1% in 1990 to 11.1% in 1995 (Table 3.7). This entails a reduction of about 133,900 poor households from the present level of 619,400. In terms of stratum this involves about 129,100 poor households in the rural areas and about 4,800 in the urban areas. For Peninsular Malaysia, the incidence of poverty declined from 15% to 9.1% or by about 119,400 households.

The incidence of hardcore poverty in Malaysia was projected to drop down from 4.0% to 2.0 % that is in absolute terms from 143,100 to 88,800 households. In terms of stratum this entails a decrease in the number of hardcore poor in the rural areas from 126,800 to 76,500 or from 5.2% to 3.2% and in the urban areas from 16,300 to 12,300 poor households or from 1.4% to 0.6%.

Table 3.6 Incidences of Poverty and Number of Poor Households 1990 and 2000

	1990			2000		
	Total	Urban	Rural	Total	Urban	Rural
Peninsular Malaysia						
Incidence of poverty (%)	15.0	7.3	19.3	5.3	3.0	8.0
No. of poor households (000)	448.9	77.5	371.4	230.0	69.8	160.2
Incidence of hardcore poverty (%)	3.6	1.4	4.8	0.5	0.3	0.8
No. of hardcore poor (000)	107.3	14.9	92.4	23.0	7.0	16.0
Total households (000)	2986.4	1062.2	1924.2	4327.3	2326.1	2001.2
Malaysia						
Incidence of poverty (%)	17.1	7.5	21.8	7.2	3.1	11.2
No. of poor households (000)	619.4	89.1	530.3	373.9	80.8	293.6
Incidence of hardcore poverty (%)	4.0	1.4	5.2	0.8	0.3	1.2
No. of hardcore poor (000)	143.1	16.3	126.8	41.2	8.6	32.6
Total households (000)	3614.6	1182.7	2431.9	5218.9	2588.0	2630.9

Source: Household Income Survey, 1989 and EPU estimates (In OPP2, 1991, p. 109)

Table 3.7 Incidences of Poverty and Number of Poor Households, 1985-1995

Peninsular Malaysia	1985			1990			1995		
	Total	urban	rural	Total	urban	rural	Total	urban	rural
Incidence of poverty (%)	18.4	8.2	24.7	15.0	7.3	19.3	9.1	4.1	14.1
No. of poor household (000)	483.3	81.3	402.0	448.9	77.5	371.4	329.5	73.3	256.2
Incidence of hardcore poverty (%)	6.3	2.4	8.7	3.6	1.4	4.8	1.7	0.6	2.8
No. of hardcore poor (000)	165.6	23.8	141.8	107.3	14.9	92.4	61.3	10.6	50.7
Total households (000)	2621.1	991.1	629.4	2986.4	1062.2	1924.2	3627.9	1804.9	1823
Malaysia Incidence of poverty (%)	20.7	8.5	27.3	17.1	7.5	21.8	11.1	4.2	16.8
No. of poor households (000)	649.4	93.0	556.4	619.4	89.1	530.3	485.5	84.3	401.2
Incidence of hardcore poverty (%)	6.9	2.4	9.3	4.0	1.4	5.2	2.0	0.6	3.2
No. of hardcore poor (000)	216.1	26.2	89.9	143.1	16.3	126.8	88.8	12.3	76.5
Total households (000)	3133.3	1095.3	2038	3614.6	1182.7	2431.9	4389.2	2003.6	2385.6

Source: Sixth Malaysia Plan, 1991, p.32

Under the OPP2 (1991-2000), the incidence of poverty was projected to decline from 17.1% in 1991 to 7.2% by the year 2000 (OPP2, 1991b). This target was to be achieved via rapid employment growth in the non-agricultural sectors and the declining dependence of the rural labor force on traditional sources of income. Unemployment was expected to fall to 4% by the year 2000. As a result productivity and wages were to be increased to enable income levels and standards of living to improve.

The incidence of poverty among the hardcore poor subsequently decreased further according to the Seven Malaysia Plan from 4.0% in 1990 to 2.2% in 1995. The incidence of poverty during the Six Plan period in both urban and rural areas decreased. However, while the number of rural hardcore households declined from 126,800 in 1990 to 73000 in 1995, the number of urban hardcore poor increased from 16300 in 1990 to 20500 during the same period.

According to the 8MP (2001-2005), the incidence of poverty among Malaysians decreased from 8.7% in 1995 to 6.1% in 1997 and the number of poor households declined by 25%, from 365,600 to 274,200. Efforts to further reduce poverty were jeopardized by the economic crisis, and the incidence of poverty increased to 8.5% in 1998. Subsequently, the incidence of poverty declined to 7.5% as a result of the economic recovery in 1999. In rural areas the incidence of poverty declined from 14.9% in 1999 while urban poverty decreased from 3.6% to 3.4%. As a consequence of rapid economic growth prior to mid-1997 and due to the faster implementation of the hardcore poor development program, Program Pembanunan Rakyat Termiskin (PPRT), the incidence of poverty among these groups was further reduced from 2.1% in 1995 to 1.4% in 1999. Similar reductions were recorded in the rural and urban areas. In the rural

areas the incidence of hardcore poverty declined from 3.6% in 1995 to 2.4% in 1999 whereas in the urban areas it was reduced from 0.9% to 0.5%.

Besides the PPRT, the programs of non-governmental organizations (NGOs), in particular, Amanah Ikhtiar Malaysia (AIM) and the state-based Yayasan Basmi Kemiskinan (YBK) also contributed substantially to the reduction of the incidence of hardcore poverty. These NGOs, with the support of the private sector, focused more on developing self-reliance among the hardcore poor.

#### b. Relative Poverty

Relative poverty has become an important issue in the nineties. However, it is commonly recognized that reducing relative poverty is not solely a matter of raising productivity and real incomes but it also means improving the access of the lower income groups especially those in the deprived areas and less developed states to better social services and income opportunities.

The concept of relative poverty is also related to regional disparities in economic development. The less developed states in Malaysia are still far behind the other states in terms of basic infrastructures and social services regardless of the past achievements made in reducing regional imbalances. However, despite the progress that has been achieved since the 1970s, the socioeconomic position of certain groups within the Bumiputra community such as the Orang Asli and the indigenous groups in Sabah and Sarawak and the Indians within the non-Bumiputra community have lagged behind. In the implementation of the NDP, the needs of these groups will be given due consideration. Thus, more emphasis will be placed on fulfilling the basic necessities of life of the poor of all ethnic groups in both rural and urban areas. To accomplish such

target the improvement in incomes will be supplemented with the provision of basic services and amenities such as electricity treated water supply, health, education and transportation. This will in turn raise the standard of living among all citizens.

According to OPP2, by the year 2000, there would be about 95% coverage of electricity supply in Malaysia. Also it was anticipated that by the end of 2000, nearly 100% of urban dwellers were to be covered by water supply as well as 85% of the rural inhabitants. During the Sixth Plan period, besides creating opportunities for low-income groups, further efforts will be exerted to improve their skills and productivity so as to narrow the income gaps between the top 20% and the bottom 40%.

With regards to income distribution, the Mid-term Review of the Sixth Malaysia Plan 1991-1993 registered a 10.2% increase in the mean monthly gross income of poor households in Malaysia. The income of the top 20% households increased at a rate of 10.9% per annum, while those of the middle and bottom 40% of households increased at the rates of 9.9% and 8.4% respectively. These rates were higher than those achieved between 1987 and 1990. The Gini Coefficient increased from 0.446 in 1990 to 0.459 in 1993 as a result of the differential rates of income growth among groups.

In terms of ethnic stratum, Bumiputra households' incomes increased by 10.1% per annum during the review period, almost three times the rate of 3.4% achieved during 1987-1990 period. However, this was slightly lower than the 10.4% income growth achieved by the Chinese households but higher than the 9.5% income growth rate of the Indians. Consequently the income disparity ratio between Bumiputra and Chinese has increased marginally from 1:1.76 to 1:1.78, whereas that between Bumiputra and Indians narrowed slightly from 1:1.31 in 1990 to 1:1.29 in 1993. During the review



period rural households' incomes grew at a faster rate of 8.4% per annum, compared with 3.9% growth in the previous three years. This was less than the 9.4% growth of urban income. However, this in turn resulted in an increase in the rural-urban income disparity from 1:1.70 in 1990 to 1:1.75 in 1993. Over the Sixth Plan period all ethnic groups' household income experienced a substantial improvement. The mean monthly gross household income increased from RM 1167 in 1990 to RM 2007 in 1995 (7 MP, 1996). Such improvement was merely made possible by the creation of more employment opportunities for all ethnic groups. However, despite such increase in household incomes still a growing income disparity existed among ethnic groups as well as between rural and urban strata over the plan period.

### 3.8.2 Achievement of the Distributional Objectives: Poverty Eradication

In this subsection an attempt will be made to review the progress in the attainment of the distributional objectives during the OPP2 (1991-2000) by focusing mainly on poverty eradication.

In terms of poverty eradication good progress has been achieved during the OPP2. The incidence of poverty among Malaysians declined from 16.5% in 1990 to 7.5% in 1999 as portrayed by Table 3.8. The number of poor households dropped by about 39% to 351,100 in 1999. However, what has been achieved by the end of OPP2 is still below the target of 5.5% projected in the 7MP. The incidence of poverty in rural and urban areas was reduced by almost half their levels in 1990. The incidence of hardcore poverty among Malaysians declined from 3.9% or 137,100 households in 1990 to 1.4% or 64,100 households in 1999. This also falls short of the 0.5% target predicted in the 7MP. The overall incidence of poverty declined from 17.1% in 1990 to 8.1% in 1999 exceeding the target of 7.2% being projected in the OPP2.

Table 3.8 Poverty Eradication Achievements, 1990-1999

	Target 1990			Achievement 1999		
	Total	Urban	Rural	Total	Urban	Rural
Malaysians citizens						
Incidence of poverty <sup>1</sup> (%)	16.5	7.1	21.1	7.5	3.4	12.4
Number. Of poor households (000)	574.5	82.0	492.5	351.1	86.8	264.3
Incidence of hardcore poverty <sup>2</sup> (%)	3.9	1.3	5.2	1.4	0.5	2.4
Number of hardcore poor households (000)	137.1	15.5	121.6	64.1	13.5	50.6
Total households (000)	3486.6	1149.3	2337.3	4681.5	2548.0	2133.5
Overall						
Incidence of poverty (%)	17.1	7.5	21.8	8.1	3.8	13.2
Number of poor households (000)	619.4	89.1	530.3	409.3	102.7	306.6
Incidence of hardcore poverty (%)	4.0	1.4	5.2	1.4	0.6	2.4
Number of hardcore poor households (000)	143.1	16.3	126.8	71.1	15.6	55.5
Total households (000)	3614.6	1182.7	2431.9	5047.0	2725.9	2321.1

- (1) The Poverty Line Income (PLI) for 1999 was RM510 per month for a household size of 4.6 in Peninsular Malaysia; RM685 per month for a household size of 4.9 in Sabah; and RM584 per month for a household size of 4.8 in Sarawak
- (2) Hardcore poverty is estimated using half of the PLI

Source: The 7MP (1996-2000), p. 72, the 8MP (2001-2005), p.57; the OPP3 (2001-2010), p. 50.

In terms of the overall incidence of hardcore poverty it was reduced from 4.0% in 1990 to 1.4% in 1999, which fell short of the target of 0.8%.

In terms of relative poverty, under the OPP2 the mean monthly gross household income for Malaysians doubled to RM 2,472 in 1999. The mean income of the bottom 40% of households grew at 11.7% per annum, less than the rate recorded by the top 20% and middle 40% of households' income categories. In 1999, the top 20% of households held 50.5% of income compared with 14.0% held by households in the bottom 40%. The Gini Coefficient increased marginally from 0.4421 in 1990 to 0.4432 in 1999 reflecting a slight worsening of income distribution during the OPP2.

### 3.9 The Third Outline Perspective Plan (OPP3) and the Eradication of Poverty

The OPP3 (2001-2010) represents a policy framework within which the distributional objectives will be reconsidered via the National Vision Policy (NVP), which envisages only one definition of Malaysia: that is a fully developed country by the year 2020. The NVP will maintain the main thrust of the NEP of poverty eradication and restructuring of society. Built upon the successes that were achieved under the NEP and the NDP, the NVP's focus on poverty alleviation programs will be oriented mainly towards increasing income and quality of life of the poor and low- income groups as well as targeting disadvantaged groups and those in the remote areas. At the same time restructuring of society programs will be streamlined towards correcting economic imbalances. The driving forces of the distributional objectives during the OPP3 period are as follows (Malaysia, 2001: 57):

- Eradicating absolute poverty and raise income share of the lowest 30% of the households irrespective of race;
- Increasing the size of income of those below the poverty line;
- Attaining effective Bumiputra participation and equity ownership of at least 30% by 2020 in the context of economic growth;
- Creating self- reliant and sustainable Bumiputra entrepreneurs;
- Providing an enabling environment for Bumiputra to face the challenge of globalization;
- Promoting effective participation of Bumiputra and other disadvantaged groups in the knowledge- based economy;
- Ensuring employment participation to reflect the ethnic composition of the population;
- Improving the quality of life of all Malaysians; and
- Enhancing regional balance through rapid development of the less developed states.

### 3.9.1 Poverty Eradication and Income Distribution

During the OPP3 period the poverty eradication programs were to be more target-specific and directed primarily towards addressing pockets of poverty in different regions as well as in remote areas among the disadvantaged groups such as the Orang Asli and other Bumiputra minority in Sabah and Sarawak. Absolute poverty is expected to be reduced to 0.5% by the end of 2005. With regards to income distribution, the intention of the program is to create a larger middle-income group. Moreover, more emphasis will be placed upon increasing income and improving the quality of life of the lowest 30% of the population. Substantial investment in the provision and delivery of

social services and amenities, particularly education, health and housing will further contribute to the enhancement of the quality of life.

### 3.9.2 The Success of Poverty Alleviation Programs in Malaysia

The preceding sections highlighted efforts by Malaysia to reduce poverty which have been incorporated in different Malaysian plans from the First to the Eighth Malaysian plans, in which the NEP (1971-1990), and the NDP (1991-2000) and NVP (2001-2010) were implemented. These policies and programs have succeeded in reducing the incidence of poverty over three decades (1970-2002) from 49.3% to 5.1%. The success of Malaysia poverty eradication initiatives is attributed to many factors that can be placed within three main categories:

#### i. Rapid and Sustainable Economic Growth

The most salient feature of Malaysia economic development has been the rapid and continuous growth of the national economy for almost three decades. This growth has been achieved within an environment of price and exchange rate stability.

Malaysia real growth domestic product (GDP) growth for the NEP (1971-1990) averaged 6.7% annually. The rate increased further to reach an annual average of 7.5% over the period (1991-2000). In absolute terms, GDP, in constant prices grew from RM 21.4 billion in 1970 to 209.3 billion in 2000. Consistent with that growth, per capita GNP in constant terms grew from RM1, 937 to RM6, 298 in 1990 and picked up further to RM13, 359 in 2000, which is equivalent to US\$3516 (Malaysia, 2003).

In effect, the sustained economic growth had led to increasing job and economic opportunities, thereby resulting in increasing incomes. More importantly, because of the emphasis on growth with distribution in Malaysia, the benefits on growth have its

repercussion on the Bumiputra, the poor and other vulnerable groups. Moreover, because the stress was also on the distribution of new wealth, no group was forcibly deprived of new wealth. Therefore, the net effect of growth in Malaysia has resulted in increasing income of all without creating inter-ethnic conflict.

## ii. The government commitment to socioeconomic development

Among the many factors that have contributed to the success of the Malaysian poverty eradication programs, is the consistent pragmatism of Malaysian macroeconomic policies as well as the changes introduced in the role of the government in economic development over the years.

The post-independence era, the laissez faire policy of the former British colonial government, continued to be followed, although even though the national government had begun to play a bigger role in bringing about development, especially in the rural areas. At the same time, it also encouraged the further growth of tin- mining and rubber growing industries-the mainstay of the national economy at that time. When the free market approach failed to produced the desired level of participation of the major ethnic groups, the Malays or Bumiputra, into the mainstream of economic activities, the government gave itself a more direct participatory role in economic and business activities so that to ensure that distributive targets were given due attention. However, by the beginning of 1983, the government had begun to take the first tentative steps towards reversing that policy i.e to reduce its role in the economy and instead assign the private sector the role of the engine of growth.

The NEP was the product of pragmatic thinking on the desirable direction of national development i.e growth with equity and active government participation in the economy, and not maximum growth through a laissez faire or free market economic system. One of the overriding objectives of the NEP is to reduce absolute poverty with the intension of eventually eradicating it, by raising income levels and increasing employment opportunities for all Malaysians irrespective of race. Another feature of the NEP was that it was predicated upon a rapidly growing economy. This was deemed necessary so as to provide increased employment or economic opportunities for the poor and other disadvantaged groups to enable them to get out of the poverty trap and participate in the main stream of economic activities. Further, to ensure the distribution did not take place from the reallocation of existing wealth but from expanding and sources of wealth.

The NDP was introduced as a successor to the NEP. With regard to balancing growth with equity, which was the primary focus of the NEP, the NDP introduced a major shift in strategies to eradicate poverty by focusing on the eradication of hardcore poverty while at the same time reducing relative poverty.

### iii. Successful Poverty Eradication Strategies

To achieve the objective of poverty eradication, the primary strategies selected have been those that could provide opportunities for the poor to become involved or gain employment in higher-paying jobs or activities so that they could become self-supporting and increase their income to exceed the poverty line. Less emphasis has been placed on welfare handouts as a means of dealing with poverty, except for segments of poor who have been unable to find gainful employment, such as the aged and handicapped.

In line with the above, the government has emphasized projects that enable the poor to modernize their traditional methods of production and participate in the mainstream of economic activities. Since the majority of the poor are in the agricultural sector, the focus has been on providing them with the support and opportunities to be involved in modern farming and value-added processing of agricultural products, as well as non-farm or off-farm activities or employment, since those subsectors generally provide higher incomes than traditional farming. In that regard a variety of innovative programs have been implemented including:

- a) The resettlement in new land development schemes the landless and those with uneconomic holdings. The settlers have been provided with single-unit houses complete with piped water and electricity;
- b) The in-situ development of existing agricultural land through rehabilitation and consolidation of the land, the replacement of old commercial crops with new higher-yielding clones and the introduction of better planting techniques;
- c) Integrating agricultural and rural development with downstream processing of farm products and encouraging villages industries and rural entrepreneurship in order to provide an additional source of income;
- d) Double cropping or off-season cropping, intercropping and mixed farming on the same plots of land to supplement main crop incomes;
- e) The establishment of farmers' markets in urban centers to enable farmers to sell their products directly instead of through middlemen, thus enabling them to earn better prices;
- f) Incorporating, in most agricultural and rural development projects, a course of training and education; and



- g) A system of industrial and vocational training for rural manpower, including youth as well as credit facilities and related support to enable to find employment in non-farm occupations.

Apart from income generating projects, the government has also sought to improve the quality of life of the poor through the provision of infrastructure and social amenities as part of a broader program to improve the quality of life of the Malaysians. For the rural population these include the provision of potable and piped water, electricity, roads, medical and health services and schools with hostels.

Dealing particularly with hardcore poor households; a special program for them was introduced in 1988 known as the development Program for the Hardcore Poor. It involved the creation of a register and profile of hardcore poor households and the delivery of appropriate projects to meet their specific needs such as increasing employment opportunities and incomes, better housing, food supplements for children and educational assistance.

In addition to the government, nongovernmental organizations (NGOs) and the private sector in Malaysia also voluntarily been helping to redress poverty, in recent years. Working in close cooperation with one another and complementing government efforts, they provide, inter alia, small business loans to the poor as well as industrial training and job opportunities, educational support for children of the poor and better housing. Among the NGOs, the Amanah Ikhtiar Malaysia has been the most successful. Most of the ventures were successful as was reflected in the increased household income of the participants, almost all of them were women, and in loan repayment of almost 100 per cent.

### 3.10 Concluding Remarks

Malaysia economic advancement is a product of a basic policy framework and industrialization strategies since the independence. Since independence in 1957, the economic development pattern was similar to that of the colonial era. As such, a high growth strategy was adopted. The Malaysian economy had experienced high rates of growth during the Second Malaya Plan and the First Malaysia Plan.

Over a decade after independence, development planning programs and policies in Malaysia were not succeeded in tackling the problems of poverty and income inequality among the main racial groups. To curb such situation the NEP was introduced in 1970 where the focus was shifted from the strategy of high growth to that of redistribution with growth. As a result of rapid economic development and substantial growth in income, the incidence of poverty has been reduced substantially.

The NDP was premised and implemented upon the achievements of the NEP with more emphasis on the eradication of hardcore and relative poverty as well as the restructuring of society. The National Vision Policy (NVP) has been formulated within a policy framework of the OPP3. The NVP was launched to reflect the vision of a fully developed and industrialized country by the year 2020 (Okposin, et al. 1999).