

**A STUDY OF THE RELATIONSHIP BETWEEN ECONOMIC
GROWTH AND POVERTY IN MALAYSIA, 1970-2002**

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ABSTRACT

There has been much debate about the effectiveness of economic growth in reducing poverty over the past few decades. This study uses time-series empirical data over a period of 32 years (1970-2002) to attempt to investigate the statistical relationship between economic growth and poverty in Malaysia. It also identifies the impact of income inequality on the ability of economic growth in poverty reduction and determines “how” or “in what ways” economic growth has benefited the poor in Malaysia. The findings suggest that per capita income growth has a strong and negative relationship with poverty, which implies that growth has been effective in reducing poverty in Malaysia. Income inequality has been identified to be positively related to poverty and negatively related to the growth of per capita income. However, the overall effect of income inequality in impinging the relationship between growth and poverty is rather weak. Growth has benefited the poor in Malaysia through the workings of several mechanisms such as demand for poor people’s output, provision of job opportunities for poor people, government expenditure on basic social services (such as health, education, and infrastructure), government’s strategy of income redistribution, government anti-poverty policies, private sector involvement on poverty reduction, and rapid process of urbanisation. The patterns of growth that favour manufacturing rather than agriculture has been proven to be beneficial to the poor.

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GLOSSARY OF ABBREVIATIONS

ADP	Asian Development Bank
ASB-PPRT	Micro-credit Component
ASEAN	Association of South East Asian Nations
CIP	Change in Incidence of Poverty
CPI	Consumer Price Index
DCRG	'Distribution-Corrected' Rate of Growth
EPU	Economic Planning Unit
ESCAP	Economic and Social Commission for Asia and the Pacific
GC	Gini Coefficient
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HES	Household Expenditure Survey
IGTI	Inequality-Growth Trade Off Index
IP	Incidence of Poverty
JBIC	Japan Bank for International Cooperation
KEDAS	Rural Planning Division and Rural Development Division
LDCs	Less Developed Countries
LKIM	Fisheries Development Authority of Malaysia
MTR5MP	Mid-Term Review of the Fifth Malaysia Plan
MTR7MP	Mid-Term Review of the Seventh Malaysia Plan
NDP	National Development Policy
NEP	New Economic Policy
NICs	Newly Industrialized Asian Countries
OLS	Ordinary Least Square
PLI	Poverty Line Income
PPGI	Pro-Poor Growth Index
PPRT	Development Programme for the Hard-core Poor
RGDP	Real Gross Domestic Product
RGDPC	Real Gross Domestic Product per Capita
RGDPCG	Real Gross Domestic Product per Capita
RISDA	Rubber Industry Smallholders Development Authority
R&D	Research and Development
SARS	Severe Acute Respiratory Syndrome
SICs	Semi-Industrialized Countries
TFP	Total Factor Productivity
UNDP	United Nation Development Programme
WB	World Bank
1MP	First Malaysian Plan (1966-1970)
2MP	Second Malaysian Plan (1971-1975)
6 MP	Sixth Malaysian Plan (1991-1995)
5MP	Fifth Malaysian Plan (1986-1990)