

CHAPTER 7 – CONCLUSION

7.1 SUMMARY

Economic growth has increased at a fast rate in Malaysia during the period of 1970-2002. However, IP has reduced gradually during this period as well. In general, there seems to be an obvious negative relationship between economic growth and poverty in Malaysia, which indicated that as an economy continues to grow, the IP would be reduced. Growth seems to be an important factor that determines the rate of poverty reduction in Malaysia.

Based on the regression analysis, economic growth is seen to reduce IP effectively in Malaysia. The ‘Trickle-Down Theory’ is applicable in the context where the benefits of growth automatically filtered down to the poorer segments of the population. Although income inequality does impinge on the effectiveness of growth in reducing poverty, the magnitude of this adverse effect is small. This is most probably, due to the trend of income inequality in Malaysia, which is relatively equal and stable. Therefore, strong economic growth played the most important role in reducing poverty in Malaysia.

This suggests that growth-maximising policies rather than the pro-poor policies that minimise inequality will be more adequate and appropriate to reduce poverty in Malaysia. The most suitable kind of growth-maximising policies are those that favour manufacturing sector’s growth. Based on the pattern of growth in relation with IP, manufacturing growth has proved to be an important source of poverty reduction in Malaysia as compared to agriculture growth. Therefore, the government should

concentrate on efforts to stimulate manufacturing growth in order to promote economic growth and reduce poverty effectively.

Basically, growth has benefited the poor through higher salary payment and job opportunities creation, which directly raised the average mean incomes of the poor. Growth also benefited the poor through provision of more basic necessities such as education, health and infrastructures required to maintain a decent standard of living, which indirectly increased the purchasing power of the poor. The benefits of growth towards the poor in Malaysia can be seen as translation of growth into progress of the social and economic aspects of the poor such as mean and proportion of incomes, job opportunities, consumption possibilities, provision of basic necessities and performance of demographic indicators.

Overall, it was due to the workings of several mechanisms that growth is able to benefit the poor in Malaysia. The mechanisms include: (1) increases of aggregate demand for poor people's output; (2) more job opportunities for (unskilled) labour of poor people; (3) higher government's expenditure on basic social services such as health, education, and infrastructure; (4) government's strategy of redistribution of incomes to the poor; (5) government's anti-poverty policies specifically meant to reduce poverty of the poorest; (6) increased involvement of private sector on poverty reduction aspects; and (7) rapid process of urbanisation that enhances incomes for the poor as well as promotes a better standard of living.

7.2 MAJOR FINDINGS

The statistical relationship between economic growth and poverty during the period of 1970-2002 is negative and strong. However, the effectiveness of growth in reducing poverty differs through the decades. Growth has reduced poverty more in the

recent decades compared to the earlier decades. Economic crisis did not affect the ability of growth to reduce poverty. Therefore, the costs of economic crisis in Malaysia are not beared disproportionately by the poor people.

Income inequality adversely affects growth and positively influences poverty in Malaysia throughout the period of 1970-2002. Rising income inequality, thus, has a negative effect on poverty reduction. However, the negative effect of growth on poverty reduction outweighed the positive effect brought by income inequality. Therefore, growth has played the most important role in reducing poverty in Malaysia during the period.

The 'trade-off' index between income inequality and economic growth suggested that a strategy of inequality reduction would have a smaller payoff for poverty reduction than the strategy of promoting growth. The 'pro-poor growth' index, on the other hand, indicated that growth has been highly or strictly pro-poor in Malaysia when the influence factor of income inequality is taken into consideration. Both indexes supported the findings that growth is more effective in reducing poverty in Malaysia during the period of 1970-2002.

Since income inequality does reduce the ability of economic growth to reduce poverty in Malaysia during the period of 1970-2002, the 'distribution-corrected' rate of growth, therefore, is a better measure to explain changes in poverty reduction due to the effects of growth. It is a measure that has incorporated the impact of negative effect brought by income inequality on poverty reduction. Due to the (overall) reducing trend inequality, the rate of poverty reduction has become more responsive to the rate of growth.

Meanwhile, manufacturing growth is more poverty-reducing in Malaysia as compared to agriculture growth. Therefore, the pattern of growth that emphasised manufacturing growth is more important for poverty reduction in Malaysia.

7.3 CONCLUDING REMARKS

It is important for Malaysia to promote high and sustainable growth in order to reduce poverty effectively. The patterns of growth need to be emphasised. It has to be focused on the growth of manufacturing sector as compared to agriculture sector's growth. Although income inequality tended to increase in the late 1990s until the early 2000s, the impact towards the long-term growth-poverty relationship can hardly be seen. Poverty still declines in a continuous pace throughout the period of economic growth. Therefore, growth is understood to be the more important determinant of poverty reduction compared to income distribution. The policies of Malaysia's government which emphasised on growth and redistribution of incomes through the implementation of NEP and NDP has been successful. Malaysia is a developing country that has achieved success in promoting the progress of two important development goals – that is to increase the wealth of the nation and to raise the social well-being of the population.

7.4 RECOMMENDATIONS

The understanding of 'how' growth benefited the poor can be analysed through the method of 'decomposition analysis' to understand the effects of different components of growth on poverty reduction. It could be a model introduced by Fields (1975) where total economic growth is decomposed into various segments; the portion of the income growth accruing to the poor and non-poor households; by racial groups; and in the urban and rural areas. Thus, it determines 'how' much of the income growth

accrued to the poor and the non-poor population. This scheme has been used by Muniappan (1985) to analyse 'how' growth benefited the poor in Malaysia for the early period of 1957-1976, and it explains the situation well. However, it has never been used again for analysis in the later periods due to lack of data.

Meanwhile, analysis could be done on examining the relationship between economic growth and non-income poverty to understand the benefits of growth (in per capita income) in affecting the reduction of poverty in socio-economic terms, such as health, education, infrastructure and so forth, rather than in economic terms, which measures using the level of income. This gives a better picture of the total benefits of income growth towards the poor.

Besides, the examination on the impact growth's patterns on poverty can include the variables of other sectors such as mining and quarrying, services (government and non-government), and construction instead of only the agriculture and manufacturing sectors, to understand the ability of each sector to reduce income-poverty in Malaysia. This enables effective poverty-reducing growth strategy (that focuses on several sectors) to be promoted for the benefit of the country in realising the goal of achieving high growth with progress in poverty eradication.

What would the impact of globalisation on poverty reduction be? Analysis can be done by incorporating variables that measure the openness of an economy such as tariff rates for capital equipment, the extent of non-tariff barriers, and the degree of distortion in the foreign exchange market (proxied by the parallel market premium)¹⁰³ in the analysis of poverty reduction with respect to growth.

¹⁰³ The measure of an economy's openness is developed by Sachs and Warners (1995). See: A World Bank Policy Research Report. 2002. *Globalisation, Growth, and Poverty: Building an Inclusive World Economy*. The International Bank for Reconstruction and Development/ The World Bank: Washington, DC.

Both household survey and national accounts data can be used for the analysis of growth-poverty relationship since both measures, as proclaimed by Deaton (2001), almost certainly contain errors and it is difficult to determine which is actually better. Therefore, it is good to report growth using both measures for a more detailed analysis (Adams, 2003).

Other poverty measures such as relative poverty, poverty gap and Sen Index, should be used for the analysis of growth-poverty relationship to obtain a more thorough picture of the impact of growth on poverty reduction in Malaysia. Based on the understanding that poverty is something subjective and incorporates many facets, the results of growth impact on reduction of IP alone explains very little.

Also, due to the lack of annual series data of poverty rates in Malaysia, different methods of estimating the possible poverty data for years with unavailable data should be developed to produce a series of annual data that is precise and highly accurate for the used of future analysis.

Finally, income inequality is an important variable that could not be neglected in the process of examining growth-poverty relationship. Thus, more analysis should be done on the important role of income inequality in affecting growth's ability to reduce poverty. Again, 'decomposition analysis' can be employed to determine the percentage of changes in poverty that is attributed to growth and the percentage of changes in poverty that is due to income inequality. This will enable the government to better control the trends of income inequality through income redistribution strategies in order to effectively reduce poverty in Malaysia in the process of economic growth.