MDG 1
Eradicate Extreme Poverty and Hunger

In 1970, Malaysia was predominantly a rural agricultural society with sharp spatial and ethnic disparities in income and social well-being. It set for itself an ambitious development goal of eradicating poverty. In just about 15 years from 1970, when half of all households were poor, Malaysia more than halved the incidence of absolute poverty. In another 15 years from the mid-1980s, Malaysia again more than halved the level of absolute poverty. By the early years of the new millennium (2002), just 5.1 per cent of households were poor.

With this track record, Malaysia can be classified as a success story in attacking absolute poverty, enabling it to reach the MDG target of halving poverty well before 2015. Malaysia is now close to having eradicated extreme poverty. How was this rapid progress achieved? What were the policies and programmes? How were constraints overcome? What are the lessons that can be learnt? This chapter presents Malaysia's record of achievements in overcoming poverty and the challenges remaining for the future.

Malaysia's experience in poverty reduction is of particular interest because it has been achieved in a multi-ethnic and culturally diverse setting. Furthermore, its economic growth strategy has integrated commitments to poverty elimination and restructuring of society as central objectives in its development vision.

Malaysia's impressive poverty reduction has been, in large part, due to sustained, albeit variable, economic growth—average annual growth rate of real GDP was 7 per cent over the last three and a half decades (Table 1.1). International evidence suggests that the rate of economic growth is a powerful influence on poverty reduction.

Table 1.1 **Annual Growth Rates of Gross Domestic Product, Malaysia Five-Year Plan Periods (%)**

	1st 1966–70	2nd 1971–5	3rd 1976–80	4th 1981–5	5th 1986–90	6th 1991–5	7th 1996–2000	8th* 2001–5
Average annual growth rate of real GDP (%)	5.4	7.1	8.6	5.8	6.7	8.7	4.7	7.5

Sources of data: Henderson et al, 2002; Malaysia, Economic Planning Unit, 2001a.
* Estimate.

Poverty is multidimensional. It is, of course, more than a lack of income. Poverty is also associated with lack of access to basic education, health (including reproductive health) services and information, shelter, clean water, and sanitation. Economic growth increases the income of the population and tends to reduce the number of poor people. Economic growth also increases the government's revenue, which can be used to provide basic social services and infrastructure. But economic growth alone is rarely a sufficient condition for poverty reduction.

Investing in increasing access to, and provision of, basic social services not only helps to provide opportunities for the poor, but also contributes to sustainable economic growth. Malaysia's impressive improvements in the social sectors can be seen in key human development indicators. Between 1970 and 2000, life expectancy at birth rose sharply for females and males, the combined figure being from 64.2 to 72.8 years, while the infant mortality rate fell from 40.8 to 7.9 per 1,000 live births. Over the corresponding period, the adult literacy rate rose from 60 per cent to 94 per cent, and since 1990 primary school enrolment has been universal for both girls and boys.

Poverty definition

In Malaysia, the incidence of **absolute poverty** has traditionally been determined by reference to a threshold poverty line income (PLI). This PLI is based on what is considered to be the minimum consumption requirements of a household for food, clothing, and other non-food items, such as rent, fuel, and power (Box 1.1). There is no separate PLI for urban and rural households. The proportion of all households living below this threshold is the proportion living in poverty—that is the **poverty rate**. Poverty rates are available for household categories only: they are not available for individuals separately.

The concept of **hard-core poverty** was first used by the Malaysian government in 1989 to help identify and target poor households whose income is less than half of the PLI. It is one indication of the severity of poverty. The term hard-core poverty in Malaysia does not, however, indicate the duration of time spent living below the poverty line.

In addition to absolute poverty, the concept of **relative poverty** is used to assess income disparities between income groups. It is measured here by using income disparity ratios of income groups (top 20 per cent and bottom 40 per cent), and urban and rural dwellers. The Gini coefficient is also used to assess, in summary form, trends in income distribution.[1]

There are, of course, many welfare measures that can be used in poverty assessments. Each has its strengths and limitations, and no one measure can capture the many dimensions of poverty. The basic indicators used in this chapter are built upon in later chapters which focus on other dimensions of poverty. For example, the education and health indicators used in Chapters 2 and 4 provide information about deprivations requiring policy support in those sectors. While there is overlap in the composition of the groups suffering various types of deprivation, the policy prescriptions differ.

1 *The Gini coefficient is a number between 0 and 1, where 0 means perfect equality (everyone has the same income) and 1 means perfect inequality (one person has all the income, everyone else has nothing). The lower the Gini coefficient, the more equal the distribution of income of a country.*

Box 1.1 Malaysia's Poverty Line

Malaysia's Poverty Line Income (PLI) is based on the minimum requirements of a household for three major components: food, clothing, and footwear, and other non-food items such as rent, fuel, and power; furniture and household equipment; medical care and health expenses; transport and communications; and recreation, education, and cultural services.

For the food component, currently the minimum expenditure is based on a daily requirement of 9,910 calories for a family of five persons, while the minimum requirements for clothing and footwear are based on standards set by the Department of Social Welfare for welfare homes. The assumed family of five consists of 1 adult male, 1 adult female, and 3 children of either sex aged 1–3, 4–6, and 7–9 years.

The other non-food items are based on the level of expenditure of the lower income households, as reported in the Malaysian Household Expenditure Survey (HES). The PLI is updated annually to reflect changes in the levels of prices by taking into account changes in the Consumer Price Indices. The PLI is calculated to reflect differences in prices and household size in Peninsular Malaysia, Sabah, and Sarawak.

The incidence of poverty is monitored through the Malaysian Household Income Survey (HIS). The HIS is conducted once in every two to three years and is primarily designed to collect information on household earnings, income sources, and other social data, such as education, health, water supply, electricity, housing, and mode of transport.

Poverty rates, as measured using Malaysia's PLI, differ from those implied by the one US dollar a day (purchasing power parity) poverty line used by international organizations. The latter has fixed purchasing power across countries and, therefore, facilitates international comparisons more readily.

Poverty Line Incomes, 1990–2002
(RM per month per household)*

	1990	1995	1999	2002
Peninsular Malaysia	370	425	510	529
Sabah	544	601	685	690
Sarawak	452	516	584	600

** Adjusted based on an average household size of 4.6 in Peninsular Malaysia, 4.9 in Sabah, and 4.8 in Sarawak.*

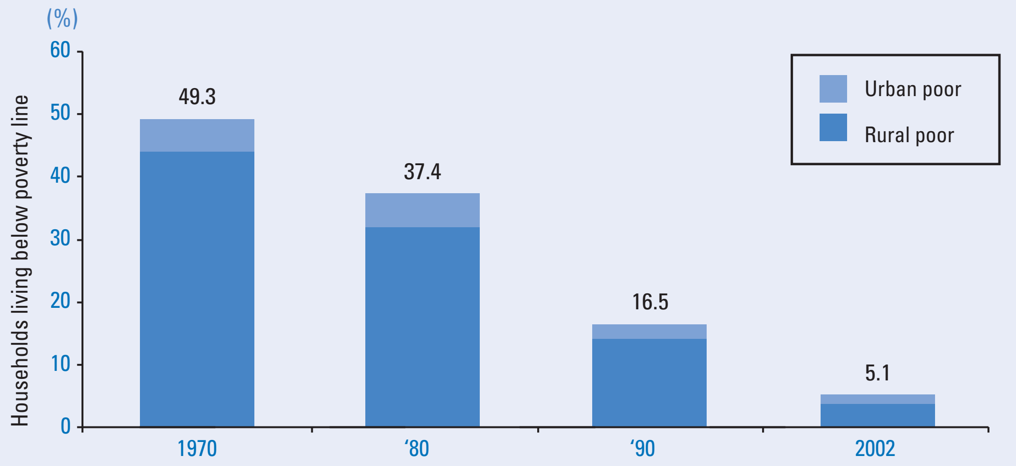
There are always conceptual and empirical problems in deciding what constitutes a minimum standard of living, as well as data problems in measuring it. In comparison with the US$1 PPP standard poverty line, the Malaysian PLI, when converted on the basis of US$1 PPP, results in a higher poverty rate because of its higher standard of living below which households are counted as poor.

The current methodology clarifies households as poor if their incomes are insufficient to meet the needs of around 5 persons. This may well exaggerate poverty rates of small households and underestimate the poverty rates of larger ones. The methodology for computing the PLI and poverty measures in Malaysia is under review.

Trends in poverty rates

Malaysia's poverty rate has declined dramatically over the past three and a half decades (Figure 1.1). About half of Malaysian households lived below the poverty line in 1970, falling to 16.5 per cent in 1990 and to just 5.1 per cent in 2002. The MDG target, to reduce the proportion of the population living below the poverty line by 50 per cent, between 1990 and 2015, was achieved in 1999 when the poverty rate declined to 7.5 per cent. Both the speed and the magnitude of the decline were well ahead of the MDG target.

Figure 1.1 Incidence of Poverty as a Percentage of Total Households, Malaysia, 1970–2002



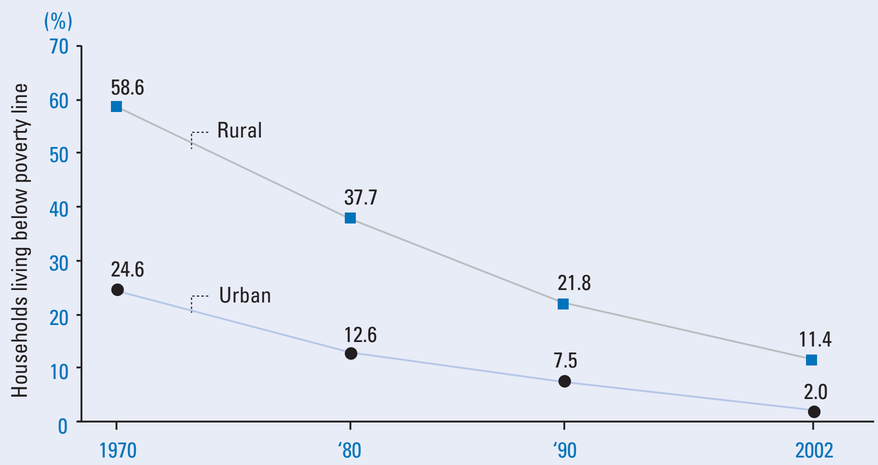
Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.
Note: Data for 1970 are for Peninsular Malaysia.

Urban–rural differentials

Malaysia's poverty has been a predominantly rural phenomenon (Figures 1.1 and 1.2). Figure 1.1 gives details of the number of poor households expressed as a percentage of the total number of households. It also shows the contribution to this total of urban and rural households; for example, in 1970, 49.3 per cent of Malaysian households were below the poverty line. The number of poor rural households as a percentage of the total number of households was 44 per cent, the remaining 5.3 per cent being urban.

In Figure 1.2, the poverty rates are defined as the number of poor rural (or urban) households expressed as a percentage of the total number of rural (or urban) households. In 1970, poverty rates were markedly higher in rural areas, where the bulk of the population lived. Subsequently, the poverty rate has declined for both rural and urban areas, but more conspicuously in rural areas, such that the urban-rural poverty gap is much reduced in absolute terms, but not in relative terms. The rural poverty rate in 1970 was two-thirds of its 1980 level; it more than halved in the next 10 years and was halved again from 1990 to 2000. The urban poverty rate was halved every 10 years from 1970 to 1990. By 2002, just 2 per cent and 11.4 per cent respectively of urban and rural households were living in poverty. Although the urban poverty rate is very low, rapid urbanization that has occurred over the decades means that the number of the urban poor is now considered significant.

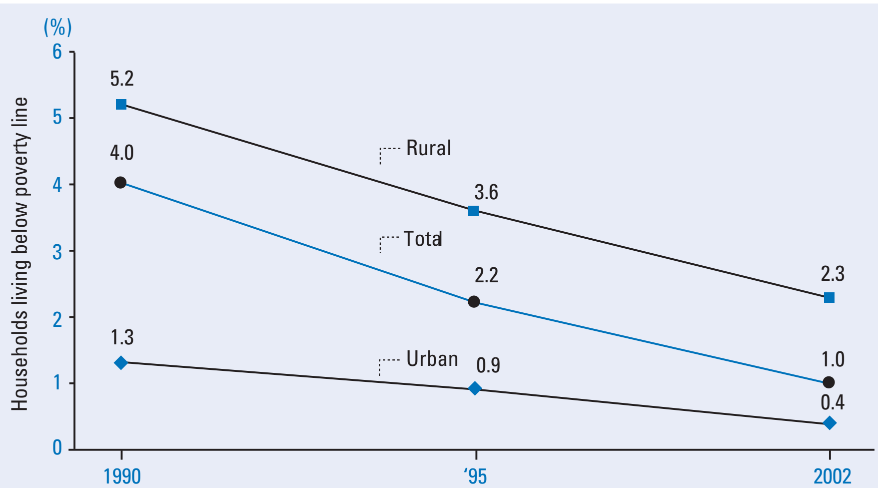
Figure 1.2 **Poverty in Rural and Urban Areas as a Percentage of Total Rural/Urban Households, Malaysia, 1970–2002**



Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.

In the late 1980s, Malaysia began to focus its poverty-eradication programme on the hard-core poor. In 1990, the proportion of hard-core poor households was 3.9 per cent of total households. Total hard-core poor declined to 2.1 per cent in 1995 and 1.0 per cent in 2002 (Figure 1.3). Rapid declines in hard-core poverty have occurred in both rural and urban areas, especially in the mid-1990s. By 2002, the proportion of hard-core poor households had fallen to 0.4 per cent in urban areas and to 2.3 per cent in rural areas.

Figure 1.3 **Hard-core Poverty in Rural and Urban Areas as a Percentage of Total Households, Malaysia, 1990–2002**



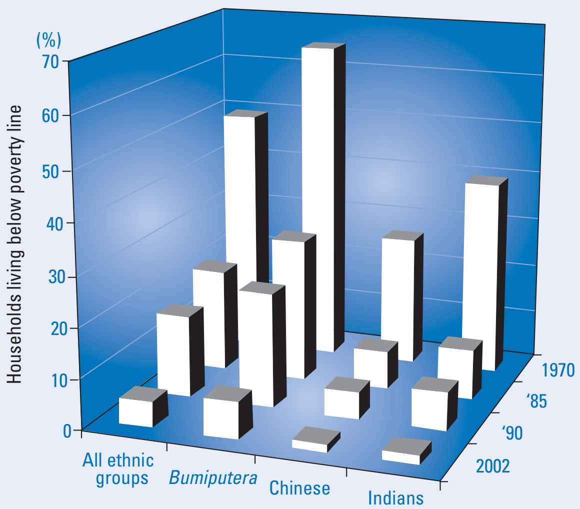
Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.

Ethnic disparities

Malaysia's three main ethnic communities are the *Bumiputera* (Malays and other indigenous groups), Chinese, and Indians. Historically, they were separated both geographically and occupationally, reflecting their differing settlement patterns. In 1970, when just 27 per cent of Malaysia's 10.4 million persons were living in urban areas, the *Bumiputera* (55 per cent of the population) were predominantly rural. They were engaged mainly in rice cultivation, fishing, and rubber tapping, far away from the growing urban economy. The Chinese (36 per cent of the population) were a more urban community, dominating trade and commerce, as well as tin mining and commercial agriculture, while some Indians (approximately 10 per cent of the population) had settled in towns and were mainly concentrated in the rubber estates and plantations.

Not unexpectedly, given the above, in 1970, poverty was markedly higher among the *Bumiputera* than the other communities. Approximately two-thirds of *Bumiputera* households were living below the poverty line—poverty rates among Chinese and Indian households were 26.0 per cent and 39.2 per cent respectively (Figure 1.4). As a result of policies adopted by Malaysia, there have been tremendous absolute declines among each of the ethnic groups, such that by 2002 the poverty rates were 7.3 per cent, 1.5 per cent, and 1.9 per cent for the *Bumiputera*, Chinese, and Indians respectively.

Figure 1.4 **Poverty Rates by Ethnic Groups, Malaysia, 1970–2002**



Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.

Ethnic income differentials generally narrowed over the period 1970–2002 as is clear from Figure 1.5. The ratios of mean household income of Chinese and Indians to the mean household income of *Bumiputera* have generally fallen over this period, most notably in the 20 years up to 1990. However, over the last decade of the last century, relative incomes have been broadly constant, and absolute differentials in income have widened (Figure 1.5). Moreover, the Chinese mean household income remains about two times higher than that of the *Bumiputera*.

Figure 1.5 Ethnic Group Disparities in Mean Monthly Income, Malaysia, 1970–2002

Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.

Spatial distribution of poverty

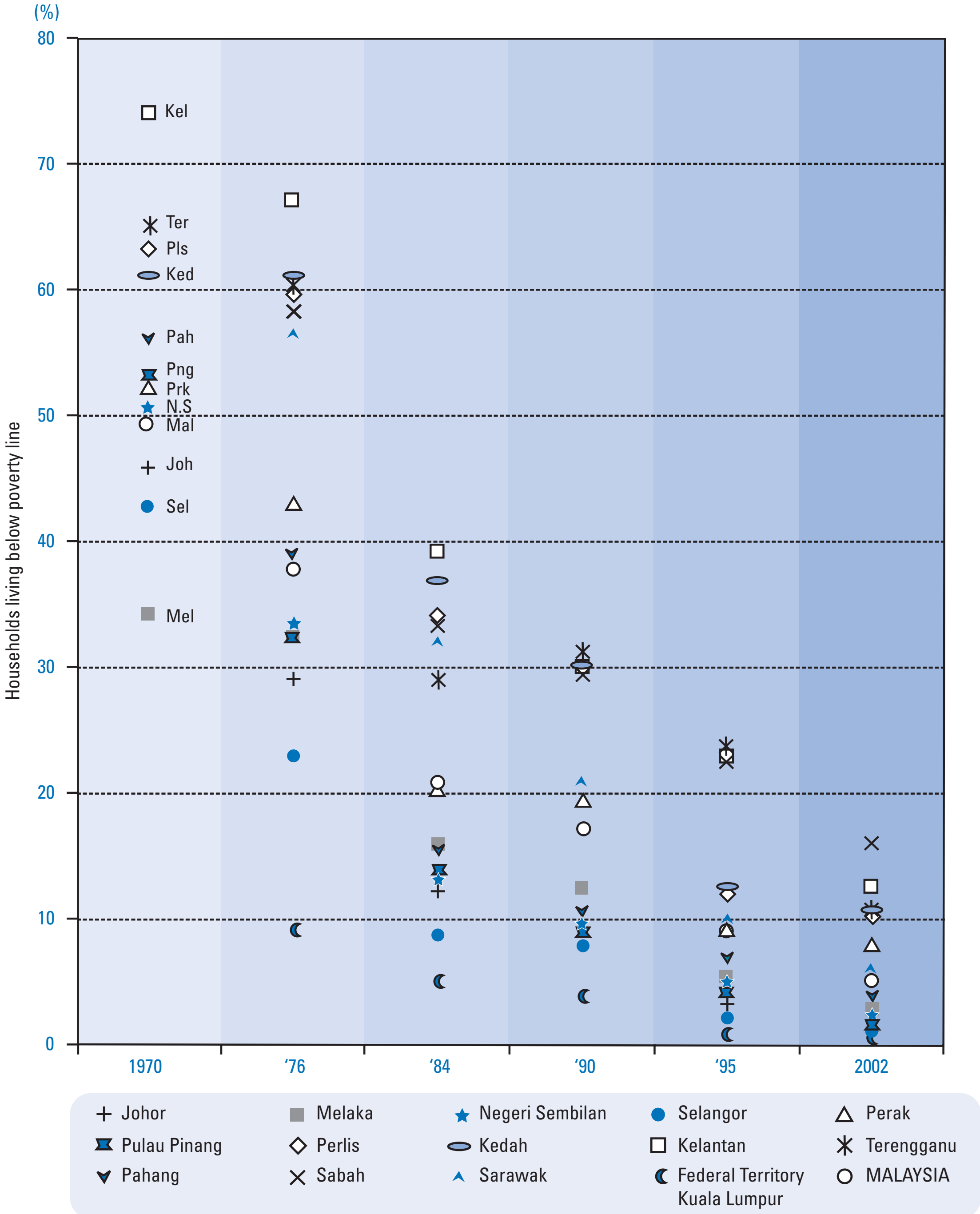
The spatial distribution of poverty maps closely to Malaysia's pattern of development. This, in turn, is closely linked to ethnic settlement patterns and industrial structures. Historically, the *Bumiputera* community lived in settlements along the coasts and riverbanks. Chinese and Indian migrants settled along the western coastal plains around the tin mines, agricultural estates, and urban centres. Relatively few of these communities settled in the east coast states, especially in Kelantan and Terengganu, which were sparsely populated in 1970. The big states of East Malaysia, Sabah and Sarawak, were also sparsely populated and undeveloped. At that time, the most populated states were Selangor, Perak, and Johor: only these states had more than one million persons.

In 1970, there were wide disparities in poverty levels between the states (Figure 1.6). Poverty levels were lowest in the west coast states of Melaka, Selangor, and Johor and highest in Sabah, Kelantan, and Terengganu.

There have been significant reductions in poverty rates for all of Malaysia's 13 states and the Federal Territory of Kuala Lumpur over the three decades since 1970 (Figures 1.6 and 1.7). However, there are still sharp state differentials. Geographical and historical factors continue to matter. The west coast states of Peninsular Malaysia are more developed and have tended to attract more foreign direct investment (FDI). The railway and road system started in these states which are more accessible to the seaports facing the Straits of Malacca, a key maritime highway for international trade in South-East Asia. By contrast, Kelantan and Terengganu, until the discovery of offshore oil in the east coast, were less accessible and have attracted much less FDI.

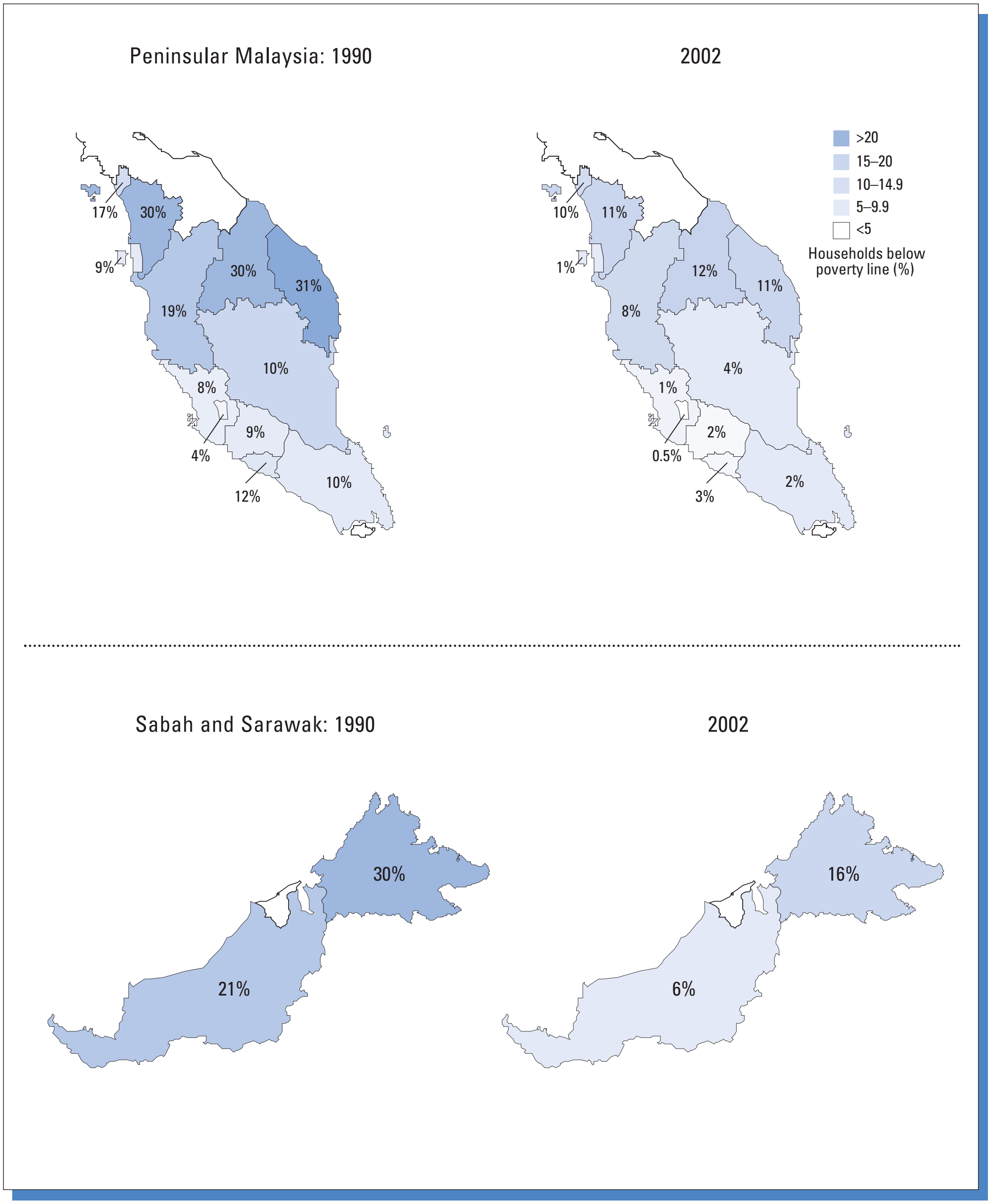
Currently, Malaysia's poor are mainly concentrated in the states of Kelantan, Terengganu, Kedah, Perlis, and Sabah, and in particular in the rural areas of those states. In 2002, while the national poverty rate was 5.1 per cent, the poverty rates for the poorest states were as follows: Sabah, 16.0 per cent; Kelantan, 12.4 per cent; Kedah, 10.7 per cent; Terengganu, 10.7 per cent; and Perlis, 10.1 per cent (Map 1.1). Overall, these states have levels of poverty that are two to three times higher than the national level. With the exception of Terengganu, these states also have per capita GDP levels significantly below the national average, and their populations are predominantly *Bumiputera*.

Figure 1.6 Incidence of Poverty by State, Malaysia, 1970–2002



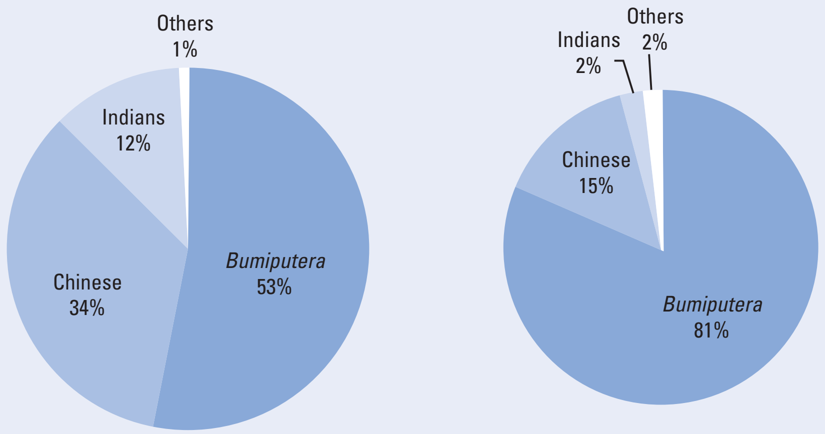
Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.

Map 1.1 State Poverty Rates, Malaysia, 1990 and 2002



Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.

Figure 1.7 **Ethnic Distribution in More Developed and Less Developed States, Malaysian Citizens, 2000**



More developed states
Johor, Melaka, Negeri Sembilan, Perak, Pulau Pinang, Selangor, and Federal Territory Kuala Lumpur
12.7m

Less developed states
Kedah, Kelantan, Pahang, Perlis, Sabah, Sarawak, and Terengganu
9.4m

Source of data: Malaysia, Department of Statistics, 2003e.

Food poverty

The decline in the incidence of poverty in Malaysia is revealed by trends in other direct measures of welfare, especially nutrition. Improvements in the average levels of nutrition are likely to reflect improvements in the nutrition of low-income groups, since nutritional levels do not change substantially at higher income levels. Chronic hunger has never been a serious problem in Malaysia. Nutritional status, a crucial component of most poverty indicators, can be measured in various ways. One is the number of calories consumed by an individual during a given time period. The World Health Organization (WHO) defines this as the consumption of fewer than 1,960 calories a day. Other measures include the intake of protein and nutrients, while child nutrition may be measured by the weight by age and height.

In Malaysia, to improve the nutritional levels of the poor, nutrition programmes were incorporated as an integral component of rural development programmes. Overall, the nutritional level of the population is satisfactory and improving, as seen in the trend of the amount of daily per capita intake of calories and protein (Table 1.2). Government focus is currently on addressing moderate malnutrition among children below 5 years and iron deficiency anaemia among pregnant mothers.

Table 1.2 Daily Per Capita Intake of Calories and Protein, Malaysia, 1970–1999

Daily Per Capita Intake of						
Calories				Protein (grams)		
1970	1980	1989	1999	1970	1980	1987–9
2,518	2,716	2,774	2,969	95	92	88

Sources of data: For 1970–89: Johansen, 1993; and for 1999: International Rice Research Institute, 2002.

Prevalence of underweight children

The weight of children can be a useful indicator of the level of welfare prevailing in a country. It provides a good indication of the level of health services, as well indirectly reflecting income levels, environmental influences on food habits, and knowledge of nutritional and sanitary needs, coupled with factors contributing to a child's physical and mental capacity.

To overcome the nutritional diseases and deficiencies, especially prevalent in the rural areas, the government initiated a long-term poverty-reducing project known as the Applied Food and Nutrition Programme (AFNP) (see Chapter 4). The project is aimed at increasing local production of nutritious foods, improving nutritional education, health, and basic education, and promoting supplementary feeding of pregnant and lactating mothers, toddlers, and school children. The government also initiated the Nutrition Rehabilitation Programme in 1989 as an immediate strategy to rehabilitate undernourished children.

Trends between 1990 and 2001 in under-5 weight-for-age show that not more than 1 per cent are severely underweight (Table 1.3). Further, the proportion with moderate underweight malnutrition has declined markedly from around 25 per cent in the early 1990s to about 12 per cent by 2001.

Table 1.3 Nutritional Status of Children Aged Less Than 5 Years, Malaysia, 1990–2002

Year	Nutritional Status of Children (weight-for-age)	
	Moderate underweight malnourished (%)	Severe underweight malnourished (%)
1990	24.5	0.5
1991	25.6	0.5
1992	25.1	0.5
1993	22.8	0.5
1994	22.0	0.4
1995	20.0	0.6
1996	19.4	0.8
1997	17.7	1.0
1998	17.3	1.1
1999	14.7	1.0
2000	13.0	1.0
2001	11.5	0.9
2002	11.1	0.9

Sources of data: Malaysia, Ministry of Health, 1991 and 2001a.

Growth with equity

The primary objectives of economic policy in Malaysia can be summarized in the phrase 'growth with equity'—to ensure a growing economy in which all communities benefit. The goal of improving equity in income and wealth distribution has been at the top of Malaysia's national development agenda throughout the past three and a half decades.

Based on the view that the country's development path could not be sustained unless all communities share economic growth equitably, the government formulated the New Economic Policy (NEP) in 1970. The NEP, which spanned a period of 20 years from 1971, not only emphasized economic growth but also gave priority to an equitable distribution of income. Growth with equity was the central strategic thrust of the NEP which was incorporated in the Second Malaysia Plan (1971–5). To achieve this goal, two strategies were adopted: (i) reducing, and eventually eradicating, absolute poverty irrespective of race by raising income levels and increasing job opportunities for all Malaysians, and (ii) restructuring society to remove the identification of race with economic functions.

The NEP was succeeded by the National Development Policy (NDP), 1991–2000, which essentially continued the twin objectives of poverty eradication and restructuring of society. Together, these two policies spanned a 30-year period which saw Malaysia emerge from a predominantly agricultural economy into a modern, outward-oriented industrialized nation.

We have seen that the NEP and NDP objectives of reducing the incidence of poverty have been very successful. Changes in the overall pattern of income distribution over the last three decades of the twentieth century are set out in Table 1.4. The income share of the top 20 per cent of households fell from a peak of 55.7 per cent in 1970 to a low of 50 per cent in 1990, rising again to slightly more than 51 per cent in 2002. Over the corresponding years, the income share of the bottom 40 per cent of households was respectively 11 per cent, 14.5 per cent, and 13.5 per cent.

During the period 1970–2002, income inequality in Malaysia also narrowed. The Gini coefficient was 0.52 in 1970; it reached a low of 0.443 in 1999, before rising again to 0.461, in 2002; which was back to the level of the late 1980s (Table 1.4). Thus, over the slow growth years of 1999–2002 poverty fell but income inequality widened-the Gini ratio rising from 0.44 to 0.46.

Table 1.4 Income Shares by Income Group, Malaysia, 1970–2002 (%)

Income group	1970*	1973*	1976	1979	1984	1987	1990	1999	2002
Total									
Top 20%	55.7	58.0	57.9	55.4	53.5	51.5	50.0	50.5	51.3
Middle 40%	32.9	30.6	31.3	32.7	33.8	34.8	35.5	35.5	35.2
Bottom 40%	11.4	11.4	10.8	11.9	12.7	13.7	14.5	14.0	13.5
Urban									
Top 20%	51.0	59.5	56.5	54.0	52.3	50.6	49.6	48.7	49.6
Middle 40%	35.9	29.1	31.4	33.3	34.4	35.2	35.7	36.5	35.7
Bottom 40%	13.1	11.4	12.1	12.7	13.3	14.2	14.7	14.8	14.7
Rural									
Top 20%	55.9	52.6	54.6	52.1	50.1	49.2	47.6	47.9	46.7
Middle 40%	31.8	34.3	34.1	34.9	36.0	36.1	36.8	36.5	37.2
Bottom 40%	12.3	13.1	11.3	13.0	13.9	14.7	15.6	15.6	16.1
Gini Coefficient	0.51	0.53	0.53	0.51	0.48	0.46	0.446	0.443	0.461
Poverty level %	49.3	n/a	42.4	37.4	20.7	19.4	16.5	7.5	5.1

Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.
Note: * Refers to Peninsular Malaysia.

Figure 1.8 Income Shares by Income Group, Malaysia, 1970–2002 (%)

Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.

The Malaysian experience seems to suggest that widening income inequality need not always or necessarily lead to an increase in poverty. The 20-year period 1970–90 was marked by sharp falls in poverty and a reduction in income inequality. But during the difficult years of 1990–2002, inequality increased slightly while the incidence of absolute poverty continued to fall. This is clearly evident in Figure 1.8, where the increasing income share of the bottom 40 per cent of households increased markedly up to 1990, but has been broadly constant since.

Table 1.4 reports the trends in relative income shares over the post-1970 period. Table 1.5 compares mean incomes amongst different groups over the period 1990–9. Overall, income growth was rather similar for all groups. However, the trends for the urban and rural areas are different. Income gains were significantly larger for all income groups in the urban areas, compared to the rural. The net result was that the urban–rural income differential rose from 68 per cent in 1990 to 111 per cent in 2002.

Table 1.5 **Mean Monthly Gross Household Income by Income Group, Malaysia, 1990 and 2002**

Area and income group	In current prices		In constant prices (2000=100)		Average annual real growth rates
	1990	2002	1990	2002	1990–2002
Malaysia	1,169	3,011	1,656	2,918	4.7
Top 20%	2,925	7,745	4,143	7,505	5.0
Middle 40%	1,037	2,660	1,469	2,578	4.7
Bottom 40%	424	1,019	601	987	4.1
Urban	1,606	3,652	2,275	3,539	3.7
Top 20%	3,981	9,085	5,639	8,803	3.7
Middle 40%	1,435	3,265	2,033	3,164	3.7
Bottom 40%	590	1,344	836	1,302	3.7
Rural	957	1,729	1,356	1,675	1.8
Top 20%	2,277	4,057	3,225	3,931	1.6
Middle 40%	882	1,612	1,249	1,562	1.9
Bottom 40%	373	699	528	677	2.1
Urban/Rural ratio in mean income					
Urban/Rural	1.68	2.11	1.68	2.11	
Top 20%	1.75	2.24	1.75	2.24	
Middle 40%	1.63	2.03	1.63	2.03	
Bottom 40%	1.58	1.92	1.58	1.92	

Sources of data: Malaysia, Economic Planning Unit, five-year plans, 1991b and 2001b.

Economic growth and poverty

Reductions in poverty level can be attributed to two reasons. Firstly, to a rise in **mean incomes** will always reduce the absolute poverty rate if the distribution of relative incomes is unchanged. If economic growth raises the incomes of all households—that is, shifts the entire income distribution to the right—then the proportion of households below an absolute poverty line will inevitably fall. Secondly, poverty rates will fall if there is a favourable change in relative household income distribution, even if the mean income level is unchanged. Since there is growing international evidence that economic growth has little discernible effect on relative income distribution, economic growth can confidently be expected to reduce poverty. But public policy can also work to strengthen the favourable effects of economic growth. In the Malaysian case, it is clear that both factors (economic growth and public policy) made important contributions to the impressive reduction in the incidence of poverty. The Malaysian economy experienced rapid economic growth over the last quarter of the twentieth century. Between 1971 and 2000, real GDP per capita grew at an impressive 4.2 per cent per annum, on average, as a result of effective public policy which played a direct and key role in alleviating poverty over the same period.

International experience suggests that, as a simple rule of thumb, a 1 per cent increase in mean income will reduce the incidence of poverty by 2 per cent (World Bank, 2001). This is often referred to as the 'growth elasticity' of poverty reduction. The Malaysian case provides a good example. Over the period 1970–2000, the average percentage reduction in poverty was around 7.5 per cent per year; over the same period, real GDP per capita grew on average at a rate of 4.2 per cent, giving a 'growth elasticity' of 1.8. This indicates that for every 1 per cent growth in GDP per capita, poverty is reduced by 1.8 per cent. Over the post-1990 period, the elasticity was even higher at 2.7.

However, these averages mask substantial business-cycle variations in Malaysia's economic growth. Malaysia experienced three major recessions during the last quarter of the twentieth century: in 1975, real GDP per capita fell by 1.5 per cent due to the world oil crisis (real GDP rose modestly by 0.8 per cent that year); in 1985-6, due to weak external demand, real per capita GDP fell on average by 2.8 per cent per year; and in 1998, following the Asian financial crisis of 1997, real GDP fell by over 7 per cent and real GDP per capita by nearly 10 per cent. This last recession was particularly severe and it threatened to destroy the efforts of more than two decades and reverse the significant progress achieved in reducing poverty. These three periods of negative growth inevitably, but temporarily, slowed progress in poverty alleviation. The 1998 recession had a particularly pronounced impact on poverty: the poverty rate rose temporarily to 7 per cent from 6.1 per cent a year earlier. The impact of the crisis would have been greater if not cushioned by the presence of a migrant workforce that bore the brunt of the slowdown in economic activities, particularly in the construction sector.

Open economies like Malaysia cannot avoid the impact of external shocks. One role for public policy is the macroeconomic management of crises arising from such shocks and, in the Malaysian case, due to policy interventions, the setbacks were relatively short-lived in each case: real GDP per capita grew at 8.6 per cent in 1976, by 6.4 per cent in 1988, and by 5.5 per cent in the year 2000. The post-1998 recovery was particularly problematic, given the severity of the recession. After initially adopting tight monetary and fiscal policies, the government acted swiftly on the advice of the National Economic Action Council (NEAC) in mid-1998 by relaxing fiscal and monetary policies, imposing capital controls, and pegging the Ringgit at RM3.80 to the US dollar. Malaysia was alone among the Asian countries affected by the crisis in adopting these policies. The measures taken were largely successful, as evidenced by the country's relatively rapid return to favourable growth.

Despite these temporary setbacks, Malaysia is a good example of the 'growth elasticity' concept in practice. Economic growth was undoubtedly the linchpin of Malaysia's successful poverty-eradication programme. But, in addition to ensuring a stable macroeconomic environment, public policy had additional vital roles to play.

Public policy and poverty

Economic growth on its own may not be sufficient to reduce poverty to socially acceptable levels. Growth that fails to deliver employment opportunities to poorer individuals will obviously have little impact on the incidence of poverty. In this section, the role of public policy in achieving poverty reduction will be discussed—a role that can be broadly covered under three objectives: firstly, the need to promote poverty-alleviating growth, sometimes referred to as a 'pro-poor growth' strategy; secondly, the need to provide the social and physical infrastructure required for a growing economy; and finally, the need to execute public policy that directly assists specific target groups amongst whom poverty incidence is highest.

Malaysia's emerging economy and pragmatic development plans

Malaysia is a resource-rich country and these resources have provided the foundation for much of the economy's growth. Moreover, successive governments have provided an appropriate legal framework and stable democratic political setting for the economy to take full advantage of its rich natural and human resources. Medium-term economic planning in Malaysia has been effected through a series of five-year plans, and the country's relatively high-quality public administration has allowed for effective implementation of its development policies and programmes. Many of the key non-economic preconditions for growth often identified in cross-country studies are present in Malaysia.

At the start of the 1970s, Malaysia's economy was agriculture-based and heavily dependent on a few major primary products that were susceptible to volatility in world commodity prices. Government policy aimed to move the economy away from overdependence on a narrow range of sectors and it began to embark on rapid industrialization and diversification programmes. These included several phases of industrialization, from import substitution to export-led growth and the encouragement of foreign direct investment. They also included employment-creation programmes to combat high levels of unemployment, particularly of youths, caused by rapid growth of the labour force.

Despite the impact of the Asian financial crisis, over the period 1990–2000, real GDP grew at an average rate of 7 per cent per annum. In 2000, real per capita income had reached RM13,359, increasing by two-thirds from its level in 1990 (RM8,921). This overall picture masks important structural changes. Manufacturing (10.5 per cent per annum) registered the highest growth rate followed by services. By 2000, manufacturing's share of GDP increased to about one-third (33.4 per cent) from about one-quarter (24.6 per cent) and the share of agriculture fell to 8.7 per cent in 2000, compared with 16.3 per cent in 1990. The share of services had become the largest by 2000 (52.7 per cent), compared with ten years earlier (46.8 per cent).

Openness and growth

Malaysia is an open economy and total external trade accounts for more than 200 per cent of its GDP. External factors have a large impact on trade and, through trade, on growth. In 1970, growth was mainly dependent on primary agricultural commodities, especially rubber. Year to year volatility in the price of rubber and palm oil eroded the incomes of smallholders. Between 1971 and 1985, a combination of export-promotion and import-substitution policies formed the trade strategy in Malaysia.

As a result of Malaysia's export-oriented strategy, manufactured exports now account for about 80 per cent of total exports compared with 12 per cent in 1970. The more outward-oriented phases of trade helped to keep labour markets tight and to improve income distribution. Nevertheless, while openness ensured that Malaysia remained keenly aware of its global competitiveness, with trade contributing significantly to growth, it also made the country vulnerable to external developments. In particular, global economic slowdowns in the industrialized countries, where Malaysia's major markets are located, have led to slowdowns in the economy.

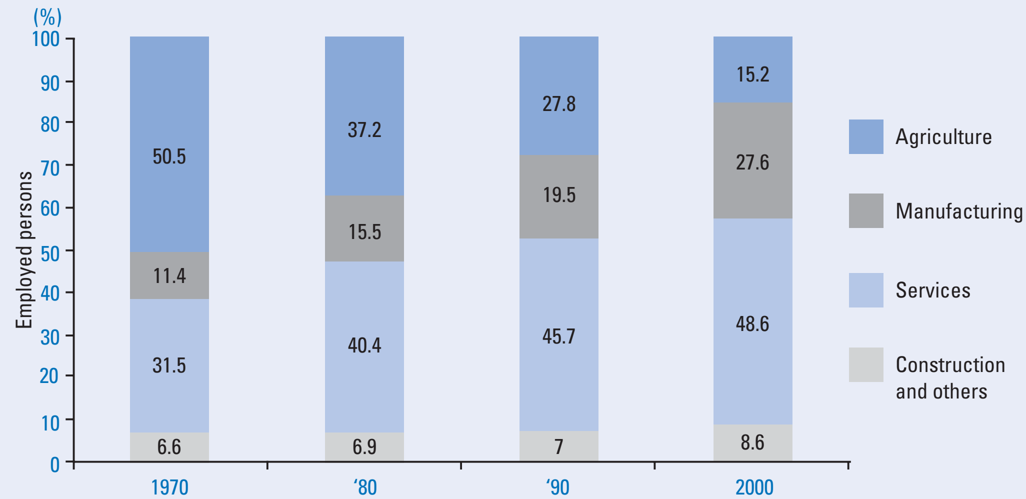
Employment and growth

Malaysia's economic growth has created significant employment opportunities—a major feature of 'pro-poor growth'. In the early 1970s, Malaysia was confronted with high levels of unemployment, especially of urban youths. The population and labour force were growing rapidly, and there were large inflows to the cities from rural areas, where there was a lack of employment opportunities outside of agriculture. Rural development and labour-intensive industrialization strategies were intensified and continued up to the late 1980s, particularly with the growth of the electronics, electrical, and textile-manufacturing industries.

Growth, employment creation, and poverty reduction were interrelated. The Malaysian labour-market policies strove to ensure a more ethnically balanced pattern of employment. Buoyant economic growth facilitated these policies. Over the period 1970–90, for example, *Bumiputera* employment in agriculture fell by more than 75,000, but the displaced workers were absorbed into 1.6 million new jobs in the non-agricultural sectors. In the manufacturing sector, the employment share of *Bumiputera* increased from about 29 per cent (84,400) in 1970 to almost half in 1990 (605,700). Employment absorption of *Bumiputera* into the more productive modern sectors has since continued: some 877,000 new jobs were created from 2001 to 2003 out of which 271,000 were generated by manufacturing and 554,000 by services. Labour and skill shortages became more apparent in the late 1980s. Increasingly, immigrant labour has made inroads into agriculture, household services, and construction.

With economic diversification and major shifts in the sectoral contributions to GDP, Malaysia's employment structure has changed markedly since 1970 (Figure 1.9). By 2000, the share of employment in agriculture, which had been dominant in 1970, was lower than that in the modern sectors of manufacturing and services.

Figure 1.9 Employment by Sector, Malaysia, 1970-2000



Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.

Rural development

Agriculture and rural development were given strong emphasis in the early years of development in Malaysia. The land development scheme led by the Federal Land Development Authority (FELDA) to resettle the landless operated under the Rural Economic Development (RED) book programme which included establishing development institutions in the First and Second Malaysia Plans to support the agricultural sector. For example, in 1969, the Federal Land Consolidation and Rehabilitation Authority (FELCRA) was established to provide the technical management inputs of the overall operation of the land resettlement scheme. Other established development institutions include the Malaysian Agricultural Research and Development Institute (MARDI) in 1969, *Bank Pertanian Malaysia* (1969), and the Malaysian Rubber Development Corporation (MARDEC) in 1966. The expansion and support of the rubber industry was overseen by the Rubber Industry Smallholders Development Authority (RISDA), established in 1973 while the modernization of the fishery sector brought about the existence of the Fishery Development Authority of Malaysia or *Lembaga Kemajuan Ikan Malaysia* (LKIM) in 1971. These programmes all played a pivotal role in reducing poverty in Malaysia.

Social and physical infrastructure

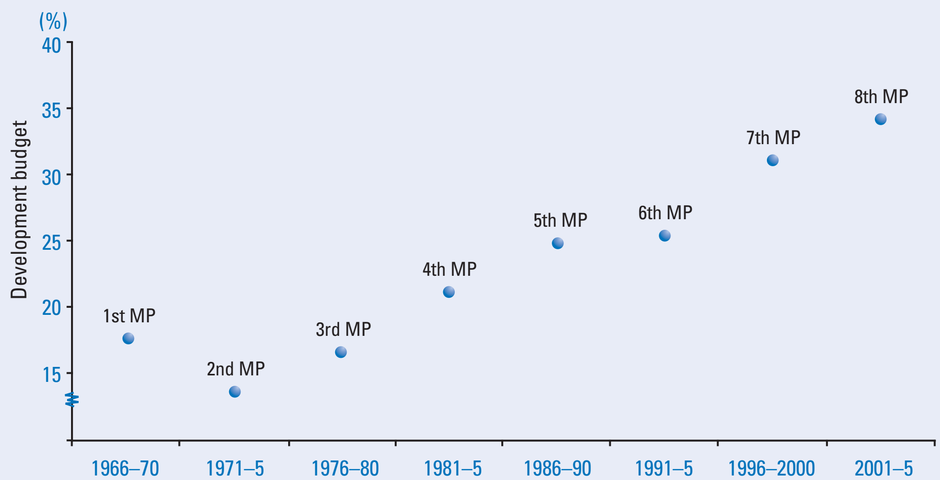
Over the last quarter of the twentieth century, the government of Malaysia has overseen a period of substantial economic progress, the benefits of which were sufficiently widely distributed to have a significant impact on the incidence of poverty. In addition, the government provided the social and physical infrastructure investment required by a growing economy-most notably in health and education as well as physical infrastructure. For example, the development of road systems had provided rural communities with better access to facilities and opportunities to engage in modern economic activities.

Substantial investment in health and education had significantly contributed to economic growth and welfare. Of the overall national development budget (which is about 20 per cent of the total annual government budget), more than 20 per cent of expenditure has consistently been allocated by the government to social programmes, such as education, health, and low-cost housing, as poverty-reducing measures (Figure 1.10). Improving the health and education of the population has been a key strategy of the country's long-term plan to eradicate poverty. For instance, free schooling is provided at the primary and secondary levels. During the early stages of the NEP, vocational education and on-the-job training were introduced. Schemes for the poor and low-income pupils were introduced in the Third Malaysia Plan to coincide with the education expansion plans. Students from poor and low-income families were provided with textbooks on loan and placed on health and nutritional programmes at schools.

With the introduction of the NEP, education and training were accorded a higher level of priority and participation from the private sector was strongly encouraged with the promulgation of the Private Higher Educational Institutions Act 1996. Courses in science and technology and information technology were given more emphasis. The average years of schooling for Malaysians increased from 3.7 years in 1970 to 6.0 years in 1990, with a marginal increase to 6.8 years in 2000 (Barro and Lee, 2001). Public policy thus ensured that a well-educated and well-trained workforce was in place to take full advantage of the expanding opportunities of the Malaysian economy.

Malaysia's rapid economic growth has both benefited from and contributed to this strategy. Social sector expenditures have consistently been a high and rising proportion of the federal development budget (Figure 1.10). In addition, a sizeable proportion of the development budget is used for economic programmes, such as agricultural and land development and water resource management, which contribute to poverty reduction. Compared with many developing countries, Malaysia has not been severely constrained by resources to finance its developmental programmes. Economic growth has supported revenue growth. The deficits of the Federal Government have not been excessive and have remained within manageable bounds. Foreign borrowing has generally been relatively low, so servicing overseas debt has not been a major drain on foreign exchange reserves.

Figure 1.10 **Public Development Expenditure on Social Programmes in the Malaysia Five-Year Plans, 1966–2005**



Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.

Poverty-reduction programmes

'Pro-poor growth' programmes in Malaysia have helped to reduce the incidence of poverty substantially over the last 30 years. Table 1.6 provides an overview of the major instruments (policies, programmes, and institutions) used to guide national efforts to eradicate poverty. Poverty eradication and income restructuring of society (growth with equity) have long been integral components of these instruments, reflecting the urgency the government has given to improving the well-being of the people.

Society restructuring

To restructure society and achieve an equitable distribution of income, the government carried out numerous programmes aimed specifically at helping the rural poor. Various affirmative actions for the *Bumiputera* community were implemented to increase their participation in education, housing, and community sectors. In the government's efforts to nurture a Bumiputera Commercial and Industrial Community (BCIC), specific programmes were carried out to promote Malay entrepreneurs and their participation in the commercial and industrial sectors. Restructuring of employment played a vital part in raising the income of the poor; restructuring the ownership of wealth through share capital was an important means of raising the income from capital. An equity ownership target of at least 30 per cent for *Bumiputera* by 1990 was incorporated in the NEP. However, this target was not reached. *Bumiputera* ownership was only 18.9 per cent in 2000 and the target remains the focus of restructuring efforts under the Third Outline Perspective Plan (2001–10).

Table 1.6 Overview of Anti-Poverty Developments, Malaysia, 1960–2010

1960–70	1971–90	1991–2000	2001–10
Pre-NEP	**New Economic Policy (NEP) OPP1**	**National Development Policy (NDP) OPP2**	**National Vision Policy (NVP) OPP3**
First Malaysia Plan (1966–70)	Second Malaysia Plan (1971–5) Third Malaysia Plan (1976–80) Fourth Malaysia Plan (1981–5) Fifth Malaysia Plan (1986–90)	Sixth Malaysia Plan (1991–5) Seventh Malaysia Plan (1996–2000)	Eighth Malaysia Plan (2001–5)
Economic Objectives and Strategies Related to Poverty			
Diversification of the economy from primary products to manufacturing and nation building through education. Increasing per capita income and consumption of the rural population. Providing adequate infrastructure to the poor.	Two-prong approach of • Poverty eradication • Society restructuring	Eradication of hard-core poverty and reducing relative poverty. Focus on the rapid development of an active BCIC. Boosting productivity via enhanced human resource development strategies and through the promotion of science and technology to accelerate the process of eradicating poverty.	Raising the quality of development and generating high sustainable growth. National unity is the overriding objective. Promoting economic growth alongside continued poverty eradication and society restructuring.
Major Poverty Eradication Programmes			
Land consolidation and rehabilitation. • FELDA (1956) • MARA (1966) • FELCRA (1966) • MARDEC (1966) • JENGKA • KETENGAH	Continued focus on the agriculture and rural development. Creation of • MADA (1970) • LKIM (1971) • RISDA (1973) to modernize the rural and agricultural sector. IADP programmes launched (1983). AIM established (1987) Micro-credit schemes (1986) Creation of a BCIC. Settlement schemes for the *Orang Asli.* Text book on loan schemes Scholarship for low income families.	Development programme for the hard-core poor (PPRT). Continued focus on programmes launched in the previous long term plans (i.e. land consolidation and rehabilitation, commercialization of farms and expansion of education and training). Participation of the private sector in poverty alleviation programmes.	Target groups better identified. Cabinet committee on urban poverty created (2001). Launching of special HIS on *Bumiputera* minorities in Sabah and Sarawak (2002). Targeting urban poverty - mapping urban poverty to allow for better monitoring of poverty programmes (2003). Continued focus on enhancing the skills and education of the vulnerable groups.

Extending access to education and training

The provision of education and training was extended to targeted groups, such as the *Orang Asli*, the Malaysian aborigines. Around October 2003, a special education programme was implemented to assist *Orang Asli* students in primary schools. Under this programme, school uniforms, fees, books, writing materials, and transportation to school were provided. Qualified *Orang Asli* individuals were encouraged to join the teaching profession, as a strategy to increase the attendance of the *Orang Asli* students.

Rural and agricultural sector

Poverty-eradication programmes have focused mostly on the rural and agricultural sector. They have been supported by industrialization programmes to absorb surplus labour. These programmes have increasingly included pockets of poverty among the fishing community and the *Orang Asli*. In the urban areas, there are programmes that address the problems of poor squatters. In recent years, greater focus has been put on the hard-core poor. The various rural and agricultural programmes that have been carried out since 1950 are detailed below.

Land settlement. The government's land settlement scheme was aimed at resettling the landless and those with uneconomic holdings in new land development schemes. Settlers were given rights to the land they worked on which then became an intergenerational asset, thus giving them a strong incentive to make long-term capital investment and increase productivity. In addition, these land settlement schemes were provided with basic infrastructure such as piped water, electricity, and roads that linked the land schemes to the nearest town. The settlers were also provided with single unit houses as exemplified by the FELDA schemes (Box 1.2).

Box 1.2 The Federal Land Development Authority (FELDA)

The Federal Land Development Authority (FELDA) was established in 1956 as part of the overall government strategy to redistribute income and reduce the poverty of the rural poor. In undertaking land development and settlement of landless farmers and their families, FELDA transformed a landless peasantry from subsistence agriculture to a community of land owning modern cash crop producers.

The settlement process in the FELDA schemes followed four stages:

- Orientation and familiarization
- Training and group dynamics of the settlers
- Refining the skills of the settlers in farm management
- Participation in the management of the schemes.

The process begins with land being alienated to FELDA by the respective state governments. After experienced contractors clear the land, basic infrastructure (roads, clinics, schools, and settlers' houses) is constructed. Settlers move into the scheme three years after the land has been cleared, and receive a subsistence allowance until the rubber and oil palm trees on their plots of land, normally 4 hectares, mature and begin to produce cash crops for export. The choice of crops to grow depends largely on the commodity outlook, as well as the soil suitability factor; and based on these, two-thirds of the settlers were in oil palm schemes.

Settlers work in teams to maintain and harvest the product from a group of holdings. The settler's earnings are a function of both the team's efforts and the productivity of their own plot. Settlers are obligated to use a portion of their earnings to repay the loan covering the cost of establishing the project, normally over a 15-year period. Once repayment has been completed, the settlers would receive their individual titles to land in the schemes. The scheme is therefore a long-term loan provided to the landless rural poor to enable them to acquire land.

By 1996, a total of 114,338 settlers and their families were resettled in 309 FELDA schemes throughout the country. The income of FELDA settlers has seen significant improvements although incomes fluctuated with international prices of the raw commodities. Between 1984 and 1990, the average income per settler family planting rubber was RM522 per month, net of all loan deductions. For those planting oil palm, monthly net incomes averaged RM685.

FELDA improved the income and standard of living of settlers and created viable communities, where settlers obtained titles to their land. It also took control and planned for intergenerational mobility. However, FELDA faces a number of challenges moving forward. One of the primary challenges is building capacity within the settler community to manage their own lots, given the primary focus on achieving basic socio-economic targets in the preceding years has necessitated the centralization of management powers of such schemes.

To ensure continued sustainability of FELDA schemes the development of Small and Medium Enterprises (SMEs) within the Schemes will be promoted. These SMEs will focus on capacity building among settlers, particularly in management skills, and imbue settlers with entrepreneurial skills.

Increasing productivity. To increase agricultural productivity, the government undertook *in situ* development of existing agricultural land through rehabilitation and consolidation (the FELCRA schemes), replacing old commercial crops with new higher-yielding clones and the adoption of better planting techniques. A sizeable amount of financial resources was channelled towards R&D in agriculture, especially for the development of new high-yielding rubber clones. These high-yielding clones raised the productivity of the rubber smallholders significantly, thus increasing their income. Financial support was provided for the replanting of rubber with the new high-yielding clones. At the same time, the double-cropping of paddy farms was made possible by investments in the provision of water (for example, the *Muda* and *Kemubu* irrigation schemes).

Integrated agricultural development programme (IADP). IADPs are essentially *in situ* development programmes that aim at improving farm productivity through the rehabilitation of old irrigation schemes, drainage systems, as well as the provision of agricultural inputs and other support services. A common feature of the IADPs is the formation of Area Farmers' Associations under the guidance and direction of the Farmers' Organization Authority (FOA), another statutory agency created within the ambit of the Ministry of Agriculture (currently known as the Ministry of Agriculture and Agro-Based Industry). Under the IADPs, agricultural and rural development programmes were integrated with downstream processing of farm products, while village industries and rural entrepreneurship were encouraged to generate additional sources of income.

Focusing on technologies that raise agricultural productivity. This strategy includes introducing double-cropping or off-season cropping for paddy, intercropping, and mixed farming on the same plots of land to supplement the income derived from main crops, in particular through the *Muda* and *Kemubu* irrigation schemes.

Providing training and education. Training and education are provided on topics pertaining to farming, work attitudes, and values to motivate participants to become more productive farmers. These are undertaken by the Extension Services of the Department of Agriculture in all the states of Malaysia. In addition, the *Majlis Amanah Rakyat* (MARA or Council for Indigenous Peoples) provides industrial and vocational training for the rural labour force, coupled with credit facilities and related support, to enable them to be employed in non-farm occupations or to start their own businesses in rural areas and urban centres.

Improving farmers' access to markets. To improve farmers' income, the government, through the Federal Agricultural Marketing Authority (FAMA), established farmers' markets in urban centres so that farm produce could be sold directly and fetch better prices.

Commitment in identifying target groups

In order to address the needs of the poor living in rural and urban areas, the government identified separate poverty target groups classified according to the industry and occupation of the head of the household. The rural poverty groups were rubber smallholders, paddy farmers, coconut smallholders, the fishing community, and estate workers. The urban poverty groups were identified according to sectors: mining; manufacturing; construction; transport and utilities; and trade and services. Many of the poor were engaged in more than one agricultural activity, for example, some farmers cultivated rubber as well as coconut, while some of the fishing community also cultivated paddy and rubber. Estimates of the incidence of poverty among the target groups help the government focus various programmes and enable better monitoring of the programmes' impact.

A special Household Income Survey (HIS) to gather information on household income of *Bumiputera* minorities in Sabah and Sarawak was conducted in 2002. To further identify and more effectively target the urban poor, the government has established a database to build an 'urban poverty map'. In 2003, a pilot survey was conducted in Johor to build one such urban poverty map.

Rapid economic growth has accelerated the development of urban areas. Rural-urban migration and the growth of the existing urban population have increased the population of the urban areas, especially the Malay component. The urban poverty rate, therefore, grew with population growth, but in recent years the rate of urban poverty has fallen sharply. Regional development programmes with the aim of dispersing the growth to new growth centres have somewhat eased the pressure on urban areas. The more direct programmes dealt with the problems of the squatter settlements in the urban areas. Not all squatters, however, are poor. Resettling the squatters has been the key strategy for alleviating urban poverty. Squatters are resettled, temporarily, in flats and the squatter areas are usually used to construct low-cost houses or apartments. The completed accommodation is then offered to the squatter families, either for rent or for sale.

Development programme for the hard-core poor (PPRT)

During the NDP period (1991–2000), the Development Programme for the Hard-core Poor, or *Program Pembangunan Rakyat Termiskin* (PPRT), was instituted to assist the hard-core poor. The programme established a register on the profile of hard-core poor households and provided for a package of projects tailored to meet their specific needs. This included increasing their employability and income, improving their housing, providing food supplements for their children, and giving them educational assistance. Direct assistance was given to the hard-core poor who are disabled and aged. In addition, the hard-core poor were provided with interest-free loans to purchase shares in a unit trust scheme and thus earn dividends. At the state level, each village committee identifies the hard-core poor. The committee then proposes the form of assistance suitable for the identified target subjects. A district-level committee then decides on the recipients and the type of assistance.

Under the National Vision Policy or NVP (2001–10), the PPRT was consolidated with other poverty programmes under the *Skim Pembangunan Kesejahteraan Rakyat* (SPKR). The SPKR covers economic, social, and physical projects aimed at eradicating poverty and hard-core poverty. Apart from generating income, the SPKR also emphasizes building self-esteem and increasing self-reliance among the poor.

Micro-credit schemes

Since 1987, *Amanah Ikhtiar Malaysia* (AIM), a non-governmental organisation, provided micro-credit financing to about 69,000 poor families with interest-free loans of RM300 million provided by the Malaysian government. Modelled on the Bangladesh Grameen Bank loan scheme, this credit scheme targeted the poor who did not qualify for conventional types of loans because of their inability to provide collaterals. The majority of the beneficiaries of the AIM programmes have been women. The Malaysian government has also provided micro-credit through *Bank Pertanian Malaysia*.

Insights gained

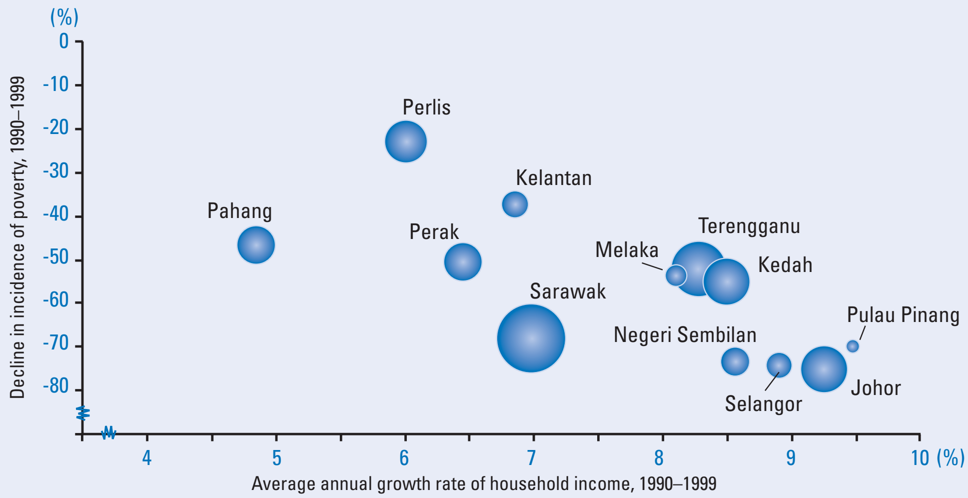
The Malaysian experience suggests that poverty can be reduced by increasing the productivity of the poor, by targeted expansion of education and health facilities, especially at the primary level, and by expansion of their access to capital. Expanding labour-intensive manufacturing exports, promoting rural development, increasing agricultural production and providing income-generating opportunities among the poor were both growth-expanding and poverty-reducing strategies.

Thus, Malaysia employed three strategic poverty-reducing approaches. First, the push for agricultural and rural development was implemented to raise the income of poor farmers and agricultural workers by raising their productivity. Secondly, labour-intensive export-led industrialization was carried out to absorb the poor workers from the rural and urban areas. Thirdly, public investment was channelled into education, health, and basic infrastructure, especially in the rural areas, to raise the standard of living of the poor.

Programmes to increase household income, along with other pro-poor social sector investments, had a strong impact on reducing poverty. Figure 1.11 displays the relationship between the growth in household income and the incidence of poverty. The larger the growth in household income, the larger the decline in poverty. For example, the four states, Negeri Sembilan, Selangor, Johor and Pulau Pinang, with average annual growth rates of household income of more than 8.5 per cent, registered declines in the incidence of poverty of more than 70 per cent during the period 1990–9. In contrast, two states, Pahang and Perlis, which registered 6 per cent or less in household income growth, achieved a less than 50 per cent decline in the incidence of poverty.

Figure 1.11 also shows the relationship between pro-poor social sector investments using the percentage increase in rural water supply coverage of each state as a proxy measure. The increase in rural water supply coverage is represented by the size of each bubble in Figure 1.11. A similar, albeit weaker, negative relation between the increase in rural water supply coverage and the decline in poverty can also be observed. The larger bubbles, indicating a bigger increase in rural water coverage, show a tendency to be in the lower portion of Figure 1.11, indicating that these states have larger declines in the incidence of poverty. For example, for states with 6–7 per cent increases in household income, Sarawak, with the largest increase in rural water supply, showed the largest decline in poverty. However, increases in rural water supply do not provide a clear indication of growth in pro-poor social sector investments for the more urbanized states and this contributes to the weaker negative relationship observed.

Figure 1.11 Relationship Between the Rate of Decline in Poverty and the Rate of Growth in Household Income, Malaysia, 1990–1999



Sources of data: Malaysia, Economic Planning Unit, five-year plans, various years.
Note: Each bubble represents a state in Malaysia and its size indicates per cent increase in rural water supply coverage.

Political will and policy consistency

The Malaysian government has been consistent in defining and prioritizing developmental issues, and continuity has been reinforced by the maintenance of long-standing institutional arrangements concerning national development. Poverty-alleviation programmes have been featured prominently in the national budget.

Investing early in basic education and health

Investment in education and health fosters a productive labour force that can participate effectively in the economy. Interventions required for education and health are well known, and major progress can be made when resources are committed to their improvements.

Increasing productivity in the agriculture and rural sector

Increasing the productivity of the agriculture and rural sector, by introducing better technology and methods as well as improving rural infrastructure, helps to lift the rural poor out of the poverty trap. In addition, by providing security in landholdings, farmers' rights are protected and they are encouraged to invest in land improvements for long-term productivity. Training, access to credit, and improved marketing enable farmers to participate in the economy.

Improving basic infrastructure.

The provision of basic infrastructure (such as roads, water and electricity supply, and ports) allows for a reasonable standard of living and productive economic activity. The linkage of rural areas to urban areas via roads and public transport helps to overcome geographic barriers, reduces the role of the middlemen, and enables farmers to participate directly in markets.

Developing an effective industrial development policy

An effective industrial development policy not only increases employment and income but raises productivity in the long run. Macroeconomic and trade policies are instruments to diversify the economic structure and to expand production possibilities. This encourages economic growth and employment opportunities which directly improve the income of the population. In addition, priority is also given to nurture entrepreneurial activity by providing incentives for small and medium-sized enterprises.

Planning and implementation

Institutions can make a difference to poverty eradication efforts. Planning for poverty reduction is an integral part of development planning. The national five-year development plans are the basis for the setting of poverty targets, poverty profiles, strategies, policies, and programmes. Responsibility for the preparation of these national plans, and the mid-term reviews, rests with the Economic Planning Unit (EPU) in the Prime Minister's Department. A pragmatic and prudent approach to macroeconomic management ensures that public resources are utilized efficiently and effectively allocated for development and poverty eradication. Line agencies at the federal and state levels provide institutional support for the implementation and monitoring of poverty programmes. Through this institutional mechanism, a sense of accountability is fostered.

Future challenges

Malaysia's NVP foresees the country becoming a fully developed nation by 2020. Fostering national unity, especially among the younger generations, within a setting of ethnic and cultural diversity, is essential for realizing that vision, for sustaining Malaysia's development, and for eradicating poverty. Similarly, upholding good governance and standards of excellence in both public and private sectors is essential to ensure sustainability of the country's development. Interactions between the public and private sectors are important, as they will help strengthen national commitment for further development of the economy.

Sustaining economic growth

Sustaining economic growth to provide employment opportunities and further improve the standard of living of the population is a continued challenge in an increasingly competitive and open economic environment. Maintaining price stability is essential to ensure that income gains are not eroded by price increases. For instance, it may be necessary to monitor the inflation of food prices as this will influence the consumption of food among the poorer households. Increased food prices will have an effect on the distribution of expenditure between food and non-food items, and consequently, on the nutritional intake of the poorer households.

Development gains have been achieved in a context of political and macroeconomic stability, where there has been a responsiveness to adapt quickly to changing world conditions. This enabling environment will have to be maintained and enhanced to meet greater global competition, including further human resource development, with emphasis on higher education and skills training.

While growth needs to be sustained, there must be a search for new sources of growth. Globalization and the pressures to open up the economy will erode the competitiveness of some economic activities. Low labour costs will no longer be a source of comparative advantage. Existing manufacturing industries, for example, will have to move up the value-added chain. The demand for a more highly skilled labour force will grow, with the services sector being an important source of new growth, including providing employment opportunities for the poor.

Emerging patterns of poverty

The vast majority of the remaining poor households are *Bumiputera*, especially among some of the indigenous communities in Sabah and Sarawak, and the *Orang Asli* in Peninsular Malaysia. Most of the poor work in the agricultural sector in the least developed states. However, some new categories of poor persons are emerging, partly as a result of the country's rapid economic growth and related social and demographic changes. These are likely to include, *inter alia*, single female-headed households and the elderly, especially those not covered by pension schemes and living in rural areas away from their families. The proportion of non-citizens who are poor has also increased, reflecting the rising numbers of low-waged, and/or unskilled foreign workers. With rising urbanization, the number of poor in urban areas is significant, even though urban poverty rates are low. The urban poor include migrants from rural areas, foreign workers, and the unemployed.

The remaining poor in Malaysia are less accessible and may not be amenable to conventional poverty-reducing programmes. Targeted and participatory approaches will be needed, including a special focus on the indigenous communities in Sabah and Sarawak, and the disadvantaged in other less developed states. Further, in addition to being able to identify those who are poor, there is also a need to be able to assess the changing determinants of poverty. By this means, more effective policies aimed at reducing poverty among target groups are being formulated.

The *Orang Asli*, who comprise several different groups, constitute about 0.5 per cent of the total population, or 132,000 people in 2000. A sizeable proportion of *Orang Asli* live below the poverty line, and face hard-core poverty. The *Orang Asli* have been the specific target of various anti-poverty programmes and have benefited from them (as noted above). Nonetheless, the *Orang Asli* remain one of the country's poorest and most marginalized groups.

Government programmes aim at integrating and assimilating the *Orang Asli* into mainstream development processes have achieved limited success. Participatory approaches, including involving the *Orang Asli* in the design and implementation of policies and programmes affecting their well-being, are likely to gain greater acceptance and ownership, as well as achieve better results.

Potential of ICT for poverty eradication

Information and communications technology (ICT) is transforming the global economy by providing a new engine for development and also changing its fundamental dynamics. Although it provides a new tool for development, the diffusion is still uneven within Malaysia due to limited access. There is a 'digital divide' between the information- and knowledge-rich and the information- and knowledge-poor in the urban and rural areas. ICT provides tremendous potential to create earning opportunities and improve equitable access to education. The integration of ICT in development planning will bridge the gap and alleviate the poverty situation, especially in the rural areas. The *Infodesa* Centre programme, which was launched in 2000, provides ICT training, develops content application and is a one-stop centre for information. With its potential to create earnings opportunities, it can improve the delivery of, and access to, basic services, particularly health and education. Integrating ICT into development planning can empower deprived communities to improve their quality of life.

Improving poverty data

Malaysia's current ability to measure the level of poverty over time has been favourably recognized internationally. However, to supplement the currently available measurements of poverty, eradicating the outstanding pockets of absolute poverty requires a better identification of the characteristics and spatial dimensions of the poor. More detailed information about the characteristics of the poor and where they are located also helps to explain the reasons for their poverty. Analytical poverty profiles are particularly necessary in view of the national goal to eradicate poverty.

Poverty surveys need to be more focused and localized. Smaller-sized household surveys can be more detailed and probing, and they should also include non-income poverty modules. These can be used to assess access by the poor to health, education, utilities, and subsidies. Panel surveys are also useful to help track the changing welfare of poor households, while focus group studies of the poor can help support more participatory pro-poor policy making.

In addition to the possibilities of carrying out new surveys to obtain more data on poverty, currently available nationally collected information, such as the Household Income Survey and Labour Force Surveys conducted since 1974, could be exploited further with respect to information about poor household behaviour and characteristics. Given well-known problems with obtaining accurate income figures using survey methods, information on household consumption may be a useful and informative extension.

Improving poverty measures

What constitutes poverty in society at a given time can be quite different from the notion of poverty in the same society at a different time. The Malaysian PLI has historically had a consensus justification among national planners and other groups. But that consensus is now increasingly being challenged in the context of a more urbanized, more educated, and more affluent Malaysia.

A way forward would be to build a new consensus around a poverty line that reflects a greater balance between absolute and relative features—that is, by building in more, and giving greater weight to, capability dimensions. Furthermore, it would be useful to complement basic poverty rates with measures that capture the intensity and severity of poverty, as well as decomposing poverty rates to identify the separate contribution of economic growth and income distribution.

New directions

Malaysia's experience confirms the interactive roles played by economic growth and public interventions to enhance the lives of the people, especially its poor. Public policies that raise human capabilities (most notably through health and education) have both pro-poor and pro-growth effects. The accelerated growth provides the government with a better revenue base to raise capabilities even further.

Malaysia has made enormous progress in eliminating poverty. Indeed, the current relatively low levels of absolute poverty suggest that a change of emphasis in public policy may now be called for. This chapter has suggested a number of possible future directions. Firstly, public policy may need to be increasingly directed at improving income inequality in general in view of the fact that households in the lowest 40 per cent of income earners still only receive around 14 per cent of total income. Secondly, there is a continuing need to ensure equal economic opportunities for all Malaysians as ethnic income differentials have remained somewhat unchanged since 1990. Thirdly, economic growth is henceforth unlikely to have the same impact on absolute poverty as it did in the last 30 years of the twentieth century, particularly in improving the welfare of the persistent hard-core poor. Even if targeted interventions played a secondary role (to overall growth) in reducing poverty in the past, they are likely to be very much more important in the future.