



## Economic Aspects and Applied Policies of Poverty Reduction in Malaysia

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### Author's contribution

The sole author designed, analyzed and interpreted and prepared the manuscript.

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### ABSTRACT

Poverty is multidimensional, involving not only income deprivation, but also ill-health, illiteracy, lack of access to basic social services, and little opportunity to participate in the processes that influence people's lives. Malaysia, a multiracial country, managed to drastically reduce the incidence of poverty and lessen income inequality while achieving rapid economic growth and maintaining racial harmony. What transpired in Malaysia during the 1970.2000 period was complex and challenging, requiring masterful management by the government of the varied demands of a heterogeneous population [1]. The incidence of poverty and hardcore poor in Malaysia has dramatically declined from 1970 to 2002. Poverty incidence in the rural areas has also been on the down trend from 60 per cent in 1970 to 11.4 per cent in 2002. Urban poverty is relatively lower, falling

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from 22.3 per cent in 1970 to 2 per cent in 2002. The study assesses the policies, strategies, programmes and the tools that used to reduce incidence of poverty in Malaysia. The research also looks to represent some lessons from the Malaysian development experience specially in poverty reduction. The Poverty Line Index (PLI) for Malaysia was introduced in June 1977 using the 1973 Household Expenditure Survey (HES). It was based on the minimum requirements of a household for food, clothing and footwear, and other non-food items such as rent, fuel and power. Beside PLI the research used secondary data from its relevant sources to achieve the aims of study. The paper concluded that the Malaysian growth regarded as challenges, policy development and progress were in many dimension unique. Nevertheless, there are successful lessons that can be provided and adopted from the Malaysian model.

*Keywords: Poverty; Malaysian model; economic growth; applied policies.*

## 1. INTRODUCTION

Malaysia are separated by 640 kilometers (400 miles) of the South China Sea. Malaysia's capital city, Kuala Lumpur, is located in southeast Peninsular Malaysia, just 300 kilometers (187 miles) from Singapore. At the same time, there was a large reduction in the incidence of poverty and marked progress in meeting targets for the restructuring of society. The result of development efforts was marked increases in real national and per capita income, accompanied by declining income inequality [1]. The population of Malaysia was estimated at 28,728,607 in July 2011. The Malaysian population was about 8 million, and the country at one time had one of the highest birth rates in Asia and the population doubled between 1960 and 1990 due to improved health, medical facilities, and longer life expectancy, although population growth began to decline in the 1990s [2]. The decline in population rates could be linked to the socio-economic changes in the economy that tightened the labor market and increased the number of women in the workforce, and the better education of women. Malaysia is a multinational and multicultural country with a very diverse population. Malays and several indigenous groups make up 58% of the population. The largest proportion of the Chinese community has traditionally lived in the urban areas, while Malays have often lived in the country's rural regions. The Federation of Malaysia consists of 13 states, and is divided into 2 parts: 11 states are located in Peninsular Malaysia (also called West Malaysia) and 2 comprise East Malaysia, which is situated on the island of Borneo. The updated poverty policies in Malaysia after 2000 indicated declining poverty. The state's poverty rate in Malaysia dropped from 24.2 percent in 2004 to 19.7 percent in 2009 as reported by Chief Minister Datuk Seri Musa Aman. He said the marked decrease in the poverty rate is in the interior areas which recorded a 13.2 per cent reduction from 29.0 per cent in 2004 to 15.8 per cent in 2009. What is Malaysia's poverty line income? The Human Resource Minister said that it was RM720 in a speech on August, 2010, but then a Malaysian Insider report, apparently in reliance with the 10th Malaysia Report released on June 2010, and the New Economic Report released in April that year tells us that the poverty income line for Malaysia in 2009 is RM800 [3]. This paper is assessing the Malaysia's efforts on poverty, particularly over the last three decades. It also identifies the pattern of growth most conducive in reducing poverty in Malaysia. It provides evidence that the growth has contributed significantly in reducing poverty in Malaysia. The pattern of growth is an important issue in determining the impact of growth on poverty reduction. It turned to evaluate of the country's policies for reducing poverty that consisted both the New Economic Policy and its successor and the New Development Policy. Finally, the paper looks to represent some lessons and

indicators from the Malaysia's development experience related to poverty alleviation. It undertook poverty analysis along the mechanism taken by Malaysia State in generating rapid economic growth.

## 2. RESEARCH TECHNICAL METHODS

The research undertook the most common indicator used for assessing standard living of family namely Poverty Line Index (PLI) that measures deprivations in knowledge, survival and decent standard of living with its poverty implications such as incidence, depth and severity. Further, PLI which considers an income of poor household that falls below the PLI. PLI was introduced for Malaysia since June 1977 by using Household Expenditure Survey (HES) of 1973. It was based on the minimum requirements of a household for food, clothing and footwear, and other non-food items such as rent, fuel and power. For the food component, the minimum expenditure was based on a daily requirement of 9,910 calories for a family of five comprising an adult male, an adult female and three children of either sex within 1-3, 4-6, and 7-9 years of age. The minimum requirements for clothing and footwear were based on standards set by the Department of Social Welfare for the requirements of inmates in welfare homes. The other non-food items were based on the level of expenditure of the lower income households as reported in the HES [4]. Within this context a spatio-temporal dimension of poverty has been possible to expose exhibiting the poverty reduction dynamics in Malaysia. Descriptive statistical analysis also used to achieve stated objectives. In the descriptive part of the analysis frequency distribution, graphical and statistical analysis was used.

## 3. RESULTS AND DISCUSSION

### 3.1 Main Socioeconomic Characteristics of Malaysia

Poverty eradication programs that have been devised since 1970s in Malaysia manage to reduce the percentage of poor population from 52.4% in 1970 to 12.4% in 1992 and further reduced to 3.8% in 2009 [5]. The government likes to boast that Malaysia has almost erased poverty. It is the one unchallenged success that is shouted out again and again to show how far we have come since Merdeka. The line is familiar: "In 1970, 49.7 per cent of households were living in poverty. Now it is only 3.8 per cent." Or out of 6.2 million households, only 228,400 can be classified as poor [3]. The multiracial character of Malaysian society was originally, and substantially, a construction of British colonialism. Not wishing to disrupt the source of wealth - and thus the good will - of the Malay sultans, which lay in traditional subsistence agriculture and was thus dependent on the Malay peasantry, the colonizers imported Chinese migrants to work in the tin mines and Indian migrants in the rubber plantations [6]. As a consequence, the British largely left the *Bumiputera* alone to pursue a lifestyle that they had had for centuries. Largely shielded from colonial forms of exploitation, the *Bumiputera* were deprived of participation in the more dynamic, capitalist sectors, of the colonial economy. Unimbued with a 'culture of capitalism' and cut-off from control of the principal engines of the economy, the *Bumiputera* were effectively excluded from the benefits of economic modernization as that developed after independence [2]. The picture of Malaysia post-independence has been changed that it faced with multiracial and social divisions that had been grown during the colonial period. In 1957, was the year of Malaysia's independence the racial groups had long been segregated geographically and occupationally. The majority of the Malays lived in the north and eastern states of Peninsular Malaysia (i.e., Terengganu, Kelantan, and Kedah) which, as agricultural states, have been

relatively underdeveloped historically compared to the more prosperous regions in the western states of Peninsular Malaysia (i.e. Selangor, Negeri Sembilan, Perak and Pulau Pinang) where the Chinese and Indians populations were concentrated. For instance, in 1957, 88.8 percent of the Malay population lived in rural areas compared to 55.5 percent of the Chinese and 69.4 percent of the Indian populations either as peasants or landless labors, the *Bumiputera* continued to be primarily engaged in agriculture and by 1970 they still constituted 72 percent of the agricultural work force [7].

In contrast, the Chinese tended to work in the secondary and tertiary sectors and by 1970 they held nearly 63 percent of administrative and managerial posts. Furthermore, Malaysia experienced an inflow of foreign workers employed mainly in the low-skill and low-wage construction and services sectors and in agricultural plantations. The Malaysian government would like to regulate the inflow of illegal migrants, who arrive mainly from neighboring Indonesia, as well as from Bangladesh and Burma, attracted by the geographical proximity and higher wages [2]. The employment of ethnic group was implied many categories such as *Bumiputera*, Chinese, Indian and others their distribution in as employment in the economic sector and by occupational categories. Historically, the picture of employment gave the *Bumiputera* preferential treatment (in terms of employment quotas, for instance) and attempted to correct the racial imbalances inherited from colonial rule, Malaysia's development project for the last three decades has been characterized by a form of economic governance that, perhaps unique in the world, has sought to integrate poverty reduction and income redistribution in the overarching economic development strategy (see Table 1.

**Table 1. Targets and achievements of NEP against incidence of poverty**

Item	1970	OPP1 target 1990	Achieved 1990
Total of Malaysia	49.3	16.7	15.0
Rural	58.7	23.0	19.3
Urban	21.3	9.1	7.3
<i>Bumiputera</i>	65.0		20.8
Chinese	26.0		5.7
Indians	39.0		8.0
Others	44.8		18.0

Source: Adapted from [8]

The Malays in 1970 contributed 51 percent of total employment of 2.78 million in Peninsular Malaysia. The *Bumiputera* employment as professional and technical was 47 percent, while their employment in administrative and managerial sector was found to be as 24.1 percent and they formed 35.4 and 26.7 percent for clerical and related workers and sales and related workers, respectively. Of the Malay employment of 1.43 million, 72 percent was in the agriculture, forestry and fisheries sector and 44.3 percent as service workers in services sector. Malay employment in production, transport and other was 34 percent. The *Bumiputera* formed 52.7 of the total ethnic groups and by 1990 they component of total employment of 6.62 million had risen to 57.8 percent and had begun to acquire features of the distributional structure envisaged in the NEP. The Chinese regarded as the second ethnic group in Malaysia. In 1970, they contributed 36.6 percent of total employment. Their employment as professional and technical was 39.5 percent, while their employment in administrative and managerial sector was found to be as 62.9 percent and they formed 45.9 and 61.7 percent for clerical and related workers and sales and related workers, respectively. Of the chinese employment of 39.6 percent was in as service workers in

services sector, while they were 17.3 percent in the agriculture, forestry and fisheries sector. Chinese employment in production, transport and other was found to be as 34 percent. The Chinese formed 35.8 percent of the total ethnic groups. The third ethnic group in Malaysia is the Indian. They formed about 10.6 percent of total employment. Their employment as professional and technical was 10.8 percent, while their employment in administrative and managerial sector was found to be as 7.8percent and they formed 17.2 and 11.1percent for clerical and related workers and sales and related workers, respectively. The Indian employment was 14.6 percent was in as service workers in services sector, while they were 9.6 percent in the agriculture, forestry and fisheries sector. The Indian employment in production, transport and other was found to be as 9.6 percent. Theyformed 10.7 percent of the total ethnic groups. The third ethnic group in Malaysia is the Indian. Others group were contributed about 1 percent of total employment. Their employment asprofessional and technical was 2.7 percent, while their employment in administrative and managerial sector was found to be as 5.2percent and they formed 1.5 and 0.4percent for clerical and related workers and sales and related workers, respectively. The others group employment was 1.5 percent was in as service workers in services sector, while they were 1 percent in the agriculture, forestry and fisheries sector. Others employment in production, transport and other was found to be as 0.3 percent and theyformed 0.8 percent of the total ethnic groups as illustrated in Table 1.

Economically, as known Malaysia is one of the 'Asian tiger' economies, has enjoyed remarkable growth over the last few decades, with industrialization, agriculture and tourism playing leading roles in this success story. It is well-endowed with natural resources in areas such as agriculture, forestry as well as minerals. In terms of agriculture, Malaysia is the world's primary exporter of natural rubber and palm oil, which together with saw logs and sawn timber, cocoa, pepper, pineapple and tobacco dominate the growth of the sector. Palm oil is also a major foreign exchange earner. In addition, the Malaysian government provides plans for the enrichment of some 312.30 square kilometers (120.5 sq mi) of land with rattan under natural forest conditions and in rubber plantations as an intercrop. To further enrich forest resources, fast-growing timber species such as meranti tembaga, merawan and sesenduk are also being planted. At the same time, the cultivation of high-value trees like teak and other trees for pulp and paper are also encouraged. Rubber, once the mainstay of the Malaysian economy, has been largely replaced by oil palm as Malaysia's leading agricultural export [7]. While minerals such as tin and petroleum are the main two resources that are of major significance in the Malaysian economy. Malaysia was once the world's largest producer of tin until the collapse of the tin market in the early 1980s. In the 19th and 20th century, tin played a predominant role in the Malaysian economy. It was only in 1972 that petroleum and natural gas took over from tin as the mainstay of the mining sector. Meanwhile, the contribution by tin has declined. Petroleum and natural gas which were discovered in oilfields offshore from Sabah, Sarawak and Terengganu have contributed much to the Malaysian economy particularly in those three states. Other minerals of some importance or significance include copper, gold, bauxite, iron-ore and coal together with industrial minerals like clay, kaolin, silica, limestone, barite, phosphates and dimension stones such as granite as well as marble blocks and slabs. Small quantities of gold are produced [7]. In 2004, the State revealed that Malaysia's oil reserves stood at 4.84 billion barrels while natural gas reserves increased to 89 trillion cubic feet (2,500 km<sup>3</sup>). This was an increase of 7.2%. The government estimates that at current production rates Malaysia will be able to produce oil for 18 years and gas for 35 years. In 2004 Malaysia is ranked 24th in terms of world oil reserves and 13th for gas. 56% of the oil reserves exist in the Peninsula while 19% exist in East Malaysia. The government collects oil royalties of which 5% are passed to the states and the rest retained by the federal government [7]. Malaysia has

extensive roads that connect all major cities and towns on the western coast of Peninsular Malaysia. The total length of the Malaysian expressway network is 1,192 kilometers (740 miles). The network connects all major cities and conurbations such as Klang Valley, Johor Bahru and Penang to each other. Train service in West Malaysia is operated by the Malayan Railways '*Keretapi Tanah Melayu*' and has extensive railroads that connect all major cities and towns on the Peninsular, including Singapore. There is also a short railway in Sabah operated by North Borneo Railway that mainly carries freight. There are sea ports in Tanjong Kidurong, Kota Kinabalu, Kuching, Kuantan, Pasir Gudang, Tanjung Pelepas, Penang, Port Klang, Sandakan and Tawau. There are also world class airports, such as Kuala Lumpur International Airport in Sepang, Bayan Lepas International Airport in Penang, Kuching International Airport and Langkawi International Airport that provide international and domestic destinations as well as small domestic airstrips in rural Sabah and Sarawak. Malaysia is the home of the first low-cost carrier in the region, Air Asia. It has Kuala Lumpur as its hub and maintains flights around Southeast Asia and China as well. The intercity telecommunication service is provided on Peninsular Malaysia mainly by microwave radio relay [7]. International telecommunications are provided through submarine cables and satellite. One of the largest and most significant telecommunication companies in Malaysia is '*Telekom Malaysia Berhad (TM)*', providing products and services from fixed line, mobile as well as dial-up and broadband Internet access service. It has the near-monopoly of fixed line phone service in the country. In 2004 the Malaysian Energy, Water and Communications Ministry reported that only 0.85% or 218,004 people in Malaysia used broadband services. However these values are based on subscriber number, whilst household percentage can reflect the situation more accurately. This represented an increase from 0.45% in three quarters. It also stated that the government targeted usage of 5% by 2006 and doubling to 10% by 2008. The government had urged local telecommunication companies and service provider to open up the last mile and lower prices to benefit the users [7].

### **3.2 Assessment of Poverty in Malaysia**

The Millennium Development Goals (MDGs), which were declared in the 2000 Millennium Declaration of the United Nations, have been widely accepted as the framework to measure development actions and development progress today [9]. Poverty is not easy to measure, and it also has many faces. People often think of "extreme poverty" as having income of less than \$1 per day, but that standard is imprecise and poorly measured [7]. Here the research aims to assess indicators of poverty in Malaysia particularly those ones closely related to the aspects of human deprivation. The indicators of poverty and their aggregations in combined might be indices. The assessment involves the identification of PLI that are directly related to each aspect of human deprivation. Since there are some scattered data available on poverty specifically collected for the purpose of measuring human poverty in Malaysia, the methodology also involves the search for relevant data from previously carried-out surveys and other relevant sources. Officially, poverty in Malaysia is measured only in absolute terms. The Poverty Line Index (PLI) is based on the minimum requirements of a household for food, clothing and other non-food items such as rent, fuel and power [2]. Reported that, at (2002) there are two of the most important agencies of economic governance - the National Economic Action Council (NEAC) and the Economic Planning Unit (EPU)- revise the PLI periodically to account for new information from household surveys, or to adjust figures for inflation using the consumer price index (JBIC 2001).

### 3.3 Dwindling of Poverty Incidence in Malaysia

The small word “poverty” has been designated a concept beyond its concept-carrying capacity. In terms of the depth of poverty, Malaysia had introduced the Poverty Gap Measure in the 9MP, but has yet to publish the Poverty Gap squared to measure the severity of poverty [10]. Other studies also mentioned that Malaysia experienced extraordinary economic growth during 1970- 2000, which brought prosperity and higher standards of living to the majority of the people. One of the most important achievements in Malaysia has been the elimination of extreme poverty and hunger. The urban areas especially the capital Kuala Lumpur, and major tourist destinations and industrial cities such as George Town, Malacca, and Petaling Jaya enjoy a quality of living very similar to that in developed countries [2]. Malaysia overall poverty rate has been dropped to 1.7% in 2012 compared to 3.8% in 2009. With this achievement the target under the 10th Malaysian Plan to reduce overall poverty to 2% in 2015 has been achieved three years earlier. This is a result of rapid economic development and the effectiveness of poverty eradication programs carried out by the government. He said that the fall of incidence of poverty happened in both urban and rural areas, with urban poverty falling to just 1% last year compared to 1.7% in 2009, while rural areas registered a significant drop from 8.4 in 2009 to just 3.4% in 2012. Sabah registered the biggest reduction in poverty from 19.7% of the population in 2009 to 8.1% three years later [10]. The number of poor households decreased from 1.6 million in 1970 to about 574,000 in 1990 and 267,000 in 2002. Poverty incidence in the rural areas has also been on the down trend from 60 percent in 1970 to 11.4 percent in 2002. Urban poverty is relatively lower, falling from 22.3 per cent in 1970 to 2 per cent in 2002 [4]. The base for assaulting poverty in Malaysia during the last quarter of the last century was mainly the planned and sustained economic growth, which was ranged between 6-7 % annually. This situation encouraged both the private and public sectors in the country to increase investment. This successful economic environment was initiated the mechanism of poverty reduction (see Fig. 1).

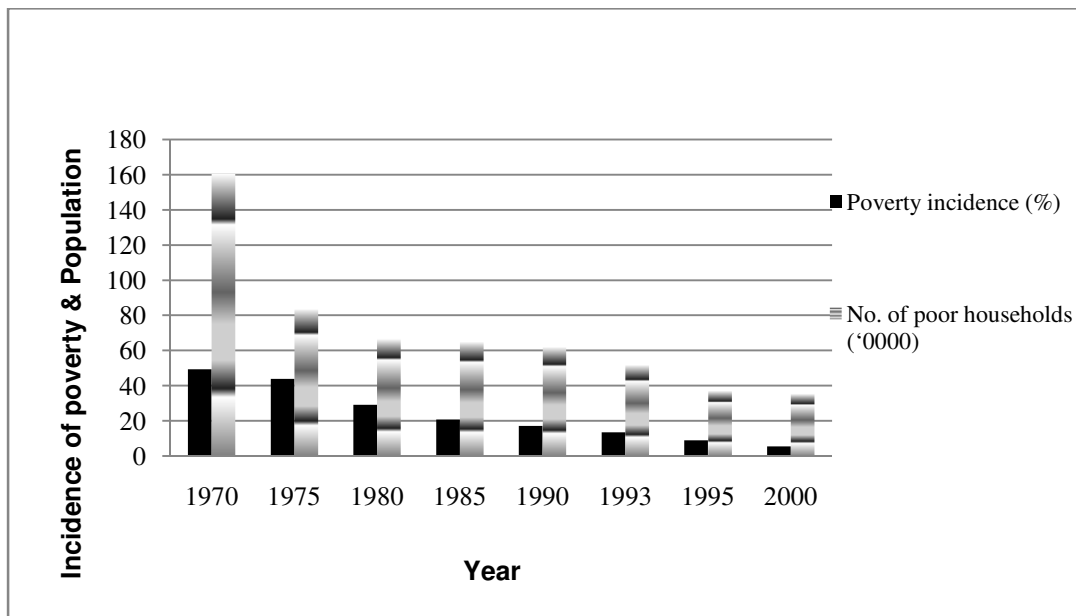


Fig. 1. Incidence of poverty and poor households, (1970– 2000)

The mechanism was driven by integrated program implied a set of crucial strategies. Fig. 1 shows that, the last three decades of the last century witnessed sharp dwindling of poverty incidence in Malaysia, that about 49.3% of the population was assessed as poor in 1970, while in 2000 the figure of the poor population was found to be as 353,400 households or about 5.5% of the population (see Fig. 1) with a steady decline in the intervening years and notwithstanding the effects of the economic crisis of the late 1990s.

As Fig. 2 indicates, poverty has disproportionately always tended to be largely a rural phenomenon. However, the disparity between the incidence of urban and rural poverty has increased in the 1990s compared with what it was in the 1970s and 1980s (Fig. 2), underlining the increasingly uneven economic development that impact on contemporary Malaysia.

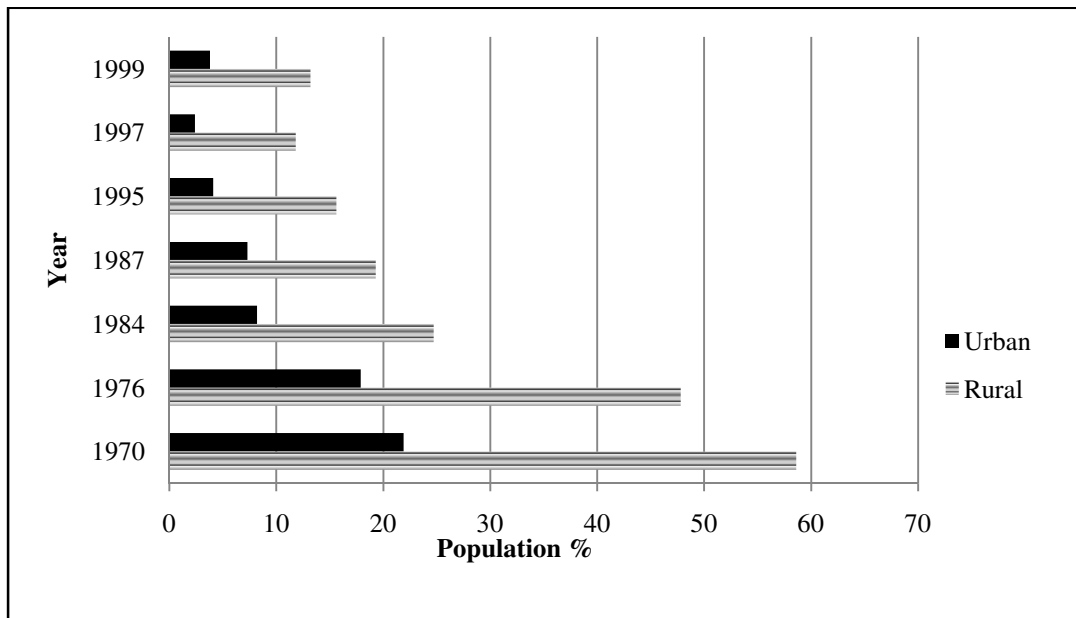


Fig. 2. Incidence of rural and urban poverty in malaysia (1970- 1999)

### 3.4 Macro Economical Policy of Malaysian (1970-2000)

Malaysia registered a reduction in poverty rates, with marked improvements in Penang, Selangor, Malacca and the federal territories-all of which averaged 0% hardcore poor in their areas as at 2012. This is proof that the Federal Government’s initiatives to eradicate poverty have succeeded and been of benefit to the rakyat regardless of differences in political ideology. Meanwhile, he mentioned, Malaysian enjoyed an annual increase of 7.2% to their average household income over the 2009-2012 period, or a nearly a RM1,000 hike in their average monthly income from RM4, 025 in 2009 to RM5,000 in 2012. Despite similar growth rates, urban household income grew at 6.6% per annum from RM4,705 a month in 2009 to RM5,742 in 2012 while rural household income went up at a rate of 6.4% a year from a monthly average of RM2,545 in 2009 to RM3,080 in 2012, he added that Malaysia still improved on wealth distribution [11]. Government economic policy contributed significantly and tremendously to achieve poverty alleviation, to assess the impacts of Malaysian



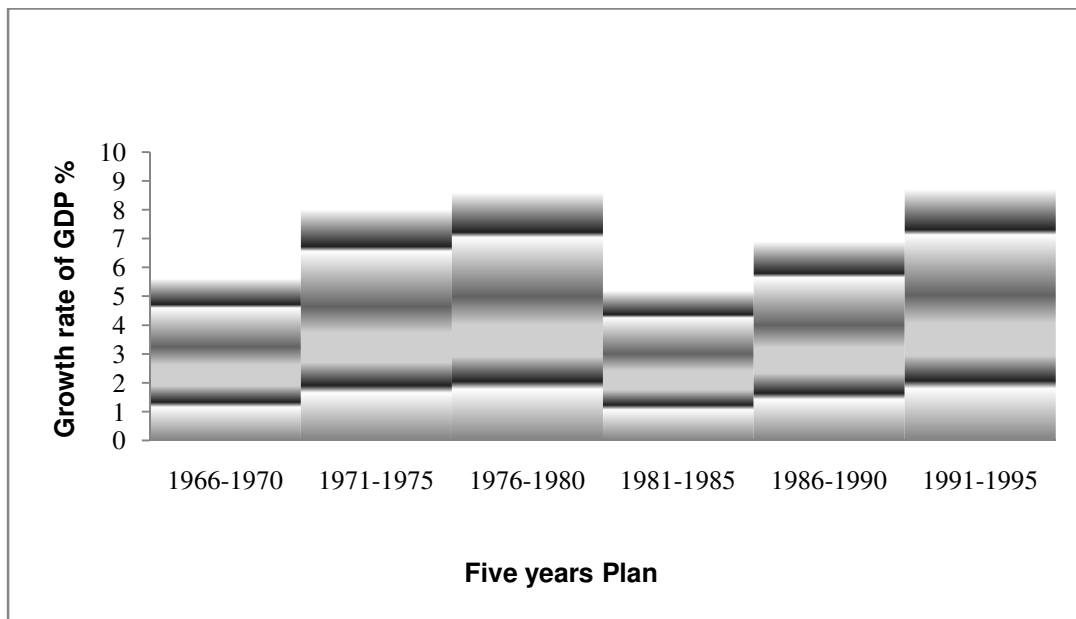
government economic policy in fighting poverty during the period 1970- 2000. This research is carrying intensive indicators of confining and reducing poverty incidence. In Malaysia, both the incidence of poverty and policy responses to it, have been intimately associated with the multiracial composition of the country's population. As of 2000, about 58 percent of Malaysia's 22 million people were *Bumiputera*, the Chinese and Indian groups about 24 percent and 7 percent respectively, and the other groups (principally non-citizen migrant workers 6), made up the remaining 11 percent [11]. The Malaysian government introduced the New Economic Policy (NEP) (1970-1990) and its successor and the National Development Policy (NDP) (1991-2000). The accumulation of both these policies frameworks periods have reached about a thirty-year aiming to achieve rapid development for the economy while reducing incidence of poverty irrespective of race and restructuring society to attain national unity, so as to eliminate the association of race with economic circle. The NEP and NDP, were designed integrately through an official channels consisting a comprehensive institutional framework and certain procedures to achieve them. Generally, these policies initiated with the appointment of a special body to deliberate on socioeconomic issues facing the nation and to advise the government on the appropriate policy to deal with them. This body was responsible to prepare the required reports and submitted to the Cabinet for consideration. The portions of such reports that were accepted by the Cabinet were then incorporated in the country's (draft) development plans and tabled for debate in Parliament. Finally, upon completion of their assignment, such bodies were disbanded. *National development plans* were formulated through an institutional framework that had at its center the Economic Planning Unit (EPU) of the Prime Minister's Department [1]. While the specific policies or plans should formulated by the mentioned institutional framework for the development of important economic sectors or for addressing national issues that were urgent and serious, took a variety of forms. The most common was a committee headed by a top ministry official, and comprised representatives of relevant ministries. Often it was assisted by a panel of consultants, Malaysians or foreigners, or a mix of both. The policies or plans prepared by such committees were then normally submitted to the Cabinet for approval [1]. However, Both the existing literature and our fieldwork in Malaysia confirm that, for the most part, poverty policies during the 1990s have represented a continuation of the strategy developed over the previous twenty years under the NEP. While there have been some changes in policy direction in recent years (which will be highlighted later), any analysis of Malaysia's current efforts in poverty reduction, must begin with a discussion of the NEP.

### **3.5 The State Policies for the Periods (1970-1990) and (1990-2000)**

Policy in Malaysia passed through critical stages after independence but the race riots in 1969 by racial divisions has resulted important contexts such as federal elections. Federal elections in Malaysia created the ruling party coalition headed by the United Malay National Organization (UMNO), and including the Malaysian Chinese Association (MCA) and the Malaysian Indian Association (MIA) retain a parliamentary majority despite securing less than half the popular vote. Generally, the elections ended by race riots broke out in the federal capital of Kuala Lumpur. After race riots the State of Malaysian announced for The New Economic Policy (NEP) for the period 1970 to 1990 formed the first stage, while the second stage continued from 1990 to 2000.

The paper attempted to highlight on these important periods of the country. *Firstly: The New Economic Policy (NEP)-(1970-1990)*: Since 1970, the Malaysian government has actively implemented social policies aimed to reduce of poverty, social inequality and the development of a social welfare system. This 20-year program established state support of

poor communities and access to education and social benefits for Malays and indigenous people (the *Bumiputera*). This latter aspect included the establishment of privileged access to public services, the granting of land rights, preference in education and training, and job quotas in the public sector. In the 1980s, Malaysia's leadership envisioned the formation of the *Malay Baru* (New Malays), a better-educated, politically and socially active people able to live in harmony with other communities. In the early 1990s the government relaxed some privileges and reduced some quotas for *Bumiputera*, making the social welfare system more inclusive and accessible to a wider range of people than it had been before [2]. [2] Reported that, the New Economic Policy (NEP), announced soon after the riots, and was ostensibly designed to create the socio-economic conditions for achieving 'national unity' through redistributive policies. It had three principal objectives: to eradicate poverty regardless of race, but particular among the Malay peasantry; to restructure society to eliminate the identification of race with economic function; and to redistribute wealth to the benefit of the *Bumiputera*. Then the broad aim for NEP is stability of the country before development [3]. Stated that, the objectives of NEP were to be pursued through: the improvement of services such as housing, health and public utilities to benefit the quality of life of the poor; the promotion and adoption of capital-efficient modern agricultural techniques, alongside marketing, credit, financial and technical assistance designed to improve agricultural productivity and thus the income of the poor; an 'affirmative action' program for Malays based on quotas in education, employment and the receipt of government contracts; and a restructuring of corporate equity through state funding of *Bumiputera* 'trust agencies' that would purchase and hold shares for the benefit of the *Bumiputera* as a whole. This model of development adopted by Malaysia was based on a conception of growth with equity (see Fig. 3).



**Fig. 3. Average annual growth rates of gross domestic product (GDP) percentages at constant prices**

From Fig. 3, the period 1970- 1995 Malaysia witnessed a rapid economic growth associated with the success NEP. The economic growth estimated at an average annual growth rate of

8% except for the 1980s decade where the growth rates declined to roughly 6% of GDP. This situation was considered as a very strong base for assaulting poverty and redistribution of successful strategies and programs. During this period the decline in poverty incidence was significantly noticed. Furthermore, the unemployment rate was dwindled and the standard living also improved through the ample opportunities for job and business creation for the population, the poor have benefited from changes in the sources of household income. Generally, NEP provided new economic opportunities for both public and private sectors. Numerous institutions were built such as PERNAS 'National Corporation' which was established in 1970 to buy and develop companies. Other new agencies were established to increase income and productivity of the *Bumiputera* (e.g. Rubber Industry Smallholders Development Authority,) while agencies like the UDA (Urban Development Authority) and SEDCs (State Economic Development Corporations) were intended to carry out commercial and industrial projects aimed at attracting a greater participation of the *Bumiputera*. Direct state participation in the industrialization project was effected with the foundation of PETRONAS to develop, in association with foreign corporations, a Malaysian presence in oil and petro-chemicals, and the Heavy Industries Corporation of Malaysia (HICOM), which entered into joint-venture arrangements with Japanese and other foreign corporations to develop steel, automobile and other industries. Furthermore, agencies such as MIDF (Malaysian Industrial Development Foundation), CGC (Credit Guarantee Corporation) and Bank *Bumiputera* were created to provide financial and infrastructure services to the *Bumiputra* [12]. [2] indicated that, given the relative lack of capacity-building for poverty reduction, and yet its admirable performance, the immense effort to develop redistributive institutions - such as the 'trust agencies' indicated above - did not succeed in increasing the *Bumiputera* share of capital ownership as significantly as had been anticipated. From only a 2.4% ownership of share capital in 1970 it was hoped that by 1990, 30% of the share capital in Malaysian hands, would be under *Bumiputera* control. In the event, however, only 19.3% was, of which about 73% was owned by individuals and the rest by the trust agencies. 45.5% of share capital continued to be held by Malaysian Chinese interests, while over 25.5% was owned by foreign interests.

Table 1 illustrates that the growth rates fell short of expectations; but Malaysia's performance on poverty reduction not only met expectations, but exceeded them. For instance, the Outline Prospective Plan 1 (OPP1), which was designed to put the principles of the NEP into effect, anticipated that the official poverty level would be reduced from 49.3% in Peninsular Malaysia in 1970 to 16.7% in 1990. According to [2] poverty was reduced in Peninsular Malaysia to 39.6 percent in 1976, 18.4 percent in 1984, and 17.3 per cent in 1987. These rates equate to a drop in the number of poor households from 791,800 in 1970 to 764,400 in 1976 and 483,300 in 1984, before rising slightly to 485,800 in 1987. By 1990, OPP1 performance targets for absolute poverty in Peninsular Malaysia, as well as for urban and rural poverty, appeared to have exceeded expectations (see Table 1).

*Secondly: The New Development Policy (NDP)-(1990-2000):* At the end of the NEP era, the government has switched to the National Development Policy (NDP). NDP was regarded as a natural extension for the New Economic Policy (NEP) but the NDP might be more comprehensive than the NEP. Furthermore, under the NDP the State has established a special Development Program for the Hardcore Poor (PPRT), consisting a socioeconomically set of services which was focused on anti-poverty strategy towards eradication of 'hardcore' poverty. This program created a register of hard-core poor households, offering them interest-free loans and targeting projects based on their needs as attempts to restructure society and to generate new employment opportunities.

The government has also recognized the importance of the role of non-governmental organizations (NGOs) in the overall policy framework to eradicate poverty. In particular, it has supported the microfinance activities of Amanahkhtiar Malaysia (AIM) as an integral part of its poverty programs. AIM, modelled on the Grameen Bank of Bangladesh is the first NGO aimed at poverty alleviation in the country. The establishment of AIM was for the sole purpose of assisting hard-core poor households to lift themselves out of poverty regardless of gender, race or political affiliation. According to [1] that NDP programs include loan schemes for small scale agricultural and commercial development modeled on the Grameen Bank, land consolidation and rehabilitation programs, the commercialization of farms, agricultural productivity enhancement projects, provision and improvement of services for the urban poor and efforts to promote employment opportunities in manufacturing, construction and other urban-based industries. [12] Mentioned that the NDP also placed more emphasis on economic growth and income generation. In line with this orientation, the NDP introduced a greater reliance on the private sector as well as adopting the need for improvement in the skills base as a primary instrument for generating growth. Yet notwithstanding these differences in policy objectives, the NDP maintained the essence of the NEP, namely the *pro-Bumiputera* or 'ethnicity-oriented' form of economic policy.

The country's efforts on poverty alleviation harvested fruitful products and it could achieve its expected rate of 7% average annual growth in GDP over the 1990s, while exportation activities were greatly exceeded the target of 6.3 average annual growth, reaching 12.4% for this period and unemployment rates in 2000 were officially down to 3.1%, improving on the NDP target of 4%. Table 2 shows that mechanisms of the country policies attained numerous objectives pertaining poverty alleviation. Poverty reduction was targeted to reduce from 16.5 % of the total population in 1990 to 7.2 % in 2000. Here, as under the NEP, Malaysia exceeded expectations by reaching 7.5% in 1999 and approximately 5.5% in 2000. Expectations that hard-core poverty would be reduced from 3.9 percent of the population in 1990 to just 0.5 percent a decade later, however, fell short of their mark reaching 1.4 percent in 1999.

**Table 2. Targets and achievements of NDP against incidence of poverty**

Item	1990	OPP2 target 2000	Achieved 1999
Total of Malaysia	16.5	7.2	7.5
Rural	58.7		19.3
Urban	21.3		7.3
<b>Hard-core poor</b>			
Total of Malaysia	3.9	0.5	1.4
Rural	5.2		2.4
Urban	1.3		0.5

*Source: Malaysia (2001b), third outline perspective plan (2001-2010)*

The Malaysian State adopted numerous strategies to achieve poverty reduction. Those strategies contributed significantly to achieve this purpose as illustrated within the following indicators: (a) *Assessment and measurement of poverty in the country*: This strategy consisted terminologies namely absolute poverty, absolute hardcore poverty and relative poverty. The Seventh Malaysia Plan (1996-2000) investigated the conceptions of these terminologies such as: absolute poverty: was defined as a condition in which the gross monthly income of a household was insufficient to purchase certain minimum necessities of life.

These necessities were taken to include a minimum food basket to maintain household members in good nutritional health and other basic needs, viz., clothing and footwear, rent, fuel and power, transportation and communication, health-care, education and recreation. To facilitate the measurement of this condition, a poverty line income (PLI) was constructed and used, based on the basic costs of the items mentioned above, Absolute hardcore poverty was defined as a condition in which the gross monthly income of a household was less than half of the PLI [1]. While, relative poverty, the conceptualization that was used in Malaysia was linked to the notion of income disparity between groups. In addition, the Gini Coefficient was also used to indicate the pattern or biased ness, if any, of income distribution. (b) *Crop yield improvement and diversifying sources of income*: This strategy aimed to enable the poor particularly in the rural areas to modernize their conventional system of agricultural production and participate in the mainstream of economic activities. [1] reported that, also, it focused 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 they generally provided higher incomes than traditional farming. In this regard, a variety of innovative programmes were implemented, including: Resettlement of the landless, In-situ development of existing agricultural land through rehabilitation and consolidation of the land, Integrating agricultural and rural development, off-season cropping, inter-cropping and mixed farming, incorporating in most agricultural and rural development projects, training and education programmes and A system of industrial and vocational training for rural manpower, including youths, as well as credit facilities. (c) *Development Program for the Hardcore Poor*: Targeting the hardcore poor to deal specifically with hardcore poor households, a special program for them was introduced in 1988. In 2000s this program entitled by the Economic Planning Unit of Prime Minister Department 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 additional opportunities to increase their employability and income, better housing, food supplements for children and educational assistance [1]. In addition, since 1992, the major ethnic group among the hardcore poor, the *Bumiputera*, was provided with interest-free loans to purchase shares in a unit trust scheme as another means towards increasing their income. (d) *Involvement of private sector and nongovernmental organizations (NGOs)*: Involvement of private sector and non-governmental organizations (NGOs) beside the government. The Economic Planning Unit of Prime Minister Department (2000) investigate that the private sector and NGOs were voluntarily involved themselves in helping to redress poverty. Among the NGO.s, the *Amanah Ikhtiar Malaysia* (AIM) was the most active. Based on the Grameen Bank, Bangladesh, it provided interest and collateral-free loans to poor and hardcore poor households to assist them in their micro and small-scale business and poultry and livestock rearing. (e) *Promotion of poor standard living*: The government also sought to improve the quality of life of the poor through the public investment and social amenities as part of a comprehensive program to improve the quality of life of all Malaysians. For the rural population, they included the provision of piped water, electricity, roads, medical and health services and schools, including rural hostels [1]. [1] stated that (f) *Provision of welfare assistance*: This strategy was directed at the poor who were aged or disabled and therefore not employable. The assistance was in cash from federal government funds. For the Muslim poor, there was also cash assistance from ‘‘Zakat’’ (Islamic inherent) funds maintained by state governments. (g) *Market arrangement and Maintaining stable prices*: The strategy involved government intervention in the markets of a small number of food and other essential basic needs (food items such as sugar, wheat, flour, cooking oil, and bread while the nonfood items were chemical fertilizer, kerosene, petroleum, liquefied natural gas, diesel fuel, rounded steel bars and cement). [1] reported that this strategy was aimed at maintaining stable prices for essential items and belatedly to

benefit the poor and Malaysian consumers. (e) *Reducing and eliminating chargeable income rates for the lower income group and the poor.* The tax rates on chargeable income were reviewed several times during 1970-2000, which led to the rates for the lowest income group to be reduced and eventually abolished. In 1970, an individual with a chargeable income of RM2,500 per year was subjected to taxation at a rate of six percent. By 1990, this rate was reduced to five percent and by 2000, to zero percent. This strategy was aimed generally at establishing a more progressive income tax regime indicating expansion and continuity of economy at a rapid rate and in the process restructure its leading sectors to make the economy more competitive and resilient.

### **3.6 Strategies and Programs for Poverty Reduction, Malaysia (1970- 2000)**

Poverty alleviation strategies and programs in Malaysia have been acclaimed as a success by United Nation Development Program (UNDP) in its report on *'Malaysia: Achieving the Millennium Development Goals: Success and Challenges'*. Although the incidence of poverty has been reduced, many problems and challenges still exist especially in the urban area such as single female headed households, the rural elderly, unskilled workers and migrant workers, have also emerged in the country as a result of rapid economic growth and the development process itself. All indications are that, the eradication of poverty will continue to be one of the main items in the national agenda to ensure that the poor are not to be left behind [4]. The economic growth during the NEP and NDP periods achieved greater income equality by the end of each period and also they witnessed a large reduction in the incidence of poverty associated with union society. Integrated programs and strategies were applied to attain poverty reduction in the country. The applied strategies aimed to improve the standard living of the poor by providing job opportunities and increasing their incomes.

The main management technique utilized in the coordination of social policies, strategies, programs and projects was the multi-agency or multi-organization committee. There were six specialized committees. At the lowest level were the District Development Working Committees, which existed in every district. The District Officer chaired the Committee and the members comprised district heads of federal departments and agencies or authorities. Monthly meetings were normally held and focused on the progress of project implementation, reasons for delays and steps to be taken to overcome the delays. In this regard, it gave particular attention to projects on poverty reduction and those targeted at improving the socio-economic position of the *Bumiputera*. In summary, Malaysia had in place a comprehensive institutional framework to manage critical components of its national development. The framework was well established, with most of the institutions having been in place at least since Independence in 1957. It was also relevant and responsive to new and changing needs through the establishment of new institutions and the introduction of new work procedures. In addition, the work procedures, policies and plan formulation process for example, were participative in nature enabling a broad spectrum of Malaysians to participate. Monitoring and evaluation The monitoring and coordination (M&C) of the implementation of development policies and plans in Malaysia were conducted by the same institutions. The data generated by the monitoring process formed an important set of inputs of the coordination function. As in the cases of policy and plan formulation and implementation, M&C were joint efforts by many public service organizations at many levels of government and administration.

### **3.7 Some Lessons from the Malaysian Development Experience**

The Malaysian experiences in fighting poverty is probably unique. Nevertheless, the broad features and underlying principles and strategies involved are probably relevant to other developing countries. Malaysia undertook several crucial policies that characterize successfully developing regions as follows:

- Investment in the environment (soils, land, water): Malaysia one of the main participants of the Asian Green Revolution that began roughly before four decades ago. Agricultural production rose significantly by using advanced and improved technologies, recommended inputs and rural infrastructure investments.
- The tremendous promotion for Malaysia happened about three decades ago during the switching from rural agriculture and primary commodity-based production to manufacturing and services especially urban-based manufacturing.
- Social investment: Malaysia implemented great public investments in public health, education, nutrition, maternal survival, family planning, (roads, power, telecommunications, port services, and other areas.

The application of the Malaysian model fully in every other developing country may not produce the same results thereby, it is very important for developing countries to assess their comparative advantages and they should designate their core development policies and plans suited to their potentialities and needs, thus, they could take the suitable model.

## **4. CONCLUSION AND POLICY IMPLICATION**

The discussion in this study addresses generally the various poverty indicators in Malaysia over the 1970–2000 period and economic growth in the country. The paper focuses on displaying relationship between the economic growth and the incidence of poverty in Malaysia during the period 1970-2000 including the main socioeconomic characteristics of Malaysia, assessment of poverty and mechanism of dwindling poverty incidence. It also deals with macroeconomic policy of Malaysian 1970-2000 period implying in detail both the New Economic Policy (NEP) (1970-1990) and the New Development Policy (NDP) (1990-2000) and their strategies and programs. The interface among the different sets of analyses helps in delineating the changes in the poverty incidence over the last three decades, with adjustments made the NEP and NDP. Definitely Malaysia had a magnificent record in term of macroeconomic policy and poverty reduction. However, to promote this situation to meet the future challenges, it is requisite for the country to plan for capacity building efforts to focus on designing a relevant research and enhancing the performance of the institutional policy. Furthermore, efforts to integrate poverty reduction into economic development policies and plans also it is necessitate a greater accessibility to detailed poverty data, at least amongst relevant federal and state agencies if not equally to a wider academic and civil society community. Further, the paper results showed that the integrated mechanism (political, social, and economical) to is very affective in achieving rapid economic growth and poverty reduction. The introduction of advanced technology is become essential particularly in the manufacturing sector, which is regarded as one of the main sources of economic growth and in reducing poverty incidence in Malaysia.

The paper unveiled that the Malaysian efforts produced an obvious dwindling of poverty incident after a great rapid economic growth occurred in last three decade of the last

century. This situation provided a better standard living for poor households (i.e. those under the poverty line) over the country.

A targeting recommendation that would be conducive to prevent vulnerable household from poverty in Malaysia is proposed in the following points:

- Strengthen of economic growth considering the equitable regional development share.
- Expansion of public investment and encouragement of the private sector investment to promote the life quality of all over the country.
- Promotion of research sector.
- Increase the public and financial sector lending to the essential sectors specially manufacturing and agriculture sectors.
- Provision of more social services and promoting the conventional ones.
- Strengthen the unity of multiracial community and social harmony.
- Raising awareness and building capacity of societies.

## COMPETING INTERESTS

Author has declared that no competing interests exist.

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