

*A case study from*

Reducing Poverty, Sustaining Growth—What Works, What Doesn't, and Why  
A Global Exchange for Scaling Up Success

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# **Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony**

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## **Executive Summary**

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.

### **Policies for national development**

Malaysia formulated a range of policies and plans to guide the management of national development during 1970–2000. They consisted of: core national policies; long-term, medium-term, annual, and special development plans; and sectoral and industry-specific master plans.

The core policies were the most important; their main components formed the benchmark for all other policies and plans. They consisted of the New Economic Policy (NEP), 1970–1990, and the National Development Policy (NDP), 1991–2000. Complementing these policies was Vision 2020, which was formulated in 1991 and projected a vision of Malaysia three decades hence. The two core national policies were based on a philosophy of growth with equitable distribution. The policies saw national unity as the goal of development and the two-pronged strategy to achieve it (1) the eradication of poverty and (2) the restructuring of society. This was to be conducted within the context of rapid and continuous economic growth.

There was, in addition, the National Economic Recovery Plan, 1998; this was a special document to deal with an abnormal economic condition the country faced because of the East Asian financial crisis. Among other plans were Industrial Master Plans, National Agriculture Policies, and the Privatization Master Plan.

The implementation, monitoring, and evaluation of the policies and plans were carried out through an institutional framework that was developed to suit Malaysia's special needs. Apart from strengthening the organizational structure and work procedures of ministries, steps were also focused on limiting potential conflicts among various groups actively involved in the development process.

### **Strategies for poverty reduction**

Malaysia experienced rapid and almost continuous year-to-year economic growth during the NEP and NDP periods and achieved greater income equality by the end of each period. 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. Related to these efforts was a considerable reduction in the incidence of poverty, while the Malay or *Bumiputera* racial group made notable progress in the modern sectors of the economy.

Achievements in poverty reduction were driven by a comprehensive program that incorporated eight critical strategies: (1) agreeing on the definition and measurement of poverty; (2) increasing productivity and diversifying sources of income; (3) targeting the hardcore poor through a special program focused on their needs and delivering other appropriate assistance to improve their situations; (4) involving private sector and nongovernmental organizations; (5) improving the quality of life of the poor by providing infrastructural and social amenities, such as piped water, electricity, roads, medical and health services, and schools for the rural population; (6) providing welfare assistance directed at the poor who were aged or disabled and therefore not employable; (7) maintaining stable prices, a strategy that involved government intervention in the markets of a small number of food and other essential items; and (8) reducing or eliminating income tax rates for the poor.

The poverty program, combined with Malaysia's rapid economic growth, helped to reduce poverty and improve the quality of life of all Malaysians. While the data do not show the relative contributions of the targeted programs and economic growth, there is reason to believe that a major portion of the increase in the household income of the poor accrued from nonagricultural economic activities of poor households.

### **Equitable growth and economic development**

In Malaysia's case, the issue of whether the policy of equitable growth would affect economic development or growth negatively was not paramount. The goal of the NEP and NDP was not maximum economic growth, but national unity.

However, the policy of equitable growth, the cornerstone of Malaysia's socioeconomic development, could be questioned on at least three grounds: that it would slow down growth; that it would divert scarce resources from more efficient activities; and that it would have a crowding-out effect on private enterprise. The Malaysian experience has shown these concerns to be misdirected.

The policy probably had some negative effects on the growth rate, opportunity costs, and participation of non-*Bumiputera* in business. However, these effects were negligible and were more than outweighed by the achievements of the poverty reduction and restructuring programs and, more importantly, by the virtual absence of racial strife in Malaysia since 1969.

Many factors were associated with the economic growth of Malaysia. Among the demand-side factors, private expenditure contributed significantly to growth in general. In years of slow growth and recession, however, this role was taken over by public expenditure. International trade was another driving force for growth. Among the supply-side factors, the most important contributor to growth was the transformation of the structure of the economy. Among the noneconomic factors was the peace and security Malaysia enjoyed.

### **Some lessons from the Malaysian development experience**

First: Each country must formulate its core development philosophy, policies, and plans suited to its particular circumstances and needs. It must also persevere while remaining pragmatic and flexible enough to modify plans so they remain relevant and suited to changing circumstances.

Second: In a multiracial or diverse country, there is a real need for peaceful coexistence among racial or other groups and close cooperation among ethnically-based political parties in order to have political stability and socioeconomic development .

Third: If a country is to achieve sustained and rapid economic development, it cannot accept racial or any inter-group strife and violence, especially on a prolonged basis. Any political solution to inter-group conflicts, through some formula of power- and wealth-sharing, has to be viable and enduring.

Fourth: There must be sustained and rapid economic growth to create new jobs, business opportunities, higher incomes, and increased wealth. This requires capable and effective management of the macroeconomy by the public sector and of industries by the private sector, as well as close rapport between the two. Continuous growth is also facilitated by an export-oriented and resilient economy.

Fifth: In a multiracial or heterogeneous nation, with wide and entrenched disparities of economic opportunities and incomes, government intervention in the market place and affirmative-action-type programs to ensure a fairer distribution of opportunities and incomes among all racial and social groups may be necessary. The avoidance or reluctance to undertake such initiatives may lead to social unrest and violence.

Sixth: Sustained economic growth requires strong governments and leaders committed to national, not personal, interests over a sustained period of time.

Seventh: The eradication of poverty requires two broad types of strategies: expansion of the economy and government-run affirmative action programs targeted to the poor.



THIS case study examines the salient features of Malaysia's development experience. It focuses on the steps taken by Malaysia<sup>1</sup> in generating rapid economic growth, reducing poverty and income inequality, lessening economic imbalances among the main racial groups and sustaining racial harmony, during the 1970-2000 period.

The study is presented in five main parts, viz.,

- policies for national development;
- strategies for poverty reduction;
- equitable growth and economic development;
- factors associated with economic growth; and,
- some lessons from the Malaysian development experience.

## **Policies for National Development**

Malaysia formulated a range of policies and plans to guide the management of national development during 1970-2000. They consisted of core national policies; long-term, medium-term, annual and special development plans; and sectoral and industry-specific master plans.

The core policies were the most important; their main components formed the benchmark for all other policies and plans. They consisted of the New Economic Policy (NEP), 1970-1990 and the National Development Policy (NDP), 1991-2000. Complementing them was Vision 2020, which projected a vision of Malaysia in the year 2020. There was, in addition, the National Economic Recovery Plan (NERP), 1998, which was a special document to deal with an abnormal economic condition faced by the country arising from the East Asian financial crisis. This case study will focus specially on these core policies. Apart from them, there were also the Industrial Master Plans, National Agriculture Policies, Privatization Master Plan, etc.

### **New Economic Policy<sup>2</sup>**

The NEP was introduced in 1970. It was then operationalized and incorporated as the First Outline Perspective Plan (1<sup>st</sup>OPP), 1970-1990<sup>3</sup> and, at a more detailed level, the Second Malaysia

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<sup>1</sup> Please refer to Appendix 1 for basic facts on Malaysia.

<sup>2</sup> A major portion of the descriptive part of this section is derived from Government of Malaysia, Second Malaysia Plan, 1971-1975 (Kuala Lumpur: Government Press, 1971) pp. 1-9, and Government of Malaysia, Mid-Term Review of the Second Malaysia Plan (Kuala Lumpur: Government Press, 1973) pp. 61-74. In addition, reference was also made to the analysis and views on the background to the NEP found in Just Farland, Jack Parkinson and Rais Saniman, Growth and Ethnic Inequality: Malaysia's New Economic Policy (Kuala Lumpur: Utusan Publications, 2003), pp.16-70 and Tan Loong-Hoe, *Economic Equity: A Critique of the Malaysian State's Conception*, in H. Osman Rani, Jomo K.S. and Ishak Shaari (eds.), Development in the Eighties: With Emphasis on Malaysia (Kuala Lumpur: Champion Printers, 1981), pp. 188-211.

Plan (2<sup>nd</sup>MP), 1971-1975. Subsequently, it continued to be the basis of the Third Malaysia Plan (3<sup>rd</sup>MP), 1976-1980; Fourth Malaysia Plan (4<sup>th</sup>MP), 1981-1985; Fifth Malaysia Plan (5<sup>th</sup>MP), 1986-1990; and their respective Mid-Term Reviews. It was also the main reference point for the government's annual development budgets.

Malaysia formulated the NEP to deal, in a concerted and integrated manner, with four major challenges facing the nation at that time. *Challenge number one* was that of creating a united nation from amongst a diverse population of many races, religions and cultures, in which no single race was in numerical majority.<sup>4</sup> *Challenge number two* was that of lessening and, in time, eradicating poverty. *Challenge number three* was that of correcting the economic imbalance among the main racial groups so that each could enjoy a more equitable share in the benefits of economic growth. *Challenge number four* was that of expanding the economy at a continuous and rapid rate.

In response, the NEP was formulated to have the following features:

- *Goal*: Its sole goal was national unity. National unity was determined as the only goal to underscore its paramount importance in national development and nation building and to prevent the dilution of its importance if other goals were included. National unity was defined as a situation in which loyalty and dedication (of the diverse elements of the Malaysian population) to the nation should over-ride all other loyalties.<sup>5</sup>
- *Strategy*: To achieve its goal, the NEP had a two-pronged strategy. The first prong was directed at reducing and eventually eradicating poverty among all Malaysians, *irrespective of race*. The second prong was aimed at restructuring Malaysian society to correct the economic imbalance among racial groups and reduce and eventually eradicate the identification of race with economic function.<sup>6</sup>
- *Requisite*: The NEP had to be implemented in the context of a rapidly and continuously expanding economy. This would generate the necessary employment and business opportunities for all Malaysians including the poor. This would also make possible the

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<sup>3</sup> The 1<sup>st</sup>OPP, unlike OPPs that followed, was not a separate document but a chapter (Chapter IV) in Government of Malaysia, Mid-Term Review of the Second Malaysia Plan, *op.cit.*, pp. 61-74.

<sup>4</sup> Please see Appendix 2 for racial breakdown figures, 1970.

<sup>5</sup> Government of Malaysia, Second Malaysia Plan, *op. cit.*, p.3. The origin of the definition was the *Rukunegara* (National Ideology) of Malaysia.

<sup>6</sup> In 1970, the popular perception was that Malays were mostly employed in traditional and small-scale agriculture, Chinese in commerce and modern urban-based sectors of the economy and Indians were in plantation agriculture, as workers. The official government data seem, to confirm this, in general. However, the data also show that like Malay and Indian employment structures, the biggest number of Chinese employment was in agriculture. See *Ibid.*, p.77.

greater participation of the *Bumiputera*<sup>7</sup> in the modern economy, particularly in commerce and industry, *without depriving the other races of their existing economic functions and wealth as well as their rightful share of the expanding economic cake.*

- *Role of the government:* The government was to take an active and direct role in economic and business activities particularly in selected new growth areas and in the effort to create a *Bumiputera* commercial and industrial community. At the same time, the government was to work closely with the private sector to generate economic growth and to persuade them to participate actively in efforts to correct economic imbalances.

This model of development adopted by Malaysia was based on a philosophy of *growth with equity* or, more specially, *growth with equitable distribution*.<sup>8</sup> It stressed the importance of growth but that growth had to benefit all groups in society in an equitable manner. It emphasized that steps be taken to ensure this even if it might lead to slower growth. This was seen as particularly crucial for a heterogeneous society like Malaysia's wherein the potential for intergroup conflict was inherent.

Malaysia's rationale for adopting the growth with equity philosophy and the NEP was formally presented in all Plans of the NEP period. It was perhaps best captured by the 4<sup>th</sup> MP, which stated: -

Prior to 1971, economic development was concentrated mainly in accelerating the growth of the economy through investment in infrastructure, agriculture and rural development. While this strategy did serve to strengthen considerably the economy of the country, it did not deal adequately with the main social and economic imbalances characterizing the Malaysian society. The May 13 incident showed clearly that economic policies and programmes geared mainly to increasing the growth of the economy would not meet the needs of the nation. It demonstrated that any development effort that did not deal sufficiently with the needs of the poor and the imbalances among racial groups would lead to growth without equity and result in a nation divided between those who share in the benefits of growth and those who do not; in short a nation divided and compartmentalized. The trauma of the incident, therefore, led to a critical evaluation of past policies and approaches, out of which the *Rukunegara* – the National Ideology – was formulated as a basis for national unity.

One of the many-faceted approaches towards achieving national unity in the context of the *Rukunegara*, was the development of a social-economic foundation that would provide for a

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<sup>7</sup> *Bumiputera* means "sons of the earth" and it refers to the Malays and other native races. In statements of the NEP in the afore-mentioned 1<sup>st</sup>OPP and 2<sup>nd</sup>MP this term was not used. However, it was used in later Plans and is now the accepted term.

<sup>8</sup> The terms *growth with equity*, *growth with equitable distribution* and other similar terms were introduced in later Plans. See for instance, Government of Malaysia, Fourth Malaysia Plan (4<sup>th</sup> MP), 1981-1985 (Kuala Lumpur: National Printing Department, 1981) p.2.



viable and equitable participation of all races in the development process. Such a framework was enunciated in the NEP.<sup>9</sup>

Three observations can be made of the NEP. *Firstly*, the components of the NEP were not actually new. Prior to the NEP, emphasis had already been given to building national unity, reducing poverty, restructuring society and expanding the economy. But the NEP added three new ingredients to these individual elements. The first was the specification that national unity was to be the goal of national development. The second was integration. The NEP integrated the elements into a meaningful and logical whole. The third was the role of government. The government was to play a much bigger and direct role in economic and business activities.

*Secondly*, the restructuring part of the NEP's two-pronged strategy clearly referred to rectifying the economic imbalance among racial groups, in particular, improving the position of the Malays or Bumiputera **as a group**. The strategy was not aimed at individual members of each racial group.

*Thirdly*, the NEP was accepted by the majority of Malaysians. It had strong and continuous political support. A clear and strong indication of this was the fact that the coalition of parties (the Alliance, and then its expanded successor, the National Front) that formed the federal government, which was fully committed to the NEP, was voted back into power with large majorities in all general elections since 1970.

### **National Development Policy**<sup>10</sup>

The NDP was introduced in 1991 as the successor to the NEP in the 2<sup>nd</sup> OPP, 1991-2000 and 6<sup>th</sup> MP. It reaffirmed the relevance of the latter by retaining its main elements. At the same time, it called for some modifications to the focus of the two-pronged strategy. *Firstly*, there was to be a shift in the focus of the anti-poverty strategy towards eradication of *hardcore* poverty, rather than poverty generally, while at the same time reducing relative poverty. *Secondly*, the focus was to shift to employment and the rapid development of an active *Bumiputera* Commercial and Industrial Community (BCIC) as a more effective strategy to increase the meaningful participation of the *Bumiputera* in the modern sectors of the economy, rather than the emphasis on *Bumiputera* ownership and control of corporate equity. *Thirdly*, there was to be a greater reliance on the private sector to be involved in the restructuring objective by creating greater opportunities for its growth. *Fourthly*, there was also to be a greater focus on human resource development as a fundamental requirement for achieving the objectives of growth and distribution.

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<sup>9</sup> Government of Malaysia, Fourth Malaysia Plan, *ibid.*, pp. 1-2.

<sup>10</sup> The descriptive part of this section is derived from Government of Malaysia, The Second Outline Perspective Plan, 1991-2000 (Kuala Lumpur: National Printing Department, 1991) pp.14-20 and Government of Malaysia, Sixth Malaysia Plan, 1991-1995 (Kuala Lumpur: National Printing Department, 1991) pp.4-5.

The primary rationale for making the shifts to the two-pronged strategy of the NEP was to increase its effectiveness. It had worked remarkably well with regard to the first prong of poverty reduction but less so with the second prong of restructuring society. In the case of the first prong, the incidence of poverty had been reduced considerably by 1990 and it was reasoned that further reductions could only be achieved if the poverty program gave greater attention to a subgroup of the poor, viz., the hardcore poor. The reasoning was getting them out of poverty would be more difficult; therefore, they had to be given special attention. In the case of the second prong (restructuring of society), the progress made had been slower than planned.

Apart from the four modifications to the primary strategy of the NEP, the NDP also introduced the strategy of *balanced development* for achieving the goal of creating a more united and just society. The strategy involved balancing growth and equity; development of major sectors of the economy; benefits of social and economic development to all Malaysians; development among states and between urban and rural areas; increased material welfare with positive social and cultural values and a greater sense of national pride; a strengthened culture of merit and excellence and the special requirements of the restructuring strategy; science and technology development and socio-economic development; and economic development and environmental protection.

The rationale for balanced development was based on four considerations.

*Firstly*, the principle of growth with equity is fundamental to ensure the realization of a fair and equitable distribution of national wealth. *Secondly*, a balanced societal development is conducive to the maintenance of social and political stability. *Thirdly*, the nurturing and moulding of a Malaysian society with high moral values and ethics as well as positive attitudes are fundamental towards the creation of a responsible, resilient, progressive and caring society. *Fourthly*, prudent management of natural resources and the ecology as well as preservation of natural beauty and clean environment are important to improve the quality of life for the present as well as future generations. The balanced development of the economy is essential to ensure stable growth, minimize social conflicts, promote racial harmony and enhance national unity.<sup>11</sup>

It is to be noted that despite the shift in focus on the two-prong strategy and the introduction of the strategy balanced development, the NDP was in essence, still the NEP. The NDP accorded the same importance to the link among national unity, poverty reduction, societal restructuring and economic growth, as did the NEP. The emphasis on balanced development, too, was not new but was actually part and parcel of the development efforts during the NEP period, while the first balancing requirement was the essence of the NEP. In this regard, the contribution of the NDP to national development was to make more explicit and to clarify the nature and scope of the balancing requirements.

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<sup>11</sup> Government of Malaysia, Sixth Malaysia Plan, *ibid.*, pp.4-5).

## **Vision 2020**<sup>12</sup>

Vision 2020 provided a vision of what Malaysia should be like in the year 2020 and the challenges that would have to be overcome to make it a reality. It was first introduced in February 1991 as a working paper to the inaugural meeting of the Malaysian Business Council (MBC)<sup>13</sup> of which the chairman was the Prime Minister. It was unanimously accepted by the MBC and soon after by the government and Malaysians in general. Consequently, it acquired the status of a public policy.

Vision 2020 called for *total development* and envisaged that, “By the year 2020, Malaysia can be a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically-just and equitable, progressive and prosperous and in full possession of an economy that is competitive, dynamic, robust and resilient.”<sup>14</sup>

To realize the Vision, nine central strategic challenges will have to be met, viz., establishing a united Malaysian nation; creating a psychologically liberated, secure, and developed Malaysian society; fostering and developing a mature democratic society; establishing a fully moral and ethical society; establishing a mature, liberal and tolerant society; establishing a scientific and progressive society; establishing a fully caring society and a caring culture; ensuring an economically-just society; and establishing a prosperous society.<sup>15</sup>

It is to be noted that Vision 2020 was very much like the NDP and NEP in its core components in spite of its concept of total development and nine challenges. However, it provided an added insight on the features of the united Malaysian nation that was being sought. It also provided a useful perspective on the strategies for achieving that goal by presenting them as nine central strategic challenges.

## **National Economic Recovery Plan**<sup>16</sup>

The NERP document was made public in August 1998, about a year after the East Asian currency crisis first affected Malaysia. It reviewed the policy initiatives that had been taken by the government since July 1997 and then identified the agenda to revitalize the economy as well as

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<sup>12</sup> The descriptive part of this section is derived from Government of Malaysia, *Vision 2020: The Way Forward* (Kuala Lumpur: National Printing Department, 1991).

<sup>13</sup> The MBC was a high-level government-corporate sector consultative body whose chairman was the Prime Minister and whose members comprised selected ministers, captains of industry and top civil servants.

<sup>14</sup> Government of Malaysia, *Malaysia: The Way Forward (Vision 2020)* (Kuala Lumpur: National Printing Department, 1991) p.5.

<sup>15</sup> *Ibid.*, pp. 5-7. Please see Appendix 3 for the full text of these challenges.

<sup>16</sup> The descriptive part of this section is sourced from Government of Malaysia, *National Economic Recovery Plan: Agenda for Action* (Kuala Lumpur: *Percetakan Nasional Malaysia Berhad*, 1998).

lessen the impact of the crisis on the country's poverty reduction and restructuring of society programs.

The initial policy initiatives were directed at stabilizing the economy through a tightening of monetary policy (increasing interest rates and limiting credit growth) imposing greater fiscal restraint (reducing operating and developing expenditures) and introducing structural reforms in the financial sector. In total, these measures were highly deflationary and contributed to a severe and rapid contraction of the economy.

The Plan identified the most urgent and critical need in reviving the economy to be, "...to restore or reestablish confidence in Malaysia's macroeconomic stability."<sup>17</sup> In line with this, the Plan identified six objectives: stabilizing the *ringgit*, restoring market stability, strengthening economic fundamentals, continuing the equity and socio-economic agenda and revitalizing affected sectors. To achieve them, the Plan formulated a list of 44 strategies (Appendix 4).

In implementing the Plan, one of the bolder steps taken was the introduction of selective exchange control measures and fixing the exchange rate of the *ringgit* to the US dollar at RM 3.80 to USD 1.00. There was strong initial criticism to this by various parties, but in pursuit of its own interests, Malaysia persisted with it although there were subsequent relaxations to the exchange control measures.<sup>18</sup>

Two features of the NERP are worth noting. *Firstly*, as with other major policies, it adhered to the core components of the NEP. This was despite the economic slowdown at the time. The NERP did not neglect or abandon poverty reduction and restructuring of society. Instead it considered and incorporated them as part of the Agenda for Action. There was a relaxation of the rules on foreign ownership of corporate equity, for example. However, this was only implemented after a thorough analysis of its pros and cons were undertaken. The due and considered attention given to the two-prong strategy was an unambiguous and undeniable evidence of the central position of the principle of equitable growth in Malaysian development. *Secondly*, it displayed the same pragmatic boldness found in other major policies in dealing with the unique problems faced by Malaysia. In this case, it took the steps of resorting to currency control and pegging the *ringgit* to the USD.

At this juncture, it is necessary to point out that, given the importance of the goal of national unity to Malaysia, several other concrete steps were also taken to complement and strengthen the NEP, NDP and other core policies. They included the entrenchment of provisions in the Federal Constitution (Article 149) which, *inter alia*, prohibits acts of incitement that would lead to racial violence; and the quick resolution of any localized racial conflict should they arise, by the police and other authorities. They also included the adoption of the Malay language as the official language of Malaysia (but with the proviso that other racial groups were free to use their languages and dialects and to run their own schools). Another step to nurture integration and

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<sup>17</sup> *Ibid.*, p.1.

<sup>18</sup> Government of Malaysia, Mid-Term Review Seventh Malaysia Plan, 1996-2000 (Kuala Lumpur: Percetakan Nasional Malaysia Berhad, 1999) p.6.

unity was the utilization of a common national syllabus in all government-funded schools. The syllabus emphasized the common history and values of Malaysians and the type of education necessary to meet the demands of Malaysia's modernizing economy. Yet another step was the development of a common Malaysian culture through a process of open interaction among the races. In the initial years after Independence, the efforts were geared towards making Malay culture as the basis of the national culture but time and wisdom shifted the emphasis to the integration of the richness of the diverse cultures of Malays, Chinese, Indians and native races of the states of Sabah and Sarawak<sup>19</sup>.

To summarize, two main comments can be made about the distinguishing features of Malaysian development policies. *Firstly*, the core components of the policies were similar. The emphasis on equitable growth, national unity, eradication of poverty, restructuring of society and economic growth was retained in all policies of the 1970-2000 period. Modifications were made to the policies but their essence remained intact. *Secondly*, Malaysia evidently, had carefully formulated the policies to fit her own special circumstances and needs. The choice of equitable growth with its strong affirmative action-type component and the introduction of currency controls and the ringgit-dollar pegging were evidence of this. These were difficult choices but were taken nevertheless as they were considered to be in Malaysia's best interest.

## **Institutional Framework**

Malaysia developed an institutional framework in the public sector that contributed to a substantial degree in promoting rapid socio-economic development during the 1970-2000 years. The framework and its associated work procedures encompassed the tasks of formulating, implementing, monitoring and evaluating development policies and plans.

### **Formulation of development policies and plans**

The institutional framework and work procedures for formulating development policies and plans were organized to produce relevant, pragmatic and politically-acceptable broad national development policies; more detailed socio-economic development plans; specific policies or plans for the development of important sectors of the economy or for dealing with urgent and serious national issues; and timely decisions on critical issues arising from the implementation of development policies and plans. The framework was broad in scope encompassing all major groups in society and its procedures were well detailed out to promote disciplined and systematic actions among participants of the process.

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<sup>19</sup> For more on this topic, please refer to Government of Malaysia, Malaysia: National Report: World Summit for Social Development, Copenhagen, 1995: Poverty Reduction, Expansion of Productive Employment and Social Integration in Malaysia, 1971-1994 (Kuala Lumpur: *Percetakan Nasional Malaysia Berhad*, 1995) pp.3,35-36.

*Broad national development policies*, viz., the NEP and NDP, were the products of an institutional framework and procedures that had four main features. Firstly, there was the appointment of a special body to deliberate on socio-economic issues facing the nation and to advise the government on the appropriate policy to deal with them. For example, a National Economic Consultative Council was formed in 1999 to review the NDP and to advise the government on the need for a new policy. Earlier on, in 1989, a similarly named council was appointed to review the NEP. Members of these bodies were representatives of major political parties, industry groups, academia, NGO's and distinguished individuals. All others were free to submit written views to the body. As such, they covered a broader spectrum of Malaysians in a more direct way than Parliament. Secondly, the report prepared by this body was submitted to the Cabinet for consideration. Thirdly, 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. Fourthly, upon completion of their assignment, such bodies were disbanded.

*National development plans* were formulated through an institutional framework (Appendix 5) that had at its center the Economic Planning Unit (EPU) of the Prime Minister's Department<sup>20</sup>. The main features of the framework and its work procedures were as follows:

- The framework was also broad-based, capturing within its ambit, public sector organizations (ministries, departments and statutory authorities) as well as private sector institutions, academia, NGO's and others. The public sector component of the framework was also multi-tiered, incorporating federal, state and local-level organizations. It also included the Parliament and the King. These features made for a participative and interactive process that allowed a broad range of viewpoints to be expressed and considered. This was believed to have created a broader acceptance of the plans that were formulated, thereby facilitating their implementation.
- The EPU had the necessary attributes to play its role as the lead agency in the planning process. It was part of the Prime Minister's Department and had the status of a central agency.<sup>21</sup> In addition, the EPU was headed and staffed by an appropriate number of officers who were not only academically qualified but also had hands-on and considerable experience in the field of development planning and national economic management. In effect, the EPU was a strong and capable planning agency and as such, respected both at home and abroad. These features of the EPU facilitated its interaction with participants of the planning process.

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<sup>20</sup> The Prime Minister's Department was actually a Ministry. It was called Department because calling it Prime Minister's Ministry did not seem right. Since it was called PMD, all major departments under it were called Units.

<sup>21</sup> There were only five central agencies in the Malaysian public service. The other four were the Implementation Coordination Unit, Malaysian Administrative Modernization and Manpower Planning Unit, Public Services Department (all part of the Prime Minister's Department) and the Ministry of Finance or Treasury.

- The planning process was guided by a strict time-table and followed a set of working procedures that were tested and dependable. This was adhered to so that the plans were ready on schedule and of high quality. In the 1970-2000 period, a total of two long-term perspective plans, six five-year plans and six mid-term reviews were produced.
- The planning process had three critical phases of scrutiny, viz., that by the National Development Planning Committee whose members were top civil servants and whose chairman was the Chief Secretary to the Government (the most senior civil servant); that by a special Cabinet Committee chaired by the Prime Minister and comprising selected ministers; the full cabinet; and Parliament. Among them, the Cabinet acting on the advice of the Cabinet Committee, was the most influential body, given its powers and position in Malaysia's system of governance.
- The broader planning cycle had an in-built evaluation and review component. A big part of it was conducted at the mid-point (which produces the mid-term review of each five year plan) and another equally big part, at the end of each plan period. In addition, evaluations were also incorporated in the annual budget process.<sup>22</sup> The review and evaluation were to determine the effectiveness of current programs and the necessity for their continued implementation, taking into consideration the availability of funds. The direct result of these reviews on problematic programs was a reduction in allocation or even a suspension on further implementation. Thus, to avoid this, ministries typically endeavor to ensure that their programs were implemented according to schedule and specification.

*Specific policies or plans:* The institutional framework for formulating specific policies or plans 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. Examples of such policies were the First Industrial Master Plan, 1986-1995; Second Industrial Master Plan, 1996-2005; National Agricultural Policy, 1984; National Agricultural Policy 1992-2010; and Privatization Master Plan, 1991.

A more complex variation of the above-mentioned framework was the set of institutions that was established to address the recent slowdown and then recession faced by the Malaysian economy. This was in the wake of the depreciation of the *ringgit* and sharp drop in the stock market index, following the attack on the *ringgit* by speculators in 1997. The framework comprised three institutions, viz., the National Economic Action Council, and its Executive Committee and Working Group. Upon their establishment, the Council had 24 members, comprising selected Ministers, top civil servants, private sector representatives, union leaders and a few others. The chairman was the Prime Minister. The Executive Committee had a select group of only six members and the chairman was again the Prime Minister. The Group was headed by

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<sup>22</sup> There was also a related framework for monitoring the progress being made in the implementation of development projects(Please see the following pages)

the Executive Director of the Council and had six other members. The Group conducted most of the ground work, gathering data and information on the effects of the downturn on the economy and the steps needed to revive it, from those directly affected by the downturn. This was reported to the Executive Committee where decisions were taken, some of which were then presented to the Council and the Cabinet for information and further action. Through the dedicated work of these bodies and the secretariat, a National Economic Recovery Plan was prepared about six months after the establishment of the Council. It was accepted by the Cabinet and became the basis for overcoming the economic crisis.

*Timely decisions on critical issues that arose during the implementation of policies and plans:* On occasions, issues arose when policies and plans were being implemented which could not be resolved by the implementing ministry. They were of a critical or urgent nature and could not wait for the annual budget or mid-term review or formulation of new development plan processes. To deal with them, there was an institutional framework comprising implementing ministries, central agencies and Cabinet. For each issue, the process involved the preparation of a cabinet paper by the responsible implementing ministry, on the issue at hand with proposals on how it was to be resolved. The paper was then circulated to the central agencies and other affected implementing ministries for their viewpoints. It was then submitted to the Cabinet for a decision.

## **Implementation**

All ministries and their respective departments and statutory authorities, were involved in implementing national development policies and plans. Apart from them, state and local governments, NGOs and foundations receiving Government funds also complemented federal policies and plans in implementing their programs. In addition, the private sector also contributed through their business activities in the achievement of a major component of development policy, i.e., economic growth.

Ministries implementing policies and plans were staffed by politicians and relevant professionals. The politicians, who were mostly members of the elected House of Representatives, head the ministries and they included the minister, deputy minister(s) and parliamentary secretary(ies). Each ministry was headed by a secretary-general, from the Administrative and Diplomatic Service (ADS). Working with him were Directors-General from professional services such as the Medical and Health Officers Service in the case of the Health Ministry and the Education Officers Service in the case of the Education Ministry.

In the implementation of policies and plans, the ministries were guided by four sets of rules or procedures. Firstly, there were the objectives, strategies and programs of the particular policy and plans. These were stated and explained in a written form. The second set comprised rules and regulations concerning the financial management of policies and plans. These were determined by the Treasury and they applied to all ministries. The core document was the Treasury Instructions, complemented by more detailed financial circulars and circular letters. The third set of rules and regulations were those pertaining to personnel management. These were determined by the Public Services Department and they applied to all ministries. The core



documents were the General Orders and complementary service circulars and circular letters. The fourth set of rules and regulations were those concerning the purchases, installation and management of information and communication technology equipment by ministries. These were determined by the Malaysian Administrative Modernization and Management Planning Unit, Prime Minister's Department.

In view of Malaysia's federal system of governance and administration, implementing departments and statutory authorities of ministries were structured to have at least three levels of organization, viz., federal, state and district. The bigger ministries such as Ministry of Health and Ministry of Education, had service delivery points, i.e., schools and clinics, even at village levels. In the case of health, there were also airborne mobile clinics to serve very remote areas. The many-tiered delivery points allowed for more focused implementation of policies and plans and made benefits and services more accessible.

### **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. However, unlike policy formulation, M&C were more technical in nature, with politics playing a lesser role.

The agency that was assigned the task of managing the M&C function was the Implementation Coordination Unit, Prime Minister's Department. The Unit was well known for introducing a system or technique of monitoring development projects called the Rural Economic Development (RED) Book. The system monitored the progress achieved in constructing each physical project, for example a school or hospital, and in spending the budget allocated for it, on a weekly and monthly basis in comparison to the progress they should achieve during the same period. When it was first introduced in the 1950's the system was manually based but by the Third Malaysia Plan, 1976 - 1980, it was converted to a computer-based system. The initial computer-based system was called the Project Monitoring System I. It was subsequently reviewed, improved, renamed Project Monitoring System II and made accessible through the Internet to all ministries and state administrations.

The main management technique utilized in the coordination of social policies, programs and projects was the multi-agency or multi-organization committee. There were six such committees, as shown in Appendix 6.

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.

At the next higher level were the State Development Working Committees. Each Committee was chaired by the State Secretary (the highest ranking civil servant in the state) and members included all federal heads of departments and agencies in the state and all district Officers. Among them was the State Development Officer who reported to the Director-General of the Implementation Coordination Unit. This Committee coordinated project implementation at the state level and resolved, if possible, coordination problems at the district level, which could not be resolved by the District Development Working Committee.

The State Development Council was the highest development coordinating body in each state. It was chaired by the *Menteri Besar* or Chief Minister of the state and its members included selected members of the state government. The State Secretary was the secretary to the Council and senior state heads of departments and authorities were in attendance at Council meetings. The Council made decisions on coordination problems referred to it by the State Development Working Committee.

At the federal level, there was a Ministry Development Committee in each ministry. It was chaired by the secretary-general and its members were senior ministry officers and heads of departments and agencies or authorities under the ministry. Meetings of the Committee focused on discussing the progress of the ministry's development projects and resolving any coordination problems that arose. The output of the meeting, particularly progress reports on project implementation, were reported to the Implementation Coordination Unit and discussed at periodic meetings of the Unit's Inter-Ministerial Development Committee.

At the next level, there was the National Development Working Committee which was chaired by the Chief Secretary to the Government and whose members were heads of central agencies and secretaries-general of all ministries. This Committee was informed about the progress achieved in implementing government projects and problems encountered. It made decisions on resolving the problems and at times referred some cases to the National Development Council.

The National Development Council was made of selected ministers and was chaired by the Prime Minister himself. It resolved serious issues in coordinating implementation of development projects. 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, its work procedures, evident in the policy and plan formulation process for example, were participative in nature enabling a broad spectrum of Malaysians to participate.

## Macroeconomic and Distributional Achievements of NEP and NDP

Malaysia experienced rapid and almost continuous year-on-year economic growth during the NEP and NDP periods and achieved greater income equality by the end of each period. At the same time, there was a large reduction in the incidence of poverty and marked progress in meeting targets of the restructuring of society strategy.

More specifically, the real Gross Domestic Product (GDP) grew at an average annual rate of 6.7 percent during 1971-1990<sup>23</sup> and 7.0 percent during 1991-2000<sup>24</sup>. In monetary terms, real GDP was RM21.4 billion in 1970 and RM79.1 billion (in 1978 prices) at the end of the NEP period in 1990<sup>25</sup>, an increase of more than three times. Then, by the end of the NDP period in 2000, the GDP almost tripled again to RM209.3 billion (in 1987 prices)<sup>26</sup>.

In line with the expanding economy, per capita Gross National Product (GNP) in current terms increased from RM1,937 in 1970<sup>27</sup> to RM6,298 in 1990 and then to RM13,359 in 2000<sup>28</sup>. The per capita income of 2000 was equivalent to USD 3,516 or, in purchasing power parity terms, USD 8,852<sup>29</sup>.

The increase in per capita income was accompanied by a declining Gini coefficient, which indicated a lessening of income inequality<sup>30</sup>. It decreased from 0.513 in 1970<sup>31</sup> to 0.445 in 1990 in Peninsular Malaysia, 0.491 in 1985 to 0.459 in 1990 in Sabah state; and 0.498 in 1985 to 0.448 in 1990 in Sarawak state<sup>32</sup>. The coefficient for the whole of Malaysia in 1999 was 0.443<sup>33</sup>.

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<sup>23</sup> Government of Malaysia, The Second Outline Perspective Plan, 1971-1990 (Kuala Lumpur: National Printing Department, 1971) p.36.

<sup>24</sup> Government of Malaysia, The Third Outline Perspective Plan, 1991-2000 (Kuala Lumpur: *Percetakan Nasional Malaysia Berhad*, 2001) p.34.

<sup>25</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.*, p.37.

<sup>26</sup> Government of Malaysia Eighth Malaysia Plan, 2001-2005 (Kuala Lumpur: *Percetakan Nasional Malaysia Berhad*, 2001) p.26.

<sup>27</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.*, p.37.

<sup>28</sup> Government of Malaysia, The Third Outline Perspective Plan, *op. cit.*, p.34.

<sup>29</sup> *Ibid.*

<sup>30</sup> Gini coefficients were calculated based on mean monthly household incomes collated from Household Income Surveys (HIS) which were conducted every two or three years.

<sup>31</sup> Government of Malaysia, The Second Outline Perspective Plan, 1991-2000, *op. cit.*, p.98.

<sup>32</sup> Government of Malaysia, Sixth Malaysia Plan, 1991-1996, (Kuala Lumpur: National Printing Department, 1991), p. 11. The figures for 1985 and 1990 were based on HISs conducted in 1984 and 1989 respectively. There were no 1970 coefficients for Sabah and Sarawak available. The 1990 coefficient of 0.445 for Peninsular Malaysia was subsequently corrected to 0.442 (See Government of Malaysia, The Third Outline Perspective Plan, *op. cit.*, p.89). For other indicators of income inequality, please see Appendix 6.

Relatedly, the incidence of poverty among households was markedly reduced from 49.3 percent in Peninsular Malaysia 1970; 58.3 percent in Sabah state in 1976; and 56.5 percent in Sarawak state in 1976; to 15.0, 34.3 and 21.0 percent respectively for the three localities and 17.1 percent for the whole country, in 1990<sup>34</sup>. Subsequently, in 1999, the incidence for Malaysia was further reduced to 7.5 percent<sup>35</sup>. In addition, the incidence of hardcore poverty,<sup>36</sup> the reduction of which began to be specially targeted beginning 1989, was reduced to 0.5 percent in 1999 from 3.9 percent in 1990<sup>37</sup>.

On the restructuring component of the NEP and NDP, (which was aimed at greater Malay or *Bumiputera* involvement in economic activities other than those that they had been associated with traditionally, i.e., agriculture and government employment), the achievements included the following: -

- *Malay or Bumiputera employment by economic sector*: In 1970, the Malays contributed 51.5 percent of total employment of 2.78 million in Peninsular Malaysia<sup>38</sup>. Of the Malay employment of 1.43 million, 64.6 percent was in the agriculture, forestry and fisheries sector (hereinafter referred to as ‘agriculture’, for brevity) and 17.9 percent<sup>39</sup> in the other services sector (of which government service or employment was the biggest sub-sector). Malay employment in manufacturing was then 6.0 percent<sup>40</sup>. By 1990, the *Bumiputera* component of total employment of 6.62 million had risen to 57.8 percent (3.83 million)<sup>41</sup> and had begun to acquire features of the distributional structure envisaged in the NEP. Of the total *Bumiputera* employment then, 36.7 percent was in the agriculture sector, 21.2 percent in government and other services, and 17.0 percent in manufacturing<sup>42</sup>. In effect, there had been a clear realignment of *Bumiputera* employment from agriculture to manufacturing. This shift was continued in the NDP period. By 2000, total *Bumiputera* employment amounted to 4.78

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<sup>33</sup> Government of Malaysia, The Third Outline Perspective Plan, *ibid.*

<sup>34</sup> Government of Malaysia, Sixth Malaysia Plan, *op. cit.*, p.11. Please also see Shiren M. Hashim, *The NEP and Changes in Poverty and Income Distribution* in Jahara Yahaya, Tey Nai Peng and Yeoh Kok Khong (eds.), *Sustaining Growth, Enhancing Distribution: The NEP and NDP Revisited* (Kuala Lumpur: Vinlin Press, 2003), pp.1-15.

<sup>35</sup> Government of Malaysia, The Third Outline Perspective Plan, *op. cit.*, p.50.

<sup>36</sup> Hardcore poverty was estimated using half of the poverty line. For more on this, please refer to the following section on poverty.

<sup>37</sup> Government of Malaysia, *ibid.*

<sup>38</sup> Government of Malaysia, Mid-Term Review of Second Malaysia Plan, 1971-1975 (Kuala Lumpur: Government Press, 1973) p.77. Note that the figures refer to Malays and Peninsular Malaysia only. Figures for the *Bumiputera* of as a whole (Malays and other indigenous groups of Sabah and Sarawak states) and Malaysia are not available.

<sup>39</sup> *Ibid.* Figures were calculated from data in Table 4-4.

<sup>40</sup> *Ibid.* Figures were calculated from data in Table 4-4.

<sup>41</sup> Government of Malaysia, The Second Outline Perspective Plan, *op. cit.*, p.116.

<sup>42</sup> *Ibid.*

million and of this 18.2 percent was in the agriculture sector, 25.0 percent in government and other services and 26.3 percent in the manufacturing sector<sup>43</sup>. In effect, for the *Bumiputera*, employment in manufacturing had overtaken agriculture employment.

- *Malay or Bumiputera employment by occupational category*: In 1970, the pattern of Malay employment in Peninsular Malaysia was 4.3 percent (64,200) in the professional and technical group and less than 0.01 percent (7,400) in the administrative and managerial category. More than 95 percent (140,600) of them were in the lower-level categories in both the public and private sectors<sup>44</sup>. By 1990, *Bumiputera* employment in the two top-level categories had grown to 9.2 (350,400) and 1.4 percent (54,100) respectively<sup>45</sup>. Then, by 2000, *Bumiputera* employment in the professional and technical group increased to 13.6 percent (509,800) and in the administrative and managerial group, 3.0 percent (94,200)<sup>46</sup>. In effect, there had been a marked increase, both in terms of numbers and percentages, in *Bumiputera* employment in the higher occupational categories.
- *Malay or Bumiputera membership of professional group*<sup>47</sup>: In 1970, Malay members of professional groups (accountants, architects, dentists, medical doctors, engineers and veterinary surgeons) in Peninsular Malaysia numbered 225 and made up less than five percent of total membership of the groups (4576)<sup>48</sup>. They were the smallest group in every one of the professions. By 1990, *Bumiputera* registered professionals (in the afore-mentioned six professions plus lawyers and surveyors) had multiplied to 11,753 or 29.0 percent of the number of registered professionals<sup>49</sup>. By then, they had grown to be the second largest number among accountants, architects, dentists, medical doctor, engineers and veterinary surgeons. Subsequently, in 1999, their numbers increased further to 15,321 (28.9 percent)<sup>50</sup>. In addition, *Bumiputera* professionals formed the biggest group amongst doctors, surveyors and veterinary surgeons and was the second largest group in each of the other professions.

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<sup>43</sup> Government of Malaysia, Eighth Malaysia Plan, *op. cit.*, p.66.

<sup>44</sup> The percentages were calculated from data in Table 1-11. Government of Malaysia, Fourth Malaysia Plan, 1981-1985 (Kuala Lumpur: National Printing Department, 1981). P.59.

<sup>45</sup> The percentages were calculated from data in Table 1-9, Government of Malaysia, Sixth Malaysia Plan, *op. cit.* P.34.

<sup>46</sup> Government of Malaysia, Eighth Malaysia Plan, *op. cit.*, p.67.

<sup>47</sup> Include Malaysian Institute of Accountants, Board of Architects Malaysia, Malaysian Dental Council, Malaysian Medical Council, Board of Engineers Malaysia, etc.

<sup>48</sup> Figures calculated from data in Table 3-12 of Government of Malaysia, Fourth Malaysia Plan, *op. cit.*, p.60.

<sup>49</sup> Figures calculated from data in Table 1-10 of Government of Malaysia, Sixth Malaysia Plan, *op. cit.*, p.35.

<sup>50</sup> Government of Malaysia, Eighth Malaysia Plan, *op. cit.*, p.69.

- *Malay or Bumiputera*<sup>51</sup> ownership of corporate equity: In 1970, the Malay ownership of corporate equity was estimated to be RM 12.6 million or 2.4 percent of total equity<sup>52</sup>. By the end of the NEP period in 1990, the *Bumiputera* ownership had risen to RM 22.3 billion or 20.3 percent of total equity (RM 109.8 billion)<sup>53</sup>. Following this, in 2000, *Bumiputera* ownership had increased to RM 54.4 billion but their share had fallen slightly to 19.1 percent<sup>54</sup>.
- *Malay or Bumiputera Commercial and Industrial Community (BCIC)*. Published data on the impact of the BCIC programs in creating a viable, competitive and resilient BCIC are not available. Nevertheless the available information indicates that there was an increase in the number of *Bumiputera* enterprises during the NEP and NDP years. The enterprises were small and medium-scale in size and the business turnovers were small. They were involved in a broad range of business activities but their involvement in the modern manufacturing sector was limited<sup>55</sup>.

To summarize, the NEP and NDP recorded many achievements, particularly the large reduction in the incidence of poverty and the narrowing of income inequality. In addition, *Bumiputera* participation in the modern economy achieved considerable progress although the degree of achievement fell short of set targets.

## Strategies for Poverty Reduction

Malaysia's policy against poverty first took a clear and coordinated shape with the introduction of the New Economic Policy (NEP) in 1970. It was designed to be an integral part of the NEP, thereby underscoring its importance to overall national development. When the NDP was introduced to replace the NEP, some modifications were made to the poverty reduction policy but its basic features were retained. Similarly, Vision 2020, which was formulated at about the same time as the NDP, gave strong emphasis to the importance of dealing with the poverty problem. Subsequently the NERP also dealt with the need to address the problems of the poor as a result of the economic downturn following the 1997 financial crisis.

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<sup>51</sup> 'Bumiputera' here includes Bumiputera individuals as well as government-run trust agencies and related institutions (which were established to hold in trust and manage corporate equity for the Bumiputera).

<sup>52</sup> Government of Malaysia, *The Second Outline Perspective Plan*, *op. cit.*, p.48. The Plan does not state the total amount of corporate equity in 1970. However, the amount in 1971 is stated to be RM6.56 billion in Government of Malaysia, *Fourth Malaysia Plan*, *op. cit.*, p.62.

<sup>53</sup> Government of Malaysia, *The Second Outline Perspective Plan*, *op. cit.*, p.46.

<sup>54</sup> The share of other Malaysians had also experienced a similar drop. In contrast, the share of foreigners had increased noticeably from 27.7 percent in 1995 to 32.7 percent in 2000. The economic slowdown of 1997-1998 and the relaxation of foreign equity ownership limits were associated with this. See Government of Malaysia, *The Third Outline Perspective Plan*, *op. cit.*, p.64.

<sup>55</sup> For more on this, please refer to Government of Malaysia, *The Second Outline Perspective Plan*, *op. cit.*, pp. 12-13, 104-105, and Government of Malaysia, *The Third Outline Perspective Plan*, *op. cit.*, pp.54-55.

The ultimate objective of public policy against poverty, as stated in the NEP, was to reduce the incidence of poverty at set time periods and eventually to totally **eradicate** it. Another objective of the policy was to reduce relative poverty or income inequality. In the NEP years, the focus was on the reduction of the gaps among the main ethnic groups; rural and urban dwellers; and income groups. However, under the NDP, reducing intra-ethnic income gaps also became an objective.

To achieve the objective of poverty reduction and eradication, the primary strategies selected were those that could provide opportunities to the poor to be involved or gain employment in higher-paying jobs or activities so that they could become self-supporting and increase their incomes. Less emphasis was paid to welfare handouts as a means of dealing with poverty except for segments of the poor who were unable to find gainful employment, such as the aged and unemployable handicapped. There were eight such strategies.

### **Strategy 1: Concepts and measurements**

An important component or prerequisite of the fight against poverty in Malaysia was agreement on the definition and measurement of poverty. The government took the lead in this task, after consultations with various experts and groups. In this regard, three concepts pertaining to poverty were adopted by Malaysia to circumscribe and underpin its poverty reduction programmes, viz., *absolute poverty*, *absolute hardcore poverty* and *relative poverty*.

*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. Further, since the PLI was linked to the consumer price index (CPI), the PLI was periodically revised in line with movements in the CPI. Furthermore, since the average cost of living in Peninsular Malaysia, Sabah and Sarawak was not the same, different PLIs were utilized for each of them<sup>56</sup>. However, no differentiation was made to urban and rural PLIs.

*Absolute hardcore poverty* was defined as a condition in which the gross monthly income of a household was less than half of the PLI. This definition was introduced in 1988 to enable a more accurate targeting of poverty redressal projects to the hardcore poor.

With regard to *relative poverty*, the conceptualization that was used in Malaysia was linked to the notion of income disparity between groups. Thus, a group whose mean income was less than another was defined as being in relative poverty. Under this definition, it was possible to define a group, for example rural dwellers, as being in relative poverty to another, urban dwellers, even though the mean income of the rural dwellers exceeded the PLI.

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<sup>56</sup> Please see Appendix 7 for details.

In Malaysia, relative poverty was measured by using income disparity ratios of income groups (top 20 and bottom 40), ethnic groups (Bumiputera, Chinese and Indians) and urban and rural dwellers. In addition, the Gini Coefficient was also used to indicate the pattern or biasedness, if any, of income distribution.

### **Strategy 2: Increasing productivity and diversifying sources of income**

This strategy emphasized projects that enabled the poor to modernize their traditional methods of production and participate in the mainstream of economic activities. Since poor households were mostly in the agriculture sector, the focus was 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 and those with uneconomic holdings in new land development schemes to work in and eventually own the rubber and oil palm plantations in the schemes. The settlers were also provided with single unit houses, which came complete with piped water and electricity;
- In-situ development of existing agricultural land through rehabilitation and consolidation of the land, the replanting of old commercial crops with new higher-yielding clones and better planting techniques. The land consolidation included a system of group farming wherein owners of small plots of adjacent land worked them on a cooperative basis to reap the benefits of large-scale operations;
- Integrating agricultural and rural development with downstream processing of farm products and generally encouraging village industries and rural entrepreneurship in order to provide an additional source of non-agriculture income for farmers;
- Double-cropping or off-season cropping, inter-cropping and mixed farming on the same plots of land to supplement main crop incomes;
- Establishment of farmers' markets in urban centres to enable farmers to sell their products directly instead of through middlemen and thereby fetch better prices for them;
- Incorporating in most agricultural and rural development projects, training and education programmes not only on topics pertaining to farming but also those relating to work attitudes and values so as to motivate participants to be better, more productive farmers; and,
- A system of industrial and vocational training for rural manpower, including youths, as well as credit facilities and related support, to enable them to be employed in non-farm occupations or to start their own business not only in rural areas but also in urban centres.



### **Strategy 3: Targeting the hardcore poor**

To deal specifically with hardcore poor households, a special program for them was introduced in 1988. Known as the **Development Programme for the Hardcore Poor**, it involved the creation of a register and profile of hardcore poor households and the delivery of appropriate projects<sup>57</sup> to meet their specific needs such as additional opportunities

to increase their employability and income, better housing, food supplements for children and educational assistance. 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. More than that, their participation in the scheme gave them a sense of being part of the development of the modern sector of the economy even though they were poor. This was because the scheme held shares of companies listed on the Kuala Lumpur Stock Exchange.

### **Strategy 4: Involvement of private sector and non-governmental organizations (NGOs)**

In addition to the government, the private sector and NGOs<sup>58</sup> also voluntarily involved themselves in helping to redress poverty. Complementing the government's efforts, they provided, *inter alia*, small business loans to the poor, industrial training and job opportunities, educational support for children of the poor and better housing. Among the NGO's, the *Amanah Ikhtiar Malaysia* (AIM)<sup>59</sup> 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.

### **Strategy 5: Improving the quality of life of the poor**

Apart from income-generating projects, the government also sought to improve the quality of life of the poor through the provision of infrastructural and social amenities as part of a broader programme 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.

### **Strategy 6: 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 Islamic tithe (zakat) funds maintained by state governments.

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<sup>57</sup> Please see Appendix 8 for details.

<sup>58</sup> Please see Appendix 9 for details.

<sup>59</sup> Can be translated into English as Endeavor Trust of Malaysia. There is no official English name for it,

### **Strategy 7: Maintaining stable prices**

The strategy involved government intervention in the markets of a small number of food and other essential items.<sup>60</sup> Interventions took place to rectify market imperfections and unwarranted price increases in each of the items. In general, there were two preferred modes of intervention. The first was to fix a ceiling retail price for a certain item, after due analysis of its market, including discussions with market players. Then, if necessary, producers and suppliers of the item would be provided with a subsidy to cover part of their costs. The second mode was to ease or eliminate supply bottlenecks by *inter alia* taking action against illegal hoarders and facilitating larger imports of the item in short supply.

This strategy was aimed at maintaining stable prices for essential items and relatedly to benefit the poor and Malaysian consumers, in general.

### **Strategy 8: 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. Implicit in that was the concern for the poor and the lower income group to have a bigger disposable income. Implicit, too, was the concern for a reduced income inequality between this group and higher income groups, in terms of disposable or post-tax income.

In conclusion, it is to be noted that apart from the above-mentioned strategies, Malaysia also took concrete steps to ensure that the economy expanded continuously at a rapid rate and in the process, restructure its leading sectors to make the economy more competitive and resilient. As pointed out earlier, this was a requirement of the NEP and NDP. Such a growth was an imperative for successful poverty reduction efforts because it would generate higher-paid employment and more profitable businesses, including micro and small-scale ones, in greater numbers. This would benefit the poor, amongst others, and thereby help to reduce poverty.

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<sup>60</sup> The legal basis for the strategy was the Supply Control Act, 1961 and the items were designated as “scheduled control items”. The food items were sugar, wheat flour, cooking oil, and bread while the non-food items were chemical fertilizer, kerosene, petroleum, liquefied natural gas, diesel fuel, rounded steel bars and cement. In addition, there were general control items (numbering 22, including 10 of the scheduled control items). Lastly, there were 25 food items which were controlled during festive periods viz., Aidilfitri, Chinese New Year, Deepavali, Christmas, etc.

### **Federal government development expenditure for poverty reduction<sup>61</sup>**

The federal government spent a total of RM32.9 billion or 19.1 percent of total development expenditure (RM172.1 billion) for programs specifically targeted at the poor and generally at the rural population, in 1971-1990. Then, in 1991-2000, the expenditure rose to RM34.6 billion or 22.5 percent of total expenditure (RM153.7 billion)<sup>62</sup>.

The available disaggregated data on poverty reduction expenditure indicate that the biggest item of public reduction expenditure was agriculture development. For example in 1986-1990 (5<sup>th</sup> MP), 55 percent of the expenditure for poverty reduction of almost RM13.0 billion was for agriculture, followed by 26.5 percent for infrastructure development and 18.0 percent for expansion of social services and amenities. The expenditure in 1991-1995 also showed a similar emphasis being given to agriculture with 58 percent of RM13.9 billion spent on it. However, the expenditure on infrastructure went down to about 12.9 percent while that for social services and amenities went up considerably to 28.3 percent<sup>63</sup>.

### **Effects of poverty reduction program: Selected indicators**

The poverty reduction program has been identified to have increased productivity of the poor, raised their income, pushed a large number of them out of poverty and improved their quality of life. Those who benefited were from both the rural and urban areas.

The available data<sup>64</sup> indicate that the productivity of sub-groups of the poor who were the targets of poverty reduction programs increased to varying degrees. For example, padi smallholders<sup>65</sup> increased their main season average yield per hectare from 1,055 *gantang*<sup>66</sup> to 1,260 *gantang* during 1971-1980 and in the off-season from 1,249 *gantang* to 1,350 *gantang*<sup>67</sup> (Peninsular Malaysia only). Similarly, the average yield per hectare of rubber smallholders increased from about 730 kilogram (kg) in the early 1970s to about 1,105 kg in 1980<sup>68</sup>.

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<sup>61</sup> Federal government development expenditure for poverty reduction was part of bigger development expenditure for all programs. A significant portion (26 percent) of this expenditure was for social development including health and education. Please see the details in Appendix 10. See also page 41 and Appendix 14.

<sup>62</sup> Please refer to Appendix 11 for details.

<sup>63</sup> Please refer to Appendix 12 for details.

<sup>64</sup> There are limited inter-temporal published data on productivity in the Plans. The more detailed data are found in the 4<sup>th</sup> MP and 5<sup>th</sup> MP but each Plan differed in the indicators that they used, making analysis difficult.

<sup>65</sup> Planters of padi (at times spelled 'paddy') on small plots of land (smallholdings).

<sup>66</sup> One *gantang* = 5.60 lbs = 2.54 kg.

<sup>67</sup> Government of Malaysia, Fourth Malaysia Plan, *op. cit.*, pp.38-39.

<sup>68</sup> *Ibid.*, p.37.

The productivity increases were accompanied by better prices for padi, rubber and other products of the poverty group. Taking padi *as* an example again, the Guaranteed Minimum Price (GMP) was raised from RM 16 per *pikul*<sup>69</sup> in 1970 to RM28-32 (depending on the grade of padi) per *pikul* in 1979 and then to RM36-40 in 1980<sup>70</sup>. With regard to rubber, the average farm-gate price rose from 77 cents per kg in 1970 to 183 cents per kilo in 1980<sup>71</sup>. These price increases took place whilst the farmers and growers continued to receive government subsidies for production inputs, free technical advice and irrigation facilities. In effect their production costs were minimized and their net incomes from price increases were higher.

In association with increases in productivity and prices of agricultural products as well as the expansion of the economy, the income of households of the poor and lower income group also increased. In particular, the mean monthly household income of the lowest 40 percent income group (in which the poor were included) increased from RM76 in 1970 (Peninsular Malaysia only)<sup>72</sup> to RM424 in 1990 and RM864 in 1999<sup>73</sup>. More specifically, the available data show that between 1990 and 1999 the mean monthly urban household income of the bottom 40 percent of income groups, doubled from RM558 to RM1155 while that of rural households increased at a lesser rate from RM369 to RM670<sup>74</sup>.

Accruing from the positive developments mentioned above, the incidence of poverty in urban households decreased from 21.3 percent in 1970<sup>75</sup> (Peninsular Malaysia) to 7.1 percent in 1990 and then to 3.4 percent in 1999<sup>76</sup>. In comparison, the incidence for rural households was 58.7<sup>77</sup>, 21.1 and 12.4 percent<sup>78</sup> respectively, for the same three years. Further, the incidence of hardcore poverty in urban areas dropped from 1.3 percent in 1990 to 0.5 percent in 1999 whilst that in rural areas decreased from 5.2 percent to 2.4 percent<sup>79</sup>.

With regard to income inequality, the available data show that the bottom 40 percent income group's share of mean monthly gross household income of all groups was about 12 percent, in 1970, compared with about 40 percent by the top 10 percent income group<sup>80</sup>(Peninsular Malaysia only). By 1990, the share of the bottom 40 percent income group

<sup>69</sup> One *pikul* = 133.33 lbs = 60.48 kg.

<sup>70</sup> The GMP was then gradually withdrawn and by 2000, the price of padi was largely determined by market forces. (To confirm)

<sup>71</sup> *Ibid.*, p.38.

<sup>72</sup> Government of Malaysia, The Second Outline Perspective Plan, *op. cit.*, p.9.

<sup>73</sup> Government of Malaysia, The Third Outline Perspective Plan, *op. cit.*, p.89.

<sup>74</sup> *Ibid.*

<sup>75</sup> Government of Malaysia, The Second Outline Perspective Plan, *op. cit.*

<sup>76</sup> Government of Malaysia, The Third Outline Perspective Plan, *op. cit.*

<sup>77</sup> Government of Malaysia, The Second Outline Perspective Plan, *op. cit.*

<sup>78</sup> Government of Malaysia, The Third Outline Perspective Plan, *op. cit.*

<sup>79</sup> *Ibid.*

<sup>80</sup> Government of Malaysia, Mid-Term Review of the Second Malaysia Plan, *op. cit.*, p.2.

was about 14.5 percent whilst that of the top 20 percent group was an estimated 50 percent<sup>81</sup>. This distribution remained essentially the same in 1999 with the shares being 14.0 percent and 50.5 percent, respectively<sup>82</sup>.

The productivity and income increases were also accompanied by improvements to the quality of life of all Malaysians. The life expectancy (male and female), birth rate, infant mortality rate, death rate, primary school enrolment, teacher-pupil ratio, doctor-population ratio, ownership of television sets, cars and telephones, and total length of roads, all increased or improved during 1970-1990<sup>83</sup>. The increment or improvements were continued in the NDP period so that the Malaysian Quality of Life Index 2000 (1990=100) reached 112.03<sup>84</sup>.

In summary, there are indications that the poverty program and the rapid economic growth achieved by Malaysia have brought about a reduction in the incidences of poverty and hardcore poverty as well as improvements to the quality of life of all Malaysians. The data, however, does not point to relative contributions of the programmes and economic growth. Nevertheless, there is reason to believe that a major portion of the increase in the household income of the poor accrued from non-agricultural economic activities of poor households. According to The Second Outline Perspective Plan,

Part of the gains in rural incomes came from productivity increases brought about by modernization, commercialization and technological improvement of smallholder agriculture and from more intensive farming. More significant gains, however, came from the structural changes in rural employment resulting in the diversification of the sources of rural income with non-agricultural activities accounting for more than half of the income of rural households. In addition, the growth in the demand for non-agricultural labour encouraged large numbers of self-employed and unpaid family workers to enter the wage-labour market, making wage income a more important determinant of rural household income. The public sector programmes for rural development such as education, rural roads and communications also contributed to higher participation rates especially among female labour, thus contributing to higher earning capacity among them...<sup>85</sup>

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<sup>81</sup> Government of Malaysia, The Third Outline Perspective Plan, *op. cit.*, p.89.

<sup>82</sup> *Ibid.*

<sup>83</sup> Government of Malaysia, The Second Outline Perspective Plan, *op. cit.*, p.44. Please see Appendix 13 for details.

<sup>84</sup> Government of Malaysia, The Third Outline Perspective Plan, *op. cit.*, p.52. Please see Appendix 14 for details.

<sup>85</sup> Government of Malaysia, The Second Outline Perspective Plan, *op. cit.*, p.43.

## **Equitable Growth and Economic Development**

In Malaysia's case, the issue of whether the policy of equitable growth would affect economic development or growth negatively was not really the paramount issue. As explained earlier, the goal of the NEP and NDP was not maximum economic growth but national unity. Growth was more of a prerequisite for poverty reduction, restructuring of society and national unity.

Nevertheless, it is possible to argue, on theoretical grounds, that the emphasis on equitable growth probably had negative effects on the rate of growth. This refers particularly to the requirement that new manufacturing companies with a paid-up capital of RM2.5 million and more or existing manufacturing firms with a paid-up capital of RM2.5 million planning to increase the size of that capital, had to offer at least 30 percent of the new additional equity to Bumiputera investors. This requirement could have deterred certain investors from setting-up or expanding their business in Malaysia. If the amount involved had been substantial, then the effect would have been to reduce private investment and economic growth. There are no hard statistics available to verify this. However, there is clear evidence that mean annual private investment, including foreign direct investment (FDI), had remained consistently high throughout the 1970-2000 period.

It can be further argued that the policy of equitable growth had led to the diversion of scarce resources from activities that would have generated more rapid economic growth. The opportunity cost that had to be borne by the economy because of this was too great, it could be contended. However, again, there are no empirical data to support this contention. There are, however, data which showed that despite resources being expended on poverty reduction and restructuring of society, the economy had achieved rapid real mean annual growth for more than 30 years.

Furthermore, it can also be argued that the direct participation of the government, through government-owned companies, in business activities as part of the restructuring of society strategy, had crowded out privately owned firms. This could have actually happened although hard data on it are still to be presented. However, it has to be admitted that there had to be other reasons for such business closures, including poor management. In this regard, it is to be noted that almost all the government-owned companies were staffed by Bumiputera personnel who were less experienced in business and, therefore, less capable of competing with non-Bumiputera-owned firms. Also to be noted is the fact that the non-Bumiputera had continued to be more dominant in the corporate sector throughout the NEP and NDP periods.

To conclude, the policy of equitable growth pursued by Malaysia probably had some negative effects on the growth rate, opportunity costs and participation of non-Bumiputera in business. However, the record shows that these effects were negligible and more than compensated by the achievements of the poverty reduction and restructuring programs and more importantly the virtual absence of racial strife in Malaysia since 1969.

## Factors Associated with Economic Growth

Malaysia's economic growth during the NEP and NDP periods was associated with many factors. In general, by factors of production, labor contributed 36.1 percent, capital 50.9 percent and total factor productivity (TFP)<sup>86</sup> 13 percent to the average annual real GDP growth of 6.7 percent of 1971-1990.<sup>87</sup> Following that, in 1991-2000, when the average annual real GDP growth was 7.0 percent, the contribution of labor dropped to 24.3 percent, capital dropped as well to 50.2 percent while TFP almost doubled to 25.5 percent.<sup>88</sup> The reduced contribution of capital is substantiated by the increase in the Incremental Capital Output Ratio (ICOR)<sup>89</sup>. The ICOR averaged 6.1 per year in 1991-2000<sup>90</sup> compared to an average of 3.4 in the first decade of the NEP and 4.9 in the second.<sup>91</sup> More specifically, economic growth was propelled and sustained by demand, supply and non-economic factors.

### Demand Aggregates

Among the demand aggregates, *private consumptions* grew at an average annual rate of 6.3 percent whilst *public consumption* increased at a faster rate of 7.1 percent, in 1971-1990.<sup>92</sup> The respective rates in 1991-2000 were the same for both, i.e., 5.5 percent.<sup>93</sup> The increase in private consumption was accompanied by an inflation rate (as measured by the private consumption deflator) that averaged 4.6 percent per annum in 1971-1990<sup>94</sup> and 3.4 percent in 1991-2000.<sup>95</sup>

*Private investment* grew at an average annual rate of 9.4 percent in 1971-1990,<sup>96</sup> despite lower rates of investment in the mid-1980s arising out of the collapse of world prices for Malaysia's export commodities and consequently, domestic demand.<sup>97</sup> The rate for 1991-2000 was drastically lower at an average 2.9 percent per annum. This was one of the negative impacts of the recession in 1998 in the wake of the financial and economic crisis of 1997. The average

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<sup>86</sup> TFP refer to the additional output that is gained from improvements to production methods, with labor and capital inputs unchanged.

<sup>87</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, p.36

<sup>88</sup> *Ibid.*

<sup>89</sup> The ICOR is an indicator of capital efficiency. The smaller the ICOR the greater the efficiency of capital.

<sup>90</sup> *Ibid.*, p.38

<sup>91</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.*, p.38

<sup>92</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.*, p.39

<sup>93</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, pp.38, 40

<sup>94</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.*, p.37

<sup>95</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, pp.45

<sup>96</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.*, p.p.38-39

<sup>97</sup> *Ibid.*, p.38

annual rate in 1991-1997 had been a rapid 17.0 percent.<sup>98</sup> *Public investment*, in comparison, maintained a consistently high average annual growth rate of 10.0 percent in 1971-1990<sup>99</sup> and 10.5 percent in 1991-2000. Part of the reason for this was public investment was the instrument for stimulating growth during the economic slowdown in the first half of 1980s and the recession of 1985<sup>100</sup> and 1998.<sup>101</sup>

The export of goods and non-factor services increased at an average annual rate of 9.2 percent, lower than the rate of 10.0 percent of imports, in 1971-1990.<sup>102</sup> The respective growth rates for 1991-2000 were 12.4 percent and 11.4 percent.<sup>103</sup> Apart from the growth rates, noteworthy was the change in the composition of merchandise exports. In 1970, rubber (latex and sheets) contributed 33.4 percent of the value of total exports while manufactured products contributed 12 percent. By 1990 the share of rubber had shrunk to 3.8 percent of exports (RM 76.6 billion) whilst that of manufactured goods grew to 58.8 percent<sup>104</sup>. Then by 2000, the share of rubber shrank further to less than one percent compared with that of manufactured goods that had a share of 85.2 percent.<sup>105</sup>

The growth in *employment* was an average of 3.4 percent per annum in 1971-1990, slightly faster than the increase in the size of the labor force of 3.3 percent.<sup>106</sup> The rates for 1991-2000 were 3.3 percent and 3.1 percent respectively.<sup>107</sup> The short supply in the labor force, which would have affected output, was overcome by importing labor from Indonesia, Bangladesh, Philippines, etc. By 2000, the number of legal foreign workers in the agriculture, construction and manufacturing sectors was about 950,000 out of a labor force of 9.6 million.<sup>108</sup>

Gross domestic saving, as a percentage of GNP, grew in the NEP period to reach a high of 30.3 percent in 1990,<sup>109</sup> up from 18.6 percent in 1970,<sup>110</sup> whilst the gross investment rate was 18.4 percent of GNP on 1970<sup>111</sup> and 31.6 percent in 1990.<sup>112</sup> The respective figures in 2000 were

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<sup>98</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, pp.38-39

<sup>99</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.*

<sup>100</sup> *Ibid.*

<sup>101</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, pp.40.

<sup>102</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.* pp 37, 39.

<sup>103</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, pp.38,40.

<sup>104</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.* pp 37.

<sup>105</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, pp.40-41.

<sup>106</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.* pp 39-40.

<sup>107</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, pp.38 and 46.

<sup>108</sup> *Ibid.*, p. 153.

<sup>109</sup> *Ibid.*, p. 36 and 45.

<sup>110</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.*, p.89.

<sup>111</sup> *Ibid.*

<sup>112</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, pp.38 and 45.



38.0 percent and 29.0 percent<sup>113</sup>, with the lower rate in the latter being the effects of the economic slowdown and recession following the 1997 crisis.

In sum, the pattern of growth of demand aggregates in 1971-2000 demonstrated two significant features of Malaysian economic growth. Firstly, it was driven in most years by private expenditure but in years of slow growth and recession, the economic expansion was propelled and sustained by more rapid rates of public expenditure to finance counter-cyclical strategies. Secondly, the economy was driven by international trade with both exports and imports playing their respective roles in the growth of the economy.

### **Supply side**

On the supply side, economic growth in Malaysia, was associated with a structural transformation of the economy which saw it change from a raw material-producing economy to a manufacturing-based one, in both cases geared to export markets. In 1970, the share of the agriculture sector of GDP was 29.0 percent making it the next biggest sector after the broad-ranging services sector (36.2 percent). The share of the manufacturing sector was then 13.9 percent.<sup>114</sup> By 1990, the respective shares of the three sectors had been transformed to 18.7 percent, 42.3 percent and 27.0 percent.<sup>115</sup> In effect, the manufacturing sector had grown to be bigger than the agriculture sector. The transformation was further strengthened during the NAP period and by 2000, agriculture's share had shrunk to 8.7 percent while services expanded to 52.4 percent and manufacturing reaffirmed its position with a bigger share, 33.4 percent.<sup>116</sup>

Strengthening the intersectoral transformation were changes in the contribution to output within sectors. In the agriculture sector, rubber declined in importance while palm oil, forestry products and cocoa gained importance in the NEP period. Palm oil and forestry products continued to be the priority sub-sector in the NDP period but increasingly food products gained importance as a strategy of limiting Malaysia's huge food import bill. Similarly, in the mining sector there was a shift from tin, bauxite and iron, etc, to petroleum and gas beginning in the NEP years. The manufacturing sector shifted from import substitution industries to a mix of export-oriented and import substitution industries. There was also a gradual but noticeable change from labor-intensive to capital-intensive production methods, particularly in the electrical and electronics sub-sector. Another shift began in the 1980s with the introduction of heavy industries, including the production of the national car, methanol, sponge iron and pulp and paper.<sup>117</sup>

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<sup>113</sup> *Ibid.*

<sup>114</sup> Government of Malaysia, The Second Outline Perspective Plan, *op.cit.* p. 41.

<sup>115</sup> Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, p. 49.

<sup>116</sup> *Ibid.*

<sup>117</sup> Details on this are found in Government of Malaysia, The Second Outline Perspective Plan, *op.cit.* p. 40-42 and Government of Malaysia, The Third Outline Perspective Plan, *op.cit.*, p. 47-49.

In sum, the most critical feature on the supply side of Malaysian economic growth was the transformation of the structure of the economy, among and within sectors. This diversified, modernized and strengthened the economy.

### **Non-economic factors**

In addition to demand and supply-side factors, the economic growth of Malaysia was also associated with a number of non-economic factors. Primary among them, was the peace and security enjoyed by the country. There were no debilitating social or political conflicts to divert resources away from development. Of equal importance was the fact that there was political stability. The same coalition of parties ruled the country during the period thereby lessening the uncertainties normally associated with frequent shifts in governments propagating different ideologies. Another non-economic factor was the quality and capability of the afore-mentioned institutional framework not only to manage the Malaysia economy in normal times but also in times of crises, such as the downturn in 1997-1998. An important aspect of the capability was Malaysia's willingness to rely on its own expertise and analysis to face crises and challenges in pragmatic and relevant ways.

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

The Malaysian development challenges, policy responses and achievements were in many ways unique. As such, attempts to replicate the model fully in every other developing country may not produce the same results. Nevertheless, there are generic or broad lessons that can possibly be adopted or adapted from the Malaysian experience.

The first and perhaps most important lesson is that, because no two countries are really alike in all respects, each country will have to formulate its own core development philosophy, policies and plans. They must be based on a full understanding of the challenges facing the country and then address them in a relevant, pragmatic and politically acceptable manner. Since the philosophy, policies and plans need to be realized, the country will have to, as a matter of priority, reorganize and reform the governmental and public service institutional framework and work procedures to make them really capable of concretizing the development philosophy and implementing, monitoring and evaluating the policies and plans. The country will have to persevere with the chosen philosophy, policies and plans but be pragmatic and flexible enough as to modify them so that they remain relevant and suitable to changing circumstances. In all these, the country must have the wisdom and willingness to act independently and in its own interest.

The second lesson is that in a multi-racial or non-homogenous country, there is a real need for peaceful co-existence among racial or other groups and close cooperation among ethnic-based political parties if there is to be political stability and for socio-economic development to proceed, unhindered by strife among them. Relatedly, there is a need to counter and contain,

through a multiple-pronged coordinated and persistent attack, the inherent tendency of a plural society to disintegrate or at least compartmentalize itself into competing and hostile groups.

The third lesson to be learned is that a country cannot accept racial or any inter-group strife and violence, especially on a prolonged basis, if it is to achieve sustained and rapid economic development. The containment or resolution of the conflict would divert scarce national resources away from economic and social projects. At the same time, the inflows of international funds would also be reduced or even stopped. A related lesson to be learnt here is that the political solution to inter-group conflicts, i.e., through some formula of power-sharing, has to be made more viable and enduring, with an accompanying economic solution, that is, the sharing of economic power and wealth, if there is to be success. The tenets of the NEP and NDP constitute one possible formula.

The fourth lesson is that there has to be sustained and rapid economic growth to create new jobs, business opportunities, higher incomes and increased wealth. For this purpose, there has to be capable and effective management of the macro-economy by the public sector and of industries by the private sectors as well as close rapport between the two sectors. In addition, continuous growth will require that the economy has to be, at least, export-oriented and resilient. The export-orientation is particularly necessary in a country with a limited domestic market. Its size would be incapable of helping to drive the economy forward rapidly. Hence, the critical need to enlarge the size of its market abroad. The resilience is necessary, especially for an export-driven economy, since world prices can drop and thereby cause national growth to decelerate and even go into reverse. The primary key to resilience is a well-diversified economy, across economic sectors, goods and services, such that it can withstand a drop in demand for one or even two of its exports without being dragged into prolonged recession. Another key to resilience is competitiveness based on lower costs of production and higher quality of products and services at lower prices than those of competitors.

The fifth lesson is that in a multi-racial or non-homogenous nation with wide and entrenched disparities of economic opportunities and incomes, the government has or may have to intervene in the market place and maintain affirmative-action-type programs to ensure a fairer distribution of opportunities and incomes among all racial and social groups. The avoidance or reluctance to undertake such initiatives and to succeed in achieving them, may lead to social unrest and violence.

The sixth lesson is that for economic growth to be sustained, there has to be strong and clean governments in power on a sustained basis. To be strong, it must be composed of representatives of all major groups (racial or ethnic, tribal, religion, gender, etc) and have the support and trust of the majority of the electorate. To be clean, political leaders in power and politicians in general, must be genuinely committed to and capable of leading the nation to achieve national goals and protect national interests rather than to serve their own personal interests.

The seventh lesson to be learned is that the eradication of poverty will require two broad types of strategies, viz., expansion of the economy to provide jobs and opportunities, including to

the poor and government affirmative action programs to assist the poor directly. The latter alone will be insufficient and difficult to sustain.

## **Conclusion**

This case study has highlighted the main features of the Malaysian development experience during the 1970-2000 period. In reality, what transpired in Malaysia was more complex and challenging. They required the masterful management by the government of a myriad of balancing acts to meet the varied demands of a heterogeneous population each seeking to maximize its share of the nation's governance and growing wealth.

## Appendix 1

### MALAYSIA: Brief facts



Country name: *Conventional short form:* Malaysia, *full name:* Federation of Malaysia.

Capital: Kuala Lumpur.

Location: Southeastern Asia, peninsula and northern one-third of the island of Borneo, bordering Indonesia and the South China Sea, south of Vietnam.(see map)

Area: *Total:* 329,750 sq km, *water:* 1,200 sq km, *land:* 328,550 sq km.

Ethnic groups: Malay and other indigenous (*Bumiputera*) 66.1%, Chinese 25.3%, Indian 7.4%, others 1.2% (2000).

Religions: Islam, Buddhism, Taoism, Hinduism, Christianity, Sikhism.

Languages: Bahasa Melayu (official), English, Chinese dialects (Cantonese, Mandarin, Hokkien, Hakka, Hainan, Foochow), Tamil, Telugu, Malayalam, Panjabi, Thai; note - in addition, in East Malaysia several indigenous languages are spoken, the largest are Iban and Kadazan.

Independence of Malaysia: 31 August 1957 (from UK).

Formation of Malaysia: 16 September 1963 (British Colonies Sabah, Sarawak and Singapore joined Malaya).

Government type:Parliamentary democracy with constitutional monarchy.

Administrative divisions: *13 states;* Johor, Kedah, Kelantan, Melaka, Negeri Sembilan, Pahang, Perak, Perlis, Pulau Pinang, Sabah, Sarawak, Selangor, Terengganu and *three federal territories;* Kuala Lumpur, Labuan,Putrajaya.

Legal system: Based on English common law: Elements of Syariah Law.

Executive branch: *Head of state:* Paramount Ruler. *Head of government:* Prime Minister. *Cabinet:* Appointed by the Prime Minister from among the members of Parliament with consent of the Paramount Ruler.

**Legislative branch:** Bicameral Parliament consists of the Senate or *Dewan Negara* (69 seats; 43 appointed by the Paramount Ruler, 26 appointed by the state legislatures) and the House of Representatives or *Dewan Rakyat* (193 seats; members elected by popular vote to serve five-year terms).

**Judicial branch:** Judges appointed by the Paramount Ruler on the advice of the Prime Minister from among qualified members of the Judicial and Legal service or practicing barristers with approval of the Judicial and Legal Service Commission.

### **Economy**

**GDP:** Purchasing power parity – RM 209,365 million (2000).

**GDP - real growth rate:** 8.3% (2000).

**GNP - per capita:** Purchasing power parity – RM 13,412 (2000).

**GDP - composition by sector:** *Agriculture:* 8.7%; *mining:* 6.6%; *manufacturing:* 33.4%; *construction:* 3.3%; *services:* 52.4% (2000).

**Distribution of household income - Gini index:** 0.4432 (1999).

**Inflation rate (consumer prices):** 1.6% (2000).

**Labor force:** 9.6 million (2000).

**Unemployment rate:** 3.1% (2000).

**Industries:** Peninsular Malaysia - rubber and oil palm processing and manufacturing, light manufacturing industry, electronics, tin mining and smelting, logging and processing timber; Sabah - logging, petroleum production; Sarawak - agriculture processing, petroleum production and refining, logging.

**Agriculture - products:** Peninsular Malaysia - rubber, palm oil, cocoa, rice; Sabah - subsistence crops, rubber, timber, coconuts, rice; Sarawak - rubber, pepper; timber.

**Exports:** RM 246,773 million (2000).

**Exports - commodities:** Electronic equipment, petroleum and liquefied natural gas, wood and wood products, palm oil, rubber, textiles, chemicals (2000).

**Imports:** RM 223,294 million (2000).

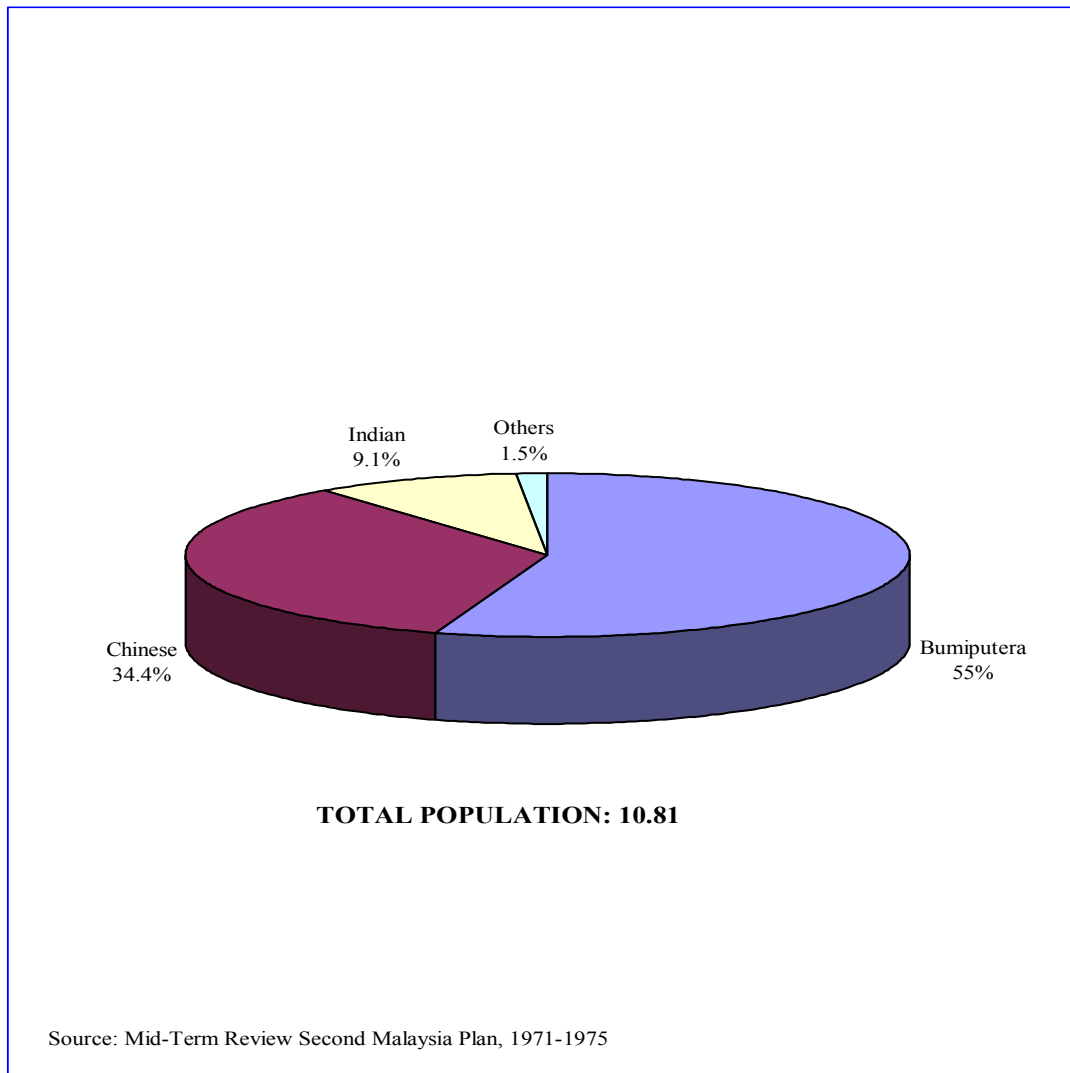
**Imports - commodities:** Electronics, machinery, petroleum products, plastics, vehicles, iron and steel products, chemicals (2000).

**Currency:** Ringgit Malaysia.

**Exchange rates:** Ringgit per US dollar - 3.8 (2002), 3.8 (2001), 3.8 (2000), 3.8 (1999), 3.9 (1998).

## Appendix 2

### Malaysia: Population by Racial Groups, 1970



## Appendix 3

### Malaysia as a Fully Developed Country—One Definition<sup>118</sup>

By the year 2020, Malaysia can be a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically- just and equitable, progressive and prosperous, and in full possession of an economy that is competitive, dynamic, robust and resilient.

There can be no fully developed Malaysia until we have finally overcome the *nine central strategic challenges* that have confronted us from the moment of our birth as an independent nation.

The *first* of these is the challenge of establishing a united Malaysian nation which a sense of common and shared destiny. This must be a nation at peace with itself, territorially and ethnically integrated, living in harmony and full and fair partnership, made up of one ‘Bangsa Malaysia’ with political loyalty and dedication to the nation.

The *second* is the challenge of creating a psychologically liberated, secure, and developed Malaysian Society with faith and confidence in itself, justifiably proud of what it is, of what it has accomplished, robust enough to face all manner of adversity. This Malaysian Society must be distinguished by the pursuit of excellence, fully aware of all its potentials, psychologically subservient to none, and respected by the peoples of other nations.

The *third* challenge we have always faced is that of fostering and developing a mature democratic society, practicing a form of mature consensual, community-oriented Malaysian democracy that can be a model for many developing countries.

The *fourth* is the challenge of establishing a fully moral and ethical society, whose citizens are strong in religious and spiritual values and imbued with the highest of ethical standards.

The *fifth* challenge that we have always faced is the challenge of establishing a mature, liberal and tolerant society in which Malaysians of all colours and creeds are free to practice and process their customs, cultures and religious beliefs and yet feeling that they belong to one nation.

The *sixth* is the challenge of establishing a scientific and progressive society, a society that is innovative and forward-looking, one that is not only a consumer of technology but also a contributor to the scientific and technological civilization of the future.

The *seventh* challenge is the challenge of establishing a fully caring society and a caring culture, a social system in which society will come before self, in which the welfare of the people will revolve not around the state or the individual but around a strong and resilient family system.

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<sup>118</sup> Government of Malaysia, Malaysia: The Way Forward, (Kuala Lumpur: National Printing Department, 1991) pp. 5-7.



The *eighth* is the challenge of ensuring an economically-just society. This is a society in which there is a fair and equitable distribution of the wealth of the nation, in which there is full partnership in economic progress. Such a society cannot be in place so long as there is the identification of race with economic function, and the identification of economic backwardness with race.

The *ninth* challenge is the challenge of establishing a prosperous society, with an economy that is fully competitive, dynamic, robust and resilient.

## Appendix 4

### Plan for Action

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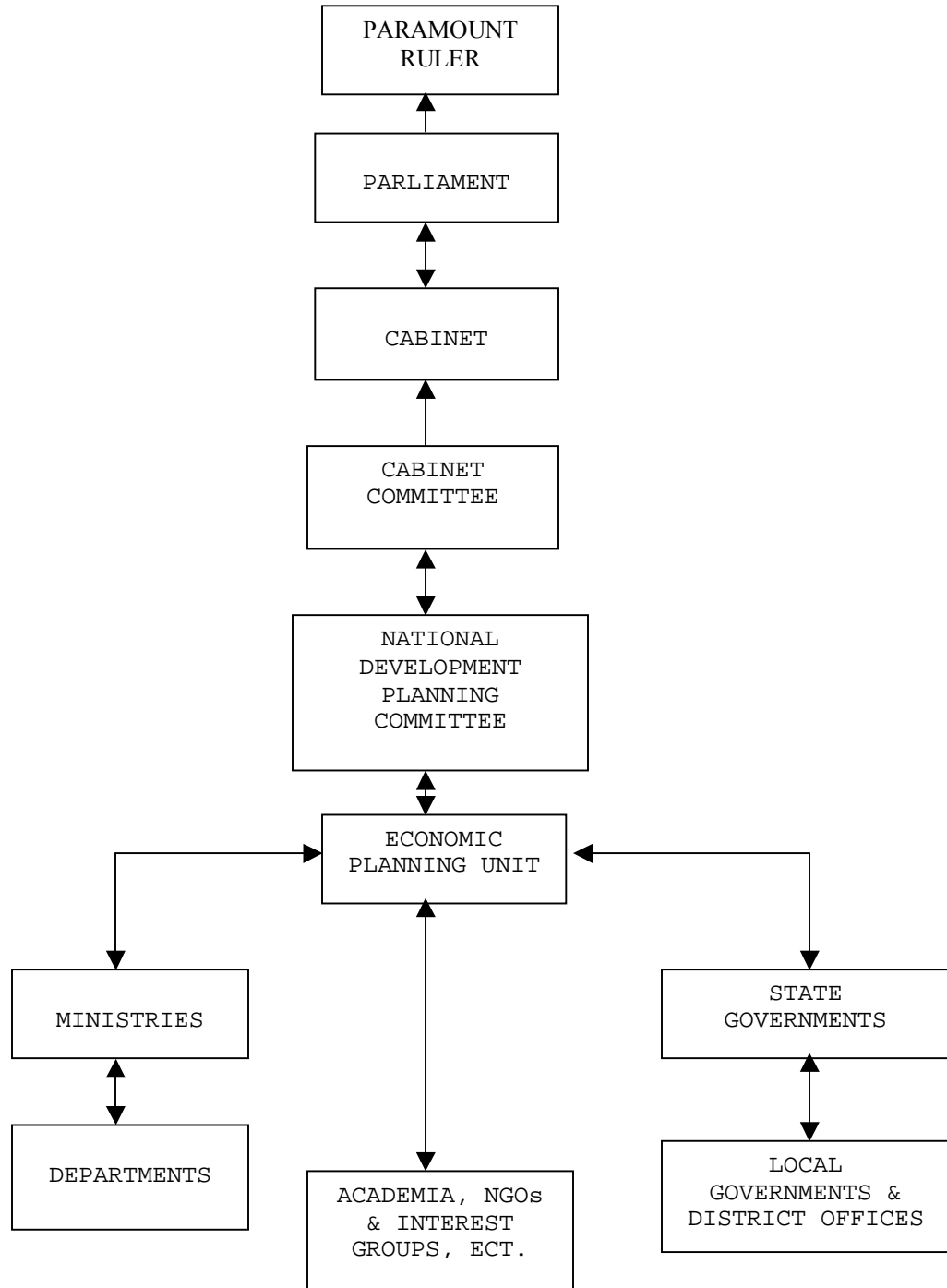
<p>Objective 1: Stabilising the ringgit                      Appropriate choice of exchange rate regime                      Reduce over-dependence on the US dollar                      Increase external reserves                      Adopt a balanced interest rate policy</p> <p>Objective 2: Restoring market confidence                      Improve transparency and regulatory environment                      Establish rules for assisting industries and companies in trouble                      Increase consistency of policies                      Adopt liberal and market-based policies                      Improve public relations                      Improve the dissemination of economic information</p> <p>Objective 3: Maintaining financial market stability                      Preserve the integrity of the banking system                      Establish agencies along the lines of FDIC/RTC                      Recapitalize banking sector                      Monitor closely overall credit expansion                      Improve the capital market                      Develop the PDS market</p> <p>Objective 4: Strengthening economic fundamentals                      Increase quality of investments                      Improve balance of payments                      Maintain balanced public sector financial position                      Maintain appropriate monetary policy                      Maintain price stability                      Increase labor competitiveness</p>	<p>Objective 5: Continuing the equity and socio-economic agenda                      Ameliorate the hardship from poverty                      Address the issues on bumiputera equity ownership                      Expand employment opportunities                      Meet the challenge of expanding tertiary education                      Address the problem of graduate unemployment                      Control the influx of foreign workers                      Gear up state corporation to face the crisis                      Revamp cooperatives and cooperative banks                      Protect environment for sustainable development</p> <p>Objective 6: Revitalising affected sectors                      Primary commodities and resource-based industries                      Mining and petroleum                      Manufacturing                      Information technology and the multimedia super corridor                      Motor industry                      Construction                      Property                      Infrastructure                      Transportation                      Freight forwarding                      Tourism                      Industrial development finance institutions                      Insurance and reinsurance</p>
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Source: Government of Malaysia, National Economic Recovery Plan

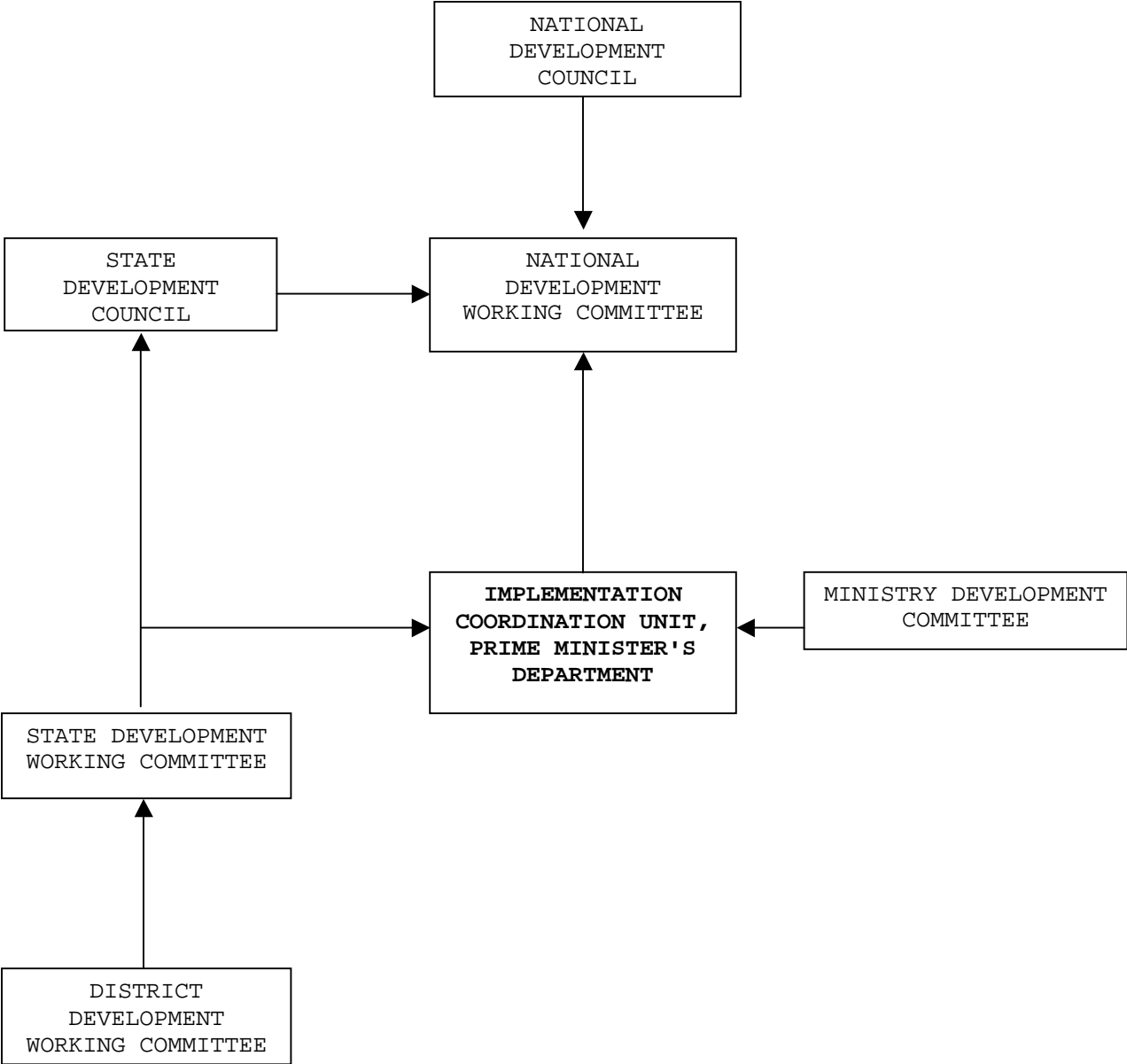
## Appendix 5

### Malaysia: Institutional Framework for National Development Planning 1970-2000



# Appendix 6

## Implementation Coordination Mechanism



## Appendix 7

### Malaysia: Poverty Line Income for Peninsular Malaysia, Sabah and Sarawak, 1990, 1999 (Rm per month per household)

Region of Malaysia	1970	1990	1999
Peninsular Malaysia	n.a.	425	510
Sabah	n.a.	601	685
Sarawak	n.a.	516	584

*Source:* Government of Malaysia, Seventh Malaysia Plan, 1996-2000 (Kuala Lumpur: Percetakan Nasional Malaysia Berhad, 1996), p. and Government of Malaysia, Eighth Malaysia Plan, 2001-2005 (Kuala Lumpur: Percetakan Nasional Malaysia Berhad, 2001) p.58.

*Note :* RM = Ringgit Malaysia

n.a.= not available

## Appendix 8

### Malaysia: Projects under the Development Programme for the Hardcore Poor, 1970 – 2000

Objective	Project	Department/ Agency
Increase the quality of life	Construction of houses, renovation of existing houses, flush toilets, electricity and water supply, community halls, roads, drainage, mosques.	District Office, Department of Public Health, Department of Water Supply, National Energy Corporation, Local Government.
Increase income	Village industries, cash crops, rearing of poultry, cattle, sheep, goats and ducks, aquaculture, low interest or interest-free credit, marketing facilities, land development, fishing equipment.	District Office, Veterinary Department, Department of Agriculture, Department of Fisheries, Malaysian Fishery Development Authority, Rubber Industry Smallholders Development Authority, Agriculture Bank, Federal Agricultural Marketing Authority, Amanah Ikhtiar Malaysia (NGO).  Department of Agriculture, Veterinary Department, Department of Youth and Sports, Community Development Division of the Ministry of Rural Development, Department of Fisheries, Federal Agricultural Marketing Authority, District Office, Yayasan Basmi Kemiskinan (NGO).
Develop human resource	Study tours, special training for farm families, skill training, rural technology workshops, community library, rural hostels, leadership and motivation training, training in marketing.	Department of Public Health, Community Development Division of the Ministry of Rural Development, Ministry of Education.  Social Welfare Department, Department of Youth and Sports, Ministry of Education, National Equity Corporation.
Improve health and nutrition	Food supplement subsidized milk for primary school children, food basket for malnourished pre-schoolers, school health education.	
Provide direct assistance for non-employable	Old Folks' Home (Without Kin), allowance for handicapped workers, financial assistance for	

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the aged, scholarships,  
loan on text books, no  
interest loans to purchase  
shares in a unit trust  
scheme.

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*Source:* Economic Planning Unit, Prime Minister Department, Malaysia.

## Appendix 9

### Malaysia: Involvement of Non-Governmental Organizations (ngos) in Poverty Reduction Programmes, 1970 – 2000

NGO	Activity	Funding Source
Amanah Ikhtiar Malaysia (AIM)	Credit Facility	Private sector contributions and government assistance.
Yayasan Basmi Kemiskinan Selangor (Selangor Poverty Eradication Foudation)	Housing, Education, training, small economic projects.	Private sector contributions and government assistance.
Yayasan Kemiskinan Kelantan (Kelantan Poverty Eradication Foudation)	Education	Government contribution.
Yayasan Pahang (Pahang Foundation)		Self-financing.
Yayasan Terengganu (Terengganu Foundation)	Education	Self-financing.
	Education	

*Source:* Economic Planning Unit, Prime Minister Department, Malaysia.



## Appendix 10

### Malaysia: Federal Government Development Expenditure by Sector, 1971 - 2000 (rm million)

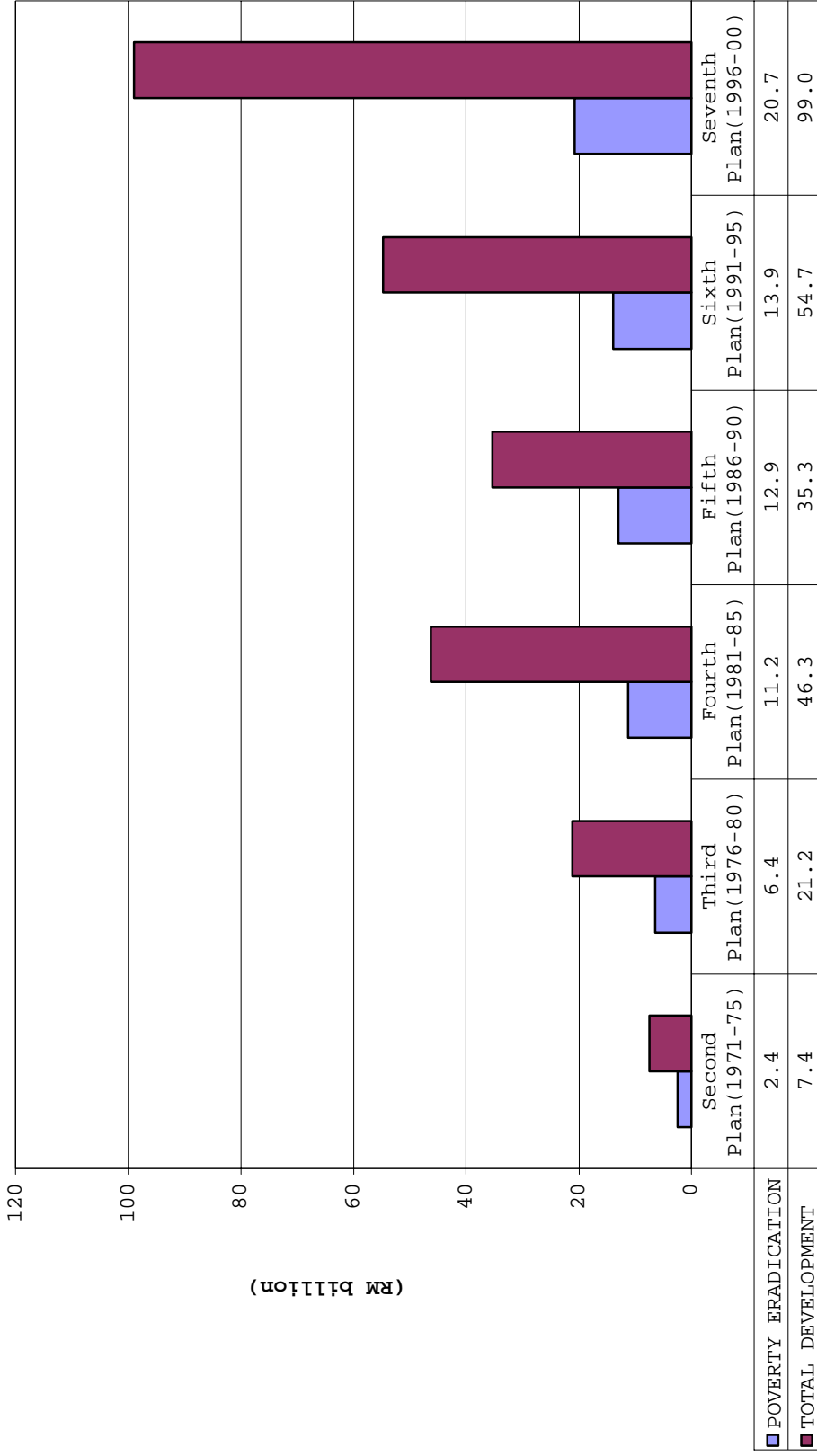
SECTOR	1971-1990		1991-2000		1971-2000	
		%		%		%
Economic	69,455.34	64	78,731.9	50	148,187.24	55
Agricultural Development	21,331.84	20	15,449.3	10	36,781.14	14
Mineral Resources Development	87.05	0	100.8	0	187.85	0
Commerce & Industry	14,969.19	14	16,107.8	10	31,076.99	12
Transport	17,889.36	17	34,496.2	23	52,385.56	19
Communication	4,366.62	4	127.0	0	4,493.62	2
Energy	4,870.17	4	3,423.6	2	8,293.77	3
Water Resources	5,154.99	5	6,979.5	4	12,134.49	5
Feasibility Study	210.39	0	374.9	0	585.29	0
Research & Development	400.8	0	1,672.8	1	2,073.6	1
Social	23,659.42	21	45,464.0	29	69,123.42	26
Education & Training	12,631.69	11	27,484.1	18	40,115.79	14
Health	2,158.16	2	6,245.5	4	8,403.66	3
Housing & Sewerage	6,921.64	6	5,190.8	3	12,112.44	5
Related Services	1,947.93	2	6,543.6	4	8,491.53	3
Security	14,573.36	13	22,054.0	14	36,627.36	14
General Administration	2,548.87	2	11,287.1	7	13,835.97	5
<b>Total</b>	<b>110,236.99</b>	<b>100</b>	<b>157,537.0</b>	<b>100</b>	<b>267,773.99</b>	<b>100</b>

Source: Government of Malaysia, Malaysia: National Report: World Summit for Social Development, Copenhagen, 1995 (*Kuala Lumpur: Percetakan Nasional Sdn.Bhd.*, 1995) p.10 and Government of Malaysia, Eight Malaysia Plan, 2001-2005 (*Kuala Lumpur: Percetakan Nasional Sdn.Bhd.*, 2001) p.164.

# Appendix 11

CHART 2

MALAYSIA: FEDERAL GOVERNMENT DEVELOPMENT EXPENDITURE FOR POVERTY REDUCTION BY PLAN PERIOD, 1971 - 2000



Source: Economic Planning Unit, Prime Minister Department.

## Appendix 12

### Malaysia: Federal Government Development Expenditure for Poverty Reduction, 1986-1990 and 1991-1995 (Rm Million)

Programme	5 <sup>th</sup> MP, 1986-1990	(%)	6 <sup>th</sup> MP, 1991-1995	(%)
Agriculture	7,127.0	54.9	8,058.8	58.0
New land development	2,117.5		1,184.0	
Regional development	657.1		930.5	
Integrated Agricultural Development Project (IADP)	1,021.8		1,351.4	
Drainage and irrigation	200.3		844.6	
Replanting	581.2		935.8	
Rehabilitation	812.7		732.4	
Paddy fertilizer subsidy	396.8		402.0	
Agriculture credit, processing and marketing	586.1		507.0	
Extension and other services	28.9		373.5	
Fisheries	264.4		370.0	
Livestock	130.9		191.4	
Other agricultural programmes	329.3		236.2	
Industry	77.0	0.6	118.9	0.9
Village/ small industry	77.0		118.9	
Infrastructure	3,434.4	26.5	1,793.2	12.9
Rural roads	1,161.4		1,085.0	
Rural electricity	569.6		355.1	
Rural Water supply	1,703.4		353.1	
Social	2,332.3	18.0	3,929.9	28.3
Rural health service	181.0		123.2	
Rural primary and secondary schools	1,621.7		3,094.1	
Community development	32.0		162.0	
Applied food and nutrition programme	10.0		16.2	
Low-cost house	354.0		228.0	
Regrouping of traditional villages	24.0		49.0	
Village rehabilitation programme	51.0		93.0	
Squatters resettlement and control	13.9		15.1	
NADI programme	3.4		3.7	
Welfare	4.0		53.9	
Programme for Orang Asli (Aborigines)	46.3		91.8	
Total	12,970.7	100.0	13,900.8	100.0

Source: Economic Planning Unit, Prime Minister's Department, Malaysia.

## Appendix 13

### Indices Reflecting Quality of Life: 1970 and 1990

	1970	1990 <sup>1</sup>
Life expectancy (year) <sup>2</sup>		
Male	61.6	69.0
Female	65.6	73.5
Birth rate per 1000 population	32.4	27.1
Infant mortality rate per 1000 live births	39.4	13.5
Death rate per 1000 population	6.7	4.7
Primary School enrolment ratio (%)	88.2	98.9
Teacher-pupil ratio (primary and secondary)	28.9	20.9
Doctor/population ratio	1:4,302	1:2,656
Television sets per 1000 population	22	100
Passenger motorcars per 1000 population	26	96
Telephones per 100 population	1.0	9.7
Total road (km)	21,182	39,113

<sup>1</sup> Refers to 1989.(Reference year)

<sup>2</sup> Peninsular Malaysia only

Source : Government of Malaysia, The Second Outline Perspective Plan, 1991-2000,(Kuala Lumpur: National Printing Department, 1991), p.44.

## Appendix 14

### The Malaysia Quality of Life Index, 2000 (1990=100)

Area	Indicator	2000
Income & Distribution		111.46
	Real Per Capita GNP	110.28
	Gini Coefficient	93.34
	Incidence of Poverty	130.76
Working Life		131.80
	Unemployment Rate	138.79
	Trade Disputes	130.88
	Man Days Lost Due to Industrial Action	136.89
	Industrial Accident Rate	124.16
Transport & Communication		121.47
	Private Motorcars & Motorcycles	117.26
	Commercial Vehicles	118.62
	Road Development Index	122.90
	Telephones	129.04
	Cellular phones	119.51
Health		110.43
	Male Life Expectancy at Birth	116.77
	Female Life Expectancy at Birth	118.81
	Infant Mortality Rate	128.10
	Doctor-Population Ratio	124.80
	Hospital Bed-Population Ratio	63.68
Education		118.83
	Pre-School Participation Rate	117.96
	Secondary School Participation Rate	116.25
	University Participation Rate	114.28
	Literacy Rate	129.71
	Primary School Teacher-Student Ratio	123.05
	Secondary Teacher-Student Ratio	111.74
Housing		120.75
	Average Housing Price	101.08
	% Low-Cost Housing Units to Total Low-Income Households	123.27
	% Housing Units With Piped Water	127.04
	% Housing Units With Electricity	131.59
Environment		91.90
	Air Quality Index	100.98
	% of Clean Rivers	61.48
	% of Forested Land	113.22
Family Life		110.54
	% Divorces	121.36
	Crude Birth Rate	121.72
	Household Size	126.39

MALAYSIA: 30 YEARS OF POVERTY REDUCTION, GROWTH, AND RACIAL HARMONY

	% of Juvenile Crimes	72.70
Social Participation		112.95
	% of Registered Voters	86.94
	Number of Registered Non-Profit Organizations	126.58
	Number of Registered Residents' Associations	125.32
Public Safety		82.07
	Crimes	72.32
	Road Accidents	91.83
Culture & Leisure		120.10
	Membership in Public Libraries	130.89
	T.V. Viewers	114.82
	Domestic Hotel Guests	114.59
	MALAYSIAN QUALITY OF LIFE INDEX	112.03

*Source:* Government of Malaysia, The Third Outline Perspective Plan 2001 – 2010(Kuala Lumpur: Percetakan Nasional Malaysia Berhad, 2001), p.52.

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