Poverty Profile

Executive Summary

Malaysia

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Japan Bank for International Cooperation
Chapter 1 Poverty in Malaysia

1-1 Poverty Line

Malaysia’s poverty line, called Poverty Line Income (PLI), is a measurement of absolute poverty. PLI is based on the gross monthly household income required to meet basic needs, including food and non-food items. A household with the gross income below PLI is defined as absolute poor and a household with the gross income less than half of PLI is defined as hardcore poor. The National Economic Action Council and the Economic Planning Unit (EPU) revise the poverty line periodically based on the information from the Household Income Survey (HIS), Household Expenditure Survey (HES) and Consumer Price Index (CPI). Since the average cost of living and household size vary among the three major regions of Malaysia, namely Peninsular Malaysia, Sabah and Sarawak, PLIs are calculated for each region but not separately for urban and rural areas.

1-2 Trends of Poverty Incidence and Inequality

Due to stable economic growth and the government’s policies for poverty reduction, per capita GDP more than doubled from $1,750 in 1975 to $4,215 in 1998. Correspondingly, the number of the poor declined substantially from 8.67 million in 1970 to 1.28 million in 2000. In terms of income inequality, consistent and official data is not readily available, although some national development plans present figures (e.g., “Malaysian Quality of Life 1999” by the Economic Planning Unit). In general, the Gini coefficient in Malaysia has been relatively high, staying above 0.445 with little fluctuation. This serious inequality is likely a result of rural-urban, regional and ethnic disparities.

1-3 Regional Disparities in Poverty

The most notable trend in the geographical distribution of the poor in Malaysia is the fact that the gap in poverty incidence among states has declined over the past couple of decades. In 1976, poverty incidence in the poorest state, Kelantan, was 67.1 percent, while in Kuala Lumpur, poverty incidence was just 9 percent. In 1997, the poorest state was Sabah with 22.1 percent in poverty, while Kuala Lumpur had just 0.1 percent poor. In addition, the ranking of the poor states has changed: Sabah has become the poorest state, replacing Kelantan on the peninsula. From 1985 to 1995, both poverty incidence and the number of poor households declined in Peninsula Malaysia and Sarawak, while these indicators remained unchanged in Sabah. Moreover, the incidence of the hardcore poor in Sabah is more than double that of the other two areas. Statistics clearly show that Sabah is now the poorest of the three states.

1-4 Depth and Severity of Poverty

World Bank data reveals that depth of poverty in Malaysia has improved in the past two decades, as the number of poor households and poverty incidence have both declined. However, since there is little information available on depth and severity of poverty, it is difficult to analyze further especially on urban-rural or regional basis.
1-5 Profiles of the Poor

Poverty incidence has declined in the past three decades, and number of the population of the poor was estimated 276,000 households (equivalent to 1.28 million people) in 2000. According to the government, economic growth has resulted in very few cases of hardcore poor. The major profiles of the poor in Malaysia are as follows:

1) The poor are concentrated in Bumiputera (Malays and ethnic minorities).
2) Poverty incidence is higher in certain states (Kelantan, Terengganu, Kedah, Sabah, and Sarawak).
3) The poor are concentrated in rural areas in these poor states.

Income and Employment Structure: Analyzing the transition of mean monthly gross household income by rural-urban and by ethnic group (Bumiputera, Chinese, Indian and Others) in the 90’s, it is found that the gap of income growth rates between the rural Bumiputera and the Chinese and Indian has increased. Since the income of rural Bumiputera is lower than that of Chinese and Indian, this widening gap means that the increasing trend in income of rural Bumiputera is not adequate to catch up with others. As for the income transition by state, it is observed that income growth rates are lower in the states such as Kelantan, Terengganu, Sabah and Pahang, whose economy depends more on the primary sector.

Education: Looking into major indicators for education in Malaysia, it is seen that the consistent government’s efforts on education have achieved high literacy rate of 86% and high attendance rates in primary and secondary school. However, it is pointed out that there is a regional disparity in quality of education. Whilst the Malaysian government has been promoting education programs with Information and Technology (IT), it is reported that in 1996, 1,295 of 7,000 primary schools and 25 of 1,500 secondary schools in the country are not yet equipped with electricity necessary to run computer. Therefore the current concern is that these disparities in IT knowledge and skills would lead to creating future digital divide.

Health: Although health indicators in Malaysia are relatively better than other Asian countries, percentage of population with piped water is lower in Sabah, Sarawak and Terengganu, where more poor reside, than other states. Specifically, infant mortality rates are considerably higher in Sabah and Sarawak. The inferior situation in health infrastructure, such as relatively smaller number of health professionals and number of hospital beds, is also observed in both states.

Access to Basic Infrastructures: Major indicators for access to basic infrastructures by state show that development in Sabah and Sarawak lags behind the peninsula. The western regions in the peninsula which have played a leading role in national politics and economy for decades have been considered more significant than others. As for the peninsula, it is observed that there are disparities in those indicators between the west coast and southern states and the eastern and northern agricultural states.

Orang Asli: Orang Asli is the largest in indigenous groups in the peninsula. They show the worst socio-economic indicators among any other social groups in the country and are found left out completely from the past Malay First policies that have been the symbol for the national unity. To fill the gap between the other social groups, the government has implemented Development Programme for the Hardcore Poor (Program Pembangunan Rakyat Termiskin: PPRT) targeted for Orang Asli, though the disparity still remains.
Chapter 2  Government Policy and Actions for Poverty Reduction

2-1 National Development Plans and Anti-Poverty Policies

Under the colonial rule of England in the 19th century, the Malaysian economy was developed based on primary products (mainly tin and natural rubber). In the process, large numbers of Chinese and Indian laborers immigrated to Malaysia, and a multi-ethnic society was formed. In the colonial period, Malay and other indigenous people (Bumiputera) continued traditional activities such as rice farming, fishery and hunting. They were largely left behind by industrial development, and ethnicity became a determinant of one’s occupation. Consequently, economic and social inequality among different ethnic groups came into being, and the dissolution of these disparities has been the most important task of Malaysia since its independence.

Malaysian national development plans consist of two long-term plans, namely the Five-Year Plan and OPP (Outline Perspective Plan) I & 2. Seven Plans have been carried out to date starting with the first covering the period 1966 to 1971: “First Malaysia Plan” (1MP). Economic policy in the period of OPP1 (1971-1990) is called New Economic Policy (NEP). That in the period of OPP2 (1990-2000) is called New Development Policy (NDP). The Prime Minister, Mahathir, is now advancing “Vision 2020”, which sets out the nation’s goal to achieve the status of developed country by 2020, and is integrated with the first Industrial Master Plan (IMP1, 1986-95) and the second Industrial Master Plan (IMP2, 1996-2005). Since the early 1970s, Malaysia has worked towards full employment and satisfactory education and training, striving to foster export industries and to eradicate poverty. Until 1995, the GDP growth rate was over 6 percent, which greatly contributed to poverty reduction.

2-2 Macro Economic Management

The Malaysian economy has achieved high and stable growth since independence from England in 1957, unlike many other developing countries. The following factors are considered to have been key to this success:

1) Economic development entailed both industrialization and the promotion of primary products.
2) Malaysia had internationally competitive primary products.
3) Malaysia adopted import substitution policies during the 1960s (1MP period) to absorb emerging labor that followed high population growth. However, Malaysia was able to continue importing intermediate and capital goods, unlike other developing countries, keeping a trade surplus that depended on the bounty of natural resources.
4) Malaysia did not resort to excessive protection policies for domestic industries, such as high protective tariffs and regulations for domestic protection.
5) Malaysia utilized foreign capital for industrialization. Since the country had only a fragile base and small markets for manufacturing, its economic strategy targeted export-oriented industrialization.
6) Malays have been encouraged to participate in the industrial and commercial sector on a national scale since the conflict between Malay and Chinese in 1969.

For decades, steady economic growth resulted in a decline of poverty incidence and an improvement in social indicators, while regional, ethnic and rural-urban inequalities remained to some extent.

In 1998, due to the Asian Financial Crisis, poverty incidence rose for the first time, and the number of poor households (both poor and hardcore poor) increased. Nevertheless, the government managed to
restore the economy by introducing strict fiscal policy, stimulating the market and stabilizing the financial market. As a consequence, the economy recovered, and the target of 5.5 percent national poverty incidence in 2000 is expected to be achieved.

With an industrialized economy, Malaysia was able to absorb laborers in secondary sectors such as manufacturing, but the country requires a skilled labor force. Now it appears that following recovery from the crisis, industries such as plantation, manufacturing and construction will soon face a shortage of labor. Therefore, demand for foreign labor is increasing to offset the shortage of approximately 200,000 workers.

2-3 Poverty Reduction Programs of the Ministry of Rural Development

Although the primary industries (agriculture, forestry and fishery) do not attract much attention due to the rapid growth of the secondary sector, the export of natural resources such as rubber, palm oil and timber contributed greatly to the development of Malaysia. However, despite rich resources, most of the poor live in rural areas, accordingly poverty reduction programs have focused on rural development. In 1989, the Ministry of Rural Development started working for poverty reduction in a comprehensive way through Program Pembangunan Rakyat Termiskih (PPRT) for the hardcore poor. The program includes income generation, attitude change, and direct support for nutrition and housing. In 1992, a micro-credit component (ASB-PPPT) targeting the hardcore poor was started. In addition, the Rural Planning Division and the Rural Development Division (KEDAS) of the Ministry support the poor and socially disadvantaged groups by means of (1) community development through non-formal education, (2) Visionary Village Movement (Gerakan Desa Wawasan), (3) the provision of training institutes, and (4) training for supplementing PPRT.

2-4 Rural Development and Regional Development

Though the share of primary industries in GDP has declined, poverty reduction efforts have emphasized the development of agriculture, forestry and fisheries. In Vision 2020, the current situation of the primary sector is recognized as the second rural development transition period, and it is expected to evolve into the industries for domestic consumption and storage, except some major export products such as rubber and palm oil.

The less developed states of Kelantan, Pahang, Kedah, Perlis, Sabah, and Sarawak have been targeted for regional development. The government is trying to diversify the economy in these states by means of developing industries based on natural resources such as agro-business, timber, petrochemical, and non-metal mining, as well as by fostering the travel industry (promoting cultural heritage). In addition, the government is upgrading economic infrastructure, for example, constructing industrial complexes in the least developed east coast areas and Industrial Corridor, and roads in Sabah and Sarawak.

2-5 Social Services

**Education**: Since the First Malaysia Plan (1MP) started in 1966, the government has supported education as a means for economic development and the dissolution of income inequalities. Science and Technology education was the focal policy of 1MP. In 1970s, the government advanced the formal education system through curriculum development and improving education quality, and also introduced teaching in the Malaya language. In the 1980s, English education was more prioritized and
infrastructure for education was improved. In the 1990s, ethics and moral education were featured, in addition to science, technology and English. The Seventh Malaysia Plan (7MP) focuses more on concrete targets, such as expansion of the education system and resources, aiming to train a labor force for high-technology industries.

**Housing:** The government provides housing for livelihood improvement. Under 7MP, 70 percent of the new houses are to be constructed by the private sector, with the aim of stimulating the construction industry. There are several housing program to facilitate housing provision for low-income groups such as Housing Trust Loan, Housing Rehabilitation Program, and Special Low Cost Housing Program.

**Health:** Health indicators in Malaysia are higher than other middle-income Asian countries, although regional disparities still remain. Most of the population in Peninsula Malaysia is covered by health and medical services, whereas only half of the population in Sabah and Sarawak are covered. The government recognizes that HIV/AIDS is not only related to health and medical issue, but also has various social and economic implications. The government has launched anti-AIDS programs and encouraged cooperation among government organizations, private sectors and NGOs to fight the epidemic.
Chapter 3  Partnerships for Poverty Reduction

3-1 Partnerships

The prevailing view is that poverty reduction is the responsibility of the Malaysian government and people. Therefore, over the past decade, donor support for poverty reduction has been limited. The United Nations Development Programme (UNDP) targeted poverty reduction in Malaysia in their 1982 to 1986 country program. In 1992, the Japan Bank for International Cooperation (JBIC) provided loans (amounting to 10.949 billion yen) for Regional Development II (poverty reduction). Since then, donor support has shifted to the development of science and technology. On the other hand, coordination among the government, NGOs, civil society and private organizations is strong, and there are numerous active local organizations such as Amanah Ikhtiar Malaysia (AIM) and Yayasan Pembangunan Ekonomi Islam Malaysia (YPIEM).

3-2 Donor Assistance for Poverty Reduction

After the financial crisis in 1997, the government changed its attitude toward foreign aid and received sector program loans from the World Bank. During the crisis, other neighboring Asian countries accepted support from the International Monetary Fund (IMF), while Malaysia executed its own policy for economic recovery, having rejected the IMF’s assistance. Malaysia has kept its original policy stance, which is different from that of Thailand, Korea and Indonesia that accepted IMF loans with severe conditionalities. However, it must be noted that Malaysia has applied the IMF’s business restraining policy in 1996, prior to the crisis. For poverty reduction, donor organizations such as the World Bank and UNDP indirectly work for poverty reduction, respecting the Malaysian government’s policy.

3-3 Poverty Reduction Programs of Civil Society Organizations

It is assumed there are more than 80,000 NGOs, including non-registered organizations, in Malaysia. Among the NGOs registered with the Ministry of National Unity and Social Development, which has authority over NGOs, 180 work for development and 330 for social welfare. Most are local NGOs, represented by AIM and YPIEM working for the poor, Centers for Orang Asli Concerns (COAC), Partners of Community Organizations (PACOS) and Tenaganita for raising the status of women. International NGO activities focus mainly on environment protection rather than poverty reduction due to limitations on their activities according to government policy.