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

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 Bumiputra 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-Bumiputra 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.