

Malaysia's Experience with Poverty Reduction : Lessons for Bangladesh

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Abstract

Malaysia is experiencing a prominent and promising economic rise and has set many instances of development of not only social enterprises but also a total development. This paper is penned with a view to approaching some facts and figures concerned to the Development Policy of Malaysia, and then to furnish some policy prescriptions for the development of Bangladesh. This is all through a conceptual paper where the review of relevant literatures has been made. It has been evidenced that, in 37 years, poverty incidence has dropped about 48.4%. Not only that, the incidence has come down at 1.7% in 2012 in peninsular Malaysia when it was 49.3% in 1970. The number of poor households diminished from 1.6 million in 1970 to about 574,000 in 1990 and 228,400 in 2009. The decline in poverty incidence was considerably contributed by high and sustained economic growth during the period, which averaged 6-7% per annum. Some industries, particularly Tourism, have inspired many Malaysians to convert their houses into sales centers. Well framed policy, Political goodwill and stability, Well round trade-offs made many impossible possible in Malaysia.

Key Word: *National Development Policy of Malaysia, Poverty Reduction, Sustainable Economic Growth, Developing Social Enterprises*

1. Introduction

The status of extreme poverty worldwide has got down remarkably. 14.5 percent (one billion people) of the world's population has been classified as extremely poor in 2011. The figure was 1.25 billion or 18.6 percent of the world's population in 2008 (WB, 2014).

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Poverty incidence in Malaysia is getting better rapidly. The prevalence of poverty and hardcore poor in Malaysia has radically turned down from 52.4 percent in 1970 to 4% in 2007. In 37 years, poverty incidence has dropped about 48.4%. Not only that, the incidence has come down at 1.7% in 2012 in peninsular Malaysia when it was 49.3% in 1970. The number of poor households diminished from 1.6 million in 1970 to about 574,000 in 1990 and 228,400 in 2009. The decline in poverty incidence was considerably contributed by high and sustained economic growth during the period, which averaged 6-7% per annum (S. Gopal & Malek, 2014).

Malaysia has undertaken numerous initiatives to alleviate poverty in general. It has developed its own poverty line in the 1970s when the government's national policy gave a high priority for poverty reduction. The government utilized this poverty line on assessments of the minimum consumption requirements of an average sized household for food, shelter, clothing and other non-food needs (Hatta & Ali, 2013). This study focused on the contributions of Malaysia Plans in case of poverty alleviation.

The Economic or development policies of Malaysia put significant stresses on poverty reduction. In Ninth Malaysia Plan 2006-2010, RM 4,515 million has been allocated directly under the head of Poverty and urban poverty eradication programs (Table 1).

The case of Bangladesh is different. The incidence of poverty in Bangladesh is one of the highest in the world. At present, one-third (31.5 percent) of its population are living below the poverty line. MDG Report in 2008 claims it is more than 37% of the total population (UNICEF, 2009). Mainly, income inequality afflicts the persistence of poverty. The average annual rate of poverty reduction in Bangladesh during 2000-2005 was the second highest among south Asian countries. The pace of poverty reduction in Bangladesh is much lower than in faster-growing East Asian countries like China, Thailand, and Vietnam, which underscores the importance of higher growth for achieving even faster reduction in poverty (Ferdousi & Dehai, 2014).

The highest incidence of poverty, greater disparity among rural and urban households, and larger inequality of income requires a research to be done with a comparison of the incidences with a country the poverty incidence of which is sound. By this way, some policy prescriptions come out for Bangladesh.

2. Objectives of the Study

The prime objective of this study is to make a thorough investigation of the National plans and policies of Malaysia so as to identify the initiatives and measures taken by the Malaysian

concerned authority to alleviate the poverty significantly. In support of the main objective some other objectives also guided this study. These are: a) Reviewing the status of Economic growth, b) Identifying the income parity and disparity of households in different levels, c) Investigating the investment policies in different sectors like – infrastructural development, Education and a thriving industry – Tourism, etc. This study also aims at providing value laden recommendations, in light of Malaysian experience, so that the Bangladesh for poverty alleviations.

3. Methodology

This study has been conducted mainly on the basis of secondary data. Malaysia Plans published by the concerned department of the Government in different phases have been studied with an interest to find out the policies relating to the poverty alleviations. Some numerical figures *viz.* mean household income, poverty incidence in percentile, and unemployment rate have been retrieved from the Malaysia Plans and have been analyzed to find the relationship in between different factors. Microsoft Excel has been used for computation and analysis purpose.

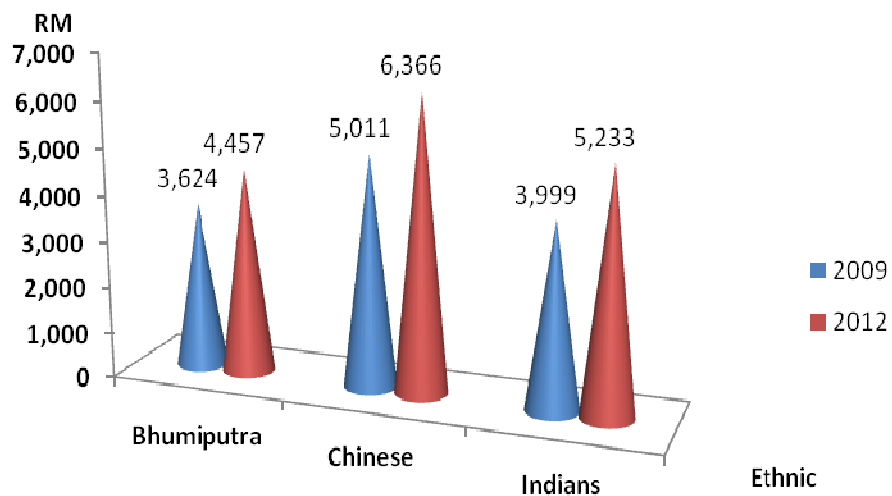
4. Findings and Discussion

As mentioned, Malaysia constructed a range of plans and policies to steer the management of national development during 1970-2010. Core national policies; long-term, medium term, annual and special development plans; and sectoral and industry-specific master plans are some of them. 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 found national unity as the goal of development and the two-pronged strategy to achieve it (1) the reduction of poverty and (2) the restructuring of society. This was to be conducted within the context of rapid and continuous economic growth.

Average monthly gross household income (AMGHI) is a determinant which represents the state of poverty in a country. In Malaysia the AMGHI for the bottom 40 per cent as a whole has increased from RM 535 (1992) to RM 865 (1999), RM 1,345 (2007) and RM 1,847 in 2012. For the middle 40 per cent, AMGHI as a whole has increased from RM 1,392 (1992) to RM 2,204 (1999), RM 3,282 (2007) and RM 4,573 in 2012. Figure of the bottom 40% is the prime factor in judgment of the poverty.

Findings from the Household Income Survey 2012 showed that the mean monthly household income for Malaysia increased 7.2% annually from RM 4,025 in 2009 to RM 5,000 in 2012.

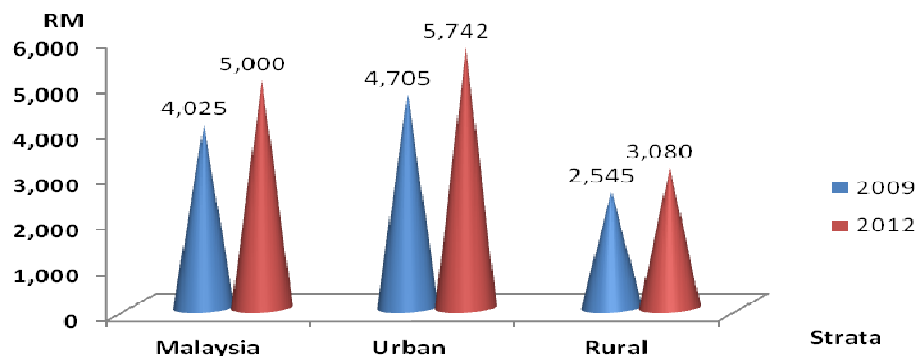
Household income in urban areas increased at the rate of 6.6% per annum from RM 4,705 in 2009 to RM 5,742 in 2012 while in rural areas, it increased by 6.4% per annum from RM 2,545 in 2009 to RM 3,080 in 2012. But unfortunately, the original Malaysian (Bhumiputra) remained a bit far from the sound economic status. The mean monthly household income for Bumiputera grew by 6.9% per annum from RM 3,624 to RM 4,457, for Chinese it increased at the rate of 8% from RM 5,011 to RM 6,366 and for Indians at the rate of 9% per annum from RM 3,999 to RM 5,233.



Source: Department of Statistics, Malaysia

Figure 1: Mean Monthly Household income by Ethnic Group in Malaysia, 2009 & 2012

It is worth to mention that Malaysia has calculated the percentage distribution of households and income share by monthly household income class. It facilitates the policy makers to identify and address poverty in accurate form.



Source: Department of Statistics, Malaysia

Figure 2: Mean Monthly Household income by Strata in Malaysia, 2009 & 2012

In every economic development policy Malaysia sets a remarkable budget for poverty reduction. A table of Ninth Malaysia Plan has been shown below:

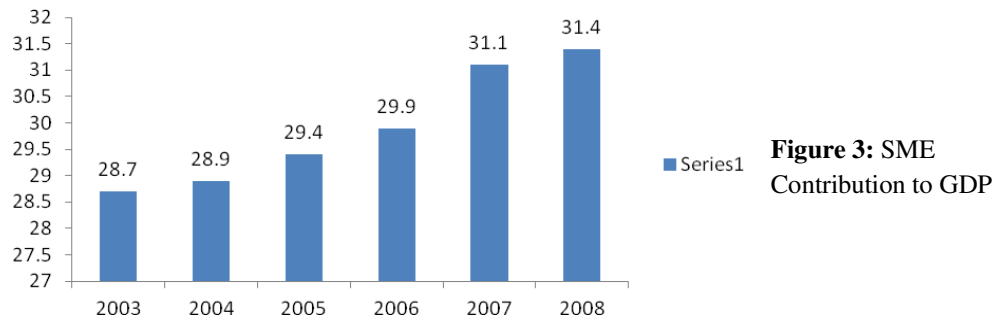
Programs	Allocation (RM Million)
Poverty Eradication	4,465.3
Citizens' Well-being Development Scheme	340.8
Urban Poverty Eradication Program	50.0
Rubber and Oil Palm Replanting Scheme	1,047.8
Land Consolidation and Rehabilitation	1,004.3
Regional Development	510.9
Redevelopment of Traditional and New Villages	235.0
Orang Asil Development	361.8
Development of agriculture Entrepreneurs	414.7
Development of Natives Customary Rights (NCR) Land	100.0
Other Programs	400.00

Source: 9th Malaysia Plan, 2006-2010

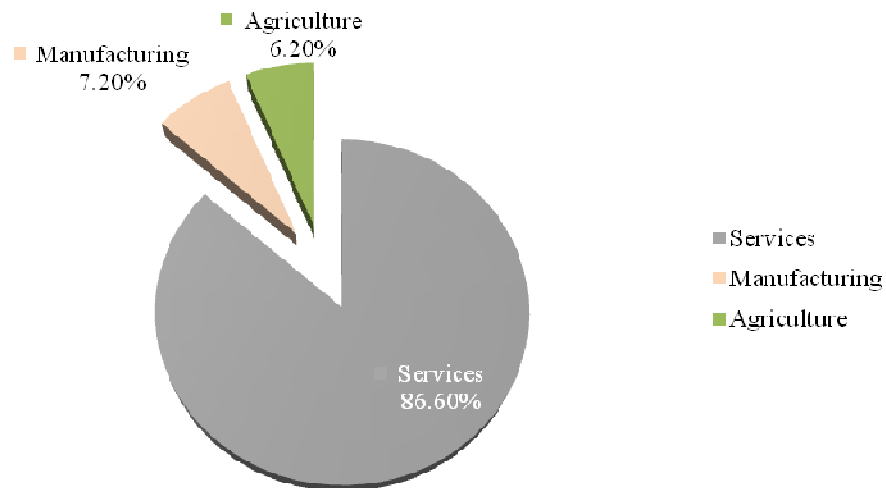
Table 1: The development allocation for the Poverty Eradication Program, Malaysia, 2006-2010

The 10MP (Tenth Malaysia Plan), so far latest, has targeted a GDP growth of 6% per annum over the next five years which will be led by the private sector and underpinned by the services sector. Gross national income (GNI) per capita is projected to rise to US\$ 12,139

(about RM 40,000) by 2015, from US\$ 8,256 in 2010. In realizing this, the pivotal aim of the 10MP is in re-energizing the private sector by putting in place a conducive environment, including facilitating an economy that will have a more level playing field and which would rely on greater use of intellectual capital, skills, innovation and technology. Emphasis will also be placed on drawing in more foreign direct investment (FDI), especially into small and medium sized enterprises (SMEs). Currently SMEs make up 99.2 % of all business in Malaysia, contributing 56.4% of total employment and some 31% to GDP (Girish, 2014).



Source: Department of Statistics Malaysia, EPU



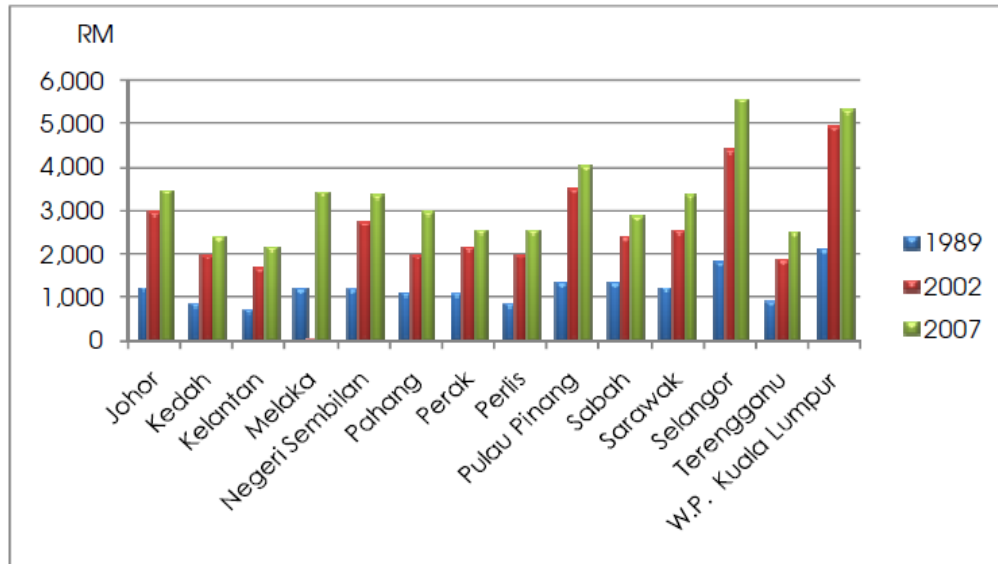
Source: Department of Statistics Malaysia, EPU

Figure 4: Number of SMEs by Sector, 2005

It has been observed that the Malaysian Economy is boosting up by the development of service sector. The estimation projection of 2015 shows a different scenario that the manufacturing industry is growing speedily.

Economic growth may foster the diminution of absolute poverty if the income inequalities have no or little effect (Perera & Lee, 2013). Malaysia's economic growth is remarkable. In 2012 the GDP of Malaysia was 239.9 Billion USD with 5% growth estimation and the growth was 7.2% in 2010. The Unemployment rate is 3.2% of the labor force in 2012 (EPU, 2012). Malaysia is striving to ensure the reduction of income inequality which contributes to the betterment of poverty scenario. Figure 5 shows the improvement in the income of Malaysian households in different states through the year of 1989, 2002 and 2007.

In urban area of Malaysia, income distribution is more equitable. For all income groups, average monthly gross household income showed an increasing trend in the period 1992 to 2007. The facts of poverty cannot be traced from the general statistics published publicly. Public reports approach the average which is misleading. Actually the gap between richer and poorer is huge. In case of Malaysia, It is good that the average (monthly) gross household income for the bottom 40 per cent as a whole has been identified separately. It is increased from RM 535 (1992) to RM 865 (1999) and RM 1, 345 (2007).



Source: Economic Planning Unit

Figure 5: Average monthly gross household income by state, Malaysia, 1989, 2002 and 2007

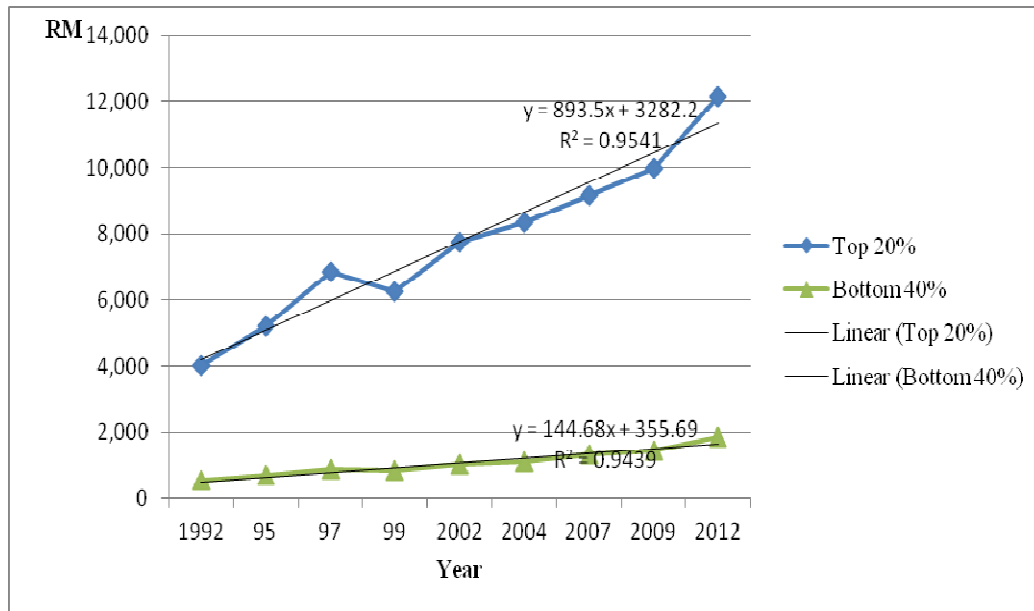


Figure 6: Mean Monthly Gross Household Income of Top 20% and Bottom 40% of Households

In figure 6, it is shown that the income trends of households move steadily. The values of adjusted R^2 indicate the models fit best which means the figures representing incomes are highly consistent. Average income of top 20% household has a good rising trend. In two decades the mean income becomes thrice.

The strategies worked out in Malaysia to tone down poverty took on many important fronts. Continued welfarism and a new drive towards independent living are two critical elements in the strategy. Therefore, improved capacity building was accelerated and new programs were launched in order to take care of the vulnerable or the bottom lined stakes of the society. The sectors were given high priority are as follows (Hatta & Ali, 2013):

- Advancing agricultural sector
- Strengthening small medium enterprises
- Improving welfare of student
- Strengthening pre-school education
- Improving literacy and numeracy
- Creating quality school
- Increasing home ownership

- Expanding public health facilities
- Enhancing social safety nets
- Improving retirement scheme
- Microfinance, and
- Community Involvement

It is to be mentioned that the Agricultural sector has the lowest contribution (around 8%) in GDP. This may be due to the geographical state of Malaysia. But it has rightly utilized its land area cultivating palm trees which boosted the palm oil industry.

Stunning infrastructural development contributed a lot to the poverty reduction of Malaysia. Infrastructure in Malaysia is designed to facilitate the dealings of business community. Telecommunications network served by digital and fiber-optic technology, five international airports (all with air-cargo facilities), well-maintained highways and seven international seaports make Malaysia an ideal springboard to the Asia-Pacific market (Malaysian Economy in Figures, 2013). Malaysia leads South East Asian region in terms of its sustainable infrastructural policies. Most of the development in this field has been done through investment from Public Private Partnership (PPP). The private sector has played an active role in developing Malaysia's infrastructure, providing USD 54 billion in investment between 1990 and 2011 (OECD, 2013).

One of the top most contributors in the economy, among the service sectors, of Malaysia is Tourism. This sector has been greatly blessed by the infrastructural development. Malaysia has announced new private sector-led investments valued at RM 9 billion was infused along its east coast, which include tourism projects and a college project, to incite economic growth in one of its less developed regions. Radiant Starfish Development – a Malaysia based development company is willing to spend RM 4.2 billion for the construction of an eco-tourism resort at the southern Johor state, while DRB-Hicom – one of Malaysia's leading conglomerate has intended invest RM593 million for the establishment of an automotive college in Pahang state. The investments are focused on the East Coast Economic Region (ECER), along Malaysia's less developed eastern peninsula. It covers a 66,000 sq km region and encompasses the states of Terengganu, Pahang, Kelantan and a part of Johor. The government aims to further develop ECER's infrastructure, resource-based manufacturing, logistics and tourism. Encorp will construct a golf resort in Cherating, Pahang, while Johor Corp will invest RM1 billion to develop a 142ha resort town in Mersing, Johor (News, 2012).

While implementing 9th Malaysia Plan (9MP) Malaysia has identified some thrusts. The 2nd one is to raise the capacity for knowledge and Innovation and nurture 'First Class Mentality.

During the Plan period, greater access was provided to affordable and quality education and training at all levels, which resulted in higher enrolment and participation rates. The performance gap between rural and urban schools was narrowed with the provision of basic infrastructure as well as educational and training facilities (10MP, Ch. 2, P. 46).

During the 10th Plan period, employment is expected to increase at 2.4% per annum to reach 13.2 million — an increase of 1.4 million jobs, mostly in the services sector. This is significantly higher than the 0.9 million jobs created during the Ninth Plan period. As a result, the economy is expected to remain in full employment, with an estimated unemployment rate of 3.1% in 2015(10MP, Ch. 2, P. 55).

5. Things to Learn from the Development Experience of Malaysia

Economic Planning Unit (EPU) of Malaysia with the cooperation of World Bank presented some facts in a work relating to poverty reduction in Shanghai Conference in 2004. Following recommendations have come out of that work. Edited format is as follows (Bank, 2004):

First: Each country must put together its core development philosophy, policies, and plans suited to its particular incidents and needs. It must also persevere while remaining hardheaded and stretchy enough to adapt plans so that they remain relevant and suited to changing circumstances.

Second: There is a real need for peaceful coexistence among racial or other groups and close cooperation among political parties for political stability and socioeconomic development.

Third: If a country is to achieve sustained and swift 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, super infrastructure, 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: Sustained economic growth requires strong governments and leaders committed to national, not personal, interests over a sustained period of time. The eradication of poverty requires two broad types of strategies: expansion of the economy and government-run affirmative action programs targeted to the poor.

6. Concluding Remarks

Even though a recent study showed some deprivations of the fishermen (Solaymani & Kari, 2014) Malaysia's credible economic performance was achieved through sound macroeconomic policies with investment in infrastructure and human capital. This economic growth has resulted in brisk urbanization, a structural transformation of the economy and significant poverty reduction (Finance, 2012/2013). Hardcore poverty was reduced from 1.2% in 2004 to 0.7% in 2009. The incidence of overall poverty also fell from 5.7% to 3.8% during the same period. Unemployment rate dropped at 3.1%. Inflation varies from 2~3% with CPI. Per capita income stands USD 10,337 (RM 34,175). Government has termed itself as a 'Competitive Corporation'. These are the results of the implementation of targeted drive for Total Quality Development through Transformation Policy (10MP, Ch. 2, P. 48). It is a tale of four decades before when the economy of Malaysia and Bangladesh was almost same. Within this period Malaysia has done superb in every aspects of development. It has strategically managed the political disagreements and has not let the disputes turn into violation. A heavyweight patriot leadership organized the whole nation for 'Think Development' and has made Malaysia 'Truly Asia'. Bangladesh has also competitive resources for growth and development. Only the attitude of Leadership and positive and patriotic mindset can transform Bangladesh identical to Malaysia.

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