Poverty reduction in Malaysia

by Bethuel Kinuthia

comments by David Henley and Jan Kees van Donge

We appreciated this entry for making useful criticisms of, and qualifications to, the characterization of Malaysia's development path which is implicit in the award hypothesis. It gives us reason to refine our argument in the specific context of the Malaysian story. We do not think, however, that it amounts to a disproof, and for this reason we have decided to reward it with only a part of the prize money.

We appreciate your sound critical points: (1) that despite good macroeconomic management, much economic freedom and pro-rural public spending priorities, Malaysia did not succeed in reducing poverty much during the first decade of its growth process; and (2) that success in poverty reduction eventually came in a period when policy and spending priorities were shifting steadily, albeit gradually, away from agriculture and toward manufacturing. The expansion of industrial and urban employment after 1970 no doubt did help to combat rural poverty by relieving pressure on the land and moderating the rents paid by tenant farmers, which in the 1960s had tended to rise and cancel out the gains from increasing productivity (Peacock 1981:645). Nevertheless what we do continue to insist on is this: (1) that both before and after 1970, Malaysia had much more strongly pro-rural, pro-poor, pro-agricultural development policies than, say, Kenya; and (2) that this fact is intimately related to Malaysia's ultimate success in reducing poverty as well as generating sustained national growth.

Your submission points to statistical evidence (although it does not specify the original sources) that from 1957 to 1970, income inequality widened significantly in Malaysia despite the existence of a rural bias in development strategy. According to the results of a stratified sample of 26,310 households surveyed in the wake of the 1970 census, the overall number of Malaysian households living below the national poverty line was 791,800, or 49 percent of the total. Extending the same poverty line backward (allowing for inflation) to a much smaller household budget survey (2,760 families) carried out following the 1957 census suggested that in 1957 there had been 623,000 poor households in the country (Othman 1984:87), corresponding to 56 percent of the then smaller population (Lee 1976:4). The proportion of Malaysians living in poverty, then, declined only moderately between 1957 and 1970, and the absolute number increased. Among the poorest 20 percent of the population, moreover, a comparison of the two surveys indicates that household incomes actually fell during the same period by over 30 percent.

These statistics make it likely that the great bulk of Malaysia's historic poverty reduction did not take place until after 1970. Nevertheless your opening statement that the Malaysian government 'embarked on deliberate poverty reduction efforts with the introduction of the NEP in 1970', although it reflects a common view and in fact a dominant ideology (Faaland 1990, Jesudason 1989), is false. The reduction of rural poverty was already the first priority of Malaysian political leaders even before formal independence was attained, and after independence this was reflected in the creation of a separate Ministry of Rural Development under the deputy prime minister Tun Razak in 1959 (Ness 1967). The scale of rural public spending did increase in absolute (not proportional) terms under the NEP, but almost all of the important programmes for rural poverty reduction were initiated well before 1970: rural roads and electrification (1950s and 60s), the rubber replanting scheme for smallholders (1953), the
free distribution of improved rice seeds (1955), the first fertilizer subsidies (1955), FELDA (1956), universal primary education (announced 1956, achieved 1960), the major irrigation projects (1960s), family planning (1966), farm rent control legislation (1967), and the Malaysian Agricultural Bank (1969). All of these programmes were further developed under the NEP, sometimes with a sharper focus on the very poor: the rice support price, for instance, was substantially increased. But in the field of rural development, there were very few new initiatives after 1970.

The real innovations of the NEP were (1) explicit positive discrimination for Malays in education, public service, and the modern private sector; and (2) the introduction of the Free Trade Zones and other measures to stimulate export-oriented industrialization. Both of these changes had much more bearing on urban than on rural areas (although there is no denying that the latter did bring substantial employment opportunities for poor people).

Why, then, did poverty levels (both in the countryside and nationally) fail to decline much during the 12 years of strong rural public spending and sustained aggregate GDP growth from 1958 to 1970? This is indeed a challenge for the Tracking Development hypothesis. A large part of the answer, however, lies in the fact that compared to Indonesia's Green Revolution, which was heavily based on the 'quick fix' of HYV seed/fertilizer technology, Malaysia's rural transformation was a slower process involving public investments on which the returns were substantially delayed.

1) The highly successful irrigation projects of the early post-independence period took time to complete, and their benefits (in terms of income gains from double cropping) were not fully realized until the 1970s. The crucial Muda scheme, for instance, was designed in 1965 and its construction began in 1966, but it was not completed until 1973. Of all Malaysians who rose out of poverty between 1970 and 1980, 32 percent were rice farmers (Othman 1984:211).

2) Although rubber smallholders steadily increased their output and productivity from the 1950s onward, this process was initially slowed by the six-year maturation period of newly planted rubber trees and counterbalanced by the misfortune that the international price of rubber fell by 40 percent between 1957 and 1970 (Lee 1976:14). Between 1970 and 1980, however, the rubber price rose once more by 134 percent, making farm incomes buoyant (Othman 1984:208). Here again the returns to the early public investments were delayed: if more than 60 percent of all smallholder rubber had not already been rejuvenated under the replanting scheme by 1970 (Lee 1976:27), it is unlikely that smallholders would have been able to cash in so effectively on the subsequent boom. Of all Malaysians who rose out of poverty between 1970 and 1980, 40 percent were rubber smallholders (Othman 1984:211).

3) Before 1970 one of the supposed pillars of Malaysian rural development strategy, the FELDA resettlement programme, was not pursued on a sufficient scale to make a significant dent on rural poverty. In the 1960s fewer than 20,000 households, comprising only about 8 percent of the increase in the rural population over that decade, were resettled. FELDA's performance in this respect improved during the NEP period: in the 1970s the intake was over 40,000 families (Othman 1984:129, 207).

4) From 1950 to 1965, development efforts struggled to keep pace with an annual population growth rate that was constantly above 3 percent. By 1975, however, population growth had slowed to 2.5 percent, enabling rural anti-poverty programmes to make more headway (Snodgrass 1980:263).
In your piece you also make one or two other telling points about how Malaysia differs from our ideal model. In contravention of our principle of economic freedom, for instance, it is true, as you point out (p. 5), that price controls have sometimes been applied in Malaysia - notably from 1974 onward in the crucial context of the rice market (although we maintain that this kind of regulation has been less prevalent than in, say, Kenya).

On some other points, conversely, we think you are not correct. Except during the Asian financial crisis of 1998, there has never been a significant currency black market in Malaysia (p. 5). The Sarwar paper you cite uses data from Pick's World Currency Yearbook but according to that same source as inspected by our Groningen student volunteers, from 1962 to 1993 the maximum extent of that premium in the Malaysian case was 2 (two) percent. In Kenya, by contrast, it was twice in excess of 30 percent. It is not true that the increase in rice 'yield' (production?) between 1955 and 1973 came mostly from areal expansion; most of it came from double cropping on the same land, which is a form of intensification. It is not true that export crops in Malaysia were 'dominated by the Chinese' (p. 9). Nobody has claimed that economic freedom for peasant farmers is in itself 'a guarantee of poverty reduction' (p.10). The 'Kuznets curve' (p. 11) appears not to apply to East Asia (this at least is what was argued in the World Bank's East Asian Miracle study), and in any case the way you try to apply the Kuznets model to Malaysia seems to undermine your own implicit argument that it was the NEP and the industrialization process which brought about poverty reduction.

References

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