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Malaysian Development Experience: Lessons for Developing Countries

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Abstract: This paper describes the policies pursued by Malaysia in her attempt to attain growth with equity, which she has achieved relatively well. These include education provision and employment creation, export-oriented industrialisation, rural development, and restructuring equity ownership and asset accumulation. Her success is indicated by her structural transformation from an agricultural to an industrial economy as well as improved quality of life and income distribution with low poverty incidence. The positive lessons that could be drawn for other developing countries with similar background comprise, first, emphasising agricultural development through large allocations that enabled Malaysia to a leading producer of rubber and palm oil which helped finance the industrial sector. Second, despite its weaknesses, the New Economic Policy was successful in promoting growth and equity and maintaining racial harmony and political stability. The latter, together with trade-friendly policies, investment in infrastructure, human capital development supported the policy of promoting growth through foreign direct investment. Fourth is the importance of literacy and widespread access to education. Finally, there were social safety nets to assist the less fortunate. And the most important of the pitfalls to be avoided is state-government-party collusion that promoted rent-seeking behaviour.

Keywords: New Economic Policy, income distribution, poverty, growth with equity

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1. Introduction

The Malaysian development strategy since independence in 1957 involved allocating resources for the growth of real per capita income and ensuring that income and wealth are equitably distributed. Prior to 1970, the policies implemented were able to attain satisfactory growth, but they failed to improve equity or significantly eradicate poverty. This growing inequality overall

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as well as along intra ethnic lines and persistent poverty was said to be one of the proximate causes of the May 1969 "race riots" which culminated in the introduction of the New Economic Policy, 1971-1990 (NEP). The NEP was launched with the objective of attaining national unity and fostering nation-building through poverty eradication and economic restructuring so as to eliminate the identification of race with economic functions. Since the implementation of this policy, Malaysia has achieved growth, structural transformation, and poverty alleviation and improved income distribution in an ethnically diverse society with growth being accompanied by improved income distribution. Tremendous progress has been achieved with the poverty incidence being reduced from 52.4% in 1970 to 3.8% in 2009. However, income inequality has been fluctuating since the end of the NEP.

In the introduction to his chapter, Jacob Meerman (2008:77) wrote:

> Malaysia's recent growth history struck me as a paradox. How could a country grow at more than 6 percent annually for over three decades (1970-2006) despite three recessions, while investing a sizeable proportion of its resources in redressing ethnic disparity? Seen from another perspective, how was it possible to evolve in one generation from a largely rural (70% in 1970) primary producer to a partially industrialized, urban (64% in 2006), middle-class country, while implementing a deep, invasive, and costly social policy?

Given Malaysia's achievements and except for a few glitches, the Malaysian story has been regarded a worthy model to be considered, especially countries with similar backgrounds facing ethnic divide. What are the positive lessons that can be learnt and pitfalls to be avoided from Malaysia's development experience? The paper will attempt to answer the question. It is divided into six sections. The first section analyses why Malaysia has chosen this particular development path of growth with equity. Section 3 describes the various macro-economic policies in general while Section 4 describes some selected specific policies and programmes that have been implemented. Section 5 illustrates selected indicators of Malaysia's achievements while Section 6 enumerates lessons for developing countries, especially those with multi-ethnic population facing similar challenges. Section 7 summarises the main points and concludes the paper.

2. Prologue to Growth with Equity

In order to understand the Malaysian development story, we must first understand its history. Briefly, Malaysia is a plural society with three major ethnic groups: the indigenous Malays, the Chinese, and the Indians. There is also a speckling of various minority groups classified as Others. In 1975, the population comprised 53.1% Malays, 35.5% Chinese, 10.6% Indians, and 0.8% Others (Malaysia,1976). Among the major groups, the Malays, though politically powerful, are concentrated in the less developed states and rural areas as well as being in the lowest paid occupations (rice cultivation, rubber smallholdings, and fishing). This group has a mass of poor people, a very thin middle class and a sprinkling of the very wealthy. On the other hand, the Chinese mostly have moved out of the lower-paid occupations in the agriculture and low-skill service industries into the more highly-paid ones. On average, they earn double the mean income of the Malays and have a near absence of very low-income families and a high concentration in the middle class. While the Indians have very poor households, they generally tend to fall in the intermediate position between the Malays and the Chinese. Inevitably, the near-balance in indigenous and immigrant groups would influence the political climate in Malaysia.

Since independence in 1957, the Government has set its goal on the attainment of a faster rate of economic growth, a lower degree of economic instability and a lower level of unemployment, the eradication of poverty, and a more equitable distribution of income and wealth. However, the Government has not has much luck in tackling the three latter objectives. In addition, there was very high and rising unemployment among youths of both sexes. A more disturbing aspect of the employment pattern was its unbalanced nature between the different ethnic groups. Malays were mainly employed in the agriculture sector where per capita product was the lowest among all sectors and where the incidence of poverty was the highest. The Chinese, however, were concentrated in mining, manufacturing, and construction where per capita product was more than 150% that of the agriculture sector and about 60% higher than the economy's average (Thillainathan, 1976). It appears that there is a close correspondence between the ethnic groups and their occupational specialisation.

In 1970, the income of 49.3% of all households in Peninsula Malaysia received income was below the poverty line in 1970 (Malaysia, 1976:160) and inequality was high, the Gini ratio (Gini coeeficient) being 0.513. The urgency of the inequality problem is not because it is particularly serious at that time (Malaysia's Gini index is compared with other countries at the same stage of development), or that it is increasing too rapidly, but like the incidence of poverty, it is due to its close correspondence with the various ethnic groups in the country. The situation is worsened by the fact that some states are so predominantly inhabited by one ethnic group, which consequently led to regional imbalances. Hence, the precariousness of the Malaysian situation stems from the fact that inequality has important racial parallels, which is also accompanied by racial specialisation in economic activities as discussed above. This inequality is not only limited to income distribution, but also wealth ownership.

One of the most popular explanations for the differentials is that inequality is associated with the historical development of the country. The colonial British found that the Central West Coast of Malaysia was rich in tin deposits and the environment particularly suitable for rubber cultivation. In order to exploit these lucrative resources, the labour shortage which existed then was supplemented by the immigration of Chinese and Indian labourers, which in later days led to the creation of the Malaysian plural society. Thus, the seed of regional and racial imbalances was sown consequently to the colonial annexation since the immigrants were concentrated in the relatively progressive states, where wider and better opportunities were available while most of the indigenous population remained in less developed states. At the same time, measures were also taken to prevent the entry of non-Malays from participating in rice cultivation so as to maintain its malay “character”.

When the country obtained her independence, the socio-economic structure was inherited almost intact. And the policies pursued during the post-independence era, while achieving a rapid rate of growth and a relatively high per capita GNP, also contributed to the existence of widespread poverty and increasing inequality. The agriculture sector, then main source of employment in the economy, continued to develop along dualistic lines: the estate sector with relatively high productivity and the traditional activities of rice and rubber smallholdings with low productivity. Rural development programmes tend to accentuate the existing inequalities. For example, measures undertaken to revitalise the rubber industry could only be adopted mainly on the estates, while the smallholders lagged behind. Diversification into oil palm favoured the estates too since this crop is almost exclusively an estate crop, requiring greater capital investment. Introduction of new modern technologies mostly benefited the rich since only they are able to take advantage of the facilities and technologies provided because they possess suitable land, and have the necessary capital and knowledge required. The bulk of the peasants continued to produce in the traditional, low-productive ways, scraping a living below the poverty line. The high population growth rate in the 1960s, which averaged almost 3%, did not help, and neither did the significant and sustained terms of trade loss in the same period.

Thillainathan (1976) examines the contribution of the differences in educational attainment in explaining the racial income differentials. At the time of Independence the population census showed that the mean educational attainment was 2.27 years of schooling, with the Malays having 2.09 years, Chinese 2.46 years, and the Indians 2.42 years. In 1966-67, based on a much more limited sample survey, the mean educational achievement for the country is 4.4 years, while it was 4.0 years for Malays, 5.5 years for Chinese, and 4.9 years for Indians. In the same period, one third of the Malays had no education at all while only about 18% of the Chinese and a quarter of the Indians belonged to this group. The Malays also have a much smaller proportion in every level of educational standard.

3. Malaysian Development Policies

Macro-economic policies for development in Malaysia can be broadly classified into three phases. The first is market-led development that was implemented between 1957 and 1970. When this was found inadequate, the state-led development phase was introduced between 1971 and 1985, covering three quarter of the NEP period. However, due to external factors, Malaysia had to move to the liberalisation and globalisation phase from 1986 onwards.

3.1 Market-led Development, 1957-1970

After independence, the government pursued laissez-faire policies for industrial development, but intervened extensively to promote rural development and provide sound social and physical infrastructure. The objective was to reduce the economy's dependence on rubber and tin through the provision of infrastructure and amenities that would promote private sector development. Interventions were biased towards the rural areas. Agricultural and infrastructure projects, which received 52% of spending under the First Malayan Plan, were directed mainly to the rural eastern part of the peninsula where a large proportion of the Malays dwelled. During the first three five-year plans (1956-1970) agriculture and rural development accounted for 22.3% of spending, while industrial development received only 2.4% (Bowie, 1991:69). Import substitution was promoted, but not at the expense of agriculture. Primary commodities were the main export earners during this phase. It was only when agriculture was well established, that the government began to emphasise industrial development.

Although the policies pursued yielded a rapid rate of growth, at an average of about 6%, there was relatively little reduction in the level of absolute poverty since the poor, particularly the Bumiputeras,[1] remained trapped in their traditional, low-productivity rural occupations. Income inequality data also suggest a widening gap between the rural and urban household incomes for the same period. Widespread poverty together with high unemployment, reaching 8% at the end of the period, contributed to the worst racial riots in Malaysia's history in May 1969.

3.2 The New Economic Policy, 1970-1990

Most of this phase, that is, between 1971-1985, can be described as state-led development. The aftermath of the riots saw a fundamental shift in public policies with the enunciation of the NEP in 1970. National unity was stated as the overriding goal, to be attained through the two-pronged strategy (Malaysia, 1976: 7). The first was to eradicate poverty by raising income levels and employment opportunities for all Malaysians irrespective of race and the second was to restructure society to eliminate the identification of race with economic functions and geographical locations. The premise of the NEP was that it would be implemented in the context of a rapid expansion of the economy so as to ensure no particular group will experience any loss or feel any sense of deprivation.

3.3 The National Development Policy, 1991-2000

The National Development Policy's (NDP) objective was aimed at attaining balanced development in order to create a more united and just society (Malaysia, 1991: 4). However, it is still based on the NEP objectives of eradicating poverty and restructuring society and thus continued to emphasise the strategy of growth with equity. As such, there is not much change in the fundamental policies expounded by the NDP. The main difference is that the NDP relied more on the private sector to be responsive and proactive in attaining these objectives, with the private sector remaining as the engine of growth in the 1990s, with the public sector playing a supportive and complementary role. Moreover, in view of the establishment of the ASEAN Free Trade Area (AFTA) in 2003 and the implementation of the WTO agreements, the government has also been reforming the tax structure to increase Malaysia's international competitiveness.

3.4 The National Vision Policy, 2001-2010

The National Vision Policy (NVP) is a continuation of the NEP and NDP policies contained in the Third Outline Perspective Plan 2001-2010 (Malaysia, 2001a). The NVP involves several critical thrusts (see Malaysia, 2001b) including, first, building a resilient nation by fostering national unity, inculcating the spirit of patriotism, nurturing political maturity, cultivating a more tolerant and caring society with positive values, and raising the quality of life as well as increasing economic resilience. Second, it seeks to promote an equitable society by eradicating poverty and reducing imbalances among and within ethnic groups as well as regions. Third, it aims at sustaining high economic growth by strengthening the sources of growth, the financial and corporate institutions as well as macroeconomic management. Fourth, it promotes competitiveness to meet the challenges of globalisation and liberalisation. Fifth, it involves developing a knowledge-based economy as a strategic move to raise the value added of all economic sectors and optimising the brainpower of the nation. Sixth, it also aims at strengthening human resource development to produce a competent, productive and knowledgeable workforce. Finally, its objective is also to pursue environmentally-sustainable development to reinforce long-term growth.

3.5 The New Economic Model

However, there was a serious worry that old growth model that provided decades of outstanding performance might no longer be relevant as Malaysia is caught in a middle income trap where economic growth has slowed down and prospects have weakened considerably. In order to move forward and achieve the status of being a developed nation, the government has introduced four pillars of national transformation. The first is the 1Malaysia, People First, Performance Now concept to unite all Malaysians to face the challenges ahead launched in April 2009, while the second is the Government Transformation Programme (GTP) to strengthen public services in the National Key Result Areas (NKRAs). The third, launched in March 2010, is the New Economic Model (NEM) to be achieved through an Economic Transformation Programme (ETP) while the fourth pillar is the 10th Malaysia Plan 2011-2015 (10MP) unveiled in June 2010 that provides new policy directions, strategies and programmes to enable the country to achieve a developed nation status. The NEM has laid out the new approach to realise growth potential, which is supposed to be in stark contrast to the old model, as shown in Table 1.

The urgent transformation that Malaysia needs is provided by the NEM through eight Strategic Reform Initiatives (SRIs) and the ETP. The SRIs include re-energising the private sector, developing quality workforce and reducing dependency on foreign labour, creating a competitive domestic economy, strengthening the public sector, transparent and market-friendly affirmative action, building the knowledge base infrastructure, enhancing sources of growth as well as ensuring the sustainability of growth. However, this requires political will and leadership to break the log-jam of resistance by vested interest groups and preparing the Malaysian citizens for deep seated changes in policy directions (NEAC, 2010: 16).

The 10MP plan outlines the government's approach to a comprehensive economic transformation to put Malaysia on the path towards being a high income country where the gross national income per capita is targeted to increase to RM38,850, or US$12,140, in 2015. This requires the real GDP to increase by 6% per annum, led by the services sector.

Five strategic thrusts have been identified to attain this objective:

- stimulating economic growth — a policy framework that will galvanise the private sector and promote trade and investment;
- moving towards inclusive socio-economic development — focusing support on those most in need and reforming affirmative action policies. Affirmative action policies and programmes will focus on the bottom 40% of households through programmes designed to raise earning potential. The NEP will be reformed, with a market friendly, merit based, transparent and needs-based approach;
- developing and retaining a first-world talent base — improving schools, providing skills training to those in the workforce and implementing important labour market reforms;
- enhancing quality of life — investing in housing, transport, healthcare, utilities, crime prevention and the environment; and
- transforming government to transform Malaysia — building on the success of the GTP to continue to improve government performance and transparency to best serve the people.

How successful NEM is yet to be seen.

4. Selected Specific Policies and Programmes[2]

In order to attain social cohesion through poverty eradication and social engineering, the Malaysian government has implemented several policies and programmes. Aside from a number of social safety net programmes, the notable specific policies and programmes that have the most impact on growth with equity are the following, which were implemented during the NEP period and beyond.

4.1 Education and Employment

The two main strategies employed to tackle poverty and restructure society were the universal provision of education and the creation of productive employment opportunities in the secondary (mining, manufacturing, construction, utilities and transport) and tertiary (commerce, banking, public administration, education, health, defence and public utilities) sectors. The first strategy relates to human resource development while the second is associated with the restructuring of the economy.

Education was given a central role in the NEP as a strategy to modernise society, attain social goals, equalise opportunities and promote national unity. Faaland et al. (2003: 59) stress that education was of particular importance for rural population and for urban unskilled Malays, and create a group of “elite”

Table 1: Approaches to Economic Development: the old versus NEM

Old Approach	New Approach
Growth primarily through capital accumulation. Focus on investment in production and physical infrastructure in combination with low skilled labour for low value added exports	Growth through productivity. Focus on innovative processes and cutting-edge technology, supported by healthy level of private investment and talent, for high value added goods and services
Dominant state participation in the economy. Large direct public investment (including through GLCs) in selected economic sectors	Private sector-led growth. Promote competition across and within sectors to revive private investment and market dynamism.
Centralised strategic planning. Guidance and approval from the federal authorities for economic decisions	Localised autonomy in decision making. Empower state and local authorities to develop and support growth initiatives, and encourage competition between localities
Balanced regional growth. Disperse economic activities across states to spread benefits from development	Cluster- and corridor-based economic activities. Concentration of economic activities for economies of scale and better provision of supporting services
Favour specific industries and firms. Grant preferential treatment in the form of incentives and financing to selected entities	Favour technologically capable industries and firms. Grant incentives to support innovation and risk-taking to enable enterpreneurs to develop higher value added products and service
Export dependence on G-3 (US, Europe and Japan) markets. Part of production chain to supply consumer goods and components to traditional markets	Asian and Middle East orientation. Develop and integrate actively into regional production and financial networks to leverage on flows of investment, trade and ideas
Restrictions on foreign skilled workers. Fear that foreign talent would displace local workers	Retain and attract skilled professionals. Embrace talent, both local and foreign, needed to spur an innovative, high value added economy

Source: NEAC (2010: 15)

to provide leadership. Increased spending in the education sector supported rising enrolment in secondary school. More residential schools were established to cater for the Bumiputeras. Moreover, special efforts were directed towards increasing the level of education among the poor and among women (Bhalla and Kharas, 1992: 72). Malay women were the main beneficiaries as education enabled them to work in the modern sector. Thus, their share in total individual earned incomes of all Malays doubled between 1973 and 1987 from 16% to

32%. Moreover, by 1987, 87% of Malay women's incomes came from the formal wage-earning sector. The gain was due to a slight increase in their labour force participation rate, but more important was the structural shift from self employment in low productivity agricultural occupations to higher paying formal wage-earning jobs provided by the export-oriented labour intensive manufacturing sector (mostly generated by foreign direct investment) and the government sector (Bhalla and Kharas, 1992: 80).

The first target of the NEP restructuring was an enormous increase in Bumiputera employment at all levels in the modern sector to reflect the racial composition of the population. This was to be attained through the development of education and training programmes to raise the supply of trained manpower and by direct incentives plus administrative measures to boost their participation in the modern sector. Further, the government set preferential quotas for Bumiputera admissions to public universities, and provided subsidies to cover Bumiputera university costs, including scholarships for full-cost coverage of those selected to study abroad. Two types of training programmes, namely, training to augment the number of skilled and professional Bumiputeras so as to facilitate employment restructuring, and training to develop a Bumiputera commercial and industrial community (BCIC), were carried out.

4.2 Export-oriented Industrialisation

Malaysia began shifting her industrial policy from import-substitution to export-oriented manufacturing after 1968 which encouraged the production of light manufactures and the rise of the semi-conductor industry. While government intervened via licensing and quotas (mostly through the Industrial Co-ordination Act of 1975) and regulated prices, private sector development was encouraged in these export-oriented industries through the provision of various incentives. Since 1972, Free Trade Zones (FTZs) and Licensed Manufacturing Warehouses were set up to promote these export-oriented industries. A very significant role in industrial development was assigned to by state enterprises based on the premise that private enterprise development would result in inequity. Thus, existing agencies were strengthened, public enterprises, trust agencies and regional authorities (to push for regional balance), were established. Import substitution was reintroduced in the third phase of industrialisation when the government established the Heavy Industries Corporation of Malaysia (HICOM) in 1981 to promote heavy industries in Malaysia.

Bhalla and Kharas (1992) stressed that in creating opportunities for all, Malaysia's development strategy played a major role in alleviating poverty. Rapid growth during the NEP period, particularly in the export-oriented labour-intensive manufacturing sector (mainly through FDI) as well as the Government sector,[3] provided employment for many. This absorption of increasingly educated rural labour into the higher income occupations in the urban industrial and service sectors was the most important avenue to reduce rural poverty. Employment increased including full time positions. Substantial employment opportunities were created through labour-intensive industrialisation, especially in electronics and textiles. In the 1970s, [total employment equalled 3,339.5 thousand in 1970] 497,000 new jobs were generated by the manufacturing sector; another 402,000 in the 1980s, and many more in the 1990s (Zainal Aznam, 2001: 88).

The tightening of the labour market from the late 1980s, together with increased productivity of a more educated labour force, led to rising wage rates. Moreover, the percentage increases in government sector wages were inversely related to government salary levels; the lowest levels increased most rapidly. As a result, the rise in the share of wages in household income was fastest among the low-income groups in the urban areas, so that poverty incidence dropped in the urban areas. Income remittance to the rural households by family members who migrated to the urban areas also played a significant role in mitigating inequality and poverty incidence. In fact, it was the ability of the rural labour force to find jobs in the modern sector and subsequent remittance that helped to reduce poverty and improve the distribution of income in the rural areas, notwithstanding a number of rural development programmes that had actually (albeit unintentionally) increased income inequality.

The FTZ Act of 1971 had encouraged large inflows of FDI but this was affected by the Investment Coordination Act of 1975 (ICA) aimed at controlling the industrial development in order to ensure the attainment of the NEP objectives. However, after an amendment in 1977, FDI surged again towards the end of the 1970s and early 1980s, particularly to the petroleum and gas sector as well as the manufacturing sector. The inflow declined again in 1984, this time due to global recession and the international debt crisis. After 1985, FDI rose significantly (see Table 2) due to both internal and external factors. Internally, the recession of 1985-86, the burden of the national debt and the government financial situation all necessitated an alternative source of financing the Malaysian economic development. As such, the government eased the implementation of the ICA and replaced the Investment Incentive Act of 1968 with the Investment Promotion Act of 1986. Externally, the rise in the value of the Yen and the cost of doing business in Japan encouraged the Japanese firms to relocate their factories to where production costs were lower. Subsequently, other East Asian nations also relocated to cheaper production sites in order to maintain their competitiveness. The inflow of FDI shrank in 1993 and 1994 but surged again in 1995 and 1996. The financial crisis of 1997 together with the implementation of the selective exchange controls in September 1998 resulted in a severe contraction of FDI inflow during these two years. FDI inflow started to recover in 1999 and managed to return to its pre-crisis level in 2000, but shrank again in 2001. It recovered in 2002 to peak in 2007 before shrinking to only US$1.4 billion in 2009 despite the fact the government had liberalised 27 services sub-sectors and the financial sector that year.

Table 2: Foreign Direct Investment in Malaysia, 1983-2009, Billion US$

Year	Annual Average	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
FDI	0.7 (1983-88)	0.7	1.7	2.3	4.0	5.2	5.0	4.3	4.1	5.3	6.3	2.7
FDI/ GFCF (%)	10.8 (1981-85)	8.3	14.8	18.0	22.6	23.7	22.1	15.3	15.0	17.0	14.6	14.0
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
FDI	3.9	3.8	0.6	3.2	2.5	4.6	4.1	6.1	8.5	7.3	1.4	
FDI/ GFCF (%)	22.5	16.0	2.4	13.5	10.0	17.7	14.4	18.6	21.2	16.8	3.5	

Sources: Meerman (2008: 84) up to 2000, UNCTAD (2010)

The weakened demand of the OECD countries following the second oil price shock resulted in a recession in 1985-86. In order to avoid the recession, the Promotions of Investments Act 1986 was introduced and the government began earnestly implementing the privatisation programme adopted in 1983. Hence, there was increased liberalisation in the approach to industrialisation and a greater emphasis on exports, resulting in the liberalisation and globalisation phase of Malaysian development policy from 1986 onwards. Since the private sector was promoted as the engine of growth for the economy, the public sector was downsized, focusing mainly on providing the infrastructure and conducive environment required for private enterprises to thrive.

4.3 Rural Development

The development and modernisation of the agriculture have always been associated with the objective of poverty eradication. The May 1969 riots were attributed to the existence of very high rates of inter-ethnic inequality as a result of racial specialisation in economic activities (Malaysia,1976:6). Since the incidence of poverty in Malaysia had always been predominantly rural, it was critical that rural-based poverty reduction and income improvement programmes be implemented. Hence, high priority has consistently been placed on agricultural and rural development throughout the NEP period. The various Malaysia Plans also emphasised rural development to raise the income of the rural poor. The core of the Malaysian rural development strategy encompassed two components — the Integrated Agricultural Development Programmes (IADPs) and the regional development strategy. The IADPs were designed to revitalise and rehabilitate in situ or existing agricultural areas that faced problems of low productivity and poverty. This strategy centred on integrated, comprehensive programmes of agricultural, socio-economic and institutional development. The various development agencies specific to the IADPs provided a co-coordinated package comprising basic physical and economic infrastructure and social amenities. Regional development includes regional and land development including land consolidation and rehabilitation. The former were undertaken by regional and land development agencies such as Federal Land Development Authority (FELDA), while Federal Land Consolidation and Rehabilitation Authority (FELCRA) undertook the latter. Regional development aims to redress economic and structural imbalances between regions, slowing rural-urban migration and promoting local agricultural and industrial development.

In addition to the dual core strategy, rural development includes provision of more general institutional and agricultural support services and subsidies. Among these are extension services, research, training, subsidised credit and other essential farm inputs as well as price subsidies, processing and marketing support to reduce real costs of production and to increase efficiency in production. Other strategies to raise farmers' incomes include replanting grants and subsidies to rubber, pineapple and coconut smallholders and traditional farmers, including the promotion of rural industrialisation to generate employment as well as supplementing rural incomes. Social development programmes have complemented these strategies providing basic social amenities and community development through which positive values and self-help among rural households and youths are instilled and knowledge of better food and nutrition is communicated to rural households in order to improve health and nutritional standards.

These rural development programmes reduced poverty by raising rural income. However, since the general programmes had little targeting, they probably benefited the non-poor more than the poor. Specific programmes like the IADPs probably had similar impact since the benefits favoured households with a large tracts of land. It is possible that the IADPs did little to mitigate rural inequality.

Before the NEP was introduced, poverty incidence among, paddy farmers was among the highest in the country. Their average farm size is about 1.6 hectares[4] and has remained quite stable since 1955 despite major changes in the rice sector such as the opening of large irrigation schemes, introduction of high yielding varieties and increased mechanisation. In addition to these large investments in infrastructure, the government also introduced the guaranteed minimum price (GMP) for the purchase of paddy and provided several subsidy schemes for fertiliser, seeds, credits and pesticides. Padzim (1992) argued that the purchase prices for paddy have remained almost static since 1972, while farmers have to shoulder continuous increases in production costs, particularly that of labour. Although there were slight adjustments in the GMP subsidy, the subsidy of RM16.54 per 100 kilogrammes of paddy offered during the second planting season of 1973 remained almost unchanged for almost 20 years, until 1990, when it was increased to RM24.81 per 100 kilogrammes. In 1997, following the increase in input costs, the Government raised the GMP of paddy by slightly more than RM5 per hundred kilogrammes, from RM49.60 to RM55 per hundred kilogrammes for long-grain and from RM46.30 to RM51.69 for short grains, while maintaining the price of controlled rice grades at the same levels (Malaysia, 1999: 177).

While the paddy support policy has somewhat raised nominal incomes of farmers and reduced risks of paddy growing, it had two unintended effects. First, since the cash subsidy has made farming more profitable, it has led to small farms being bought by bigger operators displacing both owner-operators and tenants and raising the number of landless labourers. Jomo and Abdul Aziz (1996) cite Tan's 1987 study, which found that the distribution of the price subsidy is skewed with 61 per cent of the beneficiaries receiving 12.5 per cent of the total paid-out subsidy. Tan also found that the Gini ratio among rice farmers increased from 0.45 in 1981 to 0.5 in 1984. Jomo and Abdul Aziz also cite Fatimah's 1983 study indicating a highly skewed distribution of price subsidy. It is noteworthy that the cash subsidy resulted in a substantial rise in the marketable surplus, since farmers would sell their entire paddy to obtain the cash subsidy and then buy their own requirements at a lower price from the market. With farmers selling all their produce to the National Paddy Board, many of these small operators closed for lack of business.

Fatimah's (1991) analysis also showed that overall the price subsidy scheme raised profits by 28.2 per cent while the fertiliser subsidy added another 11.9 per cent. However, the benefit/cost ratios of implementing the two subsidy schemes are well below one. For Peninsular Malaysia, the ratio is only 45 per cent in the fertiliser subsidy scheme and 67 per cent in the price subsidy scheme. Tan (1987) had advocated a re-look at the national paddy policy that puts the interests of paddy farmers, accounting for less than 16 per cent of the population, above all other consumers, particularly the poor ones, and yet had such limited success in achieving its goals. The protection of the rice sector is a regressive tax on the poor: in the absence of protection the rice price would have been 19 per cent lower, in effect imposing a tax of about 5 per cent on the average household in the poverty group. The paddy farmers are locked in by a policy of institutionalised dependence on subsidies. Their dependence on a single crop manifests itself in the persistence of hardcore poverty in many rice-planting areas.

Rubber smallholders have also experienced high incidences of poverty. The long downward spiral in world rubber prices has made it a smallholder crop, since most estates have been converted into more lucrative oil palm plantations. The larger area in smallholdings implies that more people are now employed in this sub-sector than in estates, although the average rubber yield is also consistently lower than on the estates. The estate sector, due to higher volume and organisational structure, channeled output directly to wholesalers, manufacturers and exporters. Hence, the estates captured a substantial amount of the value-added. In contrast, the rubber smallholders produced mainly unsmoked sheet and scrap rubber, which was subject to high discounts charged by dealers. The situation was worsened by the necessarily arbitrary assessment of quality and moisture content of these products by the dealers.

To overcome these problems and eradicate poverty among rubber smallholders, the government established the Rubber Industry Smallholder Development Authority (RISDA) in 1972. RISDA provides replanting grants usually at a frequency less than every twenty years. The grant may be utilised for replanting of old rubber trees with improved rubber clones or any of the eighteen other crops. This assistance programme also gave rise to inequality with respect to the rubber-export cess, based on volume of exports, to fund replanting grants and rubber research. These taxes are regressive since the smallholders were taxed at the same rates as the estates although the benefits of the research cess accrued mainly to the estates that have the capacity to utilise the research findings. The replanting grant similarly favoured the estates in that they receive a full refund of their paid-out replanting cess[5] when they replant. On the other hand, the smallholders are entitled to a grant only after they replant and, even then, are repaid in annual installments (Mehmet,1986: 54). Moreover, smallholders who do not replant (and who own on average about 0.2 hectare) because of circumstances relating to loss of income or lack of land titles are perpetually subsidising those who replanted and obtained the replanting grants.

The Malaysian Government did not pursue traditional land reform in order to overcome the problem of landlessness, but developed large tracts of new lands, mainly by means of the Federal Land Development Authority financed by the government. FELDA prepared holdings large enough to support a family above the poverty line, usually by clearing forest and planting oil palm or rubber. FELDA settlers were also provided with housing, piped water, access roads, agricultural extension services, and processing outlets for their production. The authority met its "turnkey" land-development targets in all of the five-year plans since its inception in 1970. By 1973, it had settled 29,000 farming families on its schemes. One criterion for selection was ownership of less than one hectare land. Ninety-seven percent of the settlers were poor, landless or near landless Malays. Most of the settlements were, however, not in the rural, northern, agricultural states of greatest need (Perlis, Kedah, Kelantan, Terengganu) but in Peninsular Malaysia other than Selangor. The authority established new settlements through 1986 at a rate that was higher than the growth of the farming population. The total number is impressive. By 1973, it was already five percent of the Peninsula's total agricultural population (about 619,000 households in 1973). Meerman's study based on a survey conducted from 1974 showed that on average, these settlers were cultivating 10.6 hectares, had been in the settlement for 7 years and had average incomes, with low variance, that put them solidly in the third income quintile, that is well above the poverty line (Meerman, 1979: 256-61). The evidence is very strong that this pattern holds for the later settlements as well.

The FELDA approach to reducing poverty has been frequently criticised because of high costs and biased selection criteria. Its costs per beneficiary have been very high, particularly during the development phase with land clearing and planting, among others, done by private contractors. FELDA's permanent large bureaucracy, inter alia, to support settler selection, community development, output marketing and processing was also costly. By 1981, FELDA's cumulative expenditures financed by the government stood at about RM3 billion, while the total number of settler households was about 70,000. Hence, average costs per settler family were then just under RM43,000. Moreover, those settled on FELDA schemes were not the neediest among the poor, namely the citizens of the northern states, as state laws in the areas of settlement gave preference to the in-state population. Further, several studies have concluded that a considerable proportion of settlers were selected in part because of political affiliation (Mehmet, 1986: 65). Finally, it is noteworthy that, at present, settlers' children have increasingly moved to the cities. On the farms, they are increasingly replaced by foreign immigrants.

Notwithstanding these strictures, because of their large scope (as measured in area put into production), FELDA land settlements were by far the most effective among the many rural development programmes in reducing rural poverty. Up until 1990, when new settlements ceased, there were 119,406 settlers, but 6,771 are no longer under FELDA administration as they have sold their land for development (Ahmad Tarmizi, 2007). Many of the settlers have paid for the costs incurred and obtained titles to the land while the Government has repaid the loans used to develop the scheme. Many of these settlers have become quite wealthy as the value of the land alone was at least RM50,000 per acre in 2007. The model is now replicated in Sierra Leone.

In short, it can be said that while rural development programmes did improve the income and welfare of rural households, their efficacy in reducing poverty as well as redistributing income can still be improved. Moreover, while these programmes helped in poverty eradication, studies have shown that they were less effective in redistributing income among rural households since their benefits were rather unequally distributed.

4.4 Restructuring of Equity Ownership and Asset Accumulation

Other than restructuring society through eliminating the identification of ethnicity with employment, the second prong strategy of the NEP also sought to redress the imbalances in the ownership of assets and wealth in society. The NEP envisaged the creation of a BCIC in order that within one generation they would own and manage at least 30 per cent of the total commercial and industrial activities so as to become full partners in the economic life of the nation. Restructuring of the ownership of assets included financial and physical assets in all sectors of the economy. This was attained through enhancing the ownership and utilisation of land by Bumiputeras for productive development as well as the provision of financial assistance to Bumiputera entrepreneurs to gain access to the ownership of other productive assets. In the beginning, the government bought over a few notable foreign firms and established new ones, then staffed them with Bumiputera management and workers. In addition, the government made it a requirement for non-Bumiputera firms to employ Bumiputera and to bring them on board as partners. However, as the economy developed and modernised, the role of the corporate sector would expand, and as the country's financial structure became sophisticated the key to the ownership and control of wealth will be through the ownership of equity capital. Hence, the main control of assets would be through the ownership of share capital and effective management of various enterprises. It should be noted here that the acquisition of equity ownership by Bumiputeras was realised from the enlarged size of the economic pie and not through the redistribution of non-Bumiputera wealth to the Bumiputeras.

The ownership of Bumiputera share capital was targeted to increase to 30 per cent by the end of 1990, but the actual attainment fell short at 20.3 per cent (Ragayah, 2009: 51).This was attained through various means. Firstly, individual Bumiputeras have managed to step up their savings and acquire equity in the corporate sector. Secondly, the Government set up the Bumiputera Investment Fund to acquire shares reserved for the Bumiputeras. These shares were later redistributed to individual Bumiputeras who financed them through the purchase of unit trust, known as the National Unit Trust (or Bumiputera Unit Trust after 1990) set up specifically for this purpose. Finally, the remaining shares meant for the Bumiputeras were acquired by the public sector agencies that were set up to create and/or purchase stock in trust for the eventual sale to the Bumiputeras.

5. Malaysia's Achievements: Selected Indicators

5.1 Structural Transformation of the Malaysian Economy

Table 3 shows that the real gross domestic product (GDP) of Malaysia grew at an average of 6.4% over 38 years. For the first 30 years, the high growth rate is associated with the intensive growth of the manufacturing sector, which accelerated at double-digit growth rate between 1970 and 1995, with the exception of the 1981-1985 period when it slowed down considerably. In contrast, the primary sector, which grew at 4.8% per annum in the early 1970s, slowed down to a mere 2% per annum in the 1990s. However, the manufacturing sector seems to have lost its steam in the new millennium and is being overtaken by the services sector, which is now being designated as the leading engine of growth. Moreover, the government has also been trying to rejuvenate the agriculture sector as the third engine of growth. Rapid growth of the manufacturing sector in the face of a much slower rate of the primary sector (agriculture, forestry and fishing) resulted in a significant transformation of the Malaysian economy. The share of the latter declined from 29.0% in 1970 to 7.5% while the share of the industrial sector (mining and quarrying, manufacturing, and construction) rose from 31.4% in 1970 to 40.2% over the period .The share of services sector also rose from 36.2% to 55.0% to be the main growth sector.

The growth and structural transformation of the Malaysian economy had widespread implications on the growth of employment opportunities as well as the distribution of labour force by sectors. Table 3 shows that the employment share in the primary sector decreased from 53.5% to 12.0% while that of the industrial and services sector increased from 14.0% and 32.5% to 28.8% and 52.2% respectively over the 38-year period. With the rise in employment opportunities, the unemployment rate contracted, except for the mid-1980s, from 7.4% in 1970 to 2.8% in 1995 but has since then risen slightly to 3.3% by 2008. The labour market became so tight in the 1990s that some sub-sectors have to resort to imported labour from abroad, namely from Indonesia, Bangladesh and the Philippines. Although the Asian Financial Crisis of 1997-1998 and the recent global crisis have seen workers retrenched from certain sub-sectors, many have been redeployed to other sectors still experiencing labour shortage, such as certain sub-sectors in the manufacturing and services sectors as well as the agriculture sector. A number of foreign workers also returned to their respective countries.

Table 3: Composition and Growth Rates of Gross Domestic-Product and Employment Share by Industrial Origin[i]

GDP Share (Employment Share)	1970	1975	1980	1985	1990	1995	2000	2005	2008
Agriculture, Forestry & Fishing	29.0 (53.5)	27.7 (49.3)	22.9 (39.7)	20.8 (31.3)	18.7 (28.3)	10.3 (18.7)	8.6 (15.2)	8.0 (12.8)	7.5 (12.0)
Mining & Quarrying	13.7 (2.6)	4.6 (2.2)	10.1 (1.7)	10.5 (0.8)	9.8 (0.4)	8.2 (0.5)	7.3 (0.4)	9.4 (0.4)	8.1 (0.4)
Manufacturing	13.9 (8.7)	16.4 (10.1)	19.6 (15.7)	19.7 (15.2)	26.9 (19.9)	27.1 (25.3)	32.0 (27.6)	30.8 (28.8)	29.1 (28.8)
Construction	3.8 (2.7)	3.8 (2.9)	4.6 (5.6)	4.8 (7.6)	3.6 (6.3)	4.4 (9.0)	3.3 (8.1)	3.2 (7.0)	3.0 (6.6)
Services:	36.2 (32.5)	45.0 (35.5)	40.1 (37.3)	43.5 (45.1)	42.4 (47.1)	51.2 (46.6)	54.0 (48.7)	51.1 (51.0)	55.0 (52.2)
Non-Govt.	30.8 (20.5)	32.3 (22.5)	29.8 (23.6)	31.3 (30.5)	31.8 (34.4)	44.1 (35.7)	47.2 (38.1)	44.3 (41.3)	47.6 (41.3)
Govt.	11.1 (12.0)	12.7 (13.0)	10.3 (13.7)	12.2 (14.6)	10.6 (12.7)	7.1 (10.9)	6.8 (10.6)	6.8 (9.7)	7.4 (10.9)
Import Duty– Imputed Bank Service Charges	3.4	2.6	2.7	0.7	-1.4	-1.2	-5.2	-2.6	-2.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Per Capita GDP (RM)	1932	2367	3038	3599	4426	5815	8899	17138	19,052
(Unemployment:%)	7.4	7.0	5.7	6.9	5.1	2.8	3.1	3.5	3.3
Population (mill)	10.8	12.3	13.6	15.7	17.8	20.7	23.3	26.13	27.73
Per Cap Income[2] Nominal (RM)	n.a.	n.a.	3600	4581	6176	10058	13,361	18,966	25,784
(US$)			1645	1893	2287	4023	3516	5008	7457
Average Annual Growth Rate (%)		1971-1975	1976-1980	1981-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2008
Agriculture, Forestry and Fishing		4.8	3.9	2.7	4.6	2.0	0.7	3.5	2.8
Mining & Quarrying		0.4	8.9	5.9	5.2	2.9	1.1	2.9	1.9
Manufacturing		11.6	13.5	5.2	13.7	13.3	9.9	4.3	2.5
Construction		6.6	12.6	5.8	0.4	13.3	-0.1	0.6	3.8
Non-Government Services		8.5	8.4	5.4	6.9	10.4	6.0	6.0	9.3
Government Services		10.1	9.0	8.8	4.0	6.7	4.1	5.5	6.7
Total		7.1	8.6	5.1	6.7	8.7	4.9	4.4	5.7

Note: [i] 1978 prices 1970 – 1995, 1987 prices since 1990, 2000 prices since 2005.
n.a.: not available

Sources: Ragayah (2008a) and Malaysia (2008): Economic Report 2008/2009, Ministry of Finance, Kuala Lumpur

When the sectoral GDP and employment shares are compared, it can be seen that the structural transformation of the economy in terms of output has not been matched by change in the employment structure. This unbalanced share of output implies that there are sectoral disparities in labour productivity and earnings, and thus on the share of the poor and income distribution. This is also why Malaysia's development policy stresses on poverty eradication and income redistribution.

A remarkable feature of the development process of the economy is that the high growth rate throughout the period has also been accompanied by low inflationary rates. Except for 1973-74, the inflation rates have always been single digits, and the average annual inflation rate between 1971 to August 2009 is less than 4.5%.

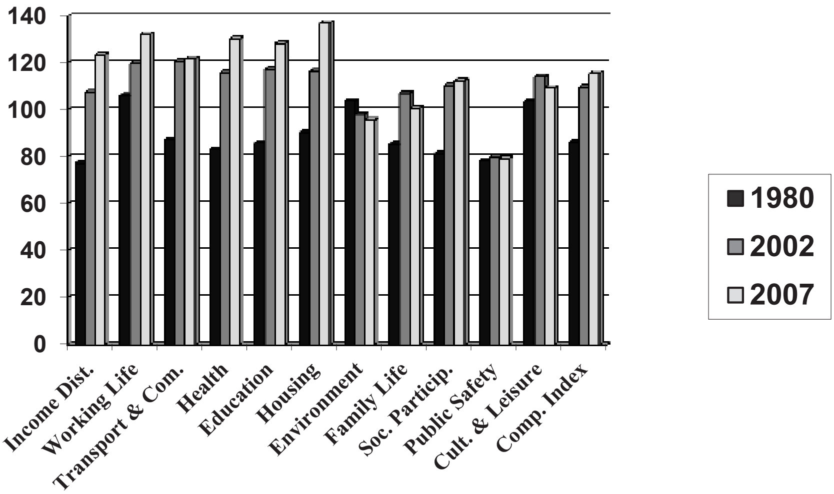
On the external front, Malaysia continued to register consistently positive balance on the merchandise account except for 1982 (see Table 4). Prior to the early 1980s, this was largely due to Malaysia's strong commodity (including petroleum) export performance, particularly in terms of volume expansion as their prices were subjected to marked fluctuations. Hence, despite the continuing negative balance on the service account, Malaysia managed to register a positive balance on the current account. However, since the early 1980s, the merchandise account was also negative, thus exacerbating the deficit in the service account. While the merchandise account did register surpluses again after 1982, it could not offset the deficit in the service account except for 1987, 1989 and from 1998 onwards. This problem was said to be the main reason for the speculative attacks on the Malaysian currency and stock markets that caused the financial turmoil in 1997-98. Fortunately, the depreciation in the ringgit resulted in a large positive net balance in the merchandise account since 1998 causing the overall balance of payments to be positive since then.

The rapid growth in manufactured exports was due largely to the intensified efforts by the government and the private sector to promote manufactured exports during the 1970s and 1980s. By 1986, the manufacturing sector has surpassed both agricultural and mining sectors as the leading source of export earnings, with an export share of 43%. The share increased further to 68.9% in 1992 and 82.9% in 1998. The importance of manufactured exports was further enhanced by the effort of the government to increase the production of higher technology products and value added goods . As a result, 80% of gross exports mainly consisted of exports of higher technology products particularly electronics and electrical goods (E&E), chemical products, and optical and scientific equipment. The significant role of E&E exports was reflected in its 68% and 62.2% contribution of manufactured exports in 1998 and 2006 respectively, or 47.7% of the total exports in 2006, 38.3% in 2008 and 39.9% in January-July 2009 period.

5.2 Quality of Life, 1980-2007

In terms of quality of life, parallel with the growth and development of the Malaysian economy, the Malaysian quality of life index (MQLI) also improved between 1980 and 2007 (with 1990 as the base year), as shown in Figure 1, by 34.1%. Most components of the MQLI also recorded improvements, especially income distribution, health and education. However, the environment index, unfortunately, has been deteriorating throughout the period, while public safety has been below par and hardly changed. At the same time, family life as well as culture and leisure improved between 1980 and 2001 but deteriorated by 2007.

Figure 1: Malaysian Quality of Life 1980-2007: Composite Index and Indices by Components



Sources: Malaysia (1999a, 2004, 2007)

5.3 Poverty incidence

On the whole, poverty eradication has received strong institutional and budgetary support at the federal, state and local level. Table 5 shows that between a quarter and one-third of development expenditure in the second to the Sixth Malaysia Plans were allocated to poverty eradication. The amounts for this purpose were not specified in the Seventh and Eighth Malaysia Plans, but are believed to be substantial. However, the share allocated under the Ninth Malaysia Plan plunged, reflecting the massive reduction in poverty incidence from 52.4% in 1970 to just 4.4% in 2004. The focus of poverty eradication strategies of the Ninth Malaysia Plan (2006-2010) is on eradicating hardcore poverty and halving overall poverty by the end of the period (Malaysia, 2006: 341).

Table 4: Current Account of the Balance of Payments, RM Million, 1970 - 2009

	1970	1982	1987	1990	1995	1996	1997	1998	2001	2005	2008	2009*
Export of goods f.o.b.	5 020	27 946	44 733	77 458	179 491	193 363	217 712	281 947	334 420	533 788	663 494	530 626
Import of goods c.i.f.	3 953	29 704	30 030	70 365	179 394	183 275	207 439	212 939	280 691	434 010	521 611	424 507
Merchandise balance	1 067	-1 758	14 703	7 093	97	10 088	10 273	69 008	53 729	99 778	141 883	106 119
Balance on services (net)	-862	-6 576	-8 409	-97 230	-19 229	-18 371	-22 748	-22 338	-8 366	-9 010	163	-803
Balance on services (% of GNP)	-5.6	-11.0	-11.0	-8.5	-9.1	-7.6	-8.5	-8.3	-2.7	-2.1	0.02	0.1
Balance on goods and services	205	-8 834	6 294	-2 630	-19 630	-8 283	-12 475	46 670	61 488	116 552	170 715	119 382
Transfers (net)	-180	-75	348	147	-2 515	-2 943	-3 345	-9 876	-8 178	-16 963	-17 495	-16 627
Balance on current account	25	-8 409	6 642	-2 483	-21 647	-11 226	-15 820	36 794	27 687	75 681	129 512	91 830
Balance on current account (percent of GNP)	0.2	-14.1	8.7	-2.2	-10.2	-4.6	-5.9	13.7	9.0	18.0	18.1	13.5

* Estimate by the Ministry of Finance

Source: Malaysia, Economic Report, various issues. Kuala Lumpur, Ministry of Finance

5.3.1 Poverty incidence by strata

Incidence of poverty in Malaysia is estimated on the basis of the poverty line income (PLI) and data here refer to only Malaysian citizens. Prior to 2004, the PLI calculation utilised the 1977 Methodology[6] (Malaysia, 2001b: 58; Ragayah, 2007), which was updated annually to reflect changes in the levels of prices by taking into account changes in the general Consumer Price Indices (CPIs). The outcome is that Malaysia has achieved outstanding progress in poverty eradication since the implementation of the NEP, as seen in Table 6. For the entire country, the total number of poor households decreased from one million in 1970 to 267,900 in 2002, resulting in the poverty incidence plunging from 52.4% to 5.1%. Over the same period, urban poverty incidence shrank to 2.0% and rural poverty incidence fell to 11.4% while urban poor households dropped from 111,800 in 1976 to 69,600 in 2002 and poor rural households shrank from 864,100 to 198,300 over the same period.

Table 5: Total Development and Poverty Eradication Allocation by Plan (RM million)

Plan Period	Average Annual Growth Rate	Total Development Allocation	Poverty Eradication Allocation	% Share
Second Malaysia Plan 1971-1975	7.1	8950	2,350	26.3
Third Malaysia Plan 1976-1980	8.6	31147	6,373.4	20.5
Fourth Malaysia Plan 1981-1985	5.1	46,320	11,238.5	24.3
Fifth Malaysia Plan 1986-1990[1]	6.7	35,300	13660	38.7
Sixth Malaysia Plan 1991-1995	8.7	54,705	13,900.8	25.4
Seventh Malaysia Plan 1996-2000	4.9	67,500	n.s.	-
Eighth Malaysia Plan 2001-2005	4.5	170,000	n.s.	-
Ninth Malaysia Plan 2006-2010	6.0[2]	220,000	4,465.3	2.2

Notes: n.s. = not specified;[i] Actual expenditure; [ii] Projected
Source: Various Five-year development plans

In 2004, the Malaysian Government revised the methodology for determining the poverty line after taking into account weaknesses in the 1977 methodology as well as other evolving realities.The incidence of poverty under the revised methodology, known as the 2005 Methodology (see Malaysia, 2006: 347; Ragayah, 2007), is higher under the new methodology. However, the trend shows that poverty incidence is still falling, with poverty incidence for Malaysia as a whole falling from 5.7%, or 311,300 households, to 3.8%, or 228, 400 households between 2004 and 2009.

Table 6: Poor Households (HH) and Incidence of Poverty (%) by Rural-Urban Strata, 1970-2009[i]

Strata	1970 Total Poor HH ('000)	1970 Incid. of Poverty	1976 Total Poor HH ('000)	1976 Incid. of Poverty	1990 Total Poor HH ('000)	1990 Incid. of Poverty	1997 Total Poor HH ('000)	1997 Incid. of Poverty
Penin. M'sia	791.8	49.3	764.4	39.4	448.9	15.0	196.5	5.2
Rural	705.9	58.7	669.6	47.8	371.4	19.3	152.9	9.4
Urban	85.9	21.3	94.9	17.9	77.5	7.3	43.6	2.0
Sabah	n.a.	n.a.	95.5	58.3	96.6	34.3	49.5	16.4
Rural	n.a.	n.a.	87.5	65.7	91.1	39.1	43.2	22.5
Urban	n.a.	n.a.	8.0	25.9	8.5	14.7	6.3	5.8
Sarawak	n.a.	n.a.	115.9	56.5	70.9	21.0	28.2	7.3
Rural	n.a.	n.a.	107.0	65.0	67.8	24.7	25.7	11.8
Urban	n.a.	n.a.	8.9	22.9	3.1	4.9	2.5	1.5
M'sia	1,000	52.4	975.8	42.4	619.4	17.1	274.2	6.1
Rural	n.a.	n.a.	864.1	50.9	530.3	21.8	221.8	10.9
Urban	n.a.	n.a.	111.8	18.7	89.1	7.5	52.4	2.1
	1999		2002		2004		2009	
Penin. M'sia	264.1	6.5	195.9	4.3	162.3	3.6	102.2	2.0
Rural	190.5	11.0	143.5	10.3	n.a.	n.a.	n.a.	n.a.
Urban	73.6	3.2	52.4	1.7	n.a.	n.a.	n.a.	n.a.
Sabah	68.4	20.1	49.2	16.0	114.2	23.0	99.1	19.2
Rural	55.7	26.0	35.4	24.5	n.a.	n.a.	n.a.	n.a.
Urban	12.7	10.1	13.8	8.5	n.a.	n.a.	n.a.	n.a.
Sarawak	27.6	6.7	22.8	5.8	34.8	7.5	27.1	5.3
Rural	24.8	10.5	19.4	10.0	n.a.	n.a.	n.a.	n.a.
Urban	2.8	1.6	3.4	1.7	n.a.	n.a.	n.a.	n.a.
M'sia	360.1	7.5	267.9	5.1	311.3	5.7	228.4	3.8
Rural	271.0	12.4	198.3	11.4	219.7	11.9	n.a.	n.a.
Urban	89.1	3.4	69.6	2.0	91.6	2.5	n.a.	n.a.

Note: [i] 1977 Methodology for 1970-2002 poverty incidence and 2005 Methodology for 2004-2009.
Source: Ragayah (2012)

5.3.2 Poverty incidence by ethnicity

Table 7 shows that although the incidence of poverty among all ethnic groups has been reduced, it is still relatively high among the Malays and other Bumiputeras.[7] Most of these are located in the rural areas. Poverty incidence among the non-Bumiputeras increased temporarily in 1999 as a result of the Asian Financial Crisis which affected the urban households more than the rural households. Based on the two years for which data are available (1990 and 1997), poverty incidence, by ethnicity, is highest among the other (non-Malay) Bumiputeras. In 2002, a Household Income Survey of Bumiputera minorities in the eastern states of Sabah and Sarawak showed very high poverty incidence, with some groups exceeding 40%. However, the population is small and the absolute number of those living in poverty is not as alarming as the survey suggests.

Table 7: Incidence[i] of Poverty by Ethnic Groups, 1970-2007

<table>
<tr><th></th><th>1970</th><th>1976</th><th>1984</th><th>1987</th><th>1990</th><th>1997</th><th>1999</th><th>2004</th><th>2007</th></tr>
<tr><td>Malays</td><td>64.8</td><td>56.4</td><td>25.8</td><td>23.8</td><td>20.4</td><td>7.7</td><td rowspan="2">12.4</td><td rowspan="2">8.3</td><td rowspan="2">5.1</td></tr>
<tr><td>Other Bumiputeras</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>36.8</td><td>17.3</td></tr>
<tr><td>Chinese</td><td>26.0</td><td>19.2</td><td>7.8</td><td>7.1</td><td>5.4</td><td>1.1</td><td>1.2</td><td>0.6</td><td>0.6</td></tr>
<tr><td>Indian</td><td>39.2</td><td>28.3</td><td>10.1</td><td>9.7</td><td>7.6</td><td>1.3</td><td>3.5</td><td>2.9</td><td>2.5</td></tr>
<tr><td>Others</td><td>44.8</td><td>44.6</td><td>22.0</td><td>24.3</td><td>22.8</td><td>13.0</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Total</td><td>49.3</td><td>35.1</td><td>18.4</td><td>17.3</td><td>16.5</td><td>6.1</td><td>8.5</td><td>5.7</td><td>3.6</td></tr>
</table>

Note: [i] 1977 Methodology for 1970-1997, 2005 Methodology for 1999-2007
Source: Ragayah (2012)

5.4 Income Distribution

Overall, inequality in Malaysia rose between 1970 and 1976 and then fell till the Gini ratio reached 0.446 at the end of the NEP period (see Table 8). However, the Gini ratio rose again till 1997 before it moderated in 1999 since the higher income classes lost relatively more than the lower income classes. The Gini rose post-crisis to 0.462 in 2004 but went down to 0.441 in 2007 until 2009.

5.4.1 Income distribution by strata: rural and urban

Table 8 shows the state of income distribution both in the rural and the urban areas which exhibit similar trends over the NEP period. The Gini ratio for rural households rose between 1970 and 1976 but fell thereafter to 0.409 by 1990. In the urban areas, the Gini ratio also followed the same pattern. However, the trends in income distribution in the rural and the urban areas diverged during the 1990s. The direction in the rural areas replicates the overall trend, where there is also an increase in the Gini ratios until 1997. Since then, rural inequality moderated to 0.388 in 2007 but crept up again to 0.407 in 2009. Urban income inequality continued to fall until 1999, after which it also started to rise to reach a local peak of 0.444 in 2004 before moderating to 0.423 in 2009. Income disparities between urban and rural areas remained high. It managed to come down to 1.7 in 1990 but rose again to 2.11 in 2002 and 2004 before falling to 1.85 in 2009.

Table 8: Distribution of Household Income by Strata: Malaysia 1970-2009

Mean Income of Households (RM), Gini & Disparity Ratios	1970	1976	1990	1997	1999	2004	2007	2009
Overall								
Gini Ratio	0.513	0.529	0.446	0.470	0.443	0.462	0.441	0.441
Mean Income	264	514	1163	2606	2472	3249	3686	4025
Rural								
Gini Ratio	0.469	0.500	0.409	0.424	0.418	0.397	0.388	0.407
Mean Income	200	392	927	1704	1718	1875	2283	2545
Urban								
Gini Ratio	0.503	0.512	0.445	0.427	0.416	0.444	0.427	0.423
Mean Income	407	830	1591	3357	3103	3956	4356	4705
Disparity Ratio								
Urban:Rural	2.1	2.19	1.70	2.04	1.81	2.11	1.91	1.85

Note: Figures from 1970 and 1976 refer to Peninsular Malaysia only.
Sources: Ragayah (2010)

5.4.2. Ethnic income distribution

In 1970, the degree of inequality among the major ethnic groups in Peninsular Malaysia was highest among the Indians, followed by the Malays/Bumiputeras and lowest among the Chinese (see Table 9). Between 1970 and 1976, intra-ethnic income inequality worsened with Chinese exceeding that of the Malay and Indian households. Since then, overall inequality among the Bumiputeras moderated till 1990 to 0.429 after which it fluctuated to 0.440 in 2009, while Bumiputera rural inequality narrowed throughout the period since 1976. Bumiputera urban inequality followed the same trend except it had an upturn in 2004. Overall, urban inequality among the Chinese fell from 1976 to 2004 while rural Chinese inequality fell between 1976 and 1990, then widened in the 1990s before narrowing in the new millennium. Note that the Chinese inequality matched that of the Bumiputeras in 2007, but Bumiputera intra-ethnic inequality exceeded that of the Chinese in 2009 to match that of the overall Malaysian inequality trends. Inequality among the Indians shows a falling trend between 1970 and 1990 after which it oscillated to an upward trend till 2009, although the degree of inequality remained the lowest among the three groups. Indian rural inequality also fell till 1990 after which it shows an upward trend, but Indian urban inequality narrowed throughout the period.

For most of the years since the implementation of the NEP where data are available, intra-ethnic inequality is the highest among the Bumiputeras, reflecting the unequal distribution of the NEP benefits, although the trend is downward compared with 1976. Given the general presumption that the NEP was highly skewed towards the better connected, it is surprising that the recent Ginis are not higher than the statistics have shown.

This unexpected outcome may be explained in several ways. First, the random sampling of the Household Income Surveys, which are the sources of these data, might not capture those with extreme incomes. Hence, the very wealthy might not be included in the surveys. Second, the benefits may not be reflected just in income, but also in the form of wealth. At the same time, other policies, especially the provision of training and education as well as labour market policies, helped to create a substantial Bumiputera middle class that prevented the distribution of income from being too skewed.

Table 9: Distribution of Household Income by Ethnic Groups, Malaysia: 1970-2009

Mean Income of Households (RM), Gini & Disparity Ratios	1970	1976	1990	1997	1999	2004	2007	2009
Malay/Bumiputera								
Gini Ratio: Overall	0.466	0.494	0.429	0.448	0.429	0.452	0.430	0.440
Rural	0.419	0.471	0.410	0.408	0.397	0.391	n.a.	n.a.
Urban	0.445	0.478	0.435	0.431	0.411	0.436	n.a.	n.a.
Mean Income	177	345	931	2038	1984	2711	3156	3624
Chinese								
Gini Ratio: Overall	0.455	0.505	0.419	0.416	0.401	0.446	0.432	0.425
Rural	0.399	0.486	0.392	0.420	0.423	0.396	n.a.	n.a.
Urban	0.474	0.507	0.428	0.402	0.401	0.437	n.a.	n.a.
Mean Income	399	787	1582	3738	3456	4437	4853	5011
Indian								
Gini Ratio: Overall	0.463	0.458	0.390	0.409	0.404	0.425	0.414	0.424
Rural	0.363	0.388	0.341	0.362	0.377	0.422	n.a.	n.a.
Urban	0.502	0.504	0.424	0.403	0.400	0.343	n.a.	n.a.
Mean Income	310	538	1201	2244	2702	3456	3799	3999
Disparity Ratios								
Chinese: Bumiputera	2.25	2.28	1.70	1.83	1.74	1.64	1.54	1.38
Indian: Bumiputera	1.75	1.56	1.29	1.42	1.36	1.27	1.20	1.10

Note: Figures from 1970 and 1976 refer to Peninsular Malaysia only; n.a. : not available
Sources: Ragayah (2010)

Table 9 also illustrates that non-Malay mean incomes continue to outstrip that of the Bumiputera mean income. However, the growth rate of Bumiputera household income exceeded those of the non-Bumiputeras during the New Economic Policy 1971-1990 (NEP), resulting in a narrowing of the inter-ethnic income disparities to 1.74 between Chinese and Bumiputera households and to 1.29 between the Indian and Bumiputera households. This decline in inter-ethnic income disparity, together with the reduction in inequalities within all major ethnic groups, accounted for the overall improvement in the distribution of income during the NEP period. Nevertheless, in the 1990s the rate of increase of household income among ethnic groups changed again. As a result, the income disparity ratios between Bumiputeras and Indians as well as Chinese widened in 1990s narrowing again from 1999.

5.5 Wealth Ownership

Very little information is available on wealth or asset inequality in Malaysia. The redistribution of wealth has always been from the ethnic, rather than class, dimension. When the NEP was launched, the equity share ownership of Bumiputeras was only 2.4% and the NEP target was 30% by 1990. However, the official figures, shown in Table 10, indicate that this target has never been achieved. Nevertheless, this has been challenged, for example, by the Centre for Public Policy Studies (2006) that claimed Bumiputera share in equity stock quoted on the local stock exchange was 45% as at 30 September 2005. The main difference in the estimation is due to the different methodologies used and assumptions made. Based on the official data, the Chinese share has always exceeded the Non-Bumiputera target of 40% after 1970, while the Indian share languished at 1.1%.

Table 10: Malaysia: Share of Capital Ownership and Population of Major Ethnic Groups, selected years (%)

Year	Bumiputeras		Chinese		Indians	
	Capital	Population	Capital	Population	Capital	Population
1970	2.4	52.7	27.2	35.8	1.1	10.7
1975	7.8	54.7	27.9	34.2	1.2	9.0
1990	19.3	57.8	45.5	27.1	1.0	7.6
2000	18.9	65.0	38.9	26.1	1.5	7.7
2004	18.9	65.9	39.0	25.3	1.2	7.5
2006	19.4	66.2	42.4	25.1	1.1	7.5
2008	21.9	66.0	34.9	25.2	1.6	7.6

Sources: Malaysia (1976, 1991, 2006, 2010)

The Chinese have by and large dominated ownership of all types of commercial premises and their shares have also been increasing, as shown in Table 11. Bumiputeras and Indians have also managed to raise their shares (except for single storey premise for the Indians), but their shares are paltry compared with the Chinese. All these increases are at the expense of the Others, whose shares have been reduced from about one third in 2002 to only 5.1% in 2007. However, it may be possible that as Bumiputeras are not very business-oriented, the bulk of the RM54 billion worth of quoted stock assigned to Bumiputeras since 1971, must have been invested somewhere else, for example, residential properties for the own use as well as for rentals. This is because it has been acknowledged by the Prime Minister that only RM2 billion of the RM54 billion remained in the hands of the Bumiputeras by 2009.

Table 11: Ownership of Commercial Premises by Ethnic Group (%)

Types of Premises	2002				2005				2007			
	B	C	I	O	B	C	I	O	B	C	I	0
Building	10.1	60.7	3.5	25.6	12.7	72.6	5.4	9.3	15.7	75.7	4.3	4.3
1 Floor	18.3	62.6	3.9	15.2	29.8	57.6	6.3	6.3	24.9	69.0	3.8	2.3
2 Floor	9.2	66.2	3.8	20.8	10.0	76.7	5.0	8.3	13.8	78.5	4.2	3.5
3 Floor	6.1	56.5	2.8	34.5	6.3	76.4	4.5	12.8	14.3	75.8	3.6	6.3
>3 Floor	6.9	50.4	3.2	39.5	8.9	73.3	6.6	11.2	8.6	79.2	5.7	6.5
Business Complex	5.6	42.6	2.5	49.3	11.7	69.4	2.1	16.9	29.2	61.9	2.9	6.0
Industrial Premise	2.6	44.8	0.8	51.9	4.8	70.4	1.5	23.3	3.5	87.2	1.5	7.8
Hotel	7.0	38.3	1.5	53.2	14.3	69.3	3.2	13.2	20.8	54.0	2.7	22.5
Total	8.2	55.8	2.9	33.1	11.7	71.9	4.6	11.8	15.0	76.1	3.8	5.1

Notes: B: Bumiputers; C: Chinese; I: Indians; and O: Others.
Source: Mat Noor (2008)

6. Lessons for Other Developing Countries

The above discussion shows that the Malaysian economy has on the whole achieved high growth for the past four decades, apart from the recessions of the mid-1980s, the Asian Financial Crisis of 1997-1998 and the global crisis of 2008-2009. This rapid growth has transformed the structure of the economy whereby the manufacturing sector overtook the agricultural sector as the leading sector since 1987. Together with rapid economic growth, reduction of poverty incidences has also been quite phenomenal and is more significant when the Malaysian PLI appears to be amongst the highest in the developing world (Bhalla and Kharas, 1992:64). Poverty alleviation was due to rapid growth following export-oriented industrialisation mainly through FDI and widespread government interventions. However, Malaysia's record in achieving equitable income distribution has not been exemplary compared with its poverty eradication record. Hence, what are the lessons that other countries can learn from the Malaysian experience, either to emulate whenever possible or the pitfalls to avoid?

The first lesson is that Malaysia in the beginning provided large budgetary allocations to develop her agriculture sector, where she had comparative advantage. Public investment in infrastructures also encouraged the private sector to invest in agriculture, making Malaysia excel in perennial crop production that made possible the financing of the industrial sector. Yet, the agriculture sector was not crippled by heavy taxes in carrying the burden of development. This success also enabled the attainment of political stability in a multi-ethnic society, which later was very important in attracting foreign investment, particularly into manufacturing sector that fuelled further growth when agriculture lost its steam. And now when manufacturing is slowing, emphasis is on the services sector.

Second, one of the causes of the 13 May 1969 bloody riots was the existence of an acute situation of horizontal inequalities between ethnic groups. In order to reduce these inequalities, the NEP was implemented with the stress on growth with equity. Although the NEP has been heavily criticised, understandably particularly by the non-Bumiputeras, Meerman (2008: 94) concludes that "on balance, the NEP was constructive. Despite its costs, in larger perspective, the structural transformation promoted by the NEP has been a key condition for peaceful and synergistic cooperation among Malaysia's ethnic communities. It contributed strongly to Malay security and self-confidence while permitting the non-Bumiputera communities to grow and prosper. The NEP also facilitated economic development by accelerating educational progress and other measures that reduced poverty, particularly within the agricultural community. These positive outcomes, plus the political stability that resulted from them, presumably outweighed the attenuating factors of the NEP".

Third, the government managed to create an environment that is consistent with high growth through trade friendly policies, major investment in infrastructure, rapid development of human capital and attracting FDI. Salleh and Meyanathan (1993) revealed that the flexibility of the Malaysian government was a crucial factor. They argue that, during the NEP, despite having a monolithic structure, the Malaysian government has repeatedly shown itself willing to adapt to changing conditions. It has to walk a tightrope of compromise between growth and equity concerns and, while changing conditions have caused it to shift its emphasis from time to time, it has resisted the temptation to drop either objective. It has even been willing to pronounce certain policies and their implementation as outright failures. This is continued beyond the NEP when the government was willing to introduce the capital control measures in September 1998 and then gradually reduce them (with the only control left is that the Ringgit is not tradable internationally) and the introduction of the NEM.

Fourth, the provision of widespread education was the sharpest tool in eradicating poverty. It was education and training that enabled the productivity to be increased as well as the restructuring of society and the creation of the Bumiputera "new middle class". The latter also helped to ameliorate income inequality. While "glass ceilings" still exist for women in their climb to top professions, there is no official restriction on or bias against women to pursue their education to the highest level.

Fifth, society has played some role in redistribution, especially in poverty eradication, with AIM (Amanah Ikhtiar Malaysia) playing a significant role. At the corporate level, corporate social responsibility should be enhanced. Efforts by non-governmental organisations, some of which are already doing good work and at the individual level, such as setting up orphanages to cater both for orphans as well as children of single parents or from broken homes, should be strengthened.

While the first five lessons are based on what Malaysia had done right, the next several lessons are pitfalls that other countries should avoid. Despite the successes of the NEP, it has also given rise to another source of inequality, which is what Abdul Rahman (2008) describes as state-government-party collusion or previously described as corruption, cronyism and nepotism (Gill and Kharas, 2007: 1). This relationship has been documented by Gomez (1990, 1994), Gomez and Jomo (1997) and Saravanamuttu (2008), who uses "party capitalism" to portray such collusion. This is defined as the "ownership and control of the economy by political parties such as UMNO, MCA and MIC. It also connotes linkages of parties to noted business tycoons or "cronies", many of whom are engaged in rent-seeking enterprises … the common thread is that the leaders of ruling parties have been able to use their political clout and influence to earn enormous rents for themselves or their political cronies and families. In some cases, personal and family assets is linked with that of the political party which the political leader controls. Another important aspect of party capitalism is also the breeding of business cronies who are beneficiaries of contracts and rents given by the political leader and/or his political party" (as quoted by Abdul Rahman, 2008). This phenomenon transcends ethnicity, as described in a case study by Morishita (2007) and enabled a selected section of the society to accumulate income and wealth very rapidly, thus, accentuating inequality. It is these vested interests that the NEM wants to address.

Second, Malaysia's investment in primary education is significantly lower than that for tertiary education as Malaysia spends about five times more per pupil on the latter. This is a higher ratio than high-income countries such as Singapore, the UK and the US and a pattern closer to that of less developed countries (Lee and Nagaraj, 2006). Still, early childhood education and achievement cannot be over-emphasised. Lee and Nagaraj (1995) have shown that the most important determinant of achievement in Malaysia, whether academic, earnings or occupation, is prior achievement. The disproportionate financing of the different levels of education has resulted in large classes and high pupil-teacher ratios at the primary level that have long-term consequences on the quality of basic education as well as of graduates.

Third, in order to protect the low income groups (the bottom 40%) during times of economic crises, the government needs to set up formal social safety net programmes that target the deserving parties. According to the NEM (NEAC, 2010:115), effective unemployment insurance can provide a short-term solution and usually does a better job than strict reliance on severance payments. Currently, the government spends a hefty amount on subsidies that are not targeted at the poor, where, for example, more than 70% of the beneficiary of the subsidies for fuel products has been enjoyed by the higher income groups (NEAC, 2010: 138). Possibly the government can redirect part of the saved petroleum subsidy to target the needy.

Fourth, Malaysia has followed the path of labour-intensive export industrialisation for too long, requiring more than two million unskilled foreign workers that have also led to various problems. Local producers are said to prefer foreign workers as they are seen as captive labour that are willing to work for low wages to help maintain their short-term competitiveness. This has resulted in Malaysia not climbing the technology ladder fast enough and her citizens unemployed because they are not willing to undertake the "3D" jobs (dirty, drudgery and dangerous) or mired in low income, while many with skills or tertiary qualifications have left for greener shores. Malaysian employers must be made to realise that their long-term sustainability is in question since studies, such as by Tham and Liew (2004, 2010), have shown that foreign workers have a negative impact on labour productivity as most of these workers are hired at jobs that do not require much skills and may have contributed to the declining capital-labour ratio in the manufacturing sector. They need to move up the capital and technology ladder and ensure that local workers acquire the skills to match the more sophisticated technology. The NEM (NEAC, 2010: 167) also recommends a more flexible labour market and better use of foreign workers to ensure a more robust growth in wages for the bottom 40%.

Fifth, with the improvement in health and quality of life, the average life expectancy has increased to 71.6 years for males and 76.4 years for females in

2008 (Malaysia, 2010: 269). This means that retirees have 15-20 years more to live as most of the private sector is still sticking to 55 years as refirement age,[8] which is early relative even compared with other ASEAN countries. The government has raised the retirement age of public employees to 58 years. This early retirement has brought forth the problems of inadequate retirement fund. While it has other implications, one way out of this (and at the same time retaining experienced workers) is to increase the retirement age.

Finally, since most of the taxes have become less progressive, the government should have the willpower to quickly implement the goods and services tax, which is claimed to be progressive[9] (it will be implemented in 2015). At the same time, a study should be carried out to explore the viability of introducing "levelling taxes", such as hereditary or wealth taxes.

However, not all the factors that contribute to Malaysia's success are due to government policy. A number of factors are fortuitous and due to sheer good luck. According to Meerman (2008: 83), many developing countries were resisting foreign investment, for example China, when Malaysia made itself an attractive site for FDI. FDI was lower in Japan, Korea and Taiwan at similar stages in their development than in Malaysia from l970 to 2000. So Malaysia had a sort of first-mover advantage. Had the competition for investment been as strong during that period as it has now become, presumably less would have come to Malaysia.

Second, Malaysia is fortunate to have greatly increased the production of petroleum and natural gas by 1974, which generated very large cash surpluses. Before the price of primary good plunged in 1985, they accounted for nearly a quarter of exports, and in recent years they have accounted for more than ten percent of total GDP (Meerman, 2008: 84). Moreover, petroleum taxes accounted for 16% of total taxation in 2005. Cash surpluses generated by Petronas, the national state-owned petroleum company, have often covered many off-budget expenditures, including some investments but also covered losses of certain state enterprises, while wasteful, have saved Malaysia from having a huge foreign debt.

Third, Malaysia has also been somewhat protected from heavy consequences during the several economic downturns. For example, during the recessions of the mid-1980s, rural poverty declined more rapidly than urban poverty, due to the resurgence of rural income, which was brought about by three factors. First, global decline of price of commodities produced by rural households were limited by depreciation of the exchange rate that increased the price of commodities in Malaysia. In some cases, this led to increased output as well. Second, lowering of taxes and other export duties on rubber and oil palm raised take-home income. Finally, in contrast to urban households, rural households diversified their income sources by increasing self-employment.

During the Asian Financial Crisis of 1997-1998, similar forces were at work, especially the depreciation of the Ringgit increased the take home income of farmers.

7. Concluding Remarks

Malaysia's achievement of attaining growth with equity has been touted as an example of a successful development model for many developing countries, especially for those with heterogeneous ethnic composition but abundantly endowed with natural resources. However, her path of development was no means smooth and without problems. Meerman (2008: 107) concludes that "aspects of the NEP and some of the government's strategic economic choices imposed high costs in financial losses and opportunities foregone. The combination of political patronage and the NEP-driven attempt to use enormous financial resources in a quixotic attempt to develop a Bumiputera entrepreneurial class also accelerated deterioration of institutions in public life and workplace behaviour. The unwritten "rules of the game" now in ascendancy with respect to patronage politics and the legitimacy of rent seeking rather than productive behaviour may be taking a toll in national unity, as well as slowing economic development, e.g., by reducing the productivity of public investment". Moreover, a group of economists who are experts on various aspects of the Malaysian economy has published a book entitled "Graduating from the Middle: Malaysian Development Challenges" that examines the reasons why Malaysia is facing problems to graduate to a high income country as envisioned by the NEM and propose measures on how to move forward. Thus, any country trying to emulate the Malaysian experience must also be aware of its limitations.

Lately, there have been increasing calls for the NEP to be ended as it has outgrown its usefulness and stand in the way of attaining national unity and a progressive and competitive economy. The NEM has been formulated to address these problems and how to move forward to a high income country, where one of its three main goals is inclusiveness through pro-poor growth. It claimed that its approach will be on market-friendly affirmative action (that does not give rise, contribute or perpetuate distortions in the economy) for the bottom 40% of households, ensuring equitable and fair opportunities through transparent processes, allowing access to resources on the basis of needs and merit and having sound institutional frameworks for better monitoring and effective implementation while equitable wealth distribution and social justice should emphasise equal opportunity rather than outcomes as in the past (NEAC 2010: 90). In principle, the NEM has sound strategies as many of the reform methods are similar to what have been suggested before (see Ragayah, 2009). However, the big question is how the government can change the mind set and attitude of the workers, especially in the public sector, to produce the expected productivity gains. The government must be serious in implementing all the strategic reform initiatives. History has shown that growth can cause income inequality to narrow or widen, depending on structural factors as well as the policies implemented by the government of each country.

Notes

1. Literally translated as sons of the soil.
2. Most of this section is extracted from Ragayah (2008a and 2008b).
3. Through the implementation of "*Operasi Isi Penuh"* (Full Employment Operation) that raised the public sector workforce from 398,000 in 1970 to 804,000 in 1983.
4. The small size of paddy farms had been identified as one of the major causes of the high poverty incidence in the rice sector. Farm-size growth has been constrained by factors such as multiple ownership, policy interventions favouring retention of land ownership and cultural attachment to land.
5. The replanting cess is reserved for replanting and does not form part of central government tax revenue.
6. Under the 1977 Methodology, there were only three PLIs for Peninsular Malaysia, Sabah and Sarawak, differentiated by prices for these three regions and slight differences in their consumption baskets.
7. Other Bumiputeras are those considered "sons of the soil" apart from the Malays. They include the *Orang Asli* and the "original" Portuguese in Peninsular Malaysia and various other ethnic groups in Sabah and Sarawak. In principle, they are also eligible for all the Bumiputera entitlements.
8. The banking sector has just recently announced that local banks and the National Union of Bank Employees (NUBE) have agreed to raise the retirement age for employees from the current 55 years to 60, although the implementation is voluntary (New Straits Times, 30 August 2010).
9. In their presentation to the Administrative and Diplomatic Service Officers Alumni Association on 4 March 2010, the Ministry of Finance explained that the proposed goods and services (GST) tax model is progressive as the estimated tax burden for poor (2.17%) and low income group (2.43%) are lower than high income group (2.74%).

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