In this chapter, the circumstances leading to the conceptualisation and implementation of New Economic Policy (NEP) and National Development Policy (NDP) are examined in the light of pro-active role played by the state in rural poverty alleviation programmes. The policies pursued by the government have been manifested in the form of institutional framework established to implement and monitor poverty alleviation programmes. In this context, five year development plans provided necessary direction to utilise the funds.

**New Economic Policy (NEP)**

In the immediate post-independence period, the *laissez faire* policy of the former British colonial regime continued to be followed, although even then the national government had begun to play a bigger rôle in bringing about development, particularly in the rural areas\(^1\). At the same time, it also promoted further growth of tin mining and rubber growing.

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industries - the mainstay of the national economy at that time - as well as stimulated the growth of the nascent manufacturing sector. This free market approach failed to produce the desired results. As a result, the country experienced high incidence of poverty; unemployment reached 6.6 per cent during 1967 and 8 per cent during 1970 and also region-wise economic imbalances increased. A large part of the population continued to be engaged in low income activities. These problems were further compounded as both traditional and modern economic activities were, by and large, based on ethnic lines and participation of main ethnic group, namely, Malays in professional and modern sectors was very low. Thus, it was against this backdrop of simmering discontent among economically weak Malays that led to, among other factors, outbreak of ethnic violence in May 1969. The violence also resulted into imposition of emergency when civil rights and freedom were curtailed. One of the immediate policy measures adopted by the government to lower discontent among economically weak Malays was the launching of the New Economic Policy in 1971 for a period of twenty years (1971-1990). NEP was purported to correct ethnic economic imbalances and eradicate poverty from the country.

In fact, Malaysia's official policy against poverty alleviation first took a clear and articulated shape in 1971 with the introduction of the NEP. Since then, basic features of the NEP have been retained even though several modifications have been made in it from time to time. Simply stated,

2 In 1970, Malays constituted 24.1 per cent of the total Administrative and Managerial position whereas Chinese were 62.9 per cent and Indian only 10.8 per cent.
poverty alleviation has remained an integral component of official policies such as the NEP, NDP and National Vision Policy (NVP), signifying the continuing importance attached to it.

Available data suggest that considerable progress was achieved in poverty alleviation since the NEP was implemented in 1971. By the end of the NEP period, i.e., 1990, poverty incidence for rural and urban areas were reduced to 21.8 per cent and 7.5 per cent respectively. Again for the whole of Malaysia, poverty incidence fell to 16.5 per cent in 1990 from a high of 52.4 per cent in 1970 (Table 1, Chapter 1).

With regard to the origin of the NEP, there were many divergent opinions with each side giving its version of arguments about prevailing compulsions leading to launching of the NEP.

One set of analysts suggest that the theoretical ideas and practical policies incorporated into the NEP, could be traced back to even before the 1957 Merdeka\(^3\). In fact, the NEP incorporated the economic interests of the then emerging Malay capitalist class, which were first expressed in a systematic manner during the two historic Kongeres Ekonomi Bumiputra (Indigenous Economic Congresses) of 1965 and 1968\(^4\). These same interests came to be reflected in the objectives and specific policies of the NEP. In

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fact, NEP was a concerted and assiduous attempt on the part of ethnic Malays or Malay elites to use ethnic violence as a justification to reassert their supremacy and at the same time, help poor Malays to get out of the poverty trap.

Indeed, long before Malaysia (Malaya) became independent and years before the NEP was formulated, Malay stake-holders - politicians, intellectuals and social elites - had repeatedly voiced their concern about the plight of the poor Malays, and accordingly called for bold remedial measures from the authorities to help them out of the poverty morass. In 1955, about two years before independence, an All-Malaya Malay Youth Congress was convened by various groups consisting of politicians, academicians, religious leaders, elites and student leaders. The convening of the Congress was prompted by an accumulated sense of apprehension and anxiety of the Malay community leaders in the wake of new political developments and increasing political assertiveness by the Chinese. On hindsight, one could note that certain resolutions adopted at the Congress ante-dated the spirit and some of the important contents of the NEP. Among the resolutions adopted were:

- to suggest to the government to set up an economic planning board to consider ways and means to redress the unbalanced economic position

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6 Ibid.

7 Ibid.
of the Malays and other indigenous communities;

- to urge the government to grant 50 per cent of mining rights to the Malays and give subsidies to Malay coconut smallholders for replanting;

- to seek the establishment of a land development scheme with a view to opening up more lands for the Malays;

- to seek the establishment of central marketing boards for rubber, coconut and other industries to enable Malays to sell their produce without having to deal through middlemen; and

- to suggest to the government to introduce legislation to oblige private industries to employ at least 50 per cent Malays out of their total employees.

Launching of the NEP, thus, should be viewed in the historical context of emerging Malay capitalist class which played an important role in designing objectives of the NEP.

A closer examination of the above resolution indicates that its contents were somewhat similar to the main objectives of the NEP, viz.,

i) reducing absolute poverty with the intention of eventually

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8 Ibid., p.205.
eradicating it, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race; and ii) restructuring society to correct economic imbalances so as to reduce and eventually eliminate the identification of race with economic function9.

In fact, both the objectives seem inter-linked. Achieving one would, in a sense, help in realising another objective. The second objective of the NEP - restructuring ethnic share of income and employment - is fundamentally tied to first objective, namely reducing rural poverty. Because a large portion of rural, low-income households are Malays, a reduction in rural poverty would narrow ethnic income disparities. The concentration of government programmes on Malays is particularly evident in rice farming and land development. The estimated 4.4 per cent annual rate of real growth of agriculture, forestry, and fishing in Peninsular Malaysia between 1970 and 1975 was accompanied by significant gains in the eradication of rural poverty10. This strong performance of the agricultural sector during the Second Malaysia Plan (1971-75) generally led to higher incomes, moving a large number of Malay households, as well as non-Malays, above the poverty line. Poverty among agricultural households fell from 68 per cent to 63 percent during the period11.


11 Ibid.
Yet again, the second objective of the NEP, namely, 'to restructure Malaysian society to correct economic imbalances, represented the economic interests of the Malay capitalists more vividly. For instance, in order to rectify ethnic economic imbalance, at least 30 per cent of the total commercial capital and industrial activities in all categories and scales of operation had to be allocated to the Malays and other indigenous communities in terms of ownership and management during 1971-1990\textsuperscript{12}. For this purpose, the government implemented programmes to support the activities of Malay entrepreneurs. Dozens of public enterprises or statutory government bodies - such as the Urban Development Authority (UDA) and the State Economic Development Corporations (SEDCs) - were established to promote the interests of the Malay capitalists, purportedly on behalf of, and in trusteeship for, the Malay community as a whole including the poor\textsuperscript{13}.

Ostensibly, the NEP was formulated against background of growing apprehension about national unity, which, in turn, was perceived as overriding national objective of the government. To justify this goal, two major arguments were given. One that national unity was unattainable without greater equity and balance among Malaysia's ethnic and other social groups in their participation in the development of the country.


\textsuperscript{13} Since the launching of the NEP, there has been a proliferation of public enterprises catering to the Malay business community. For more information on this development, see Bruce Gale, \textit{Politics and Public Enterprise in Malaysia} (Kuala Lumpur, 1981); and Lim Mah Hui and William Canak, "The Political Economy of State Policies in Malaysia", \textit{Journal of Contemporary Asia} (Manila), vol.11, no.2, 1981, pp.208-24.
Two, the national unity could not be fostered if vast sections of the population remain poor and if sufficient productive employment opportunities were not created for the expanding labour force. These arguments, however, seem untenable. Ethnic violence did not pose any serious threat to national unity and integrity as has been made out by ethnic Malays. Rather, ethnic Malays used national unity plank as "pretext" to usurp power and dole benefits to Malays in the form of reservations in the educational institutions and other benefits to alleviate their poverty. All this was made possible with the help of state intervention when emergency was imposed and civil rights and freedom were curtailed.

The first objective of the NEP viz., "to reduce and eventually eradicate poverty ... irrespective of race," apparently was to be achieved without eliminating class exploitation, without challenging the interests of the bourgeoisie, or in other words, without disturbing status quo ante. In short, all measures to "eradicate poverty" could only be carried out within a framework that did not "disturb" the interests of the bourgeoisie, of which the Malay capitalists constituted an important component. As a result, specific policies directed at "poverty eradication" actually worsened the overall state of income distribution\(^{14}\), although officially the incidence of poverty has been reduced dramatically\(^{15}\).

\(^{14}\) For more details, see K S Jomo and Ishak Shari, "Income Inequality in Post-Colonial Peninsular Malaysia", *Pacific Viewpoint*, vol.23, no.1, 1982, pp.67-76.

While the government's New Economic Policy served as the main vehicle for the interests of the Malay state bourgeoisie, it also represented the latest manifestation of the institutionalisation of communalism by the Malaysian state. In its assertion and claim to power, the Malay bourgeoisie, in no uncertain way, used the communalist strategy to further justify their supremacy without really bothering about the objective to eradicate poverty.

Thus, the Malaysian development plans [NEP] merely helped to consolidate the hold by the imperialist monopolies over the local production and resources under the garb of poverty eradication and resource distribution.

Another set of scholars point out that the objectives and policies of the NEP were formulated, and later implemented solely as a government response to the May 13, 1969 ethnic violence. This is perhaps true insofar as the physical efforts of putting together the whole contents of the document called Second Malaysia Plan 1971-75, in which the NEP was detailed, was concerned.

Yet another set of experts argued that the NEP was the product of pragmatic thinking on the desirable direction of national development, i.e., growth with equity and active government participation in the economy.

16 Hua Wu Yin, *Class and Communalism in Malaysia: Politics in a Dependent Capitalist State* (New Delhi, 1984), p.150.

17 Ibid., p.162.
and not maximum growth through *laissez faire* system which was in place ever since Malaysia gained independence in 1957. The failure or shortcomings of post-independence development strategy was one of the contributory factors to the tragic but fortunately short-lived ethnic violence of May 1969. Further, the philosophy of *laissez faire* was inadequate and incongruous for a plural society in which different ethnic groups were at different levels of economic development. Serious apprehensions were expressed that a policy of *laissez faire* would only exacerbate entrenched group differences, create resentment among those left behind (read poor) by the forces of growth and eventually lead to a breakdown in social cohesion\(^{18}\). Commenting further on the ill-effects of *laissez faire*, one scholar stated: “the most effective efforts towards eradicating or at least reducing poverty are those which are conducive to the weakening and finally replacing the *laissez faire* socio-economic system, which is a fertile breeding ground for the diseases of inequality, exploitation and poverty\(^ {19}\). This could only be counter-balanced by a certain degree of government intervention to ensure alleviation of poverty through equitable growth.

While considering the positive outcome of the NEP, it may be stated that it reduced rural poverty faster and more drastically vis-a-vis urban poverty through creation of employment opportunities, increases in income and better education and health facilities. Nevertheless, there remained regional disparities in poverty alleviation programmes. The incidence of

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\(^{18}\) Abbas, n.9, p.105.

\(^{19}\) Husin S. Ali, *Poverty and Landlessness in Kelantan, Malaysia* (Saarbrucken, 1983), p.120.
poverty in Kedah, Perak, Kelantan, Trengganu, Sabah and Sarawak continued to be higher than that of Peninsular Malaysia as a whole\textsuperscript{20}.

Another feature of the NEP was that it was predicated upon the assumption of a rapidly growing economy. This was deemed necessary with a view to provide the increased employment or economic opportunities to poor and other disadvantaged groups to enable them to get out of poverty trap and participate in the mainstream of economic activities; and ensure that distribution did not take place from the reallocation of existing wealth but from expanding new sources of wealth\textsuperscript{21}.

To rule out apprehensions among ethnic Chinese, Indians and other expatriates that the concept of "growth with equity" would not be implemented by nationalising the assets owned by them, the NEP emphasised that equity would be created through growth by further expanding the economy and no group would be forcibly deprived of its wealth. As a result, the net effect of growth was reflected in increased real income for all without creating inter-ethnic conflict or violence. Even the Second Malaysia Plan (1971-75), which coincided with implementation of the NEP in 1971, emphasised that its strategy is based on the concept of "more active participation and no disruptive distribution"\textsuperscript{22}. This helped in maintaining confidence and ethnic harmony among other ethnic groups, thereby not disrupting poverty alleviation programmes.


\textsuperscript{21} Abbas, n.9, p.106.

\textsuperscript{22} Ali, n.19, pp.100-01.
In retrospect, the goal for reducing and eventually eradicating poverty could not have been so easy to achieve. It was not until the launching of Third Malaysia Plan (1976-80) that the government had enough information about poverty to be able to plan seriously to combat it. The Mid-term Review of the Fourth Malaysia Plan (1981-85) found that between 1980 and 1983 poverty for Peninsular Malaysia had slightly increased although it had fallen in Sarawak and Sabah. The rise in poverty in Peninsular Malaysia was attributed to increased rural poverty - the urban percentage actually having dropped. These findings were far from conclusive; and another government source found a much higher rate of overall poverty in a 1982 survey (42.8 per cent).

The ultimate objective of public policy against poverty, as stated in the NEP, was to totally eradicate it. At the operational level, however, the more immediate objective remained to continuously reduce the incidence of poverty over pre-scheduled time periods. In line with this, the target during the NEP period was to reduce incidence of poverty in Peninsular Malaysia from 49.3 per cent in 1970 to 16.7 per cent in 1990. Subsequently, a new target was set, i.e., to reduce the incidence of poverty to 7.2 per cent by the year 2000. In addition, it was also targeted that the

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25 No numerical targets were set for the states of Sabah and Sarawak since there were no reliable figures on poverty incidence in those states in 1970.
incidence of hardcore poverty needed to be reduced to 0.3 per cent by that year\textsuperscript{26}.

**National Development Policy (NDP)**

Partly by the success of the NEP and partly to broad-base the development strategy in the wake of international economic and political developments, the Malaysian government launched the National Development Policy (1991-2000) in 1991. As a successor of the NEP, the NDP reaffirmed the relevance of the former by retaining its main plank of 'growth with equity'. 'Balanced Development' was the focus of the NDP in the sense that it stressed upon the need to maintain balance between economic growth and equity, between material welfare and social values, balanced regional development for national integration, balanced development of major sectors, human resource development and protection of environment and ecology. In fact, the NDP categorically targeted the areas which were left out during the NEP era.

The main objective of the NDP was to reduce relative poverty or income inequality. Reducing intra-ethnic income gap as against inter-ethnic income gap became priority of the national government during 1990s.

In view of the changed circumstances and new challenges during

\textsuperscript{26} This target was subsequently revised. The Ninth Malaysia Plan (2006-2010) has targeted to eradicate hard core poverty and bring down the overall poverty level to 2.8 per cent by 2010.
1990s, the NDP introduced several new thrusts to attain balanced development in order to create a more united and just society. These new thrusts (as explained below) served to emphasise the growing concern of Malaysians that increasing consideration should be given to non-materialistic matters in national development which encompassed, among others, the strengthening of social and spiritual values and the protection of environment and ecology.

Under the NDP, programmes for eradicating poverty, in general, continued to be implemented as was during the NEP era. However, since the problem of poverty was no longer as serious as at the beginning of the NEP period, the focus shifted towards selective implementation of programmes and projects. In particular, the emphasis was on targeting the programmes for the hardcore poor and problems associated with relative poverty, especially for those who constituted the bottom 40 per cent of the households. In implementing the programmes, efforts were made to minimise leakages and ensure that the benefits reach the targeted groups through improvements in the delivery systems and greater emphasis on human resource development.

The NDP made considerable progress in poverty reduction due to rapid growth of the economy which created employment opportunities for all, including the poor as well as implementation of various programmes.

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and projects aimed at rural and agricultural households. The rural poor benefited from various development projects, including Integrated Agricultural Development Projects (IADPs), the provision of agriculture infrastructure, replanting schemes, land consolidation and rehabilitation, and support services. These programmes enabled greater mechanisation and better agronomic practices, which raised the productivity of agricultural labour by about 6.1 per cent per annum during the Sixth Malaysia Plan (1991-95)\textsuperscript{28}. Higher productivity coupled with better prices for most agricultural commodities increased rural household income. Moreover, the booming economy offered greater opportunities in off-farm and non-farm activities that helped to reduce the incidence of poverty\textsuperscript{29}.

To deal specially with hardcore poor households, a special programme for them was introduced in 1988 which was based on relevant survey and analysis. Known as 'Development Programme for the Hardcore Poor', it involved the creation of a register and profile of hardcore poor households and the delivery of appropriate projects to meet their specific needs such as additional opportunities to increase their employability and income, better housing, food supplements for children and educational assistance. By the end of the Sixth Malaysia Plan, about 16,740 hardcore poor households benefited from income generating projects, 39,060 participated in the attitudinal change programme\textsuperscript{30} and 37,200 received direct welfare assistance, with some

\textsuperscript{28} Ibid., p.246
\textsuperscript{29} Ibid.
\textsuperscript{30} Attitudinal change here refers to development and change of mind-set of rural poor to make them more confident and self-sustaining in improving their level of knowledge, pride and skills.
households receiving more than one type of assistance. This included the upgrading or rebuilding of dilapidated houses.

To raise the income of the hardcore poor, the government launched the Bumiputra Unit Trust scheme for them in 1992. The hard core poor were provided with interest-free loans of RM5,000 to purchase shares in a unit trust. By the end of 1995, about RM75.7 million in the form of dividends and bonuses were paid to those who participated in the scheme.

The Second Outline Perspective Plan (OPP2), covering the period 1991-2000, was formulated based on the strategy and policy frame of the NDP. The OPP2 was formulated for a shorter time frame of ten years, half that of OPP1 (Fig. 1). This shorter time frame reduced the risks of setting unattainable goals and uncertainties of making development projections on which these goals were dependent upon. It offered several new dimensions in rural poverty planning. The NDP was build upon the achievements attained during the OPP1 and provided a broader framework for achieving the poverty eradication objectives within the context of a rapidly expanding economy. Nevertheless, national unity remained the ultimate goal which was fundamental in bringing about stability and

31 Zin, n.27, p.246
32 Abbas, n.9, p.117.
Fig. 1: Malaysia's Five Year Plans under the Operation Perspective Plans (OPP)
sustained development in the Malaysian society. The NDP had set the pace for Malaysia to become a fully developed [and free-from-absolute-poverty] nation by 2020\textsuperscript{33}.

As stated earlier, the NDP shifted its strategic focus to alleviate poverty among the hardcore poor and to reduce relative poverty. More specifically, the policy frame covered the following\textsuperscript{34}:

- ensuring a balanced development of the major sectors of the economy so as to increase their mutual complementarities to optimise growth;

- striking an optimum balance between the goals of economic growth and equity;

- reducing and ultimately eliminating the social and economic inequalities and imbalances in the country to promote a fair and more equitable sharing of the benefits of economic growth by all Malaysians;

- promoting and strengthening national integration by reducing the wide disparities in economic development between states and between urban and rural areas in the country;


• developing a progressive society in which all citizens enjoy greater material welfare, while simultaneously being imbued with positive social and spiritual values and an increased sense of national pride and consciousness;

• promoting human resource development, including the creation of a productive and disciplined work-force and developing the necessary skills to meet the challenges in industrial development through a culture of merit and excellence, without jeopardising the restructuring objectives;

• making science and technology an integral component of socio-economic planning and development, which entails building competence in strategic and knowledge-based technologies, as well as promoting a science and technology culture in the process of building a modern industrial economy; and

• ensuring that in the pursuit of economic development, adequate attention is given to the protection of environment and ecology so as to maintain the long-term sustainability of national development.

With regard to balancing growth with equity, the NDP introduced the following shifts in strategies to eradicate poverty and restructure society\(^\text{35}\):

• shift the focus of anti-poverty strategy towards eradication of hardcore poverty while at the same time reducing relative poverty;

\(^{35}\) Ibid., p.5.
• focus on employment and rapid development of an active Bumiputra Commercial and Industrial Community (BCIC) as a more effective strategy to increase the meaningful participation of the Bumiputra in the modern sectors of the economy;

• rely more on the private sector to be involved in the restructuring objective by creating greater opportunities for its growth; and

• concentrate on human resource development as a fundamental requirement for achieving the objectives of growth with distribution.

A quick review of the poverty alleviation programmes during 1990s indicates that significant progress was made in reducing the incidence of rural poverty i.e., from 21.8 per cent in 1990 to 10.0 per cent in 2000. During the same period, the incidence of hardcore or extreme rural poverty decreased from 5.2 per cent to 1.0 per cent. However, poverty alleviation efforts were hampered, to some extent, due to the economic slow down in mid-1997. The incidence of rural poverty increased to 12.4 per cent in 1999 from 11.8 in 1997, but with recovery of growth in the subsequent years, it again decreased to 11.4 per cent in 2002 (Table 1, Chapter 1).

Although 1990s was termed as the decade for balanced development, it witnessed very little or even negative development in terms of income distribution. The income disparity between Bumiputra and Chinese did not decrease at all. It remained static at the 1990 level, i.e., 1:1.7. But income disparity between rural and urban dwellers increased slightly
from 1:1.7 in 1990 to 1:1.8 in 1999! Similarly, Gini coefficient decreased slightly from 0.446 to 0.443 during the same period. In fact, the land development programmes, had in one way or another, improved the income levels of the poor; but there were differences in the income of the individual or households involved.

**Institutional Framework for Poverty Alleviation**

As stated earlier, the vast majority of poor in Malaysia were found in rural areas, and by and large, depended upon agriculture for livelihood. Accordingly, development of agriculture was perceived by the government as an effective strategy to alleviate rural poverty. In fact, agriculture has been the most important economic activity with respect to output, employment and foreign exchange earnings in Malaysia. The government launched many new programmes like land reclamation and optimisation of holdings, development of irrigation schemes such as Muda Agricultural Development Authority (MADA) and Kemebu Agricultural Development Authority (KADA) and infrastructure development. These programmes had direct bearing on the poor as they intended to directly benefit them. To coordinate and implement the programmes effectively and avoid their duplication, the government created institutional set-up at national level. The necessity for establishing institutions was realised even much before Malaysia became independent as is evident from the establishment of Federal Land Development Authority (FELDA) through an ordinance in 1956, a year before the independence.
Another objective for innovative institutional set-up was that prior to independence, there were no protective policy for poor smallholders’ who were engaged in cash crop production except for rubber tree replanting grants. This situation, however, changed completely when the government decided to establish separate institutions devoted to protect the smallholders with an overriding objective of poverty alleviation. In the process, besides FELDA, it established Federal Land Consolidation and Rehabilitation Authority (FELCRA) in 1966 and the Rubber Industry Smallholders Development Authority (RISDA) in 1973. Since these agencies were mainly engaged in new land development programmes as a strategy to alleviate poverty, the government set up a separate Ministry of Land Development in 1973 with the objective to coordinate the activities of various land development agencies\(^{36}\).

These agencies helped to plan, implement and monitor new land development programmes with the ultimate objective to create prosperous farming community possessing economically viable land holdings. Nevertheless, focus of their programmes was rural poor targeted to be brought above poverty line. The selection criteria for choosing farmers for the new land settlement schemes indicated their commitment to reduce poverty. One of the conditions for becoming eligible to be a FELDA beneficiary was that a person should either be landless or possess less than one hectare of land. Hence, this condition foreclosed the scope for those prospective beneficiaries who were above poverty line. Thus,

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\(^{36}\) Yin, n.16, p.154.
knowledge about the plans implemented by these government agencies was essential to understand the changes and problems involving rubber, oil palm and other crops grown by poor smallholders.

Another criteria adopted for selection of prospective beneficiary was perhaps political leanings. While beneficiaries of land development were selected from among the landless peasantry, it was evident that prospective applicants had to become politically attuned to ruling party interests, since the state exercised direct control over the selection of settlers. According to one observer, the chosen strategy not only avoided any confrontation with vested interests, but also had the additional advantage that it could be used as an instrument of political patronage. The process of converting land development into clientist support and electoral benefits has been observed by others. For example, politically FELDA was intended to prevent communist influence from infiltrating the rural areas by eliminating poverty among the peasantry. But it was observed that a considerable proportion of settlers were selected more on their political affiliation.

The role of these institutions was criticised on the ground that expenditures incurred by them in settling families were too high for the


government to bear them indefinitely. Here follows the illustration of FELDA in terms of objectives, achievements and shortcomings in order to judge the cost effectiveness of its programmes.

When FELDA was established, it had a clear goal to achieve i.e., creating smallholders by settling landless or near landless peasants in new clearings and thus ensuring them fairly high incomes\(^\text{39}\). In other words, the major objectives of FELDA were to: develop virgin land for agriculture and settlement; resettle the landless farmers; establish processing, transportation and marketing facilities; and develop society whose attitudes are consistent with the process of development\(^\text{40}\).

With regard to the development of new lands, FELDA achieved or exceeded its land development targets in all the five year plans since 1970. By the end of 1987, it launched 289 schemes and settled 106,510 people. But the latest available data (2002) indicate that the number of settlers, by and large, remained the same whereas the number of schemes were reduced to 275 with a total planted area of 853,313 hectares. However, several issues cropped up from this experience. First, the FELDA model, which was packaged as a new self-sufficient community relying on a large bureaucracy and use of private land contractors, was a high cost method of reducing rural poverty and the number of beneficiaries seems smaller.

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\(^{39}\) Ibid.

\(^{40}\) Mohammed bin Yusoff and Che Man bin Bakar, "Income Variability within Land Development in Malaysia", *Journal of Rural Development* (Hyderabad), vol.7, no.1, January 1988, p.11.
for the amount of funds invested. At the end of 1981, with only 70,000 settlers, FELDA's cumulative drawings from the government already stood at RM 3 billion\(^1\). With the average cost per settler (1984 prices) estimated at about RM55,000, it would require more than RM20 billion to settle 403,500 households estimated in 1987 on FELDA schemes, which was 200 per cent higher than the total allocation of the Fifth Malaysia Plan for agricultural and rural development\(^2\). Moreover, the costs would get higher as more and more land is opened since the latter tracts of land required more resources for development than the previous ones\(^3\).

Second, the structure and pattern of the plantation system adopted by FELDA had given rise to major problems. The fixed land-labour ratio of 8-10 acres per settler might be adequate for first generation of households, but unlikely for future generations. Thus, children of the original settlers faced limited employment opportunities and were forced into underemployment and/or migration. With the rapid growth of the industrial sector, many did leave for the urban areas, which consequently resulted into a labour shortage, particularly when the original settlers became too old to work on their farms.

Third, the FELDA model had not been able to overcome income instability due to price fluctuations in the world market and variations in output

\(^1\) Zin, n.27, p.230
\(^2\) Ibid.
\(^3\) Ibid.
caused by seasonal and other factors.

Fourth, partly due to state land laws which gave preference to their native people, only a small proportion was drawn from the land-poor states where the poverty incidence was high. Up to the end of 1986, only 17,495 of 100,413 settlers (17.4 per cent) came from the poor states of Kedah, Perlis, Kelantan and Trengganu44.

Faced with the criticism from various quarters, the Malaysian government reviewed its policy towards development agencies during 1990s, which were earlier engaged in poverty alleviation through land development programmes during 1970s and 1980s. As incidence of rural poverty had declined to 15.3 per cent in 1995 compared to 58.7 per cent in 1970, the government decided to reduce its commitment after 1995 as total expenditure incurred by these agencies was becoming too taxing for the exchequer. These institutions were made more autonomous in the sense that they were required to raise their own resources for self-sustaining. As a result, these agencies were converted into companies to enable them to run their operations on commercial lines. For example, in September 1997, the government converted FELCRA from a statutory body to a government company wholly owned by the Ministry of Finance with land consolidation and rehabilitation as its core business. The corporate mission of FELCRA as stated in its charter was to: "... to diversify into other activities that are profitable. At the same time, to plan and implement

44 Ibid.
export-oriented programmes and strive to become a successful conglomerate"45.

Thus, the institutional mechanism created by the government initially to alleviate poverty through land settlement programmes restructured the paradigm to make it more competitive in the wake of liberalisation, privatisation and globalisation during 1990s. Nevertheless, social obligations of these institutions were not completely abandoned. These were synergised with profit motive. To quote FELCRA charter again: "we will continue to implement social obligation programmes and to develop the existing estates into a more profitable sectors"46.

Several government agencies, namely, FELDA, FELCRA and RISDA contribute to a special scheme to eradicate hardcore poor, particularly among smallholders involved in export crop cultivation of rubber, oil palm, cocoa and pepper, who are affected by the commodity price downturn47.

**Five Year Development Plans and Poverty Alleviation Programmes**

The First Outline Perspective Plan (OPP1) covering the period 1971 -


46 Ibid.

1990, set the broad socio-economic objective that sought to bring about greater integration among states and regions in the country. This objective was achieved by implementing various strategies and programmes to reduce regional disparities and to bring about a more equitable distribution. The OPP1 period witnessed the completion of four five-year development plans i.e., from Second Malaysia Plan (1971–1975) to Fifth Malaysia Plan (1986–1990).

After the ethnic violence of May 13, 1969, the government became more active and gave itself a more direct participatory role in economic and social activities so as to ensure that distributive targets were achieved. In this regard, Malaysia's five year development plans played very important role as these became instrument in realising the country's developmental goals. It was indeed wise to have targets formulated in the plans, but concerted efforts were also required to ensure that the targets were achieved otherwise there would be an underlying feeling that the whole process of the plans was a whitewash to circumvent genuine dissatisfaction over social problems, giving the false notion that the aspirations have been met with good results in full swing.

Development plans were also instrumental in allocating resources, analysing poverty alleviation targets, sensitising political leadership to strictly adhere to plans objectives and pushing government machinery to ensure funds utilisation. In a sense, each plan offered a framework for the

coordination of government public expenditure and served as a principal
guide in the implementation process.

The development plans also reflected prevailing socio-economic
problems continuing to haunt the country's leadership. Although the general
emphasis of the plans and the policies derived from them had been social
in nature, the stress tended to be more economic than social, with the
pious hope that the 'economic development' would moderate social
problems.

Among the many problems which needed consistent government
priority attention in all the development plans, poverty has been mentioned
as a serious social and economic problem. The government remained a
lead player in poverty alleviation efforts by promoting income-generating
projects, providing amenities to improve the quality of life and
supplementing programmes to inculcate positive values among the poor. The
real foundation for poverty alleviation was laid during the Second
Malaysia Plan as this plan was an important phase in the long-term
development of the Malaysian economy and society. The Second Malaysia
Plan also coincided with implementation of the NEP and hence, became
launching pad for poverty alleviation. According to the Second Malaysia
Plan documents, the objectives of poverty alleviation can be achieved by
the following steps:

49 Rahman, n.47, p.3.
i) Increase the productivity and income of those who have low productivity and income by using modern techniques and better facilities. Steps that were taken included the introduction of double cropping, drainage and irrigation, market and credit facilities and financial and technical assistance50.

ii) Provide more opportunities for inter-sectoral mobility, from activities with low productivity to the higher ones in land utilisation projects, modern fishery and forestry projects, businesses and industries; greater educational and training facilities and more aid to organisations that can facilitate movements to the modern sector51.

iii) Provide various free or subsidised social services to raise the income of those in the low income groups; among the important services were water, electricity, transport, housing, schools and hospitals52.

So far, Malaysia has had successfully implemented eight five year plans starting with the First Malaysia Plan, 1966 – 1970 until the Eighth Malaysia Plan (2001-2005) and the Ninth Malaysia Plan (2006-2010) is under implementation. These plans have charted the economic development of the country, whilst giving priority to rural development. Since rural development, in a sense, is synonymous with poverty alleviation,

50 Ali, n.19, p.98.
51 Ibid.
52 Ibid.
the latter has been integrated into the national development planning agenda and became one of the core components of Malaysia's development philosophy. The summary of economic development and poverty alleviation strategies as well as the programmes implemented to achieve the objectives under various five year plans is given in a separate Annexure at the end.

Viewed from the angle of commitment to poverty alleviation, the total poverty related expenditure during different Malaysia plans had consistently been rising beginning from RM2,350 million (Second Malaysia Plan) to RM12,970 million (Fifth Malaysia Plan) and to RM28,600 million (Eighth Malaysia Plan) (Table 1). However, in terms of percentage, poverty related expenditure had declined from 31.7 per cent (Second Malaysia Plan) to 26.0 per cent (Eighth Malaysia Plan) indicative of a decline in the overall incidence of poverty. But poverty related expenditure was all time high during Fifth Malaysia Plan (36.7 per cent) mainly due to the fact that the government had initiated alleviation of hardcore poverty programmes during this period.

Under different development plans, expenditure on social sector showed progressive increase. The share of expenditure on social sector (education, health and housing) in the total government outlay increased from 24.8 per cent during Fifth Malaysia Plan to 31.6 during Seventh Malaysia Plan and further rose to 41.4 per cent during Eighth Malaysia Plan (see Table 8, Chapter 1). In the social sector, education was given top

53 Salleh, n.33, p.30.
<table>
<thead>
<tr>
<th>Plan Period</th>
<th>Total Development Expenditure</th>
<th>Poverty Eradication Expenditure</th>
<th>Per cent Increase</th>
<th>Per cent Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Malaysia Plan</td>
<td>7,415.0</td>
<td>2,350.0</td>
<td>-</td>
<td>31.7</td>
</tr>
<tr>
<td>(1971 - 1975)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third Malaysia Plan</td>
<td>21,202.0</td>
<td>6,373.4</td>
<td>171.2</td>
<td>30.1</td>
</tr>
<tr>
<td>(1976 - 1980)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fourth Malaysia Plan</td>
<td>46,320.0</td>
<td>11,238.5</td>
<td>76.3</td>
<td>24.3</td>
</tr>
<tr>
<td>(1981 - 1985)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fifth Malaysia Plan</td>
<td>35,300.0</td>
<td>12,970.7</td>
<td>15.4</td>
<td>36.7</td>
</tr>
<tr>
<td>(1986 - 1990)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sixth Malaysia Plan</td>
<td>54,705.0</td>
<td>13,900.8</td>
<td>7.1</td>
<td>25.4</td>
</tr>
<tr>
<td>Seventh Malaysia Plan</td>
<td>67,500.0</td>
<td>16,084.8</td>
<td>15.7</td>
<td>23.8</td>
</tr>
<tr>
<td>(1996 - 2000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eighth Malaysia Plan</td>
<td>110,000</td>
<td>28,600.0</td>
<td>77.8</td>
<td>26.0</td>
</tr>
<tr>
<td>(2001 - 2005)</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>


priority as its share rose from 16.1 per cent to 19.9 per cent and further increased to 25.0 per cent respectively during the same plan period. This was partly due to the government policy of developing human resources for future economic growth. But expenditure on health sector showed erratic trend as it first increased from 2.6 per cent during the Fifth Plan to 4.4 per cent during the Sixth Plan but subsequently decreased to 3.8 per cent during Seventh Malaysia Plan but again rose to 5.9 per cent during the Eighth Plan. The expenditure on housing sector showed a decelerating trend as it
decreased from 8.5 during Fourth Plan to 4.1 per cent during the Fifth Plan and to 3.9 per cent during the Eighth Plan (Table 8, Chapter 1).

To sum up, NEP and NDP succeeded considerably in achieving their poverty alleviation targets as is evident from decline in the incidence of rural poverty from 58.7 per cent in 1970 to 21.8 per cent in 1990 and to 10.0 per cent in 2000. This was made possible with the help of rural institutions which provided necessary logistics to maintain continuity and change in rural poverty alleviation programmes. To sustain these institutions, funds were allocated under various five year development plans. The philosophy of development plans was heavily influenced by the Malay statesmen and politicians, academicians, policy makers, and other stake-holders who espoused the vision to ensure that Malaysia became a developed nation by 2020 in which poverty is anathema to them.