ECONOMIC GOVERNANCE AND POVERTY REDUCTION IN MALAYSIA

by

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1. INTRODUCTION

Among all the factors that influence the rapidity and substance of economic growth, it is now clear that state institutional capacities (and related bureaucratic competence) for economic governance are among the more decisive (Evans and Rauch 1999, Rauch and Evans 2000). Among the countries that have sustained an impressive record of economic growth in recent decades, Malaysia occupies an unusual - and perhaps unique - position. It does so for three related reasons. Firstly, it is the only one of the dynamic economies of East Asia that is substantially multi-ethnic in social composition [1]; secondly, it is the first 'Muslim-majority' state from the developing world to have industrialised [2]; and thirdly it is one of the few - perhaps the only - capitalist society to have integrated commitments to poverty elimination and redistribution as central moments in its growth strategy. As a result of this combination, Malaysia warrants close investigation, both in its own right and in terms of what its experiences might have to 'say' about the relation of economic governance to poverty and its reduction in equivalent societies.

We begin this report by examining Malaysia's record on poverty, particularly over the last three decades. We then turn to an account of the country's anti-poverty policies, framed as they have been by the New Economic Policy and its successor, the New Development Policy. In section 4 we proceed to examine the structures and processes of economic governance in Malaysia, highlighting the important role of the Economic Planning Unit. In the penultimate section we present our analysis of the relation of economic governance to poverty reduction and conclude by briefly underlining the central points in our analysis and what some of their policy implications appear to be.

2. POVERTY RECORD

Officially, poverty in Malaysia is measured only in absolute terms. The Poverty Line Index (PLI) is based on the minimum requirements of a household for food, clothing and other non-food items such as rent, fuel and power.[3] At present (2002) two of the most important agencies of economic governance - the National Economic Action Council (NEAC) and the Economic Planning Unit (EPU) - revise the PLI periodically to account for new information from household surveys, or to adjust figures for inflation using the consumer price index (JBIC 2001). While the PLI does not differentiate between urban and rural areas, it is calculated to reflect the differences

[1] Singapore also claims multi-ethnic status, but in its case it is demographically dominated by Chinese who constitute about 78 percent of the population. This proportion is likely to continue to rise given the pro-Chinese bias in the country's immigration policies and the practical effects of its attempts to raise the birth rate among the professional middle classes.
[2] Turkey is the only other 'Muslim-majority' state to come close in this sense.
[3] For the food component, the minimum requirement is calculated as a daily intake of 9,910 calories for a family of five, while the minimum requirements for clothing (including footwear) are based on standards set by the Department of Social Welfare for welfare homes. The other non-food items are based on the level of expenditure of the lower income households, as reported in the Household Expenditure Survey (Rogayah 2002).

for three regions: peninsular Malaysia (in general the most industrialised and prosperous region) and Sabah and Sarawak (Malaysian Borneo).

The poor in Malaysia are concentrated largely in the Bumiputera [4] population in general (Malays and indigenous - that is, aboriginal - minorities) and particularly among Bumiputeras living in the poorer regions (Kelantan, Terengganu, Kedah and Perlis, in Peninsular Malaysia, and Sabah, and Sarawak) and more especially in the rural areas of those regions. Particular indigenous groups are also disproportionately poor. The Orang Asli, for instance, are the largest of peninsular Malaysia's indigenous minorities and despite recent attempts to target specific groups of 'hardcore poor', they consistently appear among the worst-off groups in terms of poverty and a number of other socio-economic indices. New forms of poverty are also emerging in other vulnerable groups, including single female headed households, the rural elderly and among Malaysia's growing numbers of unskilled migrant workers (Nair 2000).

In general, however, the incidence of poverty in Malaysia has dramatically declined over the past three decades. While 49.3 percent of the population were officially poor in 1970, one estimate has put the size of the poor population in 2000 at 353,400 households or about 5.5 percent of the population (Table 1) with a steady decline in the intervening years and notwithstanding the effects of the economic crisis of the late 1990s. As Table 2 indicates, poverty has disproportionately always tended to be largely a rural phenomenon. However, the disparity between the incidence of urban and rural poverty has increased in the 1990s compared with what it was in the 1970s and 1980s (Table 2), underlining the increasingly uneven economic development that impacts on contemporary Malaysia.

Table 1: Incidence of Poverty (% of Population): Malaysia 1970 – 2000

	1970	*1975*	*1980*	*1985*	*1990*	*1993*	*1995*	*2000**
Incidence (%)	49.3	43.9	29.2	20.7	17.1	13.5	8.9	5.5
Number of poor households ('000)	1606	835.1	666.1	649.4	619.4	517.2	370.2	353.4

Source: Yusoff et al (2000)
** Estimate*

Table 2: Incidence of Rural and Urban Poverty (% of Pop): Malaysia 1970-1999

	1970	*1976*	*1984*	*1987*	*1995[1]*	*1997[1]*	*1999*
Rural	58.7	47.8	24.7	19.3	15.6	11.8	13.2
Urban	21.9	17.9	8.2	7.3	4.1	2.4	3.8
Disparity	2.68	2.67	3.01	2.64	3.80	4.92	3.47

Source: Yusoff et al (2000) and Rogayah (2002)
[1] Revision based on the latest household population data.

In spite of this very substantial improvement in the incidence of poverty, in terms of income distribution, Malaysia's record has been less impressive. While current levels of income inequality as measured by the Gini coefficient, have improved compared with conditions in 1970, compared with those in the late 1950s and 1960s, they seem

[4] Literally, 'sons of the soil'.

to have worsened. Most recently, inequality appears to have increased slightly during the 1990s and appears to be worst among Malays (Table 3). Rural households earned approximately 55 percent the incomes of urban households in 1999. Again, while this urban-rural disparity represents an improvement over the disparity in 1970, it is worse than circumstances in the late 1980s (Table 4). Similarly, while the income of Bumiputera households relative to other ethnic groups had improved significantly by the mid 1980s (61 percent and 78 percent of Chinese and Indian household incomes respectively in 1984 compared with 44 percent and 58 percent respective in 1970), by the late 1990s it had declined (to 57 percent of the Chinese and 73 percent of the Indian household incomes respectively. Interestingly, this decline seems not to have been a consequence of the economic crisis as Bumiputera household income had fallen to 56 percent of that of the Chinese by 1995 (calculated from data in Table 5).

Table 3: Gini Coefficient by Ethnic Group: Malaysia, 1957-1997

	Overall	**Malay**	**Chinese**	**Indian**
1957/58	0.412	0.342	0.374	0.347
1967/68	0.444	0.400	0.391	0.403
1970	0.502	0.466	0.455	0.463
1976	0.529	0.494	0.505	0.458
1979	0.493	0.488	0.470	0.460
1984	0.480	0.469	0.452	0.417
1987	0.458	0.447	0.428	0.402
1990	0.446	0.428	0.423	0.394
1995	0.4560	n/a	n/a	n/a
1997	0.4586	0.4495	0.4188	0.4092

Source: Roslan (2001)

Table 4: Urban/Rural Distribution of Household Income: Malaysia 1970-1999

	1970	***1973***	***1976***	***1979***	***1984***	***1987***	***1990***	***1993***	***1995***	***1997***	***1999***
All	423	502	566	669	792	760	1,167	1563	2,020	2606	2,472
Urban (U)	687	789	913	942	1,114	1,039	1,617	n.a.	2,589	3357	3,103
Rural (R)	321	374	431	531	596	604	951	n.a.	1,326	1704	1,718
Disparity Ratio (U/R)	2.14	2.11	2.12	1.77	1.87	1.72	1.70	1.75	1.95	2.04	1.81

Source: Fourth Malaysia Plan, 1981-85, Mid-Term Review of the Fifth Malaysia Plan, 1986-90, Seventh Malaysia Plan, 1996-2000, Eighth Malaysia Plan, 2001-2005

Note: Figures for 1970-87 in constant 1978 prices; figures for 1990-99 are constant 1990 prices.

Table 5: Distribution of Household Income by Ethnicity: Malaysia 1970-1999

	1970	***1973***	***1976***	***1979***	***1984***	***1987***	***1990***	***1995***	***1999***
All	423	502	566	669	792	760	1,167	2,020	2,472
Bumiputera (B)	276	335	380	475	616	614	940	1,604	1,984
Chinese (C)	632	739	866	906	1,086	1,012	1,631	2,890	3,456
Indian (I)	478	565	592	730	791	771	1,209	2,140	2,702
Others	1,304	1,798	1,395	1,816	1,775	2,043	955	1,284	1,371

Source: Fourth Malaysia Plan, 1981-85, Mid-Term Review of the Fifth Malaysia Plan, 1986-90, Seventh Malaysia Plan, 1996-2000, Eighth Malaysia Plan, 2001-2005

Note: Figures for 1970-87 in constant 1978 prices; figures for 1990-99 are constant 1990 prices.

3. ANTI-POVERTY POLICY IN MALAYSIA, 1970-2001

In Malaysia, both the incidence of poverty and policy responses to it have been intimately associated with the multi-racial [5]composition of the country's population. As of 2000, about 58 percent of Malaysia's 22 million people were Bumiputera, the Chinese and Indian groups about 24 percent and 7 percent respectively, and the other groups (principally non-citizen migrant workers [6]), made up the remaining 11 percent (Hasan and Hashim, 2001). The multi-racial character of Malaysian society was originally, and substantially, a construct of British colonialism. Not wishing to disrupt the source of wealth - and thus the good will - of the Malay sultans [7], which lay in traditional subsistence agriculture and was thus dependent on the Malay peasantry, the colonizers imported Chinese migrants to work in the tin mines and Indian migrants in the rubber plantations (Snodgrass 1980, Sundaram 1984). As a consequence, the British largely left the Bumiputera alone to pursue a lifestyle that they had had for centuries. Largely shielded from colonial forms of exploitation, the Bumiputera were deprived of participation in the more dynamic, capitalist sectors, of the colonial economy. Unimbued with a 'culture of capitalism' and cut-off from control of the principal engines of the economy, the Bumiputera were effectively excluded from the benefits of economic modernisation as that developed after independence. Post-independence Malaysia, then, was burdened with deep racial and social divisions that had been 'nurtured' during the colonial period.

By the time of independence in 1957, the racial groups had long been segregated geographically and occupationally. The majority of the Malays lived in the north and eastern states of Peninsular Malaysia (ie., Terengganu, Kelantan, and Kedah) which, as agricultural states, have been relatively underdeveloped historically compared to the more prosperous regions in the western states of Peninsular Malaysia (such as Selangor, Negeri Sembilan, Perak and Pulau Pinang) where the Chinese and Indians populations were concentrated. For instance, in 1957, 88.8 percent of the Malay population lived in rural areas compared to 55.5 percent of the Chinese and 69.4 percent of the Indian populations (Roslan 2001). Either as peasants or landless labourers, the Bumiputera continued to be primarily engaged in agriculture and by 1970 they still constituted 72 percent of the agricultural work force. In contrast, the Chinese tended to work in the secondary and tertiary sectors and by 1970 they held nearly 63 percent of administrative and managerial posts (Table 6).

Table 6: Peninsular Malaysia: Employment by Occupation and Race, 1970 (percent)

Occupation	*Bumiputera*	*Chinese*	*Indian*	*Others*
Professional and technical	47	39.5	10.8	2.7
Administrative and managerial	24.1	62.9	7.8	5.2
Clerical and related workers	35.4	45.9	17.2	1.5
Sales and related workers	26.7	61.7	11.1	0.4

[5] As the terms 'racial' and 'ethnic' tend to be used interchangeably both in Malaysian and foreign commentary on Malaysia, we will adopt that practice here.
[6] Mainly from Indonesia, but also the Philippines.
[7] On which the British annexation of the Malayan territories depended.

Service workers	44.3	39.6	14.6	1.5
Agricultural workers	72	17.3	9.7	1
Production, transport and other	34.2	55.9	9.6	0.3
Total	51.8	36.6	10.6	1
Ethnic proportions	52.7	35.8	10.7	0.8

Source: Malaysia (1981), *Fourth Malaysia Plan, 1981-85*

The persistence of Malaysia's racial and class divisions eventually culminated in a series of riots in May 1969. Following the riots, the cleavages that had damaged Malaysia's early attempts at nation-building were used as a primary platform upon which to construct the nation's developmental path. Interpreting the racial divide as the principal cause of social upheaval, policymakers set upon a strategy of 'growth with equity'. This strategy was intended to ensure that the benefits of the country's economic development were equitably shared by all the racial groups.[8] Toward this end, the Malaysian government introduced the New Economic Policy (NEP) in 1970 and its successor, the National Development Policy (NDP) in 1991. Together these policy frameworks have sustained a thirty-year effort to rapidly develop the economy while eradicating poverty irrespective of race and restructuring society so as to eliminate the association of race with economic function. Through measures that gave the Bumiputera preferential treatment (in terms of employment quotas, for instance) and attempted to correct the racial imbalances inherited from colonial rule, Malaysia's development project for the last three decades has been characterised by a form of economic governance that, perhaps unique in the world, has sought to integrate poverty reduction and income redistribution in the overarching economic development strategy.

Both the existing literature and our fieldwork in Malaysia confirm that, for the most part, poverty policies during the 1990s have represented a continuation of the strategy developed over the previous twenty years under the NEP. While there have been some changes in policy direction in recent years (which will be highlighted later), any analysis of Malaysia's current efforts in poverty reduction, must begin with a discussion of the NEP.

3.1 The New Economic Policy, 1970-1990

In addition to the racial divisions in Malaysian society, an important context for the 1969 riots was the outcome of the recent federal elections. These elections - the third since the country's independence - saw the Barisan Nasional ('National Front'), the ruling party coalition headed by the United Malay National Organisation (UMNO), and including the Malaysian Chinese Association (MCA) and the Malaysian Indian Association (MIA) retain a parliamentary majority despite securing less than half the popular vote. After the elections, race riots broke out in the federal capital of Kuala Lumpur, apparently due to culturally offensive behaviour by jubilant opposition party supporters as well as the armed mobilisation by youthful supporters of an incumbent

[8] External influences, most notably from the Harvard Institute for International Development which was hired as a consultant, were essential to the formulation of Malaysia's growth with equity strategy.

chief minister who had not secured a majority in his state's legislative assembly. Military and police intervention in response to the riots enabled Tun Abdul Razak, the deputy leader of UMNO and the coalition, to stage a ‘palace coup’ with the support of critics of the incumbent UMNO leader and prime minister, Tunku Abdul Rahman.

The New Economic Policy (NEP), announced soon after the riots, was ostensibly designed to create the socio-economic conditions for achieving ‘national unity’ through redistributive policies. It had three principal objectives: to eradicate poverty regardless of race, but particular among the Malay peasantry; to restructure society to eliminate the identification of race with economic function [9]; and to redistrubute wealth to the benefit of the Bumiputera. These objectives were to be pursued through: the improvement of services such as housing, health and public utilities to benefit the quality of life of the poor; the promotion and adoption of capital-efficient modern agricultural techniques, alongside marketing, credit, financial and technical assistance designed to improve agricultural productivity and thus the income of the poor; an 'affirmative action' programme for Malays based on quotas in education, employment and the receipt of government contracts; and a restructuring of corporate equity through state funding of Bumiputera 'trust agencies' that would purchase and hold shares for the benefit of the Bumiputera as a whole (Lubeck 1992, Shireen 1998).

The success of the NEP was predicated upon rapid economic growth. Like Singapore, but unlike South Korea, Taiwan and Hong Kong, growth was to be achieved by encouraging foreign direct investment, particularly to develop manufacturing industry. [10] Malaysia’s planners assumed an average annual growth rate of 8 percent over the 1970-90 period. It was only by achieving these rates of growth that their poverty reduction and redistribution strategies (the latter designed to ensure that redistribution did not take place by means of the reallocation of existing wealth but rather from new and expanded sources of wealth) could to be successful. Furthermore, growth was necessary if the economy was to provide increased employment and other new economic opportunities for the poor.

In the event the expected growth rates were not quite achieved. While the country did experience average annual growth rates of 8.3 percent in the 1970s, in the 1980s growth rates declined to roughly 6 percent of GDP (largely due to the recession of the mid-1980s), though they were to recover to nearly 9 percent in the first half of the 1990s (Table 7).

[9] It should be noted, however, that under the NEP there was no official commitment to reducing income inequality per se. The focus was income inequality between ethnic groups and particularly between the Bumiputeras and non-Bumiputeras.

[10] Industrialisation in South Korea, Taiwan and Hong Kong was achieved largely by mobilising domestic, not foreign, capital. While Malaysia had an indigenous, if small, manufacturing sector by the early 1970s, Jesudason (1989) argues that the government opted for a foreign rather than domestic-led industrialisation strategy because the latter, in practice, would have meant handing expanded opportunities for wealth creation to Chinese Malaysians.

Table 7: Annual Growth Rates of Gross Domestic Product (%, at constant prices)

	Malaysia Five-Year Plans					
	1st	2nd	3rd	4th	5th	6th
	1966-1970	1971-1975	1976-80	1981-1985	1986-1990	1991-1995
Year	(1965=100)	(1970=100)	(1970=100)	(1978=100)	(1978=100)	(1978=100)
1	6.2	10.0	11.6	6.9	1.2	8.7
2	1.0	9.4	7.8	6.0	5.4	7.8
3	4.2	11.7	6.7	6.2	8.9	8.3
4	10.4	8.3	9.3	7.8	9.2	9.2
5	5.0	0.8	7.4	-1.1	9.7	9.5
Average	5.4	8.0	8.6	5.2	6.9	8.7

Source: Roslan 2001

Although growth rates fell short of expectations, Malaysia's performance on poverty reduction not only met expectations, but exceeded them. For instance, the Outline Prospective Plan 1 (OPP1), which was designed to put the principles of the NEP into effect, anticipated that the official poverty level would be reduced from 49.3 percent in Peninsular Malaysia in 1970 to 16.7 percent in 1990. According to official data, however, poverty was reduced in Peninsular Malaysia to 39.6 percent in 1976, 18.4 percent in 1984, and 17.3 per cent in 1987. These rates equate to a drop in the number of poor households from 791,800 in 1970 to 764,400 in 1976 and 483,300 in 1984, before rising slightly to 485,800 in 1987. By 1990, OPP1 performance targets for absolute poverty in Peninsular Malaysia, as well as for urban and rural poverty, appeared to have exceeded expectations (Table 8).

Table 8: Incidence of Poverty in Peninsular Malaysia: Targets and Achievements of NEP.

	1970	OPP1 Target 1990	Achieved 1990
Peninsular Malaysia	49.3	16.7	15.0
Rural	58.7	23.0	19.3
Urban	21.3	9.1	7.3
Bumiputera	65.0		20.8
Chinese	26.0		5.7
Indians	39.0		8.0
Others	44.8		18.0

Source: Roslan 2001

Under the NEP, while poverty reduction received higher budgetary allocations, wealth redistribution - and the hoped for social restructuring associated with it - received far more effort in terms of institution building. Most notably, PERNAS (Perbadanan Nasional or 'National Corporation') was established in 1970 to buy and develop companies, holding them in trust until such a time as they could be sold to private Bumiputera interests. Other new agencies were established to increase income and productivity of the Bumiputera (eg., Rubber Industry Smallholders Development Authority,) while agencies like the UDA (Urban Development Authority) and SEDCs (State Economic Development Corporations) were intended to carry out commercial and industrial projects aimed at attracting a greater participation of the Bumiputera. Direct state participation in the industrialisation project was effected with the foundation of PETRONAS to develop, in association with foreign corporations, a Malaysian presence in oil and petro-chemicals, and the Heavy Industries Corporation of Malaysia (HICOM), which entered into joint-venture arrangements with Japanese and other foreign corporations to develop steel, automobile and other industries. Furthermore, agencies such as MIDF (Malaysian Industrial Development Foundation), CGC (Credit Guarantee Corporation) and Bank Bumiputera were created to provide financial and infrastructure services to the Bumiputra (Roslan 2001).

Ironically, however, given the relative lack of capacity-building for poverty reduction, and yet its admirable performance, the immense effort to develop redistributive institutions - such as the 'trust agencies' indicated above - did not succeed in increasing the Bumiputera share of capital ownership as significantly as had been anticipated. From only a 2.4 percent ownership of share capital in 1970 it was hoped that by 1990, 30 percent of the share capital in Malaysian hands, would be under Bumiputera control. In the event, however, only 19.3 percent was, of which about 73 percent was owned by individuals and the rest by the trust agencies (calculated from data in Table 9). 45.5 percent of share capital continued to be held by Malaysian Chinese interests, while over a quarter (25.5 percent) was owned by foreign interests (Table 9).

Table 9. Malaysia: Ownership of Share Capital (at par value) of Limited Companies,[1] 1969, 1975, 1980, 1983, 1985, 1990, 1995, 1999

	1969		1970		1975		1980		1983		1985		1990		1995		1999	
Ownership Group	*RM m.*	*%*	*RM m.*	*%*	*RM m.*	*%*	*RM m.*	*%*	*RM m.*	*%*	*RM m.*	*%*	*RM m.*	*%*	*RM m.*	*%*	*RM m.*	*%*
Malaysian residents	1,746.3	37.9	1,952.1	36.6	7,047.2	46.7	18,493.4	57.1	33,010.6	66.4	57,666.6	74.0	71,631.5	66.1	129,999.5	72.3	208,797.2	67.3
Bumiputeras	70.6	1.5	125.6	2.4	1,394.0	9.2	4,050.5	12.5	9,274.7	18.7	14,883.4	19.1	20,877.5	19.3	36,981.2	20.6	59,394.4	19.1
Bumiputera individuals[3]	49.3	1.0	84.4	1.6	549.8	3.6	1,880.1	5.8	3,762.2	7.6	9,103.4	11.7	15,322.0	14.2	33,353.2	18.6	54,046.0	17.4
Trust agencies[4]	21.3	0.5	41.2	0.8	844.2	5.6	2,170.4	6.7	5,512.4	11.1	5,780.0	7.4	5,555.5	5.1	3,628.0	2.0	5,248.4	1.7
Other Malaysian residents[5]	1,958.0	59.6	1,826.5	34.3	5,653.2	37.5	14,442.9	44.6	23,735.9	47.7	42,783.2	54.9	50,754.0	46.8	93,018.3	51.7	149,402.8	48.2
Chinese	1,064.8	22.8	1,450.5	27.2	–	–	–	–	–	–	26,033.3	33.4	49,296.5	45.5	73,552.7	40.9	117,372.4	37.9
Indians	41.0	0.9	55.9	1.1	–	–	–	–	–	–	927.9	1.2	1,068.0	1.0	2,723.1	1.5	4,752.9	1.5
Others	–	–	–	–	–	–	–	–	–	–	987.2	1.3	389.5	0.3	1,751.1	1.0	2,888.0	0.9
Nominee companies	98.9	2.1	320.1	6.0	–	–	–	–	–	–	5585.1	7.2	9,220.4	8.5	14,991.4	8.3	24,389.5	7.9
Locally-controlled companies	471.0	10.1	–	–	–	–	–	–	–	–	9,249.7	11.8	–	–	–	–	–	–
Federal and State Govts.	21.4	0.5	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Foreign residents	2,909.8	62.1	3,377.1	63.4	8,037.2	53.3	13,927.0	42.9	16,697.6	33.6	20,297.8	26.0	27,525.5	25.4	49,792.7	27.7	101,279.2	32.7
Share in Malaysian cos.	1,235.9	26.4	–	–	4,722.8	31.3	7,791.2	24.0	9,054.3	18.2	12,672.8	16.2	–	–	–	–	–	–
Foreign controlled cos.	282.3	6.0	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Net assets of local branches[6]	1,391.6	29.7	–	–	3,314.4	22.0	6,135.8	18.9	7,643.3	15.4	7,625.0	9.8	–	–	–	–	–	–
Total[7]	3,286.0	100.0	5,329.2	100.0	15,084.4	100.0	32,420.4	100.0	49,708.2	100.0	77,964.4	100.0	108,377.4	100.0	179,792.2	100.0	310,076.4	100.0

Notes: 1 The classification of ownership of share capital (at par value as adopted by the *Ownership Survey of Limited Companies* was based on the residential address of the shareholders and not by citizenship. Residents are persons, companies, or institutions that live in or are located in Peninsular Malaysia, Sabah and Sarawak. The definition, therefore, also includes foreign citizens residing in Malaysia.

2 Figures for 1980 are based on the *Ownership Survey of Limited Companies*.

3 Include institutions channeling funds of individual Bumiputeras such as the Muslim Pilgrim Saving and Management Authority (LUTH), MARA Unit Trust Scheme, cooperatives and the ASN scheme.

4 Shares held through institutions classified as trust agencies such as the National Equity Corporation (PNB), National Corporation (PERNAS), The Council of Trust for Indigenous People (MARA), state economic development corporation (SEDCs), Development Bank of Malaysia (BPMB), Urban Development Authority (UDA), Bank Bumiputera Malaysia Berhad, Kompleks Kewangan Malaysia Berhad (KKMB), and Food Industries of Malaysia (FIMA). It also includes the amount of equity owned by the Government through other agencies and companies which have been identified under the Transfer Scheme of Government Equity to Bumiputeras.

5 Include share held by nominees and locally controlled companies (LCC). LCC records the total value of share capital of limited companies whose ownership could not be disaggregated further and assigned beyond the second level of ownership, to specific ethic groups. Nominee shareholding was estimated to account for 5.7 per cent of the total corporate shares in 1985 or about RM4,400 million. Share held under the LCC amounted to about RM8,100 million or 10.7 per cent of the total share capital of limited companies in 1985.

6 This refers to the difference between the total assets in Malaysia and total liabilities in Malaysia of the companies incorporated abroad. This approach had to be used for Malaysia branches of companies incorporated abroad as the criterion on equity share capital could not be applied to these companies.

7 Excludes Government holdings other than through trust agencies, except for 1969.

Source: *Second Malaysia Plan, 1971*, p. 40; *Third Malaysia Plan, 1976*, p. 184; *Fourth Malaysia Plan, 1981*, p. 62; *Mid-Term Review of the Fourth Malaysia Plan, 1984*, p. 101; *Fifth Malaysia Plan, 1986*, p. 107; *Mid-Term Review of the Fifth Malaysia Plan, 1989*; *Seventh Malaysia Plan, 1996*, p. 86; *Eighth Malaysia Plan, 2001*, p. 64; Department of Statistics, the *Ownership Survey of Limited Companies, 1969-85*; and data from various trust agencies.

3.2 The New Development Policy, 1990-2000

The New Development Policy (NDP) succeeded the NEP in 1990. The NDP included a revision of the previous formula for balancing growth with equity.[11] For instance, it employed a shift in the focus of the anti-poverty strategy towards eradication of 'hardcore' poverty. This was expressed through a special programme, the Program Pembangunan Rakyat Termiskin (PPRT), which created a register of hard-core poor households, offering them interest-free loans and targeting projects tailored to their needs. Attempts to restructure society were also focussed more on employment generation and developing the Bumiputera Commercial and Industrial Community (BCIC), an agency mandated to increase the participation of the Bumiputera in the modern sectors of the economy. The NDP also placed more emphasis on economic growth and income generation. In line with this orientation, the NDP introduced a greater reliance on the private sector as well as adopting the need for improvement in the skills base as a primary instrument for generating growth.[12] Yet notwithstanding these differences in policy objectives, the NDP maintained the essence of the NEP, namely the pro-Bumiputera or 'ethnicity-oriented' form of economic policy (Roslan 2001).

The NDP introduced a greater focus on growth and placed less emphasis on setting targets for ethnic restructuring and income redistribution. In doing so, not only did economic growth maintain the improvements of the late 1980s (see Table 7), but the country's record on poverty reduction continued to be successful.

In terms of growth, a number of macroeconomic and sector targets were set under the NDP. Overall, Malaysia achieved its expected rate of 7 percent average annual growth in GDP over the 1990s. Export of goods and non-factor services greatly exceeded the target of 6.3 average annual growth, reaching 12.4 percent for the period. However, the gains in exports were largely offset by an average annual growth in imports of 11.4 percent which the economic planners had hoped to reduce to about 6 percent by the end of the 1990s. Attesting to the relative strength of the Malaysian economy, however, unemployment rates in 2000 were officially down to 3.1 percent, improving on the NDP target of 4 percent.

There were, however, a number of macroeconomic expectations that were not met. The most notable among these was the inability to boost private investment to levels that could relieve the financial burden on the state. Private investment which was expected to grow at an average annual rate of 8 percent over the 1990s, reached only

[11] The policy reorientation introduced in the NDP, while undoubtedly influenced by the proclivities and preferences of Prime Minister Mahathir with regard to private-sector led growth and the focus on the hardcore poor, may have also reflected UMNO's strategies to maintain its - and the ruling coalition's - popular support. If the landslide victory in the elections of 1995 were an indicator of intention, the shift in orientation towards economic growth (over ethnic restructuring and redistribution) enshrined in the NDP seemed to win not only Malay, but also Chinese support as evidenced by the very good results posted by the Malaysian Chinese Association (MCA) - the second largest Party in the Barisan Nasional - in those elections (Trezzini 2001).

[12] NDP programmes include loan schemes for small scale agricultural and commercial development modelled on the Grameen Bank, land consolidation and rehabilitation programmes, the commercialisation of farms, agricultural productivity enhancement projects, provision and improvement of services for the urban poor and efforts to promote employment opportunities in manufacturing, construction and other urban-based industries (Makita 1998).

an average growth rate of under 3 percent. Similarly, the desire to reduce public investment to a negative growth rate, proved unobtainable, as it continued to increase by an average annual rate of 10.5 percent over the NDP period.

Distributional objectives yielded mixed results under the NDP.[13] Poverty reduction was targeted to reduce from 16.5 percent of the total population in 1990 to 7.2 percent in 2000.[14] Here, as under the NEP, Malaysia exceeded expectations by reaching 7.5 percent in 1999 and approximately 5.5 percent in 2000 (Malaysia, 2001; Yusoff et al 2000). Expectations that hard-core poverty would be reduced from 3.9 percent of the population in 1990 to just 0.5 percent a decade later, however, fell short of their mark reaching 1.4 percent in 1999 (Table 10).

Table 10: Incidence of Poverty in Malaysia: Targets and Achievements of the NDP.

	1990	OPP2 Target 2000	Achieved 1999
Total	16.5	7.2	7.5
Rural	58.7		19.3
Urban	21.3		7.3
Hard-Core Poor			
Total	3.9	0.5	1.4
Rural	5.2		2.4
Urban	1.3		0.5

Source: Malaysia (2001b), *Third Outline Perspective Plan, 2001-2010*

With regard to the expectations for equity ownership, the relative failures under the NEP have been replicated under the NDP. The original NEP goal of a 30 percent equity ownership by the Bumiputera or their state-sponsored surrogates (the trust agencies) has still not been reached. Indeed, the redistribution project now seems to have been still-born. By 1999 equity ownership by Bumiputera interests had stagnated at just over 19 percent of the total (the same as in 1990), while equity ownership by Malaysian Chinese interests had fallen to just under 40 percent and ownership by foreign interests had expanded to nearly 33 percent of the total [15] (Table 9)

[13] It should be noted that the NDP changed its distributional targets, ultimately giving less emphasis in setting explicit goals for poverty reduction in place of an increased focus on growth. Targets for rural and urban poverty were dropped and targets for hard-core poverty introduced. Concomitantly, new forms of poverty data were collected (ie., data on the hard-core poor) while poverty statistics based on ethnicity were ended.

[14] Note that the poverty figures for 1990 were expressed differently under the NDP. While evaluations of the effects of the NEP claim poverty was reduced to 15 percent in 1990, this was only for Peninsula Malaysia, excluding the states of Sabah and Sarawak, both of which have high rates of poverty. Accordingly, as NDP targets encompassed the whole Malaysian population (only calculated for citizens, however, and thus excluding up to two million migrant workers), consequently, the overall incidence of poverty was expressed as 16.5 percent for 1990.

[15] Undoubtedly the highest level of foreign ownership in any East Asian economy with the exception of Singapore

3.3 Impact of Anti-Poverty Policies: Preliminary Observations

When evaluating the impact that anti-poverty policies may have had, this study concludes that much caution is in order. Despite the ostensible official concern about poverty over the last thirty years, and the remarkable lifespan of NEP-inspired policymaking, a number of problematic issues remain. For instance, there is still relatively little detailed information about the characteristics of the poor that could help ascertain the reasons for their poverty (sometimes quite complex) and thus identify what the appropriate and effective measures and to overcome poverty might be. Detailed, analytically grounded, poverty profiles are particularly necessary in view of the increasingly recognised phenomenon of 'hard-core' poverty which is often remarked-on as being relatively unaffected by existing poverty eradication measures. Furthermore, a great deal of expenditure on what is officially categorised as poverty eradication, actually refers to expenditure on rural and agricultural development, much of which does not directly help to raise the poor out of poverty. Given the concerns raised later in this report about the shortfall and the effectiveness of public expenditure for development purposes, it is crucial that detailed information on the use of anti-poverty funds (plentiful throughout the NEP period) be provided in order to ascertain to what extent such expenditure actually benefited the poor. Such information is also crucial in order to minimise the budgetary abuses that seem to have been made in the name of poverty eradication.

The relative absence of data and thus of a clear understanding of the poverty phenomenon, represent worrying developments that threaten to dissociate policy formulation from the condition of the poor and directly challenge the efficacy of poverty eradication efforts. This situation also fuels existing concerns over the role of patronage and corruption in Malaysia. The suspicion that once certain policies are implemented, certain companies or other interest groups (typically associated with UMNO) benefit from those policies, so ensuring their continuation irrespective of their effectiveness, is a common concern voiced among poverty experts in Malaysia.[16] Given the weaknesses in both the basic information on poverty and, as will be discussed later, the implementation of development policies (of which anti-poverty policies have been an important part), this study concludes that it is difficult to tell whether Malaysia's significant performance in reducing poverty has been more a consequence of the deliberate poverty eradication measures, than the outcome of a series of extraneous growth factors (full employment together with increases in productivity and rising wages).[17]

The suspicion that pro-poor policies may have played a lesser role in poverty reduction than the Government would like to believe accords with much circumstantial evidence. For instance, in the rural areas and especially among the peasantry, poverty reduction seems to be largely attributable to increasing productivity. However, rising productivity mainly benefits those who own their own economic resources, especially land. Inequalities in land distribution and other resources - both in terms of ownership and access - means that such productivity gains

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[16] On the general issue of corruption and political rentierism in Malaysia, see Gomez (1990, 1991) and Gomez and Jomo (1997).
[17] There has been no study done in Malaysia to assess the extent to which growth alone might have reduced absolute poverty.

as have been made, will have tended to have benefited the well-off rather than the poor, per se. Furthermore, given that the official concern for poverty among Malay peasants has emphasized productivity-enhancing efforts for self-employed producers, the bulk of rural Malays - who do not own the most crucial resources - have effectively been by-passed by the main thrust of official poverty eradication efforts. The same could be said of other rural workers – such as plantation workers, miners and contract labourers engaged in public works and on land development projects. They too seem have been largely ignored by NEP and subsequent initiatives.

Given the qualifications detailed above, and other matters that will be broached later in this report, it seems that NEP and NDP policy initiatives were perhaps less significant as sources of poverty reduction - in their own right - than the prevailing wisdom (in Malaysia and elsewhere) might have us believe. If they have been less significant in this sense, then their contribution - for there certainly has been a major one - may have been more to ensure that questions of poverty and inequality were maintained at the forefront of government thinking about economic policy and development strategy. However, in as far as the NEP helped to ensure that ethnic inequality was the fulcrum on which poverty, and more generally development, policy turned, it made it inevitable that an ethnic (or perhaps more accurately, a Malay-national) agenda dominated political rhetoric and, as we shall see later, constrained the economic options that might otherwise have been available to policy-makers.

We now turn to examine the institutions and processes of economic governance in Malaysia. In so doing, our foregoing discussion of the country's poverty record and anti-poverty policies will be placed in the context of institutional, policy and economic development more generally.

4. ECONOMIC GOVERNANCE, 1970 - 2002

Over the last three decades economic governance in Malaysia has been marked by a high degree of centralised decision-making with at times authoritarian approaches to policy formulation and implementation. The executive is insulated, to a significant degree, from the legislature and as a number of interviewees attested (including former MPs), Parliament does little more than 'rubber stamp' executive decisions and has only a minimal role in scrutinising and monitoring the activities of the ministries and other executive branches.[18]

In this context it is unsurprising that economic governance has been authoritative and relatively coherent. This situation had been enhanced by the stability in political leadership and development focus. In the Prime Minister, Dr Mahathir Mohamad, Malaysia currently has the longest standing political leadership (with over 20 years in office) of any country in the world. Additionally, at least at the level of the federal state, there has been no effective opposition to the ruling coalition - the Barisan

[18] The Malaysian Parliament has only one committee to monitor the activities of the executive. While it's remit is concerned with budgetary allocations, it has no powers to question members of the executive, nor is it even allowed to access all of the relevant data.

Nasional - or its leading political party, UMNO.[19] There has, however, been limited opposition to UMNO at the state level, with two of the thirteen states (Kelantan and Terengganu in eastern Peninsula Malaysia) now governed by the Islamic opposition party, PAS.

Alongside this stable (and for the most part semi-authoritarian) leadership, economic governance has remained relatively coherent due a relatively consistent definition of the country's development problem since the beginning of the NEP in 1970. Over the last thirty years, Malaysian development planning has maintained its core aims of boosting economic growth - largely by relying on foreign investment - while focussing on poverty reduction on the one hand, and social restructuring (and thus income redistribution) on the other. Both of these have continued to embody the basic view that overcoming racial division and inequality, the perceived cause of the 1969 race riots, was a principal challenges for Malaysia's development project.

In addition to the consistency in defining and prioritising developmental problems, continuity has been reinforced by the maintenance of a longstanding institutional arrangement concerning development issues. Firstly, financial support for development policies have been delimited as a distinct and separate aspect of the national budget.[20] Both the development budget and associated policy-making responsibilities are controlled by the Economic Planning Unit (EPU), the central organ of Malaysia's 'semi-developmental' state apparatus. Created in the 1960s, the EPU, located in the Prime Minister's Office, continues to take the lead in the formulation of Malaysia's medium and long-term development strategies. The EPU also controls the compilation of all the statistical data crucial to its planning function. In effect, this means that it also controls access to, and thus the dissemination of, such information within the wider government bureaucracy and beyond.

While these continuities have undoubtedly been important for the effectiveness of Malaysia's system of economic governance, there have also been a series of discontinuities that have had important implications. These have arisen primarily in terms of the configuration of the EPU and its overarching influence on policy strategy.

In terms of the relative strengths of the various agencies of economic governance, most of our respondents confirmed that prior to 1986, the EPU was indeed the primary site for the formulation and implementation of all forms of economic policy. Other economic agencies such as the Treasury, the Central Bank and the Ministry of Trade and Industry, each played their specific roles, but their function and power with regard to economic governance, in general, was circumscribed by the EPU. [21] For instance, the Treasury, which is effectively synonymous with the Ministry of Finance (MoF) in the Malaysian context (and will be used here interchangeably), was primarily an accounting and budgetary institution overseeing project implementation,

[19] The only exception - and a limited one at that - has been the Party that developed around the former Finance Minister and Deputy Prime Minister, Anwar Ibrahim.

[20] Malaysia is perhaps unique in the world for having done so.

[21] In this sense Malaysia's system of economic governance was similar to that of South Korea prior to 1993, but very much unlike Anglo-American and other Western forms, where the Treasury/Finance Ministry tends to set the tone, if not dominate, the economic policy-making process (see Henderson et al 2002a).

with little engagement in policy formulation. Bank Negara (the Central Bank), charged with monetary policy and the regulation of financial institutions and the Ministry of Trade and Industry, which focussed on foreign investment and industrial development, have remained institutional constants in their respective mandates and positions in the structure of economic governance.

The recession of the mid-1980s seems to have provided the context for a change in both the driving forces of economic governance and the orientation of economic policy. Strengthening its role in the formulation of economic policy, the Treasury, with Prime Minister Mahathir's support, began to drive economic governance. In policy terms, increasing emphasis began to be placed on growth. Both of these were consistent with the neo-liberal template of the time and privatisation came to be seen as the primary way to re-invigorate the economy. It also seems to have been a means to an end well suited to Mahathir's personal inclinations (Milne and Mauzy, 1999). Between the recession of 1986 and the economic crisis of 1997 Malaysia experienced a limited liberalisation of the economy. In no sense, however, did it succumb to the full force of economic neo-liberalism (and certainly not social neo-liberalism) associated with many Western and former state-socialist societies at that time. [22]

The enhanced role of the MoF in economic governance was particularly associated with Anwar Ibrahim's tenure as Minister of Finance (1988-1998) and, subsequently, as Deputy Prime Minister. Anwar seems to have turned the MoF into his personal power base and during the early and mid-1990s it competed with the EPU - and indeed the Prime Minister's Office more generally - as the principal agency of economic governance.

There may have been other reasons, however, for the increasing significance of the MoF at this time. Interviewees have suggested that enhancement of the MoF's role in economic governance may partly have been achieved by default. Their information points to the effects of the gradual demise of an innovative policy-making mentality in the economic bureaucracy, including the EPU. As early as the mid-1980s, it seems that those who had been responsible for the innovations associated with the NEP were already beginning to give way to a new generation of 'operations-oriented' civil servants and with them came a bureaucratic ethos in which the emphasis on long-term strategic thinking was progressively replaced by a short-term, narrowly technocratic, 'project-mindedness'

While this 'operations-orientation' of the new generation of civil servants is consistent with neo-liberal approaches to economic management - wherever they may appear - in Malaysia, it seems, in part, to have been a reflection of changes in education (particularly competence in English subsequent to Bahasa Malaysia becoming the language of instruction) as well as in the structure of incentives and the increasing status of jobs dealing with project management vis-à-vis those concerned with macro-economic planning and analysis. The relative positioning of the Treasury/MoF as the seat of budgetary, tendering, and project control is at one and the same time a testament to, and a reflection of, these developments in the mindset and practices of Malaysia's newer breed of economic managers.

[22] Hungary being a case in point. See Henderson et al (2002b)

In terms of the institutional development of Malaysia's system of economic governance, another reason for the gradual side into 'project-mindedness' seems to have been the fact that, unlike the 'developmental states' of countries such as South Korea (itself an inspiration for Mahathir's inaugural, but ineffective 'Look East' strategy), Malaysia failed to develop a significant research component within the machinery of government itself. This has meant that the bureaucracy's policy-makers have been left to rely on the expertise embodied in a number of independent (but quasi-governmental) think tanks [23], the national universities, various foreign institutions [24] and private companies. For a variety of reasons (that will be discussed later), most of the external sources of ideas, except those from the private sector, have waned or, in extreme cases, have been effectively closed-off by the end of the 1990s. As a consequence, the economic bureaucracy now seems to be responsible for generating its own policy ideas (for which it does not have the institutional, or now the intellectual capacity) or is reliant on initiatives from the political leadership and perhaps Mahathir in particular.

Subsequent to the economic crisis of the late 1990s and its consequences for Anwar Ibrahim as the principal opposition to Mahathir, from within the ruling circle, the institutions of economic governance again underwent a transformation. Following Anwar's downfall and imprisonment, the centralisation of economic decision-making became even more pronounced when Mahathir extended his remit to become Minister of Finance while retaining his post as Prime Minister. These developments seem to have returned the control over economic policy-making to the Prime Minister's Office, though not necessarily to the EPU.

By the onset of the economic crisis in 1997, the EPU seems to have resumed its traditional role as a medium and long-term planning agency. Though, as we have suggested, with a reduced capacity to perform this function, it's 'gatekeeping' position with regard to the information needed for effective economic planning (especially data on poverty and income distribution) remained intact. With the Bank Negara and what had by now become the Ministry of International Trade and Industry continuing in their respective specialised roles, a new addition to the nexus of governing institutions emerged in the form of the National Economic Action Council (NEAC).

Formed in response to the economic crisis in late 1997, NEAC, like the EPU, is not a distinct government agency. Indeed, at present (early 2002) it only has five full-time directors and their accompanying secretarial staff. Rather, NEAC is a unique policy forum linked directly to the Prime Minister's Office. Described by one official as a sort of 'quick-decision mini-cabinet', the 24-member Council is chaired by the Prime Minister and was originally established by the Cabinet to formulate policies to overcome the crisis. As a problem-solving and response forum, noted for its daily meetings during the crisis and punishing deadlines for preparing policy responses, it was endowed with special crisis-management powers which enabled its directors to access virtually all available information except for politically sensitive data such as those concerning poverty and income distribution. NEAC has the power to request meetings with any public servant or private executive where they can help to identify

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[23] Of which the Institute for Strategic and International Studies (ISIS) and the Malaysian Institute for Economic Research (MIER) are the most prominent.
[24] Of which the Harvard Institute of International Development has historically been the most significant.

the problems brought on by the crisis (non-performing bank loans for example). It also has special powers that allow it, for instance, to expedite budgetary approval (thus, for instance, by-passing the usual six months for tendering for projects above RM 200,000) and thus to initiate near-immediate implementation. While the effects of the economic crisis are largely over in Malaysia, it is these special powers and capabilities granted to NEAC that have caused the government to view it as a useful permanent institution in the structure of economic governance (even though some of its founding members are opposed to this).[25]

With the prospect of becoming a permanent addition to the institutions of economic governance, NEAC has recently begun to move beyond its original crisis-management mandate to engage in broader development planning. [26] While a permanent role for NEAC may help to counter the tendency towards a narrowly technocratic 'project-implementation' ethos in the bureaucracy, it is unlikely to do much to offset weaknesses in the state's implementation capacities. If Malaysia's record on implementation is any guide to future prospects, then this is a serious problem. Whether the result of a lack of capacity or incompetence or both, the fact that the bureaucracy has consistently been unable to spend a significant amount of the development budget is not encouraging (see section 5.2).[27]

Ultimately, our analysis leads us to conclude that economic governance in Malaysia may well face several significant challenges which the relevant agencies have not fully acknowledged nor, consequently, begun to resolve. Background factors concerning deficiencies in the country's university system (not merely with regard to the language of instruction) and that system's seeming inability to provide an adequate training for current and future civil servants are undoubtedly part of the problem.[28] Additionally, the lack of a robust civil society [29] able to participate in the formulation (and, where necessary, implementation) of policies and programmes, and the aforementioned lack of a significant research presence within the bureaucracy, all represent unsettling institutional characteristics that are likely to hamper the capacity-building needed for an effective system of economic governance capable of responding to future challenges.

5. ANALYSING ECONOMIC GOVERNANCE AND POVERTY

While Malaysia's record on reducing poverty has been good by regional and world standards, arguably it could have been better were it not for particular instances where 'wrong' economic policies have been pursued. Particularly at issue, in this sense, are

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[25] And one that would further render the Cabinet and Parliament redundant as contexts for the discussion and formulation (or at least amendment) of economic policy.
[26] As with the RM 4.3 billion stimulus package initiated in September 2001.
[27] Admittedly, the shortfall in the budget has gradually declined over the 1990s and was reported to be down to 13 percent in 2001.
[28] Prior to 1974, English was the medium of instruction in schools. Yet in 1974, the government pursued an education policy which revamped the total education system of the country, resulting into the abolishment of substantial subjects once taught in English. This policy would deteriorate the competency of English among the Malaysians in the civil service. See Ainur (2001).
[29] Albeit squeezed by decades of authoritarianism.

the country's attempts at heavy industrialisation. Beginning in the early 1980s (the early years of the Mahathir administration) and building on the foreign-owned, export-oriented industrialisation (largely in electronics) of the 1970s, it not only created a series of 'white elephants' that soaked up government investment and remain relatively unproductive (eg., steel, cement, petrochemicals, Proton car), but it exacerbated uneven development, compounding pre-existing regional inequalities to the detriment, in particular, of the rural states of the eastern peninsula and in Borneo. Arguably (and Malaysian commentators have argued this for many years) the funds poured into heavy industrialisation would have been far better spent on: Chinese-style rural industrialisation to increase agricultural productivity [30]; and attending to the long-standing and serious structural weakness in the economy's industrial base - the underdevelopment of an SME sector capable of linking with the transnationals (in the electronics industry, for instance) via the supply of high value products and services (Salih and Yusof 1989, Lubeck 1992, Jomo et al 1997) [31]. Indeed, the diversion of funds from rural areas that the heavy industrialisation programme has implied has been one of the principal material reasons for the rise of the PAS opposition in the eastern Peninsular states.

Malaysia's record on poverty and inequality, however, may not only have been constrained by 'wrong' policies. Given that Malaysia is perhaps unique in the world for attempting to unite economic development with pro-poor policies, the implications of tying Malaysia's development prospects to its project-minded, implementation-driven form of economic governance, make the operation of the institutions of economic governance all the more central for understanding the country's performance on reducing poverty. As we suggest below, our analysis leads us to the conclusion that policy effectiveness and poverty performance may well be hampered by institutional changes in the bureaucracy at large, as much as in the economic bureaucracy in particular.

5.1 Poverty and the Economic Bureaucracy

As we have indicated above, several interviews with senior civil servants raised a concern that the Malaysian Government has allowed its core economic agencies to be caught up in the increasing project-mindedness and implementation-oriented emphasis that has developed in the civil service more widely. For instance, one insider's view was that the core economic agencies have not been insulated in terms of their recruitment and training so as to instil in the new generation of economic managers both the specialised skills needed to analyse development issues at a macro-level, let alone the very motivation to do so. Rather, some felt that Malaysia's economic bureaucracy had been allowed to recruit a more technical, operationally-oriented economists and econometricians. This new generation of economists, in the view of a number of commentators, were intellectually unsuitable for the critical tasks of formulating strategic policy in departments such as the macro-economics division

[30] Rural industries, often linked to the export-oriented sector, have been one of the most dynamic parts of the Chinese economy for the past twenty years. See Nee and Su, 1998.

[31] Given that it is largely Chinese Malaysians that have the necessary technical and managerial skills, then arguably one of the reasons why there has never been a concerted government effort to deal with this structural weakness is that by encouraging the expansion of industrial SMEs, Chinese Malaysian business would be given a further opportunity for expanding its wealth

of the Economic Planning Unit. This problem had been exacerbated, they thought, by the fact that the higher status - and more powerful positions within the bureaucracy had already shifted towards those in control of project implementation. The consequence of not insulating the economic bureaucracy from these broader developments in the civil service was therefore that the new breed of operationally-minded economic managers had neither the motivation, nor the training (nor the intellectual capacity), to provide innovative leadership in the medium and long-term planning divisions. Thus, as elsewhere in the bureaucracy, the relative allure (and, it must be said, ease of task) of 'project-minded' bureaucratic operations has been allowed to infiltrate and weaken the capacity for innovative planning and policy formulation within the institutions of economic governance.

Another concern raised by interviewees was that the inspirational thinking and vibrancy of policy-making that had originally generated the NEP, seemed to have been exorcised from the bureaucracy over time (presumably by default, rather than design). As suggested earlier, this development may have transpired, in part, because Malaysia did not develop a vibrant research base within the government, thus leaving policy formulation with a serious deficiency in terms of institutional capacity. Additionally, the policy-making process appears to have been detached - perhaps even insulated - from contributions from relevant parties outside of the government. While a number of consultative mechanisms were instituted during the 1990s, in an attempt to enhance the flow of information and interaction between government, business and civil society (Biddle 1999), anecdotal evidence suggests that consultation meetings were often devoid of any substantial interaction and debate between policy-makers and relevant agencies of civil society. Similar responses from a number of sources within and without the government can only lead us to conclude that 'Malaysia Inc.' has not yet been able to break from the centralised and autocratic decision-making style that has long characterised economic governance in Malaysia.

While a degree of state autonomy from civil society seems to have been essential to the effective workings of a developmental state (Evans 1995), in the Malaysian case, and particularly following the crisis of the late 1990s, a degree of autonomy from external influence seems to have been achieved which even some senior civil servants felt to be detrimental to the generation of new policy-making ideas. While open to the influence of external ideas prior to the crisis (eg., Malaysia adopted the IMF's 'business restraining' policy in 1996), in the years following the crisis, the government became more sceptical about ideas flowing from the Bretton Woods institutions.[32] For instance, unlike other countries in the region which accepted advice - and in some cases financial support - from the IMF, the government rejected the IMF's assistance and executed its own crisis-management policies. In place of IMF reforms, the government initiated a strategy to partially detach the economy from international capital markets. Capital controls over the foreign exchange markets were instituted in attempts to restrict the short-term capital might quickly flow out of the economy and destabilise the Ringgit.

As it happened, the decision to reject foreign aid and insulate the economy appears to have further closed off avenues by which foreign expertise and ideas might inform Malaysia's economic decision-makers. One senior official described conditions in

[32] Arguably with some justification as things turned out (see Henderson 2001).

which foreign expertise from agencies like the IMF and the World Bank has been effectively 'off-limits' to the economic bureaucracy following the financial crisis. At present it appears that of all the agencies comprising the economic bureaucracy, only NEAC engages in an open exchange with agencies such as the World Bank. As one official explained, this is primarily because NEAC, as a relatively new agency with no established 'turf' to maintain, and one specifically charged with formulating immediate crisis-management responses, is the only economic agency whose activities require that they actively engage with international experiences in the course of drafting their policy proposals.[33]

In terms of its implications for the attack on poverty, the autonomy and insulation of Malaysian economic governance, with its bias towards operations and implementation-oriented activities, seems to have reduced the capacity (perhaps even the inclination) of macro-economic managers to recognise and respond to the changes in the nature and composition of poverty in recent years. There are many signs that poverty policies have not kept in tune with changing circumstances despite the (rare) efforts by members of the academic community, as well as non-governmental organisations, to voice their concerns over new and emerging forms of poverty. Some of these concerns revolve around the continued use of simple ethnic divisions as a proxy for the delineation of poverty groups. While clearly a reasonable assumption in the past, some have argued that it no longer constitutes a coherent basis of policy-making, given the new intra-ethnic divisions and inequalities within the Malay community itself (for instance, Roslan 2001). Similarly, others have argued that compared with gains experienced during the 1970s, social expenditures in the 1980s have not as effective at reducing poverty, partly because racially-based policies were no longer become an efficient means of targeting poverty expenditures (Hammer et al 1995).

Another current concern is the growth in urban poverty and the government's limited responses to it. Part of the problem seems to be institutional in that the core responsibilities for poverty policy implementation continue to reside in the Ministry of Rural Development which tends to reinforce the idea that rural poverty remains the principal, if not exclusive, problem. While the EPU is about to establish a post [34] to deal specifically with urban poverty, the continued orientation of anti-poverty programmes around the small groups of hard-core poor, further reinforces the idea that poverty is principally a rural issue.

In earlier sections we expressed our concern that the 'politics of poverty information', as practised by the EPU, may have inhibited the formulation of more appropriate and effective anti-poverty policies. Given the 'implementation mind-set' of the economic bureaucracy and the shift in the centre of gravity of economic policy-making from the EPU to the Treasury from the mid 1980s to the late 1990s, some degree of 'turf protection' appears to have ensued. Arguably, one of the most pernicious aspects of this organisational culture in regard to poverty reduction has been the restrictions on access to relevant and detailed statistics on poverty and income distribution. Several

[33] Recourse to international experience was indeed essential to the operations of NEAC. One official recounted their experience of NEAC's operations during the crisis and described how their responses had often to be formulated with deadlines as short as a week (an extremely short - and steep - learning curve indeed!).
[34] As of January 2002.

respondents commented on the fact that the EPU, which is in possession of the detailed statistics required to design effective poverty reduction strategies, continues to gate-keep such information, releasing only the broadest of overview data to the public domain. Without access to detailed data, it is very difficult for independent researchers, NGOs and indeed other government agencies, to monitor the effectiveness of anti-poverty programmes and propose alternatives. Whether this secrecy stems from an executive decision, or is part of an attempt by the EPU to maintain its supremacy in this area of policy-making [35], can only be left to speculation. Regardless of motive, this arrangement must result in a waste of resources, given that it restricts the abilities of other agencies to accurately identify and target the needs of specific poor populations.

One recent example where this 'informational politics' may have diminished poverty reduction efforts concerns the RM 4.3 billion stimulus package initiated by NEAC in September 2001. The package encompassed numerous small projects below RM 200,000 that were aimed at stimulating economic growth. While many of these might have been particularly effective in ameliorating poverty had they been appropriately targeted, this was effectively prevented by the EPU's control over data. Despite the fact that NEAC supposedly had the power to access all information necessary for its operation, it was unable to extract data in the necessary detail from the EPU. As a result, the stimulus package was able to ensure only a more blanket disbursement of funds to more generally-oriented projects than might otherwise have been possible.

5.2 Poverty and the Broader Civil Service

While remaining an impressive developmental achievement, Malaysia's poverty record may also have been constrained by the bureaucratic effectiveness of its governing institutions more broadly. One aspect of this constraint revolves around Malaysia’s longstanding inability to spend its annual and development budget. For instance, official accounts show that over 20 percent of the overall development budget (itself roughly 20 percent of the total annual budget) has consistently been allocated to poverty reduction (Table 11).[36]

Table 11: Public Expenditure on Poverty *(% of overall development budget)*

Malaysia Plan	Percentage
1st: 1966 – 1970	27%
2nd: 1971 – 1975	31%
3rd: 1976 – 1980	30%
4th: 1981 – 1985	24%
5th: 1986 – 1990	26%
6th: 1991 – 1995	27%
7th: 1996 – 2000	22%
Source: Yusoff et al (2000)	

[35] Or is a hang-over from the traditional practices of the British state and its colonial off-shoots.
[36] While poverty reduction encompasses a broad strategy and includes elements to promote rural development, assist in nutrition and the education of poor children, provide low-cost housing and help vulnerable groups, in terms of budgetary expenditure, education and health care represent the two primary components of poverty-reduction policy in Malaysia (World Bank, 2000).

Yet available data, supported by interview responses, raise the concern that in all likelihood, far less than this actually gets spent on poverty reduction projects.[37] Several interview reports suggested that over most of Malaysia's development experience, there have been high levels of shortfall in development expenditure. While existing data confirms that development expenditure shortfalls were declining over the 1990s, available data and interview responses confirm that shortfall rates were substantial in the 1970s and 1980s. For instance, development expenditures under the 5th Malaysia plan (1986-1990) ranged from a low of 68 percent in 1987 to a high of 71.9 percent in 1989 meaning that between 19.1 and 32 percent of the development budget remained unspent in any given year (Government of Malaysia, 1990). In other words, if available data and field reports are correct, for most of Malaysia's development history, significant proportions of the development budget, roughly equivalent to the levels allocated for poverty reduction, have consistently failed to be spent.

Furthermore, consistent shortfalls in the annual operating expenditures (Table 12) seem to imply that significant amounts of the development budget may have been spent on bureaucratic 'maintenance' rather than on development projects and programmes themselves.[38] In the Malaysian system, the Treasury relies on the government economic and social agencies to classify their expenditures under 'operational' or 'development' budgets. Under the 'Modified Budgeting System', agencies are allowed the discretion to classify upwards of 15 to 20 percent of their operating costs under their development budget. Given that the bureaucracy has consistently shown problems in spending their allocations (while rates differ between agencies as well as between years, anecdotal accounts from some officials report that annual shortfalls have been as high as 60 percent), interview responses confirmed that in all likelihood, government agencies will have fully utilised their discretionary ability to include annual operating costs within the development budget. Indeed, one official reported findings (which have been contested by other respondents) that upwards of 50 percent of the development budget is effectively spent on bureaucratic operating costs. Whatever the true figure, the range of estimates for the shortfall, gives little room for confidence that a substantial proportion of the anti-poverty budget has indeed been used to the benefit of the poor.

Table 12: Annual Operating Expenditures under the 6th and 7th Malaysia Plans (1991 – 2000)

Year	Expenditure	Original Ceiling		Shortfall	Midterm Review Ceiling		Revised Shortfall
	(RM billion)	*(RM billion)*	*Spent*		*(RM billion)*	*Spent*	
1991	9.57	13.34	71.7%	28.3%			

[37] Apparently there is an assumption among Malaysian officials to the effect that the government has to spend four dollars in order that one dollar actually gets to the poor. Even if this is only a semi-accurate assessment, it would seem more beneficial to the poor (though not to civil servants) to disperse funds directly, rather than to bother with the paraphernalia of development projects.

[38] Even if this was the case, it still begs the question of where the monies from these shortfalls actually went, given that there seems to be no evidence that they were recouped by the Treasury.

1992	9.69	12.99	74.6%	25.4%			
1993	10.12	12.5	81.0%	19.0%			
1994	11.28	14.95	75.5%	24.5%			
1995	14.05	16.16	86.9%	13.1%			
Total 6MP	*54.71*	*69.94*	*78.2%*	*21.8%*	*58.5*	*93.52%*	*6.48%*
1996	14.63	17.62	83.0%	17.0%	17.1	85.56%	14.44%
1997	15.75	18.5	85.1%	14.9%	17.68	89.08%	10.92%
1998	18.1	23.09	78.4%	21.6%	21.11	85.74%	14.26%
1999	22.61	25.84	87.5%	12.5%	24.34	92.89%	7.11%
2000	27.94	29.53	94.6%	5.4%	28.53	97.93%	2.07%
Total 7MP	*99.03*	*114.58*	*86.4%*	*13.6%*	*108.76*	*91.05%*	*8.95%*

Source: Federal Public Account Report (1991-2000), Auditor General Office and Implementation Coordination Unit

In the 1990s, the level of development budget shortfall has improved dramatically from the situation in the 1970s and 1980s. For instance, under the 6th Malaysia Plan (1991-1995), the overall shortfall was roughly 22 percent as only 78.22 percent of the original budget allocations were met. Yet with midterm adjustments to the level of budget allocations, which consequently lowered the original ceiling by over 16 percent, the shortfall statistic was reduced from 21.8 percent to 6.5 percent. Under the 7th Malaysia plan, development expenditures were originally reduced from the previous development plan. Due to the Asian economic crisis of the late 1990s, however, the government's efforts to bolster social expenditures meant that the ceiling on development expenditures had to be increased. Ultimately, the budget shortfall in development expenditures for the 7th Malaysia plan was 4.4 percent (Table 13).

Table 13: Development expenditure performance of government agencies under the 6th and 7th Malaysia plan (1991-2000)

Duration	Allocation *(RM billion)*	Final Expenditure *(RM billion)*	Final Expenditure *Percentage*	ShortFall *Percentage*
Original Allocation of 6MP	69.94		78.22	21.78
Revised Ceiling 6MP	*58.50*	*54.71*	*93.50*	*6.5*
Original Allocation of 7MP	67.50		146.70	-46.7
Midterm Review of 7MP	89.50		110.70	-10.7
Revised Ceiling 7MP	*103.56*	*99.04*	*95.60*	*4.6*

Source: Implementation Coordination Unit, Economic Planning Unit

These improvements in development budget shortfalls appear to have come from the government's efforts to revise the allocation ceiling during the mid-term review of the five-year development plan rather than from significant changes in the operation of the bureaucracy at large or in improvements in the implementation of development projects. When considering the government's own explanation for its persistent shortfall in expenditure, a number of substantial concerns about the planning capacities and operation of the bureaucracy arise.

To account for the high levels of shortfall in the development budget in the 1970s and 1980s, the government's explanation was four-fold (Government of Malaysia 1990). Firstly, government agencies were recognised to have limited capabilities in regards to the planning and management of development projects. Secondly, government agencies also lacked flexibility in financial management. Thirdly, one of the critical problems leading to shortfalls in development expenditures apparently stemmed from problems in arranging the acquisition of the land necessary for development projects.[39] Finally, the government also recognised that the level of budgetary shortfalls was also due to the inability of private contractors to implement development projects on schedule.

Twelve years later, and on the basis of interviews (in March 2002) with members of the Implementation Coordination Unit (ICU), the division of the EPU which overseas the implementation of budgetary expenditures, it seems that little has changed in terms of the government's official explanation for the shortfalls in the development budget. Limitations in the ability of agencies to sufficiently plan projects is still a major concern. As in 1990, a major factor limiting the ability of government agencies to plan development projects effectively stems from problems in land acquisition. Agencies often have problems finding suitable project sites as well as experiencing delays in finalising those sites (particularly, for instance, where they are 'brown field', ie., subject to previous development). Furthermore, negotiations with state governments over land rights are closed dialogues. Consequently as some agencies crucial to project implementation may not have been in attendance, current practices sometimes lead to coordination problems between the various agencies involved. [40]

The government's concern over budget shortfalls has also revealed institutional weaknesses in the monitoring of projects (a concern also raised by poverty specialists). At present there is no system to ensure that agencies constantly monitor projects throughout the stages of their life or any system to ensure that project managers regularly visit project sites. Accordingly, there is no system to ensure that problems that arise at the initial stage are identified before they impact upon later stages in the project.[41] Alongside proposals to develop better planning practices, one

[39] The federal government must negotiate with the respective state governments to acquire land and this can be both time-consuming and in states held by the PAS opposition, politically sensitive.

[40] There is currently a federal government proposal to open-up these state-federal development dialogues to interested parties. It seems unlikely, however, that the latter are likely to include 'the public'.

[41] Where civil engineering projects are concerned, there also appears to be no means of preventing contractors increasing, by stages, the final cost of delivering the project. For instance, as a result of consistent price increases, Kuala Lumpur's new elevated highway, that runs for seven kilometers into the city centre, at the time of it's completion was reputed to have cost RM 700 million (about £127 million). By way of comparison, an equivalent elevated highway built in Britain would typically cost

proposal presently being advanced by the government is to at least institute the monitoring of expenditure performance, possibly tying performance to future budgetary allocations.

Many of these concerns identified by the government have been highlighted by our research. But our analysis raises another dimension, namely the links between annual budget shortfalls and the shortfall in the development budget. For instance, interviewees questioned both the effectiveness of current public expenditure for development purposes and the low propensity among agencies to pursue development projects. For instance, several officials confirmed that agency expenditures are often done in haste and thus ineffectively. Among Malaysian civil servants, this practice is known as 'Christmas shopping'. Given the fact that government agencies are pressured to spend their annual budget, from the agency's perspective, if it is to be spent quickly before the end of the year, it will usually be spent under the categories which give the agency the question autonomy to make its own decisions on how the funds will utilised. In Malaysia, agency autonomy in this sense, extends only to items costing below RM 10,000 (sometimes referred to as the 'magic number'). For expenditures between RM 10,000 and RM 100,000 (the upper limit being a recent increase from RM 50,000), agencies are required to put the project out to tender. Expenditures above RM 100,000 require a complicated tendering process which, if rules are followed, effectively means a minimum of 6 months to complete the tendering process.

Shortfalls in the annual operating budget which lead to the practice of 'Christmas shopping' appears to be reinforced firstly by the fact that the Treasury does not always allocate funds to the ministries or state governments at the start of the year (sometimes the delays seem to be a disciplinary tactic as in the case of state level disbursements of funds where some state governments frequently receive funds months later than other states and sometimes not even in the same budget year); and secondly, by logistical disincentives faced by government agencies. Specifically, while the tendering processes are already time consuming and labour intensive, some officials reported concerns that development projects are even worse. The primary reason appears to be that development expenditures do not just involve negotiations with the Treasury, as they do in operational expenditures. For instance, a number of agencies at both state and federal level are normally involved in development projects. At the federal level, tendering for development projects firstly requires that government agencies negotiate with the EPU to authorise the expenditure. Then negotiations are made with the Treasury to acquire the budget. Finally, agencies must meet with the department of Public Services to authorise the release of the personnel necessary to implement the project.

Given these additional and time consuming problems with development expenditures, interviewees felt that development projects had become the ones that government agencies least wanted to pursue. While the annual budget cycle only pertains to operating expenditures (the development budget is on a five-year rolling system), the pressure to spend the development budget always seems to be of a less urgent - relative to the need to spend the operating budget - from the perspective of the

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about £7 million. We are grateful to colleagues at the World Enterprise Institute, Kuala Lumpur, for this information.

government agencies. Accordingly, it seems likely that problems underlying the annual shortfall in operating expenditures may directly affect the propensity of the government agencies to make the substantial efforts needed to initiate, let alone implement, development projects.

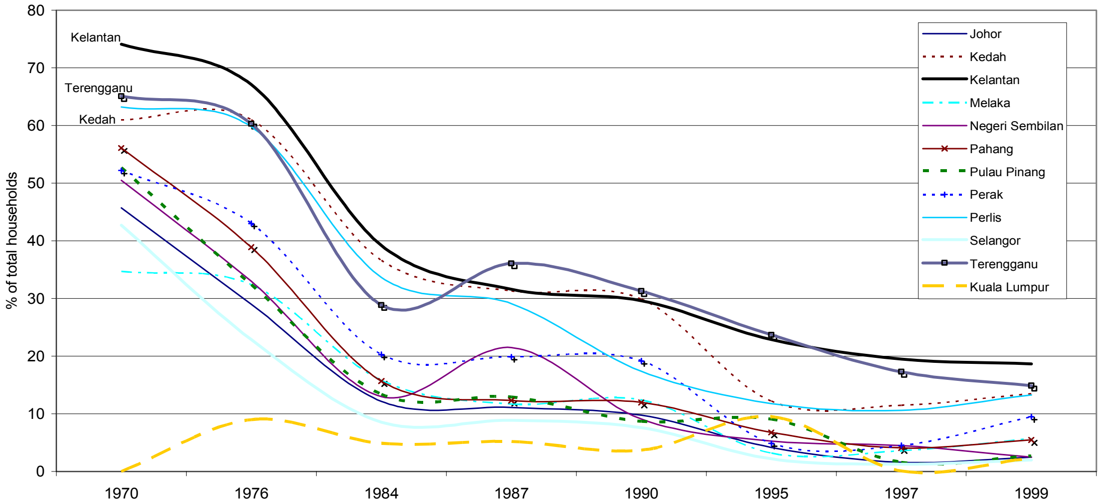
5.3 Poverty, State Governments and Project Implementation

Issues concerning project implementation, then, seem to be one of the principal question marks about the effectiveness of Malaysia's institutions of economic governance. This is particularly true when it comes to poverty reduction. Depending on the project and the state concerned, the federal or state government agencies may be responsible for the implementation of anti-poverty projects. Insofar as poverty policies are targeted (on the hard core poor, for instance), many of Malaysia's anti-poverty programmes are administered by the state-level agencies.[42] State bureaucracies, like federal ministries, follow the same rules for tendering projects. Due to the fact that state governments have their own tendering bodies, however, and that these operate in close physical and social proximity to the states' own economic planning units, interview responses suggest that more effective working relationships between the state bureaucrats and their tendering bodies ultimately translates into more efficient disbursals of funds, and with it, project implementation. To the extent that improved project tendering is now a feature of many state bureaucracies, it might be reasonable to conclude that the implementation of poverty projects is better left to the state-level agencies.

Yet all states are not equivalents in terms of their poverty performance nor their responsibilities for implementing development projects. In Peninsular Malaysia, Kelantan and Terengganu continue to have the highest incidences of poverty (see figure 1). While geographic and occupational factors may indeed predispose such regions to higher poverty levels, Malaysian politics, which determines both the amount of federal support received by state governments and their role in implementing anti-poverty projects, may also have played an important role in their respective performance. This may have been particularly the case subsequent to the capture of the legislatures of both states by the opposition Party, PAS.

[42] Note that state governments, as well as the federal government, formulate and fund poverty policies.

Figure 1. Regional Incidence of Poverty 1970 - 1999



Sources: Sudhir Anand (1983), Inequality and Poverty in Malaysia: Measurement and Decomposition, Table 5.3; Fifth Malaysia Plan, 1986-1990 and Mid-Term Review of the Fifth Malaysia Plan, 1986-1990; Third Outline Perspective Plan, 2001-2010.

For instance, and by way of comparison, Kedah in western Peninsular Malaysia is the state home to both the first and current Prime Minister (Tunku Abdul Rahman and Mahathir Mohamad respectively). Reports from one state official there describe the relationship between the federal government and the state of Kedah as effective, if not ideal. In Kedah, the state economic planning unit is consulted on the formulation of poverty policy at the national level. Adequate financial support appears to be provided for the state bureaucracy and federal projects that require implementation at the state level can thereby, it seems, be effectively discharged.

At the federal level, project implementation generally means outsourcing to private companies. In the case of Kedah, interview reports suggest that upwards of 70 percent of the projects are implemented by private companies with the remaining 30 percent taken up by an appropriate government agency. There appears to be almost no role for NGOs in this process, and this is typical of other states and of the implementation of federal projects.[43] Thus the role of Kedah's government in the implementation of development projects, appears to be primarily one of deciding which firms to outsource projects to and the subsequent monitoring and assessment of project progress.

The administrative model practiced in Kedah, however, does not apply in the case of Kelantan. There, all federal funds not otherwise entitled to the state under the constitution, are administered by duplicate federal agencies established in Kelantan for this purpose. This procedure - and the waste of resources that it implies - was initiated in 1990 shortly after the state elections which gave PAS majority control. Malaysian politics, by directly circumventing the operations of the state bureaucracy with regard to the development budget and project implementation, has had a direct impact on the capacity of the state apparatus to pursue its own anti-poverty projects,

[43] The exception is Amanah Ikhtiar Malaysia (AIM) or Endeavour Trust of Malaysia (Malaysia's version of the Grammen Bank), which given that it is tightly controlled by the federal government (with government representatives on its Board), is a peculiarly Malaysian version of an NGO anyway.

let alone effectively engaging in federal ones. Interviews with state officials in Kelantan raise concerns that Malaysian politics ultimately means that projects implemented by opposition-controlled states are likely to be problematic. Frequent delays are experienced in receiving the federal subventions to the state's budget. Interviewees described the normal experience as one where they would receive constitutionally-entitled federal funds months later than all the other state governments and sometime not even in the same budget year.[44] The inability to anticipate when federal finances will arrive must significantly hinder the state's ability to plan, let alone implement, its own projects.

More directly related to poverty reduction, the impact of Malaysian politics on the effectiveness of project implementation also appears to underline the demise of the joint federal-state committee for the poor in Kelantan. The committee, created in 1996, was a concession by the federal government to give Kelantan more input into the formulation and implementation of the poverty projects within its jurisdiction. In exchange for more formal engagement, the state made it easier for the federal government to gain access to land permits (the first major hurdle in the implementation of any federal projects in a state's territory and a significant - if not only - bargaining chip held by states over the federal government). Five years later, the tension in state-federal relations in Kelantan has meant that no more new projects are being formulated by the joint committee. Furthermore, even some of the projects already given funds have been halted. The lesson to be learned is that in terms of regional poverty dynamics, Malaysian politics (namely whether the state is UMNO-friendly or not) is an ever present factor which determines whether funds allocated for poverty reduction actually end-up being spent on poverty reduction.

6. CONCLUSIONS

There is no doubt that Malaysia has had a good record in terms of economic growth. While Malaysia's record is not as successful as experiences in South Korea, Singapore and Hong Kong, Malaysia has been an admirable frontrunner in the effort to systematically integrate poverty reduction into an economic development strategy. Accordingly, Malaysia is arguably the ideal case through which to trace the links between the operation and evolution of its institutions of economic governance on the one hand, and its poverty reduction efforts on the other.

Although Malaysia's record on reducing poverty has been good by regional and world standards, it arguably could have been better. On the one hand, misdirected development policies (e.g., heavy industrialisation in steel, cement, petrochemicals) were clearly a significant factor which stunted the nation's poverty reduction effort by taking up large amounts of government investment and exacerbating uneven development in the rural states. Arguably, the development funds channelled into heavy industrialisation would have been better spent on other pro-poor forms of economic development (e.g., rural industrialisation, agricultural productivity, and

[44] Terengganu, a PAS controlled state since 1999, is now, presumably, treated in a similar way.

SMEs). As indicated in this report, much of these limitations have been addressed elsewhere.

Rather, this research has found that alongside misguided choices and 'wrong' policies, the operation of the bureaucracy in general, and the economic bureaucracy in particular, may also have worked to limit Malaysia's developmental performance and poverty reduction. Available evidence suggests that the competency of the bureaucracy in general may have become increasingly problematic in terms of its ability to successfully plan and implement its development strategy. This is worrying given the extent to which Malaysian development strategies emphasise 'projects' over 'policies' – the latter having changed relatively little since the early innovations of the New Economic Policy and the former representing the operationalisation of longstanding policy tenets of the latter – thus making project implementation the core element of bureaucratic efforts. Equally, the operation of the economic bureaucracy, particularly concerning the accessibility of poverty related data within the bureaucracy and the relative exclusion of its agencies from external sources of expertise, represent disturbing bureaucratic features that clearly work against Malaysia's leading efforts to integrate poverty reduction into its economic development strategy.

If the account of the Malaysian experience as developed here is a reasonable one, then our analysis point to the following policy conclusions. Capacity building efforts needs to focus on building a significant research and policy-formulation institutions within the bureaucracy in tandem with efforts to promote staff accessibility to a wider range of policy expertise and international dialogue. Furthermore, efforts to integrate poverty reduction into economic development strategies necessitate a greater accessibility to detailed poverty data, at least amongst relevant federal and state agencies if not equally to a wider academic and civil society community.

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