No. 23 (March) 2002

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Cetakan Pertama / *First Printing, 2002*

Diterbitkan di Malaysia oleh / *Published in Malaysia by*
Institut Kajian Malaysia dan Antarabangsa
Universiti Kebangsaan Malaysia
43600 UKM Bangi, Selangor Darul Ehsan,Malaysia

Dicetak di Malaysia oleh / *Printed in Malaysia by*
Amber Communications

Perpustakaan Negara Malaysia — Data-Pengkatalogan-dalam-Penerbitan
Cataloguing-in-Publication-Data

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(Siri Kertas Kerja / *Working Paper Series ; 23)*
Includes Bibliographies
ISBN 983-2446-54-6

Siri Kertas Kerja / *Working Paper Series*

Institut Kajian Malaysia dan Antarabangsa
(Institute of Malaysian and International Studies)

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Abstract

This paper attempts to assess the impact of the 1997-98 Asian Financial Crisis on poverty and income distribution in Malaysia by utilizing the Household Income Surveys data collected by the Malaysian Department of Statistics. While the crisis caused growth rate to plunge by 7.4 per cent in 1998, the economy rebounded in 1999. In 1995, the poverty incidence among Malaysian citizens was 8.9 per cent, with 3.6 per cent of urban and 14.9 per cent rural households under poverty. By 1997, this incidence was reduced to 6.1 per cent, 2.1 per cent and 10.9 per cent respectively, but the crisis has increased the poverty incidence to 7.5 per cent, 3.4 per cent and 12.4 per cent respectively. Overall Malaysian income inequality improved since the mid-1970s till 1990 but suffered a U-Turn in the 1990s till 1997. The crisis worsened the poverty incidence due to the reduced size of the economic pie, but it did improve income distribution. Rural inequality was lower than urban inequality but it also experienced a U-Turn in the 1990s resulting in it exceeding urban inequality in 1999. On the other hand, urban inequality fell throughout the period.

About the Author

Ragayah Haji Mat Zin is a Professor of Development Economics from the Department of Economic Analysis and Public Policy, and currently Director of the Institute of Malaysian and International Studies (IKMAS), Universiti Kebangsaan Malaysia. She is also the Director of the Malaysian APEC Study Centre and the Malaysian Country Coordinator for the East Asian Development Network (EADN). Her research areas are mainly in income distribution and poverty as well as industry (particularly small and medium industries) and trade studies. She has been appointed as a researcher and consultant to a number of international organisations including Council for Asian Manpower Studies (CAMS), ESCAP (UNCTC Unit, Rural Development Division and DRPAD), FAO, Thailand Research Development Institute (TDRI), EADN as well as to the various state governments in Malaysia. She is a co-author of the book Economics of Taxation (1990). Her other recent publications include "Growth with Equity: Policy Lessons from the Experience of Malaysia", in Growth with Equity: Policy Lessons from the Experiences of Selected Asian Countries. (ST/ESCAP/ 2007), New York: United Nations, 1999; and "Policies and Strategies of Poverty Alleviation in Malaysia" dalam V.S. Vyas and Pradeep Bhargava (eds.), Poverty Reduction in Developing Countries: Experiences from Asia and Africa, Jaipur dan New Delhi : Rawat Publications (1999).

1. Introduction*

Before the devaluation of the baht in July 1997 that triggered the East Asian financial crisis Malaysia was enjoying an enviable average growth rate of 9.7 per cent per annum in the four years prior to the crisis. In the beginning most analysts expected it to be contained within a few months. However, the crisis turned out to be unprecedented in terms of the speed and severity of the contagion effect that also spread to countries outside of East Asia. In Malaysia, as in other East Asian countries, the financial crisis quickly deteriorated into an economic and social crisis.

The objective of this paper is to evaluate the impact of the financial crisis on poverty incidence and income distribution in Malaysia. Unlike in other crisis affected countries such as Indonesia, Thailand and Philippines, where a substantial volume of works impact of the financial crisis on poverty incidence and income distribution have been published, very little work on this subject has been done for Malaysia. Other than the official documents, this includes Mohamed Ariff et. al (1998), Ishak Shari and Abdul Rahman Embong (1998), while Ragayah (1999) wrote a section on it and Zulridah et. al (2000) examined the coping mechanisms of the poor. However, all these studies are based only on small quick surveys. The present paper attempts to assess the impact of the crisis by utilizing data in the Household Income Surveys 1995, 1997 and 1999 collected by the Department of Statistics. This paper begins by describing Malaysia's macroeconomic responses to the crisis. Section 3 examines the macroeconomic impact of the crisis while Section 4 analyses the incidence and trends of poverty. Section 5 looks at the trends in income inequality. The next section describes the poverty profiles, including the coping mechanisms of the poor. Section 7 summarises the findings and concludes the paper.

2. Macroeconomic Policy Responses

The Malaysian government's response to the crisis changed at various stages reflecting the different assessment and policy orientation (see Ishak Shari and Abdul Rahman Embong, 1998, pp. 3-4). At the initial stages, using the IMF/World Bank approach, the Central bank attempted to stabilize the ringgit by intervening in the foreign exchange markets, raising domestic interest rates and introducing selective administrative measures to curb speculation in the currency and stock markets. However, these interventions were very costly as propping the ringgit led to a depletion of the country's foreign exchange reserves while raising the domestic interest rates had the

negative effect of exacerbating the economic downturn and contributing to the drastic fall in the stock market and upsurge in business closures.

When both the ringgit and share prices were pushed to successive lows in a progressively volatile external environment, it was recognized that stronger macroeconomic adjustments were required. Hence, a set of austerity measures was announced in early September 1997 to further reduce the level of aggregate demand and contain the current account deficit. These measures included a 2 per cent cut across the board in Government spending; rationalization of the purchase of imported goods by public agencies, including the armed forces; and deferment of several large privatized projects (Bank Negara Malaysia, 1998). These measures were reinforced with further measures announced in the 1998 Budget in October 1997, which included deferment of projects with total cost amounting to RM65.6 billion and establishing the RM1 billion fund for small- and medium-scale industries (SMIs).When the regional instability persisted into December, the government introduced a stronger and comprehensive package of policies including a further sharp cutback in Federal Government expenditure by 18 per cent in 1998; deferment of selected projects; intensive promotion of exports, tourism and the utilization of locally-produced goods; and a freeze on reverse investment which amounted to RM10.5 billion in 1996.

The government also instituted measures to further strengthen prudential standards of the banking system. These included the recognition of a loan as non-performing when its servicing had been in arrears for three months instead of six and greater disclosure in financial statements. Measures were also taken to reduce credit growth and exposure to the less productive sectors in the form of voluntary credit plans whereby the financial institutions undertook to reduce overall credit growth to 25 per cent by the end of 1997, 20 per cent by end-March 1998 and 15 per cent by end-1998. At the same time, the banking institutions had to ensure that in allocating credit, priority would be given to borrowers engaged in productive and export-oriented activities.

However, by August 1998 the ringgit depreciated by 40 per cent against the USD while the stock market declined by 72 per cent. As the crisis deepened, counter-cyclical measures were introduced to head off an impending recession. Fiscal policy was selectively relaxed beginning March 1998 and monetary policy was eased in early August 1998 when inflationary pressures became subdued. The fiscal measures included selective increase in infrastructure spending, setting-up of funds for SMIs, higher allocation on social sector development as well as reducing taxes (Bank Negara Malaysia, 1999). In late July, the National Economic Action Council, which was set up to deal with the crisis, announced the National Economic Recovery Plan (NERP) to provide a comprehensive and action-oriented framework to expedite economic recovery. The NERP has six interrelated and complementary objectives: stabilizing the ringgit, restoring market confidence, maintaining financial stability, strengthening economic fundamentals, continuing the equity and socio-economic agenda, and restoring adversely affected sectors.

In an attempt to protect itself against international financial volatility, the government imposed selective exchange controls on 1 September 1998. The ringgit exchange rate was fixed at US$1 = RM3.80 the next day. This move enabled the authorities to reduce the interest rate. For example, the base lending rate (BLR) of commercial banks, which rose from 10.33 per cent at the end of 1997 to 12.27 per cent at the end of June 1998 was reduced to a maximum rate of 8.05 per cent as at 10 November, 1998. This move has benefited the banking institutions and private sector from enhanced liquidity and lower interest rates (Ishak Shari and Abdul Rahman Embong, 1998), thus stimulating an expansion in domestic demand.

As a continued effort to revive the economy, the 1999 Budget presented in October 1998 continued with an expansionary fiscal stance. The government development expenditure was raised by about 23 per cent to RM19,378 million while the operating expenditure increased by 4.2 per cent to RM46,563 million. Of the additional allocation for development expenditure in 1998, RM1,000 million was directed for social development projects to address and ameliorate the effects of the economic crisis on the lower income groups.

In early 1999, the economy showed signs of an initial stage of recovery after one year of economic contraction. Macroeconomic policy management focused on strengthening the recovery process and on expediting measures to address structural issues, both in the economic and financial sectors. In terms of Government spending, priority was given to projects which address structural and socio-economic issues (education and skills training, health services, low-cost housing, and agriculture and rural development), as well as revival of selected infrastructure projects to increase efficiency of the economy. An important criterion of the stimulus package was that

it should result in minimal leakage abroad to ensure no build-up of risks in the balance of payments (Bank Negara Malaysia, 2000).

3. Macroeconomic Impact of the Crisis

Table 1 shows that Malaysia had achieved an impressive record of growth prior to the financial crisis of 1997-98. The real (in 1987 prices) gross domestic product (GDP) grew at over 9 per cent per annum during the first half of the 1990s, reaching a peak of 10 per cent in 1996. In fact the crisis had only a moderate impact on the Malaysian GDP in 1997, when the economy still manage to grow at 7.3 per cent. However, with the deepening of the economic turmoil, Malaysia experienced the full impact of the crisis in 1998 when the economy contracted by 7.4 per cent, for the first time since 1985. Fortunately, the crisis for Malaysia was V-shaped for the economy managed a sharp recovery in 1999, registering a growth of 5.8 per cent. The Ministry of Finance estimated (in October 2000) that growth for the year 2000 was at 7.5 per cent, but the Central Bank's preliminary figure (as at the end of March 2001) puts it at 8.5 per cent. Per capita GDP which peaked at RM9065 (1987 prices) in 1997 fell to RM8245 in 1998 and climbed to RM8493 in 1999 and RM8899 in 2000.

Table 1 also reflects that the high growth rate of the economy that preceded the crisis was associated with the intensive growth of the manufacturing and the construction sectors. The two sectors together with non-government services sector accelerated at double-digit growth. In contrast, the primary sector was experiencing negative growth in the years before the crisis except for 1996 and 1997. This rapid growth of the manufacturing sector in the face of a much slower rate of the primary sector (agriculture, forestry and fishing) over the past three decades had resulted in a significant transformation of the Malaysian economy. The share of the primary sector declined from 29.0 per cent in 1970 to 9.2 per cent in 1997 while the share of the industrial sector (mining and quarrying, manufacturing, and construction) rose from 31.4 per cent in 1970 to 42.0 per cent in the same year. The share of the services sector has been exceeding 50 per cent throughout the 1990s.

The sectoral growth rates indicate that the construction sector was the worst hit, plunging by 23.0 per cent in 1998 and 5.6 per cent in 1999, and growing only at 3.1 per cent in 2000. Consequently, its share of the GDP fell from 4.8 per cent in 1997 to 4.0 per cent in 1998, 3.6 per cent in 1999

Table 1
Composition and Growth Rate of the Gross Domestic Product and Employment Share By Industry of Origin (in 1987 Prices)

GDP Share (Employment Share)	1993	1994	1995	1996	1997	1998	1999	2000[1]
Agriculture, Forestry and Fishing	12.9 (22.6)	11.6 (19.6)	10.3 (19.0)	9.8 (17.7)	9.2 (16.7)	9.6 (16.3)	9.4 (15.9)	8.8 (15.5)
Mining and Quarrying	7.5 (0.5)	7.3 (0.5)	8.2 (0.5)	7.7 (0.5)	7.3 (0.5)	7.9 (0.5)	7.2 (0.5)	6.8 (0.5)
Manufacturing	26.2 (23.4)	26.7 (25.1)	27.1 (25.7)	29.1 (26.5)	29.9 (26.9)	27.9 (26.5)	30.0 (27.2)	32.6 (27.5)
Construction	3.8 (7.3)	4.0 (7.9)	4.4 (8.9)	4.7 (9.4)	4.8 (9.9)	4.0 (9.4)	3.6 (9.2)	3.4 (9.3)
Services	50.6 (46.2)	51.1 (46.9)	51.2 (45.9)	50.7 (45.9)	51.9 (46.0)	55.7 (47.3)	54.4 (47.2)	53.0 (47.3)
(Non-Govt.)	42.7 (34.6)	43.4 (35.4)	44.1 (35.1)	44.2 (35.6)	45.3 (36.1)	48.4 (37.1)	47.0 (37.2)	45.9 (37.6)
(Govt.)	7.9 (11.6)	7.7 (11.5)	7.1 (10.8)	6.5 (10.3)	6.6 (9.9)	7.3 (10.2)	7.4 (10.0)	7.1 (9.7)
Import Duties - Imputed Bank Service Charges	-1.0	-0.7	-1.2	-2.0	-3.1	-5.1	-4.5	-4.6
Unemployment :%	**3.0**	**2.9**	**2.8**	**2.5**	**2.4**	**3.2**	**3.0**	**2.9**
Per Capita GDP (RM)	7235	7548	8050	8646	9065	8245	8493	8899
Average Growth Rate (%)								
Agriculture, Forestry and Fishing	-3.1	-1.9	-2.5	4.5	0.7	-3.3	3.8	0.5
Mining and Quarrying	-4.0	6.0	22.9	2.9	1.9	0.8	-3.1	0.6
Manufacturing	14.6	11.4	11.4	18.2	10.1	-13.4	13.5	17
Construction	10.8	15.1	21.1	16.2	10.6	-23.0	-5.6	3.1
Non-Government Services	16.0	11.1	11.9	10.2	10.5	-1.0	2.7	5.1
Government Services	7.2	5.4	1.4	1.7	8.6	1.8	6.9	3.9
Total	**9.9**	**9.2**	**9.8**	**10.0**	**7.3**	**-7.4**	**5.8**	**7.5**
Average Per Capita Growth Rate (%)	**5.9**	**4.3**	**6.7**	**7.4**	**4.8**	**-9.0**	**3.0**	**4.8**

Source: Economic Report 1999/2000, 2000/2001. Ministry of Finance, Kuala Lumpur.

Notes: [1] Estimate by the Ministry of Finance.

and 3.4 per cent in 2000. Although the manufacturing sector also contracted sharply in 1998 by 13.4 per cent, it recovered quickly and managed to register a growth rate of 13.5 per cent in 1999 and 17.0 per cent in 2000. As such, the share of the manufacturing sector which reached 29.9 per cent in 1997 fell slightly to 27.9 per cent in 1998, but rose to 30.0 per cent in 1999 and 32.6 per cent in 2000.

The growth and structural transformation of the Malaysian economy had wide implications on the growth of employment opportunities as well as the distribution of labor force by sectors. The employment share in the primary sector has been decreasing throughout the last three decades while that of the industrial and services sector has been rising. With industrialization and the rise in employment opportunities, the unemployment rate contracted to 2.4 per cent on the eve of the crisis. Actually, Malaysia was experiencing full employment throughout the 1990s. The labor market became so tight that some sub-sectors have to resort to imported labor from abroad, namely from Indonesia, Bangladesh and the Philippines. Although the crisis resulted in workers been retrenched from certain sub-sectors, particularly construction, many has been re-deployed to other sectors still experiencing labor shortage, such as some sub-sectors in the manufacturing and services sectors as well as the agriculture sector. Quite a number of the foreign workers have returned to their respective countries.

Table 1 also shows that the share of employment in the primary (agriculture, forestry and fishing) and the secondary (mining and quarrying, manufacturing and construction) sectors contracted in 1998. On the other hand, the share of employment in the services sector went up. However, it can be seen that by 1999, the share of employment in the manufacturing sector went up again, indicating a rapid recovery in this sector.

A remarkable feature of the development process of the Malaysian economy is that the high growth rate throughout the period has also been accompanied by low inflationary rates. As shown in Table 2, the inflation rates were stable except for 1973-74 and 1980-81 due mainly to the two oil price shocks of 1973 and 1979. After that the inflation rate did come down particularly during the mid-1980s recession. However, due to the tight factor and goods markets during the expansionary period of the 1990s, inflation had risen again but managed to be controlled at a relatively low level. While the initial official expectation of inflation was 7-8 per cent in 1998 (private sector estimates had been more pessimistic at 8-12

Table 2
MALAYSIA : Consumer Price Index
Annual Growth Rate (%), 1971-2000

Year	1971-75	1976-80	1981-85	1986-90	1991-95	1996-2000
1	1.6	2.6	9.7	0.6	4.4	3.5
2	3.2	4.7	5.7	0.8	4.7	2.7
3	10.4	4.9	3.7	2.5	3.6	5.3
4	17.4	3.6	3.6	2.8	3.7	2.8
5	4.5	6.7	0.4	3.1	3.4	1.6*
Average	**7.4**	**4.5**	**4.6**	**2.0**	**4.0**	**3.2**

Source: Malaysia, *Economic Report*, various issues. Kuala Lumpur: Ministry of Finance.
* Preliminary figure from Bank Negara Malaysia, 2001.

per cent), it turned out to be better than expected at 5.3 per cent.

4. Incidence and Trends of Poverty

In order to have some idea about the quality of data employed in measuring poverty, a brief description of the sources of household income data is deemed necessary. The income data used to estimate poverty incidence in Malaysia is derived from the Household Income Surveys (HIS) conducted by the Statistics Department of Malaysia. Most are not available to the public except for summary data published in official documents. As such, it is not possible to test whether the changes in the values of the measures are statistically significant.

The definition of the concept of income and the comparability of these income data from the various census/surveys has been discussed elsewhere (Ishak and Ragayah, 1990; Kharas and Bhalla, 1992; Zainal Aznam Yusof, 1994). The surveys employed a comprehensive definition, including cash and non-cash incomes of households from employment as well as transfers and value of owner-occupied houses. It is suffice to emphasise several points here. Firstly, it is generally agreed that the surveys have employed a consistent and comparable income concept and approach in conducting the various surveys. Secondly, the income concept used in the various estimates is the household income, not individual income. Anand (1983) explained that household income does not provide a good indication of inequality in the levels of living as it takes no account

of the differences in household size and composition, and economies of scale in consumption. Finally, by focussing on private households, individuals who are living in "institutional households," such as those residing in police and military barracks, hotels, hospitals and welfare homes are left out. Moreover, income, which does not accrue to households such as retained earnings of companies, is also left out of the surveys.

Incidence of poverty in Malaysia is estimated on the basis of poverty line income, which takes into account the minimum requirements for food, clothing and shelter, and other regular expenditures that are necessary to maintain a household with a decent standard of living. The poverty line incomes (PLI) for the period between 1995-1999 are shown in Table 3. Based on this table, for an average household size of 4.6 in Peninsular Malaysia, 4.9 in Sabah and 4.8 in Sarawak, the PLIs were RM425, RM601 and RM516 respectively for 1995. These were revised to RM460 per month for a household in Peninsular Malaysia, RM633 for a household in Sabah and RM543 for a household in Sarawak in 1997. In 1998, these PLIs were RM493, RM667 and RM 572 respectively while in 1999 the PLIs were RM510, RM685 and RM584 respectively for Peninsular Malaysia, Sabah and Sarawak.

Malaysia has achieved a remarkable record in the progress of poverty

Table 3
Poverty Line Incomes[1], 1996-1999
(RM per month per household)

Region	1995	1997	1998	1999
Peninsular Malaysia[2]	425	460	493	510
Sabah[2]	610	633	667	685
Sarawak[2]	516	543	572	584

Notes:

1 Estimated based on the minimum requirements of a household for three major components, namely food, clothing and footwear, and other non-food items such as rent, fuel and power; furniture and household equipment; medical care and health expenses; transport and communications; and recreation, education and cultural services. For the food component, the minimum expenditure was based on a daily requirement of 9,910 calories for a family of five persons while the minimum requirements for clothing and footwear were based on standards set by the Department of Social Welfare to 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. The poverty line income is updated annually to reflect changes in the levels of prices by taking into account changes in the Consumer Price Indices.

2 Adjusted based on an average household size of 4.6 in Peninsular Malaysia, 4.9 in Sabah and 4.8 in Sarawak.

Source: Malaysia, 2001a. Eighth Malaysia Plan, 2001-2005 (Kuala Lumpur: Percetakan Nasional Sdn. Bhd.)

eradication. For the whole of Malaysia, the poverty incidence has plunged from 52.4 per cent in 1970 to 9.3 per cent in 1995. Over the same period, urban poverty incidence shrank to 4.1per cent while the rural poverty incidence fell to 15.6 per cent. The incidence of poverty and the number of poor households for the period of the crisis, 1995-1999, are shown in Table 4. Poverty in Malaysia continues to be a largely rural phenomenon. In 1995, the overall incidence of poverty stood at 9.3 per cent numbering 418,000 households. Of this total, 4.1 per cent (99,300 households) were in the urban areas while 15.6 per cent (319,000 households) were located in the rural areas. The incidence of poverty was further reduced in 1997 to 6.8 per cent (332,400 households) for the whole of Malaysia, 2.4 per cent (64,900 households) for the urban areas and 11.8 per cent (267,500 households) for the rural areas. However, the incidence of poverty for 1999 rose to 8.1 per cent (409,300 households) for the whole of Malaysia, 3.8 per cent (102,700 households) for the urban areas and 13.2 per cent (306,600 households) for the rural areas as a consequence of the crisis.

The incidence of hardcore poverty (defined as those with household income equal to or less than half the PLI) for the whole of Malaysia stood at 2.1 per cent (comprising 94,000 households) in 1995. Of this total 0.9 per cent (21,800 households) were found in the urban areas while 3.5 per cent (72,200 households) in the rural areas. The incidence of hardcore poverty continued to fall to 1.4 per cent (332,400 households) in 1997, with 0.5 per cent (12,200 households) in the urban areas and 2.4 per cent (55,300 households) in the rural areas. The incidence of hardcore poverty remained at 1.4 per cent in 1999, but the number of households dropped slightly to 71,100. However, the incidence of urban hardcore poverty rose by 20 per cent to 0.6 per cent and the number of households increased to 15,600. In the rural areas the incidence of hardcore poverty remained at 2.4 per cent but the number of households rose slightly to 55,500.

The trends in poverty reduction for the total and hardcore poor among the Malaysian citizens follow the same pattern. In 1995, the poverty incidence among Malaysian citizens only was 8.7 per cent totalling 365,600 households, with 3.6 per cent covering 83,800 households in the urban areas and 14.9 per cent comprising 281,800 households in the rural areas. The incidence of poverty among Malaysians only was reduced from 6.1 per cent in 1997, with 2.1 per cent (52,400 households) found in the urban and 10.9 (221,800 households) in the rural areas. Similarly, the incidence of hardcore poverty also fell accordingly. In 1999, the poverty incidence among Malaysian citizens rose to 7.5 per cent (351,000 households),

Table 4
Incidence of Poverty and Number of Poor Households, 1995, 1997 and 1999

		1995[1]			1997[1]			1999		
		Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Malaysian Citizens										
Incidence of Poverty	(%)	8.7	3.6	14.9	6.1	2.1	10.9	7.5	3.4	12.4
Number of Poor Households	('000)	365.6	83.8	281.8	274.2	52.4	221.8	351.1	86.8	264.3
Incidence of Hardcore Poverty2	(%)	2.1	0.9	3.6	1.4	0.4	2.5	1.4	0.5	2.4
Number of Hardcore Poor Households	('000)	88.4	20.1	68.3	62.4	10.6	51.8	64.1	13.5	50.6
Total Households	**('000)**	**4,212.3**	**2,315.8**	**1,896.5**	**4,488.1**	**2,449.8**	**2,038.3**	**4,681.5**	**2,548.0**	**2,133.5**
Overall										
Incidence of Poverty	(%)	9.3	4.1	15.6	6.8	2.4	11.8	8.1	3.8	13.2
Number of Poor Households	('000)	418.3	99.3	319.0	332.4	64.9	267.5	409.3	102.7	306.6
Incidence of Hardcore Poverty2	(%)	2.1	0.9	3.5	1.4	0.5	2.4	1.4	0.6	2.4
Number of Hardcore Poor Households	('000)	94.0	21.8	72.2	67.5	12.2	55.3	71.1	15.6	55.5
Total Households	**('000)**	**4,497.7**	**2,449.7**	**2,048.0**	**4,924.0**	**2,660.1**	**2,263.9**	**5,047.0**	**2,725.9**	**2,321.1**

Source: Malaysia, 2001a.
Notes:
[1] Revised based on the latest household population data.
[2] Estimated using half the poverty line income.

with 3.4 per cent (86,800 households) in the urban areas and 12.4 per cent (264,300 households) in the rural areas. While the incidence of hardcore poverty remain about constant, there was a slight increase in the number of households.

In the absence of the poverty gap and squared poverty gap indices, the separate classification of the households in poverty into the poor and the hardcore poor do tell something regarding the depth and severity of the problem. Since a much smaller proportion is categorised as hardcore poor, this implies that most of the poor lie relatively near to the PLI.

In 1990, the non-citizens constituted about 7.0 per cent (Malaysia 1996). Based on the information in Table 4, the author's calculation showed that the non-citizens made up 12.6 and 17.5 per cent of the total poor in 1995 and 1997, respectively. This shows that foreigners are increasingly becoming part of the poverty group. However, since many foreigners were repatriated back to their respective countries during the crisis, their share in the Malaysian poverty incidence moderated to 14.2 per cent in 1999.

Table 5 shows that the incidence of poverty by state for the 1995, 1997 and 1999. While the overall Malaysian achievements in poverty eradication are exemplary, this table reflects that poverty incidence is still high in certain states. For example, poverty among citizens prior to the 1997-1998 crisis was 23.4 per cent in Terengganu, 22.9 per cent in Kelantan, 22.6 per cent in Sabah, 12.2 per cent in Kedah and 11.8 per cent in Perlis.

Moreover, these are also the states with the lowest poverty reduction rates between 1995 and 1997. However, some interesting changes are observed regarding the poverty incidence in 1999 as a consequence of the crisis. Among these states, the poverty incidence in Kelantan and Terengganu went down while that of Sabah, Kedah and Perlis went up. Another two states, Negeri Sembilan and Sarawak continued to experience a reduction in poverty incidence while the rest suffered a reversal.

The reduction in poverty in Kelantan, Terengganu and Sarawak could probably be due to the jump in the export price of palm oil, which shot up by 66.1 per cent from RM1,424.9 per tonne in 1997 to RM2,366.4 per tonne in 1998, although the volume of production did contract slightly by 0.9 per cent. In Sarawak, this was reinforced by the rise in the price

Table 5
Incidence of Poverty by State, 1995, 1997 and 1999 (%)

	Malaysian Citizen's			Overall		
State	1995	1997	1999[1]	1995	1997	1999[1]
Johor	3.1	1.6	2.5	3.2	1.6	2.6
Kedah	12.2	11.5	13.5	12.1	11.5	13.6
Kelantan	22.9	19.2	18.7	23.4	19.5	18.7
Melaka	5.3	3.5	5.7	5.2	3.6	6.3
Negeri Sembilan	4.9	4.7	2.5	4.8	4.5	2.4
Pahang	6.8	4.4	5.5	6.8	4.1	5.6
Perak	9.1	4.5	9.5	9.1	4.5	9.4
Perlis	11.8	10.7	13.3	12.7	10.6	13.5
Pulau Pinang	4.0	1.7	2.7	4.1	1.6	2.8
Sabah[2]	22.6	16.5	20.1	26.2	22.1	25.0
Sarawak	10.0	7.3	6.7	10.0	7.5	6.6
Selangor	2.2	1.3	2.0	2.5	1.3	2.1
Terengganu	23.4	17.3	14.9	23.4	17.3	15.2
Wilayah Persekutuan Kuala Lumpur	0.5	0.1	2.3	0.7	0.1	2.3
Malaysia	**8.9**	**6.1**	**7.5**	**9.6**	**6.8**	**8.1**

Note: [1] Data provided by EPU.
[2] includes Wilayah Persekutuan Labuan
Source: Malaysia (1999).

of pepper, which is mainly a smallholder crop and thus would contribute significantly towards alleviating poverty among the rural households in that state.

In view of the sharp contraction suffered in 1998, it is certain that the poverty incidence, both total and hardcore, would be higher in that year. Unfortunately, there is no published data available for that year. Still, we can get some idea on the extent and severity of the impact of the crisis on the poor from the few studies that were executed at that time. According to the World Bank (1998: 80), the economic crisis had four severe effects on households: falling labor demand, sharp price shifts, a public spending squeeze, and an erosion of the social fabric. Moreover, some countries were also simultaneously hit by drought. While parts of Indonesia, the Philippines and Thailand had been hit by an El Nino-induced drought, Malaysia was fortunate not to have this problem to worsen the situation caused by the other four effects. Ishak Shari and Abdul Rahman Embong (1998) add two more channels through which the crisis exerted adverse social impacts: decline in the value of assets and the initial tight monetary policy.

Initially, the unemployment rate was expected to rise to 4.5-5.5 per cent by year-end 1998 (MIER 1998), higher than the 3.5 per cent expected in March 1998 (Bank Negara Malaysia, 1998), up from 2.7 per cent at the onset of the crisis. However, as shown in Table 1, the final official figure turned out to be better than anticipated at 3.2 per cent. **Table 6** shows the retrenchment of workers according to sectors for 1996-1998. Between 1996 and 1997, there was a 143 per cent increase in retrenchment which jumped to 345 per cent between 1997 and 1998. A total of 83,865 workers lost their jobs in 1998. Almost 54 per cent of the total retrenched were from the manufacturing sector while 11.1 per cent were from the construction sector. Another 12.4 per cent were from the wholesale and retail trade, hotels and restaurants sector.

The data in Table 6 do not indicate the type of workers being retrenched. This information is provided by a report of the Ministry of Human Resources in The New Straits Times on 17 November 1998 (Ishak Shari and Abdul Rahman Embong, 1998). Of those retrenched as at 7 November 1998, 39,331 or 53.2 per cent were production workers; 10,645 or 14.4 per cent were professional and technical workers and 8,575 or 11.6 per cent were clerical workers. Another 5,460 or 7.4 per cent were administrative and managerial workers; 3,977 or 5.4 per cent were service workers; 2,728 or 3.7 per cent were in sales; and 2,135 or 2.9 were in agriculture. The production, clerical, service and agriculture workers were most likely to be in the lower income brackets and could easily slipped below the poverty line. However, 74,610 vacancies were registered in selected sub-sectors enabling those retrenched workers to be redeployed.

Ishak Shari and Abdul Rahman Embong (1998) contended that the official figures might not fully reflect the seriousness of the problem. This is partly due to the fact that a significant number of retrenched workers were foreign workers and many of them, especially those in the construction sector, were unregistered workers. Retrenchment of local workers was also occurring in the informal sector and their number would not probably be captured in official statistics. The press reported a substantial number of small businesses went bust as a result of falling demand and rising

cost of doing business. In fact, the SMI sector lost 37 per cent jobs in 1998 compared to 1997 (SMIDEC, 1999). Moreover, there were also claims of considerable underemployment, which was also likely not captured in the official statistics.

Table 6
Retrenchment of Workers According to Sector, 1996-1998

Year	Total	% Change
1996	7,773	
1997	18,863	143
1998	83,865	345
		% of Total
1998		
Agriculture	5,108	6.1
Mining	877	1.1
Manufacturing	45,151	53.8
Construction	9,334	11.1
Electricity, gas and water	1	0.0
Transport, storage and communications	2,007	2.4
Wholesale and retail trade, hotels and restaurants	10,434	12.4
Finance, insurance, real estate and business services	6,596	7.9
Social services	4,242	5.1
Others[1]	115	0.1
Total	**83,865**	**100.0**

Source: Malaysia, 1999.

Reductions in private income were widespread through retrenchments, lower wages and earnings, business failures (especially of small retailers) and reduced asset and transfer income. A10 per cent pay cut for ministers and 5 per cent pay cut for senior civil servants as well as a freeze on salary increments for higher categories of civil servants have been in place since January 1998. It is likely that wage cuts of greater magnitude were experienced by a substantial proportion of the labor force in the private sector, through a reduction in basic salary, overtime pay, bonuses or other benefits. Moreover, a large number of retrenched workers might find re-employment only at substantially lower wages. The reduced number of income earners in the family will tend to cause more households to slip back to below the poverty line. A large number of the low-income households and foreign workers are in this group. These developments also meant that there would be less transfer payments from the wage earners to the rural and other recipient households, which might cause some of the vulnerable ones to slip back below the poverty line.

However, the government had implemented several programs under the National Economic Recovery Plan to help the poor weather these adverse conditions, which include the following. The 20 per cent cut in the 1998 budget has been compensated by an additional allocation of RM3.7 billion (about 18 per cent of the total social sector budget). This amount is to assist the vulnerable groups hit by the crisis, including funds for small farmers, micro-credit for small businesses, extension of community and rural health facilities, and development of skills training and higher education. The World Bank disbursed a USD 300 million loan in June 1998 to mitigate the adverse effects of the economic adjustment on the more vulnerable segments of society and in 1999 approved USD404 million to fund social programs such as low cost housing. The Islamic Development Bank also approved a loan of USD99 million. Malaysia had also obtained funding from bilateral sources such as loans under the New Miyazawa Initiative. Moreover, the government has not reduced the original budget allocated for poverty alleviation while ministries involved in providing the social services, such as the Ministry of Health and Ministry of National Unity, had smaller 1998 budget cuts. The government has also taken measures to increase opportunities for employment and self-employment by encouraging organized and systematic petty trading, farming and setting up of small businesses. Measures to contain inflation, such as removal of imperfections and distortions in the marketing of essential commodities, importing from cheaper sources and others, were executed. Still, the 7MP also expected the private sector firms to increase their involvement in poverty eradication by collaborating with various state-based YBK in conducting skill training and providing financial contributions to the poor. Given the current financial problems faced by these corporations, then their ability in contributing to this program would be severely curtailed, if not ceased altogether.

Another feature of the current economic crisis is the dramatic asset deflation in the stock and property markets. By the end of 1997, stock market capitalization had declined by more than half and property prices are expected to fall by up to 40 per cent by the end of 1998. Households with a substantial amount of income derived from such assets, which include retired households, will experience a sharp decline in income.

However, the bursting of the property bubble has provided a reprieve in the form of lower rentals and a halt to further property developments in the inner urban areas. This is because the rapid urbanization and economic growth of the previous decades had led to intense competition over urban land, which resulted in the urban poor and lower-income groups being subject to eviction and high rentals. Since the profit margins were higher in the upper end of the property market, the developers were reluctant to build low cost houses. The government plan to stimulate the current situation through building these houses will enable many low income households to buy their own dwellings.

Inflation was initially estimated to rise by 7-8 per cent in 1998, from 2.7 per cent in 1997. In March 1998, the Consumer Price Index rose by 5.1 per cent that was alarming to inflation-phobia Malaysia. Particularly alarming is the disproportionate rise in the index for food, which recorded a rise of 6.6 per cent, and for medical care and health expenses, which rose by 5 per cent. The rise in the cost of medical fees is mainly due to the 30 per cent rise in the cost of imported drugs, which account for over 60 per cent of drugs used in the country. Private hospitals and clinics have recorded a drop of between 15 to 50 per cent in the number of patients seeking treatment. Together with the cut in the healthcare budget announced earlier in the public sector, this will mean a definite decline in the level of healthcare available to the poorer sections of the population. These increases in the price of basic necessities will have an impact on lower-income households, in particular the urban poor. In the absence of a state-run social safety net, households that have been affected have had to depend on savings and private income transfers.

It turned out that rural households would be less affected than urban households due to the resurgence of rural income, which was brought about by factors similar to that experienced during the mid-1980s recession. First, the world shortage in certain commodities like cooking oil and pepper has led to a rise in the price of these commodities. Coupled with the depreciation of the ringgit these farmers are getting much higher income since the commodities are quoted in USD price. Second, in order to reduce the food import bill that reached RM9 billion in 1996 the government has been encouraging local production of food commodities. In 1993, the government established the Fund for Food scheme, with an initial allocation of RM300 million and subsequently raised to RM1 billion to promote investment in the primary food industry. The depreciated ringgit gave urgency to this matter and farmers have been increasing output. Finally, rural households could diversify their income sources more easily than urban households could by increasing self-employment.

On the other hand, urban households had no such protection. With reduced income through retrenchments or pay cuts, and price hikes in fixed cost necessities such as food and utilities, poor urban households will suffer a noticeable decline in welfare. However, many of the retrenched locals might return to their villages to find jobs in the agricultural sector or register in the Training Scheme for Retrenched Workers program offered by the Human Resources Development Council to upgrade their skill and improve their income-earning potential. The group most vulnerable to the crisis are migrant workers. While official statistics indicate that 3,246 have been retrenched in the first five months of 1998, an estimated 80 per cent of the 768,400 employed in the construction sector were migrant workers. Given the dramatic decline in the level of construction activity, the reported figure would grossly under-estimate migrant worker retrenchments. Most of them have incurred labor brokerage debts repayment that could not be honored due to the abrupt retrenchment, repatriation and loss of income, which might result in an eventual entrapment of a vicious debt and poverty cycle.

5. Trends in Inequality

The different impact on incomes of the various groups would have implications on the distribution of income. Nominal per capita income fell to RM11,835 (USD3018) in 1998 from RM12,051 (USD4,282) in 1997. Table 7 shows that the mean income of a Malaysian household has increased significantly and continuously from RM763 in 1979 to peak at RM2606 in 1997. The Malaysian achievement in reducing income inequality between 1979 and 1990 is also impressive. The Gini ratio fell from its peak of 0.505 in 1979 to 0.446 in 1990. The state of income distribution both in the rural and the urban areas also exhibit similar trends. In terms of the income shares, the top 20 per cent of households reduced their share from 55.8 per cent in 1979 to 50.5 per cent in 1990 while the middle and bottom 40 per cent increased their shares from 32.4 per cent and 11.9 per cent to 35.3 per cent and 14.3 per cent respectively.

However, the Gini ratio has shown a trend reversal in the 1990s when it rose to 0.459 in 1993, 0.464 in 1995 and 0.470 in 1997. Similarly, the income shares of the top 20 per cent of households increased to 51.3 per cent in 1995 and 52.4 per cent in 1997. On the other hand, the shares

Table 7: Distribution of Household Income by Strata: Malaysia 1979-1999

Percentage of Households	Income Share (Percentage)							
	1979	1984	1987	1990	1993	1995	1997	1999
Overall								
Top 20%	55.8	53.2	51.2	50.4	n.a.	51.3	52.4	50.5
Mean Household Income (RM)	n.a.	n.a.	n.a.	n.a.	n.a.	5202	6854	6268
Middle 40%	32.4	34.0	35.0	35.3	n.a.	35.0	34.4	35.5
Mean Household Income (RM)	n.a.	n.a.	n.a.	n.a.	n.a.	1777	2250	2204
Bottom 40%	11.9	12.8	13.8	14.3	n.a.	13.7	13.2	14.0
Mean Household Income (RM)	n.a.	n.a.	n.a.	n.a.	n.a.	693	867	865
Gini Ratio	0.505	0.483	0.458	0.446	0.464	0.459	0.470	0.443
Mean Household Income (RM)	763	1095	1074	1163	1563	2020	2606	2472
Rural								
Top 20%	53.2	49.5	48.3	47.1	n.a.	47.4	48.2	47.9
Mean Household Income (RM)	n.a.	n.a.	n.a.	n.a.	n.a.	3153	4130	4124
Middle 40%	34.4	36.4	36.7	37.1	n.a.	37.1	36.6	36.5
Mean Household Income (RM)	n.a.	n.a.	n.a.	n.a.	n.a.	1235	1564	1577
Bottom 40%	12.4	14.1	15.0	15.8	n.a.	15.5	15.2	15.6
Mean Household Income (RM)	n.a.	n.a.	n.a.	n.a.	n.a.	515	649	670
Gini Ratio	0.482	0.444	0.427	0.409	n.a.	0.414	0.424	0.418
Mean Household Income (RM)	550	824	852	927	n.a.	1326	1704	1718
Urban								
Top 20%	55.6	52.1	50.8	50.6	n.a.	49.8	50.2	48.7
Mean Household Income (RM)	n.a.	n.a.	n.a.	n.a.	n.a.	6474	8470	7580
Middle 40%	32.1	34.5	35.0	35.1	n.a.	35.7	35.6	36.5
Mean Household Income (RM)	n.a.	n.a.	n.a.	n.a.	n.a.	2323	3000	2844
Bottom 40%	12.3	13.4	14.2	14.3	n.a.	14.5	14.2	14.8
Mean Household Income (RM)	n.a.	n.a.	n.a.	n.a.	n.a.	842	1193	1155
Gini Ratio	0.501	0.466	0.449	0.445	n.a.	0.431	0.427	0.416
Mean Household Income (RM)	975	1541	1467	1591	n.a.	2589	3357	3103
Urban:Rural Disparity Ratio	1.77	n.a.	n.a.	1.70	1.75	1.95	2.04	1.81

Source: Malaysia (1989, 1991, 1993, 1996, 1999, 2001a); mean household incomes of income classes for Malaysia, Urban and Rural were provided by EPU.
Note: n.a. : not available.

of the middle and bottom 40 per cent decreased to 35.0 per cent and 13.7 per cent respectively in 1995 and to 34.4 per cent and 13.2 per cent respectively in 1997. This U-turn in income inequality almost wiped out all the gains that were made under the New Economic Policy 1971-1990.

However, the reduced business activities and retrenchment due to the crisis resulted in the moderation of the mean income of the top 20 per cent of households, particularly those in the urban areas. Table 7 shows that the mean income of the top 20 per cent of households increased from RM5202 in 1995 to RM6854 in 1997, but fell by 8.6 per cent to RM6268 in 1999. The mean income of this group of households in the urban areas rose from RM6474 in 1995 to RM8470 in 1997, but fell rather significantly (by 10.5 per cent) to RM7580 in 1999. In fact, it was the income contraction of this group that caused the mean income of the top 20 per cent of households to fall since the mean income of this group in the rural areas remained constant during the crisis period, falling by a mere RM6. On the other hand, mean income of the middle and bottom 40 per cent fell at much lower rates of 2 per cent and 0.2 per cent respectively. This is because their mean incomes dropped more moderately by 5.2 per cent and 3.2 per cent respectively while those in the rural areas bucked the trend by experiencing a rise in incomes of 0.8 per cent and 3.2 per cent respectively. This is due to the fact that agricultural income expanded at a faster rate than in 1997 owing to higher prices of palm oil and increased production of food crops in response to the higher costs of imports. Moreover, rural households have greater ability to diversify their sources of income that helped to cushion the full impact of the recession.

As such, it is not surprising that income disparity between the urban and rural areas, which rose from 1.95 in 1995 to 2.04 in 1997 moderated to 1.81 in 1999, thus putting a brake on the widening gap of the 1990s. The Gini also fell to 0.443 from 0.470 in 1997 for the whole of Malaysia. The Gini for the urban areas continuously improved throughout the second half of the 1990s, falling from 0.431 in 1995 to 0.427 in 1997 and 0.416 in 1999. However, rural income inequality worsened from 0.414 to 0.424 between 1995 and 1997, but improved slightly to 0.418 after the crisis. While the crisis puts a break to the rising inequality of the 1990s, this improvement comes with a reduced size of the economic pie.

Table 8 shows the distribution of households by monthly gross household income for 1995, 1997 and 1999. The proportion of lower income households, defined in the Eighth Malaysia Plan (Malaysia, 2001)

as those earning less than RM1,500 per month, decreased from 54.4 per cent to 43.2 per cent in 1997 but rose slightly to 43.8 per cent in 1999. The size of middle-class households, defined as those earning between RM1,500 and RM3,500 increased from 32.3 per cent in 1995 to 36.1 per cent in 1997 and 37 per cent in 1999. This partly implies that the anti-poverty and social programs implemented during this period did contribute to lifting the poorest out of poverty. This is particularly so among those receiving less than RM500 per month whose percentage share was reduced from 10.6 per cent in 1995 to 6.3 per cent in 1997 and 6.0 per cent in 1999.

Table 8
Distribution of Households by Monthly Gross Household Income: 1995, 1997 and 1999

Income Class (RM)	%		
	1995	**1997**	**1999**
499 and below	10.6	6.3	6.0
500 - 999	23.9	18.6	19.0
1,000 - 1,499	19.9	18.3	18.8
1,500 - 1,999	13.1	13.7	13.9
2,000 - 2,499	8.9	10.1	10.1
2,500 - 2,999	6.1	6.9	7.3
3,000 - 3,499	4.2	5.4	5.7
3,500 - 3,999	2.8	4.0	3.9
4,000 - 4,999	3.8	5.6	5.5
5,000 and above	6.7	11.1	9.8
Total	100.0	100.0	100.0

Source: Malaysia (2001) for 1995 and 1999; EPU for 1997.

Those receiving greater than RM3,500 totaled 13.3 per cent in 1995 and shot up to 20.7 per cent in 1997, but fell to 19.2 per cent in 1999. The most affected were those earning above RM5,000 per month, which made up of 6.7 per cent of households in 1995 and surge to 11.1 per cent in 1997 but fell to 9.8 per cent of households in 1999. This is another indicator that the crisis affected the higher income classes relatively more than the other classes.

A more micro description of the impact of the crisis on income distribution is illustrated in Table 9, which shows mean monthly gross households income by state, their grow rates and the Gini coefficients for 1995, 1997 and 1999. Generally, states with already high mean incomes like the Federal Territory of Kuala Lumpur, Selangor, Penang and Johor had high rates of growth in mean monthly gross households income ranging between 12.6 per cent for Selangor to 18.9 per cent for Kuala Lumpur. Middle income states like Negeri Sembilan and Perak also had growth in mean monthly gross households income of 16 per cent and above. On the other hand, low-income states like Kelantan and Pahang had growth rates of only 7.0 per cent and 6.6 per cent respectively. Bucking the trend is Terengganu, which had 15.8 per cent growth in mean monthly gross households income, probably due to an increase in oil revenue.

However, these high growth states were also the ones most badly affected by the crisis. Kuala Lumpur's mean income growth rate dashed to -7.2, Selangor to -3.9 and Johor to -2.3. Only Penang's mean income remained constant. Perak's mean income also contracted by 5.2 and poor Pahang lost 4.7 per cent. One would have expected Pahang, with its wide acreage of oil palm plantations, to survive the crisis better. Apparently, large tracks of the oil palm plantations underwent a replanting program during this time and the state could not take advantage of the sharp rise in palm oil price then. Low-income states like Kelantan, Terengganu, Kedah managed to register positive mean income growth during the crisis.

In terms of inequality, states with higher mean household income and higher growth rates tend to have higher Gini ratios. However, there are exceptions, as demonstrated by Terengganu, which is expected due to the presence of the oil community there, and Kelantan, which is unexpected since one would think that the households are more homogeneous there. All the states experienced a reduction in the values of the Gini coefficient except for Melaka and Perlis while the Gini ratio for Perak remained constant between 1997 and 1999.

6. Poverty Profiles

Table 5 has shown the geographical locations of the poor that would help policy-makers identify the target areas of their programs. However, in order to know who actually are the poor, policy-makers also need to know the characteristics of the poor. In looking at the poverty profiles, this paper will discuss the characteristics of the poor, the changes in consumption pattern and coping mechanisms of the poor.

Table 9
Mean Monthly Gross Households Income, Growth Rate and Gini Coefficient* by State: 1995, 1997 and 1999 (RM)

State	1995	1997	1999	Rate of Growth %	
				95/97	97/99
Johor	2,138 (0.399)	2,772 (0.397)	2,646 (0.386)	13.9	-2.3
Kedah	1,295 (0.406)	1,590 (0.429)	1,612 (0.409)	10.8	0.7
Kelantan	1,091 (0.442)	1,249 (0.442)	1,314 (0.424)	7.0	2.6
Melaka	1,843 (0.399)	2,276 (0.371)	2,260 (0.399)	11.1	-0.4
Negeri Sembilan	1,767 (0.384)	2,378 (0.408)	2,335 (0.392)	16.0	-0.9
Pahang	1,436 (0.373)	1,940 (0.359)	1,743 (0.332)	6.6	-4.7
Perak	1,436 (0.405)	1,507 (0.398)	1,431 (0.399)	18.6	-5.2
Perlis	1,158 (0.397)	1,507 (0.381)	1,431 (0.387)	16.2	-2.6
Penang	2,225 (0.379)	3,130 (0.412)	3,128 (0.394)	14.1	0.0
Selangor	3,162 (0.424)	4,006 (0.409)	3,702 (0.394)	12.6	-3.9
Terengganu	1,117 (0.4664)	1,497 (0.466)	1,599 (0.440)	15.8	3.4
Kuala Lumpur (FT)	3,371 (0.423)	4,768 (0.417)	2,539 (0.414)	18.9	-7.2
Peninsular Malaysia	2,066 (0.457)	2,687 (0.469)	2,539 (0.444)	13.7	-2.8
Sabah[1]	1,647 (0.448)	2,057 (0.454)	1,905 (0.448)	11.8	-3.8
Sarawak	1,886 (0.440)	2,242 (0.447)	2,276 (0.407)	9.0	0.8
Malaysia	**2,020 (0.464)**	**2,606 (0.470)**	**2,472 (0.443)**	**13.5**	**-2.6**

Notes: * in parentheses
[1] Sabah includes Labuan Federal Territory (FT)
Source: Economic Planning Unit.

6.1 Characteristics of the Poor

What are the characteristics of the poor households? Based on Chamhuri (1994), the very poor and poor invariably have bigger average family size compared to the non-poor. On average, the very poor are older and have lower educational attainment as well as a higher proportion of family members who only completed primary education than the non-poor. Although a majority of households surveyed occupied their own houses, a larger portion of the very poor lived in rented premises. A large share of the respondents' expenditure, between 41.1 per cent and 53.5 per cent, went to food. Have the characteristics of the poor changed since then?

Table 10 presents poverty incidence by the characteristics of the household head. The first characteristic is the industry where they work (Table 10a). This table reflects that the highest incidence of poverty is in the agriculture, forestry, livestock and fishing industry (the primary industry), which is parallel with the rural sector. In 1995, the poverty rate in this industry was 20.1 per cent but managed to be reduced to 16.4 per cent in 1997. The crisis had the impact of slightly increasing the poverty incidence to 16.6 per cent in 1999. In 1995, the incidence of poverty was also significant in the manufacturing (5.3 per cent); wholesale and retail trade, restaurants and hotels (4.8 per cent) as well as the construction (4.0 per cent) sectors. However, by 1997, all three industries had enormously reduce their poverty incidence. Also, apart from the primary industry, poverty rate was highest in the electricity, gas and water industry (3.3 per cent) rising from 0.6 per cent in 1995. In 1999, the poverty rates improved in all industries except for the primary industries; wholesale and retail trade, restaurants and hotels; and the transport, storage and communications industries.

Table 10a
Incidence of Poverty by Industry of Head of Household, Malaysia

Industry	1995	1997	1999*
Agriculture, Forestary, Livestock & Fishing	20.1	16.4	16.6
Mining & Quarrying	2.3	2.9	2.0
Electricity, Gas & Water	0.6	3.3	3.0
Manufacturing	5.3	0.8	0.5
Construction	4.0	2.2	2.1
Wholesale & Retail Trade, Restaurants & Hotels	4.8	2.4	2.9
Transport, storage & communications	1.9	1.0	1.6
Finance, Insurance, etc.	0.9	0.4	0.4
Community, Social & Personal Services	1.9	1.8	1.7
Total	**9.3**	**6.8**	**7.5**

Source : Data provided by EPU
Note : Citizens only.

The next characteristic is the age of the head of household. Table 10b mirrors the fact that the highest incidence of poverty occurs among the elderly (those above 65 years of age) followed by those below 30 years old. The former group is often identified or referred to as belonging to the vulnerable group since a large number among them could no longer be productively employed and are dependent on others. The incidence of poverty within this group fell from 25.1 per cent in 1995 to 21.7 per cent in 1997, but rose again to 22.7 per cent in 1999. However, the incidence of hardcore poor among this group fell continuously throughout the period from 9.7 to 7.9 and 6.0. This implies that government programs at targeting this vulnerable group have been rather effective. The other age group with high incidence of poverty is those below 30 years old. This group would include sub-groups like the school dropouts, the school leavers and the graduate unemployeds. The poverty rate fell from 11.7 in 1995 to 7.1 in 1997 but rose again to 9.2 by 1999. Similar pattern is observed among the hardcore, the incidence falling from 2.2 to 0.9 and then re-emerged in 1999 to 1.7 per cent.

Table 10b
Incidence of Poverty and Hard-Core Poor by Age of the Head of Household, Malaysia

	Poor			Hard-Core Poor		
Age	1995	1997	1999*	1995	1997	1999*
< 29	11.7	7.1	9.2	2.2	0.9	1.7
30-34	6.6	4.4	4.4	0.7	0.3	0.6
35-39	5.7	4.1	4.4	0.4	0.2	0.5
40-44	4.6	3.1	3.9	0.7	0.3	0.3
45-64	8.0	5.8	5.8	1.6	1.0	0.8
> 65	25.1	21.7	22.7	9.7	7.9	6.0
Total	**9.3**	**6.8**	**7.5**	**2.1**	**1.4**	**1.4**

Source : Data provided by EPU
Note : Citizens only.

Another determinant of income or poverty is the highest level of education attained. The incidence of poverty and hardcore poor by highest level of education certificate attained is illustrated in Table 10c. It can be seen that the lower the educational level of the head of the households, the higher is the poverty incidence. However, one may wonder why there are still a small number of poor households among the well-educated-those holding college diplomas or degrees. One possible explanation is that these were households comprising single, fresh graduates who were still unemployed or in between jobs. All the educational groups experienced a drop in the incidence of poverty in 1997 and a rise in 1999. This is also generally true among the hardcore poor. The highest incidence of poverty occurs among those with no schooling, which was 26.7 per cent in 1995, reduced to 24.6 per cent in 1997, but rose again to 25.2 per cent in 1999. This is also true for the incidence of hardcore poverty. This group is likely to overlap with the elderly since the latter household heads were most likely not to have any education.

Table 10c
Incidence of Poverty and Hard-Core Poor by the Highest Certificate by the Head of Household, Malaysia

Highest Certificate	Poor			Hard-Core Poor		
Obtained	1995	1997	1999*	1995	1997	1999*
No Schooling	26.7	24.6	25.2	8.8	7.3	6.9
No Certificate	9.4	6.9	7.7	1.2	0.8	0.9
L.C.E./L.S.A.E.	4.0	1.7	3.3	0.6	0.3	0.4
M.C.E./M.C.V.E.	2.6	1.3	2.7	0.6	0.2	0.4
H.S.C.	2.3	1.1	2.8	0.5	0.2	0.3
Diploma/Degree	0.9	0.1	0.5	0.2	0.0	0.0
Total	**9.3**	**6.8**	**7.5**	**2.1**	**1.4**	**1.4**

Source : Data provided by EPU
Note : Citizens only.

The number of income recipients in a household would influence the total income of the family. Normally, one would expect that the higher the number of income recipients in a household, the higher would be the household income, ceteris paribus. It would also imply that the age dependency ratio, which measures the percentage of household members outside the labor force compared to those in the labor force (15-64 years old), would be lower. Table 10d appears to confirm this hypothesis as households with one income recipient have a much higher incidence of poverty and hardcore poverty than the rest. Except for 1999, none of those households with more than four income recipients were classified as hardcore poor. If the 1997 and 1999 figures are compared, it can be seen that the poverty incidence rose for all categories of households.

Table 10d
Incidence of Poverty and Hard-Core Poor by Number of Income Recipients, Malaysia

Number of	Poor			Hard-Core Poor		
Recipients	1995	1997	1999*	1995	1997	1999*
1	16.3	12.4	13.7	4.0	2.7	2.7
2	3.7	2.3	2.7	0.4	0.2	0.2
3	1.0	0.4	0.8	0.1	0.1	0.1
4	0.3	0.3	0.3	0.1	0.2	0.1
5	0.3	0.0	0.9	0.0	0.0	0.1
6 & More	0.3	0.3	0.4	0.0	0.0	0.0
Total	**9.3**	**6.8**	**7.5**	**2.1**	**1.4**	**0.4**

Source : Data provided by EPU
Note : Citizens only.

Finally, it is also normally expected that households with larger number of children are more likely to be in poverty than those with lesser number of children because this would imply a higher age dependency ratio. However, this does not seem to be supported by Table 10e, which shows the incidence of poverty and hardcore poverty by the number of children. Implicitly, this implies that some children are also income recipients living with their parents or transfer income to their parents if residing separately. This table reflects that households with no children have a higher level of large portion of this group tends to be households headed by elderly people that have no children to support them. Moreover, this group also includes those young school leavers and graduates who were looking for jobs and living on their own. This table also shows that the incidence of poverty and hardcore poverty was contracting before the crisis. Unfortunately, the crisis increased the poverty incidence by all categories of households except that with a single child. Hardcore poverty incidence among households with five children also bucked the trend.

Table 10e
Incidence of Poverty and Hard-Core Poor by Number of Children, Malaysia

Number of Children	Poor			Hard-Core Poor		
	1995	1997	1999*	1995	1997	1999*
No Child	14.8	10.9	12.8	4.6	3.1	3.1
1	6.5	4.8	4.4	0.8	0.5	0.4
2	5.4	4.0	3.4	0.5	0.2	0.3
3	5.4	3.5	3.7	0.5	0.2	0.2
4	5.9	3.9	5.0	0.5	0.2	0.4
5	7.7	4.3	4.9	0.8	0.3	0.1
6	7.1	5.9	6.5	0.5	0.3	0.5
7 & More	7.5	5.5	8.3	0.6	0.2	0.6
Total	**9.3**	**6.8**	**7.5**	**2.1**	**1.4**	**1.4**

Source : Data provided by EPU
Note : Citizens only.

6.2 Changes in Consumption Pattern

Although consumer theory tells us that as the income of a person or household increases, the share of income spent on food and other necessities will decrease, it is not possible to show long-term data on changes in the consumption pattern in Malaysia. This is because this kind of data collected prior to 1993/94 did not have the same geographical coverage as those collected for later years. Table 11 shows the changes in the consumption pattern of Peninsular Malaysia only between 1993/93 and 1998/99 to represent pre- and post-crisis years. It can be seen that the share of income spent on food decreased from 23.4 per cent to 22.2 per cent.

Although the average household income went down during the crisis, the share of income spent on food also went down. This phenomenon could possibly be explained by the fact that consumers were more careful in their spending, particularly on food following the campaign on "zero inflation" and consumption of Malaysian-made goods. They were also also reducing their expenditure on food prepared outside their homes, particularly in upper-end restaurants. At the same time, households were encourage to grow their own food crops for their own consumption. All these helped to keep the budget on food low.

Table 11
Changes in the Malaysian Consumption Pattern
Between 1993/93 and 1998/99

Expenditure by Items (%)	1993/94	1998/99
Food	23.4	22.2
Beverages and Tobacco	2.6	2.2
Clothing and Footwear	3.6	3.4
Gross Rent, Fuel and Power	21.1	22.2
Furniture, Furnishings and Household Equipment and Operation	5.6	5.3
Medical Care and Health Expenses	1.9	1.9
Transport and Communication	17.9	19.0
Recreation, Entertainment, Education, and Cultural Services	5.7	5.9
Miscellaneous Goods and Services	18.2	17.9

Source : Malaysia, 1995, 2001. Report on Household Expenditure Survey. Department of Statistics.

A more detailed description of the changes in the expenditure patterns by household expenditure class for Peninsular Malaysia (total, urban and rural) for 1993/94 and 1998/99 is given in Table 12. For the 1993/94 data, the poor can be approximated by the household expenditure class of below RM400 per month since the PLI for 1993 was RM405 per month for a household size of 4.8 in Peninsular Malaysia. Similarly, for the 1998/99 data, the poor can be approximated by the household expenditure class of below RM510 per month since the PLI for 1999 was RM510 per month for a household size of 4.6 in Peninsular Malaysia. Generally, the expenditure on food; beverages and tobacco; clothing and footwear; gross household expenditure increases for both periods. On the other hand, the expenditure on furniture, furnishings and household equipment and operation; medical care and health expenses; transport and communication; as well as recreation, entertainment, education and cultural services tend to rise with household expenditure. If the percentage expenditure per urban or rural household is examined, then it can be observed that while the general trends are similar to those for the Peninsular as a whole. The exception is that the percentage expenditure on food for the urban households tend to rise, instead of fall, until a certain level of expenditure is reached before it started falling again. This is true for both 1993/94 and 1998/99.

How did the crisis affect the expenditure pattern of the poor? For the whole of Peninsular Malaysia households below the PLI increased their percentage expenditure on food from 30.9 per cent to 34.5 per cent. They also increased their expenditure share in gross rent, fuel and power from 23.7 per cent to 27.2 per cent, and a slight increase in medical care between 1993/94 and 1998/99. On the other hand, expenditure shares of the other expenditure groups fell, particularly that of transportation.

When the patterns of expenditure of the urban poor are compared for the two years, they also increased their percentage expenditure on food (from 20.5 per cent to 24.5 per cent) and their expenditure share in gross rent, fuel and power (from 23.7 per cent to 27.2 per cent) and in medical care. Moreover, their expenditure share in furniture, furnishings and household equipment also went up. Expenditure shares in beverages and tobacco; clothing and footwear; transport and communication; as well as recreation, entertainment, education and cultural services; and miscellaneous goods and services went down.

Comparison of the rural poor households for the two periods shows that while they also increased their percentage expenditure on food (from 38.0 per cent to 39.0 per cent) it is by a smaller percentage amount. However, their expenditure share rise in gross rent, fuel and power (from 23.6 per cent to 26.3 per cent) almost matched that in the urban areas. It is also surprising that their expenditure share in medical care and health expenses increased. Apart from these three items, all expenditure shares for other groups fell among the rural poor. The only difference in the expenditure pattern between the urban and rural poor is that the former's expenditure share in furniture, furnishings and household equipment also went up while that of the latter went down.

Table 12

Percentage Expenditure Per Household by Household Expenditure Class, Peninsular Malaysia, 1993/94

Expenditure Group	Expenditure Per Household	Household Expenditure Class									
		Below RM400	RM400-RM499	RM500-RM599	RM600-RM699	RM700-RM799	RM800-RM899	RM900-RM999	RM1000-RM1999	RM2000-RM2999	RM 3000 and above
	(%)										
0 Food	22.7	30.9	30.9	30.8	31.4	29.5	28.6	28.5	23.9	18.2	11.4
1 Beverages and Tobacco	2.5	3.6	4.0	4.0	3.5	3.3	3.4	3.1	2.4	2.0	1.2
2 Clothing and Footwear	3.4	4.6	4.9	4.7	4.6	4.4	4.0	4.3	3.6	2.9	1.6
3 Gross Rent, Fuel and Power	21.0	23.7	21.6	21.7	21.2	21.3	21.9	21.0	21.6	21.0	18.6
4 Furniture, Furnishings and Household Equipment and Operation	5.5	3.2	4.1	5.1	4.9	5.6	5.2	5.5	5.6	6.0	6.0
5 Medical Care and Health Expenses	1.9	0.9	1.1	1.0	1.4	1.4	1.3	1.4	1.7	2.5	3.0
6 Transport and Communication	18.5	7.6	9.9	10.7	10.8	11.7	13.0	14.3	16.7	19.3	33.1
7 Recreation, Entertainment, Education and Cultural Services	5.7	2.7	3.3	3.9	4.7	4.9	5.1	4.9	5.8	7.0	7.0
8 Miscellaneous Goods and Services	18.8	22.9	20.2	18.1	17.5	17.7	17.6	17.0	18.6	21.1	18.1
Average Monthly Expenditure Per Household (0 - 8)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 12 (cont'd)
Percentage Expenditure Per Urban Household by Household Expenditure Class, Peninsular Malaysia, 1993/94

Expenditure Group	Household Expenditure Class										
	Expenditure Per Household (%)	Below RM400	RM400-RM499	RM500-RM599	RM600-RM699	RM700-RM799	RM800-RM899	RM900-RM999	RM1000-RM1999	RM2000-RM2999	RM 3000 and above
0 Food	19.7	20.5	22.4	24.3	27.0	25.6	26.1	26.5	22.5	17.8	10.7
1 Beverages and Tobacco	2.1	3.7	4.3	4.0	3.4	2.7	2.9	2.6	2.2	1.8	1.1
2 Clothing and Footwear	3.0	4.5	4.3	4.2	4.2	4.0	3.5	3.9	3.3	2.8	1.6
3 Gross Rent, Fuel and Power	22.9	23.7	23.5	25.2	24.4	25.4	25.5	24.6	23.8	22.1	20.4
4 Furniture, Furnishings and Household Equipment and Operation	5.3	2.2	3.5	3.6	3.9	4.7	4.4	4.5	5.2	5.8	6.4
5 Medical Care and Health Expenses	2.1	0.6	1.0	0.9	1.2	1.5	1.2	1.5	1.7	2.6	3.1
6 Transport and Communication	19.1	8.9	9.9	10.5	10.2	11.4	12.8	13.4	16.5	18.3	31.6
7 Recreation, Entertainment, Education and Cultural Services	6.1	3.6	3.5	4.4	5.3	4.8	5.0	4.8	5.8	7.0	7.5
8 Miscellaneous Goods and Services	19.7	32.4	27.6	22.9	20.3	20.0	18.7	18.1	19.2	21.8	17.7
Average Monthly Expenditure Per Household (0 - 8)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 12 (cont'd)
Percentage Expenditure Per Rural Household by Household Expenditure Class, Peninsular Malaysia, 1993/94

Expenditure Group	Household Expenditure Class										
	Expenditure Per Household (%)	Below RM400	RM400-RM499	RM500-RM599	RM600-RM699	RM700-RM799	RM800-RM899	RM900-RM999	RM1000-RM1999	RM2000-RM2999	RM 3000 and above
0 Food	29.8	38.0	36.5	35.7	35.2	33.3	32.1	31.2	27.8	20.3	16.1
1 Beverages and Tobacco	3.4	3.6	3.8	3.9	3.7	4.0	4.1	3.7	3.1	3.2	1.7
2 Clothing and Footwear	4.3	4.7	5.3	5.0	5.0	4.7	4.6	4.8	4.3	3.5	1.9
3 Gross Rent, Fuel and Power	16.4	23.6	20.4	19.1	18.4	17.4	16.8	16.2	15.8	13.9	6.8
4 Furniture, Furnishings and Household Equipment and Operation	6.0	3.8	4.5	6.1	5.8	6.5	6.4	6.8	6.8	7.0	3.6
5 Medical Care and Health Expenses	1.6	1.1	1.2	1.1	1.4	1.4	1.4	1.3	1.8	1.8	2.4
6 Transport and Communication	17.0	6.7	9.8	10.9	11.3	12.1	13.2	15.5	17.4	25.5	43.4
7 Recreation, Entertainment, Education and Cultural Services	4.8	2.2	3.2	3.5	4.2	5.1	5.1	5.2	5.7	7.0	3.7
8 Miscellaneous Goods and Services	16.7	16.4	15.3	14.6	14.9	15.5	16.4	15.3	17.2	17.8	20.5
Average Monthly Expenditure Per Household (0 - 8)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 12 (cont'd)
Percentage Expenditure Per Household by Household Expenditure Class, Peninsular Malaysia, 1998/99

Expenditure Group	Household Expenditure Class										
	Below RM500	RM500-RM599	RM600-RM699	RM700-RM799	RM800-RM899	RM900-RM999	RM1000-RM1999	RM2000-RM2999	RM3000-RM3999	RM4000-RM4999	RM 5000 and above
	(%)										
0 Food	34.5	32.4	30.4	32.0	30.9	29.8	26.7	20.8	15.7	14.3	8.9
1 Beverages and Tobacco	3.1	3.3	3.0	3.0	3.5	2.8	2.2	1.8	1.3	1.1	0.9
2 Clothing and Footwear	3.8	4.0	4.4	4.4	4.2	4.2	4.1	3.2	3.0	2.3	1.5
3 Gross Rent, Fuel and Power	27.2	24.5	24.7	23.2	23.3	23.9	1.8	22.8	22.5	18.6	18.8
4 Furniture, Furnishings and Household Equipment and Operation	3.1	3.5	3.4	3.9	4.0	4.0	4.7	5.0	6.4	6.5	7.5
5 Medical Care and Health Expenses	1.3	1.1	1.1	1.0	1.3	1.2	1.5	2.2	3.2	3.0	2.1
6 Transport and Communication	0.1	0.0	10.2	10.0	11.7	13.4	16.0	18.3	30.8	36.0	33.4
7 Recreation, Entertainment, Education and Cultural Services	1.7	3.8	3.1	3.3	4.4	4.3	4.9	6.1	6.9	8.8	7.3
8 Miscellaneous Goods and Services	19.2	19.2	18.8	18.4	17.7	17.5	18.1	19.9	20.2	18.4	17.8
Average Monthly Expenditure Per Household (0 - 8)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 12 (cont'd)
Percentage Expenditure Per Urban Household by Household Expenditure Class, Peninsular Malaysia, 1998/99

Expenditure Group	Household Expenditure Class										
	Below RM500	RM500-RM599	RM600-RM699	RM700-RM799	RM800-RM899	RM900-RM999	RM1000-RM1999	RM2000-RM2999	RM3000-RM3999	RM4000-RM4999	RM 5000 and above
	(%)										
0 Food	24.5	23.4	23.3	26.1	25.0	25.5	24.4	19.5	15.7	14.4	7.3
1 Beverages and Tobacco	2.3	3.6	2.9	2.8	2.1	2.4	2.0	1.7	1.3	1.2	0.9
2 Clothing and Footwear	3.4	3.7	4.1	3.6	3.8	3.8	3.8	3.1	3.1	2.3	1.4
3 Gross Rent, Fuel and Power	29.1	26.7	28.1	26.6	26.2	27.8	24.3	24.2	23.9	20.6	22.4
4 Furniture, Furnishings and Household Equipment and Operation	2.4	2.3	2.8	3.1	3.5	3.2	4.4	4.8	6.5	6.1	7.9
5 Medical Care and Health Expenses	1.0	1.0	0.9	1.0	1.2	1.1	1.6	2.2	3.5	3.4	1.9
6 Transport and Communication	6.2	8.5	8.7	10.1	11.3	12.2	15.5	17.7	18.5	22.6	31.6
7 Recreation, Entertainment, Education and Cultural Services	1.8	5.7	3.7	3.7	5.2	4.9	4.9	6.1	7.1	9.4	7.4
8 Miscellaneous Goods and Services	29.3	25.2	24.5	23.2	21.8	19.3	19.3	20.5	20.3	20.0	19.3
Average Monthly Expenditure Per Household (0 - 8)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 12 (cont'd)
Percentage Expenditure Per Rural Household by Household Expenditure Class, Peninsular Malaysia, 1998/99

Expenditure Group	Household Expenditure Class										
	Below RM500	RM500-RM599	RM600-RM699	RM700-RM799	RM800-RM899	RM900-RM999	RM1000-RM1999	RM2000-RM2999	RM3000-RM3999	RM4000-RM4999	RM 5000 and above
	(%)										
0 Food	39.0	39.6	35.8	36.3	35.9	34.7	30.1	23.7	15.6	14.0	16.4
1 Beverages and Tobacco	3.5	3.1	3.0	3.1	2.8	3.1	2.5	1.9	1.4	1.0	0.5
2 Clothing and Footwear	3.8	4.2	4.5	5.0	4.5	4.7	4.5	3.6	2.7	2.0	1.7
3 Gross Rent, Fuel and Power	26.3	22.6	22.0	20.7	20.8	19.9	18.3	19.1	17.7	15.7	13.5
4 Furniture, Furnishings and Household Equipment and Operation	3.4	4.5	3.9	4.6	4.5	4.8	5.3	5.5	5.8	8.3	5.5
5 Medical Care and Health Expenses	1.4	1.1	1.3	1.0	1.5	1.2	1.5	2.1	2.3	1.2	3.0
6 Transport and Communication	6.1	8.2	10.6	11.5	11.8	12.6	16.5	20.0	28.9	38.6	41.5
7 Recreation, Entertainment, Education and Cultural Services	1.7	2.3	2.7	3.0	3.8	3.6	4.8	5.8	6.0	6.3	6.6
8 Miscellaneous Goods and Services	14.8	14.3	16.1	14.9	14.3	15.8	16.5	18.3	19.7	12.1	11.1
Average Monthly Expenditure Per Household (0 - 8)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : Malaysia, 1995, 2001b.

6.3 Coping Mechanisms

In an environment where income was shrinking and prices rising, households had to make adjustments in their lifestyles and spending habits. Ishak Shari and Abdul Rahman Embong (1998) cited press reports that many households did the following to minimize cost:

- Plan ahead, and buy foodstuffs and household items in bulk. Perishables are bought once a week, and non-perishables once a month. In this way, about 30 per cent of the bills can be reduced.
- Reduce consumption of more expensive items, such as meat, chicken, good quality fish and eat more vegetables.
- Switch to cheaper toiletry products, such as toothpaste, soap, detergents, etc.
- Hunt for bargains at various wet markets, grocery stores and supermarkets. Compare prices, and patronize the cheapest shopping outlet. For example, milk powder is often cheapest in Chinese shops than in supermarkets.
- Eat out less to cut down away-from-home expenditure; eat simple packed lunches, such as sandwiches. To compensate that, have proper dinner at home.
- Plant vegetables in backyard to reduce food bill.

The authors claimed that the same or almost similar coping strategies were adopted by many of their respondents.

Zulridah et. al undertook a study covering 760 heads of households (91.5 males and 8.9 females) in the Klang Valley, Kuching, Sarawak and Kota Kinabalu, Sabah who are mostly categorized as low income households. This study discusses the coping mechanisms of the poor through adjustments made in employment, income, expenditure, education, asset ownership and migration. The first coping strategy was through employment adjustment, which included working longer hours (31.7 per cent), being involved in supplementary income-generating activities (23.8 per cent), wives (19.3 per cent) and children (16.5 per cent) entering the job markets. There were also households whose members had to change their jobs, with 8 per cent of the households had at least one member doing this. The main negative effect of the employment strategy were first, less time was spent with the family (48.0 per cent); second, less social and voluntary activities (26.2 per cent); and third, involving children in doing housework (20.5 per cent).

The second coping mechanism utilized by households to overcome the increase in expenditure due to the rising prices of necessities was through increasing their incomes (income effect). This mechanism was employed by most households either through longer working hours (40.5 per cent) or an increase in the number of working household members (22.5 per cent). Some respondents (6.3 per cent) coped through changing their jobs while others rent out rooms in their houses to others (5.7 per cent). A total of 12.6 per cent of the respondents had at least one member that increased the working hours, from an average of 8 hours per day to 10 hours per day. About 3.6 per cent of households had family members increased the number of jobs, mainly in the informal sector like direct selling, sewing, grass cutting, giving tuition, selling insurance and baby sitting. This small percentage could be due to the fact that additional job opportunities were scarce given the contracting economy. Measures to sustain or increase their incomes were successful resulting in a contradiction to the expectation of shrinking income during the crisis.

Next, the respondents coped through changing their expenditure pattern. It was revealed that on average households spent more than 40 per cent of their monthly income on food and drinks. Thus a rise in the price of these essentials resulted in an increase of household expenditure. It was shown that expenditures on food, clothing, education and house at the 5 per cent significant level increased but the rise in total expenditure was not significant at the same level since households also reduced their expenditure on items considered less necessary like entertainment and tourism.

Economic theory also tells us that consumers would also adjust their expenditure pattern in the face of rising prices by substituting the items with cheaper alternatives (substitution effect). Zulridah et. al attempted to do this by examining specific expenditures like food, medical and transportation expenses. Their findings revealed that, with respect to food expenditure, 63.0 per cent of the respondents substituted by purchasing cheaper alternatives. Some 24.3 per cent changed their diet, 23.6 per cent reduced their food intake while 19.1 per cent grew their own vegetables. In terms of medical expenses, the main coping strategy of the households was to increase the use of government health facilities (68.3 per cent), reduce the usage of private clinics or hospitals (43.3 per cent) and turn to traditional medicine (15.5 per cent). In order to reduce their transportation expenditure, households reduced their travels, especially those related to tourism (47.9 per cent), folowed by the use of public transport (33.7 per cent) and changing the mode of transport to work (17.8 per cent). Other

strategies employed cited were postponing unnecessary purchases (84.2 per cent) and buying locally made goods (47.8 per cent).

The crisis also affected household expenditure in education for there were 34.1 per cent respondents that indicated they reduce the amount spent on their children's education. 19.5 per cent indicated that they obtained scholarship or loans. Fortunately, only 2.2 per cent of respondents were forced to stop their children's schooling. Households also coped by resorting to their assets. Some 28.8 per cent resorted to depleting their savings/unit trust investments, while 27.1 per cent reduce their contributions to their parents or families. Others turned to borrowing from their friends and family members (18.7 per cent) while 8.2 per cent borrowed from their retailers/wholesalers and 7.4 per cent pawned their jewelleries. Although some households coped by moving to another town or to cheaper housing areas, the percentage of respondents involved is relatively small.

7. Concluding Remarks

This paper represents an attempt to assess the impact of the regional economic crisis of 1997/98 on poverty incidence and income inequality. This effort is being done by utilising the data provided by the Economic Planning Unit of the Prime Minister's Department as well as those derived from the various official publications. Where appropriate, arguments are supplemented by various other studies.

At the beginning of the crisis, Malaysian Government instituted tight fiscal and monetary policies in line with those executed by the IMF for the other crisis hit countries. However, when there was no sign of abatement at the beginning of 1998, the Government reversed these policies and implemented counter-cyclical measures to revive the economy. Growth plunged by 7.4 per cent in 1998 but rebounded in 1999. The construction and manufacturing sectors were th worst hit but manufacturing recovered strongly in 1999 and 2000. Fortunately, Malaysia was experiencing a very tight labor market with unemployment of 2.4 per cent on the eve of the crisis. So, while a large number of workers were retrenched, many managed to find alternative jobs. Moreover, although inflation was initially expected to be higher, it managed to be controlled at 5.3 per cent.

The crisis has blemished the Malaysian record of poverty eradication which was falling throughout the past three decades. The urban poor was much more badly hit because the crisis affected urban based sectors the most, ie industrial and financial sectors. On the other hand, rural Malaysia had the luck of experiencing palm oil and pepper prices sky-rocketing, particularly in ringgit prices. Furthermore, on average, rural households find it easier to diversify their income sources as well as cushion the impact of price increases since they can resort to agriculture-based activities.

An emerging phenomenon in the Malaysian poverty scene is the rising proportion of foreigners in the poverty incidence. While the crisis reduce their share in 1999, it still higher than in 1995. More over, despite its success in poverty eradication, poverty incidence is still high in certain states. Poverty in Sabah is due to the presence of foreigners, lack of infrastructure and thus inaccessibility to the interior. The high poverty incidence in the certain states of Peninsular Malaysia is due to the relative lack of productive activities.

Malaysia's NEP was also successful in promoting growth with equity. However, since the liberalization of the economy in the late 1980s, data have shown that there is a reversal in that trend, with inequalities rising throughout in the 1990s prior to the crisis. Subsequently, as the top 20 per cent of income households had lost their share to the middle 40 per cent and bottom 40 per cent income groups, this acted as a break on the trend of rising income inequality. The Gini for within group distribution of urban and rural areas are very similar, but urban poverty was improving at a faster rate than rural poverty.

Before the crisis, states with high mean income tend to have high growth rates in mean monthly household income while poor states, with the exception of Terengganu, had low growth rates. Most of these high income states were badly hit by the crisis, registering negative growth while poor states managed to register positive growth. Further more, states with higher mean household income and growth rate tend be associated with greater inequality. Income inequalities in almost all states improved after the crisis.

With respect to the characteristics of the poor, most of them are found in the primary industry (agriculture, forestry and livestock). The crisis has resulted in the reduction in the incidence of poverty for all industries except the primary industry; the wholesale and retail trade, restaurants and hotels and transport, storage and communications. The incidence of poverty is highest among the elderly, that is those over 65 years old, and those below 30 years old. Moreover, it is also prevalent

among those without education, followed by those with primary education. The incidence of poverty also varies inversely with the number of income recipients. Finally, households with no children tend to have a higher level of poverty incidence since they have no children to support them.

During the crisis, households in Peninsular Malaysia increased their expenditure share in food; gross rent, fuel and power as well as medical care but decreased the share in other expenditure groups, especially transport and communication. The urban poor increased their expenditure share in all these groups plus the share in furniture, furnishing and household equipment. While the rural poor also increased the expenditure share in food, it was relatively small. The also increased their expenditure share in gross rent, fuel and power and medical expenses but reduced the rest.

A case study revealed that households adopted several coping mechanisms to deal with the crisis. These include employment and income adjustments, including working longer hours, engaging in other income-generating activities and sending wives and children out to work. Next, households adjusted their expenditure pattern by their raising expenditure share of necessities and reducing that of luxuries. Households mostly substituted with cheaper alternatives, changing their diet, decreasing their food intake as well as growing their own food. Other responses include switching to government health facilities, reducing travels and increasing the use of public transportation as well as postponing unnecessary purchases. Some decrease their expenditure on their childrens' education while others looked for alternative sources such as scholarship and loan. There were also households who ran down their savings or reduced their contributions as transfer income, resorted to borrowing and pawning their valuables.

The intensity of the negative impact of the crisis was less severe compared to the experience of other affected countries. This could be attributed, first, to the government's relatively high social expenditure and pro-poor programs since the implementation of the NEP. Thus, the government ensured that the budget shares for social services, particularly health and education, in 1998 remained at their 1997 levels and maintained the public expenditure on major anti-poverty programmes despite the reduction of its total development expenditure (see Ishak Shari, 2000). Second, Malaysia was facing a very tight labor market prior to the crisis. With an unemployment rate of 2.4 per cent and the presence of almost two million foreign workers, the impact of the crisis on employment opportunities for Malaysians had been relatively moderated. The brunt of unemployment was mostly borne by the foreigners whose 'reverse migration' in 1998 meant that over 350,000 persons including dependents returned to Indonesia and other countries (Zainal Aznam, 2001). Finally, the reversal of the tight monetary policy kept many firms from closing down and thus put a brake on further retrenchment.

In a globalized world where the ability of a country to protect itself from external shocks has been minimized. There is an urgent need to put social safety nets in place. It is important to note two observations highlighted by William Tabb (1998) concerning the recent crisis in Asia. First, the crisis reflects the tendencies of unregulated capitalist markets in which speculative excess is part of the very nature of the system. Second, such crisis provide opportunity for stronger capitalists to profit from the problems of those unable to withstand the downturn. This implies that the creation of the global economy, the advance of technology and the concentration of power promote instability and insecurity. Therefore, the likelihood of the crisis reoccurring in the region cannot be ruled out. It is therefore important to devise comprehensive strategies so that the country is more prepared to face adverse consequences should a similar crisis occur again in the near future. The need to develop cost-effective social safety net programmes to help those adversely affected by the crisis becomes more urgent. For such cost-effective social safety net programmes to be successful, it is vital that the social partners be fully involved in this reform process. This effort will go a long way towards winning the understanding and support of the affected population and their organisations, which is a critical ingredient in ensuring the success of any reform plan.

Despite the attainment in poverty eradication, there are still tough challenges ahead. First, since many of those that are more easily lifted out of poverty are already out, then those left behind are likely to be the ones with poverty traits that are tough to beat. This is probably one of the reasons why the 8MP is more target specific and focussing on pockets of poverty. Moreover, it must be ascertained that those who are already out should continue on the upward ladder and not drop back below the poverty line. Moreover, studies referred by the UNDP 2000 Poverty Report have revealed that the 'sometimes poor' group is significantly greater that the 'always poor' group. As such, it is also important to pay attention to the poor just above the PL, referred to as the vulnerable group. Again, the 8MP is in the right direction when it stated that measures will be undertaken to raise the income and improve the quality of life of the bottom 30 per-

Second, while contributing to the competitiveness of Malaysian exports, the easily available foreign workers discouraged employers from undertaking a more capital-intensive methods of production or provide skill training to their workers, thus keeping productivity and wages low. Their presence in large numbers stretched the amenities, particularly housing, to the limit. Thus, foreigners not only contribute to the locals being left in poverty, but also to the rise in poverty incidence. Data have shown that the proportion of foreigners in the Malaysian in the poverty incidence has been increasing since 1990 (7 per cent) to 12.6 per cent in 1995, 17.5 per cent in 1997 and decrease slightly to 14.2 percent in 1999. The 8MP concentrated on policies of eradicating poverty among Malaysian. However, what are the policies regarding foreign workers? If they are not covered by the poverty eradication strategies, their presence might bring about other social problems.

As we have experienced, unequal income distribution is not conducive for promoting social cohesion and providing an acceptable level of quality of life for all Malaysians. It is also not consistent with the Malaysian national development strategy of growth with equity. Moreover, although in the past it has been argued that there is a trade-off between growth and equity, Mr. Juan Somavia, Director General of the International Labour Office, in his presentation to UNCTAD X on February 2000 in Bangkok, has claimed that more and more research is showing that inequality reduces growth, and thus the ability to improve the quality of life. In other words, redistribution is no longer a trade-off but is complimentary to growth. Minimising the role of the state in trying to face the challenges of globalisation and liberalisation means certain sections of society may have to sacrifice their living standards. While the role of the state has to be reduced in order to remove distortions and increase efficiency, it is still required to take care of the disadvantaged in society. Thus research is need to re-examine the role of the state and to determine the proper mix of this role to be played by the state, the market as well as the civil society since the latter also contribute significantly through the NGOs such as Amanah Ikhtiar Malaysia and the Yayasan Basmi Kemiskinan (Poverty Eradication Foundation) in enhancing the Malaysia quality of life. The government must therefore rejuvenate its efforts at income redistribution rather than relying far more on private enterprise and market mechanism in its development approach, which resulted in the reversal of the trend in inequality prior to the crisis. Although the crisis managed to reduce inequality in 1999, this achievement was attained based on a much-reduced size of the economic pie.

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Tujahan penyelidikan IKMAS ialah dalam bidang kajian Malaysia dan antarabangsa di dalam konteks globalisasi dan transformasi sosial. Penyelidikan ini meliputi tiga dimensi globalisasi dan transformasi sosial yang saling berkait, dengan memberi penekanan terhadap kesannya ke atas Malaysia. Ketiga-tiga dimensi itu ialah:

* Globalisasi dari segi ekonomi, termasuk pemindahan teknologi, aliran kewangan, tenaga kerja, perdagangan antarabangsa, region alisme, agihan pendapatan dan kemiskinan
* Globalisasi dari segi sosiopolitik dan budaya yang memberi tumpuan kepada ketahanan nasion, kesepaduan sosial, gender dan agama
* Wacana mengenai globalisasi

Semua makalah dalam siri ini diwasit oleh sekurang-kurangnya seorang pembaca sebelum ia diterbitkan. Walau bagaimanapun, pendapat-pendapat yang dikemukakan itu adalah pendapat penulis itu sendiri dan tidak semestinya mencerminkan pandangan dan dasar IKMAS. Sebarang komen dan cadangan untuk memperbaiki siri makalah ini adalah dialu-alukan dan hendaklah ditujukan kepada penulis.

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