



ASEAN

FORECAST

a monthly analysis and forecast of significant economic and political developments in Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.

SPECIAL SUPPLEMENT

Vol. 4 No 7

July 1984

Mid Term Review of the Fourth Malaysia Plan 1981-85

Recently the Malaysian Prime Minister, Datuk Seri Dr MAHATHIR MOHAMAD presented the mid-Term Review of the Fourth Malaysia Plan 1981-85 to the Parliament. Like the earlier plans, the present Review is a significant document attempting to reshape the country's short and long term social, economic and political life.

INTRODUCTION

The Fourth Malaysia Plan (FMP) 1981-1985 was an elaboration of the policy measures of the two previous Plans. It was formulated on the basis of the socio-economic objectives of the New Economic Policy (NEP), designed to promote national unity, through the eradication of poverty and the restructuring of the Malaysian society.

Under the FMP, the private sector was given a leading role and was to contribute 72 per cent of the total investment of M\$102,639 million. The country's defence and security capabilities are to be upgraded and some M\$9,371.5 million (or 23.8 per cent of total expenditure) was to be allocated for this. Agricultural development, education and training, and social development were also emphasised. The restructuring programme, to increase bumiputra participation in commerce and industry, was allocated a sum of M\$4,398 million. The public sector allocation was M\$43 billion, 58 per cent of which was to be spent on the economic sector.

MACRO-ECONOMIC PERFORMANCE 1981-83

Up to 1980, the resources-rich Malaysian economy registered consistent growth rates. During the 1970s, the growth rate averaged 7.9 per cent and per capita income rose from US\$371 to US\$1639 over the decade, representing a hefty average annual growth of 12.3 per cent. However, the downturn in the world economy since 1980 began to affect the economic performance of Malaysia.

Decelerating overall economic performance was reflected in the annual growth rate in real terms of 7.8 per cent in 1980, 5.6 per cent in 1982 and a slight upturn to 5.8 per cent in 1983. In the primary sector, aggregate agricultural growth was largely sustained by an increase in palm oil production from 9.7 per cent in 1981 to 24.3 per cent in 1982. Palm oil has now overtaken rubber as the major source of agricultural output.

Rubber production plateaued at 1.5 million tonnes per annum as a result of a drop in international demand. Paddy output suffered from bad weather and pest attacks resulting in a 4 per cent drop per annum. Exports of sawlogs, pepper, and fish began to fall, while production of cocoa leaped by 25.5 per cent per annum. The mining sector retained its buoyancy because of the policy to increase the production in crude oil from 275,000 bpd in 1980 to 383,300 bpd in 1983. The increased production of Liquefied Natural Gas (LNG) also contributed to this sectoral growth. The tin mining industry, one of the traditional economic pillars of the economy, suffered a steep decline in output from 61,400 tonnes in 1980 to 41,700 tonnes in 1983. Copper production, from Mamut in Sabah, hovered around 120,000 tonnes per year.

The secondary sector, combining manufacturing and construction, registered a 6.6 per cent per annum growth rate, below the Plan target. Manufacturing growth declined to 4.9 per cent compared to a high 11.4 per cent during the 1976-80 period as a consequence of slackening demand for textiles, clothing, sawmill output, furniture, beverages and tobacco. Higher than sectoral average growth was recorded for the electronics industry, oils, fats, petroleum products and construction-

related industries. Construction grew beyond the anticipated target to 13.1 per cent per annum, primarily stimulated by commercial building growth and not residential dwellings as originally envisaged.

The tertiary sector growth reflected complementary developments in the other two sectors. Transports, storage and communications, wholesale and retail trade, hotels and restaurants, finance, insurance, real estate and business services together increased at 7.6 per cent per annum. Public sector services grew rapidly in 1981 but slackened thereafter because of the Government's stringent measures.

The prospects of the Malaysian economy over the remaining Plan period, i.e. 1984-85, will hinge upon developments in the international economy. To sustain a projected annual growth rate of 6.7 per cent over this period, the private sector and the export-oriented industries will have to shoulder the heavy burden as a result of the reduced expenditure in the public sector. This process of structural change in the economy will see the share of the primary sector declining to 26.2 per cent in 1985. Within this sector, mining is expected to grow by 11.2 per cent mainly because of production increases of LNG and crude oil. Agriculture will expand 4.5 per cent with increases anticipated in palm oil, rubber and paddy production. The secondary sector is projected to grow at 8.1 per cent annually and increase its share of GDP from 23.5 per cent currently to 24.1 per cent in 1985. Manufacturing will be the lead sector targetted to grow by 7.7 per cent annually in real terms.

The industrial growth policy will be predicated upon increasing competitiveness, higher productivity and concerted and aggressive marketing strategies. Although the potential of the textiles and clothing industry is limited, sectoral buoyancy is pegged to the national car and sponge iron mill projects backed by the Heavy Industry Corporation of Malaysia (HICOM). Public sector development budget cutbacks will slow the pace of construction to 9.3 per cent per annum. The tertiary sector is targetted to expand by 7.2 per cent annually.

ROLE OF THE PUBLIC SECTOR

Although the Fourth Malaysia Plan originally assigned a predominant role to private sector investment, the declining economy forced the public sector to adopt an expansionary strategy. Public sector expenditure growth decreased from 33.6 per cent in 1981 to 12.8 per cent in 1982 and 9.5 per cent in 1983. Despite such contractionary measures, aggregate public sector expenditure constituted 52 per cent of GNP for the period 1981-83 compared to 36.1 per cent in the 1970s and a projected 43.3 per cent under the Fourth Plan.

The revised expenditure under the Fourth Malaysia Plan now totals M\$56,669.4 million or 39.3 per cent above the original estimates. The economic sector will absorb M\$10,327.5 million, an increase over the original allocation. Social sector investment will also show an increase but the security sector is to suffer a cutback from 23.9 per cent to 15.9 per cent of total Plan investments. The New Economic Policy (NEP) programme is allocate M\$5,247.7 million; of this sum, M\$3,797.9 million is for poverty eradication and the balance for re-structuring of society.

To finance the expanded public sector development programme, Government revenue will constitute a major source and is expected to grow by 6.8 per cent per annum. The overall deficit for 1984-85 is anticipated to reach M\$16,404 million. Of this, M\$14,500 is to be raised domestically in the form of Government securities and Treasury Bills to be taken up mainly by the Employees Provident Fund (EPF), the National Savings Bank and the Social Security Organisation (SOCSO). The amount of net foreign borrowings will be kept within the limit which is consistent with prudent debt management.

THE PRIVATE SECTOR'S ROLE

The original targetted private sector investment of 72.2 per cent of total planned investment experienced a shortfall because of the economic recession, changing trade opportunities and increasing market competition. Foreign investment nevertheless continued to play a strong role during the period 1981-83.

During 1984-85, private investment is anticipated to rise by 10.3 per cent annually in real terms and amounting to M\$30.8 billion. Non-oil investment is expected to play a dominant role in private investment growth. Investment in new plant, machinery and capital stock replacement in line with incentives to foster industrial modernisation are expected. In view of the soft oil market and tightening international financial situation, oil investments can be expected to decline. Investments are more realistically expected in such upstream activities as exploration, development of production and storage facilities. Agricultural investment, on the other hand, will be directed to downstream processing and marketing activities. A decline in private investment in mining is not unrealistic in view of soft price forecasts and depleting national reserves.

Positive encouragement will be given to private investment leading to expansion and diversification of the manufacturing base. This will generate high value-added industries through the development of export-oriented industries especially palm oil, petroleum, rubber and wood products. Selective second round import substitution industries oriented towards producing sophisticated consumer durables and intermediate and capital goods will also be encouraged. As a result of the Government sponsored heavy industry projects, greater involvement in ancillary engineering industries can also be expected. The private sector can also be anticipated to foster both backward and forward linkages within the economic structure; to this end, an industrial master plan is being formulated.

During the 1970s, progress towards the achievement of the twin NEP goals of restructuring society and eradicating poverty was relatively smooth as the economic cake expanded in size. The economic crisis after 1980 has hampered progress and even reversed it. The overall poverty incidence rose from 29 per cent in 1980 to 30.3 per cent in 1983, involving 717,600 households primarily rural-based and dependent on agriculture. The incidence of rural poverty thus increased from 37.4 per cent in 1980 to 41.6 per cent in 1983 while urban poverty declined from 12.6 per cent to 11.1 per cent during the same period.

Poverty remained most severe among rubber smallholders rising from 41.3 per cent to 61.1 per cent over the 1980-83 period and involving 248,000 households.

Prospects for reducing poverty levels will depend on the outlook for export commodity prices and the Government's continuance of selected anti-poverty programmes for the product sub-sectors plus a continued reliance on land development with FELDA as a lead agency. It can be forecast that there will be an increase in the poverty incidence in the paddy sector but decrease in other sub-sectors and the urban sector.

The restructuring process also lost some of its momentum during the 1980-83 period. With a 1979 national mean monthly household real income of M\$417, the Malays as a group recorded an income of M\$296 compared to M\$565 and M\$455 for the Chinese and Indian communities, respectively. Restructuring of employment grew at a slower pace because of increasing unemployment among all racial groups. Asset ownership restructuring projected a situation in which of the 1983 figure of M\$49.7 billion of corporate paid-up capital, Malaysian ownership grew 9.3 per cent between 1980 and 1983.

The estimated bumiputra share increased by 5.2 per cent to 18.7 per cent in 1983 as a result of the activities of trust agencies and other bumiputra enterprises. Foreign investors' share fell from 43 per cent to 33.6 per cent over the 1980-83 period. Restructuring will continue apace for the remainder of the Fourth Plan contingent upon the performance of the domestic sector and the resource position of the public and private sectors. It is projected that by 1985, Malaysians will own 70.3 per cent of aggregate corporate share capital: bumiputras will own 21.9 per cent, other Malaysians 48.4 per cent and foreigners 29.7 per cent. The drive to create a bumiputra commercial and industrial community is expected to slow-down as a consequence of a smaller role for the public sector and a greater dependence upon individual bumiputras and bumiputra enterprises tapping their own resources.

The changes taking place in the Malaysian economy necessitate a change in the planning rationale different from the past. The current strategy of agricultural development requires modification in order to promote the attainment of the poverty redressal goal and uplifting rural living standards. Raising farm productivity will be emphasised but the role of subsidies will be progressively reduced, and selective subsidies may be provided where they are essential. Private sector involvement in agricultural development is expected to expand. A new strategy will involve re-grouping of villages into viable economic centres.

To generate the impetus towards commercial rather than subsistence farming, co-operative farming will be encouraged by the consolidation of existing small holdings and managing them on a plantation basis. Such a move is necessary because of a shortage of labour in certain localities, idle land, ageing of the agricultural labour force, constraints imposed by small sized farms and shortage of good agricultural land. Co-operative farming will promote greater productivity through mechanisation and greater self-reliance in the farming community.

Over-dependence on in-site agricultural development programmes cannot be encouraged. The importance of non-farm activities will be stressed, using local resources in order to supplement farm incomes. Participation by the farming community in better paying activities either as an alternative or supplementary source of income will further the orientation away from subsistence to commercial attitudes.

POVERTY AND RESTRUCTURING

NEW DIRECTIONS IN DEVELOPMENT AND IMPLEMENTATION STRATEGIES

The current restructuring strategy will continue to be pursued into the future to promote Malaysian and particularly, bumiputra, ownership and control of the economy. The privatisation policy of the government will accelerate the pace of restructuring and give a greater initiative and responsibility to the private sector. In this connection, employment restructuring will also be vigorously pursued especially in the fast-growing, higher productivity sectors and better paying jobs.

The New Agricultural Policy (for details, see ASEAN FORECAST March 1984) will facilitate the re-structuring of agriculture. Its major goal will be the maximisation of income from agriculture through efficient resource utilisation. Income maximisation will be achieved through increasing the productivity of traditional export crops, development of new export crops and production of food and industrial crops. A major thrust for agricultural development will be land development and in-site development with some modifications. In addition, the role of government agencies in agricultural development will be re-evaluated to reduce its presence and encourage private sector participation.

The industrialisation strategy will be oriented to be more outward looking and more productive. Malaysia's own *sogoshoshas* will promote export development and marketing. Greater government support through its agencies and fiscal incentives will be given to complement the new strategy of export-led growth in the industrial and manufacturing sector. In addition to this, a selective second round import substitution will contribute to greater sectoral resilience while improving the balance of payments position. The government will also promote the development of resource-based industries, especially of rubber, wood, palm oil and petroleum-based products. Heavy industries will also constitute an important element of the industrialisation policy.

The drive to exploit new export markets must be based on innovative trading arrangements such as counter-trading, greater South-South co-operation and stronger ties within the ASEAN framework.

The success in reducing regional disparities requires the formulation of a national spatial plan, plans on the basis of regions and greater private sector involvement in regional development.

Human resource mobilisation through manpower planning, training and raising labour productivity will have to be given greater priority to meet the emerging structural problem of labour shortages. The formulation of a new population policy is required to overcome the constraints on industrial development created by a small domestic market. Malaysia could plan for a large population which could reach 70 million but productivity levels of the population will have to be enhanced.

To re-vitalise and enhance the role of the private sector in national development, government will embark on a policy to progressively privatise selected government services and investments. Privatisation can be complete or partial and selective in its format. The ultimate objective of privatisation is to reduce the size and presence of government, and conversely expand the private enterprise function in the economy. Privatisation will not be implemented at the expense of the NEP or the consuming public.

The "Malaysia Incorporated" concept represents a more unified approach and framework towards national development to ensure a more efficient level of resource utilisation. "Malaysia Incorporated" emphasises the symbolic roles of the government and the private sectors. The latter will form the commercial arm of the national enterprise while the former generates the major policy framework, direction and infrastructure.

The new directions in the development strategies of the nation will require new orientations in values, leadership and administration. Malaysia's Look East Policy is one instrument for promoting values conducive to development in inculcating among its people work ethics with emphasis on hard work, dedication, and initiative.

With slightly less than two years remaining, the mid-Term Review of the Fourth Malaysia Plan will not be able to realise many of the goals it set out to achieve. But the importance of this review lies in its recognition of the pitfalls and the reasons that have caused them. Hopefully solutions for these weaknesses will be found in the Fifth Term Malaysia Plan. □