

Chapter I

**Policy Objectives and
Framework**

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I. INTRODUCTION

Malaysia unrelentingly pursued the bold objective of national unity for a decade and a half since 1971, through the adoption of the two-pronged New Economic Policy (NEP), designed to eradicate poverty, irrespective of race, and to restructure society to eliminate the identification of race with economic function and geographical location. This task was to be achieved over a period of two decades. The formulation of the NEP was precipitated by the outbreak of racial conflict in 1969, which revealed the growing fissures in the Malaysian society that can threaten to undermine the very foundation of a harmonious and secure nation. Committed to a new vision and supported by all ranks and ethnic groups in the country, the past three Malaysia Plans were prepared incorporating an action-oriented agenda of policies, programmes, and projects that was aimed at overcoming the obstacles inherited from the past and transforming the Malaysian society so that national unity, the overriding goal of socio-economic development, can be attained.

During the last fifteen years, the performance of the economy was affected, in no small measure, by the vagaries of the world economy. Nevertheless, the 1970s was generally a period of favourable external conditions and, accompanied by higher commodity prices, the economy grew at a fast rate averaging 7.6 per cent per annum. Substantial progress was made in terms of job creation, structural transformation and modernization, poverty eradication, and restructuring of society. Since 1982, with the exception of 1984, the country was affected by a substantial decline in its terms of trade and slackening export demand as a result of prolonged international recession. The slowdown in economic growth, coupled with persistently large deficits in the current account of the balance of payments and the public sector account which led to increasing external and domestic debt, revealed structural economic weaknesses. These weaknesses would have to be overcome through new development approaches initiated in the Mid-Term Review of the Fourth Malaysia Plan (MTR) which will be continued in the Fifth Malaysia Plan.

The country now stands poised to enter the fourth phase of the Outline Perspective Plan (OPP), 1971-90. It will take into account the experiences learned from past development efforts as well as the prospects for and constraints on development for the next five years. Although fundamental objectives remain unchanged, the strategies and policies adopted at the start of the OPP must necessarily be adjusted accordingly to the circumstances that will prevail in the latter half of the 1980s.

The next five years will be most significant in ensuring that further progress will be made towards the national objectives, particularly in the light of continued uncertainties in the international economic environment and of the emerging resource constraints. The public sector will no longer play an expansionary role in spearheading economic growth. It will, however, continue to provide leadership through its efforts in creating a more suitable environment and climate in which the private sector can play an enhanced role of generating growth through increased competition, efficiency, initiative, and innovation in the production and marketing of goods and services for domestic and foreign markets. Given the sizeable resource gap, greater emphasis will be placed on increasing domestic savings, mobilizing domestic resources, attracting foreign investments, and utilizing economic resources more efficiently. Along the production front, the agriculture sector will be revitalized with emphasis on consolidating farm holdings and managing them on an estate basis, and labour productivity in all economic sectors will be increased through various training programmes. In the Fifth Plan, the Government will take stock of past achievements, consolidate development programmes, and institute new approaches in order to be better equipped to tackle the socio-economic and political challenges that confront the country now and in years to come.

II. FIFTEEN YEARS OF DEVELOPMENT, 1971-85

Fifteen years have passed since the implementation of the OPP within which the objectives of the NEP are to be achieved. The NEP was initiated with the overriding objective of fostering national unity and nation building, through the eradication of poverty, irrespective of race, and the restructuring of society to eliminate the identification of race with economic function and geographical location. Prior to 1971, economic development focussed mainly on accelerating growth through investment in agriculture, infrastructure, and rural development. The May 1969 incident revealed that emphasis on economic growth alone could not adequately deal with the socio-economic imbalances that characterized Malaysian society. The NEP, in its formulation in 1970, therefore, recognized that any development effort which did not deal adequately with the problems of socio-economic imbalances among ethnic groups and regions would lead to growth without equity and, in turn, result in a fragmented and less secure nation. More emphasis had, therefore, to be placed on national unity and integration through a more equitable distribution of income and opportunities among all Malaysians.

The NEP represents the commitment of the Government towards creating a united, just, stable, and progressive nation. The objectives of the NEP are to be realized within an environment of rapid economic expansion so that no particular group will experience any loss or feel any sense of deprivation. In this respect, the NEP seeks to create a just socio-economic order in which all Malaysians could find self-fulfilment within a system which provides for equitable participation, management, and control in the development of the nation.

The last fifteen years saw considerable progress towards the realization of the goals of national unity and nation building. Progress was also made in bringing about more equitable distribution of wealth, income, and economic opportunities. At the same time, significant achievements were made in meeting basic needs, with more Malaysians provided greater access to better education and health facilities as well as other public services. The progress of the NEP with respect to the strategies of poverty eradication and restructuring of employment and ownership of wealth was creditable, despite the international economic uncertainties which had an impact on the performance of the domestic economy during the greater part of the Fourth Plan period. The high rates of growth achieved in the domestic economy during the 1970s accelerated the pace of progress in achieving the targets of the NEP. The early 1980s, however, were more trying years due to the prolonged slowdown in the world economy which began in late 1979, and this slackened the progress in achieving the restructuring targets of the NEP during the last few years.

The next five years will mark the final years of the OPP. A review of the last fifteen years is, therefore, necessary as the country enters this next phase, to take stock of the successes achieved as well as the shortcomings, strengths, and weaknesses. This will form a fitting base from which to plan the agenda for the next five years.

National unity and integration

It has to be reiterated that national unity is the overriding objective and fundamental goal of the country. National unity serves as the foundation for building a strong and united Malaysia and is vital towards ensuring the long-term viability and security of the nation. Significant efforts were made over the last fifteen years towards this direction.

One of the multifaceted approaches towards building national unity was the creation of a socio-economic environment that would allow for a viable and equitable participation of all races in the development process. In this regard, the NEP represents one of the instruments towards forging national unity and integration through poverty eradication and the restructuring of society. The poverty eradication programmes implemented during the last fifteen years helped to increase the sense of belonging to society as well as security, and reduced feelings of deprivation and alienation by bringing the poor into the

mainstream of economic life. The restructuring efforts brought Malaysians together, regardless of ethnic origin, to participate in commercial and industrial ventures. Malaysians of different ethnic origin were also increasingly brought together as co-workers in modern enterprises, through the employment restructuring strategies of the NEP.

The education system has been the major vehicle in promoting integration among all Malaysians, irrespective of ethnic, cultural, and religious backgrounds. The implementation of the use of *Bahasa Malaysia*, as the main medium of instruction, served to strengthen the basis for national unity in that it promoted effective communication among Malaysians through a common language. Another programme towards enhancing integration was the implementation of a common curriculum for all schools aimed at instilling and inculcating values and norms in line with the principles of the *Rukunegara*, the national ideology. In addition, emphasis was given to the study of the historical, economic, and social development of Malaysia. The moulding of civic and national consciousness was also emphasized. Co-curricular activities also provided opportunities for school children to interact and work together in club activities and sports.

Continued progress was made in reducing segregation and increasing interaction among ethnic groups through the promotion of more ethnically balanced residential patterns in housing areas, the provision of opportunities for participation in nation building, and the evolution of a national culture. In addition, the provision of recreational facilities and social amenities in housing areas allowed for greater interaction and integration of the various communities. Programmes like the *Rukun Tetangga* scheme, the *Ikatan Relawan Rakyat* (RELA), and the *Jawatankuasa Kemajuan dan Keselamatan Kampung* (JKKK) provided avenues for Malaysians to participate in nation building. Participation in these programmes also fostered greater understanding and co-operation among Malaysians from all walks of life. During this period, the Government continued to encourage the development of a national culture through the incorporation of elements of the cultures of all ethnic groups, with the Malay culture forming the core.

One of the elements towards forging national unity and nation building was regional integration. The efforts of the Government in bringing about greater cohesion among the various states of Malaysia focussed, *inter alia*, on the integration among Peninsular Malaysia, Sabah, and Sarawak. The education systems in Sabah and Sarawak were progressively integrated into the national system, particularly in the field of teacher training and the use of a common curriculum in schools. Better communication links were also strengthened through air and sea transport, telecommunications, and postal services. The improvements and strengthening of transport and communication links were an important means of increasing regional trade among Peninsular Malaysia, Sabah, and Sarawak. In addition, Sabah and Sarawak were incorporated into the

national radio and television network during the period. Other important aspects of integration included tax harmonization and the extension and strengthening of the activities of Federal institutions, among others, the Federal Agricultural Marketing Authority (FAMA), Malaysian Industrial Development Finance (MIDF), Council of Trust for Indigenous People (MARA), National Padi and Rice Authority (LPN), Employees Provident Fund (EPF), and the Social Security Organization (SOCSSO) in Sabah and Sarawak.

While significant progress had been made towards the achievement of the goals of national unity and nationhood, there is, however, an increasing concern over the emergence of parochial interests, excessive demands, and extremism among certain quarters of the Malaysian society. Much more, therefore, remains to be done. National unity and nation building is a long-term objective which is to be achieved through a multidimensional approach involving social, political, cultural, and psychological factors. Government efforts represent but one facet of the overall endeavour in promoting national unity. The attainment of national unity is also the responsibility and concern of every Malaysian. There is a need to mould and inculcate the right values, perceptions, and attitudes towards each other with a view towards building a multiracial society that is characterized by tolerance, harmony, mutual understanding, justice, fairness, and unity. A greater understanding and appreciation of the sensitivities of the various communities as well as a recognition of the commonness of experiences and values would go a long way in promoting racial harmony and tolerance, and serve to strengthen the bonds among all Malaysians.

The New Economic Policy

The NEP provides a framework for a more equitable participation of all Malaysians in the development process for the attainment of national unity. During the last fifteen years, creditable progress was made towards this direction, particularly in the 1970s. With respect to poverty eradication, all target groups benefitted from poverty redressal programmes. The overall incidence of poverty in Peninsular Malaysia, which measures the total number of households whose incomes are below the poverty line, fell from 49.3 per cent in 1970 to 18.4 per cent in 1984. During the same period, the total number of poor households declined from 791,800 to an estimated 483,300. Significant reductions in the incidence of poverty were also achieved in Sabah and Sarawak. Increased participation and involvement of the disadvantaged, particularly the rural poor, in the mainstream of economic life was effected through the strategies of new land development and *in-situ* agriculture as well as the absorption of the rural labour force into higher income jobs in the industrial and services sectors.

The large-scale new land development programmes undertaken by the Government were successful in opening up 551,000 hectares of land and settling no less than 73,600 families during the period 1971-85. These programmes enabled settlers, who were previously engaged in traditional, low-productive agricultural activities, to participate in more remunerative modern agricultural activities. In addition, investments in infrastructure and social services enabled settlers to enjoy better access to various services as well as to towns outside the development schemes.

The strategy for poverty redressal also included efforts to improve the quality of life through the provision of public services. During the last fifteen years, the poor enjoyed greater access to modern public services and social amenities such as educational facilities, medical and health services, and water and electricity supply. The life expectancy of males improved from 62.2 years in 1970 to 67.6 years in 1984, while that of females from 66.7 years to 72.7 years. The infant mortality rate per thousand live births declined from 39.4 in 1970 to 17.5 in 1984. Primary school enrolment, as a percentage of primary school-age population, increased from about 88 per cent in 1970 to 95 per cent in 1985.

The strategy for the restructuring of society called for efforts to eliminate the identification of race with economic functions and geographical location. This strategy was to be achieved through the reduction of income imbalances among ethnic groups and regions as well as through the restructuring of the employment pattern, ownership of share capital in the corporate sector, and the creation of a Bumiputera Commercial and Industrial Community.

The period saw an increase in both the mean and median incomes of all ethnic groups in both real and current terms. Progress was made in reducing income imbalances among ethnic groups and between the urban and rural areas, among others, through the creation of productive activities for the less advantaged groups. Real Bumiputera mean income as a proportion of the national average monthly household income increased from 65 per cent in 1970 or \$172 to 78 per cent in 1984 or \$384. The Chinese mean income remained above the national average, at \$678 in 1984, while the Indian mean income, at \$494, was close to the national average. Income disparities, however, continued to remain wide. Progress was also made in developing the less developed states and regions. The *per capita* Gross Domestic Product (GDP) of Kelantan rose from \$989 in 1971 to \$1,740 in 1985, while that of Kedah and Perlis combined increased from \$1,277 to \$2,382 during the same period.

In terms of employment restructuring, there was significant improvement in the distribution of employment in all sectors to reflect the racial composition of the country. By occupation, the Bumiputera share of employment in the professional and technical group remained the highest, but a substantial proportion of them were teachers and nurses. In the higher earning professional and technical category, the Bumiputera share was low, at about 21 per cent in 1984. This

share was, however, significantly higher than that which prevailed in 1970. The Indian share in the professional and technical category also showed an increase from 10.8 per cent in 1970 to 11.1 per cent in 1985. In the administrative and managerial group, the Chinese share remained the highest. The contribution of education to the employment restructuring objectives was significant in that it opened up substantial avenues and opportunities for the low-income groups to participate in the high-paying sectors of the economy. The expansion of higher education programmes, in particular, contributed to the increased supply of trained professional and managerial Bumiputera.

Malaysians increased their ownership and control of the corporate sector during the last fifteen years. Bumiputera share in the corporate sector, through the growth of trust agencies and other Bumiputera enterprises, increased from 4.3 per cent in 1971 to 17.8 per cent by the end of 1985. Other Malaysians also benefitted from the efforts towards the restructuring of ownership of share capital. During the same period, Other Malaysians increased their share in the corporate sector from 34.0 per cent to 56.7 per cent. The share of foreign interests declined from 61.7 per cent in 1971 to 25.5 per cent in 1985. In absolute terms, however, the total share capital of foreign interests increased significantly from about \$4,000 million in 1971 to about \$19,400 million in 1985.

Bumiputera ownership and control of the corporate sector through the trust agencies is evidenced in three main sectors, that is, the finance and banking sector, the plantation sector, and the mining sector. Bumiputera interests held a substantial share in the banking and finance sector, while in the plantation sector, Bumiputera-owned and controlled companies constituted a significant share of the total hectarage in the sector. In the mining sector, Bumiputera interests also held a majority control in the Malaysian Mining Corporation. The substantial growth of Bumiputera share capital in the mining and plantation sectors came as a result of purchases of existing foreign companies and assets in the open market. With respect to the creation of a Bumiputera Commercial and Industrial Community, overall indications show that despite a much more difficult and competitive business and commercial environment, Bumiputera enterprises and entrepreneurs managed to make significant progress over the last fifteen years, particularly in the field of wholesale and retail trade and the services sectors such as tourist and travel agencies, transport, and shipping.

Overall, substantial progress was made by all Malaysians in the development of the economy. The successes achieved so far were aided by Government assistance through the provision of infrastructure, incentives, and support schemes. In the course of this, there was a tendency among Malaysians to be over-dependent on Government assistance and support which inadvertently led to a prevalence of the subsidy mentality. In this respect, the Government has taken steps to gradually and selectively reduce subsidies. Overreliance on Government assistance might have led to a stifling of individual initiative, motivation,

creativity, and entrepreneurship. These positive qualities would become more essential in the future, in view of the consolidation efforts of the public sector resulting from budgetary constraints.

Economic growth and structural transformation

Rapid economic growth is the prerequisite for the attainment of the goals of the NEP. In this regard, real GDP was targeted to grow at 8.0 per cent per annum over the OPP period. This targeted rate of growth was based on rather optimistic expectations then on the rate of investment, both public and private, as well as a favourable external economy. Despite the setbacks of the oil crises of 1972-73 and 1979, the 1970s was a period of relatively favourable external circumstance and the country experienced rapid economic growth buoyed by strong public investment and export performance. The economy, thus, registered a rate of growth of 7.6 per cent per annum during the first ten years of the OPP. Since 1980, however, economic developments were less favourable resulting particularly from the prolonged international economic recession beginning in late 1979. Consequently, economic growth during the period 1981-85 tapered to 5.8 per cent per annum from the relatively high growth rates experienced in the 1970s.

The thrust for economic expansion during the decade of the 1970s came from both domestic and external demand. During the period 1971-75, the main source of growth was public investment which provided an expansionary impact on the economy during these years of relatively slower growth of exports and private investment. External demand, however, accelerated during the period 1976-80, inducing a significant increase in domestic production activity. Domestic demand also provided further stimulus to economic growth during this period. The balance of payments position in the 1970s was favourable, despite volatility in the world economic situation and the slackening of economic activities of trading partners during certain years of this period. The merchandise trade balance registered a strong surplus of \$23,296 million during the period 1976-80, reflecting the higher earnings from merchandise exports, particularly crude petroleum and manufactured goods.

The 1970s was a period of relative domestic price stability, despite pressures on prices during the early 1970s arising from the impact of the 1972-73 oil price hike on the cost of imports as well as domestic supply shortages of essential food items and construction materials, particularly in 1973 and 1974. Consequent upon the anti-inflationary measures, the rate of domestic inflation slowed down to manageable levels.

The period 1981-85 was marked by a general slowdown in the performance of the economy. This was largely due to the economic slowdown in the industrialized countries which resulted in restrained external trade, reduced private investment, and increased imbalances in external payments. The desire to sustain aggregate expenditure, particularly Government expenditure, in the face of poor private

sector initiative and slack exports, led to overall resource constraints during the period 1981-83 that further increased the deficit in the balance of payments. Financing such deficits through borrowing resulted in a rapid buildup of domestic and external debt. An increasing share of the external receipts, hence, had to be set aside for debt servicing. The prolonged sluggishness of the external sector, therefore, prompted major structural adjustments in domestic expenditure by the Government from 1983 onwards in order to ensure long-term viability of the economy. Consequently, the Government succeeded in reducing the budget deficit from 18.7 per cent of the Gross National Product (GNP) in 1982 to 8.2 per cent in 1985 and the current account deficit from 14.1 per cent of GNP in 1982 to 6.3 per cent in 1985.

While the growth of GDP over the past fifteen years was 7.0 per cent per annum, less than the 8.0 per cent targetted for the OPP, this performance, as a whole, can be said to be satisfactory, considering the overall performance of the world economy which was uncertain and sluggish over parts of this period. During this period, real GDP in 1978 prices tripled from \$21,548 million in 1970 to \$59,344 million in 1985. The growth rates achieved in Malaysia were relatively high for a developing country and its performance compared favourably with some of the developed economies, which experienced a slower growth of output and income. Malaysia was able to sustain its growth rate at a satisfactory level, primarily due to political stability and sound financial and economic policies as well as efficient management of its natural resources, including oil and gas, which enhanced further the resilience of the economy.

The high economic growth of this period was accompanied by a structural transformation of the economy, in line with the modernization and diversification of the economy and the gradual shift from low-productive, subsistence activities to high-productive, modern activities. In terms of sectoral output, significant changes in the composition of production occurred, with a rising contribution of the manufacturing, construction, and banking and finance sectors, and a diminishing role of the agriculture sector. The manufacturing sector, thus, expanded from 13.9 per cent of GDP in 1970 to 19.1 per cent in 1985, while the share of agriculture to GDP declined from 29.0 per cent in 1970 to 20.3 per cent in 1985. While the contribution of the agriculture sector to overall growth had somewhat declined *vis-a-vis* that of other sectors, it continued to contribute to the alleviation of poverty through the raising of income levels.

Structural changes also took place within sectors. In the agriculture sector, palm oil and cocoa gained in importance, while the shares of rubber and *padi* in output registered continued declines. The manufacturing sector saw a pronounced expansion of industries producing electrical and electronic equipment, petroleum products, and textiles, while agro-based industries, such as rubber and wood products, remained unchanged. The mining sector also experienced substantial structural changes in the composition of output. The share of tin diminished from

about 78 per cent in 1971 to 21 per cent in 1985, while the contribution of petroleum to mining output, in 1970 prices, rose significantly from about 17 per cent to 69 per cent.

On the demand side, the total exports of goods and non-factor services increased by 7.8 per cent per annum during the period 1971-85. Annual export growth was highest during the period 1976-80, at 9.6 per cent compared with the earlier period 1971-75, at 5.9 per cent and the period 1981-85, when it grew at 8.0 per cent. The strong export growth during the period 1976-80 was due to accelerated external sector demand. The performance of the external sector during the period 1981-83 and in 1985 was, however, adversely affected by poor external demand and unfavourable commodity prices.

The last fifteen years saw a distinct change in the composition of exports. The share of rubber in total merchandise exports, thus, declined from 33.4 per cent in 1970 to 7.5 per cent in 1985, while palm oil rose substantially from 5.1 per cent in 1970 to 10.4 per cent in 1985. Petroleum exports also grew rapidly during this period by 28.7 per cent per annum, while tin exports experienced long-term decline. Manufactured exports grew rapidly over this period in line with greater industrialization, with electrical appliances and electronics, textiles, clothing, and chemicals accounting for a significant share of manufactured exports.

Consequent to the increased domestic demand for consumption, intermediate, and investment goods, total imports grew at a rate of 8.6 per cent per annum. While the performance of imports was sluggish during the period 1971-75, at 5.1 per cent per annum, it accelerated to 15.6 per cent per annum during the period 1976-80. Imports grew by 5.5 per cent annum during the period 1981-85. A substantial proportion of import demand during the period 1971-80 was for intermediate and investment goods, resulting from a high investment demand in the economy. Much of this demand in turn emanated from a large public investment programme.

Total investment increased rapidly at 10.6 per cent per annum, brought about largely by significant increases in public investment at 14.4 per cent per annum during this period. This resulted from the increasing involvement of the public sector in economic activities, such as commerce and industry, including heavy industries. With this rapid increase in public investment, its share in total investment rose from about 30 per cent in 1970 to 50 per cent in 1985. Growth in public investment was highest during the period 1971-75 at 16.0 per cent per annum, a major portion of which went towards investment in infrastructural development. During the period 1976-80, however, public investment grew at a lower rate of 14.7 per cent per annum, with emphasis more towards financing projects that were directly connected with the NEP.

In the early 1980s, the public sector introduced countercyclical measures in order to weather the impact of the international recession. The rapid expansion in

the investment programme, however, imposed a financial strain on the public sector resource position, which led to efforts at consolidating public sector expenditure during the second half of the Fourth Plan period.

Despite the slower growth of private investment during the period 1971-75 at 10.5 per cent per annum compared with the period 1976-80, it was, nevertheless, creditable considering the slower growth and slackening of external demand. During the period 1976-80, private investment grew at a higher rate of 12.7 per cent per annum, providing the impetus for the expansion of domestic activities. The share of private investment in GDP, therefore, increased from 16.2 per cent in 1975 to 19.5 per cent in 1980. Growth in private investment during the latter half of the 1970s was primarily stimulated by growth in external demand as well as the availability of resources for investment, generated by the high rate of savings and foreign capital inflows.

During the period 1981-85, however, private investment grew more slowly at 2.3 per cent per annum in the face of global and domestic structural constraints. If investments in oil and gas, which accounted for about one quarter of total private investment were excluded, private investment growth would have been much less. During the period 1971-85, private investment did not play the strong role envisaged for it. The share of real private investment to total investment, therefore, declined from about 70 per cent in 1970 to 50 per cent in 1985.

The role of the public sector in the economy saw a shift from that of a traditional provider of services to one of direct participation in the fields of commerce and industry as well as agriculture, transport, and communications. The last fifteen years saw a rapid expansion of Government-owned corporations and trust agencies set up to accelerate the process of the restructuring of society. A number of public-owned corporations were also established to meet the needs of economic growth and industrialization, including heavy industries, which demanded huge capital outlays and involved high risks as well as long gestation periods. The expanded role of the public sector in the economy, therefore, resulted in the rapid growth of public expenditure, particularly that of development expenditure. During the Fourth Plan period, development expenditure increased three times compared with that of the Third Malaysia Plan, 1976-80 and eight times compared with that of the Second Malaysia Plan, 1971-75. The use of financial, material, and human resources also increased.

The high level of public investment, particularly during the late 1970s and early 1980s, imposed a considerable strain on the financial resources of the Government. The slower export growth and adverse terms of trade, due to the prolonged global economic slowdown of the early 1980s, led to a slow growth in Government revenue. At the same time, the strong growth of current expenditure resulted in a reduction in the volume of public savings available to finance public capital formation. This resulted in a sharp rise in borrowings, particularly from foreign sources, leading to a sizeable increase in the debt service burden. The increasing

resource constraints, coupled with the sizeable presence of the Government and its increased command over resources, raised issues of allocation and efficiency which need to be given serious consideration.

The prolonged world recession in the early 1980s and its resultant impact on the domestic economy have highlighted several structural constraints. This, in part, contributed to the vulnerability of the economy to the performance of the international economy. The performance of the agriculture sector was sustained largely by the increase in output of palm oil. The manufacturing sector remained narrowly based and lacked the dynamism for expansion and growth.

While the agriculture sector remained fairly buoyant in the 1970s, its growth declined in the early 1980s. Several structural features in the sector to some degree, inhibited its growth and contribution to the economy. Agricultural productivity, particularly in the *padi* and smallholder subsectors, constrained by uneconomic-sized holdings, low-yielding crops, traditional methods of production, increase in idle or abandoned arable land, and inadequate access to assistance and support services. The outmigration of the younger labour force from rural to urban areas contributed to a shortage of agricultural labour and the ageing of the rural labour force, leading, in turn, to problems of underutilization and abandonment of cultivable agricultural holdings. The rising costs incurred in agricultural production relative to productivity growth weakened the competitive position of the sector in the world market.

In the manufacturing sector, several structural features arose which would require readjustments in order for the sector to continue to play a strategic role in the growth of the economy. The narrow base of the manufacturing sector, in part, contributed to its vulnerability to the performance of the external sector. The structure of tariffs in the manufacturing sector tended to be more favourable towards import-substitution industries. The development of small-scale enterprises, though an important element in the industrialization strategy, was not effectively integrated into the overall strategy for industrialization. Several constraints had limited its development, arising primarily out of the current structure of incentives that tend to favour large-scale industries.

In line with the structural transformation of the economy, the pattern of employment also underwent changes, with the secondary and tertiary sectors accounting for an increasing share of new employment, while the contribution of agriculture to total employment declined. The contribution of the Government services sector to employment also increased during the period up to the early 1980s, arising from the efforts of the Government to expand social services as well as its increasing involvement in economic activities.

The profile of the new entrants into the labour market also changed significantly. The new entrants were progressively more educated, mobile, and had higher wage expectations. There was, thus, a drift of youth away from low-paying

jobs in the rural areas for better prospects in the urban areas. The late 1970s began to see emerging pockets of labour shortages, particularly in the plantation sector, with the trend continuing into the 1980s. These shortages of labour reflected the increasing reluctance on the part of the young to take up certain jobs due to higher job aspirations. More women also entered the labour force during the period, stemming from higher educational attainment among them as well as increasing employment opportunities arising from high economic growth.

The rapid economic growth during the 1970s was accompanied by a high rate of employment growth. The unemployment rate was, thus, significantly reduced from 7.8 per cent in 1970 to 5.7 per cent in 1980. The slowdown in economic growth in the first half of the 1980s, however, saw a general reduction in job generation, which resulted in increasing pressures on the rate of unemployment. Another issue of growing concern was the rising cost of labour relative to productivity growth which affected the competitiveness of Malaysian exports in the world market.

III. CONSTRAINTS ON GROWTH

The economic scenario for the next few years shows that it is unlikely that the country will be able to replicate its rapid growth in the 1970s. The prospects of the international economy are far from certain, since the economic performance will hinge on the policies and strategies adopted by developed countries. The current sluggishness in business activities in the United States and other member countries of the Organization for Economic Co-operation and Development (OECD) will continue to constrain the expansion of international trade, thereby affecting Malaysian exports. In the face of lagging international demand, prices of commodity exports are expected to be weak. Furthermore, the marketing of manufactured exports is expected to be more difficult in view of the increasing protectionism, slow growth in demand, and global competition in the world market.

On the domestic front, the country is faced with, and tested by, serious resource constraints, in view of increasing public sector deficits and structural economic weaknesses. The continued financing of the deficit, which largely depends on borrowing from foreign sources, is not sustainable, given the existing size of the external debt service burden.

While the heavy public investment in infrastructural development undertaken in the past had provided the country with a broad-based physical and social infrastructure to support growth, the further expansion and maintenance of such infrastructure will exert additional pressures on public sector resources and the balance of payments. The steady increase in the labour force also requires a more rapid expansion of employment opportunities. A slowing down in the rate of employment generation will increase the rate of unemployment. At the same time, the higher educational attainment of the entrants into the labour market will exert

pressure on white-collar and public sector jobs, at a time when the public sector is consolidating itself. With respect to manpower needs, the academic orientation of the education system has resulted in skill mismatches between those demanded by the market and those produced by educational and training institutions. The decline in overall savings also poses another constraint for the future, since such trends will affect adversely the financing of investments.

The effect of lagging international demand for agricultural and mineral products points to a less favourable future prospect. The slackening in international demand for commodities, such as rubber, palm oil, timber, and cocoa as well as the excess world-wide production capacity for tin and the large tin stockpile in the United States, will dampen the contribution of agriculture and mining to the overall economic expansion. The leading position of the country in the production of rubber and palm oil is challenged by the rapid expansion of production of these commodities in neighbouring countries where the cost of labour is relatively lower. In the case of timber, resources have been depleted by overexploitation in the past. Oil prices are expected to remain weak, and the oil subsector will provide reduced growth impetus to the economy than in the past.

In the light of these constraints, new directions in development policies and strategies, which were highlighted in the MTR, will continue to be implemented. In addition, a new thrust will be initiated in the Fifth Plan to help the nation weather the difficult times ahead and to make good progress towards the achievement of the socio-economic objectives. In this regard, measures will be taken, particularly during the period 1986-88, to bolster economic growth, create new employment opportunities, and improve public confidence in the economy. The Fifth Plan is formulated with the knowledge that Malaysians will respond positively to challenges. The Malaysian economy has been tested by previous recessions and has acquired greater resilience. The long-term prospects of the economy, therefore, still remain good. At the same time, Malaysia has a domestic market with relatively high purchasing power and the potential for more savings still remains good. The country also enjoys a broad infrastructural base that can support and sustain further economic growth. In terms of resource endowments, there are still adequate land and mineral resources available to be tapped. The relatively well-educated labour force can support the expansion of secondary and tertiary activities. These strengths will further enhance the resilience of the country and enable it to face the difficult period ahead with confidence.

IV. DEVELOPMENT THRUST FOR THE FIFTH PLAN

National unity and the New Economic Policy.

It cannot be overemphasized that the overriding goal of socio-economic development in the country is to ultimately bring about national unity. The ethnic and cultural diversity in Malaysia, which has proven to be both a source of strength and weakness, will be woven into a cohesive and resilient texture in the

national fabric. The rallying point for national unity is nationalism. Malaysians should develop a deep love and pride for the country, and be guided by the *Rukunegara*. The plurality of this young nation continues to pose a great challenge to all Malaysians to participate in the moulding of this society into a resilient nation imbued with positive qualities of self-reliance, diligence, moral strength, and integrity. It is important to continue promoting national unity because of the emergence of some parochial interests and extreme views and values among certain groups that can work against nation building.

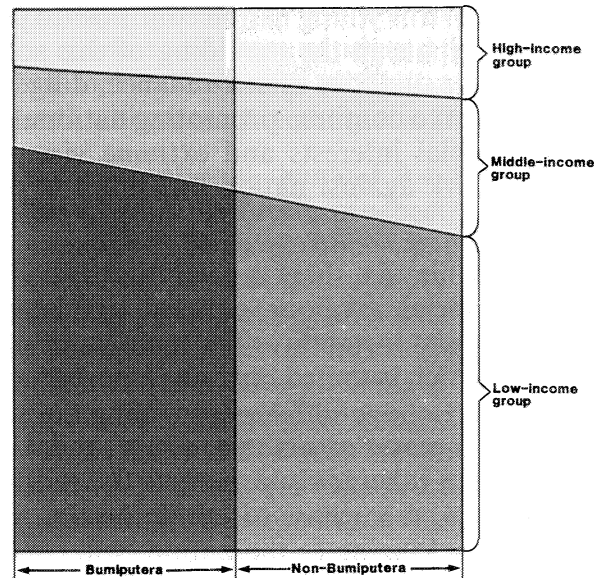
In a plural society like Malaysia, there are various diversities and differences - race, economic, political, social, religious, cultural, and language. Each of these can be a source of conflict and instability. The major task of economic development is to forge a nation which is united, and an important part of this task is to remove the glaring socio-economic differences among the major ethnic groups. There will always be differences among ethnic groups, and it is difficult to remove these differences as they are inherent and part of the individual. Nevertheless, efforts to make Malaysians, regardless of ethnic origin, more integrated and having a greater sense of belonging to the nation, will continue to be made, if racial polarization is to be minimized.

Major efforts to remove the glaring economic imbalances among the major ethnic groups will need to be continued. In Chart 1-1 is shown the major differences among ethnic and socio-economic groups. The degree of differences is positively associated with the degree of the shade in the Chart. Ethnic differences are always much sharper than economic differences which tend to be more gradual and with less sharp divisions between the high, middle, and low-income groups. Apart from the differences between the Bumiputera and non-Bumiputera, ethnic groups are differentiated by economic imbalances. Non-Bumiputera, for example, still have a higher average income, are employed disproportionately in the higher paying occupations, and generally belong to the high-income groups. More Bumiputera are to be found in the low-income groups and in the rural areas. Ethnic differences between the Bumiputera and non-Bumiputera, thus, coincide with the economic imbalances, so that the difference between the Bumiputera in the low-income group and the non-Bumiputera in the high-income group is very glaring. Such substantial economic imbalances can be the basis for generating feelings of deprivation and have the potentials for generating conflicts.

The sense and perception of deprivation and social injustice will remain as long as there are glaring economic imbalances in the society. In addition, persistent economic imbalances will negate efforts towards attaining the overriding objective of national unity. The narrowing and eventual removal of serious economic imbalances are necessary, if the nation is to be free from socio-economic conflicts and instability, and for the attainment of a just economic order.

CHART 1 - 1

MALAYSIA: ETHNIC AND SOCIO-ECONOMIC IMBALANCES



The education system, which follows a common syllabus and uses *Bahasa Malaysia* as the medium of instruction up to university level, will continue to be an important means of promoting national unity among the young, irrespective of ethnic origin and cultural background. Steps to be taken during the period to promote the programme for the integration of students for unity include the organizing of joint co-curricular activities among the national and national-type schools.

Activities of the National Unity Board will be strengthened further in order to create increased opportunities for social interaction. In this connection, efforts will continue to be made to promote national unity through community development and neighbourhood schemes, workcamps, and solidarity classes. The *Rukun Tetangga* scheme, which has provided opportunities for residents to co-operate for their community security, is also a means of creating a stronger spirit of neighbourliness among the participants.

The infrastructural development linking various regions, together with the expansion of the mass media and communication facilities, will continue to be important means of increasing trade and other linkages among regions. Such development will further reduce the psychological barriers pertaining to both the actual as well as perceived distances between states in the high and low-income regions, thereby fostering integration. Furthermore, there exists among states the atmosphere of co-operation which provides a conducive environment for states to explore further opportunities for undertaking joint interstate programmes of mutual benefit.

The development of a Malaysian identity and the evolution of a national culture, based on the integration of all the virtues from the various indigenous cultures in Malaysia, will be reemphasized as an integral part of nation building. Such a move can foster the process of cultural integration, thereby fortifying the basis of a plural society. In addition, emphasis will continue to be placed on the strengthening of positive feelings among Malaysians and the cultivation of well-disciplined individuals who are committed to national goals and aspirations.

A key vehicle for the achievement of national unity will continue to be the two-pronged attack of the NEP, since past experiences have taught the lesson that poverty and wide socio-economic imbalances along ethnic lines are capable of generating deep feelings of dissatisfaction which can be manifested in social unrest. The Government will continue to improve the quality of life of poor households, as an ongoing effort to attack poverty, through the provision of public services, particularly in the remote and outlying areas. The implementation of group farming and rural urbanization will help to increase productivity and output of the rural households. In addition, landless households and those with uneconomic-sized farms will continue to be resettled in land schemes.

In terms of the restructuring objective, Malaysians should seek new income earning opportunities and avoid overconcentrating investments in areas which are already saturated. Future restructuring efforts will require increasing private sector contribution to growth of sectors and activities. In the restructuring of employment, there will be continuing efforts to increase the number of Bumiputera in the professional and managerial occupational categories. The private sector should play a role in designing definite training programmes to assist in this process. The Government will also continue to emphasize the importance of individual initiative, as against overdependence on Government assistance, to ensure the development of a viable Bumiputera Commercial and Industrial Community. The role of trust agencies and public enterprises will be reviewed, and certain Government enterprises or services, which have potentials for private participation or acquisition, will be considered for privatization.

While significant progress had been made in the restructuring of ownership in the corporate sector, it is important to ensure that the acquired wealth and assets are properly managed and utilized. Mere ownership and control of resources alone is insufficient. It needs to be complemented by good managerial and entrepreneurial skills to ensure that scarce resources are well managed and utilized efficiently to generate further wealth. Appropriate skills are also required to maximize the potentials of existing wealth.

Through the NEP, the redistribution of benefits within the context of economic growth will be pursued in equitable ways, consistent with the ideals of promoting social justice. In addition, steps will be taken to reverse the trend towards the

subsidy mentality, through greater emphasis on self-reliance, the reduction of public subsidies, and better management of existing resources.

National unity is paramount since it is a vital ingredient for the survival and growth of a nation which is founded on freedom and peace. The maintenance of security is equally important to ensure that internal and external threats do not undermine the foundation of peace and stability, a prerequisite for the continued socio-economic development of the country. Malaysians should, therefore, be vigilant and assist the Government in removing threats to the security of the nation.

Growth with stability

The emphasis of development for the second half of the 1980s will be based on growth with stability. At the same time, in view of resource constraints, increased efforts will be made to mobilize resources and improve efficiency. In the past, the development programmes were pursued along several fronts simultaneously: namely, industrial, social, rural, and infrastructural. A reorientation of the development strategies is timely since the importance of growth has not diminished, but resource constraints have grown to a dimension that warrants attention. Growth in the coming five years will have to be effected with limited available resources and without resorting to borrowing on the scale of the early 1980s, which is neither sustainable nor desirable. This is to ensure that the economic and financial stability of the country is maintained.

While the international economy is expected to be in the doldrums, many of the domestic sources of growth have already been tapped. There are limits to the extent to which further growth can be achieved through embarking on large-scale land schemes, financing development from domestic savings derived from the surpluses of plantation and mineral subsectors, and stimulating manufacturing growth through the early phases of electronics and textile industries which had spurred manufacturing output in the 1970s. Over time, the yield in terms of growth from additional capital accumulation has been reduced and it requires larger investments to achieve a certain growth rate that was possible in the past. More efforts, therefore, will be needed to stimulate economic growth in the next five years. It is with this in mind that specific measures will be undertaken to boost economic growth within the domestic economy through increasing the demand for the output of local goods and services, thereby increasing employment opportunities.

There are several reasons for the need to maintain the growth momentum during the Fifth Plan. First, the country has made substantial progress in meeting the distributional objectives, made possible by the healthy economic growth averaging 7.6 per cent per annum during the 1970s. Since 1980, GDP growth

slowed to about half the pace of the 1970s, export prices and demand deteriorated, large current account deficits emerged in the balance of payments, and domestic and external debts increased rapidly. The prospects for the next five years are not expected to depart from the trends of the early 1980s. In order to sustain the achievement so far, in terms of further reducing the incidence of poverty, expanding the employment creation capacity, and increasing Bumiputera corporate ownership, the economy, therefore, has to continue to expand.

Second, the overall goals of the NEP are to be attained through rapid economic growth to enable the poor to benefit from increases in the quantity and quality of employment. In addition, growth is also necessary to ensure that in the course of restructuring society to enable Bumiputera to participate in commercial and industrial activities, other groups in the Malaysian society do not experience any loss or feel a sense of deprivation. The pursuit of excessive restructuring objectives, however, in the face of anticipated slower economic growth may lead to adverse effects on overall long-term performance of the economy.

Third, the demands on the economy to create jobs will be intensified in the next few years. The economy will have to expand sufficiently to generate employment opportunities to absorb the influx of labour market entrants amounting to no less than 880,000 persons in the second half of the 1980s. In addition, the estatization of agriculture is expected to be accompanied by the release of labour from the land which will exert increasing pressure on job creation in the secondary and tertiary sectors. In view of this, the need to maintain the growth momentum will become more urgent, particularly in the light of the future growth constraints.

Finally, in the context of constraints on public resources, economic growth is important to reduce the inequalities in the distribution of economic activities among and within economic regions, sectors, and ethnic and social groups in the country. It will also enable the continuation of programmes aimed at enhancing the wellbeing of all Malaysians, and in particular those in low-income groups in the rural areas.

Strategies for growth

It will be difficult for the Malaysian economy to achieve the growth rates registered during the 1970s, or as targetted in the OPP, given the constraints on resource availability. A strategy of moderate growth will be pursued in the next five years. In order to sustain long-term growth with stability, such a strategy will be pursued without sacrificing non-economic considerations as well. In view of the uncertain growth prospects of the international economy, the rapid expansion of domestic activities is required to give the impetus to growth. Increased efforts will be placed on raising productivity, improving resource mobilization, and increasing efficiency in resource utilization within the country.

In the Fifth Plan, various strategies will be adopted to foster industrial development and enable the private sector to perform its role as the generator of growth. In addition, stress will be placed on the efficient management of the economy, giving greater emphasis to consolidation and concentration on development efforts, increased productivity, and greater competitiveness. In view of the resource constraints, concerted efforts will be made towards attaining greater mobilization of available resources and harnessing them in the most efficient and productive manner. The agriculture sector, which accounted for about 36 per cent of the total employed and has a large number of poor households, will be revitalized so that it can raise farm earnings and be a productive source of employment. With respect to the manufacturing sector, constraints and bottlenecks which impede the growth of manufacturing activities will be reduced in order to increase efficiency and competitiveness. The construction sector will continue to expand with the programme to build an additional 80,000 low-cost housing units annually during the period 1986-88. Human resource development will focus on skill training, while urbanization will be promoted as a means of modernizing the population and increasing spatial efficiency.

Increased role of the private sector. The private sector has been identified to provide the leading role and dynamism in the economy, given the resource constraints encountered by the public sector. The private sector is best placed to develop new ventures and improve technology and skills to meet the challenges of wealth creation. It is with the growth of industry that domestic value added can be raised, the number of better paid jobs multiplied, and new export opportunities created. The public sector will continue to consolidate its expenditure consistent with its financial resources, while at the same time providing the necessary support and environment for the healthy growth of the economy.

In the Fifth Plan, steps will be considered to streamline the complex laws, regulations, and controls in order to provide a conducive environment for business activities. Rules and regulations which tend to restrain the growth of the private sector will be phased out. Some rules under the Industrial Co-ordination Act (ICA), 1975 have been amended to make it more flexible and simpler to administer and more responsive to changes that have occurred in the business environment. Greater emphasis will be placed on the market mechanism and price signals as a means of more effective decision-making on resource allocation. Fiscal incentives will continue to be formulated with a view to encouraging healthy competition and efficiency.

Steps will continue to be taken to gradually reduce the size and role of the public sector as well as to ensure greater consolidation and efficiency in the management of Government departments and public enterprises. With the privatization policy, the private sector will be encouraged to participate more broadly in the economic life of the country. Certain Government services, which can be provided more

efficiently by the private sector, will be earmarked for privatization in order to promote domestic competition and increase productivity. Privatization is also expected to open up new opportunities for Malaysian entrepreneurs, particularly Bumiputera, within the context of the NEP. The Government will further enhance the implementation of the Malaysia Incorporated concept as a policy for private and public sector joint co-operation for the development of the country through the continued provision of a supportive environment and climate.

Although Malaysia has promoted the development of export-oriented manufacturing industries, many of them are still dependent on the domestic market. There are various factors to explain the lack of export drive among Malaysian manufacturers. These include the inability to reap scale economies, lack of market intelligence, deficiencies of quality and design, problems with export credit financing, low returns from exporting, and inability to compete in foreign markets. The Government has taken steps to overcome some of these factors, but others will have to be attended to by the industrialists themselves in order to become more aggressive in the export drive.

The economy is entering another phase of industrialization that will place new demands on capital, technology, skills, and global marketing capabilities. Greater foreign management and expertise will also be required to meet these demands. The bigger role envisaged for the private sector assumes a high rate of capital inflow. In this direction, foreign private investment in the country will be encouraged through a more liberal treatment of such ventures and the removal of existing constraints on private investment. There will be flexibility with regard to foreign equity participation in export-oriented industries.

In the manufacturing sector, private sector participation will be encouraged to develop resource-based industries and selective heavy industries, and to diversify and upgrade other industries. Private sector investment in the agriculture sector will be focussed on crop plantation as well as production of food crops, deep sea fishing, and aquaculture. Joint ventures between local private sector and international companies, trading houses, and related facilities for countertrade will be encouraged.

Efficient management of the economy. Increased emphasis will be made on the efficient management of the public agencies. A critical review of public sector expenditure will be undertaken to reorder priorities in public sector projects with a view to improving the financial position of the sector. There will be broad policy measures with a view to encouraging efficiency, faster rate of industrial investment and development of new subsectors, and increased growth of manufactured exports. Better quality of investments will be emphasized to reduce wastage, while poorer quality of investments will be discontinued. In certain

instances, the activities of these agencies will be consolidated or privatized for more efficient operations.

Efficiency gains tend to accumulate slowly and its achievement is, therefore, a long-term target. One way of pursuing this policy is the removal of price distortions in markets for goods, capital, and labour by lowering tariffs, introducing a degree of uniformity into the level of protection, and deregulating administrative controls. Additionally, efficiency gains can also be realized through measures including organizational changes, improved marketing, and management of labour. The benefits accruing from these actions may be expected to extend over a long period. Public enterprises will need to streamline their activities and adopt innovative approaches so that their organizational goals can be met without depending on the Government for financial backup.

Domestic resource mobilization. Resources for growth come from two main sources, namely, domestic savings and borrowings. Overall, public and private sector savings have been declining in the 1980s. With the lower saving capacity of private companies and households, there has been continuing dependence on the injection of overseas capital into the economy. The decline in tax buoyancy has affected public revenue which is required to meet the increasing current expenditure. If resources for investment are going to be sustained, it is important to increase domestic savings in order to be able to achieve the growth target without incurring further debt obligation.

The mobilization of domestic resources is, therefore, vital in the Fifth Plan. One way to mobilize resources is by increasing the velocity of the transaction of assets such as the rapid sale of unutilized land or other assets for productive purposes. The use of these proceeds for investment will generate new economic activities. Better saving habits will be encouraged, *inter alia*, through increasing the reward and security of savings. In addition, Malaysians will be encouraged to develop better consumption behaviour and buy local rather than imported products. With regard to the public sector, greater management efficiency as well as the generation and collection of revenue will be stressed.

Revitalization of the agriculture sector. The National Agricultural Policy (NAP), introduced in 1984, will guide the revitalization of the agriculture sector in the country. This will be achieved through efficient utilization of resources in order to contribute to the economic growth of the country. Steps will be taken in the Fifth Plan to allow more flexibility in the use of agricultural land in order to promote greater private sector investment in agriculture. The private sector is encouraged to boost local food production, thereby reducing the substantial outflow of foreign exchange in payment for imported food items. In this regard, tax incentives for agriculture have been improved in order to remedy the shortcomings in the present tax structure of incentives for the agriculture sector. The 1986

Budget, among other things, extended the pioneer status incentive to cover all activities encouraged under the NAP. In addition, an export allowance of 5 per cent was granted on the export value of certain agricultural products with a view to encouraging the diversification of agricultural exports. The large-scale cultivation of *padi* in the granary areas, using modern techniques and managed by trained professional management teams, will be encouraged. All other current *padi* land not used for rice production will be gradually phased out and used for the production of other more remunerative crops. Conversion of ex-mining land for agricultural use will also be implemented, wherever feasible, in order to enable retrenched mine workers to find alternative sources of employment and income.

The cultivation of rubber and oil palm will be directed towards increasing the efficiency of production under existing areas. This will be effected through the adoption of improved technology, including labour saving techniques. The private sector will be encouraged to participate as a partner in new land development with the Government. Alongside efforts in new land development, *in-situ* development will be emphasized, with greater attention given to land problems which had constrained the dynamism of the sector, such as the problems of uneconomic farm size, unremunerative crops, and low productivity. Programmes to overcome these problems include the consolidation of land and the promotion of organized farming with centralized management. Farmers will be encouraged to cultivate crops offering highest economic returns. In addition, support services and programmes that lead to highest returns will be emphasized.

In consonance with the need to encourage private sector participation, the Government will adopt a positive approach as regards the role of middlemen in development. The public agencies established to market farm produce in the past will be reviewed in order to be responsive to the needs of the farmers. These agencies will have to increase their efficiency in the marketing and distribution of agricultural produce.

Stimulating industrial development. The manufacturing sector has been earmarked to provide the growth impetus during the second half of the decade. In view of the paramount importance that this sector be able to increase its efficiency and competitiveness, the Government has taken steps to formulate new policies and make amendments to existing ones, as proposed in the Industrial Master Plan (IMP) and the Industrial Policy Studies, as well as to improve and streamline related administrative procedures. These steps will be taken so that the constraints and bottlenecks that impede growth of manufacturing activities can be reduced as much as possible. Some of the measures taken to stimulate both foreign and domestic economic activities include the liberalization of equity guidelines for foreign investors; the establishment of the New Investments Fund to finance new productive capacity in the manufacturing, agriculture, and tourism sectors; the reduction of electricity, international telephone, and telex rates to businesses; and the provision of incentives to businesses using local raw materials as inputs.

The overall protection in industry will be reduced to a reasonable level to increase industrial efficiency, while various existing incentives will be restructured and consolidated. The current imbalances in the provision of incentives for the import substituting and exporting activities will be adjusted in order to make them more attractive for export-oriented industries. Active promotion and marketing of exports will be pursued through a total package approach of marketing products overseas. Such efforts will be linked to tariff-related incentives and export refinancing facilities.

Attention will be directed to the acceleration of industrial growth in a few selected industries to tap the comparative advantage of the country. In addition, the economics of location will be given more importance in determining the siting of industries, especially the large and medium-sized export-oriented industries which require the agglomeration economies that large urban centres can offer. Small and light industries catering for the domestic market and utilizing agro-based inputs will be encouraged to locate themselves in the less developed regions. Industrial estates will also have to concentrate their efforts on a few industries with highest growth potentials.

Efforts will be made to launch Malaysia as a global marketer of manufactured products in international markets. In this regard, more joint ventures with foreign corporations will be undertaken and facilitated with a view to expediting access to technology and global marketing skills and network. There is also a need for Malaysians to learn and apply the new technology and ideas from foreign investors in such ventures. Funds will be made available for research and development, with emphasis on industrial research, as a means of improving the quality of manufactured products for both domestic and export markets. Malaysia will also establish new trade links and expand its overseas market, particularly with developing countries.

Fuller development of human resources. Increasing the productivity of local labour is an important strategy for development. In the case of some sectors, the past few years witnessed wages increasing at a faster pace relative to productivity gains. The continuation of this trend can erode the long-run competitiveness and comparative advantage of the country.

The planning and development of human resources will, therefore, become more important as it will have to ensure an adequate supply of suitably skilled manpower to meet the growing needs of the country. Greater emphasis will be placed on training of labour in order to equip them with skills required by the industry, rather than allowing the rapid expansion of academic education, especially at the tertiary level. A closer rapport between training institutions and the private sector is needed to increase the relevance and cost-effectiveness of the training programmes.

Greater involvement of the private sector in skill development will be required to reduce the training cost borne by the public sector and to ensure that the skill delivery system is consistent with market needs. Among the training areas to be given attention to meet the needs of a growing and modernizing economy is the development of managerial and entrepreneurial expertise in industry and agriculture as well as professional and technical expertise for construction, hotel, and shipping. Measures will be taken to assist in the intersectoral transfer of labour and to enhance the prestige of blue-collar *vis-a-vis* white-collar employment.

Greater emphasis on research and development. The role of science and technology as an important tool for development will be emphasized in the Fifth Plan in line with the efforts to increase overall productivity and develop a strong industrial base. The current uncertainties in the international economic environment as well as the need to improve the competitiveness of exports necessitate a greater role of research and development (R & D) in the industrialization and agricultural revitalization drive. In the Fifth Plan, high technology and strategic programmes that will expand the industrial capacity and enhance the technological capability of the country will be introduced. Efforts will also be made to foster and upgrade indigenous capacity and competence in scientific and technological innovations. In this regard, greater private sector involvement will be encouraged, through various tax and other incentives, to stimulate private sector R & D activities.

Improving spatial planning. In planning at the subnational level during the next five years, increased attention will be given to planning at a broader spatial unit, that is, at the regional rather than the state level. In the light of resource constraints, such an approach is useful in consolidating development efforts on a multistate basis which can lead to a reduction in overlapping investments and duplication of infrastructural projects. In addition, this approach can lead to a consolidation and concentration of efforts in developing industries and urban centres such that states within particular regions can benefit from the overall regional development efforts.

In the past, the lack of concentration of development efforts placed many industrial estates in the lagging regions in a less competitive position and at a disadvantage compared with the more established industrial centres along the west coast of Peninsular Malaysia. Efforts to stimulate industrial growth in lagging regions will, therefore, not only utilize an improved industrial package to be designed in the Fifth Plan, but also harness the economic forces which are conducive to growth of industries through the concentration of development in centres exhibiting greater potential for growth. In other parts of the country, the development of industrial corridors and urban centres, such as the Klang Valley, Kinta Valley, Georgetown-Butterworth conurbation, and the Johor Bahru

conurbation, will continue, in the effort to enable these locations to compete successfully with other industrial centres overseas for foreign investment.

Developing urban centres. Urbanization is an important means to bring about both industrialization and social change. It was adopted as a strategy to draw more Malaysians into the economic mainstream and to assist in modernizing the rural population. Growth centres in the regional development authority (RDA) areas were actively promoted, but as a result of the lack of concentration of efforts, resource constraints, and ambitious targets adhered to, these new townships are characterized by poor performance. The new guidelines adopted for the development of new townships in the RDA areas will give rise to more pragmatism in the development of these centres, which will follow natural rather than artificially-stimulated growth. In addition, the rural urbanization programme to be implemented on a nationwide scale will complement these township development and infuse new vigour into the rural areas.

In the case of larger settlement areas, existing urban centres will be selected and developed in order to enable them to strengthen the national network of urban centres of varying sizes and functions. The development of these selected centres will absorb the more productive urban-bound migrants within the region, thereby reducing the outflow of such labour to one or two cities in the more developed regions. Besides, in line with the growth strategy in the Fifth Plan, the concentration of urban development in selected centres with sizeable population gives rise to many economic advantages, such as agglomeration economies in transportation, infrastructure, supply of skills and expertise, and linkage with domestic as well as overseas markets.

Women in development. Women, who account for about one half of the population and constitute one third of the labour force, play an increasingly active role in the socio-economic development of the country, through their involvement in the mainstream of economic activities. They have and will continue to contribute towards developing a united and self-reliant society. Equal opportunities will continue to be given to women with respect to employment, education, and access to other social benefits. At the same time, the role of women in family development will continue to remain important in helping to build a united, just, stable, and progressive society through the inculcation of good and lasting values in their children.

V. REEMPHASIS ON VALUES FOR DEVELOPMENT.

The next few years will be difficult and challenging years for the nation. Given these challenges ahead, Malaysians will have to continue to adopt positive values and attitudes as well as reemphasize values that have been tested over time. These positive values and attitudes towards work and life will complement the overall efforts towards making Malaysia united, just, stable, and progressive.

Values crucial to national unity

The need to achieve national unity requires that Malaysians uphold national interests above ethnic and communal interests. Overconcern for sectional and parochial interests will be to the detriment of the long-term interest of the nation. The need to maintain stability should be of concern to all Malaysians, given the plural nature of Malaysian society. Malaysians need to keep their racial and religious differences to a minimum, and instead stress on the common elements which link all the communities. Values of moderation, tolerance, and appreciation of the sensitivities of each other will be crucial ingredients in the building of a united, just, stable, and progressive nation.

The process of nation building also requires of Malaysians to cultivate a sense of belonging and pride in the nation. This sense of nationalism, which is itself a basis for unity, is particularly crucial at this point of time when the nation is facing difficult times. Malaysians must increasingly become more self-reliant as eventually only they themselves can determine their future. It is, thus, imperative that Malaysians work together, with a sense of common purpose and national pride, to grapple with the problems and challenges ahead.

Work ethics

An essential ingredient that will contribute to higher productivity and increased economic growth is positive attitudes towards work, or work ethics. Hard work complements increases in capital investment, skills as well as managerial expertise in the process of wealth creation. Hard work is always associated with higher productivity, since resources are more fully utilized to increase output.

Work ethics also incorporates the values of thrift, self-reliance, discipline, and the sacrifice of present needs for long-term improvements in income and the standard of living. Thrift and the foregoing of current consumption result in increased individual savings, which, in turn, make available funds for investment both in the public as well as the private sectors, resulting in the further creation of wealth. Self-reliance and discipline mean that Malaysians increase their own output through hard work and enterprise rather than being dependent on the Government for continued assistance, subsidies, and protection. These values are especially crucial now, when the capacity of the economy for growth will continue to be constrained by international economic uncertainty as well as a tight domestic resource position.

Entrepreneurship

New opportunities will be opened up with the modernization of industry and as Malaysia looks outward to new ventures in international markets. The world market recognizes only those who are efficient and competitive. How the country copes with these new challenges will depend on the pioneering spirit of

Malaysians. Malaysian entrepreneurs need to look beyond the domestic market and be more venturesome in seeking overseas markets for their products. In this connection, there is a need for them to improve not only the quality but also the presentation of their products through proper branding, packaging, and marketing. The capacity for generating new ideas, the willingness to take risks, the need to be innovative, the spirit of competition as well as global market perspectives will be required.

Spiritual values

Harmony between the material and spiritual aspects of development needs to be stressed. Material development alone at the expense of the spiritual needs of man will be detrimental to the wellbeing of the Malaysian society. At the same time, religious extremism in any form cannot be tolerated at all. The universal values found in Islam, together with similar values in other faiths, are values that are necessary for maintaining and furthering stability in the country. Values of simplicity, moderation, justice, fairness, and respect for other faiths serve to strengthen the bonds among Malaysians. Other values like trustworthiness, responsibility, sincerity, diligence, dedication, discipline, and co-operation represent the keys towards enhancing peace and prosperity in the country.

All these positive and lasting values need to be continually emphasized and practised in the daily lives of all Malaysians. It is in recognition of this that the Government has taken the lead in inculcating the values of being clean, efficient, and trustworthy into Government administration with a view to raising the level of efficiency and productivity among civil servants at all levels. Readiness to utilize advancements in knowledge, particularly scientific knowledge, which is another aspect emphasized by Islam, is pertinent especially in the present stage of economic development.

Concern for the environment

Malaysians must also have a concern for the quality of the environment. Neglect of the ecological balance in the process of development and progress will result in a deterioration of the environment which, in turn, will affect adversely the overall quality of life. The conservation of the environment is not the sole responsibility of the Government alone. Malaysians themselves should also play a responsible part in maintaining the cleanliness and beauty of their surroundings, whether in their homes, work premises, or public places.

VI. CONCLUSION

Malaysia has achieved a substantial and commendable record of progress and development during the last fifteen years, despite the problems, constraints, and bottlenecks that arose in the course of development. The growth path of the Malaysian economy in the next few years will, however, be marked by uncertainty in the international economic environment and a tight resource position.

The path leading to national unity is steep and full of trials and challenges. Underlying the attainment of this goal is the need to sustain socio-economic development and promote growth of the Malaysian economy. The economic outlook for the next few years suggests that, unlike the boom years of the 1970s, the country will face considerable growth constraints. It is of utmost importance that special attention be accorded to the amelioration of structural weaknesses and the formulation of appropriate programmes and policy measures to stimulate growth.

The Fifth Plan has been formulated in the light of the social and economic progress achieved thus far, the shortcomings that have been experienced, and the challenges ahead. It is a Plan for the consolidation and efficient management of the economy and will emphasize on building upon what has already been achieved, while at the same time, strengthening further the economy within the constraints of available resources. Above all, efforts to reduce economic imbalances will be sustained. The Government will continue to redress imbalances, so long as they exist, in order to ensure the attainment of national unity and social justice.

Malaysians, on their part, will have to gear themselves to meet the challenges ahead in their efforts to build a united, just, stable, and progressive nation. This will demand a greater sense of dedication, discipline, sacrifice, and self-reliance on the part of all, to ensure that the long-term social and economic goals of the country will be achieved.