

**Chapter II**

**Macro-economic Performance,  
1981-85  
and Prospects, 1986-90**

## CHAPTER II

# Macro-economic Performance, 1981-85 and Prospects, 1986-90

### I. INTRODUCTION

The prolonged world economic recession, which began in 1979 and continued into the early 1980s, coupled with emerging domestic structural constraints, slowed down the Malaysian economy considerably during the Fourth Malaysia Plan period, 1981-85. The output and export performances were significantly affected by these developments, particularly those of agriculture and manufacturing. The private sector did not provide the growth stimulus anticipated when the Fourth Plan was formulated. In order to arrest the contractionary impact on the economy, the public sector undertook countercyclical measures during the early years of the Fourth Plan period. The continued world recession, however, led to emerging resource constraints and growing budgetary deficits, which compelled the Government to consolidate its spending since mid-1982. Slackening export growth together with rising public sector deficit led to widening imbalances in the external account, which were increasingly financed through foreign borrowings. This resulted in a rapid rise in the level of external debt and debt service obligations.

For the Fifth Malaysia Plan period, uncertainties on the growth prospects of the international economy will continue to prevail. In the light of this, the impetus of growth for the Malaysian economy will have to be generated from rapid expansion in domestic activities. While continued efforts will be undertaken by the public sector to further rectify its resource imbalances, greater focus will be placed on improving the mobilization of domestic resources as well as increasing productivity to ensure greater efficiency in the utilization of resources. Given the resource constraints in the public sector, the role of the private sector in providing the growth dynamism to the economy is crucial to ensure continued expansion of the economy during the Fifth Plan period.

## MACRO-ECONOMIC PERFORMANCE, 1981-85

### II. THE INTERNATIONAL ECONOMY

The recession, the longest since the 1930s, resulted in increased unemployment, reduced investment, restrained growth in international trade as well as widened external payments imbalances in the world economy. These adverse developments reflected the failure on the part of developed countries to improve the macro-economic fundamentals, particularly in raising their economic efficiency and labour productivity. The adherence to restrictive monetary policies in these countries sharply reduced the inflationary rate from the double digit level, which prevailed during the period 1979-81, to a stable level averaging 5.0 per cent per annum since 1982. These measures, however, failed to take into account the greater interdependence of countries and, together with rising protectionism, had further undermined the potential growth of the world economy.

The growth of the industrialized countries deteriorated sharply during the early 1980s, with the growth of the Gross National Product (GNP) of the Organization for Economic Co-operation and Development (OECD) countries declining from 2.3 per cent in 1981 to a negative growth of 0.8 per cent in 1982. The current account of the balance of payments of the OECD countries, except the United Kingdom, West Germany, and Japan, registered a large cumulative deficit of about US\$75,600 million during this period. Arising from large fiscal deficits, particularly in the United States and France, interest rates rose substantially, thus depressing investment. Subsequently, investment growth remained sluggish throughout the period. In the light of these adverse developments, unemployment rates of the OECD countries increased significantly from an average of 5.7 per cent in 1980 to 8.1 per cent in 1982, with rapid increases particularly in the United Kingdom and the United States.

The world economy began to recover since the end of 1983, mainly led by stronger growth in the economies of the United States and Japan. The recovery, however, showed signs of weaknesses in terms of gaining further momentum and wider impact on the world economy. The GNP of the United States, which accounted for about 44 per cent of output of the industrialized countries, increased by 2.9 per cent in 1983 compared with a decline of 3.0 per cent in 1982. The growth strengthened further in 1984 when the United States economy expanded by 6.8 per cent. This strong revival, initially stimulated by increases in consumer demand, shifted towards increases in fixed capital investment and stock building as well as sustained expansion in residential investment. Despite continuing high rates of interest, investment demand showed considerable buoyancy, due largely to fiscal incentives and the need to replace obsolete capital stock. Nevertheless, the growth momentum was not sustained in 1985 when stock building and residential investment slackened, while external demand registered slower growth in the face of the continuing appreciation of the United States dollar. Unemployment rates declined from a high level of 9.5 per cent in 1982 to

7.2 per cent in 1985. In spite of the overall improvement since 1983, the deficits in the Government account as well as in the current account of the balance of payments continued to rise to high levels.

In Japan, the growth of the economy was propelled by the rapid rise in exports and a revival of domestic demand. Japan experienced a similar pattern of growth as that of the United States during 1983 and 1984, but continued to sustain its growth momentum in 1985.

The pace of recovery of other developed countries, particularly in Europe, was much slower. The GNP growth of the European OECD countries grew relatively slower at 1.3 per cent in 1983 and 2.4 per cent in 1984, and declined to 2.2 per cent in 1985. Structural rigidities in the domestic economy, worsening unemployment situation, high interest rates as well as weaknesses in their currencies relative to the United States dollar, hampered the growth of the European economies. In addition, industrial strikes in 1984 in the United Kingdom and West Germany affected the growth in industrial production and disposable income.

The recession of the early 1980s worsened the economic conditions of developing countries. This arose from weak demand in industrialized countries for commodity exports as well as the emergence of liquidity crisis, as a result of rising interest rates and a slower inflow of capital investment. Despite the recovery in the industrialized countries since 1983, exogenous impulses to growth in many developing countries did not regain strength. This development, together with emerging domestic constraints, resulted in restrained growth of their economies during the first half of the 1980s.

Output growth in the developing economies was adversely affected by the prolonged recession of the industrialized countries in the early 1980s. On average, these economies expanded at a low rate of 3.0 per cent per annum during the period 1981-85. Accompanying this slower growth was the continued deterioration of their external trade and balance of payments positions. Their current account balance deteriorated from a surplus of US\$22,800 million in 1980 to a deficit of US\$49,400 million in 1985.

The recovery in world output since the end of 1983 as well as some easing of the balance of payments situation of developing countries assisted in bringing about some improvements in world trade. The improvement was accompanied by a marked rise in protectionist tendency which led to a significant deterioration in trade multilateralism. Rising unemployment rates in developed countries not only thwarted attempts to reduce, but had also intensified pressure for greater protectionism. This pressure was further intensified by the failure of some developed countries to undertake the necessary structural adjustments in certain industries which affected their competitiveness in the world market. The continuing drift of the world trade system towards protectionist restrictions eroded the

potential of world trade to provide the engine of growth for developing countries. Market uncertainties for their export industries affected the level of investment which consequently slowed down output growth.

Foreign indebtedness of developing countries and the attendant debt problems multiplied since 1980. Reduced capital flows and rising interest burden further weakened their efforts towards recovery. This resulted in foregone opportunities for higher growth and development. A number of factors contributed to the worsening of the debt position of these countries. The main factors were the decline in the flow of foreign direct investment and subsequently greater reliance on loans to finance investment, rising interest rates affecting loans which were increasingly pegged to floating rates, and the shift in capital flows from official sources to private banks which not only shortened significantly the maturity period of loans, but also carried higher costs of borrowing. The economic recovery of the industrialized countries since the end of 1983, together with the structural reforms initiated by many developing countries aimed at greater mobilization and efficient allocation of their resources, somewhat eased the liquidity pressures on developing countries. Their external debt, however, still remained high, reaching almost US\$900,000 million in 1984.

Within this overall development, however, there were considerable variations in the economic performance of developing countries. Generally, the non-oil producing countries performed better. Within this group, the Asian countries, particularly the middle-income exporters of manufactures, registered the highest growth rates. The expansion of the Latin American countries, however, was constrained by the deflationary policies adopted to contain inflation and rising balance of payments deficits. Output of the oil-exporting countries, as a whole, declined during the period, brought about primarily by lower oil production. The growth rate of the West Asian countries, however, was relatively higher, despite weaknesses in the oil sector, due to some easing of constraints on government expenditure.

The economies of the Association of Southeast Asian Nations (ASEAN), generally, registered relatively higher growth rates, averaging 5.0 per cent per annum during the period 1981-85. These countries had successfully reduced their external imbalances, following the effective implementation of their adjustment measures as well as the recovery of the industrialized countries since the end of 1983. Nevertheless, the persistent deficits in the government and external accounts continued to be significant areas of concern in most of these countries.

### **III. THE MALAYSIAN ECONOMY**

The Malaysian economy performed satisfactorily during the Fourth Plan period. The economy was able to grow at a creditable rate despite the downturn of the world economic environment, the structural problems that had emerged

within the domestic economy and the continued weakening of major commodity prices. This growth was attained in the face of growing resource constraints and the widening of the savings-investment gap, which, however, improved considerably during the latter part of the Fourth Plan period. The overall improvement in the economy was also achieved within an environment of greater price stability in the domestic economy. The near double digit inflation rates which prevailed at the onset of the Fourth Plan period was successfully contained, particularly during the second half of the period. The stabilization and structural adjustment measures undertaken by the Government since mid-1982, aimed at achieving greater stability as well as higher productivity and efficiency in the economy, enabled the country to strengthen its resilience and withstand the effects of a persistent global recession.

Overall, the Gross Domestic Product (GDP) grew at an average rate of 5.8 per cent per annum in real terms during the period 1981-85. In terms of current prices, the GDP grew by 7.9 per cent per annum, enabling the *per capita* income to rise by 4.4 per cent per annum from \$3,719 in 1980 to \$4,609 in 1985. This growth in real GDP is below the Fourth Plan target of 6.4 per cent per annum. Underlying this average rate of growth was a deceleration in the expansion of the economy from 7.9 per cent in 1980 to 5.6 per cent in 1982 and a slight recovery to 6.3 per cent in 1983, as shown in Table 2-1. Although the recovery gathered strength in 1984 when the economy expanded further by 7.6 per cent, the growth of the economy dipped to 2.8 per cent in 1985, mainly as a result of the decline in manufacturing and mining output.

#### **Sectoral output**

The growth of GDP during the Fourth Plan period was sustained by the expansion in the tertiary and secondary sectors. The primary sector did not provide the growth impetus on account of a lower performance of the agriculture and mining sectors. Significant structural changes in the composition of output occurred among and within sectors. The manufacturing sector became the largest sector in the economy in 1984, superceding the contribution from agriculture, which traditionally had been the largest sector. In 1985, however, its contribution to total output was lower than that of agriculture on account of the decline in its output, arising mainly from significant decline in electronics, iron and steel, and non-ferrous metal, non-metallic mineral and petroleum products. Within agriculture, the diversification policies of the Government since the 1960s to reduce the overdependence on rubber led to the rapid expansion in oil palm. Palm oil became the largest single commodity in agricultural output since 1981, exceeding the contribution from rubber which had been the largest commodity in the agricultural output. In the mining sector, the rapid expansion in petroleum further increased its contribution to the output of the sector from 65.1 per cent in 1980 to 78.2 per cent in 1985, while the decline in tin output reduced its contribution from 30.0 per cent to 13.3 per cent.

**TABLE 2-1**  
**MALAYSIA: GROSS DOMESTIC PRODUCT BY INDUSTRY OF**  
**ORIGIN<sup>1</sup>, 1980-85**  
**(\$ million in 1978 prices)**

Industry	Value (\$ million)					Average annual growth rate (%)						
	1980	1981	1982	1983	1985	1981	1982	1983	1984	1985	1981-85	Fourth Plan
Primary	14,676	14,973	15,992	16,639	18,052	2.0	6.8	4.0	6.2	2.2	4.2	4.8
Agriculture, forestry, livestock, and fishing	10,189	10,684	11,375	11,302	12,046	4.9	6.5	-0.6	2.8	3.6	3.4	4.2
Mining and quarrying	4,487	4,289	4,617	5,337	6,006	-4.4	7.6	15.6	13.3	-0.7	6.0	7.7
Secondary	10,998	11,710	12,292	13,355	14,405	6.5	5.0	8.6	10.0	-1.9	5.5	7.2
Manufacturing	8,932	9,343	9,694	10,488	11,357	4.6	3.8	8.2	11.6	-3.0	4.9	6.0
Construction	2,066	2,367	2,598	2,867	3,048	14.6	9.8	10.4	4.2	2.0	8.1	11.6
Tertiary	17,836	19,897	21,208	22,610	26,138	11.6	6.6	6.6	8.0	7.0	7.9	7.7
Electricity, gas, and water	640	689	721	798	988	7.7	4.6	10.7	11.5	11.0	9.1	9.0
Transport, storage, and communications	2,542	2,847	2,984	3,138	3,805	12.0	4.8	5.2	10.4	9.8	8.4	11.8
Wholesale and retail trade, hotels and restaurants	5,383	5,694	6,104	6,583	7,551	5.8	7.2	7.8	8.0	6.2	7.0	6.2
Finance, insurance, real estate, and business services	3,687	3,953	4,231	4,570	5,212	7.2	7.0	8.0	7.0	6.5	7.2	7.8
Government services	4,563	5,649	6,027	6,328	7,270	23.8	6.7	5.0	7.7	6.6	9.8	7.2
Other services	1,021	1,065	1,141	1,193	1,312	4.3	7.1	4.6	4.7	5.0	5.1	4.9
Less: Imputed bank service charges	854	877	1,152	1,397	1,675	-	-	-	-	-	-	-
Plus: Import duties	2,046	2,087	2,116	2,429	2,424	-	-	-	-	-	-	-
Gross Domestic Product at purchasers' value	44,702	47,790	50,456	53,636	59,344	6.9	5.6	6.3	7.6	2.8	5.8	6.4

Source: Department of Statistics, *Preliminary National Accounts Statistics of Malaysia, 1978-1984*, September, 1985.

Note: <sup>1</sup> Figures for 1985 are estimates.

*Primary sector.* The primary sector, comprising agriculture and mining and quarrying, grew at a rate of 4.2 per cent per annum compared with the Fourth Plan target of 4.8 per cent per annum. This sector, which accounted for 31.0 per cent of total output, contributed about one fifth of the growth of the economy during the period. The major impetus for the expansion in the sector originated from increases in the output of the mining sector, particularly in 1983 and 1984.

The output of the *agriculture sector* grew at a slower rate of 3.4 per cent per annum compared with the Fourth Plan target of 4.2 per cent per annum, mainly due to the declining production of rubber and slower growth of sawlogs. This increase contributed 12.7 per cent to the expansion in total GDP. With the relatively slower growth compared with the other sectors in the economy, its share in total output declined further from 22.8 per cent in 1980 to 20.3 per cent in 1985. The increase in the output of the sector was sustained largely by the output of palm oil, without which the sector would have expanded by only 1.4 per cent per annum. Palm oil production, which contributed 70.0 per cent of the increase in agricultural output, expanded by 9.9 per cent per annum from 2.6 million tonnes in 1980 to 4.1 million tonnes by 1985. Increased planted area, favourable export prices as well as improvement in the technique of pollination contributed to the expansion of output. Planted hectareage expanded by 7.4 per cent per annum and totalled about 1.5 million hectares at the end of the Fourth Plan period. Yield improvements were also registered during the period, with average yield increasing by 3.0 per cent per annum. With the rapid increase in production, the share of palm oil output in agriculture rose from 21.8 per cent in 1980 to 29.6 per cent in 1985.

The annual output of rubber declined marginally from 1,530,000 tonnes in 1980 to 1,450,000 tonnes in 1985 due to depressed prices resulting from weak world demand as well as the decline in estate hectareage. This resulted in the decline of its share in agricultural output from 23.4 per cent in 1980 to 18.7 per cent in 1985. In terms of hectareage, the total area under rubber declined by about 45,670 hectares during the period to 1,959,000 hectares in 1985. While the smallholding hectareage increased from 1,493,920 hectares in 1980 to 1,503,000 hectares in 1985, the estate sector registered an absolute decline. Estate hectareage stood at about 456,000 hectares in 1985, or about 54,750 hectares lower than in 1980. This decline was caused mainly by the conversion of areas into other crops.

Strong output growth in sawlogs during the early years of the Fourth Plan period was not sustained. Output, which expanded by 9.8 per cent in 1981, increased by only 2.1 per cent in 1985. The deceleration in output growth was brought about mainly by declining prices arising from weak external demand as well as the depletion of easily accessible forest areas. At the same time, the continued implementation of the National Forestry Policy to ensure the effective management and utilization of forest resources led to slower exploitation of forest areas, particularly in Peninsular Malaysia.



Production of other agricultural commodities, except *padi* and pepper, increased. The most significant was the rapid increase in the output of cocoa. In consonance with increases in hectarage, its output increased by 23.1 per cent per annum. *Padi* and pepper registered declines in output of 2.8 per cent per annum and 9.7 per cent per annum, respectively. The decline in output of *padi* was attributed to unfavourable weather conditions in 1983 and 1984 and aggravated by the continuing abandonment of *padi* areas as well as the migration of young rural labour force to the urban areas. Weak export prices for pepper in 1981 and 1982 contributed to the decline in output during the period.

The performance of the *mining and quarrying sector*, which expanded by 6.0 per cent per annum, was sustained by the growth of crude petroleum and liquefied natural gas (LNG). While the share of the sector in total output stagnated at about 10 per cent during the period, its expansion contributed 10.4 per cent of the increase in GDP. Crude oil production increased by 10.1 per cent per annum during the period. Production of LNG, which came onstream in 1983, more than doubled, increasing from about 1.8 million tonnes to 4.5 million tonnes in 1985. Output of tin, however, declined by almost 41 per cent from 61,400 tonnes in 1980 to 36,300 tonnes in 1985. The sharp reduction in output was not only due to depleting resources and rising cost of production, but also the quota imposed by the International Tin Council (ITC) in the light of weak external demand and the larger releases from the United States stockpile. The suspension of trading in the London Metal Exchange (LME) since 24th October, 1985, following the collapse of the buffer stock operation of the ITC, led to a severe cutback in production activities. The number of mines in operation fell by almost 72 per cent from 852 in 1980 to 235 at the end of 1985.

*Secondary sector.* The secondary sector, comprising manufacturing and construction activities, expanded by 5.5 per cent per annum and accounted for 23.3 per cent of output growth. The growth of the sector during the period was lower than the Fourth Plan target of 7.2 per cent per annum. The sector contributed 24.3 per cent of total output in the economy in 1985.

The *manufacturing sector* grew at a lower rate of 4.9 per cent per annum compared with the Fourth Plan target of 6.0 per cent per annum. Its share in total output decreased from 20.0 per cent in 1980 to 19.1 per cent in 1985 and contributed 16.6 per cent to the overall output expansion. Although the sector grew from 4.6 per cent in 1980 to 11.6 per cent in 1984, its output, for the first time since 1961, declined by 3.0 per cent in 1985. The slackening in the growth of the sector reflected its vulnerability to external demand. The performance of export-oriented industries, which accounted for 50 per cent of manufactured exports, were mixed. Output of electrical machinery registered rapid rates of growth during 1981-84, but declined sharply in 1985. In the case of textiles, output declined during the period, except in 1984. In contrast, the construction-related industries, catering mainly for the domestic market, registered buoyant growth in

response to strong expansion in construction activities during the early years of the Fourth Plan period. During the second half of the period, however, the growth of these industries was affected by the slowdown in public sector expenditure, particularly in infrastructure facilities as well as the glut in non-residential buildings.

The *construction sector* expanded at an average rate of 8.1 per cent per annum compared with the Fourth Plan target of 11.6 per cent per annum. Underlying this rate of growth was a sharp deceleration in the rate of expansion from 14.6 per cent in 1981 to 2.0 per cent in 1985. The strong growth during the first half of the Fourth Plan period was sustained mainly by the expansionary programmes of the public sector in the construction of physical infrastructure as well as the upsurge in private sector construction activities for office space and hotels. These expansionary programmes, however, tapered off with the rationalization of public development expenditure since 1983. The slowdown in the growth of the construction sector was also due to the sluggish performance of residential construction with demand weakening on account of higher prices, the glut in office space, tightness in credit availability, higher cost on mortgage loans, and partial freeze on housing loans for the public sector employees. Despite these developments, the construction sector remained as one of the fastest growing sectors in the economy during the period.

*Tertiary sector.* The tertiary sector as a whole grew at an average rate of 7.9 per cent per annum. The services subsectors of transport, storage, and communications; wholesale and retail trade, hotels and restaurants; and finance, insurance, real estate, and business services expanded at an average rate of 7.4 per cent per annum, in line with the expansion in the primary and secondary sectors. Government services expanded rapidly by 23.8 per cent in 1981 as a result of the *Isi Penuh* exercise, aimed at improving the implementation capacity of the public sector. The expansion decelerated sharply to 5.0 per cent in 1983 due to the austerity drive introduced by the Government in response to the growing financial constraints. Its growth, however, was slightly higher in 1984 and 1985. The increase in Government services in 1985 was due to the salary revision for employees within categories C and D of the Government service.

#### **Sources of growth**

During the period 1981-85, the expansion of the economy originated from two main sources. In 1981 and 1982, the growth of the economy was sustained by deliberate policies of the Government to expand public sector expenditure as a countercyclical measure to counteract the sluggish external sector performance and depressed private sector spending. In mid-1982, however, the Government reviewed its expenditure policy in the face of rising financial constraints. The external sector provided the growth stimulus during the period 1982-84. Its strong growth, however, was not sustained in 1985. Private sector spending remained sluggish during the Fourth Plan period. Although its performance registered significant improvement in 1984, it declined in 1985.

*Domestic demand.* Aggregate domestic demand in the economy, comprising consumption and investment of the private and public sectors, expanded by 4.6 per cent per annum in real terms. The performance of the private sector, however, fell short substantially of the Fourth Plan target. Private sector spending during the period grew by 3.2 per cent per annum compared with 6.7 per cent per annum of the Fourth Plan target. In contrast, public sector spending expanded by 7.8 per cent per annum compared with the target of 4.9 per cent per annum under the Fourth Plan. The GDP by expenditure category is shown in Table 2-2.

*Private consumption* expanded by 3.6 per cent per annum compared with the Fourth Plan target of 5.4 per cent per annum. The growth in private consumption was lower than the expansion in GNP of 4.9 per cent per annum. The slower growth, particularly in 1982, 1983, and 1985, was largely on account of the sluggish growth in export earnings during 1981 and 1982, and the substantial deceleration in the overall growth of the economy in 1985. In spite of the slower growth, *per capita* consumption in nominal terms rose by 5.4 per cent per annum, reflecting further improvement in the welfare of the population. The share of food, beverages, and tobacco was the largest in the household expenditure, accounting for about one third of the consumer expenditure. Almost one fifth of consumer expenditure was spent on rent, fuel, and power, while one sixth was spent on transport and communications.

*Private investment*, envisaged to grow by 10.7 per cent per annum during the Fourth Plan period, grew at a slower rate of 1.8 per cent per annum, resulting in the decline of private sector share in total investment from 62.6 per cent in 1980 to 50.4 per cent in 1985. Oil investment, which constituted 18.3 per cent of private investment, declined by 11.1 per cent per annum, while non-oil private investment grew at 4.4 per cent per annum. Apart from the sluggish growth of the world economy, the slower growth of private investment was also attributed to the rigidities in the implementation of industrial development strategies, the non-competitiveness of domestic industries as well as the lack of investment opportunities.

*Public consumption*, comprising expenditures on salaries and wages as well as supplies and services, rose by 4.1 per cent per annum compared with the Fourth Plan target of 5.5 per cent per annum. The expansion was due to the increase in recruitment of personnel in 1981, under the *Isi Penuh* exercise, aimed at improving the implementation capacity of the public sector. This resulted in the rise in expenditure on salaries and wages. Expenditure on supplies and services also expanded during the period.

*Public investment* grew at a rate of 12.5 per cent per annum during the period 1981-85 as a result of the countercyclical role involving a rapid expansion of the public sector in 1981 and 1982. Investment of the public sector rose by 41.5 per cent and 20.7 per cent in these years. With these rapid increases, the share of public

in total investment rose from 37.4 per cent in 1980 to a peak of 51.0 per cent in 1983. The rapid expansion in investment programmes imposed a financial strain on the public sector resource position, and the Government began to consolidate its investment programmes since 1983. Consequently, the growth of public sector investment was curtailed, resulting in a slowdown of public sector development expenditure. In 1984, the expenditure rose by only 0.7 per cent and declined by 15.5 per cent in 1985. With this reduction, the share of public in total investment declined to 49.6 per cent in 1985.

A significant feature in public investment during the period was the rapid expansion in investment outlays of the Non-Financial Public Enterprises (NFPEs)<sup>1</sup>. Their investment expanded by about 30 per cent per annum and accounted for 38 per cent of total public investment during the period.

*External demand.* The performance of the external sector was adversely affected by weak external demand and unfavourable commodity prices. During the period 1981-85, *exports of goods and non-factor services* in nominal terms grew at a rate of 6.9 per cent per annum compared with the Fourth Plan target of 9.5 per cent per annum. Gross commodity exports increased by 6.2 per cent per annum from \$28,172 million in 1980 to \$38,094 million in 1985, below the Fourth Plan target of 8.5 per cent per annum, as shown in Table 2-3. Underlying this growth was the strong recovery in commodity exports of 16.6 per cent in 1983 and 17.9 per cent in 1984 from a decline of 3.8 per cent in 1981 and an improvement in 1982. The strong growth in 1983 and 1984 was primarily on account of higher export volume of crude petroleum and electronics, arising from the recovery in external demand of the industrialized countries. Commodity exports registered a decline of 1.4 per cent in 1985.

Although the volume of agricultural commodity exports expanded by 4.4 per cent per annum, export receipts in current prices decreased by 0.2 per cent per annum as a result of lower export unit value, as shown in Table 2-4. Export earnings from rubber declined by 9.1 per cent per annum, as shown in Table 2-3 and consequently, its contribution to agricultural export receipts fell from 62.4 per cent in 1980 to 39.0 per cent in 1985. This was due to a decline in its unit value of 8.7 per cent per annum despite price support purchases by the International Natural Rubber Organization (INRO). Palm oil and cocoa contributed substantially to the increases in export receipts. The share of palm oil in agricultural export receipts increased from 34.0 per cent in 1980 to 53.7 per cent in 1985, while that of cocoa from 2.2 per cent to 5.4 per cent. With respect to pepper, although export prices recovered substantially since 1983, production responded only partially in 1985 as large hectareage under pepper, which were left unattended as a result of lower prices during the period 1981-82, took at least three years to mature after replanting.

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<sup>1</sup> The definition of NFPEs is found in paragraph 5 of Chapter VII.

TABLE 2-2

**MALAYSIA: GROSS DOMESTIC PRODUCT BY EXPENDITURE  
CATEGORY<sup>1</sup>, 1980-85**  
in current and 1978 prices (in parentheses)  
(\$ million)

Expenditure category	Average annual growth rate (%)					Fourth Plan		
	1980	1981	1982	1983	1984		1985	1981-85
Private consumption	26,946 (24,445)	30,594 (25,686)	33,226 (27,376)	35,998 (29,142)	39,594 (29,229)	39,832 (29,229)	8.1 (3.6)	11.6 (5.4)
Private investment	10,394 (8,725)	11,466 (9,086)	11,367 (8,879)	12,013 (9,397)	13,345 (10,394)	11,903 (9,555)	-0.9 (-2.3)	2.7 (10.7)
Public consumption	8,811 (7,750)	10,425 (8,784)	11,469 (9,552)	12,156 (9,989)	11,741 (9,500)	11,750 (9,488)	6.0 (-0.1)	7.8 (5.5)
Public investment <sup>2</sup>	6,203 (5,206)	9,293 (7,364)	11,378 (8,888)	12,521 (9,796)	12,046 (9,367)	11,700 (9,387)	10.0 (10.2)	-2.9 (-4.4)
Change in stocks	-150 (-129)	-394 (-310)	+709 (+504)	+829 (+497)	+1,267 (+790)	-307 (-265)	-	-
Exports of goods and non-factor services	30,676 (22,619)	30,154 (22,431)	31,846 (24,826)	36,389 (27,891)	43,280 (31,824)	42,881 (33,225)	5.6 (10.7)	14.3 (12.3)
Imports of goods and non-factor services	29,342 (23,914)	33,717 (25,251)	37,300 (28,724)	39,996 (31,310)	41,639 (33,311)	39,289 (31,275)	7.2 (9.0)	4.1 (6.4)
Gross Domestic Product at purchasers' value	53,538 (44,702)	57,821 (47,790)	62,695 (50,456)	69,910 (53,636)	79,634 (57,706)	78,470 (59,344)	8.0 (6.9)	11.5 (6.3)
Net factor payments	-1,918 (-1,562)	-2,011 (-1,427)	-2,889 (-2,136)	-4,411 (-3,434)	-5,318 (-4,191)	-5,692 (-4,463)	-	-
Gross National Product at purchasers' value	51,620 (43,140)	55,810 (46,363)	59,806 (48,320)	65,499 (50,202)	74,316 (53,515)	72,778 (54,881)	7.2 (4.2)	9.5 (3.9)
Per capita GNP at purchasers' value <sup>3</sup> (\$)	3,719 (3,108)	-	-	-	-	4,609 (3,475)	-	4.4 (2.3)

Source: As in Table 2-1.

Notes:

<sup>1</sup> Figures for 1985 are estimates.<sup>2</sup> Public sector includes Federal and State Governments and 40 Non-Financial Public Enterprises.<sup>3</sup> Using exchange rates of 2.2 for 1980 and 2.5 for 1985, the United States dollar equivalents are \$1,675 and \$1,844 in current prices for 1980 and 1985, respectively.

TABLE 2-3

## MALAYSIA: COMMODITY EXPORTS, 1980-85

Commodity	Average annual growth rate (%)						Fourth Plan 1981-85
	1980	1981	1982	1983	1984	1985	
<b>Crude petroleum</b>							
Volume ('000 tonnes)	11,226.9	10,143.2	11,973.9	14,224.0	16,497.4	17,025.0	8.3
Unit value (\$/tonne)	597.6	682.4	642.6	553.4	529.6	526.9	-2.5
Value (\$ million)	6,709.1	6,921.4	7,694.2	7,871.0	8,737.4	8,970.0	5.5
<b>Palm oil</b>							
Volume ('000 tonnes)	2,136.2	2,361.1	2,700.0	2,912.9	2,959.4	3,188.0	9.4
Unit value (\$/tonne)	1,177.5	1,154.2	983.7	1,022.0	1,531.1	1,237.0	-0.3
Value (\$ million)	2,515.3	2,725.2	2,656.1	2,976.9	4,531.1	3,944.0	9.0
<b>Rubber</b>							
Volume ('000 tonnes)	1,525.7	1,485.3	1,378.1	1,563.0	1,590.6	1,495.0	1.0
Unit value (cts./kg.)	302.7	250.0	192.7	234.4	230.8	191.6	-0.5
Value (\$ million)	4,618.0	3,713.1	2,655.1	3,663.6	3,671.5	2,864.0	0.4
<b>Sawlogs</b>							
Volume ('000 cu.m.)	15,117.0	15,866.1	19,270.0	18,657.9	16,877.6	18,781.0	2.7
Unit value (\$/cu.m.)	173.1	155.9	175.3	149.7	165.3	142.0	0.6
Value (\$ million)	2,616.2	2,472.8	3,378.2	2,792.2	2,790.0	2,667.0	3.3
<b>LNG</b>							
Volume ('000 tonnes)			1,830.0	3,700.0	4,500.0		-
Unit value (\$/tonne)			454.3	479.6	515.3		-
Value (\$ million)			831.3	1,774.7	2,319.0		-
<b>Tin</b>							
Volume ('000 tonnes)	69.5	66.4	48.6	57.1	39.6	54.5	-6.0
Unit value (\$/tonne)	36,049.0	32,182.0	30,543.0	30,070.0	29,351.0	29,240.0	-3.3
Value (\$ million)	2,505.3	2,138.1	1,483.9	1,718.2	1,162.3	1,595.0	-9.1

TABLE 2-3 — (cont.)

## MALAYSIA: COMMODITY EXPORTS, 1980-85 — (cont.)

Commodity	Average annual growth rate (%)					Fourth 1981-85 Plan							
	1980	1981	1982	1983	1984		1985						
<b>Sawn timber</b>													
Volume ('000 cu.m.)	2,999.9	2,691.3	2,942.1	3,288.8	2,700.4	2,577.0	-10.3	9.3	11.8	-17.9	-4.6	-3.0	1.5
Unit value (\$/cu.m.)	392.8	360.6	351.8	371.2	368.1	395.8	-8.2	-2.4	5.5	-0.8	7.5	0.2	1.6
Value (\$ million)	1,178.3	970.4	1,034.9	1,220.7	993.9	1,020.0	-17.6	6.6	18.0	-18.6	2.6	-2.8	3.1
<b>Cocoa</b>													
Volume ('000 kg.)	30,640.4	42,237.0	57,614.4	57,268.5	66,133.0	78,000.0	37.8	36.4	-0.6	15.5	17.9	20.5	20.7
Unit value (\$/kg.)	5.3	4.1	3.4	4.0	5.1	5.05	-22.6	-17.1	17.6	27.5	-1.0	-1.0	-3.2
Value (\$ million)	161.9	171.5	198.1	228.6	338.1	394.0	5.9	15.5	15.4	47.9	16.5	19.5	16.9
<b>Copper</b>													
Volume ('000 tonnes)	107.4	129.3	121.1	121.9	125.9	126.2	20.4	-6.3	0.7	3.3	0.2	3.3	2.2
Unit value (\$/tonne)	1,650.6	1,294.0	1,258.1	1,334.2	1,124.5	1,119.0	-21.6	-2.8	6.0	-15.7	-0.5	-7.5	-1.5
Value (\$ million)	177.3	167.3	152.3	162.6	141.6	141.0	-5.6	-9.0	6.8	-12.9	-0.4	-4.5	0.8
<b>Pepper</b>													
Volume ('000 tonnes)	31.7	28.9	25.2	23.5	16.6	18.6	-8.8	-12.8	-6.7	-29.4	12.0	-10.1	-2.5
Unit value (\$/tonne)	3,395.4	2,838.1	2,628.8	3,330.9	4,783.2	7,457.0	-16.4	-7.4	26.7	43.6	55.9	17.0	1.8
Value (\$ million)	107.7	81.9	66.3	78.3	79.4	139.0	-24.0	-19.0	18.1	1.4	75.1	5.2	-0.8
<b>Manufactures</b>													
Value (\$ million)	6,269.8	6,328.3	7,398.5	9,501.8	12,148.5	12,229.0	0.9	16.9	28.4	27.9	0.7	14.3	19.1
<b>Other commodity exports</b>													
Value (\$ million)	1,312.7	1,419.4	1,390.6	1,726.0	2,278.4	1,812.0	8.1	-2.0	24.1	32.0	-20.5	6.7	4.5
<b>Total gross commodity exports</b>													
Value (\$ million)	28,171.6	27,109.4	28,108.2	32,771.2	38,646.9	38,094.0	-3.8	3.7	16.6	17.9	-1.4	6.2	8.5

Source: Department of Statistics, Malaysia: Preliminary Figures of External Trade, 1980, 1981, 1982, 1983, and 1984.

**TABLE 2-4**  
**MALAYSIA: GROSS EXPORT INDEX BY SECTOR, 1980-85**  
(1980 = 100)

Sector	1980	1981	1982	1983	1984	1985	Average annual growth rate (%)	
							1981-85	Fourth Plan
<i>Agriculture<sup>1</sup></i>								
Volume index	100.0	104.1	108.6	118.9	121.4	124.0	4.4	4.6
Unit value index	100.0	86.8	69.4	78.9	95.9	79.9	-4.4	-0.5
Value index	100.0	90.4	75.3	93.8	116.4	99.2	-0.2	4.1
Share of total (%)	26.3	24.7	19.8	21.2	22.3	19.3	-	-
<i>Forestry<sup>2</sup></i>								
Volume index	100.0	99.4	116.7	118.4	103.7	110.2	2.0	2.4
Unit value index	100.0	91.3	99.6	89.3	96.1	88.1	-2.5	0.9
Value index	100.0	90.7	116.3	105.8	99.7	97.2	-0.6	3.3
Share of total (%)	13.5	12.7	15.7	12.2	9.8	9.7	-	-
<i>Mining<sup>3</sup></i>								
Volume index	100.0	93.0	91.6	108.1	109.2	120.8	3.9	5.0
Unit value index	100.0	105.6	108.5	96.1	97.9	94.4	-1.1	-2.7
Value index	100.0	98.2	99.3	103.8	106.9	114.0	2.7	2.3
Share of total (%)	33.3	34.0	33.2	29.8	26.0	28.1	-	-
<i>LNG</i>								
Value index (1983 = 100)	-	-	-	100.0	213.5	279.0	67.0*	-
Share of total (%)	-	-	-	2.5	4.6	6.1	-	-
<i>Manufactures</i>								
Value index	100.0	100.9	118.0	151.5	193.8	195.0	14.3	19.1
Share of total (%)	22.2	23.3	26.3	29.0	31.4	32.1	-	-
<i>Other exports</i>								
Value index	100.0	108.1	105.9	131.5	173.6	138.0	6.7	4.5
Share of total (%)	4.7	5.3	5.0	5.3	5.9	4.7	-	-
Gross exports								
Value index	100.0	96.2	99.8	116.3	137.2	135.2	6.2	8.5

Source: As in Table 2-3.

Notes:

<sup>1</sup> Comprises rubber, palm oil, pepper and cocoa.

<sup>2</sup> Comprises sawlogs and sawn timber.

<sup>3</sup> Comprises crude petroleum, tin and copper.

<sup>4</sup> Refers to growth rate for 1984-85.



Export earnings of forestry products declined by 0.6 per cent per annum due to the deterioration in unit value. The marginal increase of 2.0 per cent per annum in export volume reflected the slower exploitation of forest areas in line with the National Forestry Policy as well as weaker demand from consuming countries, arising from sluggish growth in their construction industry. There was also a shift in demand from Malaysia to alternative and cheaper sources of supply.

Although the volume of mineral exports increased, export earnings rose by only 2.7 per cent per annum due to declining export prices. Volume increase of mineral exports came from higher volume of crude petroleum. With the softening of the international petroleum price, however, the export unit value of crude petroleum declined. Nevertheless, petroleum export earnings increased by 6.0 per cent per annum and contributed 24.4 per cent of export receipts during the period due to higher export volume.

Export earnings from LNG, which came onstream in 1983, almost tripled, increasing from \$831 million to \$2,319 million in 1985. Its share in total export earnings more than doubled from 2.5 per cent in 1983 to 6.1 per cent in 1985.

Export earnings from tin fell substantially by 8.6 per cent per annum due to declining prices and volume. The poor performance of tin export was the result of oversupply, including stock, in the international market, the export quota imposed by ITC as well as the suspension of trading in LME.

Exports of manufactures grew by 14.3 per cent per annum, lower than the Fourth Plan target of 19.1 per cent per annum. Its rate of growth which accelerated from 0.9 per cent in 1981 to about 28 per cent in 1983 and 1984, declined to 0.7 per cent in 1985. The contribution of manufactures overtook that of agricultural export since 1982 and mineral exports since 1984. It, therefore, became the largest contributor to export earnings since 1984. The increase was attributed to increases in exports of electrical machinery, appliances, and parts, which constituted more than 54 per cent of the increase. Exports of transport equipment; petroleum products; textiles, clothing, and footwear; and chemical products also contributed to the growth of manufactured exports.

*Imports of goods and non-factor services* in nominal terms increased by 6.0 per cent per annum compared with 10.0 per cent per annum envisaged in the Fourth Plan. Underlying this increase was a declining trend in the growth rate from 14.9 per cent in 1981 to 4.1 per cent in 1984. In 1985, it experienced an absolute decline, which last occurred in 1975, registering a fall of 5.6 per cent per annum. The rapid growth during the period 1981-82 was mainly due to increases in the volume of imports, as shown in Table 2-5, particularly of capital goods such as machinery and transport equipment. Imports of capital goods, which accounted for about 31 per cent of total imports, rose by 20.3 per cent in 1982. This was associated with the high growth in public investment, particularly of the NFPEs. With the

rationalization of public sector investment since 1983, coupled with the continued weak performance of private investment, imports of capital goods began to slow down, expanding by 6.2 per cent per annum during the period. Intermediate goods, which accounted for 47.8 per cent of total imports, rose by 4.3 per cent per annum, particularly to meet the expansion in the electronics industry and its requirements for imported components for assembly. Imports of consumption goods increased by 8.6 per cent per annum and accounted for 19.8 per cent of total imports. The two largest components, food and consumer durables, registered the highest rates of growth of 9.4 per cent per annum and 8.6 per cent per annum, respectively.

### **Price development**

The beginning of the 1980s saw the advancement towards the lessening of inflationary pressures in the domestic economy, resulting from the improvements in the international inflationary situation and the continued and effective implementation of anti-inflationary measures. The latter included fiscal and monetary policies as well as administrative measures aimed at containing price increases in the domestic economy. The overall domestic price index, as measured by the aggregate price deflator for consumption and investment, rose by 2.8 per cent per annum during the Fourth Plan period. Its rate of increase decelerated from 6.9 per cent in 1981 to 2.2 per cent in 1984. In 1985, domestic price declined by 0.7 per cent.

The Consumer Price Index (CPI) increased by only 0.3 per cent in 1985 compared with an increase of 9.7 per cent in 1981, as shown in Table 2-6. While the CPI rose by 4.6 per cent per annum during the Fourth Plan period, some components of the index showed higher rates of increase. The prices of beverages and tobacco rose by 9.1 per cent per annum, while those of rent, fuel, and power as well as medical care and health increased by more than 6 per cent per annum. Although the price of food items increased by 4.2 per cent per annum during the Fourth Plan period, substantial price increases were registered during the first two years of the Fourth Plan period, particularly for sugar, milk and eggs, fish as well as fruits and vegetables.

Import prices increased by 0.5 per cent per annum during the period. The slow growth in import prices was attributed to marginal increases in the prices of exports of developed countries which accounted for a substantial proportion of total imports. Apart from this, the decline in the import price of crude petroleum also contributed to the slower increase in the overall import price. The price of investment goods, as indicated by the import price for capital goods, also exhibited a slow growth of 1.3 per cent per annum, while that of intermediate goods rose by 1.2 per cent per annum.

**TABLE 2-5**  
**MALAYSIA: GROSS IMPORTS BY ECONOMIC FUNCTION, 1980-85**  
(\$ million)

Goods	1980	1981	1982	1983	1984	1985	Average annual growth rate, 1981-85 (%)
Consumption goods	4,325.4	5,327.2	5,593.9	5,837.3	6,476.3	6,527.0	8.6
of which:							
Food (%)	27.2	30.0	31.1	29.6	29.2	28.2	-
Consumer durables (%)	22.9	20.2	19.8	20.9	24.7	23.0	-
Investment goods	7,030.3	7,512.7	9,038.0	9,810.2	10,770.9	9,481.0	6.2
of which:							
Machinery (%)	36.7	38.3	34.9	33.5	33.7	33.9	-
Metal Products (%)	25.1	23.0	22.9	21.2	19.5	19.2	-
Intermediate goods	11,689.2	13,389.3	13,966.5	14,672.5	15,302.9	14,457.0	4.3
of which:							
Manufacturing (%)	57.1	54.5	55.8	59.5	64.7	63.7	-
Petroleum (%)	26.7	28.8	26.5	23.7	18.2	19.9	-
Imports for re-export	406.1	374.6	424.6	475.2	375.8	275.0	-7.5
Total	23,451.0	26,603.8	29,023.0	30,795.2	32,925.9	30,740.0	5.6

Source: Department of Statistics.

**TABLE 2-6**  
**PENINSULAR MALAYSIA: CONSUMER PRICE INDEX, 1981-85**  
**(1980 = 100)**

Group	Weights <sup>1</sup>	Average annual growth rate (%)										
		1981	1982	1983	1984	1985	1981-85					
Food	36.2	111.4	120.6	121.7	126.2	122.9	11.4	8.3	0.9	3.7	-2.6	4.2
Beverages and tobacco	4.9	113.9	121.5	147.5	152.7	154.7	13.9	6.7	21.4	3.5	1.3	9.1
Clothings and footwear	4.6	109.5	114.1	118.6	121.6	122.9	9.5	4.2	3.9	2.5	1.1	4.2
Gross rent, fuel, and power	18.1	109.9	116.8	124.0	133.3	138.9	9.9	6.3	6.2	7.5	4.2	6.8
Furniture, furnishing, household equipment and operation	5.9	106.4	109.6	112.3	113.4	113.7	6.4	3.0	2.5	1.0	0.3	2.6
Medical care and health expenses	1.3	109.0	114.4	130.0	131.5	134.4	9.0	5.0	13.6	1.2	2.2	6.1
Transport and communications	16.6	107.9	111.5	114.2	119.9	122.5	7.9	3.3	2.4	5.0	2.2	4.1
Recreation, entertainment, education, and cultural services	6.9	105.5	108.1	107.4	104.6	103.1	5.5	2.5	-0.6	-2.6	-1.4	0.6
Miscellaneous goods and services	5.5	109.1	111.7	118.8	120.7	120.7	9.1	2.4	6.4	1.6	0.0	3.8
Total	100.0	109.7	116.1	120.4	125.1	125.5	9.7	5.8	3.7	3.9	0.3	4.6

Source: Department of Statistics, *Consumer Price Index for Peninsular Malaysia, 1981, 1982, 1983, and 1984*.

Notes:

<sup>1</sup> 1980 weights based on the Household Expenditure Survey, 1980.

<sup>2</sup> Estimated from January-November 1985 growth.

Export prices experienced a decline of 1.0 per cent per annum due to price declines for almost all major commodity exports. The export price of agricultural commodities declined by 4.4 per cent per annum, while that of minerals 1.1 per cent per annum. The decline was brought about mainly by depressed world demand and excess supply in the international market.

#### **Terms of trade**

The terms of trade, as shown in Table 2-7, declined by 1.4 per cent per annum as export prices fell by 1.0 per cent per annum and import prices increased by 0.5 per cent per annum. Although total output increased by 5.8 per cent per annum, when adjusted for the loss in terms of trade, GDP in real purchasing power increased at a lower rate of 5.1 per cent per annum.

#### **Savings and investment**

Gross national savings in nominal terms increased by 6.0 per cent per annum, reaching a cumulative total of \$88,991 million during the Fourth Plan period. In terms of its share in GNP, however, gross national savings declined from 30.9 per cent in 1980 to 29.3 per cent in 1985, as shown in Table 2-8. The declining share was brought about by a slower growth in private savings, arising mainly from lower export earnings due to unfavourable prices for exports during the period. Public sector savings, however, registered a strong growth of 14.2 per cent per annum corresponding to increases in revenue earned by the Federal Government and larger surpluses of NFPEs, mainly the National Oil Corporation (PETRONAS). With these developments, the share of public in total savings rose from 23.9 per cent in 1980 to 34.7 per cent in 1985, while that of the private sector fell from 76.1 per cent to 65.3 per cent, respectively.

The overall savings-investment gap, as a percentage of GNP, rose from 1.2 per cent in 1980 to 14.1 per cent in 1982. The large gap originated from the public sector. The savings-investment gap of the public sector increased from 4.6 per cent to 10.7 per cent during the same period. Rapid increases in public sector investment during the early years of the Fourth Plan period resulted in this large financing gap. The financing of this gap led to a greater recourse to foreign borrowings. The consolidation measures adopted by the public sector since 1983 had successfully reduced its savings-investment gap to 5.9 per cent in 1985. The private sector registered a savings-investment gap of \$544 million during the Fourth Plan period, despite the slower growth in its investment due to the marginal increase in private savings. The overall savings-investment gap, which amounted to \$28,041 million during the Fourth Plan period, was financed increasingly through external borrowings.

#### **Balance of payments**

The balance of payments position deteriorated during the early years of the Fourth Plan period. The current account recorded a deficit of \$620 million or 1.2

**TABLE 2-7**  
**MALAYSIA: INCOME EFFECT OF THE CHANGES IN TERMS OF TRADE<sup>1</sup>,**  
**1980-85**

<i>Item</i>	1980	1981	1982	1983	1984	1985	Average annual growth rate (%)	
							1981-85	Fourth Plan
Export price index (1978 = 100)	135.6	134.4	128.3	130.5	136.0	129.1	-1.0	1.2
Import price index (1978 = 100)	122.7	133.5	129.9	127.7	125.0	125.6	0.5	2.0
Terms of trade	110.5	100.7	98.8	102.2	108.8	102.8	-1.4	-0.8
Gross Domestic Product (\$ million)	44,702	47,790	50,456	53,636	57,706	59,344	5.8	6.4
in 1978 prices	47,084	47,946	50,146	54,241	60,506	60,260	5.1	6.1
in real purchasing power								

*Note:*

1 Derived from Table 2-2.

**TABLE 2-8**  
**MALAYSIA : RESOURCE BALANCE<sup>1</sup>, 1980-85**  
**(per cent of GNP)**

Sector	1980	1981	1982	1983	1984	1985	1981-85
Public sector							
Savings <sup>2</sup>	7.4	6.9	8.3	9.1	9.7	10.2	9.0
Investment	12.0	16.6	19.0	19.1	16.2	16.1	17.3
Resource gap	-4.6	-9.7	-10.7	-10.0	-6.5	-5.9	-8.3
Private sector							
Savings	23.5	20.2	15.7	16.1	19.4	19.1	18.1
Investment	20.1	20.6	19.0	18.3	18.0	16.3	18.3
Resource gap	3.4	-0.4	-3.3	-2.2	1.4	2.8	-0.2
Total							
Savings	30.9	27.1	24.0	25.2	29.1	29.3	27.1
Investment	32.1	37.2	38.0	37.4	34.2	32.4	35.6
Resource gap	-1.2	-10.1	-14.1	-12.2	-5.1	-3.1	-8.5

*Notes :*

<sup>1</sup>Derived from various tables of national accounts and public sector accounts.

<sup>2</sup>Current account surplus of the public sector consolidated account.

per cent of GNP in 1980, after registering substantial surpluses during the previous four years. The deficit continued to deteriorate further and reached an unprecedented level of \$8,409 million or 14.1 per cent of GNP in 1982. With the recovery in the merchandise account since 1983, however, the current account position improved substantially and resulted in a reduction of the deficit to \$2,230 million or 3.1 per cent of GNP in 1985. During the period, the cumulative current account deficit amounted to \$28,041 million, as shown in Table 2-9.

The poor performance of the export sector, compounded by continuing high rates of imports, resulted in the weakening of the traditionally strong merchandise account. These developments culminated in a deficit in the merchandise account for the first time in 1981, which widened substantially in 1982. In 1983, however, with the recovery in the external demand for export commodities, together with the slowdown in imports resulting mainly from the adjustment measures taken by the Government, the merchandise account showed signs of improvement. The recovery gathered momentum in 1984 with the surplus reaching a level of \$6,913 million. In 1985, the absolute decline in imports more than offset that of exports, resulting in a larger surplus of \$8,628 million. Overall, the merchandise account registered a cumulative surplus of \$14,633 million during the Fourth Plan period.

The traditional deficit in the services account continued to deteriorate during the Fourth Plan period. In 1985, the deficit almost doubled to \$10,728 million from \$5,813 million in 1980, giving a cumulative total of \$42,280 million during the period. Larger outflows in investment income, particularly for interest payments as well as higher payments for freight and insurance, accounted for the major portion of the deficit. Higher interest payments were due to large external borrowing incurred by both the public and private sectors, particularly during the first half of the Fourth Plan period, to finance investment expenditure. The rate of increase in net freight and insurance payments, although still remaining at a high level, was somewhat moderated with the expansion in the carrying capacity of the domestic shipping companies, particularly by the Malaysian International Shipping Corporation (MISC) and the Perbadanan Nasional Shipping Line (PNSL). MISC had an additional 13 vessels with a total capacity of 670,200 tonnes, mainly LNG tankers, bulk carriers, and container vessels. PNSL acquired seven vessels during the period with a carrying capacity of 98,800 tonnes, consisting of bulk carriers, tankers, and a passenger vessel.

With the large deficit in the current account, Malaysia continued to be a net capital importer. During the period, the cumulative net inflow of long-term capital amounted to \$34,811 million, of which \$20,311 million were official market loans, \$2,254 million official project loans, and \$13,111 million corporate investment. The large official market loans were partly to finance the rapid increase in the investment of the NFPEs. The net inflow of corporate investment declined during the period due to the tightening of the international capital market as well as the reduction in the inflows of available capital from developed to developing countries.



**TABLE 2-9**  
**MALAYSIA: BALANCE OF PAYMENTS, 1980-85**  
**(\$ million)**

Item							Cumulative	
	1980	1981	1982	1983	1984	1985	1981-85	Fourth Plan
Goods and services	-575	-5,555	-8,334	-8,005	-3,653	-2,100	-27,647	-29,354
Merchandise account	+ 5,238	- 243	-1,758	+ 1,093	+ 6,913	+ 8,628	+ 14,633	+ 9,890
Exports	28,013	26,900	27,946	31,853	38,452	37,905	163,056	-
Imports	22,775	27,143	29,704	30,760	31,539	29,277	148,423	-
Services account	-5,813	-5,312	-6,576	-9,098	-10,566	-10,728	-42,280	-39,244
of which:								
Freight and insurance	-1,781	-2,008	-2,154	2,132	-1,986	-1,753	-10,033	-
Investment income	-1,820	-1,836	-2,679	-4,208	-5,205	-5,692	-19,620	-
Transfers	-45	- 78	- 75	- 21	- 90	-130	-394	-310
Current account	-620	-5,633	-8,409	-8,026	-3,743	-2,230	-28,041	-29,664
Capital account	+ 1,622	+ 4,540	+ 7,795	+ 7,971	+ 4,055	+ 5,439	+ 29,800	-
Official	+ 180	+ 3,017	+ 5,169	+ 6,284	+ 4,364	+ 2,866	+ 21,700	-
of which:								
Federal government loans	+ 309	+ 2,909	+ 4,622	+ 3,768	+ 3,152	+ 1,074	+ 15,525	-
Loans for NFPEs	n.a.	+ 769	+ 736	+ 2,028	+ 2,007	+ 1,500	+ 7,040	-
Corporate investment	+ 2,033	+ 2,914	+ 3,263	+ 2,926	+ 2,138	+ 1,870	+ 13,111	-
Errors and omissions	-1,493	-1,488	-963	-976	-2,159	-300	-5,886	-
Overall balance	+ 1,002	-1,093	-614	-55	+ 312	+ 3,209	+ 1,759	-
Change in reserves, allocation of SDRs and drawing on IMF (increase -/decrease +)	-1,002	+ 1,093	+ 614	+ 55	-312	-3,209	-1,759	-

Source: Department of Statistics, *Balance of Payments Report, Malaysia 1980-1984*.

Note:

n.a. not available.

The substantial net inflow of long-term capital was able to offset the large current account deficit and net outflow of short-term capital. Consequently, the overall balance of payments position recorded a cumulative surplus of \$1,759 million which led to an accumulation of reserves. External reserves of the Central Bank amounted to \$12,457 million at the end of 1985, sufficient to finance 4.9 months of retained imports.

## **MACRO-ECONOMIC PROSPECTS, 1986-90**

### **IV. THE INTERNATIONAL ECONOMY**

The outlook for the international economic environment during the second half of the 1980s remains uncertain. It will depend primarily on the policies and strategies of developed countries during the transition period from the prolonged recession of recent years to that of resumed sustained growth in the medium term. Apart from this, the future course of the economies of developing countries will depend on the prospects for a rollback in protectionism to enable greater accessibility of their exports to the markets of industrialized countries. Improvements in the monetary policy of developed countries will not only enable greater capital flow, but also ease the terms of borrowings, particularly to the developing countries.

Current forecasts by international agencies on the medium-term outlook of the industrialized countries vary from a low scenario of 2.5 per cent per annum to a high of 4.3 per cent per annum. The low scenario assumes that there will be no new policy and strategy that will result in reduced budgetary deficits, unemployment, and interest rates. The high scenario depends on the success of industrialized economies to reduce their budget deficits, induce greater flexibility in their labour markets as well as liberalize their external trade.

Notwithstanding this uncertainty, the growth scenario of the Malaysian economy during the Fifth Plan period is set against a backdrop of a medium growth rate of about 3.0 to 3.5 per cent per annum for the industrialized countries. The growth of these economies is forecast to gain momentum towards the latter part of the Fifth Plan period from a slower growth anticipated during the first half of the Plan period.

The recovery of the world economy, particularly towards the second half of the Fifth Plan period, is expected to be accompanied by some improvements in the liberalization of protectionist practices, leading to further expansion of world trade. With the advent of international trade negotiations, under the auspices of the General Agreement on Tariffs and Trade (GATT), the prospects towards resolving several major trade issues will be brighter, in line with the basic objective of GATT to liberalize and expand world trade in the spirit of multilateralism.

A sustained growth of the world economy and a more stable world monetary system, together with the revival of world trade, will be conducive towards improving the world economic environment. In addition, the continued stabilization and adjustment policies of developing countries will facilitate further the easing of their debt servicing burden and external imbalances. Under these circumstances, greater possibility exists for the resumption of closer and better relationship between private creditor and debtor countries, which will lead to the expansion of capital flows.

#### V. THE MALAYSIAN ECONOMY

The prospects for growth of the Malaysian economy during the Fifth Plan period must be viewed in the light of the projected development in the international economy as well as the domestic adjustment policies and strategies to contain further the deficits in the Government and external accounts and the rising debt service obligations. In addition, the prospects will depend on the outcome of the development in tin and petroleum markets which presently remain uncertain. In view of these, the medium-term growth outlook of the Malaysian economy is anticipated to be somewhat slower than that achieved during the Fourth Plan period. Notwithstanding this, the Government will not spare any effort in its endeavour to ensure that growth can be sustained in the long term. Measures have been and will continue to be formulated to counter the adverse repercussions of the economic slowdown. A higher growth of the economy with greater utilization of resources will enable the attainment of the long-term objectives of generating greater employment opportunities, more equitable income distribution as well as national unity.

The growth of the Malaysian economy, projected at 5.0 per cent per annum during the Fifth Plan period, will have to be generated more from the rapid expansion of domestic activities. The expansion of these activities, coupled with a higher velocity of domestic transactions of assets, will stimulate the economy to further strengthen the creation of new wealth. In addition, the growth of the economy will emphasize on achieving greater efficiency and productivity, particularly through better utilization of existing facilities and improved technology. Apart from this, opportunities for greater integration and strengthening of linkages within the economy will be further exploited to contribute to higher economic growth.

Monetary policy will continue to aim at maintaining stability and promoting a sound financial structure in order to provide a conducive environment to support private sector activity and economic growth. Within these broad objectives, the Government will manage the domestic liquidity situation to ensure that money and credit expansion will support growth, consistent with the need to maintain continued price stability in the domestic economy and a viable balance of payments position in the long run. In credit creation, the Government will seek to

ensure that adequate resources are available at reasonable cost to finance productive projects of the private sector, while, at the same time, maintain interest rates at levels which will provide a fair and adequate return to savers.

The emphasis of fiscal policy will continue to focus on the management of the economy, particularly with respect to the need for the continued consolidation of public sector expenditure, constrained external borrowing, and improved debt management. Increasing emphasis will be placed on strengthening the growth of the private sector through measures to promote entrepreneurship, increase productivity, inculcate innovation, and encourage private sector initiatives to generate rapid expansion of the domestic economy.

The rapid and accelerated expansion of private investment at rates well surpassing its performance during the Fourth Plan period is a key factor underlying the growth prospects during the Fifth Plan period. Towards this end, the full resources and commitment of the private sector to exploit every available opportunity to expand and intensify its activities are crucial to generate the growth envisaged in the Fifth Plan. This is particularly important since the public sector will further consolidate its position with a view to gradually reducing its presence and role in the economy. In the face of resource constraints of the public sector, greater efforts will be made towards attaining greater mobilization and utilization of available resources with improvements in efficiency and productivity. Public sector expenditure will be constrained by the need to achieve long-term stability and prudence in the management of its finance.

#### **Sectoral output**

The growth of GDP during the period 1986-90 will be led by the expansion in the tertiary and secondary sectors. The manufacturing sector is projected to grow at a higher rate than in the previous Plan, while the construction sector at a lower rate. The expansion in the primary sector will be affected by the slower growth of the agriculture and mining sectors. The growth in the tertiary sector will originate primarily from the utilities subsector, while that of Government services will be substantially reduced in the light of the continued consolidation measures to be implemented by the public sector.

In terms of broad sectoral composition, the contribution of the secondary sector to total output will rise slightly from 24.3 per cent in 1985 to 25.8 per cent in 1990. The share of the primary sector is projected to fall from 30.4 per cent to 27.4 per cent during the same period, while that of the tertiary sector will increase from 44.0 per cent to 46.3 per cent. The growth and share of GDP by industry of origin are shown in Table 2-10 and Chart 2-1.

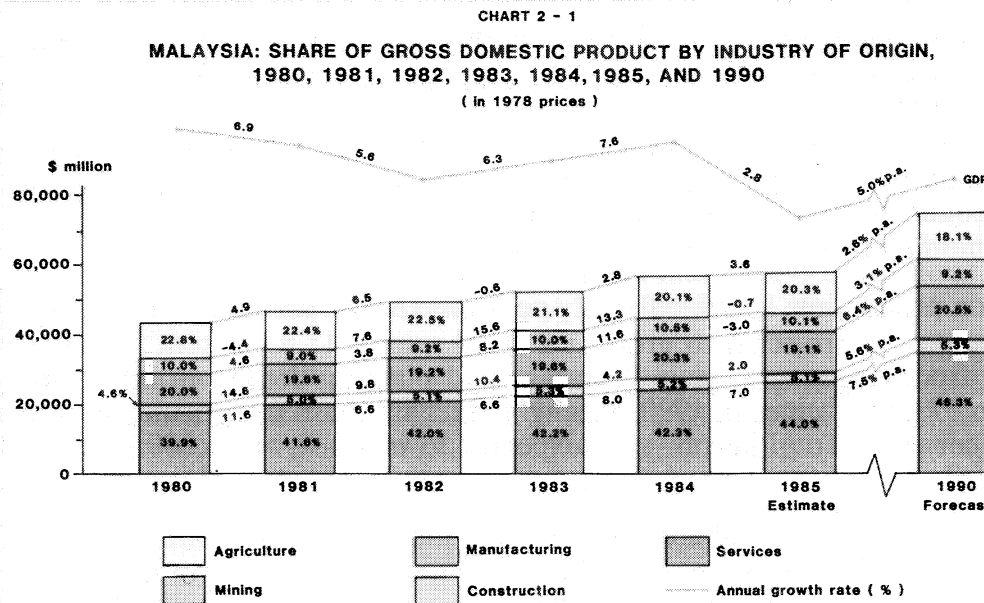
*Primary sector.* The *agriculture sector* currently accounts for 20.3 per cent of total output in the economy. Its output is dominated by the production of tree crops, namely, rubber and oil palm, which account for 48.3 per cent of the total

production in the sector. The current efforts to revitalize the sector as envisaged in the National Agricultural Policy (NAP) will emphasize on the maximization of farm income through raising the productivity of traditional export crops and development of new crops as well as the production of food and industrial crops. The focus will be on new land development, rehabilitation of idle land, and organized group farming, while institutional and human development will be given reorientation in terms of emphasis and content.

The efforts to revitalize the sector, however, constitute long-term measures which are expected to have their full impact on output only in the 1990s. Consequently, during the Fifth Plan period, the sector is projected to expand only at an annual growth of 2.6 per cent compared with 3.4 per cent during the Fourth Plan period. With this relatively slower growth compared with other sectors of the

**TABLE 2-10**  
**MALAYSIA: GROSS DOMESTIC PRODUCT BY INDUSTRY**  
**OF ORIGIN, 1985 AND 1990**  
**(\$ million in 1978 prices)**

Industry	1985	Share of GDP (%)	1990	Share of GDP (%)	Average annual growth rate(%)	
					1981-85	1986-90
Primary	18,052	30.4	20,702	27.4	4.2	2.8
Agriculture, forestry, livestock, and fishing	12,046	20.3	13,713	18.1	3.4	2.6
Mining and quarrying	6,006	10.1	6,989	9.2	6.0	3.1
Secondary	14,405	24.3	19,509	25.8	5.5	6.3
Manufacturing	11,357	19.1	15,509	20.5	4.9	6.4
Construction	3,048	5.1	4,000	5.3	8.1	5.6
Tertiary	26,138	44.0	34,982	46.3	7.9	6.0
Electricity, gas, and water	988	1.7	1,513	2.0	9.1	8.9
Transport, storage, and communications	3,805	6.4	5,494	7.3	8.4	7.6
Wholesale and retail trade, hotels and restaurants	7,551	12.7	10,252	13.6	7.0	6.3
Finance, insurance, real estate, and business services	5,212	8.8	7,230	9.6	7.2	6.8
Government services	7,270	12.3	8,842	11.7	9.8	4.0
Other services	1,312	2.2	1,651	2.2	5.1	4.7
Less: Imputed bank service charges	1,675	-	2,224	-	-	-
Plus: Import duties	2,424	-	2,630	-	-	-
Gross Domestic Product at purchasers' value	59,344	-	75,599	-	5.8	5.0



economy, its share in total output will decline to 18.1 per cent by 1990, further reducing its contribution to the increase in national output. This development is largely due to the slower growth anticipated for several major commodities, namely rubber and palm oil, and the expected decline in the output of sawlogs during the Plan period.

Production of rubber will increase marginally by 0.8 per cent per annum from 1,450,000 tonnes in 1985 to 1,511,000 tonnes in 1990, attributable mainly to improvements in yield. In terms of hectareage, the area under rubber in 1990 is expected to decline to 1,908,000 hectares from 1,959,000 hectares in 1985. The total smallholding hectareage is anticipated to increase by 34,000 hectares, largely through newplantings by organized smallholders, to reach about 1,537,000 hectares in 1990. The estate hectareage, however, is estimated to decline due to the continued conversion of estates mainly into oil palm. It is estimated that during the Fifth Plan period, about 95,000 hectares of rubber estates will be converted to oil palm and for other uses. Nevertheless, it is estimated that about 10,000 hectares will be newplanted with rubber in the estate sector.

Palm oil output is projected to expand by 6.7 per cent annum to reach 5.7 million tonnes in 1990 compared with 9.9 per cent per annum during the Fourth Plan period. This lower growth is on account of the slower planting rates during

the previous Plan period. During the Fifth Plan period, total hectareage under oil palm is projected to increase by 3.8 per cent per annum, rising from about 1.5 million hectares in 1985 to about 1.8 million hectares in 1990.

The output of sawlogs is projected to decline during the Plan period by 2.0 per cent per annum, from 31.3 million cubic metres in 1985 to 28.3 million cubic metres in 1990. The reduction is largely due to the need to ensure greater efficiency in the utilization of forest resources in the long term as well as the decline in the availability of easily accessible hectareage under forestry. Output from Sarawak will account for about 40 per cent of total production and Sabah 33 per cent, with the remaining from Peninsular Malaysia.

Cocoa production, which currently accounts for 4.7 per cent of total agricultural output, is projected to grow at a rapid rate of 11.5 per cent per annum, arising from large increases in hectareage and planting density in intercropped 1985 to 177,200 tonnes in 1990, raising further its share in agricultural output to 6.9 per cent. Total hectareage is expected to increase by 85,000 hectares.

The production of food crops will be promoted, consistent with the NAP. A greater drive towards import substitution in some specific areas of food production, such as fruits and vegetables, will be undertaken. The commercialization of such crops in suitable ex-mining land and in areas where agronomic and climatic conditions permit will enable the subsector to expand at a rate of 3.9 per cent per annum during the Plan period compared with a decline of 0.9 per cent per annum during the Fourth Plan period. In the case of *padi*, which currently accounts for 37.7 per cent of food crop output, its production is projected to expand by 2.0 per cent per annum, mainly through productivity increases from the granary areas. With regard to fisheries, further expansion in output is forecast in the light of greater emphasis given to deep-sea fishing as well as the development of aquaculture, including in abandoned mining pools where feasible.

The growth in the *mining and quarrying sector* is projected to decelerate from 6.0 per cent per annum during the Fourth Plan period to 3.1 per cent per annum during the Fifth Plan period. In spite of the slower growth, its share in total output is expected to remain stagnant at about 9 per cent of total GDP. While crude oil and LNG production are not anticipated to register significant increases as in the previous Plan period, they will continue to dominate the output of the sector, accounting for 85.8 per cent in 1990 compared with 81.7 per cent in 1985.

Crude oil production will increase by 3.9 per cent per annum during the Fifth Plan period. Output of LNG from the Bintulu plant will reach its maximum capacity of 6.1 million tonnes by 1987 compared with 4.5 million tonnes in 1985. Tin output, however, is expected to decline sharply by about 50 per cent in 1986, but to rise gradually to 28,000 tonnes by 1990 as the market adjusts to the current development in the tin crisis.

*Secondary sector.* The *manufacturing sector* is projected to grow at 6.4 per cent per annum during the Plan period, higher than the rate achieved during the Fourth Plan period of 4.9 per cent per annum. The sector is not projected to expand at a rapid rate of growth as in the 1970s in view of its existing large base in the overall national output. Its share in GDP will increase from 19.1 per cent in 1985 to 20.5 per cent in 1990. The sector will be the largest sector in the economy throughout the Fifth Plan period. The growth of the sector is expected to be generated from both the domestic and export-oriented industries. Among the industries which have been earmarked to provide the stimulus to growth are resource-based industries, such as rubber and non-metallic mineral, as well as the non-resource-based industries, such as electrical machinery, basic metal, transport equipment, non-electrical machinery, and fabricated metal.

The Government will implement measures to achieve greater efficiency and competitiveness of Malaysian manufactured products, particularly in the world market. These include policies with respect to tariff protection, fiscal incentives as well as financial facilities to enhance the capability of the country to become a world marketer for a few selected manufactured products. The private entrepreneurs, on their part, must strive harder to take on the risks and challenges of competing in the international market as well as intensify their efforts towards attaining greater efficiency and innovativeness with a view to exploiting and withstanding the changing trade opportunities and increasing market competitiveness. Greater efforts will have to be made towards better product promotion and marketing, with importance given to product quality, design, and packaging as well as market research and intelligence.

The growth of the *construction sector* during the Fifth Plan period will be significantly lower than that of the Fourth Plan period. The sector is projected to expand by 5.6 per cent per annum compared with 8.1 per cent per annum during the Fourth Plan period. In line with the slower expansion in public expenditure in infrastructural programmes, the past buoyant growth of the sector will not be sustained. Furthermore, private sector construction activities are expected to be rather sluggish in the face of the present position of excess office space as well as the saturation in hotel rooms. It is projected, however, that the accelerated expansion in low-cost housing, particularly by the private sector during the first three years of the Plan period, will contribute to the growth of the sector.

*Tertiary sector.* Value added in the tertiary sector is forecast to expand at a slower rate of 6.0 per cent per annum during the Plan period compared with 7.9 per cent per annum during the period 1981-85. Within the sector, however, the utilities, transport, trade, and finance subsectors are projected to expand at higher rates compared with the overall growth of the sector. Apart from providing the supportive services to the growing manufacturing sector, the provision of new and additional services in telecommunications and tourism as well as measures taken to improve further the services, such as finance and insurance, will enable these



subsectors to expand by 6.8 per cent per annum. The expansion of Government services, however, will decelerate significantly in consonance with the efforts of the Government to streamline and consolidate its resource position. In the light of these measures, the Government services subsector will grow at a slower rate of 4.0 per cent annum compared with 9.8 per cent per annum during Fourth Plan period.

#### Sources of growth

The principal thrust for the expansion of the economy during the Fifth Plan period will come from the rapid growth expected of private investment. The public sector, which provided the growth impetus during the early years of the Fourth Plan period, will continue to consolidate its expenditure compatible with its financial resources. The growth of imports will be reduced substantially, taking into account the lower public sector investment as well as the need to reduce the propensity to import, particularly for consumer items. The GDP by expenditure category and its share for 1985 and 1990 are shown in Table 2-11 and Chart 2-2.

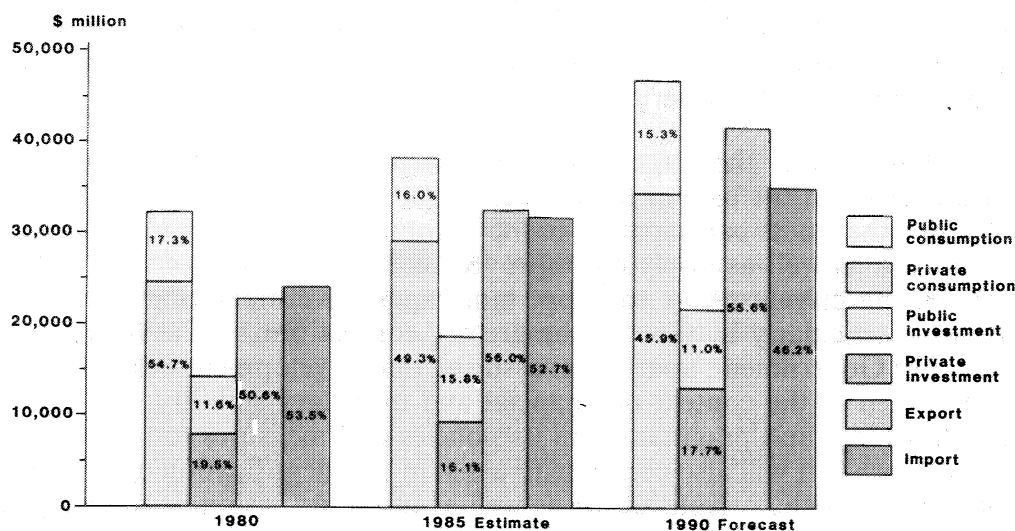
**TABLE 2-11**  
**MALAYSIA: GROSS DOMESTIC PRODUCT BY EXPENDITURE**  
**CATEGORY, 1985 AND 1990**  
**in current and 1978 prices (in parentheses)**  
**(\$ million)**

<i>Expenditure category</i>	1985	1990	<i>Average annual growth rate (%)</i>	
			1981-85	1986-90
Private consumption	39,832 (29,229)	51,320 (34,703)	8.1 (3.6)	5.2 (3.5)
Private investment	11,903 (9,555)	18,009 (13,396)	2.7 (1.8)	8.6 (7.0)
Public consumption	11,750 (9,488)	15,274 (11,586)	5.9 (4.1)	5.4 (4.1)
Public investment	11,700 (9,387)	11,467 (8,325)	13.5 (12.5)	-0.4 (-1.0)
Change in stocks	-307 (-265)	+ 628 (+ 478)	—	—
Exports of goods and non-factor services	42,881 (33,225)	50,252 (42,005)	6.9 (8.0)	3.2 (4.8)
Imports of goods and non-factor services	39,289 (31,275)	47,115 (34,894)	6.0 (5.5)	3.7 (2.2)
Gross Domestic Product at purchasers' value	78,470 (59,344)	99,835 (75,599)	7.9 (5.8)	5.9 (5.0)
Net factor payments	-5,692 (-4,463)	-7,115 (-5,233)	-	-
Gross National Product at purchasers' value	72,778 (54,881)	92,720 (70,366)	7.1 (4.9)	5.0 (5.1)

CHART 2 - 2

MALAYSIA: SHARE OF GROSS DOMESTIC PRODUCT BY EXPENDITURE CATEGORY,  
1980, 1985, AND 1990

( in 1978 prices )



*Domestic demand.* Total investment, which is projected to expand by 4.5 per cent per annum in nominal terms, will entail total investment of \$133,035 million during the Fifth Plan period compared with \$117,032 million during the Fourth Plan period. The public sector will continue to consolidate its expenditure to rectify further its resource imbalances. As a consequence, public investment in real terms will decline by 1.0 per cent per annum. Consequently, its share in total investment will decline from 49.6 per cent in 1985 to 38.9 per cent in 1990.

The reduced investible resources available to the public sector and the large contractual obligations that will be brought forward into the Fifth Plan period, arising from programmes and projects already committed in the previous Plan, will necessitate increasing emphasis to be placed on improving efficiency and productivity of existing facilities as well as the greater mobilization and utilization of available resources in the most efficient and productive manner. The rationalization and consolidation of existing infrastructural facilities, such as ports, airports, and highways, will be undertaken to generate their optimal utilization. With regard to new programmes and projects, the quality of investment will be emphasized to ensure that those implemented will have high returns, less import requirements, and shorter gestation periods as well as generate greater employment opportunities.

In the light of the decline in public sector investment, the attainment of the overall investment target will have to be spearheaded by the rapid and accelerated growth of the private sector. Of the cumulative investment anticipated during the Fifth Plan period, 55.2 per cent will be met by the private sector compared with 51.3 per cent during the Fourth Plan period. This implies an investment expansion of 8.6 per cent per annum in nominal or 7.0 per cent per annum in real terms compared with 2.7 per cent per annum or 1.8 per cent per annum, respectively, during the Fourth Plan period. The cumulative private investment during the Fifth Plan period represents an increase of 22.1 per cent over that registered during the previous Plan period.

The attainment of the target calls for greater initiatives and willingness to undertake risks on the part of the private sector and to seize every opportunity which will enhance its participation in the economy, particularly in undertaking new ventures as well as applying improved technology and skills. It will also necessitate the private sector to adopt more aggressive marketing policies and strategies, particularly in view of the greater competition in the international market. The Government, apart from assuring that development will continue to be undertaken in the context of financial and monetary stability, will exercise greater flexibility and pragmatism in its policies and measures to foster private sector enterprise. It will also continue to assist in the identification of investment opportunities for the private sector as well as in the provision of the necessary supporting services in order to enable the private sector to become the growth locomotive for the economy.

*Private consumption* is forecast to expand by 5.2 per cent per annum in nominal terms during the Fifth Plan period compared with 8.1 per cent per annum during the Fourth Plan period. The slower growth in private consumption takes into account the need to increase propensity to save, and thereby providing greater funds which could be utilized for development purposes. In spite of the slower growth in consumption, *per capita* private consumption in nominal terms will rise by 2.6 per cent per annum on account of a slower population growth of 2.5 per cent per annum. The increase in *per capita* private consumption will further improve the welfare of the population.

The growth in *Public consumption* will be lower, growing by 5.4 per cent per annum during the Plan period compared with 5.9 per cent per annum during the Fourth Plan period. The slower growth is in line with the consolidation efforts undertaken by the Government as well as the improved management of public sector expenditure.

*External demand.* Earnings from merchandise exports in nominal terms during the Fifth Plan period will expand by 2.1 per cent per annum compared with 6.2 per cent per annum during the Fourth Plan period. With this slower growth in merchandise exports, the share of *exports of goods and non-factor services* in GNP

will decline from 58.9 per cent in 1985 to 54.2 per cent in 1990. Improvements to exports will come from increases in the export of manufactures, as shown in Table 2-12. Manufacturing exports will continue to expand significantly by 7.3 per cent per annum and will contribute 41.1 per cent to total export earnings in 1990 compared with 32.1 per cent in 1985. The leading subsectors will be rubber products, electrical and non-electrical machinery, and basic metal products. Export receipts from palm oil will continue to increase on account of higher export volume. Its contribution to total export earnings will increase from 10.4 per cent to 11.5 per cent during the Fifth Plan period.

The exports of agriculture commodities are projected to expand at a relatively higher rate of 3.6 per cent per annum during the Fifth Plan period compared with a decline of 0.2 per cent per annum during the previous Plan period, as shown in Table 2-13. Apart from the overall improvements in their prices, the increase is expected to originate from significant volume increases in palm oil and cocoa. Palm oil exports are projected to expand by 4.2 per cent per annum, while that of cocoa, 15.8 per cent per annum. The share of commodities in gross exports is shown in Chart 2-3.

While export earnings from crude petroleum and LNG will continue to be significant, their contribution to total export earnings is projected to decline from 29.6 per cent in 1985 to 23.3 per cent in 1990. Exports of crude petroleum will decline by 3.2 per cent per annum compared with a growth of 6.0 per cent per annum during the Fourth Plan period, on account of declining prices anticipated during the Fifth Plan period. As a result, receipts from crude petroleum are expected to contribute 18.0 per cent to total exports in 1990 compared with 23.5 per cent in 1985. Exports of LNG are not expected to increase significantly, reaching a maximum level of 6.1 million tonnes in 1987, while those of tin are projected to decline by 13.7 per cent per annum. On the whole, earnings from mineral exports, including LNG, will decline by 3.7 per cent per annum.

The slowdown in domestic consumption as well as the reduction in public sector investment will assist in reducing the pressure for higher import requirements of the economy during the Fifth Plan period. The rapid expansion in private sector investment, however, will to some extent increase imports, particularly for capital goods. On balance, total *imports of goods and non-factor services* are projected to expand at a slower rate of 2.2 per cent per annum in real terms during the Fifth Plan period compared with 5.5 per cent per annum during the Fourth Plan period. In nominal terms, imports are projected to increase by 3.7 per cent per annum during the Fifth Plan period compared with 6.0 per cent per annum during the Fourth Plan period. The import elasticity will decline on the average to 0.7 from 0.9 during the corresponding periods.

#### **Price development**

Through the concerted efforts of the Government, the country had been successful in containing inflationary pressures during the previous Plan period.

TABLE 2-12

## MALAYSIA: COMMODITY EXPORTS, 1985 AND 1990

Commodity	1985	1990	Average annual growth rate (%)	
			1981-85	1986-90
Crude petroleum				
Value (\$ million)	8,970	7,613	6.0	-3.2
Palm oil				
Volume ('000 tonnes)	3,188	4,845	8.3	8.7
Unit value (\$/tonne)	1,237	1,000	1.0	-4.2
Value (\$ million)	3,944	4,845	9.4	4.2
Rubber				
Volume ('000 tonnes)	1,495	1,465	-0.4	-0.4
Unit value (cts./kg.)	191.6	200	-8.7	0.9
Value (\$ million)	2,864	2,930	-9.1	0.5
Sawlogs				
Volume ('000 cu.m.)	18,781	15,158	4.4	-4.2
Unit value (\$/cu.m.)	142	150	-3.9	1.1
Value (\$ million)	2,667	2,274	0.4	-3.1
LNG				
Volume ('000 tonnes)	4,500	6,890	-	8.9
Unit value (\$/tonne)	515.3	327.7	-	-8.7
Value (\$ million)	2,319	2,258	-	-0.5
Tin				
Volume ('000 tonnes)	54.5	30.5	-4.7	-11.0
Unit value (\$/tonne)	29,240	25,000	-4.1	-3.1
Value (\$ million)	1,595	763	-8.6	-13.7
Sawn timber				
Volume ('000 cu.m.)	2,577	2,482	-3.0	-0.7
Unit value (\$/cu.m.)	395.8	390.0	0.2	-0.3
Value (\$ million)	1,020	968	-2.8	-1.0
Cocoa				
Volume ('000 kg.)	78,000	141,800	20.5	12.7
Unit value (\$/kg.)	5.05	5.8	-1.0	2.8
Value (\$ million)	394	822	19.5	15.8
Copper				
Volume ('000 tonnes)	126.2	125.0	3.3	-0.2
Unit value (\$/tonne)	1,119	1,250	-7.5	2.2
Value (\$ million)	141	156	-4.5	2.0
Pepper				
Volume ('000 tonnes)	18.6	24.5	-10.1	5.7
Unit value (\$/tonne)	7,457	7,000	17.0	-1.3
Value (\$ million)	139	172	5.2	4.4
Manufactures				
Value (\$ million)	12,229	17,365	14.3	7.3
Other commodity exports				
Value (\$ million)	1,812	2,114	6.7	3.1
Total gross commodity exports				
Value (\$ million)	38,094	42,280	6.2	2.1

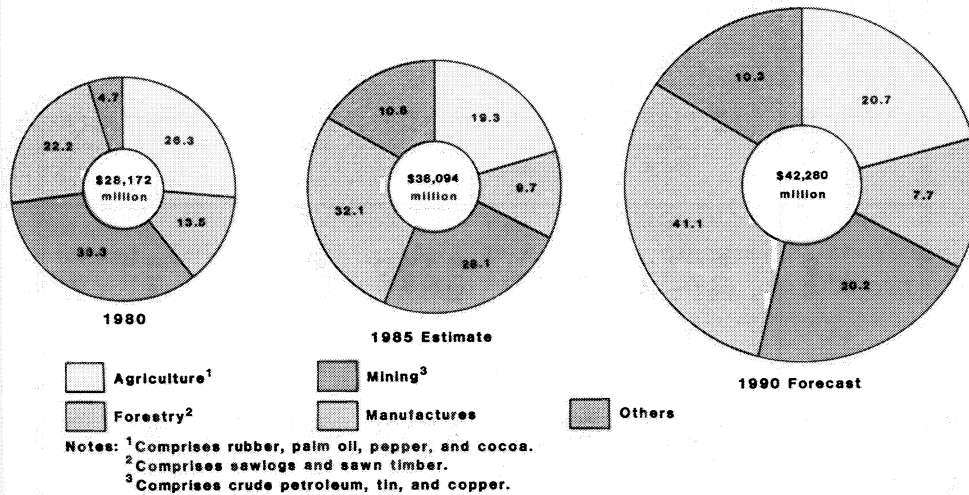
TABLE 2-13

MALAYSIA: GROSS EXPORT INDEX BY SECTOR, 1985 AND 1990  
(1980 = 100)

Sector	1985		1990		Average annual growth rate (%)	
	1985	1990	1981-85	1986-90	1981-85	1986-90
<b>Agriculture</b>						
Volume index	124.0	163.0	4.4	5.6		
Unit value index	79.9	72.7	-4.4	-1.9		
Value index	99.2	118.4	-0.2	3.6		
Share of total (%)	19.3	20.7	-	-		
<b>Forestry</b>						
Volume index	110.2	93.9	2.0	-3.2		
Unit value index	88.1	91.0	-2.5	0.6		
Value index	97.2	85.4	-0.6	-2.6		
Share of total (%)	9.7	7.7	-	-		
<b>Mining</b>						
Volume index	120.8	123.8	3.9	0.5		
Unit value index	94.4	73.4	-1.1	-4.9		
Value index	114.0	90.8	2.7	-4.4		
Share of total (%)	28.1	20.2	-	-		
<b>LNG</b>						
Value index (1983=100)	279.0	271.6	67.0	-0.5		
Share of total (%)	6.1	5.3	-	-		
<b>Manufactures</b>						
Value index	195.0	277.0	14.3	7.3		
Share of total (%)	32.1	41.1	-	-		
<b>Other exports</b>						
Value index	138.0	161.0	6.7	3.1		
Share of total (%)	4.7	5.0	-	-		
<b>Gross exports</b>						
Value index	135.2	150.1	6.2	2.1		

Notes:  
As in Table 2-4.

CHART 2-3  
**MALAYSIA: SHARE OF GROSS EXPORTS BY SECTOR, 1980, 1985, AND 1990**  
 ( % )



Notwithstanding this, the outcome of the domestic price level during the Fifth Plan period, as in the past, will continue to be influenced by movements in the international price trends, particularly those of the OECD countries. These countries accounted for 52 per cent of exports and 64 per cent of imports of Malaysia in 1985. The international inflation rate is forecast at 3.5 per cent per annum during the period compared with 7.7 per cent during the Fourth Plan period.

Consistent with the international inflationary trend, the overall domestic price index, as measured by the aggregate price deflator for consumption and investment, is projected to rise by 1.6 per cent per annum during the Fifth Plan period. The CPI, anticipated to increase by 1.7 per cent per annum, will continue to be monitored with a view to containing its increases for a more orderly development of the economy. The import price index is projected to increase by 1.5 per cent per annum compared with 0.5 per cent per annum during the Fourth Plan period, in line with the forecast of international price increases. The export price index is expected to deteriorate further by 1.5 per cent per annum during the Fifth Plan period. The deterioration is on account of lower prices projected for crude petroleum, palm oil, LNG, tin, sawn timber, and pepper.

### Terms of trade

The terms of trade is projected to decline further during the Fifth Plan period, as shown in Table 2-14. With export prices declining by 1.5 per cent per annum and import prices increasing by 1.5 per cent per annum during the period, the terms of trade will deteriorate by 2.9 per cent per annum. Consequently, the real purchasing power is projected to increase a rate of 3.3 per cent per annum, lower than the growth in GDP of 5.0 per cent per annum.

### Savings and investment

The projected savings-investment gap for the public and private sectors is shown in Table 2-15 and Chart 2-4. After taking into account the growth in public revenue and current expenditure as well as the growth in private disposable income and consumption, gross national savings is projected to total \$106,839 million during the period. In relation to GNP, gross national savings is projected to decline from 29.3 per cent in 1985 to 27.4 per cent in 1990. Private sector savings is projected to increase from 19.1 per cent to 21.2 per cent. This takes into account the need to reduce the growth in private consumption and increase the propensity to save. Public sector savings, however, is expected to decline from 10.2 per cent to 6.2 per cent during the period, as a result of a slower rate of revenue increase, arising primarily from the reduction in income tax rates and lower prices anticipated for petroleum and tin. With national investment amounting to \$133,055 million, the overall resource gap for the period is estimated at \$26,216 million compared with \$28,041 million during the Fourth Plan period.

TABLE 2-14

MALAYSIA: INCOME EFFECT OF THE CHANGES  
IN TERMS OF TRADE<sup>1</sup>, 1985 AND 1990

Item	1985	1990	Average annual growth rate (%)	
			1981-85	1986-90
Export price index (1978 = 100)	129.1	119.6	-1.0	-1.5
Import price index (1978 = 100)	125.6	135.0	0.5	1.5
Terms of trade	102.8	88.6	-1.4	-2.9
Gross Domestic Product (\$ million)				
in 1978 prices	59,344	75,599	5.8	5.0
in real purchasing power	60,260	70,818	5.1	3.3

Note:

<sup>1</sup>Derived from Table 2-11.



TABLE 2-15

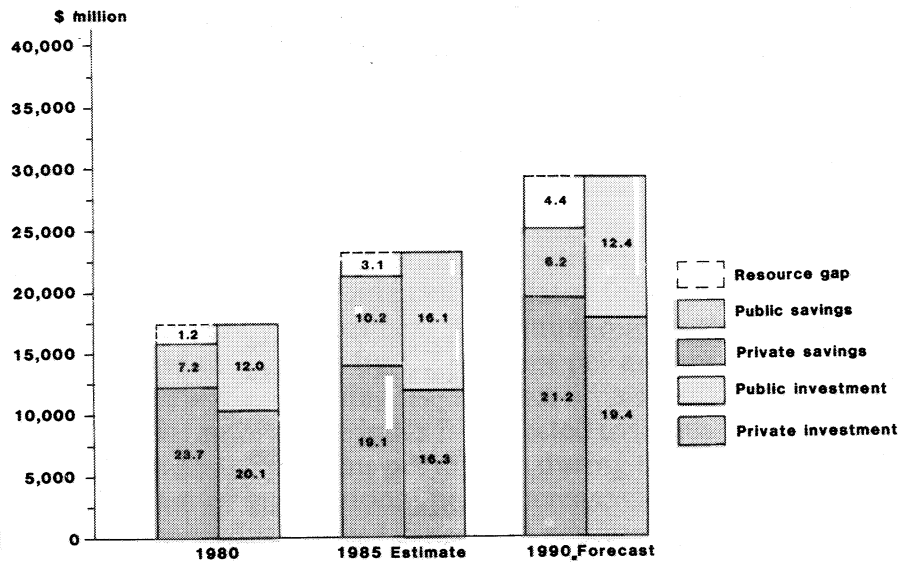
MALAYSIA: RESOURCE BALANCE, 1985 AND 1990  
(per cent of GNP)

Sector	1985	1990	1981-85	1986-90
Public sector				
Savings	10.2	6.2	9.0	5.9
Investment	16.1	12.4	17.3	15.0
Resource gap	-5.9	-6.2	-8.3	-9.1
Private sector				
Savings	19.1	21.2	18.1	20.9
Investment	16.3	19.4	18.3	18.4
Resource gap	2.8	1.8	-0.2	2.5
Total				
Savings	29.3	27.4	27.1	26.8
Investment	32.4	31.8	35.6	33.4
Resource gap	-3.1	-4.4	-8.5	-6.6

Notes:

As in Table 2-8.

CHART 2 - 4  
MALAYSIA: RESOURCE BALANCE, 1980, 1985, AND 1990  
(% of GNP)



Public sector resource imbalances will account for the savings-investment gap. In spite of the reduction in public sector investment, its savings-investment gap is projected to remain large on account of the declining tax buoyancy as well as the reduction in the operating surpluses of the NFPEs. Since the amount of new borrowings on the scale of the early 1980s will not be desirable from the point of maintaining the national debt service ratio within the margin of acceptability, the large resource gap in the economy is projected to be met by larger inflow of corporate investment. Part of the resource gap will also be financed from project borrowing, while concerted efforts will be made to ease the reliance on market borrowing which carries high borrowing costs.

#### Balance of payments

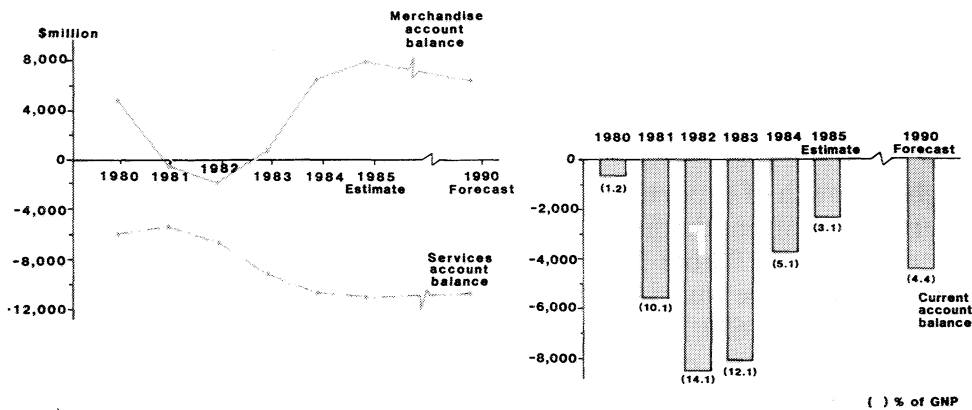
A higher growth of exports compared with restrained expansion in imports will contribute to the strengthening of the merchandise account during the Fifth Plan period, as shown in Table 2-16 and Chart 2-5. The merchandise balance will register a cumulative surplus of \$26,423 million during the period 1986-90, compared with \$14,633 million during the Fourth Plan period. The services account, however, will continue to be in deficit throughout the Plan period, registering a deficit of \$10,527 million in 1990 compared with \$10,728 million in 1985. Net factor income payments, namely, interests, dividends and profits, will account for a large proportion of the deficit, constituting 67.6 per cent of the services deficit in 1990 compared with 53.1 per cent in 1985. While it is the objective of the Government to restrain new borrowings during the period, debt service obligations will still account for 70.5 per cent of total factor payments, on account of greater loans previously incurred. Although net payments for freight and insurance will continue to be sizeable, it is not expected to widen considerably during the period in view of the measures being undertaken to reduce payments for invisibles.

TABLE 2-16  
MALAYSIA: BALANCE OF PAYMENTS, 1985 AND 1990  
(\$ million)

Item	1985	1990	Cumulative, 1986-90
Goods and services	-2,100	-3,978	-25,566
Merchandise account	+ 8,628	+ 6,549	+ 26,423
Exports	37,905	42,069	185,742
Imports	29,277	35,520	159,319
Services account	-10,728	-10,527	-51,989
of which:			
Freight and insurance	-1,753	-1,942	-8,737
Net investment income	-5,692	-7,115	-33,285
Transfers	-130	-130	-650
Current account	-2,230	-4,108	-26,216

CHART 2 - 5

MALAYSIA: BALANCE OF PAYMENTS CURRENT ACCOUNT,  
1980-85 AND 1990



Taken together, the surplus in the merchandise account will be more than offset by the large net payments in the services account. For the Plan period, the current account balance will register a cumulative deficit of \$26,216 million compared with \$28,041 million during the Fourth Plan period. In relation to GNP, however, the deficit will rise from 3.1 per cent in 1985 to 4.4 per cent in 1990.

In order to finance this resource gap, greater reliance will be placed on the inflows of foreign investment. A larger inflow of foreign investment is in line with the target set for an accelerated growth of private sector investment. In this regard, the Government will seek to ensure favourable investment climate in order to attract greater inflow of foreign investment. Greater flexibility and pragmatism will also be given with regard to foreign direct investment in the country.

Net foreign borrowing will be substantially reduced from the high level incurred during the Fourth Plan period. This is to ensure that debt service obligations, on both existing and new loan commitments, will not result in the debt service ratio to exceed the manageable limit of the ability of the country to borrow. While market borrowings will continue to be substantial, the Government will endeavour to seek greater amount to be raised from long-term project loans. At the same time, the Government will ensure that the basket of currency for market loans is diversified to reap the benefits of movements in currencies of the principal lenders of the country.

## VI. CONCLUSION

The growth of the Malaysian economy during the Fourth Plan period was satisfactory, despite the adverse development in the world economy, the structural constraints that emerged within the domestic economy as well as the inability of the private sector to provide the growth dynamism as originally anticipated. The stabilization and adjustment measures adopted by the Government had brought the economy towards a more stable and sustainable growth path, and enabled the economy to achieve a creditable rate of growth of 5.8 per cent per annum.

The prospects for growth during the Fifth Plan period will have to take into account the changing development in the world economic environment as well as the structural constraints and weaknesses still existing in the domestic economy. Much more, therefore, needs to be done to ensure that the stability and sustainability of the overall growth of the economy can be maintained over the long term. Towards this end, a fuller support as well as greater determination of every Malaysian is required to share with the Government in its efforts at implementing effective adjustment programmes. The private sector has to respond positively to its role as the engine of growth to enable the economy to achieve sustained expansion over the long term.