

Part One

Decade of Development Under the New Economic Policy, 1971-80

also increased rapidly in order to achieve the NEP objective's of poverty eradication and restructuring society.

7. A prime objective of growth is to increase the consumption possibilities offered to the people. While by no means a perfect indicator of welfare, the real *per capita* consumption increased from \$856 in 1970 to \$1,445 in 1980, a rate of increase of 5.4% per annum. The share of public consumption also rose substantially, reflecting deliberate Government efforts to ensure that such public goods as education and health services are widely available.

8. The increase in GDP enabled the Government to ensure that redistribution took place in an environment where all would benefit. Without such growth, efforts at redistribution would require some to forego their absolute levels of welfare in order to allow those who were initially less well-off to make real gains. In addition, rapid economic growth would enable the mobilization of the substantial resources required for the attainment of the NEP objectives.

9. Rapid growth, moreover, carries with it the promise of structural change, the creation of a modern economy, and the generation of employment opportunities in productive activities. During the past decade, the share of the agriculture sector in total GDP declined while the share of the modern sector activities, such as manufacturing and construction, increased rapidly. As a consequence, not only did unemployment decline to 5.3% in 1980, a considerable drop from the level of 7.8% experienced in 1970, but the share of employment in the modern sectors also increased. Despite the fact that unemployment and underemployment continue to exist, there is growing evidence of a tightening in the supply of labour for certain industries. The provision of gainful employment has been the most powerful poverty eradication tool. Those who are unemployed or underemployed are not only likely to be poor but also ill-equipped to participate in the economic life of the nation. The rapid progress which was achieved in ameliorating the problem of unemployment reflected the success of a major thrust of the national development effort.

Poverty eradication

10. The NEP objective of poverty eradication called for a pattern of development which would permit increased participation and involvement of the disadvantaged in the economic activity. A major poverty eradication strategy has been in land development and *in situ* agriculture apart from the absorption of the rapidly growing rural labour force into higher income jobs in the industrial and services sector. In addition, programmes were implemented to help specific target groups: rubber smallholders, *padi* farmers, coconut smallholders, estate workers, fishermen, mixed farmers, and

residents of New Villages. The availability of replanting grants, the provision of increased and subsidised inputs to various agricultural activities, and the use of special agencies to assist in the marketing of produce and in obtaining access to inputs, together with measures to stimulate growth in the poorer states have all helped the rural poor. The urban poor also benefitted from the provision of public facilities and amenities which contributed to an improvement in the quality of life in urban areas. Low-cost housing projects and programmes to assist urban petty traders in the acquisition of stalls and equipment were also undertaken.

11. The combined effect of the deliberate poverty eradication policies and programmes, the rapid growth of the economy and the favourable world prices for Malaysia's major export commodities led to a decline in the incidence of poverty from 49.3% in 1970 to 29.2% in 1980. Despite the substantial progress made, poverty remains a problem. This is because of the high incidence of poverty that existed at the start of the decade. The rapid progress that was made during the decade strengthens the confidence of the Government in achieving the poverty eradication targets enunciated in the OPP.

Income inequality

12. The presence of poverty, the inability to find meaningful employment and imbalances in the ownership of assets were reflected in the distribution of income. In 1970, not only were the lowest income groups getting disproportionately less of the total income than the upper income groups, but that the average income of the Malays and other indigenous people was also substantially below that of the Chinese and the Indians. Poverty existed in all racial groups, but the largest proportion of the poor was concentrated among the Malays and other indigenous people. During the first decade of the NEP period, the mean incomes of all racial groups increased. All income groups also benefitted from the policies pursued during the past decade.

13. In terms of income distribution among the ethnic groups, the Malay mean income continued to be below the national average. However, the Malay mean income grew at the highest rate compared with those of other ethnic groups during 1971-79, reducing the gap between the Malay mean income and the national average from 34.8% in 1970 to 32.7% in 1979. Both the Chinese and Indian mean incomes were above the national average, but the proportion of their mean incomes to the national average declined during the period. Despite improvement in the level of absolute income for the various ethnic groups, much remains to be done to remove the large income disparities between them.

Restructuring of society

14. An important second dimension of the NEP objective is the restructuring of the Malaysian society so as to reduce and eventually eliminate the identification of race with economic functions. The initial

distribution of assets, in terms of human, physical and financial, made it difficult for the Malays and other indigenous people to gain access to modern sector jobs, to own and manage business enterprises and to acquire a fair share of the increments in wealth generated through an expanding economy.

15. In the process of restructuring employment, Government policy emphasised the need to increase the representation of Malays and other indigenous people in the modern sector in line with the racial composition of population at all levels; especially at the upper levels of the job hierarchy where they were seriously under-represented. The policy measures to bring about this restructuring process included the development of appropriate education and training programmes to increase the supply of trained manpower and direct incentives as well as administrative measures to increase their participation in the modern sector. As a result of these policies, the participation of the Malays and other indigenous people at managerial and technical levels has increased.

16. The Government policy to reduce imbalances in the ownership of assets and wealth has focussed on financial as well as physical assets in all sectors. Institutions such as *Majlis Amanah Rakyat* (MARA), Urban Development Authority (UDA) and *Bank Pembangunan Malaysia Berhad* (BPMB) as well as private commercial banks, served as channels of credit to potential Bumiputera entrepreneurs. In addition, advisory and consultancy services, as well as administrative support were provided to help Malays and other indigenous people to establish their businesses. The progress so far has been modest.

17. The key to the ownership and control of wealth is through the ownership of the equity capital and effective management. Companies enjoying various fiscal incentives provided by the Government were required to set aside at least 30% of their share capital for the Malays and other indigenous people. Similarly, shares have been reserved for them under the merger and take-over guidelines implemented by the Foreign Investment Committee. The Government through institutions such as the *Kompleks Kewangan Malaysia Berhad* (KKMB), *Pelaburan Nasional Berhad* (PNB), *Perbadanan Nasional Berhad* (PERNAS), and BPMB in trust equity capital for the Malays and other indigenous people with the ultimate objective of divesting the shares to them. The progress with respect to restructuring ownership of capital in the corporate sector was substantially below the OPP target. The income levels among the Malays and other indigenous people are still low and they do not generate sufficient savings to purchase shares set aside for them. Their capacity to participate and effectively manage business enterprises also requires rapid development of entrepreneurial and business skills. In addition, the lead time required to establish industrial projects that have been approved also led to a slow-down in the acquisition of shares in these ventures. The achievement of the long-term ownership target necessitates considerable acceleration of efforts during the coming decade and calls for the removal of existing constraints.

Interdependence between economic development and equity

18. The NEP recognised the interdependence between economic development and the need to achieve a more egalitarian society. Only if major economic imbalances, especially those that accentuate ethnic differences, were reduced and eventually eliminated, would a strong and united nation emerge.

19. The development effort in this regard relied on five main elements. First, the Government devoted an increasing proportion of its resources to development. In current prices, some 8% of GDP was devoted to development expenditure during the period 1971-75 and this rose to over 10% during the period 1976-80. About 14.2% of development expenditure was spent on social services—education, health, and housing—which benefitted mainly the poor in both rural and urban areas. The large and growing share of the resources devoted to development was evident of the commitment by the nation to its goal of improving the economic welfare of all Malaysians.

20. Second, the economy increasingly used its own resources to finance its development efforts. The ratio of taxes to GDP rose from less than 18% during the period 1971-75 to more than 21% during the 1976-80 period. This represented a substantial effort at domestic resource mobilization. Moreover, the share of direct taxes, both personal and corporate, increased significantly, a development generally held to favour a more equitable sharing of the tax burden.

21. Third, industrial development strategy shifted from import substitution to export promotion. At the start of the decade, the growth of the economy had benefitted from investment in import substitution industries which created domestic productive capacity and increased employment opportunities. However, as the more obvious and efficient import substitution opportunities had been exploited, the emphasis shifted to export promotion. The reliance on export promotion as a major force in the economy allowed for an efficient use of resources and an increased diversification of the export structure, thereby enabling the Government to increase the role of the modern sector in the economy.

22. Fourth, regional development was given increasing importance in order to bring about a more balanced distribution of economic activities and a closer integration among the States of Malaysia. Significant aspects of this policy were the establishment of new growth centres supported in some cases by large land development schemes, the provision of infrastructural facilities and the establishment of agro-based industrial activities. While important progress has been made, further regional development requires, among others, the resolution of problems related to inter-state migration of population and a greater effort to induce industries to locate in less-

developed states. While the first calls for greater efforts to encourage inter-state migration, the latter requires a review of the current locational incentives and strengthening of infrastructural facilities in less-developed areas.

23. Fifth, policies and programmes were implemented to control inflation and to minimise its impact on the poor. Inflation is not only destructive of savings and growth, but places a burden on the poor which they can ill-afford. During the 1971-75 period, the consumer price index (CPI) rose by 7.3% per annum mainly due to international inflation brought about by increases in energy prices and the shortfall in global food production. Prudent fiscal and monetary measures combined with industrial harmony were successful in reducing the rate of inflation to 4.6% per annum during the period 1976-80. Even more important were the specific measures taken to ameliorate the impact of inflation on the poor. The provision of subsidies by the Government and the reduction in import duties on items which accounted for a major share in the budget of the poor, and price control of essential commodities as well as improvements in the distribution system protected the poor from the worst effects of rising prices. The success of the anti-inflation policies with respect to food prices led to the decline in their prices from 10% per annum during the 1971-75 period to only 3.8% per annum during the 1976-80 period.

Interdependence of socio-economic development and security

24. The interdependence of socio-economic development and national security cannot be over-emphasised. Without security, socio-economic progress will be affected. Likewise, the maintenance and expansion of security capability will become difficult without socio-economic progress. Therefore, economic development and the goals set forth in the NEP aim not only at creating a society in which all enjoy higher incomes, but also at making the nation stronger and more secure. To withstand external and internal threats, the nation must not only create a just society but also strengthen its security forces to meet any potential dangers to the country. During the past decade, considerable attention was given to improve the capability of the security forces. The recent changes in the geo-political situation, particularly in Southeast Asia, make it imperative that the nation's security be further strengthened to safeguard the nation against any threat.

IV. CONCLUSION

25. The development path has been full of Challenges, and considerable progress has been made. However, much remains to be done if the NEP targets are to be attained. What is called for is a thorough analysis of the social and economic forces, domestic and international, that will define the parameters of development. The Government response to these forces will, as in the past, remain pragmatic, with the consistent objective of attaining the nation's long-term social and economic goals. Efforts will be made to

remove the economic, social and administrative constraints that prevent greater participation of the poor and the disadvantaged groups. With the progress already achieved, and the lessons learned from the experiences of the past in carrying out the unique task of building a united Malaysian nation, the Government will continue to implement those policies, programmes and projects that will assure security and social justice.

CHAPTER II

The Growth and Structure of the Malaysian Economy

I. INTRODUCTION

26. The decade of the seventies witnessed rapid growth and structural transformation of the Malaysian economy. The Gross Domestic Product (GDP), after having grown at 6% per annum during the 1960's, recorded a rate of growth of 7.8% per annum during 1971-80, resulting in a rising *per capita* income and major structural shifts in the economy. The implementation of the twin objectives of the New Economic Policy (NEP) coupled with major efforts to expand 'modern' sector activities, particularly in manufacturing, has been a major factor accounting for the rapid structural change. During the decade, the structure of the economy moved towards a better balance in terms of the composition of output and its distribution among the sectors. This process of rapid growth and changes in the structure of output was also accompanied by changes in employment structure and the rate of urbanization. In addition, it also raised problems of adjustment which required urgent consideration and resolution by the Government.

II. STATE OF THE ECONOMY IN 1970

27. Past development efforts enabled Malaysia to reach a level of *per capita* income of \$1,142 in 1970, which was among the highest in the Asian region. Notwithstanding this relatively high level of *per capita* income, the structure of output and income was conspicuously unbalanced, characterised by excessive reliance on a few primary commodities in the agricultural sector. The share of value added of the agricultural sector in GDP was 30.8% while the share of the manufacturing sector was only 13.4%. Mining and construction accounted for 6.3% and 3.9%, respectively. The services sector, comprising among others, wholesale and retail trade, finance and government services, contributed 41.9% of GDP.

28. The above sectoral composition of output was also reflected in the distribution of employment by sectors. Nearly half of the total employed were found in the agricultural sector, mostly in the low income agricultural

activities. The manufacturing sector employed only 11.4% of the total, while the services sector accounted for 31.5% of the employed. Within the services sector, a major proportion of the employed was found in the informal sector activities such as petty trading activities characterised by low income levels.

29. Exports which accounted for 43.8% of GDP were the main stimulus for domestic production and were mainly concentrated on rubber, tin and to a lesser extent on palm oil. The minimal linkages of the primary sector to other sectors of the economy in terms of processing and manufacturing of finished goods resulted in export growth having a moderate impact on private investment and consumption and consequently on domestic production. The share of imports in GDP was 39.6% reflecting a significant dependence on foreign sources for domestic needs. The imports of consumption goods accounted for 25.2% of total imports of goods and services while intermediate and investment goods imports accounted for 28.5% and 22.9%, respectively. The rest of the imports amounting to 23.4% was accounted for by petroleum, imports for re-exports and services. A significant aspect of the import structure was the extent of import substitution that prevailed. The relatively low share of 16.8% of consumption goods imports in total private consumption and 21.3% of intermediate goods imports in total intermediate inputs used in domestic production indicated that considerable progress had already been made in the import substitution of these goods. The share of investment goods imports in total investment was about 51% and this high ratio reflected the low level of import substitution in investment goods.

30. Public sector demand, comprising public consumption and investment expenditure, accounted for 21.3% of GDP. The relatively high share of public sector expenditure was mainly directed to infrastructure development and land improvements.

III. STRUCTURE OF PRODUCTION, 1971-80

31. During the period, substantial structural changes occurred in the economy. At the same time, the range of activities and products and sources of growth became more diversified and correspondingly sectoral composition of employment changed significantly. Other structural changes included improved regional distribution of development and changes in composition of revenue and other sources of financing for development. There had been an increasing degree of sectoral interdependence and major expansion in both the forward and backward linkages brought about by technological progress, expansion of the capital market, development of communication and infrastructural facilities as well as improvements in the machinery of the Government in the management of the economy. The strengthening of linkages of the economy led to increases in the multiplier effects of the various sources of growth. Table 2-1 shows GDP by sector of origin and changes in the shares of the various sectors, indicating structural changes in production which occurred during the decade.

TABLE 2-1

MALAYSIA: GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN, 1970-80
(\$ million in 1970 prices)

Sector	1970	1975	1980	Average annual growth rate (%)			Share of GDP (%)		
				1971-75	1976-80	1971-80	1970	1975	1980
Agriculture, forestry and fishing	3,797	4,804	5,809	4.8	3.9	4.3	30.8	27.7	22.2
Mining and quarrying	778	792	1,214	0.4	8.9	4.6	6.3	4.6	4.6
Manufacturing	1,650	2,850	5,374	11.6	13.5	12.5	13.4	16.4	20.5
Construction	475	654	1,186	6.6	12.6	9.6	3.9	3.8	4.5
Electricity, gas and water	229	365	592	9.8	10.2	10.0	1.9	2.1	2.3
Transport, storage and communications	581	1,071	1,696	13.0	9.6	11.3	4.7	6.2	6.5
Wholesale and retail trade, hotels and restaurants	1,631	2,219	3,295	6.3	8.2	7.3	13.3	12.8	12.6
Finance, insurance, real estate and business services	1,036	1,468	2,155	7.2	8.0	7.6	8.4	8.5	8.2
Government services	1,367	2,210	3,398	10.1	9.0	9.5	11.1	12.7	13.0
Other services	306	478	657	9.3	6.6	7.9	2.5	2.8	2.5
Less: imputed bank service charges	117	211	308	—	—	—	—	—	—
Plus: import duties	573	665	1,120	—	—	—	—	—	—
<i>Equals: Gross domestic product at purchasers' value</i>	12,308	17,365	26,188	-7.1	8.6	7.8	—	—	—

32. The Malaysian economy expanded at a rate of 7.8% per annum during the decade, slightly lower than the rate of 8% targetted for the period. The shortfall was due mainly to the slow growth of 4.3% per annum recorded in the agricultural sector. The other sectors, notably manufacturing, construction and services performed exceptionally well, recording rates of growth of 12.5%, 9.6% and 8.6% per annum, respectively. The relatively faster rates of growth of non-agricultural sectors, led to a decline in the share of agriculture in GDP from 30.8% in 1970 to 22.2% in 1980, while that of the manufacturing sector increased sharply from 13.4% to 20.5% and that of construction from 3.9% to 4.5%. Value added share of the services sector also increased significantly from 41.9% to 45.1% in 1980, and this was brought about largely by the increase in value added of the government services.

33. Significant structural changes in the composition of output also occurred within the sectors, especially in agriculture, mining and manufacturing. Value added of the *agriculture, forestry and fishing sector* expanded by 4.8% per annum during 1971-75 and 3.9% per annum during 1976-80. For the decade as a whole, the sector grew by 4.3% per annum. However, annual fluctuations in output were recorded during the period, resulting from price fluctuations and adverse weather conditions as well as supply policies. Notable features in the growth of the sector during the period were the rapid expansion of palm oil output which contributed about 40% of the increase in the sector's output, and the decline in the dominant role of rubber in output expansion. Agriculture crops for domestic consumption such as *padi*, fruits and vegetables, were given increasing importance and their output grew at 2.9% and 5.8% per annum, respectively during 1971-80. Livestock output was adversely affected by the outbreaks of foot and mouth disease during the latter half of the decade and, as a result, registered a rate of increase of only 2.2% per annum.

34. The compositional changes in output in this sector were a direct consequence of vigorous pursuance of „diversification policy. A number of factors dictated this diversification effort. There was a need to improve the balance in the share of local market for agricultural products. This arose because of the existence of the significant potential for raising the value added of commodities either in the form of finished goods or intermediate goods in support of import substitution and export promotion. There was also a need to broaden the base of agricultural production to minimise the adverse effects of fluctuation in the external demand on the economy and to improve income levels among the poor. In addition, there was a conscientious effort to exploit the world market demand for a variety of commodities, such as palm oil, cocoa, and pepper, which yielded relatively higher rates of return per unit of investment.

35. Rubber production expanded by 2.3% per annum while the acreage under rubber cultivation increased by 0.2% per annum during the decade. This period witnessed a marked decline in estate acreage of about 14,100 hectares, due to continuing conversion into oil palm and other crops. Consequently, estate acreage declined from 647,200 hectares in 1970 to an.

increased at an average rate of 1.9% per annum. During the decade, the Government continued its efforts to achieve self-sufficiency in rice and improvement in the productivity of *padi* farmers through increase in double-cropping areas, and the provision of drainage and irrigation facilities, subsidised inputs, price support and extension services. Acreage under '*padi*' increased by 3.1% from 462,900 hectares in 1970 to 477,500 hectares in 1980, of which 56% was under double-cropping. The sizable investments by the Government in the Muda and the Kemubu schemes facilitated double-cropping and enabled increases in *padi* yields from 1,448 *gantangs* per hectare in 1970 to 1,909 *gantangs* per hectare in 1980 and from 1,071 *gantangs* per hectare to 1,624 *gantangs* per hectare in the two schemes, respectively.

40. Output from the *mining sector* expanded at 4.6% per annum during the decade. It rose substantially by 8.9% per annum during 1976-80 compared with less than 1% per annum during 1971-75, reflecting the underlying structural change that took place in this sector. The strong expansion in petroleum output during 1976-80 increased the share of crude petroleum in the sector's output from 29% in 1970 to about 63% in 1980, while the depletion of tin reserves and the high cost of operating marginal mines led to a decline in the share of tin in the sector's output from 53% in 1970 to 33% in 1980. The emergence of petroleum as a major activity led to the enactment of the Petroleum Development Act in July 1974, and subsequently to the formation of the *Petroleum Nasional Berhad* (PETRONAS) in October 1974, charged with formulating policies for the effective control and orderly development of the petroleum and related industries in the country. In 1976, PETRONAS and the major oil companies operating in Malaysia signed Production Sharing Agreements outlining the distribution of oil production between the two parties.

41. *Crude petroleum* production rose by 31.6% per annum during the decade from 17,969 barrels per day in 1970 to 97,838 barrels per day in 1975 and 280,000 barrels per day in 1980. Output in the earlier years came mainly from the four off-shore oil fields in Sarawak, but the prospects for expansion became more favourable with the discoveries of new oil fields during 1971-75 in Peninsular Malaysia and Sabah. Consistent with the increase in domestic demand for petroleum products, domestic refining capacity was expanded substantially. The three refineries in the country now have the capacity to refine 155,000 barrels per day of crude oil in 1980 compared with 102,000 barrels per day in 1970.

42. During the decade, *tin* output declined by 1.8% per annum. After reaching a peak in 1972 at 76,800 tonnes, it declined in the next five consecutive years to a level of 58,700 tonnes in 1977 and improved marginally, reaching 61,500 tonnes in 1980, reflecting the output response to higher world prices. Further prospecting for potential tin bearing areas during the period was constrained largely by the limited availability of known tin bearing areas.

43. The *manufacturing* sector, which grew at a rate of 12.5% per annum during the decade, accounted for 26.8% of the increase in GDP. By 1980, its share in GDP reached 20.576, only slightly lower than that attributed to agriculture. A significant aspect underlying the remarkable rate of growth was the structural change within the sector. Resource-based industries which enjoyed sustained increase in external demand grew rapidly during the decade. These industries included wood products comprising sawn timber, plywood, veneer, blockboard and planing mill products; and rubber products comprising largely tyres, tubes and footwear. They together, expanded at rate of about 9% per annum and accounted for 16.5% of total manufacturing sector value added by 1980. Wood products which were mostly exported increased by more than 10% per annum, but rubber products recorded a lower rate of increase of 5.6% per annum due to its dependence on the domestic market which expanded slowly during the period. During the last few years, however, there was a significant expansion in capacity within the rubber products industry, especially for new products which have potential for export such as surgical and household gloves.

44. Labour-intensive industries which were provided with considerable incentives also expanded rapidly. Striking examples were textiles and electrical machinery including electronics which recorded rates of increase of 15.7% per annum and 13.3% per annum, respectively during the decade. The share of textiles in total manufacturing output increased from 2.1% in 1970 to 3% in 1980 while that of electrical machinery increased from 2.9% in 1970 to 3.4% in 1980. Textiles benefitted from rising demand from both domestic and export markets but during the recent years, the industry began to face difficulty, especially in the external market, as a result of increasing quotas and other trade restrictions. The export of electronics depended almost entirely on the demand by parent companies in Japan and U.S.A.

45. Food industry, however, expanded at a slower rate. Food processing was an established and mature industry in the early seventies and accounted for a large share of 15.3% of manufacturing production in 1970. This industry expanded at a slow rate of 4% per annum and its share declined to 9.3% in 1980. With regard to capital goods industry, the range of products remained small, largely confined to light capital goods such as agricultural implements, non-electrical machinery and transport equipment. It expanded at a rate of 9.7% per annum during the decade.

46. A number of intermediate goods industries expanded at very rapid rates especially those which did not face competition from imports. These included oils and fats which increased at a rate of 22.6% per annum, construction materials at more than 10%, petroleum products at 8.3% and chemical products at about 8%. The share of these industries in total manufacturing output increased from 25.2% in 1970 to 29.2% in 1980. The rapid increase in the production of intermediate goods was due to increasing demand for domestically produced consumption goods and the rapid expansion of the construction industry.

47. Along with changes in output composition were changes in factor intensities of production. Although the capital-labour ratios varied between different industries, the rapidly increasing rates of investment in machinery and equipment in the manufacturing sector, especially in industries employing sophisticated technology, had an overall effect of increasing capital intensity. While manufacturing employment continued to increase, the high rate of capital accumulation and skill development led to increases in labour productivity.

48. The *construction sector* recorded a rapid increase of 9.6% per annum during the decade, raising its share in total GDP from 3.9% in 1970 to 4.5% in 1980. This rapid increase was largely due to the construction boom during the second half of the decade in response to demand for housing which rose rapidly, aided by improved conditions in the mortgage and real estate markets. Non-residential construction also increased significantly resulting from the implementation of major public sector infrastructural projects and construction investment associated with private sector (manufacturing activities).

49. The *services sector* consists of wholesale and retail trade; government services; utilities; transport, storage and communication; finance; and other services. The growth in value added in the wholesale and retail trade was mainly due to trading activities related to the agriculture, mining and manufacturing sectors. The value added of this sector increased at a rate of 7.3% per annum, consistent with the growth of the agriculture, mining and manufacturing sectors. Value added in government services sector consists largely of remuneration of public employees and increased at 9.5% per annum corresponding to the growth of public consumption at 10.7% per annum.

50. The expansion in the utilities sector by 10% per annum was mainly influenced by the performance of the manufacturing sector as well as the increase in household consumption of services such as electricity and water. The transport, storage and communication sector grew by 11.3% per annum. The high level of production in the economy, coupled with rising income levels, generated rapid expansion in the demand for transport, storage and communication facilities. The remaining services sectors grew at about similar rates as the growth in overall GDP reflecting the close link between these sectors with the overall performance of the economy.

IV. SOURCES OF GROWTH

51. Both domestic and external demand provided the thrust for the expansion of overall output during the decade. During 1971-75, public sector development expenditure constituted the main source of growth, and provided counter-cyclical impact on the economy during years of low exports and private investment. However, the external sector demand accelerated during 1976-80 and induced a significant increase in domestic production activity. Domestic demand also increased considerably providing additional stimulus to accelerated growth. The final demand expenditure during the decade is shown in Table 2-2.

TABLE 2.2

MALAYSIA: GROSS DOMESTIC PRODUCT BY EXPENDITURE CATEGORY, 1970-80
(\$ million in 1970 prices)

	1970	1975	1980	Average annual growth rate (%)			Share of GDP (%)		
				1971-75	1976-80	1971-80	1970	1975	1980
Total consumption	9,227	12,748	20,601	6.7	10.1	8.4	75.0	73.4	78.7
Private	7,310	9,631	15,317	5.7	9.7	7.7	59.4	55.5	58.5
Public	1,917	3,117	5,284	10.2	11.1	10.7	15.6	17.9	20.2
+ Total investment	2,196	3,936	6,943	12.4	12.0	12.2	17.8	22.6	26.5
Private	1,490	2,454	4,635	10.5	13.6	12.0	12.1	14.1	17.7
Public	706	1,482	2,308	16.0	9.3	12.6	5.7	8.5	8.8
+ Change in stocks	357	-266	-180	—	—	—	—	—	—
+ Exports of goods and non-factor services	3,396	7,179	11,253	5.9	9.4	7.6	43.8	41.3	43.0
- Imports of goods and non-factor services	4,868	6,232	12,429	5.1	14.8	9.8	39.6	35.9	47.5
= Gross domestic product at purchasers' value	12,308	17,365	26,188	7.1	8.6	7.8	—	—	—
+ Net factor payments	-355	-449	-744	—	—	—	—	—	—
= Gross national product at purchasers' value	11,953	16,916	25,444	7.2	8.5	7.8	—	—	—
Main items:									
Total investment (excluding MAS, MISC, and oil)	2,196	3,698	6,086	11.0	10.5	10.7	17.8	21.3	25.2
Private (excluding oil)	1,490	2,285	3,815	8.9	10.8	9.9	12.1	13.2	14.6
Public (excluding MAS and MISC)	706	1,413	2,271	14.9	10.0	12.4	5.7	8.1	8.7

Exports

52. Total exports of goods and non-factor services in real terms increased by 7.6% per annum during the decade. Growth in exports was more rapid during the 1976-80 period when it expanded by 9.4% per annum compared with the rate of growth of 5.9% per annum during 1971-75. The stronger growth during 1976-80 was brought about generally by the higher export volume of all commodities except tin. As shown in Table 2-3, commodity exports benefitted from higher world prices so that exports in current prices grew at the rate of 18.6% per annum during 1971-80.

TABLE 2-3
MALAYSIA: COMMODITY EXPORTS, 1970-1980

	1970	1975	1980	Average annual growth rate (%)		
				1971-75	1976-80	1971-80
Rubber						
Volume ('000 tonnes)	1,345	1,460	1,620	1.7	2.1	1.9
Unit value (cts/kg)	128	139	300	1.7	16.6	8.9
Value (\$ million)	1,724	2,026	4,860	3.3	19.1	10.9
Tin						
Volume ('000 tonnes)	94	80	70	-3.2	-2.6	-2.9
Unit value (\$/tonne)	10,777	15,075	35,717	6.9	18.8	12.7
Value (\$ million)	1,013	1,206	2,504	3.5	15.7	9.5
Sawlogs						
Volume ('000 cu. m.)	10,895	10,766	13,900	-0.2	5.2	2.5
Unit value (\$/cu. m.)	59	62	175	1.0	23.1	11.5
Value (\$ million)	643	669	2,435	0.8	29.5	14.2
Sawn timber						
Volume ('000 cu. m.)	1,339	1,706	3,300	5.0	14.1	9.4
Unit value (\$/cu. m.)	149	230	370	9.1	10.0	9.5
Value (\$ million)	199	399	1,221	4	25.5	19.9
Palm Oil						
Volume ('000 tonnes)	402	1,161	2,260	23.6	14.2	18.8
Unit value (\$/tonne)	657	1,137	1,400	11.6	0	5.7
Value (\$ million)	264	1,320	2,576	38.0	14.3	25.6
Crude petroleum						
Volume ('000 tonnes)	3,642	3,240	11,822	-2.3	29.5	12.5
Unit value (\$/tonne)	45	224	609	37.9	22.1	29.8
Value (\$ million)	164	726	7,200	34.7	58.2	46.0
Copper						
Volume ('000 tonnes)	—	13	113	—	54.1	—
Unit value (\$/tonne)	—	881	1,000	—	2.6	—
Value (\$ million)	—	11	113	—	59.3	—
Pepper						
Volume ('000 tonnes)	26	32	36	4.2	2.4	3.3
Unit value (\$/tonne)	2,282	3,287	3,800	7.6	2.9	5.2
Value (\$ million)	59	106	136	12.4	5.1	8.7

TABLE 2-3—(cont.)

MALAYSIA: COMMODITY EXPORTS, 1970-1980—(cont.)

	1970	1975	1980	Average annual growth rate (%)		
				1971-75	1976-80	1971-80
<i>Canned pineapples</i>						
Volume ('000 tonnes)	62	45	53	-6.2	3.3	-1.6
Unit value (\$/tonne)	698	1,154	1,358	10.6	3.3	6.9
Value (\$ million)	43	51	72	3	7.1	5.3
<i>Cocoa</i>						
Volume ('000 kg)	—	11,730	23,644	—	15.0	—
Unit value (cts/kg)	—	300	800	—	21.7	—
Value (\$ million)	—	35	189	—	40.1	—
<i>Manufactures</i>						
Value (\$ million)	572	1,927	5,865	27.5	24.9	26.2
<i>Other commodity exports</i>						
Value (\$ million)	482	762	1,274	9.6	10.8	70.2
<i>Total gross commodity exports</i>						
Value (\$ million)	5,163	9,231	28,445	12.3	25.2	18.6

53. *Agricultural exports* continued to account for a large share of total commodity exports during the decade, although its share declined from 52.1% in 1970 to 35.8% in 1980. Exports of agricultural commodities grew by 9.1% per annum during 1971-75 and by 19.7% per annum during 1976-80, amounting to an average annual growth rate of 14.3% for the decade. Rubber exports accounted for 41.8% of this growth, while sawlogs accounted for 23.9% and palm oil 30.8%.

54. With the emphasis on diversification, the structure of agricultural exports changed considerably. The share of rubber exports, which accounted for 33.9% of total commodity exports in 1970 declined to 17.1% by 1980. In terms of volume, however, exports of rubber increased by 1.9% per annum during 1971-80, from 1,345,000 tonnes in 1970 to 1,620,000 tonnes by 1980. The export prices for rubber showed considerable yearly fluctuations as a result of changes in world demand and inelastic supply. The Government policy has been to undertake short-term measures to stabilise the price of rubber and ameliorate any adverse impact of large price fluctuations on the economy. In view of the long-term need to minimise the fluctuations in the price of rubber, Malaysia, in consultation with other natural rubber producing and consuming countries, initiated the development of a more permanent scheme, aimed at establishing a more equitable price to both producers and consumers. This led to the formulation of an International Rubber Agreement.

55. Exports of palm oil rose substantially by 38% per annum during 1971-75 and 14.3% per annum during 1976-80, thus increasing its share in agricultural exports from 9.8% in 1970 to 25.3% in 1980. Although the

price of palm oil fluctuated during the period, the expansion in exports resulting from increases in both volume and price, made it an important source of foreign exchange earnings.

56. The export volume of *sawlogs* declined by 0.2% per annum during 1971-75 compared with an increase of 5.2% per annum achieved during 1976-80. The decline in export of sawlogs was mainly the result of Government policy to ban such exports from Peninsular Malaysia. This measure was aimed to meet strong domestic demand for sawlogs for processing by wood-based industries. The increase in exports of sawlogs during 1976-80 was mainly from Sabah and Sarawak which were not subject to the ban.

57. The export volume of *sawn timber* grew by 5% per annum during 1971-75 and by 14.1% per annum during 1976-80. The export earnings from sawn timber rose substantially by 19.9% per annum during the decade reflecting both increased export volume and price. Peninsular Malaysia, where the bulk of the wood processing industries are located, accounted for 90% of the total timber exports.

58. *Mineral exports* expanded by 23.6% per annum during the decade. The increase during 1976-80 was 38.3% per annum, greater than the increase of 10.5% per annum during 1971-75. Crude petroleum accounted for 81.4% of the increase during the 1971-80 period. In terms of share, mineral exports rose from 22.8% in 1970 to 34.5% by 1980. Within the mining sector, the share of export earnings from tin declined from 86.1% in 1970 to 25.5% in 1980, while that of petroleum, increased from 13.9% to 73.3%.

59. The export volume of *tin* fell by 3.2% per annum during 1971-75 and by 2.6% per annum during 1976-80, resulting in the decline of the tin industry as a major export earner. The main factor that contributed to the decline in export volume, particularly during 1971-75, was the lower imports of tin ore from Indonesia for smelting and re-export. During the 1976-80 period, lower export volume was chiefly the result of declining output from existing mines. However, the lower volume was offset by sharp increases in the price of tin due to strong demand and tight supply position. The export price for tin rose by 12.7% per annum during the decade to reach \$35,717 per tonne compared with \$10,777 in 1970.

60. The export volume of *crude petroleum* expanded rapidly during the decade. The volume of crude petroleum exports grew by 29.5% per annum during 1976-80 compared with a decline of 2.3% per annum during 1971-75. The decline in the early part of the decade was due to stoppage in petroleum re-export previously imported from Brunei. The rapid expansion in export volume as well as the increase in the price of crude petroleum during 1976-80 resulted in an increase in its share of total commodity exports from 3.2% in 1970 to 25.3% in 1980.

61. A major development during the decade was the increase in petroleum prices far exceeding those of other export commodities. The increase during the decade for Malaysian crude was 29.8% per annum. The major upward revision first occurred in 1973 when the export price of Malaysian crude rose by 30.2%, followed by further price increases in 1974 (20.4%), 1979 (42.5%) and 1980 (79.1%). These latter increases were related to supply uncertainties and continued strong world demand as well as conservation of existing reserves.

Public investment

62. Total public investment continued to increase rapidly during the decade at 12.6% per annum in real terms, having grown at 16% per annum during 1971-75, and 9.3% per annum during 1976-80. The increase during the decade raised the share of public investment in total investment to 33.2% in 1980 compared with 32.1% in 1970. The share of public investment in GDP also increased from 5.7% in 1970 to 8.8% in 1980. While during 1971-75, a major proportion of public development expenditure was devoted to investment in construction related activities, the major thrust of the public sector effort during 1976-80 was on projects directly connected with the NEP. The counter-cyclical role of public investment during 1976-80 period assumed secondary importance. This became possible because the expansion in external and other sources of demand provided the necessary stimulus to growth and reduced the need to use public investment for counter-cyclical measures.

Private investment

63. Private investment including oil, expanded at 12% per annum in real terms during the decade. During 1971-75, the growth of private investment of 10.5% per annum was lower than the 13.6% per annum recorded during 1976-80 but was creditable in that it took place despite the slower growth in external demand. However, the slackening of external demand was counter-acted by the Government fiscal and monetary measures to induce a rapid increase in private investment.

64. During 1976-80, private investment grew at 13.6% per annum providing the impetus to the expansion of domestic activities. The relatively higher rate of growth of private investment led to an increase in its share in GDP from 14.1% in 1975 to 17.7% in 1980. The growth in private investment was largely stimulated by the expansion of external demand and facilitated by appropriate fiscal and monetary measures, as well as through the availability of investible resources generated by a high rate of savings and foreign capital inflows. The investment incentive package was made more attractive with the introduction of new measures, such as export incentives for increase in export sales, accelerated depreciation allowance on plant expenditure for modernising production techniques, and increased

capital allowance for projects not qualifying for pioneer status. Subsequent amendments to the Industrial Coordination Act, 1975, and the Petroleum Development Act, 1974, alleviated the fears of the private sector and generated an atmosphere of mutual trust and confidence.

65. The construction and machinery and equipment components of private investment increased at rapid rates of 11% and 13%, respectively during 1976-80. This impressive rate of increase in construction investment was mainly attributable to the booming residential construction activities in the urban sector. During 1976-79, total loans and advances for building and construction amounted to \$593.8 million, representing an increase of 20.3% per annum. The significant increase in machinery and equipment investment was largely generated by the expansion in production capacity in the manufacturing sector.

Public consumption

66. Public consumption increased in real terms at a rate of 10.2% per annum and 11.1% per annum, respectively during 1971-75 and 1976-80, increasing its share of GDP from 15.6% in 1970 to 20.2% in 1980. Apart from the need to cater for the larger public sector role to implement the NEP, especially with respect to programmes relating to poverty eradication and social services such as education and health, a major reason for the high rate of growth of public consumption was the wages and salary revisions which took place during the decade. Wages and salaries grew at about 16% per annum, a rate higher than the growth in overall public consumption, reflecting both the increase in public sector employment and pay revisions.

Private consumption

67. Private consumption, as a share of GDP, accounted for 59.4% in 1970, 55.5% in 1975 and 58.5% in 1980. In terms of growth, private consumption grew by 5.7% per annum during 1971-75. The relatively slow rate of growth in private consumption during 1971-75, was associated with the slow growth of exports, particularly of primary commodities.

68. During 1976-80, private consumption grew at 9.7% per annum, a rate in excess of the 8.6% per annum recorded for national income. This substantial increase was largely the result of a rapid growth in private disposable income brought about by buoyant export performance and growth in employment as well as Government fiscal policy which increased real disposable income of the lower income group. During both the periods, 1971-75 and 1976-80, private consumption grew more rapidly than the population resulting in increases in real per capita consumption level.

69. The decade also witnessed rapid changes in the pattern of private consumption. A number of factors accounted for these changes. As income per *capita* increased, the share of the consumer budget devoted to food fell, reflecting the income inelasticity of food expenditure. Within the food items, there was a shift towards processed food. Private consumption expenditure on clothing and on consumer durables such as televisions, refrigerators and other electrical goods, automobiles and furniture, increased rapidly. The rapid urbanization and expansion of transport and communication facilities and the ready availability of consumption goods had considerable demonstration effect in changing and moulding the consumption pattern of Malaysians.

Imports

70. The performance of imports during the decade was influenced by domestic demand for consumption, intermediate and investment goods. During the decade, imports increased in real terms at a rate of 9.8% per annum. The increase was sluggish during 1971-75 at a rate of 5.1% per annum but accelerated to 14.8% per annum during 1976-80.

71. The relatively slow growth during 1971-75 was attributable to the weakening trends in domestic production activities which affected the demand for imports. Imports of consumption goods, mainly food and consumer durables, declined by 2.9% per annum as a result of slow growth in private disposable incomes. However, the imports of machinery and equipment grew at 8.9% per annum consistent with the growth in private investment of 10.5% per annum during this period. Intermediate goods imports declined at a rate of 3.2% per annum. The demand by the manufacturing sector, which accounted for 37.3% of the imported intermediate goods in 1970, declined by 3.2% per annum due in part to the increase in domestic production of intermediate goods in response to the import substitution policies and to a significant drawdown of accumulated stocks. The imports of construction materials increased by 3.3% per annum on account of the growth of the construction sector value added of 6.6% per annum.

72. During 1976-80, the high growth in private consumption of 9.7% resulted in consumption goods imports increasing at 14.7% per annum. Imports of machinery and equipment for investment increased at a slower rate of 13% while the demand for intermediate goods imports increased at a rate of 20.3% per annum as a result of rapid expansion in the manufacturing and construction sectors.

73. During the decade, the share of the various categories of imports in total imports of goods and services changed. Consumption goods imports recorded a fall from 25.2% in 1970 to 17.3% in 1980. The share of intermediate goods imports also declined from 28.5% in 1970 to 24.4% in 1980 while that of investment goods imports increased from 22.9% in 1970 to 25.9% in 1980. The share of other imports, comprising petroleum, imports

for re-exports and services, also increased largely due to the rising share of services imports during the decade. These changes in the various categories of imports were related to import substitution which took place. While consumption imports increased at a rate of only 5.5% per annum during the decade, total private consumption increased at a much faster rate of 7.7% per annum resulting in the share of consumption goods imports to total private consumption to decline from 16.8% in 1970 to 13.7% in 1980, implying a significant increase in the level of import substitution for these goods. There was also an improvement in the level of import substitution for investment goods reflected by the fall in share of investment goods imports to total investment from 50.7% in 1970 to 45.4% in 1980. For intermediate goods, however, the level of import substitution was inadequate to meet the demand for these goods resulting in an increase in the share of intermediate goods imports to total intermediate goods requirements from 21.3% in 1970 to 22.9% in 1980.

V. TERMS OF TRADE, AND CHANGES IN REAL INCOMES

74. Changes in the price of exports and imports lead to gains or losses from terms of trade, and therefore, affect the real purchasing power of income. Table 2-4 shows that during the decade, export prices increased at 10.6% per annum, while prices of imports increased by 9.2% per annum, resulting in a favourable change in the terms of trade of 1.3% per annum. Overall, while GDP in 1970 prices increased at 7.8% per annum, the gains from the terms of trade amounting to \$6,459 million enabled the real national income, which measures the real purchasing power of GDP, to increase by 8.5% per annum.

TABLE 2-4

MALAYSIA: TERMS OF TRADE AND GROSS DOMESTIC PRODUCT IN REAL PURCHASING POWER, 1970-1980

	1970	1975	1980	Average annual growth rate (%)		
				1971-75	1976-80	1971-80
Export price index	100.0	141.7	274.0	7.2	14.1	10.6
Import price index	100.0	161.6	240.4	10.1	8.3	9.2
Terms of trade	100.0	87.7	116.3	-2.6	5.4	1.3
Gross domestic product in constant 1970 prices (\$ million)	12,308	17,365	26,188	7.1	8.6	7
Gross domestic product in real purchasing power (\$ million)	12,308	16,481	27,760	6.0	11.0	8.5

75. The substantial gain in the terms of trade took place during 1976-80. During 1971-75, export prices grew at 7.2% per annum while import prices grew at a higher rate of 10.1% per annum, resulting in a decline in the terms of trade by 2.6% per annum, or a cumulative terms of trade loss of \$1,089 million. Consequently the real national income increased at a rate of 6% per annum, lower than the rate of GDP growth of 7.1% per annum in 1970 prices. However, during 1976-80, there was a sharp reversal in the

trend of export and import prices. Export prices rose at a high rate of 14.1% per annum, while import prices rose at 8.3% per annum, leading to an improvement in the terms of trade by 5.4% per annum, or a cumulative gain in the terms of trade of \$7.548 million. The real national income correspondingly increased at a much faster rate of 11% per annum compared with the increase in GDP, in 1970 prices, of 8.6% per annum.

76. While the real *per capita* income, unadjusted for changes in the terms of trade, increased by 4.9% per annum from \$1,142 in 1970 to \$1,836 by 1980, the effect of the gains in the terms of trade was to increase the real *per capita* income by a higher rate of 5.5% per annum from \$1,142 in 1970 to \$1,947 by 1980. Such rapid increase in *per capita* income enabled Malaysians to enjoy a higher standard of living.

VI. SAVINGS AND INVESTMENT

77. Gross national savings increased at 24.7% per annum during 1976-80 compared with 10% per annum during 1971-75, resulting in a nearly threefold increase in gross national savings from \$18,682 million during 1971-75 to \$53,284 million during 1976-80. The share of savings to Gross National Product (GNP) increased from an average level of 21.3% during 1971-75 to 28.8% during 1976-80 as a result of rapid increase in domestic income of about 18% per annum which was greater than the rate of increase in consumption of 15.6% per annum.

78. Gross investment during 1976-80 also increased at a rapid rate of 22.4% per annum, a rate higher than the 15.4% per annum attained during 1971-75. As shown in Table 2-5, gross investment more than doubled from \$21,679 million during 1971-75 to \$48,449 million during 1976-80, leading to an increase in the share of gross investment in GNP from an average of 24.7% to 26.2%, respectively. Despite the increase in gross investment, there was an excess of domestic savings over investment amounting to \$4,835 million during 1976-80 compared with a savings-investment gap of \$2,997 million during 1971-75. The existence of excess investment funds during 1976-80, was due to higher export earnings generated by favourable prices for exports and the slower rate of growth for imports.

VII. BALANCE OF PAYMENTS

79. During the decade, Malaysia's international payments position continued to be favourable, despite marked fluctuation in the world economic situation and continued slackening of economic activities of Malaysia's trading partners in recent years. The payments position strengthened considerably during the 1976-80 period. The details are shown in Table 2-6.

80. The trade balance in the merchandise account recorded a substantial surplus of \$21,954 million during 1976-80 compared with a surplus of \$4,088 million during 1971-75. The strong growth in trade surplus reflected the higher earnings from merchandise exports resulting from both higher volumes and prices, in particular the increase in export value of crude petroleum and manufactured goods.

TABLE 2-5
MALAYSIA: SAVINGS AND INVESTMENT, 1970-80
(\$. million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	Cumulative	
												1971-75	1976-80
Gross investment (plus change in stocks)	2,554	2,688	3,061	4,197	6,512	5,221	6,135	7,540	9,212	11,189	14,373	21,679	48,449
External surplus (+) or deficit (-)													
Goods and services	+205	-152	-541	+397	-1,047	-986	+1,742	+1,356	+401	+2,611	-788	-2,369	+5,322
Transfer payments	-180	-137	-157	-151	-104	-79	-100	-78	-82	-119	-108	-628	-487
Current account	+25	-329	-698	+246	-1,151	-1,065	+1,642	+1,278	+319	+2,492	-896	-2,997	+4,835
Domestic savings	2,579	2,359	2,363	4,443	5,361	4,156	7,777	8,818	9,531	13,681	13,477	18,682	53,284
Domestic savings as % of gross national product	-21.6	18.7	17.1	24.7	24.5	19.2	28.6	28.3	27.3	31.9	27.2	21.3	28.8
Gross investment as % of gross national product	-21.4	21.3	22.1	21.4	29.8	24.2	22.6	24.2	26.4	26.1	29.6	24.7	26.2
Gross national product	11,953	12,592	13,842	17,963	21,861	21,606	27,154	31,151	34,951	42,834	48,632	87,864	184,722

83. The favourable trade balance and the substantial inflows of public and private capital enabled the country to accumulate about \$6,702 million during 1976-80 compared with an accumulation of \$1,912 million during 1971-75. Thus, the external reserves of *Bank Negara Malaysia* reached an estimated \$10,304 million at the end of 1980. This level of external reserves was able to finance 5.5 months of retained imports at the 1980 level.

VIII. PRICE DEVELOPMENT

84. The beginning of the decade of 1970's saw the emergence of increasing inflationary pressures in the economy. The rate of domestic price increase, as measured by the consumer price index (CPI), averaged 5.8% per annum, during 1971-79, compared with a rate of increase of less than 1% per annum during the 1960's. The increase in consumer price was more pronounced during the first half of the decade, 1971-75, when, the CPI rose at an average rate of 7.3% per annum as against 4% per annum during 1976-79.

85. The rapid increase in price level during the 1971-75 period was due to the large increases registered in 1973 and 1974 of 10.5% and 17.4% respectively. These price increases were generated by a number of factors. In the world economy, especially in the industrialised countries, the industrial boom of 1973 increased aggregate demand well beyond the supply capacity leading to pressure on prices. The oil price increase of 1973 and the shortage of food supplies following crop failures in a number of major food producing countries aggravated the situation. This world economic condition led to a build-up of inflationary pressures which consequently led to sharp increases in the price of imports. This, together with domestic supply constraints aggravated by hoarding and profiteering brought about an unprecedented increase in domestic prices in 1973 and 1974. As shown in Table 2-7, apart from food prices, other items that recorded large increase in prices during 1973 and 1974 were clothing and footwear, furniture, furnishings and household equipment. The price of residential and commercial buildings and industrial structures also increased substantially due to shortages of budding materials and skilled labour as well as speculative activities.

86. The rate of domestic inflation slowed down considerably in 1975 when the CPI rose by only 4.5%. This was the result of an improvement in the international inflationary situation as well as a response to the Government anti-inflationary measures implemented in the previous years. These measures included a tightening of credit and mopping up of excess liquidity to dampen effective demand. However, provisions were made to ensure that sufficient credit was available for an orderly expansion of the economy and for those projects that would improve the nation's productive capacity or that would directly help achieve the NEP targets. The Government itself took the lead in moderating the budgetary impact of its operations on private sector liquidity and raised its reliance on non-inflationary sources of financing, including borrowing from the Employees Provident Fund (EPF) whose contributory rates were also raised. The Government took steps to

TABLE 2-7

PENINSULAR MALAYSIA: ANNUAL PERCENTAGE CHANGE
IN THE CONSUMER PRICE INDEX, 1970-79

	1967 Weights (%)	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Average annual growth rate (%)		
												1971-75	1976-79	1971-79
Food	46.8	2.1	1.5	3.2	15.9	26.1	3.8	2.0	5.5	5.0	2.3	9.7	3.7	7.0
Beverages and tobacco	8.9	2.1	0.7	3.6	1.3	1.9	9.5	1.3	3.7	5.1	1.3	3.3	2.8	3.1
Clothing and footwear	4.8	1.4	0.7	2.7	21.9	11.7	-0.6	2.5	3.0	3.5	6.5	7.0	4.1	5.7
Gross rent, fuel and power	9.4	0.6	0.9	0.8	1.5	6.9	6.6	5.6	6.1	5.0	6.6	3.3	5.8	4.4
Furniture, furnishings and household equipment	6.6	3.5	2.6	5.4	12.8	17.0	4.9	2.5	3.5	4.1	3.9	8.4	3.5	6.2
Medical care and health expenses	2.0	1.1	0.8	0.8	4.3	8.0	5.2	10.5	4.2	3.6	6.4	3.8	6.1	4.8
Transport and communications	10.4	2.1	1.0	2.6	2.7	9.4	6.2	5.0	3.5	5.9	3.6	4.3	4.3	4.4
Recreation, entertainment, education and cultural services	5.6	1.7	4.5	4.0	3.7	5.9	2.0	0.6	1.8	2.1	2.4	4.0	1.7	3.0
Miscellaneous goods and services	5.5	0.2	2.5	6.3	8.6	14.6	5.3	2.3	5.4	6.8	12.6	7.4	6.7	7.1
TOTAL	100.0	1.9	1.6	3.2	10.5	17.4	4.5	2.6	4.8	4.9	3.6	7.3	4.0	5.8

improve the availability of goods throughout the economy by introducing a nation-wide anti-hoarding campaign, improving the distributive network, and establishing a Standing Committee on Anti-Inflation to monitor price developments.

87. In addition, the Government allowed the *ringgit* to float with respect to other currencies. The resultant upward revaluation of the *ringgit* against the currencies of its major trading partners, served to reduce the price of imports and dampened the effect of imported inflationary pressures. At the same time, excess profits earned in exporting various commodities, where international price had risen dramatically, were siphoned off through the introduction of an export surcharge on palm oil and tin exports, and increasing the progressivity of the rubber export surcharge. Various import tariffs were also reduced or eliminated in order to reduce the cost of imported goods, including foodstuff and other materials of critical importance to the economy, and to the budget of the poorer sections of the

88. During 1976-79, the CPI rose at an average annual rate of 4%, marked however by considerable year-to-year variations. While the CPI as a whole did not increase much, some sub-groups of the index continued to exhibit rapid rates of increase. The cost of medical care and health related expenses rose by 6.1% per annum; rent, fuel and power by 5.8%; clothing and footwear by 4.1%; while transport and communications costs rose by 4.5%. Food prices, however, increased by only 3.7% per annum, in marked contrast to the rapid rate of increase of 9.7% per annum recorded in the first half of the decade. This result was due in large part to the Government's price control of essential food items such as rice, sugar and milk.

89. As a consequence of these measures, Malaysia enjoyed relative price stability and its rate of inflation was considerably lower than that experienced by most other countries. In all its efforts, the Government was conscious of the debilitating impact which inflation has on the economy's ability to mobilise savings and encourage investment, and particular efforts were made to protect the poor from the burden of inflation.

CONCLUSION

90. The growth and structural changes in the economy during the past decade with relative price stability and a strong external reserves position reflected the impact of sound Government policies and programmes and the important role played by the private sector in responding to them. The strong and diversified structure of the economy enhanced the prospects for further progress during the Fourth Malaysia Plan (FMP) despite the uncertainties forecast for the world economy.

CHAPTER III

Progress of the New Economic Policy

I. INTRODUCTION

91. The New Economic Policy (NEP) was formulated with the long-term objective of achieving national unity through two-pronged development strategies. The first prong is to reduce and eventually eradicate poverty by raising the income levels and increasing employment opportunities for all Malaysians irrespective of race. The second prong aims at accelerating the process of restructuring Malaysian society to correct economic imbalance so as to reduce and eventually eliminate the identification of race with economic functions. These strategies are to be implemented in the context of rapid economic growth, thereby ensuring that no particular group will experience any loss or feel any sense of deprivation.

92. During 1971-80, the socio-economic position of the poor improved as a result of the implementation of various programmes for increasing productivity and employment and improving the quality of life. These efforts were aided by strong commodity prices, especially of rubber and palm oil, particularly during the second half of the decade, directly benefitting the rural households involved in their production. Progress was also made in the restructuring of society during the same period. This was reflected in increased modernization in the rural sector, expanded opportunities for higher education in the sciences and other disciplines essential for effective participation in modern activities, continued urbanization, the development of regional growth centres and specific programmes designed for the creation and development of an entrepreneurial community among Bumiputera.

II. ERADICATION OF POVERTY,

93. The Outline Perspective Plan (OPP), 1971-90, envisaged a substantial reduction in the poverty level in the country. In Peninsular Malaysia, the incidence of poverty was targeted to decline from 49.3% in 1970 to 16.7% in 1990, to be attained through a rapid socio-economic development with significant participation of the poor. The incidence of poverty

for 1980 is presently estimated at 29.2%, an improvement on the targetted 34% under the OPP. The decline in the incidence of poverty was 14.7 percentage points during the period 1976-80 compared with the decline of 5.4 percentage points during 1971-75.

94. Although there were no specific targets set for the reduction of poverty in Sabah and Sarawak, measures were implemented to improve the socio-economic status of the poor in the two states during the decade. These measures included the implementation of programmes for productivity improvements such as land development and input subsidies for crop replanting and intercropping, and purchases of farm equipment as well as for improvements in the quality of life. The effects of these measures were also assisted by rapid employment growth in Sabah and Sarawak, estimated at 4.3% per annum, during the period.

Strategies and programmes for poverty eradication

95. Prior to the NEP, much of the focus of development policies and programmes was centred on growth, especially of plantation, mining and trade and commerce, leading to an inequitable sharing of development. Under the NEP, the strategy of poverty eradication called for a pattern of development which provides opportunities for the poor to participate effectively in the growth process and share in the benefits of development.

96. The programmes implemented for expediting the process of poverty eradication during 1971-80 included the provision of improved inputs and facilities in existing agricultural areas, the absorption of poor households into modern agriculture and other sectors through accelerated creation of productive employment opportunities, and the provision of social services and amenities such as education, health, housing, water and electricity. With these programmes, the poor were able to increase their productivity and income through a fuller utilization of their productive assets and skills, as well as enjoy an improvement in their quality of life.

Overall performance

97. The improvements made in respect of poverty eradication in Peninsular Malaysia are shown in Table 3-1. The overall incidence declined from 49.3% in 1970 to 29.2% in 1980. The estimated number of households in poverty declined from 791,800 in 1970 to 666,100 in 1980. In the agricultural sector, the incidence of poverty which stood at 68.3% in 1970 was estimated to have declined to 46.1% in 1980. The decline was relatively faster in the non-agricultural sector where it declined from 27.8% in 1970 to 16.8% in 1980.

98. In terms of rural and urban strata, the incidence of rural poverty declined from 58.7% in 1970 to 37.7% in 1980 while that of urban areas from 21.3% to 12.6% as shown in Table 3-2. The decline of 8.7 percentage points in the urban poverty incidence is significant in view of its small base.

TABLE 3-1

PENINSULAR MALAYSIA: INCIDENCE OF POVERTY BY SECTOR, 1970, 1975 AND 1980

	1970				1975				1980			
	Total house- holds (000)	Total poor house- holds (000)	Incidence of poverty (%)	Per- centage among poor (%)	Total house- holds (000)	Total poor house- holds (000)	Incidence of poverty (%)	Per- centage among poor (%)	Total house- holds (000)	Total poor house- holds (000)	Incidence of poverty (%)	Per- centage among poor (%)
AGRICULTURE:												
Rubber smallholders	350.0	226.4	64.7	28.6	396.3	233.8	59.0	28.0	425.9	175.9	41.3	26.4
Oil palm smallholders	6.6	2.0	30.3	0.3	9.9	0.9	9.1	0.1	24.6	1.9	7.8	0.3
Coconut smallholders	32.0	16.9	52.8	2.1	34.4	17.5	50.9	2.1	34.2	13.3	38.9	2.0
Padi farmers	140.0	123.4	88.1	15.6	148.5	114.3	77.0	13.7	151.0	83.2	55.1	12.5
Other agriculture	137.5	126.2	91.8	16.0	157.4	124.1	78.8	14.9	172.2	110.5	64.1	16.8
Fishermen	38.4	28.1	73.2	3.5	41.6	26.2	63.0	3.1	42.8	19.4	45.3	2.9
Estate workers	148.4	59.4	40.0	7.5	127.0	59.7	47.0	7.1	112.5	39.5	35.2	5.9
Sub-total	852.9	582.4	68.3	73.6	915.1	576.5	63.0	69.0	963.2	443.7	46.1	66.6
NON-AGRICULTURE:												
Mining	32.4	11.1	34.3	1.4	31.8	10.1	31.8	1.3	32.6	11.1	34.0	1.7
Manufacturing	150.2	48.5	32.3	6.1	206.9	59.6	28.8	7.1	301.1	55.4	18.4	8.3
Construction	35.0	12.8	36.6	1.6	44.0	13.4	30.5	1.6	56.3	12.0	21.3	1.8
Transport and utilities	74.1	27.1	36.6	3.4	103.1	29.0	26.8	3.5	137.2	31.5	23.0	4.7
Trade and services	461.4	109.9	23.8	13.9	595.5	146.5	24.6	17.6	793.6	112.4	14.2	16.9
Sub-total	753.1	209.4	27.8	26.4	986.3	258.6	26.2	31.0	1,330.8	222.4	16.8	33.4
TOTAL	1,606.0	791.8	49.3	100.0	1,901.4	835.1	43.9	100.0	2,284.0	666.1	29.2	100.0

Note:

1. The calculations took into consideration the effects of programmes implemented during 1971-80 as well as changes in other factors, such as prices and costs.
2. Data from studies conducted by Economic Planning Unit and Socio-Economic Research Unit in the Prime Minister's Department, Ministry of Agriculture, Department of Statistics and other agencies were used in the computations.

TABLE 3-2

**PENINSULAR MALAYSIA: INCIDENCE OF POVERTY BY
RURAL-URBAN STRATA, 1970, 1975 AND 1980**

	1970				1975				1980			
	Total house- holds (000)	Total poor house- holds (000)	Incidence of poverty (%)	Per- centage among poor (%)	Total house- holds (000)	Total poor house- holds (000)	Incidence of poverty (%)	Per- centage among poor (%)	Total house- holds (000)	Total poor house- holds (000)	Incidence of poverty (%)	Per- centage among poor (%)
RURAL:												
Agriculture	852.9	582.4	68.3	73.6	915.1	576.5	63.0	69.0	963.2	443.7	46.1	66.6
Rubber smallholders	350.0	226.4	64.7	28.6	396.3	233.8	59.0	28.0	425.9	175.9	41.3	26.4
Oil Palm smallholders	6.6	2.0	30.3	0.3	9.9	0.9	9.1	0.1	24.6	1.9	7.7	0.3
Coconut smallholders	32.0	16.9	52.8	2.1	34.4	17.5	50.9	2.1	34.2	13.3	38.9	2.0
Padi farmers	140.0	123.4	88.1	15.6	148.5	114.3	77.0	13.7	151.0	83.2	55.1	~12.5
Other agriculture	137.5	126.2	91.8	16.0	157.4	124.1	78.8	14.9	172.2	110.5	64.1	16.6
Fishermen	38.4	28.1	73.2	3.5	41.6	26.2	63.0	3.1	42.8	19.4	45.3	2.9
Estate workers	148.4	59.4	40.0	7.5	127.0	59.7	47.0	7.1	112.5	39.5	35.1	5.9
Other industries	350.5	123.5	35.2	15.6	433.3	153.4	35.4	18.4	546.4	124.8	22.8	~18.7
Sub-total	1,203.4	705.9	58.7	89.2	1,348.4	729.9	54.1	87.4	1,509.6	568.5	37.7	85.3
URBAN:												
Mining	5.4	1.8	33.3	0.2	5.3	2.0	37.7	0.2	5.4	1.8	33.0	0.3
Manufacturing	84.0	19.7	23.5	2.5	120.4	21.0	17.4	2.5	182.3	24.4	13.4	3.7
Construction	19.5	5.9	30.2	0.7	25.5	6.1	23.9	0.7	34.0	5.9	17.4	0.9
Transport and utilities	42.4	13.1	30.9	1.7	64.4	13.8	21.4	1.7	85.0	16.3	19.2	2.4
Trade and services	251.3	45.4	18.1	5.7	337.4	62.3	18.5	7.5	467.7	49.2	10.5	7.4
Sub-total	402.6	85.9	21.3	10.8	553.0	105.2	19.0	12.6	774.4	97.6	12.6	14.7
TOTAL	1,606.0	791.8	49.3	100.0	1,901.4	835.1	43.9	100.0	2,284.0	666.1	29.2	100.0

NOTE:

1. The calculations took into consideration the effects of programmes implemented during 1971-80 as well as changes in other factors, such as prices and costs.
2. Data from studies conducted by Economic Planning Unit and Socio-Economic Research Unit in the Prime Minister's Department, Ministry of Agriculture, Department of Statistics and other agencies were used in the computations.

99. The opening of new land for settlement represented one of the programmes which contributed to the reduction in poverty. About 72,200 households had been absorbed into land schemes, the majority of whom were either landless or with uneconomic holdings, contributing to the decline in the incidence of poverty during the period in Peninsular Malaysia. A total of 32,000 hectares and 19,700 hectares of land had been developed during 1971-80 in Sabah and Sarawak, respectively, especially with oil palm, rubber and cocoa. About 4,650 settlers were resettled in land schemes in the two states during 1971-80.

100. The decline in the incidence of rural poverty was also accounted for by, in situ development efforts, such as crop replanting and rehabilitation, intercropping and the provision of drainage and irrigation facilities. Average yield per hectare of rubber smallholdings was estimated to be 1,100 kilos in 1980 compared with 730 kilos in the early 1970s. Among padi farmers, the average yield per hectare for the main season crop increased from 1,055 *gantang* in 1970 to 1,260 *gantang* in 1980, while the yield increase for the off-season crop was from 1,249 *gantang* to 1,350 *gantang*. Yield of coconut smallholdings increased by 25% on farms which had been rehabilitated, and by about 200% on holdings replanted with the MAWA variety.

101. The implementation of programmes for intercropping and diversification covering 25,600 hectares contributed towards increasing income and greater utilization of farm labour. Apart from diversifying farm incomes, the programmes enabled the beneficiaries to partially overcome the constraint of farm size. Farmers in single crop *padi* areas were able to obtain additional income from tobacco planting during off-season. Similarly, the intercropping of coconut smallholdings with cocoa, coffee or fruit trees generated extra income to the smallholders. These efforts led to the decline in unemployment in rural areas from 6.9% in 1974 to 6.1% in 1978.

102. In Sabah and Sarawak, land rehabilitation had also been pursued especially in areas where customary rights on land were in practice. During 1976-80, Sarawak Land Consolidation and Rehabilitation Authority (SALCRA) had rehabilitated about 4,500 hectares involving 500 households. The cash income per resettled family increased from about \$600 to about \$1,800 per year. Programmes for in situ development were also implemented involving over 9,200 hectares of rubber smallholdings which were replanted with high-yielding clones while about 11,100 hectares of *padi* were provided with irrigation facilities, of which 3,400 hectares were for double-cropping. A total of 4,600 hectares of rubber smallholdings were replanted while assistance for double-cropping and intercropping covered about 4,900 households. In Sabah, *Koperasi Pembangunan Desa* had been active in promoting commercialization of smallholder agriculture through joint enterprises with the farmers for the production of maize, coffee, ginger, soya bean, pepper and vegetables. The various programmes contributed to the creation of rural employment opportunities and improvements in income.

103. The prices of commodities remained favourable during 1975-80, particularly rubber, palm oil and cocoa, thereby helping to raise farm income levels. The average export price of rubber increased by about 134% from 128 cents per kilo in 1970 to 300 cents per kilo in 1980. This raised farm gate price for rubber from 77 cents per kilo to 183 cents per kilo. The price of palm oil also increased from 657 per tonne to \$1,140 per tonne during the period. The price of cocoa increased from \$3.00 to \$8.00 per kilo between 1975 and 1980. The increase in commodity prices had not only benefitted traditional farm households but also those households working in rubber and oil palm estates whose total earnings were largely influenced by commodity prices.

104. Mean monthly household income increased by about 78% from about \$200 in 1970 to \$355 in 1979 for the rural areas. For the urban areas, the increase was about 58% from \$428 to \$675 during the same period. It was estimated that the average earning per worker for all industries improved by 68.4% from \$190 per month in 1973 to \$320 in 1979, while the total increase in consumer prices during the period was 44%.

105. The bulk of the non-agricultural poor was made up primarily of unskilled workers in manufacturing, construction, trade and services. The incidence of poverty among them declined from 27.8% in 1970 to 16.8% in 1980. In absolute terms, however, the total non-agricultural poor households increased from 209,400 in 1970 to about 222,400 in 1980, reflecting the problems associated with rural-urban migration. While in-migration posed challenge to poverty eradication efforts in urban areas, it helped to reduce the number of poor in rural areas.

Income improvements

106. The income levels of the lowest four deciles¹ of the population in Peninsular Malaysia, which formed the bulk of the poor, had improved. As shown in Table 3-3, the mean monthly household income for these groups increased from \$76 in 1970 to \$142 in 1976. By 1979, it had increased to \$186, about 145%, above the level in 1970 signifying 'Improvements' in the income position of the various target groups. The mean monthly income of rubber smallholders increased from \$228 in 1973 to \$450 in 1979. For the fishermen, the mean monthly income increased from about \$90 in 1972 to about \$200 in 1979. In the case of *padi* farmers, the mean monthly income increased from \$11.0 in 1970 to about \$154 in 1979². However, the purchase price of *padi* under the Guaranteed Minimum Price scheme was increased by eight dollars per *pikul* in 1980, reducing the number of poor among *padi* farmers by about 14,500 households.

¹ These refer to the lowest 40% of households in the size distribution of income.

² The income data for 1979 for rubber smallholders, fishermen and *padi* farmers are obtained from Poverty Group Survey 1979, initiated by the Economic Planning Unit.

TABLE 3-3

PENINSULAR MALAYSIA: MEAN MONTHLY HOUSEHOLD
INCOME OF THE LOWEST FOUR DECILES FOR 1970, 1976
AND 1979

	1970 (\$)	1976 (\$)	1979 (\$)	Annual growth rate	
				1971-76 (%)	1971-79 (%)
Malay	56.76	101.95	140.35	10.3	10.6
Indian	135.93	247.27	280.11	10.5	8.4
Others	112.48	197.21	263.43	9.8	9.9
TOTAL	44.72	107.08	154.37	15.7	14.8
	75.90	142.19	186.19	11.0	10.5

Source: Post Enumeration Survey of the 1970 Population and Housing Census,
Agriculture Census 1977 and Labour Force Survey 1980.

107. Income improvements among settlers in land development schemes were more substantial. The average monthly income of settlers on Federal Land Development Authority (FELDA) schemes ranged from \$490-\$810 in 1979 compared with incomes of only about \$80-\$120 from their previous occupations. However, their income levels varied during the period depending on the prices, the crops grown and the size of holdings.

Poverty eradication among the target groups

108. In Peninsular Malaysia, the target groups which had been identified, for the purpose of poverty eradication comprised rubber smallholders, *padi* farmers, fishermen, coconut smallholders, estate workers, New Village residents, agricultural labourers, the *Orang Asli* and the urban poor.

109. In Sabah, the programmes of poverty eradication were directed to the principal poverty groups, which included, *inter alia*, fishermen, rubber smallholders, *padi* farmers, shifting cultivators and the urban poor. In Sarawak, the poverty groups included those who were wholly or mainly dependent on shifting cultivation, subsistence wet *padi* farmers, rubber and coconut smallholders with low-yielding stock, sago producers among the Melanaus and indigenous fishermen.

Rubber smallholders

110. As shown in Table 3-1, the incidence of poverty among the rubber smallholders in Peninsular Malaysia declined from 64.7% in 1970 to 41.3% in 1980, consequent upon productivity improvements in the sector and the prevalence of high rubber prices in the second half of the review period. In 1980, the estimated yield per hectare was 1,105 kilos compared with 750 kilos and 1,069 kilos in 1970 and 1975, respectively. This was largely due to,

the replanting of smallholdings with high-yielding clones. Over 135,100 holdings covering 279,000 hectares were involved in the replanting scheme over the period. The average rubber price in 1980 was 300 cents per kilo compared with 128 cents per kilo in 1970.

1. Replanting efforts undertaken prior to 1970 also influenced productivity among the rubber smallholders during 1971-80. About 77,900 holdings covering 172,500 hectares which were replanted during 1971-75 began to mature during 1976-80. However, during 1976-80, only 57,200 holdings covering 106,500 hectares were replanted. This decline in the total number of smallholdings replanted was due partly to the high price level of rubber after 1975 making it unattractive for smallholders to replant.

112. Access to better processing facilities improved throughout 1971-80 with the provision of about 1,903 smallholders development centres implemented by Rubber Industry Smallholders Development Authority (RISDA). In addition, purchases of smallholder rubber by the Malaysian Rubber Development Corporation (MARDEC) also expanded from 35,400 tonnes in 1976 to 55,000 tonnes in 1980, an increase of 55%. The combined effect of these measures coupled with good rubber prices was to raise the average monthly income of rubber smallholders from about \$228 in 1973 to about \$450 in 1979.

113. In Sabah, the Sabah Rubber Fund Board had continued with its programmes to improve the income level of the rubber smallholders by raising their productivity. Over the period 1971-80, about 10,500 hectares were newplanted and 8,200 hectares replanted with high-yielding clones. It was estimated that the programmes benefitted 5,200 and 4,200 families, respectively. In Sarawak, under the rubber smallholding planting scheme, a total of 7,700 hectares were replanted and 9,200 hectares newplanted during 1971-80.

Padi farmers

114. The incidence of poverty among *padi* farmers declined from 88.1% in 1970 to 55.1% in 1980. The decline was substantial in that it exceeded the targetted 73% for 1980 and was attained in a period characterised by unfavourable weather condition, increased consumer prices and rising input costs. The cumulative effect of public measures through irrigation, extension, subsidies and price support contributed towards this decline in poverty. However, the incidence of poverty among *padi* farmers continued to be high primarily due to the existence of large number of uneconomic holdings, exacerbated by low yields in areas outside the major irrigation schemes.

115. New irrigation facilities for both single and double-cropping of *padi* were expanded, covering about 68,000 hectares during 1971-80. In addition, yield of *padi* during main season improved from 1,055 *gantang* per hectare to 1,260 *gantang* during 1971-80. The yield improvements were experienced not only in high productivity areas, such as Muda and Tanjung Karang, but

multi-purpose boats. Out of those absorbed in these schemes, about 48% were able to earn incomes above the poverty line while the others experienced improvements in their income although at a lower rate. Out-migration into other sectors, such as into land settlement and aquaculture, projects, also helped to reduce poverty within the group.

121. The provision of subsidies by the Department of Fisheries for the acquisition of boats and gears benefitted about 15,500 fishermen. Altogether about 2,700 in-board and 5,200 out-board engines and 13,300 fishing gears were provided. It was estimated that the beneficiaries of the subsidy programmes experienced about 70% increases in income from an average of \$175 per month to an average of \$297 per month during the normal season.

122. In Sabah, a total of 1,200 fishermen were given assistance in the form of subsidies, boats and gears during 1971-80, while in Sarawak a total of 4,600 fishermen obtained such assistance. In addition, fresh-water fishery projects were implemented in the two states helping to create rural job opportunities.

Coconut smallholders

123. Out of a total of 34,200 specialised coconut smallholders, 38.9% were considered poor in 1980 compared with 52.8% in 1970. The major part of this improvement was accounted for by replanting and rehabilitation schemes as well as by intercropping with cocoa, coffee and fruit trees. During 1975, over 4,500 hectares were replanted, some of which began to mature during 1976-80. The replanting scheme covering 3,500 hectares during 1976-80 was largely undertaken with MAWA hybrids which gave a two-fold increase in yield per hectare and, therefore, had a favourable effect on the income of the smallholders.

124. Coconut replanting and rehabilitation were undertaken with intercropping of either cocoa or coffee covering a total of 8,400 hectares during 1971-80. This scheme enabled a fuller utilization of farm labour and increased income levels among the smallholders. Based on 1980 prices, it was estimated that a replanted and intercropped holding could generate an additional income per hectare of \$740 to \$1,200 per year.

Estate workers

125. The socio-economic position of estate workers, particularly those in larger estates, had improved as a result of a higher income level and increased social amenities provided by the estate management. Apart from higher basic wage rates, they also benefitted from greater bonus and incentive payments based on commodity prices. As a result, the poverty incidence declined from 40% in 1970 to 35.1% in 1980. The average earning per month in 1979 was about \$246 and \$276 for rubber and oil palm estate workers, respectively, about 61% and 93% higher than the average for

1972-78 had increased in the range of 70-240% : in Perak, the cost increased from \$173 to \$432 per hectare; in Kelantan, it increased from \$183 to \$415; and in Pulau Pinang, from \$267 to \$489. Data from a socio-economic survey of coconut smallholders indicated that the cost of hired labour also increased during 1971-80.

131. The programmes to assist *Orang Asli* were designed to improve their present socio-economic conditions by encouraging them to go into permanent agriculture. These included small-scale land development, and minor agricultural schemes, such as livestock husbandry and fresh-water fisheries. About 1,270 families had been assisted through the various minor agriculture schemes. During the period, about 10,100 hectares of land were converted into permanent agriculture and about 2,000 heads of cattle were distributed to the *Orang Asli*.

132. In addition, facilities for their social improvement in the field of education, health and housing were also expanded during 1971-80. In the field of education, 101 primary schools and 67 school hostels were built. In the field of health, 85,000 cases were given treatment and, in the field of housing, about 2,000 houses were built for the community.

Urban poor

133. The growth of the informal sector through its linkages with modern construction, manufacturing and service industries assisted in improving the income position of the poor. They also benefitted from the employment opportunities directly generated by the growth of these modern activities. A total of 1.3 million jobs were created in secondary and tertiary sector industries during 1971-80. Urban unemployment declined from 7.7% in 1974 to 6.7% in 1978. The average wage level in the industrial sector increased by about 6.8% from \$190 in 1973 to \$320 in 1979, thus benefitting the urban poor, a significant number of whom were workers in production, sales and services.

134. The urban poor also benefitted from low-cost housing programmes implemented in urban areas as well as from the implementation of assistance provided for the acquisition of stalls, premises and trading equipment among the petty traders. A total of 5,900 petty traders were assisted under this programme. In addition, poor households in some squatter settlements in the Federal Territory benefitted from the squatters upgrading programme implemented in the area.

Improvements in the quality of life

135. Programmes for improving health, education, housing and utilities which have direct relevance to the immediate needs of the society, especially the poor, were further expanded during 1971-80. In the field of health and

medical services, the number of rural health centres and sub-centres, mid-wife clinics and *Klinik Desa* increased by 55% during 1971-80 in Peninsular Malaysia. Similarly, the facilities for dental and polyclinics had also been expanded in urban centres giving immediate and valuable services to the urban poor. In the field of nutrition, the Applied Nutrition Programme which was initially implemented in Peninsular Malaysia in 1976 had been expanded to cover Sabah and Sarawak. By 1980, over 450 villages were covered by this programme. All these contributed to the decline in the overall infant mortality rate from 40.8 per thousand in 1970 to 28.1 per thousand in 1980 in Peninsular Malaysia. The maternal mortality rate for Peninsular Malaysia decreased from 1.48 per thousand in 1970 to 0.54 per thousand in 1978.

136. During 1971-80, the low-income population had greater access to educational facilities with the expansion of primary and secondary schools and of the junior science colleges. In addition, they benefitted from assistance programmes, such as scholarships, text-book loans and supplementary feeding.

137. The Government continued to implement low-cost housing programmes for the benefit of low-income population in both rural and urban areas. It had also assisted in the rehabilitation of rural houses. In addition, the provision of treated water, and electricity was expanded especially in the rural areas. The coverage of treated water supply in the rural areas was estimated to be 47.2% in 1980 compared with 39% in 1970 in Peninsular Malaysia. In the case of electricity, the coverage increased from 28.7% in 1970 to 52.3% in 1980. Similarly, such facilities were expanded in Sabah and Sarawak. Further, the expansion in transport and communication facilities, including the construction of rural roads, also helped to improve the overall living condition of the poor.

1976 Poverty profile

138. The Agriculture Census 1977, provides a direct estimate of poverty in Peninsular Malaysia, Sabah and Sarawak in 1976⁴. As shown in Table 3-4, it was estimated that 37.7% of the total households were in poverty in 1976, the incidence for Peninsular Malaysia, Sabah and Sarawak being 35.1%, 51.2% and 11.7%, respectively. In absolute terms, about 829,300 households were in poverty, of which 78.3% or 688,300 were in Peninsular Malaysia, 9.5% or 83,900 in Sabah and 12.2% or 107,100 in Sarawak. In terms of rural-urban Strata, 89.7% of the poor households were in rural areas. The incidence of rural poverty was 45.7% while that of the urban 15.4%.

⁴ The Census provides for the first time information on poverty for Sabah and Sarawak. Data on poverty by target groups have not yet been tabulated and as such the information cannot be compared with the only other direct estimate made for Peninsular Malaysia in 1970. The figures for 1975 and 1980 represent projections made for Peninsular Malaysia using the Post Enumeration Survey of the 1970 Population and Housing Census as a base, taking into account the effects of major developments on poverty incidence.

TABLE 3-4

MALAYSIA : INCI NCE OF POVERTY BY STATE AND RURAL-URBAN STRATA, 1976

	Total				Rural				Urban			
	Total house- holds (000)	Total poor house- holds (000)	Incidence of poverty (%)	Per- centage among poor (%)	Total house- holds (000)	Total poor house- holds (000)	Incidence of poverty (%)	Per- centage among poor (%)	Total house- holds (000)	Total poor house- holds (000)	Incidence of poverty (%)	Per- centage among poor (%)
Johor	270.3	73.9	27.3	8.4	196.5	64.9	33.0	8.3	73.8	9.0	12.2	9.5
Kedah	219.0	120.6	55.1	13.7	193.0	114.3	59.3	14.6	26.0	6.3	24.2	6.7
Kelantan	169.7	100.4	59.2	11.4	144.2	91.4	63.4	11.6	25.5	9.0	35.3	9.5
Melaka	86.2	25.1	29.1	2.9	66.4	22.6	34.0	2.9	19.8	2.5	12.6	2.7
Negri Sembilan	106.8	28.5	26.7	3.2	86.6	26.5	30.6	3.4	20.2	2.0	9.9	2.1
Pahang	118.5	37.9	32.0	4.3	97.1	35.1	36.1	4.5	21.4	2.8	13.1	3.0
Perak	344.2	133.1	38.7	15.1	239.1	116.6	48.8	14.8	105.1	16.5	15.7	17.5
Perlis	30.0	14.6	48.7	1.7	30.0	14.6	48.7	1.9	—	—	—	—
Pulau Pinang	157.1	46.3	29.5	5.3	82.6	34.1	40.8	4.3	73.5	12.2	16.6	12.9
Selangor	215.2	46.1	21.4	5.2	156.1	40.6	26.0	5.2	59.1	5.5	9.3	5.8
Trengganu	101.8	52.3	51.4	6.0	75.4	42.3	56.1	5.4	26.4	10.0	37.9	10.6
Federal Territory	142.1	9.5	6.7	1.1	49.5	3.2	6.5	0.4	92.6	6.3	6.8	6.7
Peninsular Malaysia	1,960.9	688.3	35.1	78.3	1,417.5	606.2	42.8	77.3	543.4	82.1	15.1	87.0
Sabah	163.7	83.2	51.2	9.5	133.0	78.0	58.6	9.9	30.7	5.9	19.2	6.2
Sarawak	201.1	107.1	53.7	12.2	162.8	100.7	60.0	12.8	39.3	6.4	16.3	6.8
TOTAL	2,331.7	879.3	37.7	100.0	1,718.3	784.9	45.7	100.0	613.4	94.4	15.4	100.0
Percentage within total	—	100.0	—	—	—	89.7	—	—	—	10.3	—	—

139. The States of Kelantan, Kedah, Trengganu, Sabah, Sarawak, and Perlis 'registered high incidence' of poverty ranging from 48.7% to 59.2%, together accounting for 478,900 or 54% of total households in poverty. The number of poor households in Sabah and Sarawak totalled 191,000 representing 21.7% of the total poor households. Although Perak had fairly moderate incidence of poverty (38.7%), in absolute terms, it accounted for about 133,100 households or 15.1% of the total poor households, making it the state with the largest number of poor households in the country.

140. As shown in Table 3-5, in terms of ethnic distribution; the Malays accounted for 75.5% of total poor households in Peninsular Malaysia, compared with 15.9% and 7.8% for Chinese and Indians, respectively. The incidence of poverty for Malays, Chinese and Indians were 46.4%, 17.4% and 27.3%, respectively. The bulk of the Malay poor were located in rural areas which accounted for 93% of the total Malay poor households. In Sabah and Sarawak, as shown in Table 3-5A and Table 3-5B, Bumiputera accounted for 82% and 86% of the total poor, respectively, a large majority of whom were found in rural areas. In Sabah, the Kadazan and Bajau made up 51.7% of the total poor, while in Sarawak, the Ibans, Malays and Land Dayaks accounted for 74.8% of the total poor.

141. The majority of the poor were employed in agriculture, forestry, hunting and fishing as indicated in Table 3-6. This sector accounted for 68.8% of the total poor in Peninsular Malaysia, 77.9% in Sabah and 84.9% in Sarawak. In rural-urban terms, the sector accounted for 77.9% of total rural poor and 14.6% of total urban poor. The significant urban sectors where the incidence of poverty was high were services, trade and manufacturing.

142. Table 3-7 indicates that the level of poverty varied according to status of employment. Of the poor, 51.2% had their family heads working as self-employed workers, especially in the rural areas. The second largest category of activity status was the wage earners which accounted for 36.5% of heads of poor households. The proportion of self-employed was higher in Sarawak (78%) and Sabah (65.7%) compared with that in Peninsular Malaysia (45.2%). In rural-urban terms; the majority of the rural poor were self-employed (54.4%) while the wage earners (54.1%) formed the majority of the poor in urban areas.

143. Table 3-8 shows that 42.4% of the heads of poor households had no formal education while 53.3% had some primary education. A bigger number of poor households in rural areas had no formal education compared with that in urban areas. Those with no formal education and those with primary education together accounted for 95.7% of the total poor in 1976. The table also indicates that there was variation in the level of education achieved among heads of poor households between the Peninsular Malaysia, Sabah and Sarawak. While the category without formal education accounted for 35.4% of the total poor in Peninsular Malaysia, it was 66.4% in Sabah and 65.3% in Sarawak.

TABLE 3-5

**PENINSULAR MALAYSIA: PERCENTAGE AMONG POOR HOUSEHOLDS BY
STATE, RURAL-URBAN STRATA AND ETHNIC ORIGIN, 1976**

State	TOTAL					
	Malay		Chinese		Indian	
	Total poor house- holds (000)	Perce- tage among poor (%)	Total poor house- holds (000)	Perce- tage among poor (%)	Total poor house- holds (000)	Perce- tage among poor (%)
Johor	53.7	10.4	17.1	15.7	3.0	5.6
Kedah	98.6	19.0	11.5	10.5	7.6	14.2
Kelantan	96.3	18.5	1.9	1.8	0.4	0.7
Melaka	18.0	3.5	5.4	4.9	1.7	1
Negeri Sembilan	19.4	3.7	5.3		3.8	7.0
Pahang	32.1	6.2	4.5	4.2	1.1	2.0
Perak	84.3	16.2	3.7	29.0	17.1	31.8
Perlis	12.9	2.5	1.1	1.0	0.1	0.2
Pulau Pinang	24.1	4.6	16.7	15.3	5.4	10.0
Selangor	25.1	4.8	10.6	9.6	10.3	19.2
Trengganu	51.4	9.9	0.7	0.6	0.1	0.3
Federal Territory	3.4	0.7	2.9	2.6	3.2	5.9
TOTAL	519.4	100.0	109.4	100.0	53.8	100.0
Percentage within total	75.5	—	15.9	—	7.8	—
Incidence of poverty (%)	46.4	—	17.4	—	27.3	—
					33.8	—

* Negligible

TABLE 3-5—(cont.)

PENINSULAR MALAYSIA: PERCENTAGE AMONG POOR HOUSEHOLDS BY
STATE, RURAL-URBAN STRATA AND ETHNIC ORIGIN, 1976—(cont.)

RURAL

State	Malay		Chinese		Indian		Others		Total	
	Total poor house- holds (000)	Per- cent- age among poor (%)	Total poor house- holds (000)	Per- cent- age among poor (%)	Total poor house- holds (000)	Per- cent- age among poor (%)	Total poor house- holds (000)	Per- cent- age among poor (%)	Total poor house- holds (000)	Per- cent- age among poor (%)
Johor	49.3	10.2	13.3	17.2	2.3	5.7	*	0.3	64.9	10.7
Kedah	96.3	19.9	8.7	11.2	6.5	15.9	2.9	53.9	114.4	18.9
Kelantan	88.1	18.2	1.4	1.8	0.3	0.7	1.7	31.7	91.5	15.1
Malaka	17.4	3.6	3.8	5.0	1.4	3.4	*	0.2	22.6	3.7
Negri Sembilan	18.7	3.9	4.5	5.8	3.3	8.1	*	0.7	26.5	4.4
Pahang	30.7	6.3	3.4	4.4	1.0	2.5	*	0.3	35.1	5.8
Perak	80.9	16.7	22.5	29.2	13.1	32.4	*	0.5	116.5	19.2
Perlis	12.9	2.7	1.1	1.4	0.1	0.2	0.5	8.5	14.6	2.4
Pulau Pinang	21.6	4.5	9.4	12.2	3.0	7.3	*	0.3	34.0	5.6
Selangor	24.0	5.0	7.6	9.9	8.9	21.9	0.1	2.1	40.6	6.7
Trengganu	41.9	8.7	0.3	0.4	0.1	0.3	0.1	1.0	42.4	7.0
Federal Territory	1.3	0.3	1.2	1.5	0.7	1.6	*	0.5	3.2	0.5
TOTAL	483.1	100.0	77.2	100.0	40.7	100.0	5.3	100.0	606.3	100.0
Percentage within total	79.7	—	12.7	—	6.7	—	0.9	—	100.0	—
Incidence of poverty (%)	51.1	—	23.4	—	30.9	—	50.3	—	42.8	—

* Negligible

TABLE 3-5—(cont.)

PENINSULAR-MALAYSIA: PERCENTAGE AMONG POOR HOUSEHOLDS BY
STATE, RURAL-URBAN STRATA AND ETHNIC ORIGIN, 1976—(cont.)

URBAN

State	Malay			Chinese			Indian			Others			Total	
	Total poor house- holds (000)	Percen- tage among poor (%)	Total poor house- holds (000)	Percen- tage among poor (%)	Total poor house- holds (000)	Percen- tage among poor (%)	Total poor house- holds (000)	Percen- tage among poor (%)	Total poor house- holds (000)	Percen- tage among poor (%)	Total poor house- holds (000)	Percen- tage among poor (%)	Total poor house- holds (000)	Percen- tage among poor (%)
Johor	4.4	12.1	3.8	11.9	0.8	5.6	*	9.6	9.0	11.0				
Kedah	2.2	6.1	2.9	8.9	1.2	8.9	*	8.9	6.3	7.7				
Kelantan	8.2	22.7	0.6	1.7	0.1	0.9	0.1	28.6	9.0	10.9				
Melaka	0.6	1.7	1.5	4.8	0.3	2.1	0.1	9.8	2.5	3.0				
Negeri Sembilan	0.7	1.9	0.8	2.7	0.5	3.7	—	—	2.0	2.5				
Pahang	1.5	4.3	1.1	3.5	0.1	0.6	0.1	10.4	2.8	3.4				
Perak	3.4	9.3	9.1	28.4	4.0	30.2	—	—	16.5	20.1				
Perlis	—	—	—	—	—	—	—	—	—	—				
Pulau Pinang	2.4	6.7	7.3	22.8	2.4	18.1	0.1	17.2	12.2	14.9				
Selangor	1.1	3.0	2.9	9.0	1.5	10.9	*	8.9	5.5	6.7				
Trengganu	9.5	26.5	0.4	1.1	*	0.2	—	—	9.9	12.1				
Federal Territory	2.1	5.7	1.7	5.2	2.5	18.8	*	6.6	6.3	7.7				
TOTAL	36.1	100.0	32.1	100.0	13.4	100.0	0.4	100.0	82.0	100.0				
Percentage within total	44.0	—	39.3	—	16.2	—	0.5	—	100.0	—				
Incidence of poverty (%)	21.0	—	10.8	—	20.2	—	6.2	—	15.1	—				

* Negligible

TABLE 3-5A

SABAH: PERCENTAGE AMONG POOR HOUSEHOLDS BY
ETHNIC ORIGIN AND RURAL-URBAN STRATA, 1976

Ethnic origin	Rural		Urban		Total	
	Total poor households (000)	Percentage among poor (%)	Total poor households (000)	Percentage among poor (%)	Total poor households (000)	Percentage among poor (%)
Malay	4.2	5.4	0.8	13.5	5.0	6.0
Kadazan	29.5	37.8	0.2	3.7	29.7	35.4
Bajau	12.6	16.2	1.0	17.2	13.6	16.3
Murut	4.8	6.2	*	0.4	4.8	5.7
Other Indigenous	15.7	20.1	0.6	11.0	16.3	19.5
Chinese	3.5	4.5	1.3	21.5	4.8	5.7
Others	7.7	9.8	1.9	32.9	9.6	11.4
TOTAL	78.0	100.0	5.8	100.0	83.8	100.0
Percentage within total	93.1	—	6.9	—	100.0	—

* Negligible

TABLE 3-5B

SARAWAK: PERCENTAGE AMONG POOR HOUSEHOLDS BY
ETHNIC ORIGIN AND RURAL-URBAN STRATA, 1976

Ethnic origin	Rural		Urban		Total	
	Total poor households (000)	Percentage among poor (%)	Total poor households (000)	Percentage among poor (%)	Total poor households (000)	Percentage among poor (%)
Malay	18.2	18.1	1.3	21.0	19.5	18.2
Iban	47.6	47.3	0.9	13.9	48.5	45.3
Land Dayak	12.0	11.9	0.1	0.8	12.1	11.3
Melanau	7.5	7.4	0.3	4.7	7.8	7.3
Other Indigenous	4.1	4.0	*	0.3	4.1	3.8
Chinese	11.3	11.2	3.7	58.5	15.0	14.0
Others	7	0.1	0.1	0.8	0.1	0.1
TOTAL	100.7	100.0	6.4	100.0	107.1	100.0
Percentage within total	94.0	—	6.0	—	100.0	—

* Negligible

TABLE 3-6

**MALAYSIA: PERCENTAGE AMONG HEADS OF POOR HOUSEHOLDS
BY INDUSTRY OF EMPLOYMENT AND RURAL-URBAN STRATA, 1976**

Industry	Peninsular Malaysia			Sabah			Sarawak			Total		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Agriculture, forestry, hunting and fishing	75.4	14.6	68.8	82.0	17.6	77.9	88.6	10.9	84.9	77.9	14.6	71.8
Mining and quarrying	1.3	1.0	1.3	0.3	0.5	0.3	0.4	0.4	0.3	1.0	0.9	1.1
Manufacturing	4.7	11.9	5.5	1.1	4.9	1.3	3.2	14.9	3.8	4.1	11.6	4.8
Electricity, gas and water	0.3	1.7	0.5	0.4	1.7	0.5	0.1	0.3	0.1	0.3	1.7	0.4
Construction	3.2	10.9	4.0	3.5	18.8	4.5	1.8	23.2	2.8	3.0	12.2	3.9
Wholesale and retail trade, restaurants and hotels	5.5	19.3	7.0	2.5	21.2	3.7	2.2	23.6	3.2	4.7	19.7	6.2
Transport, storage and communication	3.2	13.8	4.3	1.7	14.4	2.5	1.2	10.9	1.7	2.8	13.6	3.8
Financing, insurance, real estate and business services	0.3	1.6	0.4	0.3	1.2	0.4	0.2	1.0	0.3	0.3	1.6	0.4
Community, social and personal services	5.4	22.4	7.2	8.1	19.3	8.8	2.3	14.8	2.9	5.3	21.7	6.8
Activities not defined or defined inadequately	0.7	2.8	1.0	0.1	0.4	0.1	—	—	—	0.6	2.4	0.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 3-7

MALAYSIA: PERCENTAGE AMONG HEADS OF POOR HOUSEHOLDS BY ACTIVITY STATUS AND RURAL-URBAN STRATA, 1976

Activity status	Peninsular Malaysia			Sabah			Sarawak			Total		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Self-employed	47.9	25.4	45.2	69.6	13.8	65.7	81.8	19.3	78.0	54.4	24.2	51.2
Working for wages	39.4	53.1	41.0	24.1	73.7	27.5	12.2	50.1	14.4	34.3	54.1	36.5
Family worker	0.3	0.2	0.3	0.1	0.4	0.1	0.3	1.4	0.4	0.3	0.3	0.3
Looking after home	5.7	9.4	6.2	1.5	8.2	2.0	2.5	14.8	3.3	4.9	9.7	5.4
Others	6.7	11.9	7.3	4.7	3.9	4.7	3.2	14.4	3.9	6.1	11.7	6.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 3-8

MALAYSIA PERCENTAGE AMONG HEADS OF POOR HOUSEHOLDS BY
LEVEL AND RURAL-URBAN STRATA, 1976

Education level	Peninsular Malaysia			Sabah			Sarawak			Total		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
No formal education	36.1	30.8	35.4	68.8	34.6	66.4	70.8	28.0	68.3	43.8	30.9	42.4
Primary education	60.2	59.1	60.0	27.4	53.7	29.3	27.4	50.6	28.8	52.7	58.2	53.3
Lower secondary	2.6	6.9	3.2	3.0	7.9	3.3	1.4	15.4	2.2	2.6	7.5	3.1
Upper secondary	0.5	2.4	0.9	0.3	2.7	0.5	0.2	4.2	0.5	0.5	2.5	0.7
Higher education	0.1	0.3	0.1	—	0.4	—	0.1	1.2	0.1	*	0.4	0.1
Others	0.5	0.5	0.4	0.5	0.7	0.5	0.1	0.6	0.1	0.4	0.5	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Negligible

III. RESTRUCTURING OF SOCIETY

144. Policies and programmes for restructuring of society within the OPP period were designed to, *inter alia*:

- (i) increase the productivity and enhance the quality of life of the rural poor through rural modernization;
- (ii) reduce in progressive steps and through overall economic growth, current imbalances in employment so that employment in the various sectors of the economy and by occupational level will reflect the racial composition of the population;
- (iii) increase progressively and through overall growth of the economy, the share of Malaysians in the ownership of productive capital in the economy including corporate stock and in particular that of Bumiputera who currently account for a share which is particularly low in comparison with their representation in the population; and
- (iv) insure the creation of a commercial and industrial community among Bumiputera in order that, within one generation, they will own and manage at least 30% of the total commercial and industrial activities of the country in all categories and scales of operation and become full partners in the economic life of the nation.

145. Rural modernization and restructuring the racial composition of employment will assist in increasing the income of Bumiputera and at the same time help reduce existing differentials in average wages and salaries among the races. However, reductions in total income differentials between the races will require, in addition, that existing differentials in income arising from the ownership of assets are also narrowed. Considering that Bumiputera now own an insignificant part of total asset of the economy, the existing overall income differential between them and other Malaysians is even wider than wage and salary differences alone would suggest. Therefore, the attainment of the NEE objectives would also require progressive reduction of existing imbalances in the ownership of assets and wealth.

146. Restructuring ownership of assets includes all financial as well as physical assets, including land, in all sectors of the economy. However, as the economy develops and modernises, the role of the corporate sector will increase, and as the country's financial structure becomes increasingly sophisticated, the key to ownership and control of wealth will be through ownership of equity capital. In this regard, the target is that by 1990, Malaysians would account for about 70% of the total share capital of limited companies with Bumiputera holding at least 30% and other Malaysians 40%. The remainder will be held by foreign interests. The creation of entrepreneurs among Bumiputera requires the accumulation of savings which is possible only through rapid increase in their income as well as the acquisition of skills and experience.

Programmes and projects for restructuring

147. During the 1971-80 period, various policies and programmes were implemented in line with the NEP objectives and targets. Although each of these programmes was formulated to further the attainment of a particular target of the NEP, its implementation often produced impact on other targets and objectives. Programmes for manpower development, restructuring of employment and asset ownership as well as the development of Bumiputera entrepreneurs would have the effect of increasing their earnings, consistent with the objective of reducing income disparities between the races. These would also reduce poverty because of the fact that at the beginning of the OPP period, the bulk of the Bumiputera were poor (about 65% in 1970) and the bulk of the poor were Bumiputera (about 74% in 1970).

148. Programmes for employment restructuring included training and manpower development in specific areas where racial imbalances. Under these programmes, facilities for professional and sub-professional, and skill training were expanded in order to increase the number of trained and qualified Bumiputera. Facilities for professional and sub-professional courses at *Institut Teknologi* (ITM) were expanded. Additional skill training facilities were also provided at the *Institut Kemahiran MARA* (IKM) and the Youth Training Centres. To reinforce these programmes, the private sector was encouraged to restructure its workforce at all levels of occupation through job placement and sponsorship schemes and regular consultation between the Department of Labour and Manpower and private sector employers. At the secondary school level, MARA Junior Science Colleges were constructed in order to prepare Bumiputera for higher education in science and technology.

149. Programmes for the creation of a commercial and industrial community among Bumiputera included provision of financial assistance to acquire equity capital of companies reserved for them and the promotion of entrepreneurial development through programmes of credit assistance, advisory and extension services, technical assistance, administrative support and direct government participation in the private sector.

Overall performance

150. Public programmes and policy measures together with private sector efforts, including those of individual Bumiputera, had produced significant results since 1911 from the point of the restructuring targets of the NEP which are income imbalance, employment restructuring, the ownership of assets and the development of a commercial and industrial community among Bumiputera.

Income

151. Table 3-9 shows the changes in mean and median income by race from 1970 to 1979 in Peninsular Malaysia⁵. Over the first nine years of the NEP period, both the mean and median incomes of all racial groups increased significantly in both real and current terms.

152. In terms of income distribution among the races, the Malay mean income as a proportion of the national average increased from 65.2% in 1970 to 67.3% in 1979. The Chinese mean income was still above the national average but decreased from 149% in 1970 to 144% in 1979. Similarly, the Indian mean income as a proportion of the national average declined from 115% in 1970 to 102% in 1979. Income differential between rural and urban areas decreased during the period. Income inequality was higher in the rural than the urban areas, but in both cases, inequality was decreasing over the last decade.

153. The Agriculture Census 1977 data showed the mean monthly household income in Sabah in 1976 was \$513 while that in Sarawak was \$426 compared with the average of \$514 for Peninsular Malaysia. Urban incomes for Sabah and Sarawak based on the Agriculture Census 1977 and the Labour Force Survey 1980 showed a clear improvement in current as well as constant prices. Urban incomes in Sabah which stood at \$1,060 in 1976 had increased to \$1,221 in current prices in 1979. Similarly, urban mean incomes in Sarawak increased from \$871 to \$1,055.

Employment

154. The period 1971-80 saw a rapid growth in employment for all communities. Employment for the whole of Malaysia increased at an average annual rate of 4.1% between 1970 and 1980. The breakdown by racial groups, available only for Peninsular Malaysia, showed that unemployment of the Bumiputera decreased from 8.1% in 1970 to 5.1% in 1980, that of the Chinese from 7% to 5.3% and the Indians from 11% to 7.5%.

155. As shown in Table 3-10, there has been significant improvement in the distribution of employment in line with the restructuring objective that employment in all sectors and at all levels reflect the racial composition of the country. In the secondary sector where participation of Bumiputera had been low, their share of employment showed an increase from 32.1% in 1970 to 39.8% in 1980. Similarly, in the tertiary sector, their share of employment increased from 42.6% to 47%. At the same time, the share of other Malaysians in the primary sector had also increased from 32.4% to 33.8%.

⁵ The analysis of changes in incomes over time is confined to Peninsular Malaysia as data for total Malaysia are available only for 1976.

TABLE 3-9

PENINSULAR MALAYSIA: MEAN AND MEDIAN INCOMES, 1970-79

(\$ per household per month)

	In constant 1970 prices				In current prices		
	1973		1976		1973	1976	Annual growth rate 1971-79 (%)
Malay	172	209	237	309	242	345	5.3
mean	120	141	160	200	163	233	3.2
Chinese	394	461	540	659	534	787	1.94
mean	268	298	329	383	343	480	3.6
Indian	394	352	369	467	408	538	7.7
mean	194	239	247	314	277	360	5.2
Others	813	1,121	870	1,132	1,299	1,268	1.881
mean	250	306	270	331	355	394	5.50
All	264	313	353	459	362	514	7.63
mean	166	196	215	270	227	313	4.49
Urban	418	492	569	675	570	830	1.21
mean	255	297	340	368	345	495	1.1
Rural	200	233	269	355	269	392	0
mean	139	159	180	230	184	262	2.1

Source: 1. Est. Enquêteation Sur le Logement et la Population 1970, Household Income Survey 1973, Labour Force Survey 1973 (reference 1973).
 2. Agriculture Census 1977 (reference 1976); 3. Labour Force Survey 1980 (reference 1979).

TABLE 3-10

PENINSULAR MALAYSIA: EMPLOYMENT BY SECTOR AND RACE, 1970, 1975 AND 1980
(000)

Sector	1970				
	Malay	Chinese	Indian	Others	Total
Primary ⁶ (%)	902.5 (67.6)	265.4 (19.9)	154.0 (11.5)	12.9 (1.0)	1,334.6 (100.0)
Secondary ⁷ (%)	215.6 (32.1)	394.3 (58.7)	57.1 (8.5)	4.7 (0.7)	671.7 (100.0)
Tertiary ⁸ (%)	359.7 (42.6)	383.9 (45.5)	90.3 (10.7)	10.1 (1.2)	844.0 (100.0)
Total employed (%)	1,477.6 (51.8)	1,043.6 (36.6)	301.4 (10.6)	27.7 (1.0)	2,850.3 (100.0)
Labour force (%)	1,608.3 (51.9)	1,122.4 (36.2)	338.7 (10.9)	28.6 (0.9)	3,098.0 (100.0)
Unemployment (%)	130.7 (8.1)	78.8 (7.0)	37.3 (11.0)	0.9 (3.1)	247.7 (8.0)

Sector	1975				
	Malay	Chinese	Indian	Others	Total
Primary (%)	1,009.2 (68.4)	287.3 (19.5)	167.3 (11.3)	12.7 (0.9)	1,476.5 (100.0)
Secondary (%)	356.7 (36.1)	500.0 (53.6)	88.6 (9.5)	7.5 (0.8)	952.8 (100.0)
Tertiary (%)	509.5 (44.0)	515.3 (44.5)	121.6 (10.5)	11.5 (1.0)	1,157.9 (100.0)
Total employed (%)	1,855.4 (52.0)	1,302.6 (36.5)	377.5 (10.6)	31.7 (0.9)	3,567.2 (100.0)
Labour force (%)	1,975.7 (51.7)	1,390.7 (36.4)	421.8 (11.0)	34.9 (0.9)	3,823.1 (100.0)
Unemployment (%)	120.3 (6.1)	88.1 (6.3)	44.3 (10.5)	3.2 (9.2)	255.9 (6.7)

Sector	1980				
	Malay	Chinese	Indian	Others	Total
Primary (%)	1,020.2 (66.3)	306.1 (19.9)	199.4 (13.0)	13.4 (0.9)	1,539.1 (100.0)
Secondary (%)	495.4 (39.8)	636.0 (51.1)	105.8 (8.5)	7.3 (0.6)	1,244.7 (100.0)
Tertiary (%)	695.9 (47.0)	615.9 (41.6)	155.5 (10.5)	13.3 (0.9)	1,480.6 (100.0)
Total employed (%)	2,211.5 (51.9)	1,558.0 (36.5)	460.7 (10.8)	34.2 (0.8)	4,264.4 (100.0)
Labour force (%)	2,331.4 (51.7)	1,645.4 (36.5)	498.1 (11.0)	37.2 (0.8)	4,512.1 (100.0)
Unemployment (%)	119.9 (5.1)	87.4 (5.3)	37.4 (7.5)	3.0 (8.1)	247.7 (5.5)

⁶ Agriculture

⁷ Mining, manufacturing, construction and transport.

⁸ Wholesale and retail trade, banking, public administration, education, health, defence and utilities.

156. In terms of occupational classification, progress was observed during the period. As shown in Table 3-11, in the professional and technical job category, Bumiputera increased their share from 47% in 1970 to 50% in 1980. In the administrative and managerial category, the increase was from 24.1% to 31.6%, still far below the 1990 target. The share of other Malaysians in the agricultural workers category increased from 28% in 1970 to 32.3% in 1980.

157. This standard occupational classification, however, does not reflect hierarchy in terms of levels of salaries or wages. The professional and technical category includes all professionals, from nurses and school teachers to doctors, engineers and accountants. As indicated in Table 3-12, a survey of professional bodies in 1979 showed that despite overall performance, Bumiputera still accounted for a very small proportion of the higher-earning professionals. In 1979, Bumiputera accounted for only 11% of the architects, 7.6% of accountants, 11.6% of engineers and 8.6% of doctors in both the private and public sectors. Nevertheless, these percentages were significantly higher than they were in 1970. The other Malaysians continued their dominance in the higher-earning occupations; with their proportion in some of the categories exceeding their share in population.

158. In terms of salaries and wages, a survey of limited companies in Peninsular Malaysia showed that Bumiputera held only 6.4% of the top-paying jobs (over \$4,000 per month) in 1976, compared with 30.1% for the Chinese, 3.6% for the Indians, 3.5% for Others and 56.4% for foreigners, as shown in Table 3-13.

159. Significant measures were taken during the decade to correct Bumiputera under-representation in scientific, technical and managerial occupations. Creation of these types of manpower among Bumiputera was accelerated through the expansion of facilities and enrolment of local institutions of higher learning. The introduction of preparatory, pre-university and matriculation courses in science by the universities had helped greatly the efforts to produce more qualified Bumiputera professionals and sub-professionals in the fields of science and technology.

Ownership of assets.

160. Progress in the restructuring of ownership in the corporate sector is indicated in Table 3-14. Total equity of Malaysian companies and assets of foreign companies grew at an annual rate of 16.7% from \$6.6 billion in 1971 to \$26.3 billion in 1980. During this period, the share of Malaysian residents increased from 38.3% to 52.5% and there was a corresponding decline of the foreign share from 61.7% to 47.5%. Among the Malaysian residents, Bumiputera trust agencies and individuals showed the highest rate of growth of 31.4% per annum. Their share of the total equity relative to other groups increased from 4.3% in 1971 to 12.4% in 1980. However, this is below the target of 16% by 1980 as set out in the OPP.

TABLE 3-11
PENINSULAR MALAYSIA: EMPLOYMENT BY OCCUPATION
AND RACE, 1970, 1975 AND 1980
(000)

Occupation	1970				
	Malay	Chinese	Indian	Others	Total
Professional and technical ²	64.2	54.0	14.8	3.7	136.7
(%)	(47.0)	(39.5)	(10.8)	(2.7)	(100.0)
Administrative and managerial	7.4	19.2	2.4	1.6	30.7
(%)	(24.1)	(62.9)	(7.8)	(5.2)	(100.0)
Clerical and related workers	50.4	65.4	24.5	2.2	142.5
(%)	(35.4)	(45.9)	(17.2)	(1.5)	(100.0)
Sales and related workers	69.1	159.6	28.7	1.1	258.5
(%)	(26.7)	(61.7)	(10.4)	(0.4)	(100.0)
Service workers	100.0	39.5	32.9	3.4	225.8
(%)	(44.3)	(39.6)	(14.6)	(1.5)	(100.0)
Agricultural workers	920.5	221.3	123.7	13.2	1,278.7
(%)	(72.0)	(17.3)	(9.7)	(1.0)	(100.0)
Production, transport and other workers	266.0	434.5	74.4	2.5	777.4
(%)	(34.2)	(55.9)	(9.6)	0	(100.0)
Total	1,477.6	1,043.6	301.4	27.7	2,850.3
(%)	(51.8)	(36.6)	(10.6)	(1.0)	(100.0)
1975					
Professional and technical	91.1	73.4	20.8	4.4	189.7
(%)	(48.0)	(38.7)	(11.0)	(2.3)	(100.0)
Administrative and managerial	11.6	24.3	3.0	2.4	41.3
(%)	(28.1)	(58.8)	(7.3)	(5.8)	(100.0)
Clerical and related workers	88.5	78.6	23.1	2.4	192.6
(%)	(46.0)	(40.8)	(12.0)	(1.2)	(100.0)
Sales and related workers	85.9	227.2	21.4	1.2	345.7
(%)	(24.3)	(65.7)	(9.1)	(0.3)	(100.0)
Service workers	145.7	123.3	39.4	3.1	311.5
(%)	(46.8)	(39.6)	(12.6)	(1.0)	0
Agricultural workers	998.1	257.3	147.6	12.6	1,416.1
(%)	(70.5)	(18.2)	(10.4)	(0.9)	(100.0)
Production, transport and other workers	434.5	518.0	112.2	5.6	1,070.3
(%)	(40.6)	(48.4)	(10.5)	(0.5)	(100.0)
Total	1,855.4	1,302.6	377.5	31.7	3,567.2
(%)	(52.0)	(36.5)	(10.6)	(0.9)	(100.0)
1980					
Professional and technical	118.2	87.1	26.9	4.0	236.2
(%)	(50.0)	(36.9)	(11.4)	(1.7)	(100.0)
Administrative and managerial	16.2	29.2	3.1	2.7	51.2
(%)	(31.6)	(57.0)	(6.1)	(5.3)	(100.0)
Clerical and related workers	169.4	110.8	21.0	5.3	306.5
(%)	(55.3)	(36.2)	(6.9)	(1.7)	(100.0)
Sales and related workers	99.8	299.0	32.7	0.8	432.3
(%)	(23.1)	(69.2)	(7.6)	(0.2)	(100.0)
Service workers	168.4	140.1	40.7	2.1	351.3
(%)	(47.9)	(39.9)	(11.6)	(0.6)	(100.0)
Agricultural workers	998.9	239.9	175.4	10.6	1,474.8
(%)	(67.7)	(19.7)	(11.9)	(0.7)	(100.0)
Production, transport and other workers	640.6	601.9	160.9	8.7	1,412.1
(%)	(45.4)	(42.6)	(11.4)	(0.6)	(100.0)
Total	2,211.5	1,558.0	460.7	34.2	4,264.4
(%)	(51.9)	(36.5)	(10.8)	(0.8)	(100.0)

² This category includes all professionals, ranging from lawyers and engineers to nurses and teachers, in public as well as private sectors.

TABLE 3-12.

PENINSULAR MALAYSIA: MEMBERSHIP OF PROFESSIONAL GROUPS, 1970-79¹⁰

Profession	1970					1975					1979				
	Malay	Chinese	Indian	Others	Total	Malay	Chinese	Indian	Others	Total	Malay	Chinese	Indian	Others	Total
Architects (%)	12 (4.3)	224 (80.9)	4 (1.4)	37 (13.4)	277 (100.0)	31 (6.7)	408 (87.7)	3 (0.7)	23 (4.9)	465 (100.0)	56 (11.0)	432 (85.3)	6 (1.2)	13 (2.6)	507 (100.0)
Accountants (%)	40 (6.8)	387 (65.4)	47 (7.9)	118 (19.9)	592 (100.0)	102 (7.7)	977 (73.8)	109 (8.2)	136 (10.3)	1,324 (100.0)	110 (7.6)	1,115 (77.3)	105 (7.3)	112 (7.8)	1,442 (100.0)
Engineers (%)	66 (7.3)	643 (71.0)	122 (13.5)	75 (8.3)	906 (100.0)	116 (7.5)	1,170 (76.1)	162 (10.5)	89 (5.8)	1,537 (100.0)	398 (11.6)	2,654 (77.4)	254 (7.4)	124 (3.6)	3,430 (100.0)
Dentists (%)	20 (3.1)	579 (89.1)	33 (5.1)	18 (2.8)	650 (100.0)	27 (2.6)	792 (75.8)	131 (12.5)	95 (9.1)	1,045 (100.0)	103 (9.2)	734 (65.9)	220 (19.7)	57 (5.1)	1,114 (100.0)
Doctors (%)	79 (3.7)	954 (44.8)	857 (40.2)	241 (11.3)	2,131 (100.0)	113 (4.4)	1,247 (48.7)	992 (38.7)	210 (8.2)	2,562 (100.0)	272 (8.6)	1,399 (44.2)	1,338 (42.3)	159 (5.0)	3,168 (100.0)
Veterinary Surgeons (%)	8 (40.0)	6 (30.0)	3 (15.0)	3 (15.0)	20 (100.0)	17 (38.6)	16 (36.4)	6 (13.6)	5 (11.4)	44 (100.0)	39 (52.0)	23 (30.7)	8 (10.7)	5 (6.7)	75 (100.0)
Surveyors (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	108 (29.9)	215 (59.6)	27 (7.5)	11 (3.0)	361 (100.0)
Lawyers (%)	n.a.	n.a.	n.a.	n.a.	n.a.	131 (12.8)	521 (50.7)	361 (35.2)	14 (1.4)	1,027 (100.0)	151 (13.0)	582 (50.0)	417 (35.8)	15 (1.3)	1,165 (100.0)

¹⁰Information provided by Professional Associations and Institutes in 1979, covering both the public and private sectors.
n.a. Denotes not available.

TABLE 3-14

MALAYSIA: OWNERSHIP AND CONTROL OF THE CORPORATE SECTOR, 1971-80 (\$ million)

	1971	%	1975	%	1980 ¹¹	%	Annual growth rate 1972-80 (%)
Malaysian residents ¹²	2,512.8	38.3	7,047.2	46.7	13,817.8	52.5	20.9
Bumiputera individuals and trust agencies	279.6	4.3	1,394.0	9.2	3,273.7	12.4	31.4
Bumiputera individuals ¹³	168.7	2.6	549.8	3.6	1,128.9	4.3	23.5
Bumiputera trust agencies ¹⁴	110.9	1.7	844.2	5.6	2,144.8	8.1	39.0
Other Malaysian residents ¹⁵	2,233.2	34.0	5,653.2	37.5	10,544.1	40.1	18.8
Foreign residents	4,051.3	61.7	8,037.2	53.3	12,505.2	47.5	13.3
Share in Malaysian companies	2,159.3	32.9	4,722.8	31.3	7,128.0	27.1	14.2
Net assets of local branches	1,892.0	28.8	3,314.4	22.0	5,377.2	20.4	12.3
Total¹⁶	6,564.1	100.0	15,084.4	100.0	26,323.0	100.0	16.7

Source: Annual Ownership Survey of Limited Companies conducted by the Department of Statistics (1971-76) and records of the Register of Companies (1977-79).
¹¹ Estimated.

¹² Classification is by residential address of shareholders, not by citizenship. It includes foreign citizens residing in Malaysia. Steps have been taken to enable classification of ownership group by citizenship status.

¹³ Includes institutions channelling funds of individual Bumiputera such as Lembaga Urusan dan Tabung Haji, Amanah Saham MARA and cooperatives.

¹⁴ Shares held through institutions classified as Bumiputera trust agencies such as PERNAS, MARA, UDA, SEDCs, Bank Bumiputera, BMM, FIMA and PNB. Previously this item was classified as Bumiputera interests.

¹⁵ Includes shares held by nominee and other companies.

¹⁶ Excludes government holdings other than through trust agencies.

TABLE 3-14

**MALAYSIA: OWNERSHIP AND CONTROL OF THE
CORPORATE SECTOR, 1971-80**
(\$ million)

	1971	%	1975	%	1980 ¹¹	%	Annual growth rate 1972-80 (%)
Malaysian residents ¹²	2,512.8	38.3	7,047.2	46.7	13,817.8	52.5	20.9
Bumiputera individuals and trust agencies	279.6	4.3	1,394.0	9.2	3,273.7	12.4	31.4
Bumiputera individuals ¹³	168.7	2.6	549.8	3.6	1,128.9	4.3	23.5
Bumiputera trust agencies ¹⁴	110.9	1.7	844.2	5.6	2,144.8	8.1	39.0
Other Malaysian residents ¹⁵	2,233.2	34.0	5,653.2	37.5	10,544.1	40.1	18.8
Foreign residents	4,051.3	61.7	8,037.2	53.3	12,505.2	47.5	13.3
Share in Malaysian companies	2,159.3	32.9	4,722.8	31.3	7,128.0	27.1	14.2
Net assets of local branches	1,892.0	28.8	3,314.4	22.0	5,377.2	20.4	12.3
Total¹⁶	6,564.1	100.0	15,084.4	100.0	26,323.0	100.0	16.7

Source: Annual Ownership Survey of Limited Companies conducted by the Department of Statistics (1971-76) and records of the Register of Companies (1977-79).
11 Estimated.

12 Classification is by residential address of shareholders, not by citizenship. It includes foreign citizens residing in Malaysia. Steps have been taken to enable classification of ownership group by citizenship status.

13 Includes institutions channelling funds of individual Bumiputera such as Lembaga Urusan dan Tabung Haji, Amanah Saham MARA and cooperatives.

14 Shares held through institutions classified as Bumiputera trust agencies such as PERNAS, MARA, UDA, SEDCs, Bank Bumiputera, BMM, FIMA and PNB. Previously this item was classified as Bumiputera interests.

15 Includes shares held by nominee and other companies.

16 Excludes government holdings other than through trust agencies.

161. Out of the total new equity of \$19.8 billion created between 1971 and 1980, only \$3 billion or 15.2% was taken up by Bumiputera individuals and trust agencies. This meant that a considerable amount of backlog had been accumulated. For Bumiputera individuals, their share grew marginally from 2.6% in 1971 to 4.3% in 1980 although their holding of corporate stock grew by more than six times. This slow progress of Bumiputera individuals was accounted for principally by factors such as low income and negligible savings.

162. The share of other Malaysian residents¹⁷ grew from 34% in 1971 to about 40% in 1980 as against their target of 40% by 1990.

163. The progress of ownership and participation in industrial and commercial sectors is indicated in Table 3-15. In the industrial sector, total fixed assets increased from \$1,503.5 million in 1970 to \$4,317.5 million in 1975. The value of industrial fixed assets held by Bumiputera increased from \$15 million or 1% to \$150.3 million or 3.5%. Similarly, other Malaysians increased their industrial fixed assets from \$638.3 million or 42.5% to \$2,252.2 million or 52.2%. In the transport sector, the value of fixed assets held by Bumiputera increased from \$12.4 million or 18% in 1971 to \$54.9 million or 31.2% in 1975, while that of other Malaysians increased from \$50.8 million or 74% to \$119.5 million or 67.8%. The effective implementation of the licensing policy in respect of the transport sector had greatly assisted Bumiputera participation in this competitive activity.

164. In respect of urban land, a survey of 15 towns in 1977²² showed that over the years, Bumiputera sold 1,335.2 hectares against a purchase of 1,101.9 hectares, implying a net loss of 233.3 hectares. The Indians sold 651.1 hectares and purchased 514.2 hectares, incurring a net loss of 136.9 hectares. Others also experienced a net loss of 227.8 hectares. The Chinese experienced a net gain of 598 hectares. The net loss for Bumiputera was significant since their holdings in the towns surveyed were already small, and more important such urban lands were highly valued especially for commercial and industrial purposes.

Creating a Commercial and Industrial Community among Bumiputera

165. The increasing importance of the rapidly expanding modern commercial and industrial sector afforded a bigger opportunity to increase the number as well as the quality of Bumiputera entrepreneurs. Programmes

¹⁷ Includes Chinese, Indian and Others.

²² A survey of fifteen towns by Urban Development Authority and *Universiti Sains Malaysia*, 1977.

TABLE 3-15

PENINSULAR MALAYSIA: OWNERSHIP AND PARTICIPATION¹⁸ IN INDUSTRIAL AND COMMERCIAL SECTORS, 1970 AND 1975

(percentage share in selected sectors)

Activity	1970					1975				
	Malay	Chinese	Indian	Others	Foreigner	Malay	Chinese	Indian	Others	Foreigner
Industry (fixed assets)	1.0	33.3	0.4	8.8	56.5	3.5	23.6	0.3	28.3	44.4
Mining ¹⁹	0.8	24.9	*	11.1	63.2	2.1	32.3	0.2	13.3	52.0
Manufacturing	0.9	32.5	0.4	8.6	57.6	3.6	19.7	0.3	31.8	44.5
Construction	3.8	88.5	1.0	0.8	5.9	4.5	59.2	0.7	7.0	28.6
Trade (turnover) ²⁰	1.2	69.5	3.5	0.2	25.5	2.2	58.4	5.7	2.9	30.7
Wholesale	0.7	66.2	2.5	0.2	30.4	1.7	53.3	5.8	3.3	36.0
Retail	3.0	81.2	7.3	0.4	8.2	4.2	77.3	5.5	1.6	11.4
Transport (fixed assets) ²¹	18.0	56.5	3.2	14.3	8.0	31.2	37.0	2.6	28.2	1.0
Taxi	47.7	37.5	12.5	2.3	—	65.5	21.8	4.6	8.0	—
Bus	18.0	52.8	1.7	18.0	9.5	18.6	34.2	0.6	46.6	*
Haulage	14.5	69.4	6.0	4.8	5.3	39.9	41.3	4.4	12.4	2.0

¹⁸ The data are obtained from the Department of Statistics's Establishments Survey covering corporate and non-corporate sectors. The ownership classification is based on majority holding (i.e. 51% and above). Those establishments in which no group holds 51% control are therefore categorised as owned by others.

¹⁹ Includes quarrying.

²⁰ The latest data available refers to 1974.

²¹ The earliest data available refers to 1971.

* Denotes negligible.

towards these ends were formulated and in some cases, upgraded so that a dynamic and successful Bumiputera commercial and industrial community, owning and managing at least 30% of the commercial and industrial activities, would become a reality. These programmes included training, credit assistance, advisory and extension services, technical assistance, administrative support and direct government participation in the private sector.

166. Two types of training programmes, namely, training with the immediate objective of augmenting the number of skilled and professional Bumiputera in order to facilitate employment restructuring, and training with the objective of creating and developing a commercial and industrial community among them were carried out. Under the first type of programme, training was provided by the universities and the ITM for the development of Bumiputera professionals, including executives in business. The combined enrolment of the universities and ITM increased from 7,392 in 1971 to 25,444 in 1980. Their output during the period was 34,727. Also included were programmes provided by IKM and Dusun Tua Youth Training Centre aimed at increasing the number of skilled and semi-skilled Bumiputera workers in various grades and professions. These institutions provided training to 4,207 Bumiputera in 1980 compared with 1,399 in 1971. Their total output during the period was 11,830.

167. The second type of programme, provided by *Majlis Amanah Rakyat* (MARA), the National Productivity Centre and the Advisory Services Division of *PERNAS Edar* was aimed at developing the entrepreneurial potentials of Bumiputera. Courses ranged from elementary book-keeping and inventory management to cost control and basic management and marketing. These institutions trained 22,173 Bumiputera in 1980 as against 2,239 in 1973.²³

168. Credit assistance was given through institutions such as MARA, Malaysian Industrial Development Finance Berhad (MIDF), Urban Development Authority (UDA), *Bank Pembangunan Malaysia Berhad* (BPMB) and commercial banks administered within the framework of the Credit Guarantee Corporation (CGC). In addition, financial assistance was also given for the financing of fixed assets and equipment, renovation of premises as well as for working capital.

169. As shown in Table 3-16, during the first half of the NEP period, Bumiputera increased their share of loans and advances significantly from banks and finance companies from \$149.3 million or 5% in 1971 to \$4,780 million or 20.6% in 1980. Loans and advances to other Malaysians increased from \$2,851.4 million to \$18,440 million but their share of the total declined from 95% to 79.4% during the same period.

²³ Excluding *PERNAS Edar* which started to provide entrepreneurial training only in 1977.

TABLE 3-16

PENINSULAR MALAYSIA: CREDIT ASSISTANCE, 1971 AND 1980
(\$ million)

Institution	1971		1980	
	Malay	Other Malaysians	Malay	Other Malaysians
Commercial banks and finance companies (Credit Guarantee Corporation) ..	149.3	2,851.4	4,780.0	18,440.0
MARA	15.0	—	50.3	—
UDA	0.424	—	7.4	—
MIDF	13.1	56.9	39.7	100.0
BPMB	2.325	—	129.3	—
Petty traders programme ²⁶	0.727	—	17.3	—

²⁴ Data refers to 1972 when UDA was formed.

²⁵ Data refers to 1974 when Bank Pembangunan Malaysia Bhd. was formed.

²⁶ Data refers to 1976 when the programme was started.

²⁷ Includes provision of business premises and sites.

170. *Technical and advisory services*, including consultancies, were provided by MARA under its Entrepreneurial Development Programme, Malaysian Industrial Development Finance Industrial Consultants (MIDFIC) and BPMB. During the period under review, MARA served about 7,500 clients under this programme while MIDFIC provided consultancy services for 54 Bumiputera businesses out of a total of 81 consultancy jobs undertaken. BPMB began to provide advisory and consultancy services to entrepreneurs in 1974 and, up to the end of 1980, it had provided these services to 4,075 clients.

171. *Administrative support* embraced all measures to promote the development of Bumiputera entrepreneurs within the existing competitive environment and also to increase their participation in the ownership and control of the modern economic sectors. The measures included quotas and price allowances in supplies and works contracts, issue of licences in local authority areas, allocation of shares when new companies were formed or when existing companies came forward to restructure their ownership and Bank Negara Malaysia guidelines on lending to Bumiputera. In addition, other administrative procedures were used to increase the awareness of the private sector with regard to national policies and objectives.

172. Under the impact of administrative support, the number of Bumiputera businesses in Peninsular Malaysia increased from 21,763 or 14.2% of the total in 1970 to 78,961 or 24.9% of the total in 1980. Participation by Bumiputera contractors also increased. The number of Bumiputera contractors registered with the Public Works Department in Peninsular

CHAPTER IV

The Development of Human Resources

I. INTRODUCTION

188. The development of human resources is recognised as a critical input in the economic and social development of the country. The rapid growth of population in the fifties and sixties resulted in substantial additions to the labour force during the first decade of the Outline Perspective Plan (OPP), 1971-90. This called for a rapid generation of employment opportunities in order to reduce unemployment as well as an acceleration in the supply of trained and skilled manpower at all levels. The success of the development programmes undertaken by both the public and the private sectors had led to a decline in the unemployment rate from 7.8% in 1970 to about 5.3% by 1980.

II. GROWTH OF POPULATION AND LABOUR FORCE

Population

189. The period 1971-80 witnessed an increase in population from 10.8 million in 1970 to an estimated 14.3 million in 1980 with an average annual rate of growth of 2.8%. The first half of the decade recorded a growth rate of 2.9%, compared with 2.8% recorded for the second half.

190. As shown in Table 4-1, the population of Peninsular Malaysia increased at an average annual rate of 2.6% during 1971-80, a rate lower than that of 3% in the sixties. This was brought about by declining fertility which resulted from rapid socio-economic development, improved levels of education, particularly among females and wider acceptance of family health practices. Sabah and Sarawak, however, experienced higher rates of growth of 5.3% and 3% per annum, respectively. Sabah's high rate of growth was due mainly to large inflow of Filipino refugees and some immigrant workers after 1970. In terms of geographical distribution, 83.1% resided in Peninsular Malaysia, 7.7% in Sabah and 9.2% in Sarawak in 1980.

TABLE 4-1

MALAYSIA: POPULATION SIZE AND AGE STRUCTURE, 1970-80¹

Age group	1970		1975		1980		Average annual growth rate (%)	
	('000)	(%)	('000)	(%)	('000)	(%)	1971-75	1976-80 1971-80
PENINSULAR MALAYSIA								
0-14	4,033.0	44.1	4,310.0	41.3	4,578.0	38.6	1.3	1.2 1.3
15-64	4,802.0	52.5	5,734.0	55.0	6,811.0	57.5	3.6	3.5 3.6
65+	312.0	3.4	390.0	3.7	460.0	3.9	4.6	3.4 4.0
Sub-total (%)	9,147.0 (84.9)	100.0	10,434.0 (83.8)	100.0	11,849.0 (87.1)	100.0	2.7	2.6 2.6
SABAH								
0-14	308.3	47.2	409.5	46.2	489.1	44.6	5.8	3.6 4.7
15-64	331.9	50.8	459.0	51.8	585.4	53.3	6.7	5.0 5.8
65+	13.4	2.0	17.7	2.0	23.3	2.1	5.7	5.6 5.7
Sub-total (%)	653.6 (6.1)	100.0	886.2 (7.1)	100.0	1,097.8 (7.7)	100.0	6.3	4.4 5.3
SARAWAK								
0-14	451.1	46.1	510.5	45.2	565.1	43.0	2.5	2.1 2.3
15-64	497.5	51.1	583.0	51.6	707.5	53.8	3.2	3.9 3.6
65+	27.7	2.8	36.2	3.2	41.8	3.2	5.5	2.9 4.2
Sub-total (%)	976.3 (9.0)	100.0	1,129.7 (9.1)	100.0	1,314.4 (9.2)	100.0	3.0	3.1 3.0
MALAYSIA								
0-14	4,792.4	44.5	5,230.0	42.0	5,632.2	39.5	1.8	1.5 1.6
15-64	5,631.4	52.2	6,776.0	54.4	8,103.9	56.8	3.8	3.6 3.7
65+	353.1	3.3	443.9	3.6	525.1	3.7	4.7	3.4 4.1
Total (%)	10,776.9 (100.0)	100.0	12,449.9 (100.0)	100.0	14,261.2 (100.0)	100.0	2.9	2.8 2.8

¹ Data for 1980 will be revised when the results of the 1980 Population and Housing Census of Malaysia are available.

191. Mortality continued to decline in Peninsular Malaysia during the decade. The crude death rate fell from 7.3 per 1,000 population in 1970 to about six in 1980. The life expectancy at birth for males increased from 63.5 years in 1970 to an estimated 68 years in 1980, while for females the life expectancy increased from 68.2 years in 1970 to about 72 years in 1980. The increase in life expectancy was mainly due to the expansion and improvement of health and sanitary services and water supplies. Although recent data on life expectancy at birth for Sabah and Sarawak are not available, on the basis of past trends it is estimated that the life expectancy improved more rapidly than in Peninsular Malaysia largely as a result of declines in childhood mortality.

192. Fertility too continued to decline during the period under review. In Peninsular Malaysia, the total fertility rate declined from 4.8 in 1970 to 3.6 by 1980. The decline was more among the Chinese and Indians than among the Malays. The crude birth rate in Peninsular Malaysia declined from 33.9 per 1,000 population in 1970 to an estimated 28.9 in 1980. As a result of fertility decline during the decade, some shifts in the age structure occurred as shown in Table 4-1. The population within the age group 0-14 years declined from 44.5% in 1970 to 39.5% in 1980; while the proportion of the working-age group 15-64 years increased from 52.2% to 56.8% over the period.

193. The rapid increase in the working-age population brought about a decline in the age dependency ratio, from 91.4% in 1970 to an estimated 76% in 1980. Thus, in 1980 the age dependency ratio was still quite high, implying a substantial demand for such social services as education, health and housing.

194. In Peninsular Malaysia, the school-age population 6-18 years had been growing at an average annual rate of 1.6% per annum during 1971-80. At the primary level, the school-age population 6-11 years grew at only 0.8% per annum. However, at the secondary level, the school-age population 12-18 years grew faster at 1.6%, 2.5% and 3.4% per annum for the lower, upper and post secondary levels, respectively. These higher growth rates were partly the effect of high fertility levels experienced in the late 1950s and early 1960s. However, the growth in school enrolment was faster than that of school-age population, reflecting an increase in enrolment ratios, particularly at the lower and upper secondary levels. At the primary level, the ratio increased from 86.8% in 1970 to about 96% in 1980, indicating near-universal enrolment.

195. The ethnic composition of the population in Peninsular Malaysia is shown in Table 4-2. The proportion of the Malays increased slightly from 52.7% in 1970 to 53.9% in 1980, while that of the other ethnic communities experienced a slight fall. Generally, however, all ethnic communities tended to maintain their relative proportions of the total population.

TABLE 4-2

PENINSULAR MALAYSIA: ETHNIC COMPOSITION OF THE POPULATION, 1970-80

	1970	1975	1980	Average annual growth rate (%)		
	('000)	('000)	('000)	1971-75	1976-80	1971-80
Malay (%)	4,822 (52.7)	5,531 (53.0)	6,384 (53.9)	2.8	2.9	2.8
Chinese (%)	3,274 (35.8)	3,714 (35.6)	4,136 (34.9)	2.6	2.2	2.4
Indian (%)	978 (10.7)	1,106 (10.6)	1,239 (10.5)	2.5	2.3	2.4
Others (%)	73 (0.8)	83 (0.8)	90 (0.7)	2.6	1.6	2.1
TOTAL (%)	9,147 (100.0)	10,434 (100.0)	11,849 (100.0)	2.7	2.6	2.6

196. As shown in Table 4-3, the number of households in Peninsular Malaysia, expanded by 3.2% per annum during 1971-80 with the average household size decreasing from 5.5 persons in 1970 to 5.2 persons in 1980. Malay households grew at a rate of 3.7% per annum, compared with 2.7% for the Indians, 2.5% Chinese and 0.6% Others. The average size of the Malay, Chinese and Indian households all declined over the period, becoming 4.8, 5.9 and 5.5 in 1980, respectively.

Labour force

197. As shown in Table 4-4, the labour force is estimated to have increased from 3.7 million in 1970 to about 5.4 million in 1980, growing at an average rate of 3.9% per annum. Thus, there were about 1.7 million new entrants into the labour force during the period, of which 83.3% were in Peninsular Malaysia, 8.5% in Sabah and 8.2% in Sarawak. The growth of labour force in Sabah at 5.1% per annum during the period 1971-80 was higher than the growth rate estimated either for Peninsular Malaysia or Sarawak. This was due to the large-scale inflow of Filipino refugees and some immigrant workers into Sabah after 1970.

198. In 1980, 37.6% of the labour force is estimated to comprise those in the 25-39 age group, compared with 36.3% in 1970. The younger age group 15-24 years also exhibited a similar rising trend where the proportion increased from 32.5% to 34.2% during the period. However, the proportion of the labour force in the age group 50-59 years declined from 10.9% in 1970 to 9.6% in 1980. Similarly, the proportion of those in the age group 60-64 years fell from 3.4% to 2.6% during the period. In absolute terms, however, the trends for these older age groups had been on the increase. Another important feature is the rapid increase in the participation of females in the labour force, particularly in the non-agricultural sectors.

TABLE 4-3

PENINSULAR MALAYSIA: NUMBER AND AVERAGE SIZE OF HOUSEHOLD
BY ETHNIC GROUP, 1970-80

	1970		1976 ²		1980		Average annual growth rate (%)	
	('000)	(%)	('000)	(%)	('000)	(%)	1971-76	1971-80
<i>Malay</i>								
Households	931	56.0	1,119	57.1	1,344	58.8	3.1	3.7
Persons	4,822	52.7	5,632	53.1	6,384	53.9	2.6	2.9
Persons per household		5.2		5.0		4.8		
<i>Chinese</i>								
Households	543	32.6	628	32.0	696	30.5	2.5	2.5
Persons	3,274	35.8	3,769	35.5	4,136	34.9	2.4	2.4
Persons per household		6.0		6.0		5.9		
<i>Indian</i>								
Households	173	10.4	197	10.0	226	9.9	2.2	2.7
Persons	978	10.7	1,122	10.6	1,239	10.5	2.3	2.4
Persons per household		5.7		5.7		5.5		
<i>Others</i>								
Households	17	1.0	17	0.9	18	0.8	0.0	0.6
Persons	73	0.8	84	0.8	90	0.7	2.4	2.1
Persons per household		4.3		4.9		5.0		
<i>TOTAL</i>								
Households	1,664	100.0	1,961	100.0	2,284	100.0	2.8	3.2
Persons	9,147	100.0	10,607	100.0	11,849	100.0	2.5	2.6
Persons per household		5.5		5.4		5.2		

² Based on the preliminary tabulations from the 1977 Agriculture Census, Department of Statistics.

TABLE 4-4

MALAYSIA: LABOUR FORCE GROWTH, 1970-80

Age group	1970		1975		1980		Average annual growth rate (%)		
	('000)	(%)	('000)	(%)	('000)	(%)	1971-75	1976-80	1971-80
PENINSULAR MALAYSIA									
15-24	1,018.9	32.9	1,346.1	35.2	1,536.9	34.1	5.7	2.7	4.2
25-39	1,115.3	36.0	1,393.9	36.5	1,717.4	38.0	4.6	4.3	4.4
40-49	520.8	16.8	598.5	15.6	715.7	15.9	2.8	3.6	3.2
50-59	337.6	10.9	378.4	9.9	425.4	9.4	2.3	2.4	2.3
60-64	105.4	3.4	106.2	2.8	116.7	2.6	0.2	1.9	1.0
Sub-total (%)	3,098.0 (84.4)	100.0	3,823.1 (84.2)	100.0	4,512.1 (83.9)	100.0	4.3	3.4	3.8
SABAH									
15-24	61.3	27.6	85.3	30.3	122.0	33.3	6.8	7.4	7.1
25-39	93.7	42.1	105.4	37.4	127.7	34.8	2.4	3.9	3.1
40-49	39.5	17.7	53.4	19.0	67.6	18.4	6.2	4.8	5.5
50-59	22.6	10.2	29.6	10.5	39.4	10.7	5.5	5.9	5.7
60-64	5.4	2.4	7.9	2.8	10.2	2.8	7.9	5.2	6.6
Sub-total (%)	222.5 (6.1)	100.0	281.6 (6.2)	100.0	366.9 (6.8)	100.0	4.8	5.4	5.1
SARAWAK									
15-24	116.7	32.3	146.2	33.7	180.0	35.9	4.6	4.3	4.4
25-39	129.0	35.7	153.6	35.4	179.6	35.9	3.6	3.2	3.4
40-49	61.1	16.9	71.5	16.5	76.0	15.2	3.2	1.2	2.2
50-59	41.6	11.5	48.6	11.2	49.6	9.9	3.2	0.4	1.8
60-64	13.0	3.6	14.2	3.2	15.8	3.1	1.8	2.2	2.0
Sub-total (%)	361.4 (9.5)	100.0	434.1 (9.6)	100.0	501.0 (9.3)	100.0	3.7	2.9	3.3

MALAYSIA

15-24	1,196.9	32.5	1,577.6	34.8	1,838.9	34.2	5.7	3.1	4.4
25-39	1,338.0	36.3	1,652.9	36.4	2,024.7	37.6	4.3	4.1	4.2
40-49	621.4	16.9	723.4	15.9	859.3	16.0	3.1	3.5	3.3
50-59	401.8	10.9	456.6	10.1	514.4	9.6	2.6	2.4	2.5
60-64	123.8	3.4	128.3	2.8	142.7	2.6	0.7	2.2	1.4
TOTAL	3,681.9	100.0	4,538.8	100.0	5,380.0	100.0	4.3	3.5	3.9
(%)	(100.0)		(100.0)		(100.0)				

III. POPULATION DISTRIBUTION AND URBANIZATION

199. A notable feature of Peninsular Malaysia's population in the decade of the seventies was that a greater proportion had become urbanised. Continuing urbanization meant that in 1980, about 35% of the population lived in urban areas, compared with only 28.8% in 1970. In absolute terms, urban population increased from 2.6 million in 1970 to about 4.1 million in 1980 with growth rates averaging 4.6% per annum as shown in Table 4-5.

200. This rather rapid rate of urbanization during the decade was primarily attributable to the growth of construction, manufacturing, utilities and services sectors which offered an increasing number of job opportunities. Regional development and the establishment of new growth centres also resulted in smaller towns growing more rapidly. The types of skills needed in these areas were less sophisticated, thus encouraging migration from rural areas.

201. The ethnic composition of the urban population changed with increased involvement of Malays in the industrial and commercial sectors of the economy in line with the New Economic Policy (NEP). While in 1970, only 14.8% of Malays in Peninsular Malaysia were in urban areas, by 1980 the proportion rose to 21.3%. The rate of growth of the urban population was highest for the Malays but the Chinese still accounted for more than half or 53.8% of the total urban population in 1980, followed by Malays 32.8% and Indians 12.3%.

IV. THE EMPLOYMENT SITUATION, 1970

202. At the beginning of the decade there was a labour surplus economy, largely a result of a rapidly growing labour force and relatively low rates of employment growth in the sixties. In 1970, out of a total labour force of 3.7 million, some 3.4 million were employed giving an unemployment rate of 7.8%. In absolute terms, about 286,000 persons within the working-age group 15-64 years were unemployed.

203. By stratum, unemployment rates were higher in urban areas where labour markets were more formalised than in the rural areas. In rural areas, though open unemployment rates were low, underemployment was a serious problem. Overall, the female unemployment rate in 1970 was about one and a half times the male unemployment rate. Unemployment was heavily concentrated among young people most of whom were first time job-seekers. In 1970, about 50% of the unemployed were below the age of 19 and another 27% in the age group 20-24 years. Unemployment rates of around 17% and 10% were experienced by those in the age groups 15-19 years and 20-24 years, respectively. These rates were much lower for those above 25 years, ranging on the average around 2% to 4%.

TABLE 4-5

PENINSULAR MALAYSIA: POPULATION DISTRIBUTION BETWEEN RURAL AND
URBAN BY ETHNIC GROUP, 1970-80

('000)

	1970			1975			1980			Average annual growth rate of urban population (%)		
	Urban (%)	Rural (%)	Total (%)	Urban (%)	Rural (%)	Total (%)	Urban (%)	Rural (%)	Total (%)	1971-75	1976-80	1971-80
Malay (%)	712 (14.3)	4,109 (85.2)	4,822 (100.0)	997 (18.0)	4,534 (82.0)	5,531 (100.0)	1,359 (21.3)	5,025 (78.7)	6,384 (100.0)	7.0	6.4	6.7
Chinese (%)	1,557 (47.6)	1,717 (52.4)	3,274 (100.0)	1,886 (50.8)	1,828 (49.2)	3,714 (100.0)	2,234 (54.0)	1,902 (46.0)	4,136 (100.0)	3.9	3.4	3.7
Indian (%)	338 (34.6)	640 (65.4)	978 (100.0)	418 (37.8)	688 (62.2)	1,106 (100.0)	508 (41.0)	731 (59.0)	1,239 (100.0)	4.3	4.0	4.2
Others (%)	30 (41.1)	43 (58.9)	73 (100.0)	39 (47.0)	44 (53.0)	83 (100.0)	47 (52.2)	43 (47.8)	90 (100.0)	5.4	3.8	4.6
Total (%)	2,638 (28.8)	6,509 (71.2)	9,147 (100.0)	3,340 (32.0)	7,094 (68.0)	10,434 (100.0)	4,148 (35.0)	7,701 (65.0)	11,849 (100.0)	4.8	4.4	4.6

204. Another striking feature of the unemployed was the high incidence of unemployment among secondary school leavers. While unemployment rates of 5% and 9% were recorded for those with no formal education and those who had completed primary education respectively, lower and upper secondary school leavers experienced an unemployment rate of around 20%. This was largely attributable to the large inflow of secondary school leavers into the labour market in the late sixties as a result of the abolition of the standard six examination and the introduction of automatic promotion to secondary education in 1964.

205. In 1970, agriculture continued to be the mainstay of the economy, employing more than half of the total workforce, while the manufacturing sector only accounted for 11.4% of total employment. The services sector comprising government services, finance, wholesale and retail trade, and other services employed 27.3% of the workforce. Mining and construction accounted for 2.6% and 4% of total employment in 1970, respectively.

206. Within the agricultural sector, of the 1.7 million employed in 1970, about 40% were in *padi* cultivation, mixed farming, the cultivation of miscellaneous crops, market gardening and horticulture, while another 4% were employed in fishing. The cultivation of crops requiring substantial processing which included rubber, oil palm, coconut, tea and coffee, employed 47% of the workforce in agriculture with the majority of them, about 90%, in the rubber industry. Despite the significant decline in rubber estate employment in the sixties, rubber estates and smallholdings still accounted for more than 40% of the employment in agriculture and about 22% of total employment in the country. Since the majority of the oil palm schemes were only started in the early part of the First Malaysia Plan (1966-70) under the diversification programme, employment in oil palm was insignificant, accounting for only 2% of agricultural employment in 1970.

V. EMPLOYMENT GROWTH

207. Rapid economic growth during the decade enabled the country to achieve an unprecedented rate of growth in employment of 4.1% per annum resulting in a net increase of about 1,697,600 jobs. Consequently, the unemployment rate as a percentage of the labour force was reduced from 7.8% in 1970 to 5.3% in 1980. Labour force growth also continued to accelerate in the seventies increasing at a rate of 3.9% per annum, adding some 1,698,100 new entrants into the labour market. The effect of such rate of labour force growth, matched against the equally unprecedented rate of employment expansion, was to maintain the absolute numbers unemployed at about 286,500 over the decade. Table 4-6 gives employment by sector and the shares of the various sectors in total employment.

TABLE 4-6

MALAYSIA: EMPLOYMENT ESTIMATES BY SECTOR, 1970-80

Sector	1970		1975		1980		Average annual growth rate (%)		
	Estimated employment ('000)	Share of total (%)	Estimated employment ('000)	Share of total (%)	Estimated employment ('000)	Share of total (%)	1971-75	1976-80	1971-80
Agriculture, forestry and fishing	1,714.6	50.5	1,923.5	45.3	2,066.9	40.6	2.3	1.5	1.9
Mining and quarrying	88.6	2.6	88.3	2.1	89.6	1.7	-0.1	0.3	0.1
Manufacturing	386.5	11.4	572.0	13.5	803.1	15.8	8.2	7.0	7.6
Construction	136.7	4.0	187.8	4.4	262.8	5.2	6.6	7.0	6.8
Electricity, gas and water	26.5	0.8	33.2	0.8	49.5	1.0	4.6	8.3	6.5
Transport, storage and communications	115.1	3.4	165.5	3.9	193.2	3.8	7.5	3.1	5.3
Wholesale and retail trade, hotels and restaurants	371.1	10.9	503.4	11.8	648.5	12.7	6.3	5.2	5.7
Finance, insurance, real estate and business services	31.5	0.9	40.7	0.9	52.1	1.0	5.3	5.1	5.2
Government services	396.6	11.7	555.8	13.1	710.1	13.9	7.0	5.0	6.0
Other services	128.7	3.8	176.9	4.2	217.7	4.3	6.6	4.2	5.4
Total	3,395.9	100.0	4,247.1	100.0	5,093.5	100.0	4.6	3.7	4.1
Population	10,776.9		12,449.9		14,261.2				
Labour force	3,681.9		4,538.8		5,380.0				
Unemployment	286.0		291.7		286.5				
Unemployment rate (%)	7.8		6.4		5.3				

208. In line with the structural changes in the economy during the seventies, there were significant changes in sectoral employment growth. The pattern of employment growth indicated a shift in the demand for labour away from agriculture to the more productive secondary and tertiary sectors of the economy. During the decade, manufacturing recorded the highest rate of employment growth of 7.6% per annum while employment in construction and utilities also grew rapidly at 6.8% and 6.5% per annum, respectively. The services sector also performed well with employment growing at rates higher than the average for the economy as a whole. Employment in government services, finance, and wholesale and retail trade grew at average annual rates of 6%, 5.2% and 5.7%, respectively. Agricultural employment increased at only 1.9% per annum. The low rate of growth of agricultural employment was related to a shift in the structure of economic growth away from agriculture and to a certain extent, the modernization of the sector.

209. The agricultural sector accounted for only 21% of the new jobs generated during 1971-80, providing on the average 35,200 jobs per year. Correspondingly, the share of agricultural employment in total employment declined substantially from 50.5% in 1970 to 40.6% in 1980. Manufacturing generated the largest number of jobs with a net employment increase of 416,600, accounting for about 25% of total new employment. This increased its share in total employment from 11.4% in 1970 to 15.8% in 1980. The share of construction employment also increased substantially from 4% to 5.2% providing about 126,100 new jobs. Within the services sector, the biggest increase was in the public sector providing a total of 313,500 jobs, thus increasing its share in total employment from 11.7% to 13.9%.

210. Trends in employment growth during the decade indicated that even within each of the sectors substantial changes took place in the composition of employment. In agriculture, the bulk of the new employment came from land development, increases in livestock production and forestry. The rapid expansion of employment in higher income agricultural activities and in the more productive secondary and tertiary sectors of the economy resulted in the movement of labour away from low productive agricultural activities. Towards the end of the seventies, locational labour shortages in certain agricultural activities began to emerge, particularly in new development areas in Pahang, Johor, Trengganu and Kelantan. The number of people involved in activities such as *padi* cultivation, mixed farming and fishing declined substantially. In Peninsular Malaysia, the proportion employed in such activities declined from 44% of total agricultural employment in 1970 to 36% in 1978.

211. Employment in rubber estates declined by about 49,000 during 1971-78, or about 22% of the 1970 workforce. Besides the conversion of rubber to oil palm, the decline was also attributable to the technological changes within the rubber industry and the phasing down of labour use in activities related to replanting. This decline was, however, largely offset by the increase in employment in rubber smallholdings so that total employment in rubber remained more or less constant. Employment in oil palm increased fourfold during the period, providing 72% of the new jobs generated in the sector, thus increasing its share in agricultural employment to about 9.5% by 1978.

212. In manufacturing, the growth in employment was largely due to the strong output growth experienced by the sector, with value added increasing by 12.5% per annum, and the large-scale expansion of labour-intensive and largely export-oriented industries in the seventies. The Monthly Surveys of Manufacturing for Peninsular Malaysia indicated that during 1973-78, employment in labour-intensive industries such as electrical machinery, including electronics, and textiles and clothing, increased at average rates of 22% and 13%, respectively. There was also substantial employment generation in wood-based industries with employment in the manufacture of wood furniture increasing at about 8% per annum. Rubber products industries, however, recorded an employment growth of only 6% per annum during 1973-78. The surveys also indicated that, on the average, employment in food manufacturing, non-electrical machinery and transport equipment industries grew rather slowly, at around 5%, 4% and 6.7% per annum, respectively.

213. Within the manufacturing sector in Peninsular Malaysia, industries which were given pioneer status accounted for about 37% of the new employment in the sector during 1971-78. The number of establishments given pioneer status increased from 210 in 1970 to 473 in 1978 and these industries generated on the average about 14,200 new jobs annually, thus increasing its share in total manufacturing employment from 10% in 1970 to 23% in 1978.

214. The rapid growth in construction activity during the decade and the strong demand for housing resulted in a significant growth in employment in the sector. Total employment in the sector increased from 136,700 in 1970 to 262,800 in 1980, indicating an average annual growth rate of 6.8%. Within the services sector, the public sector recorded the highest rate of growth in employment of about 6% per annum. A total of 313,500 jobs was generated over the ten-year period. Much of this expansion in employment was to meet the implementation needs of the development plans, the expansion of education and health services and the expansion in personnel requirements for defence and internal security.

VI. LABOUR UTILIZATION

Unemployment

215. Unemployment as a percentage of the labour force declined from 7.8% in 1970 to 5.3% in 1980. Both urban and rural unemployment rates declined in line with the overall decline in unemployment. The 1974-78 data from the Labour Force Surveys, Peninsular Malaysia indicated that in the urban areas open unemployment declined from 7.7% to 6.7% while rural unemployment declined from 6.9% to 6.1%. By sex, male unemployment declined from 5.8% in 1974 to 5.4% in 1978 while female unemployment declined more substantially from 9.8% to 7.9%.

216. There was a significant improvement in the hard-core unemployment situation. During 1974-78, the proportion unemployed for more than a year who were actively seeking work fell from 32.9% of total unemployment in 1974 to 18.8% in 1978. During the same period, the proportion unemployed for six months to one year also dropped from 21.1% to 17.7%. In 1974, of those actively unemployed about 27.2% were unemployed for less than three months, compared with 44.6% in 1978. Thus in line with the improvement in the employment situation in the seventies, the proportion unemployed for long durations dropped and in 1978, about half of those out of work was unemployed for only three months or less.

217. During the decade, unemployment among youth between the ages 15-19 declined significantly though it still remained high. During 1974-78, the unemployment rate for youth declined from 19.3% to 16.3%. In terms of rural-urban stratum, the unemployment rate for youth declined from 20.7% to 17% in urban areas while in rural areas the unemployment rate declined from 18.7% to 16%. The majority of the unemployed youth were looking for their first job. In 1978, about 58.3% of the unemployed youth had never worked before while the balance of 41.7% had previous work experience. However, since 1974 the proportion of first time job-seekers had dropped from 68.6% to 58.3%.

218. The rapid upgrading in the educational profile of the new entrants into the labour market resulted in an increasing proportion of upper secondary school leavers entering the labour market. Consequently, the unemployment rate for those with upper secondary education increased from 10.8% in 1974 to 11.9% in 1978. For those with lower secondary education, the unemployment rate declined substantially from 11.8% to 9% with the drop being more significant for females, from 19.4% to 12.5% while for males it dropped from 9.4% to 7.9%. Despite this, unemployment rates among females with lower and upper secondary education remained considerably higher than those among males.

Underemployment

219. Despite rapid employment growth in the seventies and overall reduction in unemployment rates, underemployment as a percentage of the labour force increased from 1.5% in 1974 to 2.6% in 1978. The data from the Labour Force Surveys which measured underemployment in terms of hours of work (those working less than 25 hours per week and wanting additional work) indicated that about 113,000 people were underemployed in 1978.

220. Underemployment was largely a rural phenomenon. During 1974-78, while the urban underemployment rate remained fairly steady, 1.7% in 1978 compared with 1.8% in 1974, underemployment in rural areas increased from 1.9% to 3.1%. In 1978, about 80% of the underemployed were in rural areas. High underemployment in rural areas was related to farm size and substantial seasonality in crop cultivation resulting in vast underemployment of farm labour during the slack season and shortage of labour during harvesting.

Productivity trends

221. Rapid employment growth in the seventies was accompanied by substantial increases in labour productivity. This resulted from a combination of factors such as improvement in the educational and skill attainment of the workforce, adoption of new technologies and modern equipment, as well as modernization of the administrative services in the public and private sectors. During 1971-80, overall output in real terms grew at 7.8% per annum with 53% of this growth arising from new employment and 46% reflecting increases in productivity. Consequently, as shown in Table 4-7, real value added per worker rose from \$3,624 in 1970 to \$5,141 in 1980, reflecting an increase of 3.6% per annum in labour productivity.

222. The increase in output per worker was experienced in most sectors of the economy. During 1971-80, output in agriculture grew at 4.3% per annum with 44% of the increase in output arising from new employment, while 56% of the growth reflected increases in labour productivity. In absolute terms, value added per worker increased from \$2,215 to \$2,810. In manufacturing, productivity grew more rapidly at 4.6% per annum compared with 2.4% in agriculture. Consequently, while in 1970 output per worker in manufacturing was about 1.9 times that in agriculture, in 1980 it increased to about 2.4 times the productivity in agriculture. In 1980, output per worker in agriculture was about the same as in the other services sector. In construction, output per worker increased at 2.7% per annum during the period.

TABLE 4-7

MALAYSIA: VALUE ADDED PER WORKER BY SECTOR, 1970-80
(\$ in 1970 prices)

Sector	1970	1975	1980	Average annual growth rate (%)		
				1971-75	1976-80	1971-80
Agriculture, forestry and fishing	2,215	2,498	2,810	2.4	2.4	2.4
Mining and quarrying	8,781	8,969	13,549	0.4	8.6	4.4
Manufacturing	4,269	4,983	6,692	3.1	6.1	4.6
Construction	3,475	3,482	4,513	0.1	5.3	2.7
Electricity, gas and water	8,642	10,994	11,960	4.9	1.7	3.3
Transport, storage and communications	5,048	6,471	8,778	5.1	6.3	5.7
Wholesale and retail trade, hotels and restaurants	4,400	4,408	5,081	0.1	2.9	1.5
Finance, insurance, real estate and business services	32,889	36,069	41,363	1.9	2.8	2.3
Government services	3,447	3,976	4,785	2.9	3.8	3.3
Other services	2,378	2,702	3,018	2.6	2.2	2.4
ALL SECTORS	3,624	4,089	5,141	2.4	4.7	3.6

Wage trends

223. The analysis of wage movements during the decade was rather restricted in coverage in view of limited data on wages and earnings for the various sectors of the economy. Within the agricultural sector, data on average monthly earnings in rubber estates were available from the Rubber Monthly Statistics of Malaysia for the period 1973-79. A study on wage trends and differentials indicated that during 1973-79 real earnings in rubber estates grew by only 1.8% per annum while those of tappers grew at even a lower rate, around 1% per annum during 1973-78. Relative to rubber, the 1973-79 data on earnings in oil palm estates indicated that overall real earnings had grown faster, at 4.6% per annum.

224. In manufacturing, the data from the Monthly Industrial Statistics, Peninsular Malaysia, covering selected industries, indicated that wages grew fairly steadily with a slightly higher rate of growth during 1976-79. However, in view of the high rate of inflation in 1973/74, real wages remained more or less constant during 1973-75, after which they began to rise with a significant jump of 5.2% between 1978-79. Overall for the period 1973-79, real wages rose at an average annual rate of 2.6%. The rates varied from industry to industry with real wages growing by 4% to 5% per annum in plywood and particle board, textiles, and automobile and lorry assembly; at 3% to 4% for rubber remilling and electrical appliances; and at only 1.3% for rubber products manufacturing. Real earnings in textiles and electronics grew at 4.8% and 3.4%, respectively. However, in 1979, average monthly

earnings in electronics was still 13% higher than in textiles. In general, most of the larger industries and the high growth industries of the seventies experienced higher rates of growth in earnings than the average for all industries. This, however, was partly attributable to the lower level of earnings at which they started relative to the older and more established industries.

VII. OCCUPATIONAL STRUCTURE OF EMPLOYMENT

Broad occupational structure

225. The estimated growth of employment by major occupational group is shown in Table 4-8. During the period 1971-80, the shares of all occupational groups increased steadily except the agricultural workers whose share declined from 48.3% in 1970 to 38.8% by 1980. In contrast, the share of production workers increased from 25.2% in 1970 to 30.8% in 1980. This reflected the shift towards industrialization and the success of the Government's industrial strategy during the decade.

226. Although the share of agricultural workers declined sharply, in absolute terms it still increased by about 337,400 during the decade, more than half were in Peninsular Malaysia. This represented a growth of 1.9% per annum, compared with 6.2% for production workers, 5.9% for service workers, and between 5.2% and 5.8% for the other occupational groups. The higher growth rates for these categories of workers indicated a trend towards greater demands for better educated labour force. The number of administrative and managerial workers increased by only 25,700, while production workers registered the highest increase of 710,600 or about 42% of the total increase of 1.7 million during the period. The increases for service, sales, clerical, and professional and technical workers were 195,300, 198,000, 110,000 and 120,600, respectively.

Occupational pattern of sectoral employment

227. The pattern of sectoral employment by major occupational group is shown in Table 4-9. In the primary sector, the bulk or 95% of the workforce in 1980 was made up of agricultural workers. Within the sector, the professional and technical, and administrative and managerial workers increased at rates of 2.9% and 3.1% per annum respectively, compared with 1.9% for the agricultural workers, indicating to a certain extent the effects of agricultural modernization during the decade. In the secondary sector, production workers accounted for about 86% of the workforce in 1980, while clerical workers accounted for 6.2% and the other groups between 0.5% and 2.7%. There was a small but steady increase in the share of production workers during the period, from 84.5% in 1970 to 85.5% in 1980. All categories of workers showed high rates of growth, particularly the sales, professional and technical, and production workers, increasing at 7.2%, 6.8% and 6.5% per annum, respectively.

TABLE 4-8

MALAYSIA: EMPLOYMENT BY MAJOR OCCUPATIONAL GROUP, 1970-80

Occupational group	1970		1975		1980		Share of increase 1971-80 (%)	Average annual growth rate (%)			
	Estimated employment ('000)	Share of total (%)	Estimated employment ('000)	Share of total (%)	Estimated employment ('000)	Share of total (%)		Increase 1971-80 ('000)	1971-75	1976-80	1971-80
MALAYSIA											
Professional and technical workers	157.7	4.7	217.6	5.1	278.3	5.5	7.1	6.7	5.0	5.8	
Administrative and managerial workers	36.5	1.1	49.7	1.2	62.2	1.2	1.5	6.4	4.6	5.5	
Clerical workers	167.7	4.9	226.0	5.3	277.7	5.4	6.5	6.2	4.2	5.2	
Sales workers	283.9	8.4	383.3	9.0	481.9	9.5	11.7	6.2	4.7	5.4	
Service workers	252.3	7.4	347.0	8.2	447.6	8.8	11.5	6.6	5.2	5.9	
Agricultural workers	1,641.6	48.3	1,843.1	43.4	1,979.0	38.8	19.9	2.3	1.4	1.9	
Production workers	856.2	25.2	1,180.4	27.8	1,566.8	30.8	41.8	6.6	5.8	6.2	
TOTAL	3,395.9	100.0	4,247.1	100.0	5,093.5	100.0	100.0	4.6	3.7	4.1	
PENINSULAR MALAYSIA											
Professional and technical workers	136.7	4.8	189.7	5.3	236.2	5.6	7.0	6.8	4.5	5.6	
Administrative and managerial workers	30.7	1.1	41.4	1.2	51.2	1.2	1.4	6.2	4.3	5.3	
Clerical workers	142.5	5.0	192.5	5.4	306.5	7.2	11.6	6.2	9.8	8.0	
Sales workers	258.4	9.1	345.6	9.7	432.3	10.1	12.3	6.0	4.6	5.3	
Service workers	225.8	7.9	311.5	8.7	351.3	8.2	8.9	6.7	2.4	4.5	
Agricultural workers	1,278.8	44.8	1,416.2	39.7	1,474.8	34.6	13.9	2.1	0.8	1.4	
Production workers	777.4	27.3	1,070.3	30.0	1,412.1	33.1	44.9	6.6	5.7	6.2	
TOTAL	2,850.3	100.0	3,567.2	100.0	4,264.4	100.0	100.0	4.6	3.6	4.1	

TABLE 4-9

MALAYSIA: EMPLOYMENT BY SECTOR AND MAJOR
OCCUPATIONAL GROUP, 1970-80

Sector	Professional and technical workers		Administrative and managerial workers		Clerical workers		Sales workers		Service workers		Agricultural workers		Production workers		Total	
	('000)	(%)	(('000)	(%)	(('000)	(%)	(('000)	(%)	(('000)	(%)	(('000)	(%)	(('000)	(%)	(('000)	(%)
1970																
Primary sector ¹ (%)	6.0 (0.4)	3.8 (0.1)	1.7 (0.1)	4.7 (0.5)	9.3 (0.5)	5.6 (0.1)	1.9 (0.1)	0.7 (0.1)	5.7 (0.3)	2.3 (0.3)	1,631.9 (95.2)	99.4 (3.4)	58.1 (3.4)	6.8 (0.0)	1,714.6 (100.0)	50.5
Secondary sector ¹ (%)	15.6 (2.1)	9.9 (2.9)	20.8 (2.9)	57.0 (6.8)	49.5 (6.8)	29.5 (1.2)	8.7 (1.2)	3.0 (0.6)	14.2 (1.9)	5.6 (0.6)	4.1 (0.6)	0.3 (0.0)	614.0 (84.5)	71.7 (0.0)	726.9 (100.0)	21.4
Tertiary sector ³ (%)	136.1 (14.3)	86.3 (1.5)	14.0 (1.5)	38.3 (11.4)	108.9 (11.4)	64.9 (28.6)	233.3 (8.4)	96.3 (0.0)	232.4 (24.3)	92.1 (7.4)	5.6 (0.6)	0.3 (0.0)	184.1 (19.3)	21.5 (0.0)	954.4 (100.0)	28.7
Total (%)	157.7 (4.7)	100.0 ^a (1.1)	36.5 (1.1)	100.0 (4.9)	167.7 (4.9)	100.0 (8.4)	283.9 (8.4)	100.0 (0.0)	252.3 (7.4)	100.0 (7.4)	1,641.6 (48.3)	100.0 (0.0)	856.2 (25.2)	100.0 (0.0)	3,395.9 (100.0)	100.0
1975																
Primary sector (%)	6.9 (0.4)	3.2 (0.1)	2.0 (0.1)	4.0 (0.5)	10.4 (0.5)	4.6 (0.1)	2.1 (0.1)	0.6 (0.1)	6.3 (0.3)	1.8 (0.3)	1,830.2 (95.2)	99.3 (3.4)	65.6 (3.4)	5.6 (0.0)	1,923.5 (100.0)	45.3
Secondary sector (%)	22.4 (2.2)	10.3 (2.8)	28.9 (2.8)	58.2 (6.8)	68.6 (6.8)	30.4 (1.3)	12.8 (1.3)	3.3 (0.6)	17.9 (1.8)	5.2 (0.6)	5.6 (0.5)	0.3 (0.0)	857.4 (84.6)	72.6 (0.0)	1,013.6 (100.0)	23.9
Tertiary sector (%)	188.3 (14.4)	86.5 (1.4)	18.8 (1.4)	37.8 (11.2)	147.0 (11.2)	65.0 (28.1)	368.4 (28.1)	96.1 (0.0)	322.8 (24.6)	91.0 (8.2)	7.3 (0.6)	0.4 (0.0)	257.4 (19.7)	21.8 (0.0)	1,310.0 (100.0)	30.8
Total (%)	217.6 (5.1)	100.0 (1.2)	49.7 (1.2)	100.0 (5.3)	226.0 (5.3)	100.0 (9.0)	383.3 (9.0)	100.0 (0.0)	347.0 (8.2)	100.0 (8.2)	1,843.1 (43.4)	100.0 (0.0)	1,180.4 (27.8)	100.0 (0.0)	4,217.1 (100.0)	100.0
1980																
Primary sector (%)	8.0 (0.4)	2.9 (0.1)	2.3 (0.1)	3.7 (0.6)	11.1 (0.6)	4.0 (0.1)	2.3 (0.1)	0.5 (0.1)	6.9 (0.3)	1.5 (0.3)	1,964.1 (95.0)	99.3 (3.5)	72.2 (3.5)	4.6 (0.0)	2,066.9 (100.0)	40.6
Secondary sector (%)	30.0 (2.2)	10.8 (2.7)	36.0 (2.7)	57.9 (6.7)	83.3 (6.7)	30.0 (1.3)	17.5 (1.3)	3.6 (0.6)	21.9 (1.6)	4.9 (0.6)	6.2 (0.5)	0.3 (0.0)	1,153.8 (85.5)	73.6 (0.0)	1,348.7 (100.0)	26.5
Tertiary sector (%)	240.3 (14.3)	86.3 (1.4)	23.9 (1.4)	38.4 (10.9)	183.3 (10.9)	66.0 (27.6)	462.1 (27.6)	95.9 (0.0)	418.8 (25.0)	93.6 (8.2)	8.7 (0.5)	0.4 (0.0)	340.8 (20.3)	21.8 (0.0)	1,677.9 (100.0)	32.9
Total (%)	278.3 (5.5)	100.0 (1.2)	62.2 (1.2)	100.0 (5.4)	277.7 (5.4)	100.0 (9.5)	481.9 (9.5)	100.0 (0.0)	447.6 (8.8)	100.0 (8.8)	1,979.0 (38.8)	100.0 (0.0)	1,566.8 (30.8)	100.0 (0.0)	5,093.5 (100.0)	100.0

TABLE 4-9—(cont.)

MALAYSIA: EMPLOYMENT BY SECTOR AND MAJOR OCCUPATIONAL GROUP, 1970-80—(cont.)

Sector	Professional and technical workers	Administrative and managerial workers	Clerical workers	Sales workers	Service workers	Agricultural workers	Production workers	Total
	('000) (%)	('000) (%)	('000) (%)	('000) (%)	('000) (%)	('000) (%)	('000) (%)	('000) (%)
<i>Increase 1971-80</i>								
Primary sector (%)	2.0 (0.6)	0.5 (0.1)	1.8 (0.5)	0.5 (0.1)	1.2 (0.4)	332.2 (94.3)	14.1 (4.0)	352.3 (100.0)
Secondary sector (%)	14.4 (2.3)	15.2 (2.5)	33.8 (5.5)	8.8 (1.4)	7.7 (1.2)	2.1 (0.3)	539.8 (86.8)	621.8 (100.0)
Tertiary sector (%)	104.2 (14.4)	10.0 (1.4)	74.4 (10.3)	188.7 (26.1)	186.4 (25.7)	3.1 (0.4)	156.7 (21.7)	723.5 (100.0)
Total (%)	120.6 (7.1)	25.7 (1.5)	110.0 (6.5)	198.0 (11.7)	195.3 (11.5)	337.4 (19.9)	710.6 (41.8)	1,697.6 (100.0)
<i>Average annual growth rate 1971-80</i>								
Primary sector	2.9	2.1	1.8	1.9	1.9	1.9	2.2	1.9
Secondary sector	6.8	5.6	5.3	7.2	4.4	4.2	6.5	6.4
Tertiary sector	5.9	5.5	5.3	5.4	6.1	4.5	6.4	5.8
ALL SECTORS	5.8	5.5	5.2	5.4	5.9	7.9	6.2	4.1

1 Agriculture including forestry, livestock and fishing.

2 Mining and quarrying, manufacturing, construction, and transport, storage and communications.

3 Trade, financial services, government services, utilities and other services.

These indicated a significant advance in the drive towards industrialization, particularly in the promotion of labour-intensive industries. In the tertiary sector, the composition of the workforce was more balanced. In 1980, sales, service and production workers accounted for 27.6%, 25% and 20.3%, respectively. Compared with the other sectors, this sector showed a very high proportion of professional and technical workers, accounting for 14.3% of the total workforce in the sector. The clerical, administrative and managerial, and agricultural workers made up only 10.9%, 1.4% and 0.5%, respectively.

228. The data also showed the distribution of the occupational groups among the sectors. The bulk of professional and technical, sales and service workers in 1980 were found in the tertiary sector, accounting for 86.3%, 95.9% and 93.6% of the workforce in those groups, respectively. The concentration of professional and technical workers in this sector was largely explained by the primary and secondary school teachers and nurses. While almost all of the agricultural workers were found in the primary sector, those in the administrative and managerial group, the clerical group and the production group were concentrated in either the secondary or tertiary sector. In 1980, about 58% of administrative and managerial workers and about 74% of production workers were in the secondary sector, but the majority of clerical workers or about 66% were in the tertiary sector.

229. Over the decade, the distribution of occupational groups among the sectors had been changing resulting from structural changes in the economy as shown by the different rates of growth of occupational employment among the sectors. In the professional and technical group, the average annual growth rate of these workers differed among the sectors, ranging from 2.9% for the primary sector to 5.9% for the tertiary sector and 6.8% for the secondary sector. Similarly, the administrative and managerial workers increased at a rate of 3.1%, 5.6% and 5.5% in the primary, secondary and tertiary sectors, respectively. Such wide differences in the growth rates were also found for the other occupational groups, affecting the overall sectoral employment pattern. Thus the proportion of the total workforce in the primary sector declined from 50.5% in 1970 to 40.6% in 1980. However, the proportion of the secondary sector workforce increased from 21.4% to 26.5% and that of the tertiary sector workforce from 28.1% to 32.9%.

VIII. SUPPLY OF TRAINED MANPOWER

230. The decade of the 1970s experienced a substantial expansion of education and training institutions to meet the increasing manpower requirements generated by the growth of the economy. The rapid economic growth during the period brought about an expansion of employment opportunities both in the public and the private sectors. This led to a heavy demand especially for high and middle level manpower in the scientific, technical and managerial fields.

High and middle level manpower

231. To overcome the shortage of high and middle level manpower, the period 1971-80 witnessed a rapid expansion of tertiary education. In 1970, there were only two universities—the *Universiti Malaya* (UM) and the *Universiti Sains Malaysia* (USM)—with a total enrolment of 7,498 students.⁶ By 1975, the number of universities had increased to five with the establishment of the *Universiti Kebangsaan Malaysia* (UKM) and the upgrading of the College of Agriculture to *Universiti Pertanian Malaysia* (UPM) and that of the *Institusi Teknologi Kebangsaan* to *Universiti Teknologi Malaysia* (UTM). At the college level, the *Institusi Teknologi MARA* (ITM), the *Kolej Tunku Abdul Rahman* (KTAR) and the *Politeknik Ungku Omar* expanded in terms of their facilities and courses. In addition to these three colleges, the *Politeknik Kuantan* was established in 1976. With the establishment and expansion of these universities and colleges, total student enrolment in degree and diploma courses increased threefold from 11,000 in 1970 to about 34,300 by 1980.

232. The bias towards degree programmes in the past had resulted in significant shortages of middle level manpower, especially in the scientific and technical fields. However, as shown in Table 4-10, progress had been made in increasing the supply of sub-professional technical manpower vis-a-vis the professionals. During 1971-80, a total of 5,400 diploma holders in various technical subjects was produced, compared with 2,150 degree holders. In agriculture and related sciences, a total of 2,980 diploma holders was produced, compared with 980 degree holders over the period. The acute shortage of sub-professionals would remain for quite some time as some of the diploma holders would pursue higher studies either immediately after graduation or, in the majority of cases, after working for a short while to gain the necessary experience. The two-tier programmes in UTM and UPM helped to increase the supply of sub-professionals in the scientific and technical fields.

233. The degree programmes in the universities were biased towards the arts and humanities resulting in shortages of scientific and technical manpower at the professional level. There had, however, been a shift in the course structure in the universities as shown in the Table. The proportion of students enrolled in arts declined from 63.5% in 1970 to 47.8% in 1980, while that in science and technical courses increased from 36.5% to 52.2%. In terms of output, the ratio of science (science including technical courses) to total output improved from 35% during 1971-75 to 39% during the second half of the decade, which was still below the desired target of 60%.

⁶ In fact, *Universiti Kebangsaan Malaysia* (UKM) was established in 1970 with an initial intake of 179 students only.

TABLE 4-10

MALAYSIA: ENROLMENT AND OUTPUT OF DEGREE AND DIPLOMA HOLDERS BY TYPE
OF EDUCATION FROM LOCAL HIGHER EDUCATION INSTITUTIONS, 1970-80

Course	Enrolment			Output			Total output		
	1970	1975	1980	1970	1975	1980	1971-75	1976-80	1971-80
DEGREE									
<i>Arts</i>									
Arts and humanities ⁷	3,535	5,605	6,139	719	1,776	1,911	6,966	9,331	16,297
Economics and business ⁸	1,342	1,978	3,170	253	467	741	2,072	3,337	5,409
Sub-total (%)	4,877 (63.5)	7,583 (55.3)	9,309 (47.8)	972 (58.8)	2,243 (63.7)	2,652 (59.7)	9,038 (64.6)	12,668 (61.1)	21,706 (62.5)
<i>Science</i>									
Medicine and dentistry	581	910	1,409	67	121	170	554	808	1,362
Agriculture and related sciences ⁹	324	531	729	49	97	117	383	594	977
Other sciences ¹⁰	1,503	3,201	5,961	493	924	1,056	3,514	5,024	8,538
Sub-total (%)	2,408 (31.4)	4,642 (33.9)	8,099 (41.6)	609 (36.9)	1,142 (32.4)	1,343 (30.3)	4,451 (31.8)	6,426 (31.0)	10,877 (31.3)
<i>Technical</i>									
Engineering	392	1,154	1,666	71	136	288	498	1,270	1,768
Architecture and town planning	—	187	251	—	—	93	—	249	249
Surveying	—	82	162	—	—	40	—	83	83
Other technical ¹¹	—	50	—	—	—	23	—	47	47
Sub-total (%)	392 (5.1)	1,473 (10.8)	2,079 (10.6)	71 (4.3)	136 (3.9)	444 (10.0)	498 (3.6)	1,649 (7.9)	2,147 (6.2)
Total (%)	7,677 (100.0)	13,698 (100.0)	19,487 (100.0)	1,652 (100.0)	3,521 (100.0)	4,439 (100.0)	13,987 (100.0)	20,743 (100.0)	34,730 (100.0)

TABLE 4-10—(cont.)

MALAYSIA: ENROLMENT AND OUTPUT OF DEGREE AND DIPLOMA HOLDERS BY TYPE OF EDUCATION FROM LOCAL HIGHER EDUCATION INSTITUTIONS, 1970-80—(cont.)

Course	Enrolment			Output			Total output		
	1970	1975	1980	1970	1975	1980	1970-75	1976-80	1971-80
DIPLOMA									
<i>Arts</i>									
Arts and humanities ¹²	482	1,441	1,705	74	165	440	569	2,138	2,707
Economics and business ¹³	886	3,921	4,377	110	287	1,070	965	4,193	5,158
Sub-total (%)	1,368 (41.2)	5,362 (45.8)	6,082 (41.2)	184 (32.3)	452 (31.7)	1,510 (45.3)	1,534 (33.2)	6,331 (43.6)	7,865 (41.1)
<i>Science</i>									
Agriculture and related sciences ¹⁴	545	1,332	980	157	335	308	1,162	1,724	2,886
Other sciences ¹⁵	344	2,116	2,482	15	248	558	479	2,502	2,981
Sub-total (%)	889 (26.8)	3,448 (29.4)	3,462 (23.4)	172 (30.2)	583 (40.9)	866 (26.0)	1,641 (35.6)	4,226 (29.1)	5,867 (30.7)
<i>Technical</i>									
Engineering ¹⁶	722	2,151	3,459	149	283	664	1,034	2,756	3,790
Architecture and town planning	225	599	739	36	81	101	317	754	1,071
Surveying	114	162	635	29	28	120	89	333	422
Other technical ¹⁷	—	—	399	—	—	74	—	118	118
Sub-total (%)	1,061 (32.0)	2,912 (24.8)	5,232 (35.4)	214 (37.5)	392 (27.4)	959 (28.7)	1,440 (31.2)	3,961 (27.3)	5,401 (28.2)
TOTAL (%)	3,318 (100.0)	11,722 (100.0)	14,776 (100.0)	570 (100.0)	1,427 (100.0)	3,335 (100.0)	4,615 (100.0)	14,518 (100.0)	19,133 (100.0)

¹ Includes law, Islamic studies, language, literature and Malay culture, and social sciences.² Includes accountancy, business management, resource economics and agri-business.³ Includes home science technology.⁴ Includes pharmacy, applied sciences, environmental studies, food technology and science with education.⁵ Property management.⁶ Includes law and administration, mass communication, art and design, library science and secretarial studies.⁷ Includes accountancy, banking and hotel management and catering.⁸ Includes home science technology.⁹ Includes computer studies, applied sciences and mathematics.¹⁰ Includes also building technology, automotive technology and electronic technology.¹¹ Property management and material technology.

Skilled and semi-skilled manpower

234. With the rapid economic development taking place during the last decade, there was a great need to ensure that shortages of skilled and semi-skilled manpower of various categories would not hinder industrial and agricultural development. Efforts were made by the public sector to expand training programmes in order to accelerate the production of skilled and semi-skilled manpower required by industry. The private sector was also encouraged to provide more opportunities for on-the-job training to supplement and complement existing training programmes. The vocational, technical, industrial and agricultural training in the public sector was carried out mainly by the Ministry of Education, the Ministry of Labour and Manpower, the Ministry of Agriculture, the Ministry of Culture, Youth and Sports, and MARA.

235. Table 4-11 shows the enrolment and output of skilled and semi-skilled manpower from various public training institutions in the country, including KTAR, *Politeknik Ungku Omar* and *Politeknik Kuantan*, which also provided courses at the technician level apart from their diploma programmes. The annual output showed a steady upward trend, from about 3,200 in 1970 to around 13,000 by 1980. A total of about 87,300 youth was trained during the period 1971-80, of which about 42,000 or 48.2% were from the vocational schools. The other major contributors were the technical schools, the various *Institusi Kemahiran MARA* and the Industrial Training Institutes under the Ministry of Labour and Manpower, producing about 17,700, 7,400, and 7,200, respectively. The increasing skill output from these training institutions reflected not only the skill demands of industry but also the priority given to enhancing educational and training opportunities, particularly for youth.

236. The type of skilled and semi-skilled manpower produced by the public sector training institutions is indicated in Table 4-12. More than half of the total output during 1971-80 were trained in various engineering trades, of which the bulk or about 30,000 were trained in mechanical trades. The other popular engineering course at the certificate level was electrical trades which produced about 13,300 skilled technicians, or slightly less than half of the output from mechanical trades. The training done in building trades, commerce, home science and agriculture was also significant, with output ranging from about 6,800 for agriculture to about 14,800 for building trades. The substantial increase in output for most of the skill trades suggests a strong demand for skilled technicians and craftsmen which could only result from rapidly expanding industries.

TABLE 4-1-1

MALAYSIA: ENROLMENT AND OUTPUT OF SKILLED AND SEMI-SKILLED MANPOWER FROM PUBLIC TRAINING INSTITUTIONS, 1970-80¹⁸

Institution	Enrolment		Output			Total output	
	1970	1975	1980	1970	1975	1980	1971-80
Vocational schools	3,552	8,874	12,595	1,481	4,317	6,039	15,712
Technical schools	1,352	3,526	5,220	743	1,868	2,539	6,026
Youth training centres	1,190	1,115	1,331	445	443	654	3,491
Agricultural institutes	464	752	1,188	77	277	323	1,009
Industrial Training Institutes	829	1,557	1,538	378	865	1,053	3,350
Institut Kemahiran MARA	374	1,381	2,871	92	484	1,489	1,742
Institut Perdagangan MARA	—	—	270	—	—	47	—
Kolej Tunku Abdul Rahman	—	79	451	—	16	118	41
Politeknik Ungku Omar	399	948	1,551	—	352	585	2,209
Politeknik Kuantan	—	—	575	—	—	129	—
Total	8,160	18,232	27,590	3,216	8,622	12,976	32,580
							54,716
							87,296

¹⁸ The certificate courses provided at these institutions include various engineering trades, building trades, printing trades as well as courses in commerce, agricultural science, home science and other related courses. The data include enrolment and output from skill-upgrading courses undertaken by Industrial Training Institutes and Institut Kemahiran MARA.

TABLE 4-12

MALAYSIA: INTAKE AND OUTPUT OF SKILLED AND SEMI-SKILLED MANPOWER BY COURSE FROM PUBLIC TRAINING INSTITUTIONS, 1970-80¹⁹

Course	Average annual intake			Output			Total output		
	1971-75	1976-80	1970	1975	1980	1971-75	1976-80	1971-80	
Engineering trades									
Mechanical trades ²⁰	2,979	4,275	1,393	3,002	4,323	11,871	18,150	30,021	
Electrical trades ²¹	1,215	2,073	500	1,425	1,841	4,903	8,377	13,280	
Civil engineering trades ²²	127	287	—	117	218	368	844	1,212	
Other engineering trades ²³	—	21	—	—	13	—	26	26	
Building trades ²⁴	1,408	2,338	549	1,357	2,258	5,158	9,649	14,807	
Printing trades ²⁵	75	90	181	61	74	355	344	699	
Commerce	731	1,376	219	840	1,481	2,845	5,711	8,556	
Agriculture	620	871	155	756	870	2,791	4,011	6,802	
Home science ²⁶	640	936	132	676	635	2,824	4,263	7,087	
Others ²⁷	123	164	22	144	312	598	1,074	1,672	
Skill-upgrading courses	40	156	—	91	320	200	779	979	
Total	7,958	12,587	3,151	8,469	12,345	31,913	53,228	85,141	

¹⁹ Data from the Sarawak vocational and technical schools are not included as data by course are not available.

²⁰ Includes courses such as general mechanic, general machining, tool and die making, motor-vehicle mechanic, welding and sheet metal work.

²¹ Includes electrical installation and maintenance, radio and T.V. servicing, refrigeration and air conditioning, electrical fitting and armature winding.

²² Includes construction.

²³ Includes material technology.

²⁴ Includes carpentry and joinery, woodwork machining, bricklaying and plumbing.

²⁵ Includes hand composing, machine composing, offset printing, bookbinding and letterpress.

²⁶ Includes sewing, cooking and catering, cosmetology and hair dressing.

²⁷ Includes surveying, architectural draftsmanship, photography, laboratory science technician, dispensing optics, computer programming and information processing, confectionery and hotel catering.

IX. CONCLUSION

237. Although fertility has been declining over the decade, its impact on the labour force will be felt only in the late eighties and nineties. Despite a high rate of labour force growth during the decade resulting from the post-war baby boom, the rapid expansion of the economy was able to generate sufficient job opportunities, significantly improving the employment situation. The reduction of the unemployment rate, fuller utilization of labour and increasing labour productivity reflect not only the success of the development efforts towards achieving the New Economic Policy (NEP) objectives but also the effective implementation of the training programmes both in the public and private sectors. The occupational structure of employment indicates that as the economy grows and modernises, there will be greater demand for better educated and trained manpower.

CHAPTER V

Regional Development

I. INTRODUCTION

238. The objective of regional development under the New Economic Policy (NEP) is to narrow the disparities in the standard of living between regions¹ by accelerating the rate of growth of the less-developed regions relative to those which are more developed. This is to be achieved through the exploitation of the full potential of the human and physical resources of the less-developed regions and through equitable distribution of basic services and amenities. In pursuing the above objective, regional development will contribute to the restructuring objective of the NEP by increasing the share of Bumiputera employment in modern economic activities and creating a strong and viable Bumiputera commercial and industrial community through the dispersal of industries as well as the development of existing urban areas and the establishment of new townships.

II. REGIONAL ECONOMIC GROWTH

Income distribution

239. Progress achieved in raising the levels of economic activity and income of the population of each state is reflected in the changes in Gross Domestic Product (GDP) and *per capita* GDP of the states. Tables 5-1 and 5-2 show the GDP by industry of origin and the *per capita* GDP of the states in real terms for the years 1971² and 1980, respectively, indicating changes in the levels of regional economic activity and income during the

¹ The term 'region' refers to a relatively contiguous land mass which is in a more or less uniform stage of development, has similar resources and economic activities and is dominated by a single metropolitan area. A region, therefore, may encompass an entire state or a group of states. In this chapter, the country is taken as being composed of six regions:

Northern: Kedah, Perak, Perlis and Pulau Pinang

Central: Federal Territory, Melaka, Negri Sembilan, and Selangor.

Eastern: Kelantan, Pahang and Trengganu

Southern: Johor

Sabah

Sarawak

² As data for the estimation of 1970 GDP by sectors are not available in the new system of national accounts for Sabah and Sarawak, 1971 is used as the base year for deriving state GDP.

TABLE 5-1

MALAYSIA: GROSS DOMESTIC PRODUCT BY INDUSTRY OF ORIGIN AND STATE, 1971
(\$ million in 1970 prices)

Sector	Johor	Kedah Perlis	Kelantan	Melaka	Negeri Sembilan	Pahang	Perak	Pilau Pinang	Selangor ⁴	Trengganu	Peninsular Malaysia	Sabah	Sarawak	Malaysia
Agriculture, forestry and fishing	625	476	184	125	225	305	504	121	419	120	3,104	460	288	3,852
Mining and quarrying	32	10	1	2	4	36	395	—	198	12	690	3	141	834
Manufacturing	217	39	14	30	109	41	183	174	940	12	1,759	21	78	1,858
Construction	12	26	20	8	12	26	41	43	242	5	455	36	50	541
Utilities	23	6	4	8	11	5	57	24	76	2	216	10	12	238
Transport, storage and com- munications	76	29	27	17	34	27	71	64	196	10	551	44	37	632
Wholesale and retail trade, hotels and restaurants	111	26	32	56	32	39	253	216	715	22	1,502	105	110	1,717
Finance, insurance, real estate and business services	112	98	67	39	49	54	153	89	299	39	999	66	61	1,126
Government services	162	84	52	67	79	83	151	62	509	38	1,287	89	90	1,466
Other services	46	12	1	11	12	13	67	34	128	1	325	14	15	354
TOTAL	1,436	806	402	363	567	629	1,875	827	3,722	261	10,888	848	882	12,618
GDP at purchasers' value	1,476	828	413	373	583	647	1,927	850	3,826	268	11,191	905	920	13,016
Population ('000)	1,362.0	1,136.9	732.2	425.3	509.4	553.1	1,651.6	821.1	1,777.1	435.9	9,404.6	694.6	1,005.2	11,104.4
Per Capita GDP (\$)	1,083.7	728.3	564.1	877.0	1,144.5	1,169.8	1,166.7	1,035.2	2,152.9	614.8	1,189.9	1,302.9	915.2	1,172.2
Ratio to Malaysian average	0.92	0.62	0.48	0.75	0.98	1.00	1.00	0.88	1.84	0.52	1.02	1.11	0.78	1.00

³ Kedah and Perlis are two distinct states but are shown together here because much of the available statistical data for the two states are combined.

⁴ Includes the Federal Territory.

TABLE 5-2

MALAYSIA: GROSS DOMESTIC PRODUCT BY INDUSTRY OF ORIGIN AND STATE, 1980 (\$ million in 1970 prices)

Sektor	Johor	Kedah	Perlis	Kelantan	Melaka	Negeri Sembilan	Pahang	Perak	Pinang	Pulau Selangor	Federal Territory	Trengganu	Peninsular Malaysia	Sarawak	Sabah	Malaysia
Agriculture, forestry and fishing	938	590	76	264	170	332	458	682	130	611	—	234	4,485	861	463	5,809
Mining and quarrying	12	4	0.5	2	2	7	26	280	0.5	153	—	1666	653	2646	2976	1,214
Manufacturing	679	94	16	41	90	200	191	511	825	2,462	—	50	5,159	45	170	5,374
Construction	99	23	2	39	25	37	39	102	84	492	—	19	961	103	122	1,186
Utilities	52	19	3	14	24	39	20	80	56	219	—	13	539	24	29	592
Transport, storage and communications	156	60	3	65	35	70	52	135	183	722	—	18	1,499	107	90	1,696
Wholesale and retail trade, hotels and restaurants	296	96	5	69	128	108	83	370	458	1,261	—	42	2,916	189	190	3,295
Finance, insurance, real estate and business services	211	143	18	100	71	89	97	265	183	662	—	68	1,907	134	114	2,155
Government services	353	203	42	158	122	152	194	380	236	1,033	—	117	2,990	187	221	3,398
Other services	61	22	2	12	21	25	23	77	65	279	—	10	597	30	30	657
TOTAL	2,857	1,254	167.5	764	688	1,059	1,183	2,882	2,220.5	7,894	—	737	21,706	1,944	1,726	25,376
GDP at purchasers' value	2,941	1,291	172	786	708	1,090	1,218	2,967	2,286	8,144	3,982	759	22,344	2,028	1,816	26,188
Population ('000)	1,703.7	1,172.5	152.2	933.6	482.1	399.9	819.8	1,874.7	969.8	1,561.1	997.7	576.9	11,849.0	1,097.8	1,314.4	14,261.2
Per capita GDP (\$)	1,726	1,101	1,094	842	1,469	1,817	1,486	1,583	2,357	2,655	3,991	1,316	1,886	1,847	1,382	1,836
Ratio to Malaysian average	0.94	0.60	0.60	0.46	0.80	0.99	0.81	0.86	1.28	1.45	2.17	0.72	1.03	1.01	0.75	1.00

1 The sectoral values and TOTAL include those for the Federal Territory.

6 Includes petroleum.

period 1971-80. At the beginning of the decade, Selangor, which included the present Federal Territory, was the richest state with a *per capita* GDP almost double the national average and an overall high rate of economic activity. On the other hand, Kelantan, with its *per capita* GDP less than half the national average, was the poorest state. Kedah, Perlis and Trengganu were also low-income states at the beginning of the decade. The population of these states was mainly rural-based, engaged in low-productive, traditional agricultural activities. Changes in the GDP and *per capita* GDP over the period are summarised in Table 5-3.

TABLE 5-3

MALAYSIA: SUMMARY OF GDP AND PER CAPITA GDP
GROWTH BY STATE, 1971-80

State	Gross Domestic Product		Average annual growth rate	Per capita GDP		Average annual growth rate
	1971	1980	1972 - 80	1971	1980	1972 - 80
<i>High-income</i>						
Federal Territory Selangor	3,826	8,126	8.7	2,152.9	3,176	4.4
<i>Middle-income</i>						
Johor	1,476	2,941	8.0	1,083.7	1,726	5.3
Melaka	373	708	7.4	877.0	1,469	5.9
Negri Sembilan	583	1,090	7.2	1,144.5	1,817	5.3
Pahang	647	1,218	7.3	1,169.8	1,486	2.7
Perak	1,927	2,967	4.9	1,166.7	1,583	3.5
Pulau Pinang	850	2,286	11.6	1,035.2	2,357	9.6
Sabah	905	2,028	9.4	1,302.9	1,847	4.0
Sarawak	920	1,816	7.9	915.2	1,382	4.7
<i>Low-income</i>						
Kedah/Perlis	828	1,463	6.5	728.3	1,101	4.7
Kelantan	413	786	7.4	564.1	842	4.6
Trengganu	268	759	12.3	614.8	1,316	8.8
Malaysia	13,016	26,188	8.1	1,172.2	1,836	5.1

240. Johor, Melaka, Negri Sembilan, Pahang, Perak and Pulau Pinang fell within the category of middle-income states with relatively high *per capita* income. These states possessed high levels of activities in the primary and secondary sectors. Sabah, supported by its forestry output, and Sarawak, boosted by its forestry and petroleum production, were also middle-income states.

241. By the end of the decade, some progress was achieved in raising the income levels of the poor states. Trengganu's growth in GDP and *per capita* GDP was remarkable at 12.3% and 8.8% per annum respectively, despite

a population growth rate of 3.2% per annum, substantially higher than the national average of 2.8%. Trengganu's economic growth can be attributed to the off-shore petroleum production which began late in the decade and to the large-scale land development programme in the Trengganu Tengah area. Kelantan's GDP grew at 7.4% per annum compared with the national GDP growth rate of 8.1%, with manufacturing, utilities, government and other services representing the fastest growing sectors. With a 2.7% population growth rate, Kelantan's *per capita* GDP increased at 4.6% per annum compared with the national *per capita* GDP growth rate of 5.1%.

242. Economic growth in Kedah/Perlis was attributable to the accelerated development of modern industrial activities following the establishment of industrial estates especially in the later part of the decade. The manufacturing sector of Kedah grew at 12% per annum during the period 1971-80 which was comparable with the national average of 12.5%. The overall accelerated economic growth coupled with a relatively low population growth of 1.8% per annum resulted in a *per capita* GDP growth rate of 4.7% per annum for the states. In Perlis, there was an improvement in overall agricultural productivity and income due to better irrigation facilities in the Muda Agricultural Development Authority (MADA) area, improved animal husbandry practices and better marketing facilities. Industrial ventures also helped the state to achieve overall economic growth during the period.

243. Among the middle-income states, Pulau Pinang, Sabah and Johor registered high rates of economic growth. During the decade, the manufacturing and services sectors of Pulau Pinang grew at 18.9% and 10.3% per annum, respectively, higher than the national growth rate for these sectors, contributing to high growth rates of GDP and *per capita* GDP. Johor's economic growth was the result of increased agricultural output in the state mainly from land development and expansion of industrial and commercial activities. In Pahang, large-scale land development in the Pahang Tenggara and Jengka areas and the subsequent establishment of resource-based industrial activities were the major contributors to the state's growth in GDP. Perak, Negri Sembilan and Melaka continued to expand their economic base through increased output in the agricultural and industrial sectors. In 1980, agriculture remained the largest contributor to Perak's GDP, while manufacturing emerged as the second largest in place of mining.

244. Petroleum production, which began during the later part of the decade, and the exploitation of forest resources helped Sabah achieve an annual GDP growth rate of 9.4%. In Sarawak, timber and petroleum production continued to be the mainstay of the economy which grew at 7.9% per annum.

245. The Federal Territory had the highest *per capita* GDP followed by Selangor, both experiencing high levels of economic activity in the manufacturing and services sectors. In 1980, output from the manufacturing sector of the Federal Territory and Selangor together accounted for 46% of the total manufacturing output of the country.

Household income⁷

246. The Agriculture Census 1977, which covered rural and urban households in both agricultural and non-agricultural sectors, shows that Kelantan had the lowest monthly gross income per household, followed by Kedah, Perlis and Trengganu. In 1976, about 75% of the households in Kelantan and 70% in Kedah, Perlis and Trengganu earned income less than \$300 per month compared with the national average of 49%. The percentage of households in Sabah earning income less than \$300 per month corresponded with the national average, while that of Sarawak was higher at 56%. Selangor and the Federal Territory had 30% and 15% of their households, respectively, within this income category.

Quality of life

247. Efforts to improve the quality of life of the people in all regions were centred mainly on the provision of adequate social and infrastructural facilities such as health, education, transport and communications, utilities and recreation. Table 5-4 contains some social indicators for the years 1970 and 1980 which reflect the progress made during the decade in achieving a more equitable distribution of such social services between states.

248. The decrease in infant mortality rates between 1970 and 1980 indicates improvements in general health. While the low-income states of Kelantan and Trengganu registered rates substantially higher than the national average, there was a marked decrease in the rates during the decade for these states. In the less-developed states, there was a decrease in the number of persons per registered doctor and dentist as well as in the number of people per acute hospital bed and rural/midwife clinic, reflecting a better distribution of basic health services.

249. Overall improvements in educational facilities and the access to such facilities during the past decade are reflected in the teacher/pupil ratios and the transition rates between various educational levels.

⁷ Household income refers to the average gross income earned by all income recipients of the household per month in 1976. It includes earnings from paid employment, net income from agricultural holdings and other businesses, net property income and transfer receipts and is income before deductions for transfer payments such as income tax and other direct taxes.

TABLE 5-4

MALAYSIA: SELECTED SOCIAL INDICATORS, 1970 AND 1980

State	Health							
	Infant mortality rates		Persons per registered doctor		Persons per registered dentist		Persons per acute hospital bed	
	1970	1980	1970	1980	1970	1980	1970	1980
<i>High-income</i>								
Federal Territory		21.4						
Selangor ^a	29.4	22.8	1,801	2,293	17,634	16,195	521	597
<i>Middle-income</i>								
Johor	36.7	27.1	5,480	4,840	41,441	25,814	637	602
Melaka	43.8	23.6	3,921	3,628	46,622	17,218	577	544
Negeri Sembilan	39.7	24.5	4,033	3,260	35,721	18,747	364	375
Pahang	43.3	27.4	7,599	5,189	22,796	25,619	632	704
Perak	41.7	29.2	4,345	4,710	39,737	28,842	595	613
Pulau Pinang	38.0	25.0	2,502	2,957	19,186	19,396	563	558
<i>Low-income</i>								
Kedah	42.3	30.6	10,328	7,421	90,136	28,598	992	892
Kelantan	58.7	38.3	14,218	10,609	78,989	40,590	1,183	1,020
Perlis	35.5	33.4	7,856	5,421	62,850	22,457	487	482
Trengganu	56.3	37.7	14,514	8,875	46,767	32,050	886	894
Peninsular Malaysia	40.8	28.1	3,859	3,959	31,760	22,787	619	631
Sabah	—	—	8,379	8,577	—	—	—	565
Sarawak	—	—	12,204	7,343	—	—	—	613
Malaysia	—	—	4,263	4,321	—	—	—	578

^a Includes the Federal Territory where no separate figure is given.

TABLE 5-4—(cont.)

MALAYSIA: SELECTED SOCIAL INDICATORS, 1970 AND 1980—(cont.)

State	Education									
	Teacher-pupil ratios				Transition rates					
	Primary		Secondary		Primary/form I		Lower secondary/form IV		Upper secondary/form VI	
	1970	1980	1970	1980	1969/70	1979/80	1969/70	1979/80	1969/70	1979/80
<i>High-income</i>										
Federal Territory	..	..	..	..	..	81.3	..	..	..	..
Selangor ^a	1:35	1:35	1:27	1:28	74.9	79.1	43.2	56.3	40.6	24.2
<i>Middle-income</i>										
Johor	1:31	1:30	1:28	1:27	54.6	80.6	35.0	60.7	18.5	10.9
Malaka	1:31	1:28	1:24	1:27	71.0	99.3	46.1	66.6	21.5	12.1
Negeri Sembilan	1:31	1:28	1:25	1:24	72.2	87.5	42.0	66.1	23.0	13.7
Pahang	1:30	1:29	1:24	1:26	69.3	91.7	47.5	82.3	22.7	11.1
Perak	1:32	1:32	1:26	1:27	74.3	87.5	40.3	55.2	27.7	12.0
Pulau Pinang	1:34	1:34	1:25	1:27	77.4	88.2	47.1	60.7	35.1	11.8
<i>Low-income</i>										
Kedah	1:31	1:28	1:23	1:26	62.5	86.7	46.9	52.9	19.3	12.0
Kelantan	1:29	1:33	1:27	1:27	82.6	86.9	39.3	57.1	11.6	10.0
Perlis	1:27	1:35	1:21	1:24	73.4	78.4	33.1	61.3	7.7	4.3
Trengganu	1:30	1:25	1:24	1:26	74.9	78.5	44.8	64.1	15.4	11.6
Peninsular Malaysia	1:32	1:29	1:25	1:26	69.6	85.1	42.1	59.9	25.9	11.5

^a Includes the Federal Territory where no separate figure is given.

TABLE 5.4—(cont.)

MALAYSIA: SELECTED SOCIAL INDICATORS, 1970 AND 1980—(cont.)

State	Registration of private motor vehicles				Utilities			
	Motorcars per 1000 population		Motorcycles per 1000 population		Per capita electricity consumption (KWH per year)		Per capita water consumption (litres per year)	
	1970	1980	1970	1980	1970	1980	1970	1980
<i>High-income</i>								
Federal Territory								
Selangor ^a	5.1	8.0	5.4	10.0	77.4	186.6	60,834	76,622
<i>Middle-income</i>								
Johor	2.2	4.8	3.7	11.2	24.6	83.0	30,239	44,913
Melaka	2.9	5.6	3.7	10.9	33.1	115.0	8,322	43,148
Negeri Sembilan	3.1	5.8	4.6	12.6	28.8	92.0	40,873	52,926
Pahang	2.1	3.5	4.2	10.0	16.5	53.7	31,632	40,095
Perak	2.4	4.4	4.6	10.7	19.79	51.8	39,708	49,786
Pulau Pinang	3.6	7.1	6.0	13.4	17.21	155.0	26,254	89,485
<i>Low-income</i>								
Kedah	1.21 ^b	2.81 ^b	2.81 ^b	8.71 ^b	7.3	43.4	19,110	29,393
Kelantan	0.9	2.2	1.9	5.8	9.3	36.2	7,239	11,430
Pertis	—	—	—	—	8.9	61.7	17,258	15,106
Trengganu	0.9	1.9	2.0	5.0	8.5	43.4	7,093	13,887
Peninsular Malaysia	2.7	5.0	4.1	10.0	29.1	95.5	32,733	50,146
Sabah	3.1	4.3	7.5	4.7	—	—	—	—
Sarawak	1.5	3.0	1.7	3.7	—	—	—	—
Malaysia	2.4	4.5	4.0	8.9	—	—	—	—

^a Includes the Federal Territory where no separate figure is given.^b LLN supplies only.^c For mainland Pulau Pinang only.^d Includes Perlis.

areas of Johor Tenggara, Kelantan Selatan, Pahang Tenggara, Jengka and Trengganu Tengah involving the settlement of about 74,000 people. The development of these new townships contributed to the restructuring objective of the NEP through increased urbanization of Bumiputera and the provision of opportunities for the development of a Bumiputera commercial and industrial community. By 1980, Bumiputera individuals and trust agencies held about 77% of the total share capital of public enterprises in agriculture, forestry, mining and quarrying, construction, tourism and agro-based industrial ventures in Pahang Tenggara, 98% of that in Johor Tenggara, 99% and 100% in Trengganu Tengah and Kelantan Selatan respectively. In addition, 20 Bumiputera private sector companies engaged mainly in plantation, forestry and other agro-based industries were established in these areas.

254. In Sabah, urban services were concentrated in the four main towns of Kota Kinabalu, Sandakan, Lahad Datu and Tawau, all of which are situated in the coastal areas, while the hinterland was served by small towns with a limited range of services. During the decade, 20 new townships were identified for priority attention, and programmes for the development of nine of these towns were initiated in 1980. At the same time, an urban study for Kota Kinabalu was completed aimed at the formulation of specific targets and guidelines for its future economic and spatial expansion. In Sarawak, there was concentration of economic activities around the main towns of Kuching, Sibuan and Miri, and efforts to disperse growth through a strong urban network throughout the state included the identification of nine sub-regional centres for priority development. In addition, Bintulu was identified as a regional growth centre to serve the potential development area of the Fourth Division, and towards this end, an urban study was completed to prepare economic, social and physical plans for its orderly growth.

Regional studies

255. In order to ensure systematic and integrated development of areas, new townships and growth centres, a number of masterplan studies were undertaken during the decade, such as the Pahang Tenggara, Johor Tenggara and Miri-Bintulu regional studies, which provided a comprehensive basis for regional development efforts as well as long-term plans for the phased development of these areas. Studies were also undertaken to assist in the identification of opportunities for the re-development of areas such as the Trengganu coast and Trans-Perak. Urban studies were completed for Kelang Valley, Pulau Pinang and South Johor, providing guidelines for their orderly development in the face of rapid urbanization and industrial growth.

Sectoral linkages

256. During the decade, programmes and projects implemented in the agricultural, industrial and infrastructural sectors contributed substantially to the growth of regions through the accelerated development of their natural resources, improved spatial distribution of industrial activities and growth centres as well as the development and improvement of their infrastructural and communication networks.

257. *Natural resources development.* During the decade, new land development programmes provided an important means of promoting growth in the less-developed states through greater utilization of available land. As shown in Table 5-5, a total of 154,080 hectares were developed in Kedah, Kelantan, Perlis and Trengganu involving the settlement of about 16,000 households, mainly the underemployed and landless, thereby providing them with more productive employment and relieving population pressure in the agricultural areas. In addition, about 5,700 households from these states also benefitted from employment opportunities created in the land development schemes in Johor, Pahang and Negri Sembilan which accounted for the bulk of the land developed and had the capacity to absorb settlers from both within and outside the states.

TABLE 5-5

MALAYSIA LAND DEVELOPMENT BY STATE, 1971-80
(hectares)

State	FELDA	FELCRA	RISDA	Regional authorities	State agencies ¹²	Private sector	Total land developed
<i>High-income</i>							
Selangor ¹³	342	—	—	—	10,189	8,279	18,810
<i>Middle-income</i>							
Johor	81,645	12,782	2,308	16,307	18,735	11,038	142,815
Melaka	2,087	1,621	—	—	—	3,373	7,081
Negri Sembilan	62,710	6,735	2,807	—	5,567	12,878	90,697
Pahang	164,869	8,143	10,434	18,255	47,033	13,491	262,225
Perak	17,133	9,332	7,252	—	13,530	7,206	54,453
Pulau Pinang	—	—	—	—	—	—	—
Sabah	1,428	—	—	—	57,815	—	59,243
Sarawak	—	—	—	—	76,654	—	76,654
<i>Low-income</i>							
Kedah	6,879	4,377	1,324	—	10,942	184	23,706
Kelantan	10,693	1,473	7,338	5,663	11,048	279	36,494
Perlis	3,187	—	—	—	—	—	3,187
Trengganu	22,732	6,247	—	15,623	41,492	4,599	90,693
TOTAL	373,705	50,710	31,463	55,848	293,005	61,327	866,058

¹² Includes land schemes undertaken by State Economic Development Corporations, State Agricultural Development Corporations, State Land Development Boards, State Agricultural Departments and District Offices.

¹³ Includes the Federal Territory.

258. *In situ* development of agricultural areas was also given emphasis. The major programmes undertaken during the period in the less-developed states included the Integrated Agricultural Development (IAD) projects, namely Muda Phase I project in Kedah, Kemubu project in Kelantan and Besut project in Trengganu which, taken together, helped raise the productivity of 160,000 hectares of agricultural land and the income of 109,000 farm families in these states.

259. The development of forestry and mineral resources in the less-developed states provided opportunities for the diversification of their economic base. The progressive shift in the concentration of forest-based industries from the west coast to the forest-rich east coast states of Kelantan, Pahang and Trengganu enhanced the role of the forestry sector in the industrial development of these states. By 1980, 209 of such industries were located in the east coast states, compared with 153 in 1971. During the decade, efforts were undertaken to exploit the known mineral deposits identified through prospecting exercises carried out in the earlier years. Production of petroleum in Trengganu and copper and petroleum in Sabah which began during the decade had a significant impact on the economies of these states. In 1980, the mining sector contributed 21.9% and 13.0% to the GDP of Trengganu and Sabah respectively, compared with 4.5% for Trengganu and 0.3% for Sabah in 1971.

260. *Migration.* During the decade, substantial inter-state movement of people was experienced, much of which could be attributed to the response to job opportunities available in the manufacturing and services sectors. The planned relocation of excess labour from the congested and depressed agricultural areas to other areas with underdeveloped resources also played a role in this movement. During the period 1971-80, Johor, Kedah, Kelantan, Melaka, Perak and Pulau Pinang had relatively high net outflow of migrants. Pahang experienced a high net inflow of migrants which provided the labour force needed for the land development and settlement programmes in the state. Selangor and the Federal Territory, which had a high concentration of modern economic activities, especially in the Kelang Valley, absorbed a substantial number of migrants from other states through the availability of employment opportunities in the secondary and tertiary sectors. In 1980, employment in the manufacturing, construction, transport, government and other services sectors in the Kelang Valley alone grew by more than 100% above its 1970 position, generating about 465,000 jobs during the decade. Sabah also experienced a large net inflow of migrants providing labour for lower occupational categories, particularly in the logging and plantation activities of the state. Low net migration was experienced by Perlis, Trengganu and Sarawak.

261. *Industrial dispersal.* At the beginning of the 1971-80 period, industrial activity was concentrated in the more developed states of Johor, Negri Sembilan, Perak, Pulau Pinang and Selangor. Together, these states contributed 87% to the total manufacturing output of the country in 1971, with the Kelang Valley alone accounting for 51%. Out of the nine industrial estates, only one was located in the less-developed states. During the decade, dispersal of industries to the less-developed states was encouraged through the provision of locational incentives, improvement of infrastructural facilities and establishment of industrial estates. By 1980, these states increased their share of industrial activities, accounting for 20 out of the 76 industrial estates established throughout the country during the decade, and 136 or 28% of the ready-built factories offered for sale by the Malaysian Industrial

Estates Sendirian Berhad (MIEL). Of the 4,200 industrial projects approved by the Malaysian Industrial Development Authority (MIDA) during the decade, 338 or 8% were for implementation in the less-developed states of Kedah, Kelantan, Perlis and Trengganu, accounting for a proposed capital investment of \$1.2 billion and proposed employment of 53,000 workers. The share of manufacturing output in the economy of these states increased from 4.3% in 1971 to 6.7% in 1980. Table 5-6 shows the progress made in the dispersal of industries to the less-developed states during the period 1971-80.

262. *Infrastructure and communications.* Emphasis was placed on infrastructural and communications development, particularly in the east coast of Peninsular Malaysia and in Sabah and Sarawak, to help strengthen the physical linkages between regions. The strengthening of such linkages, apart from fostering closer integration between regions, also paved the way for greater mobility of factors of production, such as machinery and equipment and skilled labour, essential for accelerating agricultural and industrial development in these regions. The major highway and road projects initiated during the decade included the East-West highway, the Kuantan-Segamat highway, the Kuala Krai-Gua Musang-Kuala Lipis-Bentong highway, and the Jerangau-Jabor highway. The East-West highway and the Kuantan-Segamat highway were nearing completion towards the end of the decade. When completed, the East-West highway would facilitate the development of the northern and eastern hinterlands of Peninsular Malaysia and would link the eastern region with Pulau Pinang, while the Kuantan-Segamat highway would support development efforts in the southern and eastern regions of Peninsular Malaysia. The Kuala Krai-Gua Musang-Kuala Lipis-Bentong highway, which is in the early stages of construction, would, on completion, provide the impetus to resource and industrial development in Ulu Kelantan and North-West Pahang. The Jerangau-Jabor highway, which is the spinal road for Trengganu Tengah, was completed during the decade, providing increased accessibility to areas of high development potential.

263. The completion of the Papar-Sindumin, Tamparuli-Ranau and the Semporna-Lahad Datu roads in Sabah in the Fourth Malaysia Plan (FMP) period would link the eastern and central areas with the relatively more developed west coast. In Sarawak, a number of roads under the First Trunk Road System was upgraded to improve linkages between the major towns.

264. The expansion and modernization of port and airport facilities also made a significant contribution towards greater flow of inter- and intra-regional movement of activities during the decade. The establishment of the port at Pasir Gudang in Johor provided an important outlet for the southern region of Peninsular Malaysia and also fostered greater coastal trade between Peninsular Malaysia and Sabah and Sarawak. The Kuantan Port, when fully operational, would complement the agricultural and industrial development of the eastern region. The major airport improvement and

TABLE 5-6

MALAYSIA: NEW APPROVALS FOR INDUSTRIAL DEVELOPMENT BY STATE, 1971-80¹⁴

State	Number of approvals				Proposed capital investment			
	1971	% ¹⁵	1980	%	1971	% ¹⁵	1971-80	% ¹⁵
<i>High-income</i>								
Federal Territory	26	8.5	29	7.1	224.8	24.0	1.3	3.9
Selangor	100	32.9	104	25.3	112.9	12.1	27.4	16.0
<i>Middle-income</i>								
Johor	44	14.5	69	16.8	145.2	15.5	18.4	12.7
Melaka	7	2.3	21	5.1	10.6	1.1	3.7	3.6
Negeri Sembilan	15	4.9	16	3.9	61.7	6.6	5.6	3.5
Pahang	5	1.6	22	5.4	63.3	6.8	9.6	8.7
Perak	21	6.9	32	7.8	99.7	10.7	8.1	10.1
Pulau Pinang	53	17.4	46	11.2	90.9	9.7	6.2	10.2
Sabah	6	2.0	21	5.1	11.6	1.3	5.5	3.0
Sarawak	10	3.3	15	3.6	11.5	1.2	6.2	19.9
<i>Low-income</i>								
Kedah	1	1.0	16	3.9	12.7	1.4	5.1	5.2
Kelantan	2	0.7	9	2.2	11.6	1.2	1.4	0.9
Perlis	2	0.7	3	0.7	66.4	7.1	0.2	0.5
Terengganu	1	0.3	8	7.9	2.0	0.2	1.3	1.0

¹⁴ As of November 1980.¹⁵ Percentages do not add to 100 as some industries did not specify the size of their factories and therefore were not shown in the table.

Source: MIDA.

extension programmes undertaken during the decade at Kota Bharu, Alor Setar, Kuching and Kota Kinabalu, apart from providing improved air services, also helped to foster closer linkages between regions. Work to develop the airport at Senai into a regional air cargo centre commenced during the later part of the decade.

III. CONCLUSION

265. Although the various programmes implemented in the last decade had contributed to the reduction of regional disparities, regions and states still experience different rates of growth as a result of their varying historical development and resource endowments. Much more, therefore, remains to be done to spur and accelerate the development of the less-developed regions through the optimal exploitation of their resource potential and the provision of social services to bring about a more equitable distribution of socio-economic benefits accruing from a growing economy. The policies and programmes in the FMP will be designed to further narrow the regional disparities by effecting a shift in the pattern of investment and channelling development efforts to the less-developed states of Kedah and Perlis located in the northern region and Kelantan and Trengganu in the eastern region. Besides contributing to the accelerated development of the nation as a whole, the redressal of regional imbalances will ensure greater opportunities for economic and social advancement of people in different parts of the country, thereby enhancing their well-being in accordance with the goals of the NEP.

CHAPTER VI.

Public Sector Programme and Its Financing

I. INTRODUCTION

266. The public sector programmes of the past decade represented a major effort by the Government to implement the objectives of the New Economic Policy (NEP). The programmes and projects were designed to expand employment opportunities and to improve the productivity and incomes of the poor, to accelerate the pace of restructuring society and to expand the productive capacity of the economy through investments in infrastructural facilities, education and training. In addition, emphasis was placed on programmes such as health, housing and other social services to improve the quality of life. The expansion of the public sector programmes, including the strengthening of the economic base of the less-developed states, stimulated private sector activity and, therefore, contributed to the overall rapid progress of the country.

II. DEVELOPMENT EXPENDITURE

267. The total public development expenditure for the decade amounted to \$34,730 million out of an allocation of \$48,179 million, representing an achievement of 72.1%. Under the Second Malaysia Plan (SMP), 1971-75, public development expenditure amounted to \$9,793 million out of an allocation of \$11,457 million, while in the Third Malaysia Plan (TMP), 1976-80, this amounted to \$24,937 million, out of an allocation of \$36,722 million. The rapid expansion of public development expenditure during the TMP was due to the improvement in the machinery for project preparation, the expansion in the implementation capacity of public sector agencies and to a certain extent, cost escalation.

268. The investment component of public development expenditure amounted to \$23,620 million or 67% of total development expenditure. The remainder of the public development expenditure was mainly spent on transfers to the private sector. Under the SMP, public sector investment was \$6,326 million or 64.1% of the development expenditure, while under the TMP, it amounted to \$16,934 million or 67.9% of the total development expenditure. Overall, during the decade, public investment grew at 20.8% per annum in current prices, or at 12.6% in real terms, due to increases in prices of construction materials and capital goods. The rapid increase in public investment resulted in the share of the public sector in total investment to increase in real terms, from 32.1% in 1970 to 33.2% in 1980.

269. As shown in Table 6-1, Federal Government expenditure accounted for 82.4% of the total development expenditure for the period under review. The state governments and public authorities accounted for 9.8% and 7.8% of total development expenditure respectively. During the decade as a whole, expenditure by the Federal Government grew at 21.3% per annum, while expenditure by state governments and public authorities grew at a rate of 19.2% and 27.4% per annum, respectively.

TABLE 6-1
MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE, 1971-80
(\$ million)

	1971-75	%	1976-80	%	1971-80	%
Federal Government	7,415	75.7	21,202	85.0	28,617	82.4
State governments	1,319	13.5	2,093	8.4	3,412	9.8
Public authorities	1,059	10.8	1,642	6.6	2,701	7.8
Total	9,793	100.0	24,937	100.0	34,730	100.0

III. PATTERN OF DEVELOPMENT EXPENDITURE

270. One of the major improvements during the decade was the development of specific criteria in the allocation of public development expenditure. Emphasis was given to programmes and projects which would have the greatest impact on reducing the wide economic and social imbalances existing among the races and within the ethnic groups and within the regions, with the view to reducing the incidence of poverty and restructuring of society. Considerable emphasis was also placed on building up infrastructural facilities such as roads, railways, ports and airports and in expanding the supply of skilled manpower.

271. In addition, the public development expenditure was used to improve the macro-economic performance of the economy through appropriate annual phasing of development expenditures to soften the impact of external economic conditions on the domestic economy. Overall, the impact of the public sector programmes was to contribute significantly towards the achievement of the NEP objectives and to expand the productive capacity of the economy.

Development expenditure by sectors

272. A major portion of the development expenditure was for economic and social programmes followed by expenditures on defence and internal security, and general administration. Table 6-2 provides information on development expenditure by sectors of the economy. Within the economic sector, which amounted to \$18,527 million or 53.3% of the total development expenditure, agriculture and rural development was given the highest priority amounting to \$6,466 million or 18.6% of the total development expenditure. Within the agriculture and rural development sector, the major expenditures were on land development, rubber replanting, drainage and irrigation, agricultural credit and marketing. The expenditure of \$3,824 million on land development included programmes of the Federal Land Development Authority (FELDA), Federal Land Consolidation and Rehabilitation Authority (FELCRA), and other regional agencies such as the Pahang Tenggara Development Authority (DARA), Johor Tenggara Development Authority (KEJORA) and Trengganu Tengah Development Authority (KETENGAH).

273. Infrastructure development expenditure amounted to \$7,350 million or 21.2% of the total development expenditure. Expenditure on infrastructure included construction costs of highway networks, ports and airports, telecommunications, and water and electricity supply. A considerable portion of the expenditure was directed at improving the infrastructural facilities in less-developed areas, including those in the more developed states, in order to expand the momentum of economic activities and to improve the quality of life. Among others, a total of \$2,463 million was spent on improvement and construction of roads and bridges, and \$243 million on rural electrification. In addition, infrastructural facilities in the urban areas were considerably expanded and strengthened to cater for the increasing urban population and economic activities.

274. The expenditure on commerce and industry amounted to \$4,679 million or 13.5% of the development expenditure. The main focus of expenditure on commerce and industry was to enable public enterprises such

TABLE 6-2

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE, 1971-80

(\$ million)

Sector	Revised SMP allocation, (1971-75)	Actual SMP expenditure, (1971-75)	Revised TMP allocation, (1976-80)	Estimated TMP expenditure, (1976-80)	Total allocation, (1976-80)	Total estimated expenditure, (1971-80)
I. ECONOMIC	6,077.37	4,956.42	18,480.55	13,570.79	24,557.92	18,527.21
A. AGRICULTURE AND RURAL DEVELOPMENT	2,278.82	1,793.53	6,464.31	4,672.41	8,743.13	6,465.94
(i) Agriculture	103.28	96.70	943.92	524.78	1,047.20	621.48
Integrated Agriculture Development Projects (Ministry of Agriculture)	—	—	254.70	198.23	254.70	198.23
Department of Agriculture	97.82	92.21	348.25	199.28	446.07	291.49
Kemubu Agricultural Development Authority (KADA)	0.30	—	12.09	7.36	12.39	7.36
Muda Agricultural Development Authority (MADA)	0.40	0.40	5.75	5.72	6.15	6.12
Subsidies (Ministry of Agriculture)	—	—	300.00	101.80	300.00	101.80
Pineapple Replanting	4.76	4.09	23.13	12.39	27.89	16.48
(ii) Rubber Replanting	170.46	145.62	262.83	198.23	433.29	343.85
(iii) Agriculture credit, marketing, processing and co-operatives	174.03	139.00	425.87	269.68	599.90	408.68
Bank Pertanian	50.00	50.00	105.77	37.50	155.77	87.50
Federal Agricultural Marketing Authority (FAMA)	31.11	31.11	81.50	39.64	112.61	70.75
National Padi and Rice Authority	70.00	36.32	73.80	49.54	143.80	85.86
Farmers' Organization Authority	22.00	20.94	120.51	117.49	142.51	138.43
Co-operative Department	0.38	0.09	25.62	9.99	26.00	10.08
National Tobacco Board	0.54	0.54	18.67	15.52	19.21	16.06
(iv) Drainage and Irrigation	257.43	217.81	778.61	554.84	1,036.04	772.65
(v) Livestock	61.77	57.04	168.75	127.22	230.52	184.26

(vi) Fisheries	39.05	31.78	322.63	150.84	361.68	182.62
(vii) Land and Regional Development	1,432.11	1,071.66	3,432.53	2,751.88	4,864.64	3,823.54
Federal Land Development Authority (FELDA)	898.06	678.41	2,014.70	1,732.71	2,912.76	2,411.12
Federal Land Consolidation and Rehabilitation Authority (FELCRA)	63.68	50.96	209.98	192.80	273.66	243.76
Pahang Tenggara Development Authority (DARA)	105.75	37.80	458.78	371.54	564.53	409.34
Trengganu Tengah Development Authority (KETENGAH)	7.11	2.80	163.76	111.84	170.87	114.64
Johor Tenggara Development Authority (KEJORA)	77.33	48.15	239.92	195.67	317.25	243.82
Kelantan Selatan Development Authority (KESEDAR)	—	—	115.60	24.70	115.60	24.70
Lembaga Kemajuan Tanah Kelantan (TAKDIR)	—	—	37.85	7.47	37.85	7.47
Bintulu Development Authority (BDA)	—	—	2.00	—	2.00	—
Security Land Scheme (Pahang)	—	—	14.10	6.21	14.10	6.21
Jengka Triangle	149.44	132.33	—	—	149.44	132.33
Sarawak Land Development Board	32.06	22.53	134.60	82.20	166.66	104.73
Sabah Land Development Board	15.20	15.20	34.80	20.30	50.00	35.50
Others	83.48	83.48	6.44	6.44	89.92	89.92
(viii) Agriculture Research	27.90	25.07	89.53	69.33	117.43	94.40
Malaysian Agricultural Research and Development Institute (MARDI)	27.90	25.07	65.65	49.69	93.55	74.76
Palm Oil Research Institute Malaysia (PORIM)	—	—	4.74	3.73	4.74	3.73
Department of Agriculture (Sabah and Sarawak)	—	—	19.14	15.91	19.14	15.91
(ix) Forestry	12.70	8.85	39.64	25.61	52.43	34.46
B. MINERAL RESOURCES DEVELOPMENT	0.69	0.56	21.29	15.70	21.98	16.26
(i) Geological Department	0.69	0.56	17.11	12.81	17.80	13.37
(ii) Mines Department	—	—	4.18	2.89	4.18	2.89

TABLE 6.2—(cont.)

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE, 1971-80—(cont.)

(\$ million)

Sector	Revised SMP allocation, (1971-75)	Actual SMP expenditure, (1971-75)	Revised TMP allocation, (1976-80)	Estimated TMP expenditure, (1976-80)	Total allocation, (1976-80)	Total estimated expenditure, (1971-80)
C. COMMERCE AND INDUSTRY	1,658.62	1,433.20	4,255.98	3,246.21	5,914.60	4,679.41
(i) Economic Enterprises	1,234.38	1,047.68	3,359.13	2,779.16	4,593.51	3,826.84
Perbadanan Nasional Berhad (PERNAS)	150.00	150.00	382.53	300.50	532.53	450.50
Urban Development Authority (UDA)	169.00	169.00	300.00	254.60	469.00	423.60
Majlis Amanah Rakyat (MARA)	252.15	251.82	231.92	212.75	484.07	464.57
State Economic Development Corporations (SEDCs)	198.96	179.45	662.67	493.13	861.63	672.58
Malaysian International Shipping Corporation (MISC)	142.81	126.52	302.89	292.90	445.70	419.42
Malaysia Shipyard and Engineering Sdn Bhd (MSE)	243.02	107.23	97.43	86.64	340.45	193.87
Credit Export Guarantee Scheme	—	—	2.50	2.50	2.50	2.50
Permodalan Nasional Berhad (PNB)	—	—	500.00	425.00	500.00	425.00
Kompleks Kewangan	—	—	80.00	80.00	80.00	80.00
Bank Simpanan Nasional	—	—	6.00	6.00	6.00	6.00
Bank Rakyat	—	—	155.00	155.00	155.00	155.00
Bank Bumiputra	21.50	7.91	232.00	189.00	253.50	196.91
Malayan Banking Bhd	33.51	33.51	48.00	—	81.51	33.51
Bank Kemajuan Perusahaan	—	—	120.00	95.00	120.00	95.00
Bank Pembangunan	15.00	15.00	100.00	90.00	115.00	105.00
Malaysian Handicraft Development Corporation	2.00	1.68	31.19	28.14	33.19	29.82
Syarikat Gula Padang Tetas Bhd	—	—	77.00	43.50	77.00	43.50
Syarikat Malaysian Explosive Sdn Bhd	6.43	5.56	30.00	24.50	36.43	30.06
(ii) Petty Traders	—	—	30.00	18.70	30.00	18.70

(iii) Markets	3.17	2.77	16.48	7.30	19.65	10.07
(iv) Energy and Industrial Research	17.61	7.11	63.69	17.90	81.30	25.01
Pusat Penyelidikan Atom Tun Dr Ismail (PUSPATI)	7.51	0.02	47.94	9.85	55.45	9.87
Standards and Industrial Research Institute Malaysia (SIRIM)	10.10	7.09	15.75	8.05	25.85	15.14
(v) Heavy Industries Corporation	—	—	125.00	—	125.00	—
(vi) Agro-based Industries	127.66	104.17	152.64	113.52	280.30	217.69
Malaysian Rubber Development Corporation (MARDEC)	82.96	60.59	101.39	71.70	184.35	132.29
Food Industries Malaysia (FIMA)	16.90	16.90	51.25	41.82	68.15	58.72
Others	27.80	26.68	—	—	27.80	26.68
(vii) Tourism	8.59	4.26	27.19	21.28	35.78	25.54
Tourist Development Corporation (TDC)	8.59	4.26	27.19	21.28	35.78	25.54
(viii) Other Programmes	267.21	267.21	481.85	288.35	749.06	555.56
Urban Programme (Selangor Government)	250.00	250.00	375.00	262.50	625.00	512.50
Industrial Estate	17.12	17.12	0.40	0.40	17.52	17.52
Purchase of Capital Assets	—	—	100.00	19.00	100.00	19.00
Overseas buildings (Ministry of Trade and Industry)	0.09	0.09	6.45	6.45	6.54	6.54
TRANSPORT	562.06	1,233.92	4,462.99	2,842.75	6,025.05	4,076.67
(i) Roads and Bridges	731.69	697.81	2,595.46	1,765.46	3,327.15	2,463.27
(a) Other Road Programmes	696.69	663.14	2,038.73	1,576.94	2,735.42	2,240.08
PWD Roads	694.81	661.73	2,013.11	1,559.91	2,707.92	2,221.64
Kuala Lumpur City Hall Roads	1.88	1.41	25.62	17.03	27.50	18.44
(b) Rural and Kampong Roads	35.00	34.67	556.73	188.52	591.73	223.19
Rural Roads	35.00	34.67	517.00	165.95	552.00	200.62
Kampong Roads	—	—	39.73	22.57	39.73	22.57
(ii) Railways	89.99	29.84	350.47	168.35	440.46	198.19
(iii) PWD Plants and Equipment	90.61	72.85	167.63	143.60	258.24	216.45

TABLE 6-2—(cont.)

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE, 1971-80—(cont.)

(\$ million)

Sector	Revised SMP allocation, (1971-75)	Actual SMP expenditure, (1971-75)	Revised TMP allocation, (1976-80)	Estimated TMP expenditure, (1976-80)	Total allocation, (1976-80)	Total estimated expenditure, (1971-80)
(iv) Ports and Marine	367.34	251.58	859.09	557.08	1,226.43	808.66
Ports	327.96	214.59	826.63	548.36	1,154.59	762.95
Marine Department	39.38	36.99	32.46	8.72	71.84	45.71
(v) Civil Aviation	282.43	181.84	490.34	208.26	772.77	390.10
E. COMMUNICATIONS	155.42	174.93	1,252.71	1,152.08	1,408.13	1,327.01
(i) Telecommunications	130.70	152.05	1,200.00	1,112.67	1,330.70	1,264.72
(ii) Postal	20.50	18.11	41.86	31.77	62.36	49.88
(iii) Meteorological Services	4.22	4.77	10.85	7.64	15.07	12.41
F. ENERGY AND PUBLIC UTILITIES	378.07	285.86	1,931.69	1,582.52	2,309.76	1,868.38
(i) Water Supply	216.74	163.12	542.12	377.22	741.01	540.34
(a) PWD Programmes	211.74	159.96	377.13	254.12	588.87	414.08
(b) Rural Water Supply	5.00	3.16	147.14	123.10	152.14	126.26
(ii) Electricity	161.33	122.74	1,407.42	1,205.30	1,568.75	1,328.04
(a) Electricity Boards	133.15	104.36	1,126.42	980.92	1,259.57	1,085.28
(b) Rural Electrification	28.18	18.38	281.00	224.38	309.18	242.76
G. FEASIBILITY STUDIES	43.69	34.42	91.58	59.12	135.27	93.54

II. SOCIAL	1,551.49	1,286.74	5,494.63	3,635.99	7,046.12	4,922.73
A. EDUCATION AND TRAINING	881.43	695.92	2,152.79	1,548.18	3,034.22	2,244.10
(i) Ministry of Education	828.85	658.64	1,812.30	1,308.14	2,641.15	1,966.78
(ii) MARA (Scholarships, Loan and IKM)	38.70	33.08	275.01	214.12	313.71	247.20
(iii) National Institute of Public Administration (INTAN)	4.00	0.50	26.34	12.77	30.34	13.27
(iv) National Productivity Centre	4.90	0.15	12.36	4.72	17.26	4.87
(v) Industrial Training	4.98	3.55	26.78	8.43	31.76	11.98
B. HEALTH AND POPULATION	218.82	183.25	529.42	307.40	748.24	490.65
(i) Ministry of Health	213.01	181.16	482.78	281.89	695.79	463.05
(ii) National Family Planning Board	5.81	2.09	46.49	25.36	52.30	27.45
(iii) Other programmes	—	—	0.15	0.15	0.15	0.15
C. INFORMATION AND BROADCASTING	102.20	85.23	110.20	69.10	212.40	154.33
(i) Ministry of Information	13.23	12.19	14.53	4.50	27.76	16.69
(ii) Broadcasting Department	83.34	69.36	89.40	60.00	172.74	129.36
(iii) Information Department	5.63	3.68	6.27	4.60	11.90	8.28
D. HOUSING	173.06	166.01	1,705.53	1,291.04	1,878.59	1,457.05
(i) Public Housing in States	98.24	91.19	483.74	327.86	581.98	419.05
(ii) Public Housing in Federal Territory	—	—	156.34	113.70	156.34	113.70
(iii) Government Officers' Housing Loan Scheme	—	—	950.00	803.25	950.00	803.25
(iv) Others	74.82	74.82	115.45	46.23	190.27	121.05
E. SEWERAGE	12.60	8.60	170.95	69.10	183.55	77.70

TABLE 6-2—(cont.)

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE, 1971-80—(cont.)

(\$ million)

Sector	Revised SMP allocation, (1971-75)	Actual SMP expenditure, (1971-75)	Revised TMP allocation, (1976-80)	Estimated TMP expenditure, (1976-80)	Total allocation, (1976-80)	Total estimated expenditure, (1971-80)
F. CULTURE, YOUTH AND SPORTS	18.98	12.90	93.66	54.64	112.64	67.34
(i) Ministry of Culture, Youth and Sports	11.42	8.30	58.17	32.82	69.59	41.12
(ii) National Archives	2.00	0.51	10.02	5.57	12.02	6.08
(iii) National Library	1.97	1.05	6.45	3.57	8.42	4.62
(iv) Museum	1.97	1.53	9.70	6.56	11.67	8.09
(v) Department for Protection of Wildlife and National Park Development and Zoo Negara	1.62	1.51	6.32	5.27	7.94	6.78
(vi) National Cemetery	—	—	3.00	0.85	3.00	0.85
G. LOCAL COUNCILS, WELFARE AND COMMUNITY SERVICES	30.04	21.36	225.87	115.88	255.91	137.24
(i) Religious Projects	0.51	0.51	26.15	6.19	26.66	6.70
(ii) Grants for Projects in Town and Local Council Areas	0.60	0.37	72.76	50.37	73.36	50.74
(iii) Aborigines Department	7.50	7.45	45.85	21.70	53.35	29.15
(iv) Ministry of Welfare Services	12.75	8.97	28.47	11.75	41.22	20.72
(v) Provision of Infrastructure (Ministry of Housing and Local Government)	1.96	0.96	29.57	11.03	31.53	11.99
(vi) Other Programmes	6.72	3.10	23.07	14.84	29.79	17.94
H. KAMPONG AND COMMUNITY DEVELOPMENT	30.34	29.45	172.00	113.75	202.34	143.20
(i) Kampung Rehabilitation	—	—	100.00	55.80	100.00	55.80
(ii) Community Development (KEMAS)	1.40	0.69	11.62	8.64	13.02	9.31
(iii) Other Projects in Kampung and New Villages	28.94	28.76	60.38	49.31	89.32	78.07
I. PURCHASE OF LAND	84.02	84.02	334.21	66.90	418.23	150.92

III. SECURITY						
A. DEFENCE						
B. INTERNAL SECURITY						
(i) Police	1,131.33	1,021.98	6,309.41	3,529.80	7,440.74	4,551.78
(ii) Immigration	810.00	705.85	4,969.43	2,672.36	5,779.43	3,378.21
(iii) Prisons	321.33	316.13	1,339.98	857.44	1,661.31	1,173.57
	298.91	298.91	1,231.95	798.02	1,530.86	1,096.93
	3.51	3.06	20.65	11.45	24.16	14.51
	18.91	14.16	87.38	47.97	106.29	62.13
IV. ADMINISTRATION						
A. GENERAL SERVICES						
(i) Buildings (PWD)	190.24	149.95	862.42	465.32	1,052.66	615.27
(ii) Road Transport Department	173.94	135.07	808.28	437.15	982.21	572.22
(iii) Justice Department	99.28	79.82	340.48	167.75	439.76	247.57
(iv) Fire Services Department	5.22	2.40	14.58	7.83	19.80	10.23
(v) Customs Department	5.69	3.87	44.76	16.33	50.45	20.20
(vi) Computer for National Operations Room	0.64	0.64	34.70	23.80	35.34	24.44
(vii) Department of Environment	34.34	30.73	107.14	72.31	141.48	103.04
(viii) Other Programmes	—	—	22.56	13.18	22.56	13.18
	28.76	17.61	30.16	9.40	30.16	9.40
			213.90	126.55	242.66	144.16
B. MINISTRY OF FOREIGN AFFAIRS						
	16.31	14.88	54.14	28.17	70.45	43.05
TOTAL FEDERAL FUNDS						
	8,950.43	7,415.09	31,147.01	21,201.90	40,097.44	28,616.99
STATE FUNDS						
	1,320.00	1,318.61	2,400.00	2,093.42	3,720.00	3,412.03
STATUTORY FUNDS						
	1,187.00	1,059.11	3,175.00	1,641.83	4,362.00	2,700.94
GRAND TOTAL						
	11,457.43	9,792.81	36,722.01	24,937.15	48,179.44	34,729.96

as the *Perbadanan Nasional Berhad* (PERNAS), the Urban Development Authority (UDA), the *Majlis Amanah Rakyat* (MARA) and the State Economic Development Corporations (SEDCs), to expand their activities in support of greater involvement of Bumiputera in commerce and industry. In addition, funds were provided for the expansion of the Malaysian International Shipping Corporation (MISC) and the Malaysian Shipyard and Engineering Berhad (MSE). As a result of the funds channelled by the Federal Government to these agencies by means of loans, equity investments and grants, the involvement of the public sector in the production of goods and services in the country expanded.

275. The share of expenditure on education, health, housing and other social services amounted to \$4,845 million or 14% of the total development expenditure. The largest component of expenditure for the social sector was on education and training to meet the rising enrolments, especially at the secondary level, and to improve the quality of education. Of significance was the expenditure of \$2,244 million on the expansion of vocational and technical schools, vocational training institutions and institutions of higher learning to increase the supply of skilled and high level manpower. The expenditure on health was for the modernization and construction of hospitals and for the expansion of health clinics in both the rural and urban areas.

276. Expenditure on defence and internal security accounted for \$4,552 million or 13.1% of the total development expenditure while that for general administration amounted to \$615 million or 1.8%. The expenditure on general administration was mainly for the construction of new office buildings and purchases of equipment.

Allocation for NEP programmes and projects

277. As shown in Table 6-3, the allocation for anti-poverty projects amounted to \$2,350 million or 26.3% of the Federal allocation during the SMP, while allocation for restructuring of society amounted to \$508 million or 5.6% of the Federal allocation. During the TMP, the allocation for anti-poverty projects was \$6,373 million or 20.5% of the Federal allocation and the allocation for restructuring of society was \$2,376 million or 7.6% of the Federal allocation.

Allocation by states

278. The respective allocations by state during the TMP is shown in Table 6-4. About 16.5% of the allocation were in the less-developed states of Kedah, Kelantan, Melaka, Perlis and Trengganu where income levels were below those of others.

TABLE 6-3

ALLOCATION DIRECTED TOWARDS THE ERADICATION OF POVERTY AND THE
RESTRUCTURING OF SOCIETY UNDER THE SMP (1971-75) AND TMP (1976-80)
(\$ million)

Sector	Second Malaysia Plan, 1971-75					Third Malaysia Plan, 1976-80								
	Poverty ¹	% ²	Restruc- turing	% ³	Over- lapping ²	Total	% ³	Poverty ¹	% ²	Restruc- turing	% ³	Over- lapping ²	Total	% ³
Agriculture and Rural Deve- lopment	2,127.4	23.8	—	—	—	2,127.4	23.8	4,442.7	14.3	117.1	0.3	83.6	4,643.4	14.9
Commerce and Industry	—	—	362.1	4.0	—	362.1	4.0	175.9	0.6	1,924.1	6.2	58.4	2,158.4	7.0
Social	112.9	1.3	146.2	1.6	3.4	262.5	2.9	781.2	2.5	334.8	1.1	7.0	1,123.0	3.6
Infrastructure	109.7	1.2	—	—	—	109.7	1.2	973.6	3.1	—	—	—	973.6	3.1
TOTAL	2,350.0	26.3	508.3	5.6	3.4	2,861.7	31.9	6,373.4	20.5	2,376.0	7.6	149.0	8,898.4	28.6

¹ Includes both direct and indirect effect on the particular NEP objective.

² Programmes/projects contributing to both poverty eradication and restructuring.

³ Based on the Federal Allocation of \$8,950 million for the SMP.

⁴ Based on the Federal Allocation of \$31,147-million for the TMP.

TABLE 6-4

MALAYSIA: ALLOCATION BY STATES, 1976-80

State	Allocation ⁵ (\$ million)	Percentage of total allocation
Johor	2,620	8.2
Kedah	1,261	3.9
Kelantan	1,744	5.4
Melaka	566	1.8
Negri Sembilan	905	2.8
Pahang	2,936	9.1
Perlis	243	0.8
Perak	2,476	7.7
Pulau Pinang	1,396	4.4
Sabah	2,799	8.7
Sarawak	2,525	7.9
Selangor	3,079	9.6
Trengganu	1,491	4.6
Federal Territory	2,690	8.4
Multi-state	5,345	16.7
TOTAL	32,076	100.0

⁵ Based on the Mid-Term Review of the TMP allocation of \$32,076 million.

279. The bulk of the expenditure in the less-developed states was for the development of agriculture, infrastructure and social services. One of the major tasks undertaken to speed up the development of these states was to improve project planning and implementation capacity. The existence of on-going projects from previous plans which had to be carried into the TMP as well as several projects which were national in nature benefitting several states, made it difficult in the short-term to effect marked changes in the quantum and the direction of the resources allocated. During the TMP, necessary steps were taken to redirect certain physical facilities where feasible, to stimulate economic activity in the less-developed states and their effects could be felt only in later years when the projects are fully completed.

IV. FINANCING OF THE PUBLIC SECTOR PROGRAMME

280. The financing of the public sector programme during the decade called for a major effort on the part of the Government to mobilise domestic and foreign resources, given the urgent need to expand the economy on the

one hand and to ensure reasonable levels of price stability on the other. Malaysia was able to withstand the challenge through sound policies and programmes aimed at diversifying the economic structure and therefore the revenue base, and through appropriate fiscal and monetary policies to broaden the tax base of the country. Monetary and fiscal policies, while placing primary emphasis on price stability, were able to mobilise domestic resources through the development of viable financial institutions and capital market to finance both public and private investments. The success of these policies enabled Malaysia to finance about 84% of the overall development expenditure requirements from domestic sources during the decade.

Sources of revenue

281. The major sources of revenue of the Federal and state governments are shown in Table 6-5. Total revenue increased at 18.1% per annum during the decade from \$2,861 million in 1970 to \$15,048 million in 1980. Federal Government revenue increased at an average rate of 18.3% per annum above the rate of growth of the Gross Domestic Product (GDP) in current prices of 15.1% per annum, reflecting the elastic revenue base of the economy, while revenue of the state governments increased by 16.8% per annum. Revenue from taxation accounted for 76.3% of total revenue, while the rest were from non-tax sources such as licenses, permits, fines and services fees.

282. Revenue from direct taxes, such as personal and corporate taxes, increased at a rapid rate of 22.8% per annum from \$701 million in 1970 to \$5,466 million in 1980, reflecting the strengthening of the income base of the economy and the increase in the number of income tax payers as well as new sources of revenue such as excess profit tax (1975) and petroleum cash payments. Direct taxes as a proportion of Federal Government revenue increased from 29% in 1970 to 43% in 1980.

283. Revenue from indirect taxes increased from \$1,299 million in 1970 to \$6,457 million in 1980 or at an average annual rate of 17.4% for the decade. The growth in indirect taxes was due to substantial increase in collections from traditional sources such as export and import duties, surtax, excise duties and road tax and the introduction of new taxes such as sales tax (1972), tin and palm oil export surcharges (1974) which were merged with the existing export duties in 1978, services tax (1975) and petroleum export tax (1980).

284. While taxation resulted in substantial revenue to the Government, it was also used to promote investment and to improve the free flow of goods within the country through the harmonization of tax rates between Peninsular Malaysia, Sabah and Sarawak. In addition, it was also used to promote a more equitable distribution of income and wealth through a progressive income tax structure and to alleviate the burden of inflation, especially on the lower income groups.

TABLE 6-5

MALAYSIA: REVENUE OF THE FEDERAL AND STATE GOVERNMENTS, 1970-80

(\$ million)

	1970	1975	1980	Average annual growth rate (%)		
				1971-75	1976-80	1971-80
<i>Direct taxes</i>	701	2,021	5,466	23.6	22.0	22.8
(i) Income taxes	657	1,926	5,121	24.0	21.6	22.8
— Individuals	168	438	1,250	21.1	23.3	22.2
— Companies	489	1,166	2,276	19.0	14.3	16.6
— Petroleum	—	322	1,595	—	37.7	—
(ii) Petroleum royalties/cash payments	—	78	295	—	30.5	—
(iii) Others	44	17	50	-17.3	24.1	1.3
<i>Indirect taxes</i>	1,299	2,555	6,457	14.5	20.4	17.4
(i) Export duties	258	625	2,420	19.4	31.1	25.1
— Rubber	80	121	1,035	8.6	53.6	29.2
— Palm Oil	18	282	232	73.4	3.8	29.1
— Tin	130	195	470	8.5	19.2	13.7
— Crude petroleum	—	—	650	—	—	—
— Others	30	27	33	-2.1	4.1	1.0
(ii) Import duties and surtax	557	801	1,686	7.5	16.1	11.7
(iii) Excise duty	249	450	994	12.6	17.2	14.9
(iv) Sales tax	—	272	647	—	18.9	—
(v) Road tax	169	241	378	7.4	9.4	8.4
(vi) Others	66	166	332	20.3	14.9	17.5
<i>Non-Tax Revenue</i>	400	541	947	6.2	11.9	9.0
Total Federal Government revenue	2,400	5,117	12,870	16.4	20.3	18.3
State governments revenue	461	812	2,178	12.0	21.8	16.8
Total Federal and state governments revenue	2,861	5,929	15,048	16.7	20.5	18.1

Uses of funds

285. In addition to the increased total development expenditure, Federal and state current expenditure also rose at an average rate of 18.8% per annum during the decade. The Federal Government accounted for more than three quarters of the current expenditure, while state governments accounted for the remainder. The rapid growth in Federal Government

expenditure of 18.7% per annum during the decade was due to expansion in the activities of the Government and increases in the payment of salaries and wages which accounted for 38.8% of Federal Government current expenditure in 1980 compared with 29% in 1970. In addition, the rapid growth was also due to large provisions for subsidies and transfer payments.

286. During the decade, current expenditure on social services including education, health and housing grew at 17.7% per annum while expenditure on defence and security grew at 16.7% per annum. Expenditure on general administration and economic services grew by 13.8% and 14.1% per annum respectively. Transfer payments including pensions and gratuities, grants to state governments, contribution to statutory funds and subscription to international organizations registered the highest average annual rate of increase of 26.5%. During the decade, constitutional grants to the state governments such as the capitation and road grants were reviewed and a "revenue growth grant" was introduced, with a view to supplement the state governments' revenue in the light of higher expenditures and constraints in the expansion of the states' revenue. The new rates of the capitation grant also provide for a fairer and more equitable distribution of Federal funds between the richer and poorer states. The road grant was increased from \$4,600 per mile to \$6,200 per mile in view of the increasing cost of road maintenance. The revenue growth grant was approved in 1976 to give further financial assistance to the state governments.

Sources of financing

287. Taking into account the overall consolidated revenue and expenditure of the Federal and state governments and the surplus of public authorities, as shown in Table 6-6, overall deficit amounted to \$7,556 million during 1971-75 and \$17,101 million during 1976-80. This deficit was financed through domestic and foreign borrowing and the use of accumulated assets and special receipts. Domestic borrowing was the major source of non-inflationary financing of the public development expenditure, financing about 58.4% of the overall deficit during 1971-75 and 56.2% during 1976-80. The bulk of domestic borrowing was from the non-banking private sector, namely the Employees Provident Fund (EPF), the National Savings Bank, insurance companies and other non-bank institutions, which together accounted for 78.9% of domestic sources during the decade. The EPF, being the principal source, contributed about \$6,672 million during the decade. The contribution from the EPF for 1976-80 amounted to \$4,784 million, largely due to the increases in the number of contributors as well as the rate of contribution to EPF from 10% in 1970 to 13% in 1975. The commercial banking system as a whole contributed about 21% of domestic borrowing. Purchases of Treasury bills and Government securities by the commercial banking system increased by 18.8% per annum during 1971-75 and 13.4% per annum during 1976-80.

TABLE 6-6

MALAYSIA: CONSOLIDATED PUBLIC SECTOR EXPENDITURE
AND FINANCING, 1970-80

(\$ million)

	Cumulative		
	1971-75	1976-80	1971-80
Government revenue ...	21,978	54,706	76,684
- Government current expenditure ...	20,446	48,723	69,169
= Current surplus ...	1,532	5,983	7,515
+ Public authorities current surplus ...	705	1,853	2,558
= Public sector current surplus ...	2,237	7,836	10,073
- Public sector development expenditure ...	9,793	24,937	34,730
= Overall deficit ...	7,556	17,101	24,657
<i>Sources of financing:</i>			
Net foreign borrowing ...	2,083	3,907	5,990
Net domestic borrowing ...	4,414	9,610	14,024
Use of accumulated assets and special receipts ...	1,059	3,584	4,643

288. External borrowing, comprising market and project loans, grew at 15.4% per annum during 1972-80, amounting to \$2,083 million during 1971-75 and \$3,907 million during 1976-80. The share of market loans to total external borrowing declined during the decade, reflecting the growing importance of project loans. Despite the fact that foreign borrowing had grown, the debt service payment expressed as a ratio to export earnings averaged about 3.9% during the decade.

Technical assistance

289. The technical assistance obtained during the period 1971-80, included the provision of experts, equipment and training components aimed at improving the skilled manpower resources required for development programmes, and the provision of volunteers for the various sectors. The main sources of technical assistance were from arrangements under the Colombo Plan, United Nations Development Programme and bilateral sources.

CHAPTER VII

The Private Sector: Its Role in National Development

I. INTRODUCTION

290. The private sector has played an important role in meeting the development objectives of the nation. It has provided a major source of investment, technological progress and skills. The sector contributed substantially to output and employment in the plantation, mining, manufacturing, construction and the services sectors, either on its own or in joint-venture with the public sector. The rapid growth of the private sector also facilitated the progress towards achieving the New Economic Policy (NEP) objectives. The increasing role played by the private sector has been due to its positive response to investment opportunities and to the active promotion and the maintenance of a favourable investment climate by the Government.

II. OVERALL GROWTH IN PRIVATE INVESTMENT

291. During the decade, private investment including oil grew at 12% per annum in real terms from \$1,490 million in 1970 to \$4,635 million in 1980 or in current prices, at 21.1% per annum from \$1,490 million to \$10,083 million. The overall performance of the private sector during this period was strongly influenced by development in the international economy which affected the growth of domestic income and production. In addition, the counter-cyclical fiscal and monetary policies of the Government provided significant stimulus to private sector expansion, especially during periods of weak external demand.

292. Private investment grew by 10.5% per annum in real terms from \$1,490 million in 1970 to \$2,454 million in 1975. The relatively weak external demand during this period, when exports grew by 5.9% per annum, had a dampening effect on private sector expansion. However, the adverse effect of weak external demand was offset by domestic expansionary fiscal and monetary policies, leading to a sizable expansion in private investment.

Between 1976 and 1980, private investment grew at a higher rate of 13.6% per annum in real terms from \$2,454 million in 1975 to \$4,635 million in 1980, as a result of both rapid growth in real exports of 9.4% per annum and the Government policies and programmes to encourage rapid expansion of the private sector.

293. The growth in private investment was marked by pronounced cyclical variations. During the years 1971-74, private investment grew by 19.6% per annum while during 1975 and 1976, private sector performance was dismal. In 1975, real private investment declined by 19.5% from \$3,047 million in 1974 to \$2,454 million in 1975, while in 1976 private investment increased negligibly by 0.4%. The poor level of investment activity during 1975 and 1976 was due to the impact of world-wide recession on domestic activity and the prevalence of domestic excess capacity and the accumulation of stocks during 1973 and 1974 when private investment in real terms grew at 29.1% and 23.5%, respectively in response to boom conditions in the economy. In addition, the passing of the Petroleum Development Act (PDA) in 1974 and the Industrial Coordination Act (ICA) in 1975 caused anxiety among investors and had a depressing effect on private sector investment in 1975 and 1976.

294. During 1977-80, private sector investment picked up considerably to grow at 17.1% per annum due to the good export performance and to the concrete steps taken by the Government to allay the anxiety of the private sector through amendments to the ICA and the PDA. Overall, the growth in private investment has not been as expansionary as public investment which grew at 12.6% per annum in real terms resulting in the decline of the share of private investment in total investment from 67.9% in 1970 to 66.8% in 1980.

III. SECTORAL COMPOSITION OF PRIVATE INVESTMENT

295. The growth of private investment contributed to the overall increase in Gross Domestic Product (GDP) and its share in total output creation increased during the decade. This was reflected in the growth of the manufacturing, construction and the non-government services sector such as wholesale and retail trade, banking and financial services, which together recorded growth in output above the national average of 7.8% per annum, and accounted for 80% of total private investment. There was also a notable shift in the composition of private investment from agriculture and mining towards other sectors, particularly manufacturing and construction. Data on the value of fixed assets of limited companies in Peninsular Malaysia available up to 1975, indicated that the share of fixed assets of the agriculture and mining sectors in total fixed assets declined from 45.8% in 1970 to 28% in 1975, while that of the manufacturing sector rose sharply from

28.9% in 1970 to 34.4% in 1975. The shift of private investment to the non-agricultural sectors, mainly in manufacturing and construction activities, continued during the second half of the decade as evidenced by the rapid growth in output of these sectors.

296. The role of the private sector in helping to accomplish the goals of rapid growth and diversification of the economic structure was manifest in the rapid rate of industrialization during the decade. The share of the manufacturing sector in total GDP increased from 13.4% in 1970 to 20.5% in 1980 and accounted for 26.8% of the net increase in GDP and 24.5% of the net increase in employment.

297. The distribution of private investment also underwent considerable change in line with the change in the emphasis given by the Government in industrial development. During the initial period of industrialization, private investment was heavily concentrated in import substitution industries such as food and other low technology consumption goods. When the emphasis was shifted to export industries, private investment in these industries increased both in magnitude and share in total manufacturing sector investment. The principal industries included within this category were resource-based industries such as rubber and wood products, which grew at 5.6% and 10.3% per annum respectively, and labour-intensive industries such as textiles, electrical machinery and equipment, all of which together grew at 14.2% per annum. There were also major increases in private investment in import substituting intermediate and capital goods industries such as ferrous and non-ferrous products, chemicals and chemical products, non-metallic mineral products, non-electrical machinery and transport equipment. These industries recorded production increases ranging from 8.3% to 11% per annum.

298. Investment in the construction sector expanded during the period in response to the implementation of public sector programmes and development of residential housing. The demand for housing accelerated as a result of expansion in loans and advances by the commercial banks and finance companies and also public sector funding of houses for Government officers. The amount of loans approved by commercial banks and finance companies rose from \$107 million outstanding at the end of 1970 to \$2,797.9 million at the end of 1980 while loans extended to public sector employees amounted to \$1,476.3 million during the decade. The implementation of low-cost housing schemes and the expansionary role of the public sector development expenditure for infrastructure projects also contributed to sustaining high levels of construction activity. As a result, the construction sector registered an average annual growth rate of 9.6% per annum in real terms during 1971-80, faster than that for the economy as a whole. Investment in building and construction accounted for about 40% of total private investment in 1980.

299. Investment in the mining sector was largely related to oil exploration. Private investment in the oil industry picked up considerably with the passing of PDA, the subsequent establishment of *Petroleum Nasional Berhad* (PETRONAS) in 1974 and the signing of the Production Sharing Agreements in 1976 between PETRONAS and the oil companies. Total investment in oil amounted to \$3,529 million, mainly for the exploration of oil deposits in the East Coast of Peninsular Malaysia and in Sabah and Sarawak. Investment in the liquefied natural gas (LNG) project in Bintulu amounted to \$742 million in 1980.

300. One of the major benefits of increasing private investment was the technological progress that took place during the decade. The growing sophistication of production techniques, changes in physical plants, layout and organization and on the job training contributed to substantial increase in labour productivity. Overall productivity per worker increased at 3.6% per annum, with increases of 2.7% for construction, 2.8% for services sector and 4.6% for manufacturing.

301. The major source of technological change was through the imports of capital goods, mainly machinery and equipment which accounted for about 22.9% of total imports in 1970 and increased at a rapid rate of about 11% per annum to reach 25.9% of total imports in 1980. Direct foreign investment also contributed towards technological progress, initially bringing technology in a package consisting of new techniques, capital, marketing and management skills. During the decade, as industrial structures became more developed and diversified, the transfer of technology was facilitated by the increasing participation of Malaysians in production and training activities of the public and private sectors. Despite these efforts, considerable scope exists particularly with respect to the participation by Malaysians in the development of technology, managerial and organizational skills.

IV. PRIVATE SECTOR CONTRIBUTION TO NEP

302. By 1980, private investment accounted for more than half of total investment reflecting its sustained role in the economy. Indeed, the growth of the corporate sector, especially in manufacturing, was dependent to a large extent on the inflow of foreign capital, management, technical know-how and market outlets, especially for the high technology industries.

303. In the face of dynamic changes within the corporate sector, the need was felt very early in the decade for the establishment of a new institutional set-up to oversee the implementation of the NEP, especially in the restructuring objective. Particularly important were the acquisition by foreigners of assets or interests of Malaysian companies and business through mergers and take-overs which brought no tangible economic benefits to the economy.

and which would further accentuate the imbalances in ownership between Malaysians and foreign interests. Likewise, mergers and take-overs involving Malaysian-owned and controlled companies and business, if left unregulated, would also make it more difficult to achieve the restructuring objective of the NEP.

304. Against this background, a Foreign Investment Committee (FIC) was established in 1974. The FIC is guided in its work by the *Guidelines for the Regulation of Acquisition of Assets, Mergers and Take-Overs* of companies and businesses with interests in Malaysia. Essentially the Guidelines sought to ensure that proposed acquisition of assets or interests, mergers or take-overs would result directly and indirectly in improving efficiency and in achieving the restructuring objective of the NEP.

305. Part of the progress in restructuring the ownership of share capital from the mid-seventies was achieved through the work of the FIC. Many of the companies, including transnational corporations, voluntarily submitted their restructuring plans for approval of the Government through the FIC. Companies which were involved in acquisitions, mergers and take-overs, and those which had specific schemes for restructuring, were requested to restructure their equity along the lines of the NEP. During the period 1974-80, about 840 proposals for acquisitions, mergers and take-overs and restructuring schemes were submitted to the FIC by the private sector. These proposals involved a total of about 1,940 companies mainly in plantation, mining, manufacturing, trading and property development.

306. The progress in the restructuring of share capital in the corporate sector was undertaken in such a manner as to avoid disruptive redistribution in the ownership of share capital and not to adversely affect the investment climate. To accelerate the pace of restructuring, the Government introduced a tax incentive for equity restructuring in late 1979. Exemption of five percentage points of the company income tax of 40% is to be allowed to any company conforming to the equity restructuring requirement of the NEP with at least 70% equity ownership for Malaysians, including at least 30% for Bumiputera, and not more than 30% equity ownership of foreign interests. Initially, the incentive would be offered on an annual basis for three assessment years, from assessment year 1980 to assessment year 1982. In order to qualify for the tax exemption, the company must either have a paid-up capital of \$1 million unimpaired by contingent liabilities or a net asset (before revaluation) of not less than \$1 million. Pioneer companies and companies enjoying tax incentives would not qualify for the incentive. Specifically, the incentive would be granted to the following companies:

- (a) any company incorporated in Malaysia whose issued and paid-up share capital is wholly-owned beneficially by Malaysians, including at least 30% beneficially owned by Bumiputera interests;

- (b) any company incorporated in Malaysia with at least 70% of its issued and paid-up share capital beneficially owned by Malaysians, including at least 30% beneficially owned by Bumiputera interests;
- (c) any company incorporated in Malaysia with at least 51% of its issued and paid-up share capital beneficially owned by Bumiputera interests, provided that it is not the result of the restructuring of, or a merger with, any company or business enterprise in Malaysia wholly-owned or majority owned by non-Malaysians; and
- (d) any company incorporated in Malaysia with at least 70% of its issued and paid-up share capital beneficially owned by Malaysians, including at least 51% beneficially owned by Bumiputera interests, being the result of an acquisition or merger with a company or business enterprise in Malaysia wholly-owned or majority owned by non-Malaysians.

307. The private sector had also contributed to programmes for the eradication of poverty alongside the efforts of the public sector. Thus, during the period 1971-80, the private sector, on its own and through joint-ventures with the Federal and state agencies, developed for agricultural plantations of about 120,000 hectares.

308. The growth of the private sector in urban based activities also contributed to the reduction in the incidence of urban poverty, particularly in the number of poor households engaged in manufacturing and services. In 1970, almost a third of the households engaged in the manufacturing sector were in poverty and this declined to 18.4% by 1980. In the services sector, about a fifth of the households were in poverty in 1970 and it declined to 11.6% in 1980, while in commerce, the incidence of poverty declined from 30.3% in 1970 to 19.2% in 1980.

309. These findings highlighted the complementary nature of the public and private sectors in the process of eradicating poverty, and the special importance of an expanding private sector in the industrial and commercial sectors in reducing the incidence of poverty. Private sector growth in manufacturing during the 1971-80 period absorbed a significant number of the rural poor who migrated to the urban areas in search of jobs.

310. The encouragement by the Government towards dispersal of industries to the less-developed regions, enabled the poor rural and urban households to be gainfully employed in manufacturing activities, thereby raising their level of income. In 1971, about 44% of the total approved manufacturing projects were planned to be located in the relatively less-developed states where the incidence of poverty was high. By 1980, the proportion increased to about 59% of the total approved manufacturing projects.

311. While the relatively large-scale, privately-owned manufacturing and commercial enterprises spearheaded the momentum towards industrial and commercial growth, the smaller scale privately-owned enterprises also provided opportunities for the relatively poor to be gainfully engaged in economic and commercial activities. The maintenance of a climate of free market enterprise during the past decade permitted private sector interests to respond to the growing economic opportunities.

V. PRIVATE INVESTMENT AND ITS FINANCING

312. Private long-term capital inflow financed about 22.3% of private investment during the period 1971-75 and about 22.6% during the period 1976-80. The small increase in the share of inflow of private long-term capital as a source of financing indicated the greater participation of domestic sector resources, both in terms of equity and loans, in private sector financing. As shown in Table 7-1, domestic financing of total private investment increased from \$11,467 million during 1971-75 to \$23,719 million during 1976-80.

TABLE 7-
MALAYSIA: PRIVATE INVESTMENT AND ITS FINANCING,
1971-80
(\$ million)

	<i>Cumulative</i>		
	1971-75	1976-80	1971-80
Private investment (including stocks) ...	14,749	30,630	45,379
—Private long-term capital inflow (net) ...	3,282	6,911	10,193
= Domestic financing needs ...	11,467	23,719	35,186
Domestic financing for private investment:			
Private savings before transfers ...	13,588	30,621	44,209
—Net transfers ...	789	590	1,379
= Private savings after transfers ...	12,799	30,031	42,830
—Purchases of Government securities ...	4,414	9,610	14,024
—Private sector outflow and balance of payments errors and omissions ...	1,458	5,102	6,560
—Increase in currency holdings and private sector deposits with <i>Bank Negara Malaysia</i> ...			
= Self-financing of private sector ...	6,927	15,319	22,246
+ Public sector financing of investment in private sector and other transfers ...	4,540	8,400	12,940
= Total domestic financing ...	11,467	23,719	35,186
+ Private long-term capital inflow (net) ...	3,282	6,911	10,193
= Total private investment ...	14,749	30,630	45,379

313. During 1976-80, private savings grew at a rate of 21.9% per annum compared with 10.3% per annum during 1971-75. The higher rate of savings generated during 1976-80 was a result of a relatively faster rate of increase of disposable income of 16.4% per annum compared with an annual rate of increase of 15.1% in consumption expenditure. During 1971-75, the rate of increase of consumption expenditure was 12.4% per annum while that of disposable income was only 12.7% per annum. Hence, the total sum of savings amounted to \$30,031 million during 1976-80 compared with \$12,799 million during 1971-75.

314. Not all of the savings was available for financing of investment in the private sector. After taking account of net remittances abroad by individuals, purchases of Government securities by non-bank institutions as well as *Bank Negara Malaysia*, outflow of short-term capital abroad, and increases in currency holdings including deposits with *Bank Negara Malaysia*, the amount available for self-financing in the private sector was \$6,927 million and \$15,319 million during the periods 1971-75 and 1976-80, respectively. Self-financing of investments by the private sector accounted for 47% and 50% of total private investment during the two periods.

315. The balance of domestic financing requirements was met by Government transfer of funds to private sector activities. This included the transfer of funds to institutions such as *Perbadanan Nasional Berhad* (PERNAS), Urban Development Authority (UDA), the State Economic Development Corporations (SEDCs), *Majlis Amanah Rakyat* (MARA) and the Bumiputera Investment Fund with the purpose of accelerating the advancement of Bumiputera in commerce and industry. In addition, funds were also available in the agriculture sector for rubber replanting, agricultural credit and marketing and land development. In line with the Government's policy to encourage home ownership, funds were provided for loans and construction of low-cost houses. The total sum of these transfers amounted to \$4,540 million during 1971-75 and \$8,400 million during 1976-80.

VI. POLICIES FOR PRIVATE SECTOR DEVELOPMENT

316. The expansion of the private sector was fostered by the positive policies of the Government on trade and investment. In particular, fiscal and monetary policies were designed and implemented to provide for an adequate rate of return on investment and to enhance the contribution of private investment to the NEP objectives. They were also used as counter-cyclical measures to provide necessary stimulus for increased private sector activity and to restrain inflationary pressures in order to ensure an orderly growth of private investment.

Fiscal policy

317. An important factor which affected the growth in private investment was the increase in prices of imported capital goods as a result of the increase in the price of fuel during 1971-80 at an average annual rate of 21.6%. The import price of machinery and equipment rose by about 7%

per annum while that of construction and building materials increased by 10%. In the face of these price increases, Government policy was directed to reducing domestic supply rigidities through tax incentives and to lessen the impact of the full costs of imported investment goods by selective reduction of import duties on essential inputs.

318. The Government also introduced a wide range of incentives under the Investment Incentives Act of 1968 to encourage domestic and foreign investment. In addition to pioneer status, the Government implemented the locational incentives scheme in 1973 to encourage the dispersal of industries. The labour utilization relief was another scheme introduced in 1968 to provide incentives for the expansion of labour-intensive industries. Capital allowances were given to projects not qualifying for pioneer status, investment tax credit or labour utilization relief. The increased capital allowances were provided to firms engaged in modernising their production techniques or in setting up a modern factory. The Investment Incentives Act was amended in 1979 to expand its coverage to approved agricultural industries including planting of fruit and vegetable crops, rearing of inland water and sea fish, prawns and dairying. The number of approvals by type of incentives is shown in Table 7-2.

TABLE 7-2

NUMBER OF APPROVALS BY TYPE OF INCENTIVES

	<i>Cumulative</i>	
	1971-75	1976-79
Pioneer status	748	420
Investment tax credit	131	264
Labour utilization relief	54	28
Locational incentive	10	46
Other incentives	48	12
Without tax incentives	1,113	967
TOTAL	2,104	1,737

319. Specific tax incentives were also provided to encourage the growth of export-oriented industries. The export incentives provided for export allowances were based on the amount of export sales and tax deductions for promotional expenses in overseas markets. In addition, the export refinancing facility was introduced in early 1977 to provide Malaysian exporters of manufactured goods with credit facilities at preferential rates of interest. By mid 1980, the total amount of refinancing facility provided to exporters amounted to \$2,003 million.

320. The Government also took a number of measures to expand physical facilities for industrial development. The expenditure on infrastructure, particularly in the less-developed states was expanded to complement, and aid private sector expansion in industrial and commercial activities. Government funds were also channelled to the SEDCs for the establishment of industrial estates and Free Trade Zones covering a total area of 9,649.2 hectares.

321. In order to induce the inflow of foreign investment, the Government undertook vigorous promotional efforts. Among these were the establishment of overseas centres by Malaysian Industrial Development Authority (MIDA) in major world financial capitals. Major investment missions were organised abroad and within Malaysia with high level participation by representatives of Government and private sector. Malaysia also concluded double taxation agreements with ten countries. In order to promote exports, the Government in addition to sending trade missions and participating in trade fairs and exhibitions overseas, established an Export Trade Centre located in Kuala Lumpur to channel information on products and markets to local and overseas investors.

Monetary policy

322. In addition to the use of monetary policy for stabilization purposes, efforts were made to promote the development and modernization of the financial structure in order to mobilise and channel private savings into productive investment in both the public and private sectors. The Government, through *Bank Negara Malaysia*, took measures to develop the money, and capital markets to raise the level of savings and accelerate the process of financial deepening necessary to harness adequate resources for development. In order to enhance the availability of short-term funds for investment, the Government, apart from raising the return on time and fixed deposits, introduced two money market instruments, namely the bankers acceptance and negotiable certificate of deposits. The Kuala Lumpur Commodities Exchange was established in 1980 to promote Kuala Lumpur as an international exchange for the marketing of primary commodities.

323. The expansion of the Kuala Lumpur Stock Exchange was considerably enhanced by the New Securities Act, 1973, which provided for an orderly and efficient development of the corporate securities market. By July, 1980, there were 253 companies with a total nominal paid-up capital of \$7,146 million listed on the stock exchange compared with 256 companies with a total nominal capital of \$2,880 million in 1970. The expansion of the securities market facilitated the corporate sector to finance new investment or expand its existing capacity through mobilization of domestic savings. During the decade, the total amount of funds-raised by new issues amounted to \$4,266 million.

324. The growth of domestic banks and the expansion of the banking network especially into rural areas and small towns were encouraged. The expansion of financial institutions during the decade was impressive. By 1980, there were 38 commercial banks which formed the core institutions linking savers and investors, supplemented by 37 finance companies, 12 merchant banks, five discount houses, six foreign exchange broking enterprises, two stock exchanges and a number of other specialized institutions serving the needs of the expanding economy. In order to increase the development role of commercial and financial institutions, specific lending guidelines and criteria were formulated and implemented to step up commercial lending to the priority sectors of the economy. Table 7-3 provides the pattern of loan and advances by commercial banks to the private sector.

TABLE 7-3

LOANS AND ADVANCES FROM COMMERCIAL BANKS
(\$ million)

	Outstanding as at end of			Increase		Average annual growth rates (%) 1972-79
	1971	1975	1979	1972-75	1976-79	
Agriculture	278.2	483.8	1,013.0	205.6	529.2	17.5
Mining and quarrying	53.9	106.7	122.6	52.8	15.9	10.8
Manufacturing	569.9	1,265.6	2,564.7	695.7	1,299.1	20.7
Building and construction	198.8	480.2	1,074.0	281.4	593.8	23.5
General commerce	636.6	1,355.3	3,822.0	718.7	2,466.7	25.1
Housing	110.7	500.9	1,648.8	390.2	1,147.9	40.2
Others	662.1	1,909.0	4,440.8	1,246.9	2,531.8	26.9
Foreign trade bills	157.0	366.9	573.9	209.9	207.0	17.6
Total loans and advances	2,667.2	6,468.4	15,259.8	3,801.2	8,791.4	24.4

325. Table 7-3 shows that about one-third of the loans and advances went to the manufacturing, construction and housing sectors. Loans and advances to these sectors grew at a rapid rate of 25.1% per annum. Specific steps were taken to ensure that the Bumiputera community, small-scale enterprises and prospective house owners had ready access to credit at reasonable cost. Credit extended by commercial banks to small-scale enterprises rose at an average rate of 26.2% per annum from \$343 million in 1970 to \$2,784 million by the end of 1979. In addition, the Government established the Credit Guarantee Corporation in 1973 to provide guarantee to commercial banks for approved loans extended to small-scale enterprises in the agricultural, commercial and industrial sectors of the economy. Under this scheme, a total of \$738 million was provided since 1973 to small enterprises, mainly those owned by Bumiputera.

VII. ADMINISTRATIVE AND LEGISLATIVE MEASURES

326. A number of administrative and legislative measures were introduced to facilitate the achievement of national objectives in the industrialization process. Of major importance was the ICA, enacted to provide the legal framework within which the private sector is to be encouraged to undertake the orderly development of manufacturing industries. The main feature of the Act was the licensing of manufacturing establishments so as to ensure that individual enterprises conduct their operations in a manner consistent with the requirement of national objectives. The ICA was amended in 1977 and 1979 to assure the private sector that the implementation of the Act would be carried out in a pragmatic and flexible manner. Among others, the amendment provided for the establishment of an Industrial Advisory Council with representation from the private and public sectors to advise the Minister of Trade and Industry on matters pertaining to the Act, and procedures for appeals related to matters on licensing.

327. As a further step to speed up the approval and implementation of industrial projects, a Central Unit was established in MIDA and staffed by senior officers from major Ministries and Departments involved with all aspects of industrial development. This one-stop agency which became operational in September 1978, was designed to reduce delays.

VIII. PUBLIC-PRIVATE SECTOR COOPERATION

328. In order to facilitate the growth of the private sector and to resolve issues and problems faced by them in the implementation of Government policies, close consultations were held with the private sector and the various organizations representing the industrial groups. The scope of these consultations were wide and varied and they enabled the Government and the private sector to respond to issues and problems in a pragmatic and flexible manner consistent with national objectives and led to the improvement of the investment climate and an atmosphere of mutual trust and confidence.

Nation Building and National Unity

I. INTRODUCTION

329. The past decade was marked by rapid economic growth and structural changes enabling Malaysians to enjoy a higher standard of living. While rising income, output and employment are important in themselves, the overriding objective of development is the achievement of national unity. No nation, however prosperous, will remain viable and secure if its citizens are disunited and lack a strong sense of commitment to the nation. Prosperity and progress without unity, stability and a deep sense of loyalty on the part of its citizens will, in the long run, weaken the foundation of Malaysian society. The past decade, therefore, emphasised on the development and strengthening of the political, administrative, economic, socio-cultural and security framework, and on international cooperation, necessary for the building of a strong and united Malaysian nation.

II. POLITICAL AND ADMINISTRATIVE FRAMEWORK

330. Malaysia is committed to maintaining a political framework which allows for a democratic way of life, consistent with the maintenance of peace and stability within the country. The May 1969 incident taught the nation a bitter lesson and showed that unrestricted, emotional and extreme appeals to communal issues were detrimental to peace and stability. Amendments were, therefore, made to the Federal Constitution to remove sensitive issues from the realm of public debate. Discussions on these issues were conducted in the National Consultative Council, and on the dissolution of the Council, in the National Unity Board. Following the dissolution of the Board, discussions were then continued in the Department of Rukun Tetangga and National Unity.

331. Complementary to the spirit of the constitutional changes, the then Alliance was re-organised and expanded to form the *Barisan Nasional*. The aim of the coalition was to strengthen political consensus and reduce "politicking" so that more time and resources could be devoted to national development. The *Barisan* also helped to maintain continuity and stability to the planning and development efforts throughout the decade. It also provided the link between the Federal and State Governments, leading to

greater identification of the components of the Federation with the aspirations of the nation. The institutional machinery provided by the Constitution, namely the National Land Council, the National Finance Council and the National Council for Local Government, was extensively utilised and strengthened to improve consultation and cooperation on matters affecting national interest.

332. During the decade, the administrative machinery at both Federal and State levels was expanded, strengthened and oriented to achieve the objectives of national development and to respond to the needs of a plural society. New institutions were established to carry out additional functions of the Government while existing ones strengthened to ensure effective delivery of services to the *rakyat*. The public service, not only provided the necessary continuity to the planning and implementation process, but also stability to the nation. It also maintained its impartiality in the implementation of Government programmes and policies to ensure that the public was adequately served. The independence of the Judiciary upheld the supremacy of the rule of law and together with accessibility to legal redress, enhanced the feeling of security among the people.

III. ECONOMIC FRAMEWORK

333. The May 1969 incident also taught the nation a lesson that poverty as well as wide economic imbalances along ethnic lines would generate feelings of dissatisfaction and disenchantment among the people. The New Economic Policy (NEP) was, therefore, formulated with a two pronged strategy of eradicating poverty irrespective of race and accelerating the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic functions. The NEP also emphasised on improving the quality of life of Malaysians by expanding social services and amenities, especially to poor households.

334. The NEP strengthened the economic foundation of national unity during the decade by harnessing the nation's physical and human resources towards building a just and equitable society. The poverty eradication programmes brought poor households into the mainstream of development and increased their feeling of security and sense of belonging to society and reduced feelings of deprivation and alienation. In addition, restructuring of society through development of new growth centres also created capacities for all to benefit. The new growth centres provided opportunities for the creation of more balanced settlement patterns allowing Malaysians of all ethnic groups to live side by side and to interact in their daily activities. Restructuring of the pattern of employment and ownership also provided Malaysians with the environment to interact.

335. Progress in poverty eradication and restructuring of society during the decade has been elaborated in Chapter III. The expansion in the economy enabled the NEP to be implemented in a manner that increasing

income, employment and ownership opportunities benefitted all Malaysians. Growing incomes of all ethnic groups during the decade, as shown in Table 3-9 and especially among the low-income population, as shown in Table 3-3, bear testimony to the fact that all have benefitted from economic development.

336. There were marked improvements in the quality of life of all Malaysians during the decade. The Government played a major role in the delivery of public goods and services, especially to meet basic needs such as health, education, housing, water supply and electricity. Key indicators on health, life expectancy and literacy for all ethnic groups, indicated that there were significant improvements during the decade. These programmes helped to reduce the feeling of deprivation which once existed as a result of the concentration of facilities and infrastructure in the urban centres.

337. The progress achieved towards restructuring of Malaysian society helped to reduce the degree of segregation along ethnic lines. There were indicators which suggested that the process of ethnic integration in the economic sphere was well under way. A survey¹ indicated that a majority of employees were not concerned with the ethnic identity of employers. The survey also indicated that Malaysians were not concerned with the ethnic identity of fellow employees. Employment restructuring, especially in the large modern sector enterprises, increasingly brought different ethnic groups closer together as workers.

338. Industrialization and modernization have encouraged more and more inter-ethnic partnerships and involvement in commercial and industrial ventures. An increasing number of Malaysians from different ethnic origins were brought together in common endeavour, sharing the fruits of their joint labour and enterprise. The expanding corporate sector, especially the public companies, allowed an increasing number of Malaysian individuals as well as institutions to be involved in various aspects of corporate growth especially in employment, ownership, distribution and marketing, as suppliers of finance and services. The growing multi-racial character of many of these large conglomerate companies, with their activities touching almost every aspect of the economy, meant that Malaysians from all ethnic origins had a stake and influence in almost every facet of the nation's livelihood. Family-owned enterprises, impelled by the need to grow and meet competition, started to seek external resources beyond the confines of their ethnic group, thus slowly allowing other Malaysians to participate in the ventures. These developments, therefore, gradually reduced the degree of ethnic segregation of commercial enterprises, making them more Malaysian in outlook and gradually establishing a framework for greater inter-ethnic economic partnership and cooperation.

¹ Based on a Household Well-Being Survey conducted by the Socio-Economic Research Unit (SERU), Prime Minister's Department in 1979.

IV. SOCIO-CULTURAL FRAMEWORK

339. The political and economic frameworks by themselves are not sufficient to build an integrated society. They need to be reinforced by the development of individuals' values. Towards this end, the Government continued to expand and strengthen its socio-cultural programmes during the decade, especially by widening opportunities for education and social mobility, promoting the growth of a more balanced residential pattern, encouraging greater participation by the people in development efforts and fostering the growth of a national culture.

340. The education system created the environment, as well as facilities and opportunities, for all children to interact thus enriching their experience of Malaysian values and culture from an early age. The progressive use of *Bahasa Malaysia*, as the main medium of instruction in schools since 1970, helped to create a new generation capable of effective communication through a common language. The teaching of civics and good morality in all schools was emphasised in line with the policy of having an education system to serve the needs of a multi-racial society.

341. The implementation of a common syllabus for all schools and the attention given to the study of the country's history, people and cultures, were major components in the development of an education system for an integrated society. School-going children began to perceive history from a Malaysian viewpoint and became more and more appreciative of Malaysia's rich history and culture and the contribution by Malaysians from different ethnic groups to its heritage. The integration of Sabah and Sarawak into the national education system, with greater emphasis on the use of a common syllabus for various subjects, further enhanced the integration of the two states into the Federation.

342. Residential patterns in Malaysia also changed during the decade. The growing urbanization of Bumiputera resulted in the growth of Bumiputera residents in urban areas. The Government, with the cooperation of the private sector, encouraged the growth of residential patterns in housing estates which would be more ethnically balanced and more Malaysian in outlook. The development of low-cost housing schemes, including flats, enabled the urban low-income households of all races to acquire decent living places. Many of these housing schemes were provided with recreational facilities, allowing greater opportunities for the various communities to integrate freely in their daily lives.

343. The Government also designed and implemented a number of other programmes to bring about greater understanding and cooperation among Malaysians, as well as to provide opportunities for the people to participate in nation building. The National Unity Board, and later the Department of Rukun Tetangga and National Unity, conducted National Solidarity Classes, set up Community Relations Committees in urban centres and undertook other activities, such as community sports and the establishment of kindergartens. The enrolment in the National Solidarity Classes, of which more

than three-quarters consisted of non-Bumiputera towards the end of the decade, increased substantially. The National Solidarity Classes emphasised on *Bahasa Malaysia* and civics to encourage greater use of the National Language and appreciation of the cultures and customs of the various ethnic groups. The activities under the purview of the Community Relations Committees included the organising of kindergartens, vocational classes, *gotong-royong* activities and sports, including community games. There was increasing participation by all races, especially the youth, in all these activities.

344. The *Rukun Tetangga* scheme, originally conceived mainly as a security project, also encouraged greater cooperation among Malaysians. The scheme provided opportunities for residents of gazetted areas to cooperate for their common good. In some *Rukun Tetangga* areas, the residents also promoted social activities, such as cultural shows and sports, which helped to create a stronger spirit of neighbourliness among the participants.

345. To improve the security of villages, *Ikatan Relawan Rakyat* (RELA), was formed in *kampung* areas to enable the people to assist the security forces in facing any subversive and undesirable elements threatening the security and stability of the villages. In addition, there was also increased participation in the membership of the Territorial Army, indicating the support given by the public in maintaining law and order at the district level. Participation by all races in the Territorial Army improved as a result of greater awareness of the importance of the people's role in security and development.

346. The setting up of *Jawatankuasa Kemajuan dan Keselamatan Kampung* (JKKK), provided a link between the Government and the people at grass-root level on matters pertaining to development and security of villages. The JKKK became effective channels of communication between development agencies and the people to ensure their greater involvement in the decision-making process affecting their livelihood.

347. Support from the people on major matters affecting national resilience improved substantially. The control of drug abuse and trafficking through joint governmental efforts and the *Persatuan Mencegah Salahguna Dadah* (PEMADAM), a voluntary association to curb the misuse of drugs, was testimony to the close association between the people and the Government in nation building efforts. Community services, such as the Red Crescent and the St. John's Ambulance, helped complement public efforts in widening the scope of participation by the people.

348. The Government encouraged self-reliance efforts among the people through training for skill and entrepreneurship development. The focus of these measures was on youth, through programmes such as the Youth Training Centres in Dusun Tua and Pertak. The training also covered business aspects in order to provide them with opportunities for gainful employment.

349. The mass-media, particularly radio and television, played an important role in creating an environment for greater understanding, social integration, cultural development and the development of a disciplined society. Sabah and Sarawak were incorporated into the national radio and television network during 1971-80. The mass-media also emphasised on spiritual development in order to promote a balanced growth of the individual in the process of development.

350. An integral part of developing a Malaysian identity and nation building is to foster the development of a national culture, based on the cultures of the ethnic groups of this region, incorporating elements of other cultures which are suitable and appropriate, and with Islam as an important element in its formulation. During the decade, the Government encouraged the development of a national culture by promoting greater awareness of the richness and vibrant cultural heritage of each ethnic group and the part it played in the evolution of a national culture.

351. The Government also encouraged experimentation with forms of cultural expression to foster the growth of a national culture. Emphasis was also given to cultural and social programmes which brought the youths from different ethnic and social backgrounds together, and Malaysians of different ethnic origins increasingly participated in the various cultural programmes, organised by the Government. Underlying these developments, the growth in the use of *Bahasa Malaysia*, the National Language, especially in literature, allowed Malaysians greater and easier access to the cultural heritage of the peoples of the region.

V. INTERNATIONAL RELATIONS AND NATION BUILDING

352. International economic cooperation between nations also contributes towards nation building. During the decade, together with other developing countries, Malaysia actively participated in negotiations with the developed countries to bring about a new international economic order which would be more just and equitable to the less-developed countries. Malaysia participated actively in various international fora under the aegis of the United Nations (UN), and also forged closer economic ties with other less-developed countries through participation in the Non-Aligned Movement and also as a member of the Group of 77 countries. Malaysia, with the majority of her people belonging to the Islamic faith, also strengthened her economic ties with other Islamic nations during the decade. Malaysia and other Islamic nations participated actively in the Organization of Islamic Conference to progressively strengthen cooperation in the fields of trade, and financial and technical assistance. In addition, Malaysia also maintained good economic relationship with other nations through the Commonwealth and countries associated with the Colombo Plan.

353. Malaysia is an active member of ASEAN, a community of nations committed to promoting regional, economic, social and cultural development, through regional cooperation. The growth in intra-regional trade, the flows of human and financial resources between ASEAN countries and the bright prospects for joint development efforts encouraged greater cooperation between Malaysia and other members of ASEAN countries. Malaysia actively supported the implementation of complementary development projects which would bring economic benefits to all member countries.

VI. SECURITY FRAMEWORK

354. The maintenance of peace and security within the country and the region is of paramount importance to enable the nation to progress and prosper unhindered by uncertainty and threats to its sovereignty. During the decade, despite international political and economic instability and threats to domestic peace by militant communism and anti-national elements, the nation was able to weather successfully these adverse developments. The security forces, as well as other supporting security measures, were expanded and strengthened to contain the threats to the security and sovereignty of the nation.

355. An increasing number of Malaysians participated in improving the security of the nation and public safety. Service in the security forces was open to all Malaysians. Through recruitment from a broad base, the Armed Forces brought together people from different parts of the country, different ethnic groups and social origins. In addition to providing security and defence to the nation, the security forces also provided valuable services to the community. In Sabah and Sarawak, the Armed Forces assisted in the opening up of the interior of the states for development while in Peninsular Malaysia, the Armed Forces constructed bridges and supplemented civilian capacity in the clearance of land and the construction of buildings for accommodation, the provision of medical and educational services and improvements to local roads and bridges. Complementary to the Armed Forces, the *Rukun Tetangga* scheme, RELA and the reserve component of the Armed Forces, were expanded during the decade, providing security to the citizens.

356. Malaysia was also actively involved in promoting regional political stability and creating a peaceful order for the Southeast Asian region through ASEAN. In 1971, Malaysia initiated the concept of the Zone of Peace, Freedom and Neutrality (ZOPFAN) for the region. Growing instability in the neighbouring areas of the region towards the end of the decade, resulted in a change in the regional power configuration and created a climate of uncertainty. Malaysia also played an active role, through ASEAN, in finding a political solution to the security problems of the region.

VII. CONCLUSION

357. The institutional framework for nation building and national unity has been expanded and strengthened and the process towards national integration has gained momentum. Despite the progress achieved during the decade, much remains to be done. Malaysians with differing backgrounds need to further identify themselves with the nation and cultivate a sense of pride and belonging to the nation. They need to regard their diversity as a source of strength and take advantage of the wisdom and richness of their heritage. They should emphasise more and more on their commonness in experiences and in values, such as tolerance, goodwill, accommodation, mutual respect, devotion to duty, loyalty to family and spirit of humility reinforced by the teachings of Islam and other religions.

358. The future generation of Malaysians will face challenges and problems in their efforts towards nation building and the forging of national unity. Deep-seated psychological feelings, attitudes, sensitivities and perceptions of individuals are susceptible to emotional appeals which can exacerbate the problems inherent in a plural society. Extremist forces may seek to undermine the institutional framework for fostering better communal relations between the different ethnic groups. Chauvinistic appeals to narrow sectional interests may weaken the progressive forces of greater socio-economic and cultural integration. Inequitable economic demands by one group may lead to a feeling of deprivation and neglect among others, and efforts to create a just economic order will not achieve the desired results if individuals do not respond to new economic opportunities and strive towards self-reliance. The elders, therefore, have a profound duty to exercise more responsible leadership and guide the young to meet the challenges and problems ahead and to adopt values consistent with *Rukunegara* and the realities of a plural society.