CHAPTER VI

Macro-Economic Framework, 1976-80

I. INTRODUCTION

332. Continued economic growth at a rapid pace is crucial for the successful implementation of the New Economic Policy (NEP). This Chapter elaborates upon the aggregate targets for economic growth presented in Chapter III; sets out the macro-economic framework within which they have been determined; and demonstrates the feasibility of their attainment in the light of the resources which will be generated by the progressively expanding size of the domestic economy as well as strong world demand for the country's major export commodities.

II. MACRO-ECONOMIC PROSPECTS FOR GROWTH

333. The economic outlook for the country during the period of the Third Malaysia Plan (TMP) is bright. Continued improvements in the world economic situation will favourably affect the prospects for accelerated economic growth in the country. Exports now account for 46.7% of the Gross National Product (GNP) and imports supply 47.8% of domestic requirements. As the world recovers from the recession of 1975 and grows along a more stable path, the demand for and hence prices of Malaysia's exports will strengthen, while import prices will grow more moderately than in the recent past.

334. Export prices, particularly in respect of rubber, tin and timber, Malaysia's major primary commodities, are expected to be higher compared to their levels during 1971-75, resulting in an increase in the overall export price index by 4.7% per annum. While import prices increased annually by 14.2%, the forecast for 1976-80 is 6.3% reflecting expectations of a much slower inflation rate in the world economy in the next five years. With export prices projected to rise just a little slower than import prices, the terms of trade will decline only marginally as compared to the situation during 1971-75 when it fell by a sizeable 6.7%.

335. Along with anticipated increases in export demand, the productive capacity of the economy itself will undergo sizeable expansion as Malaysia's past development efforts continue to mature. The agricultural sector, currently the largest contributor to the Gross Domestic Product (GDP), will expand much faster under the TMP than in the last five years, while the manufacturing sector will continue to register the fastest rate of expansion thereby becoming progressively more important in the generation of income and employment in the economy. With the expected impetus of strong world demand, export earnings are estimated to grow by 13.4% per annum with the value of Malaysia's traditional export commodities increasing by 11.2% and manufacturing exports by 19.9%. A new dynamic element in this growth will be that of petroleum, the export earnings from which will grow by 15.1% per annum as production of crude oil doubles between 1975 and 1978.

336. Supplemented with modest inflows of external capital, the resources so generated will enable consumption levels and thus the welfare of all Malaysians to improve. At the same time, they will permit investment to be raised ensuring the continued expansion of the productive capacity of the economy and the strengthening of the security capabilities of the country. The inflow of capital from external sources which is required to supplement national savings in financing investment amounts to $5.2 billion over the five-year period. This sum which amounts to 11.7% of investment and 3.3% of GNP is modest and can be attracted without undue cost to the economy. The balance of payments position of the country will remain strong and even though imports will grow by 14.9% per annum, the expansion of external resources will enable a level of foreign exchange reserves of four months of imports to be maintained.

337. The gap between investment and savings will be larger in the public than in the private sector as the Government steps up the implementation of the NEP and strengthens the security capabilities of the country. In closing this gap through domestic and external borrowing, the Government will seek to ensure that the resources so raised do not affect basic fiscal and monetary stability and thus the incentive to invest on the part of private enterprise, both local and foreign.

III. THE GROWTH OF OUTPUT AND INCOMES

338. The target rate of GDP growth under the TMP is 8.5% per annum in real terms and 12.7% in current prices. Underlying this average five-year growth target is the expectation that the growth of the Malaysian economy will accelerate up to about 1978 but grow somewhat more slowly through 1980 in consonance with forecasts of variations in world economic growth and inflation during the TMP period.

339. For the five-year period as a whole, the GDP of the Malaysian economy will expand more rapidly compared with the Second Malaysia Plan (SMP) and almost double in current prices. The value of real resources available to Malaysia will not, however, expand to the same extent as

account has to be taken of expected changes in the relative prices of exports and imports or the terms of trade between 1975 and 1980. The expected loss in the terms of trade is calculated to amount to $1.3 billion. Although this loss will be considerably smaller than that experienced in the last five years, the real national income growth is estimated at only 7.6% per annum compared to GDP growth of 8.5% in real terms. The significant extent to which changes in the terms of trade affect the economy is shown in Table 6-1.

TABLE 6-1

MALAYSIA: AGGREGATE OUTPUT AND INCOME, 1970-80

($ million)

	1970	1975	1980	Average annual growth rate (%) 1971-75	1976-80
Real output (1970 prices)					
Export of goods and services	5,602	7,391	10,975	5.7	8.2
Production for domestic use	6,553	9,755	14,401	8.3	8.1
Real gross national product at market price	12,155	17,146	25,376	7.1	8.2
Real gross domestic product at factor cost	10,708	15,315	23,073	7.4	8.5
At current prices					
Exports of goods and services	5,602	10,165	19,029	12.7	13.4
Production for domestic use	6,553	11,582	20,104	12.1	11.7
Gross national product at market prices	12,155	21,747	39,133	12.3	12.5
Gross domestic product at factor cost ..	10,708	18,900	34,314	12.0	12.7
Purchasing power (1970 prices)					
Exports of goods and services	5,602	5,240	7,230	−1.3	6.7
Production for domestic use	6,553	9,755	14,401	8.3	8.1
Real gross national income	12,155	14,995	21,631	4.3	7.6
Population (000)	10,777	12,249	13,976	2.6	2.7
Real gross national income per capita ($: 1970 prices)	1,128	1,224	1,548	1.6	4.8

340. Notwithstanding losses from the terms of trade, the target growth of real *per capita* income during 1976-80 will be the highest that the country has ever experienced. Whereas the increment to *per capita* income between 1970 and 1975 in absolute terms was $96, the increase during the period of the TMP will be $324. At this pace, *per capita* income will double in 15 years and grow even faster if the rate of natural increase of population is lowered.

IV. PRODUCTION BY MAJOR SECTORS

341. The growth of GDP during 1976-80 will be underpinned by strong expansion of industrial as well as agricultural production and continued diversification of the productive base of the economy. The agricultural and

industrial sectors will contribute about 20% and 29% respectively to the growth of the overall GDP with the supportive and tertiary sectors together contributing about 50%. In comparison with the average for the economy, only the mining sector is projected to grow relatively slowly. Petroleum exploitation and production will expand sizeably but tin mining will continue to decline in importance.

342. In terms of the broad sectoral composition of growth, the targetted expansion of manufacturing and construction activities will raise the share of the secondary sector in the economy from 19.0% in 1975 to 21.5% in 1980. The tertiary sector is expected to expand in approximate alignment with the economy. In consequence, the share of the primary sector in GDP (agriculture and mining) will fall from 33.8% in 1975 to 30.0% in 1980 although the agricultural sector itself which accounts for 29.8% of the total is projected to expand more strongly than during the last five years. The targets underlying the growth of GDP by industry of origin are shown in Table 6-2 below.

TABLE 6-2

MALAYSIA: GROSS DOMESTIC PRODUCT BY INDUSTRY OF ORIGIN[1], 1975-80

($ million in 1970 prices)

Sector	*1975*	*1980*	*Average annual growth rate (%)*
Agriculture, forestry, fishing, etc.	4,563	6,106	*6.0*
Mining and quarrying	612	806	*5.7*
Manufacturing	2,197	3,872	*12.0*
Construction	711	1,087	*8.9*
Electricity, water and sanitary services	401	622	*9.2*
Transport, storage and communications	1,098	1,636	*8.3*
Wholesale and retail trade	2,086	3,122	*8.4*
Ownership of dwellings, banking, insurance and real estate	1,109	1,658	*8.4*
Public administration and defence	1,199	1,896	*9.6*
Other services	1,237	1,947	*9.5*
Statistical discrepancy	+102	+321	—
Gross domestic product at factor cost	15,315	23,073	*8.5*

[1] The national accounts figures used for the TMP are based on the 1970 estimates produced by the Department of Statistics under the new System of National Accounts (SNA). The new series for the 1971-75 period is not complete. When this series is available, it will be used to revise the estimates accordingly.

Agriculture, forestry, livestock and fishing

343. The agricultural sector is dominated by the production of tree crops, mainly rubber and palm oil. They account for 42.1% of total production in the sector. Annual crops, mainly padi, make up 20.8%, forestry, 14.4% and livestock and fishing, 18.9%.

344. The sector as a whole is projected to expand by 6.0% per annum. This is largely the result of sizeable investments in rubber and oil palm planting in new public land development schemes and the replanting of rubber holdings with high yielding clones during the SMP. Rubber production which accounts for about 30% of all value added by the agricultural sector is estimated to expand by 6.0% per annum, while oil palm will continue to grow rapidly by 16.0% per annum.

345. The growth in production of food crops will include further expansion of padi output by 3.6% per annum from the fuller utilization of the potential of the Muda and Kemubu schemes and the implementation of additional but smaller drainage and irrigation projects to expand opportunities for multiple cropping. The production of other food crops is estimated to grow by 7.5% per annum, the most important of which will be vegetables, fruits, sugarcane and cocoa.

346. Value added in the production of saw logs is projected to increase by 6.7% per annum compared with 1.6% under the SMP. Some 48% of total production will come from Sabah and Sarawak. Although much higher growth in the production of saw logs would be possible, the target takes account of the need for more efficient resource utilization through further industrial processing in Peninsular Malaysia as well as Sabah and Sarawak.

347. The fisheries and livestock sectors also offer sizeable opportunities for more efficient development. Value added by fisheries and livestock development is targetted to expand by 3.8% and 5.6% per annum respectively as the Government seeks to develop more fully the potential of these sectors for poverty redressal, nutritional improvement, employment creation and import substitution.

Mining

348. The mining sector has traditionally been dominated by tin, the known reserves of which are depleting. In its place, the exploration and exploitation of oil and natural gas in Sabah and Sarawak as well as the East Coast States of Peninsular Malaysia will grow in importance. The production of copper will also be an important item in the sector. With a doubling in the production of crude petroleum from 99,000 barrels per day in 1975 to 180,000 barrels in 1978, a level which is forecast to be sustained through 1980, the share of petroleum in the sector is projected to expand from 21.7% in 1975 to 33.0% by 1980 with value added by the entire mining sector growing by 5.7% per annum during the period of the TMP.

349. Geological evidence suggests that there are prospects for other base metals and non-metallic minerals such as clay, limestone, rock products, quartz materials, gemstone and coal. Efforts will be made to determine the potential for economic exploitation of these resources.

Manufacturing

350. The manufacturing sector will continue to register the fastest rate of growth among all sectors in the economy. The target is a rate of growth in value added of 12.0% per annum compared with 10.9% during 1971-75, raising the share of the manufacturing sector in GDP from 14.4% in 1975 to 16.8% in 1980. While a major source of demand for manufactured products will originate domestically especially as incomes, private consumption and total investment grow under the TMP, the impetus for accelerated expansion will come from the growth of external demand for Malaysia's manufactured products. The need for productive efficiency and export competitiveness cannot be over emphasized if recent trends in the growth of Malaysian exports are to be sustained. To this end, policies with respect to tariff protection and other fiscal incentives will be kept under review and modified where necessary. This is essential if Malaysia is to effectively tap export markets being opened up in the developed economies under the Generalized System of Preferences and the Multilateral Trade Negotiations and in the region of the Association of Southeast Asian Nations (ASEAN) as current proposals materialize for the establishment of industries serving regional markets.

351. Significant changes in the composition of industrial production underlie the targets for the sector. The share of food and wood products can be expected to fall. On the other hand, textiles, chemical products and machinery will expand their contributions to overall production as enlarged opportunities are grasped for further import substitution, export expansion and vertical integration of the industrial structure.

Construction

352. A large part of construction activity in the country has its origin in public investments for the development of physical infrastructure—roads, bridges, ports, power and communications. With the continued growth of these investments, the construction sector is targetted to grow by almost 9% per annum. It will thus be next to manufacturing in setting the pace of development for the economy as a whole during the TMP. In addition to infrastructural development, other factors accounting for expanded activity in the sector will be the development of new growth centres under which the benefits of urban growth will be spread more widely throughout the country and the sharply increased efforts to be made to expand the low-cost housing programme particularly for households in poverty.

Tertiary sector

353. With growth as targetted for agriculture, manufacturing, the petroleum industry and construction, the demand for goods and services supplied by the supportive and services sectors of the economy comprising transport, utilities, trade, business and government services, will also grow strongly. Together, value added by the sectors concerned is projected to expand by 8.8% per annum in approximate consonance with overall economic growth. Value added by tourism will be an important component of this growth.

V. THE SOURCES OF GROWTH

354. Under the SMP, the rapid rise of public consumption and public investment provided the principal thrusts for the expansion of overall output. The principal source of growth under the TMP is expected to come from exports which are projected to increase by 8.4% per annum in real terms and 13.5% in current prices as shown in Table 6-3. As exports account for more than one-half of GDP, the stimulus from projected export growth on economic activity will be sizeable. Another source of growth is investment, both public and private, which is targetted to expand by 8.4% per annum compared with 11.0% in the last five years, in line with the need to maintain the momentum for expansion of the productive capacity of the economy.

Exports

355. In general, export earnings will expand strongly from both increases in export prices and export volumes as well as changes in the composition of exports, as shown in Table 6-4. With the world economy forecasted to grow more strongly in the next five years and with international prices expected to increase, the prices that Malaysia can expect to receive for most of its major export commodities will rise. While variations in annual prices are to be expected as cyclical conditions in the world economy reflect themselves in price levels, the average annual growth of prices for the country's principal agricultural commodities is estimated to rise by 2.2% per annum and manufactured products for export by 6.5% per annum.

356. The price of natural rubber, the country's principal export commodity, is projected to rise by 5.8% per annum. World demand for natural rubber will increase not only from the growth in world consumption of all elastomers but also from the competitive edge which natural rubber has obtained over synthetic elastomers in view of the sharp increases which have occurred in petroleum prices. The price prospects for *palm oil and palm kernel oil* are not as favourable as for Malaysia's other principal export commodities. This is because of the anticipated more rapid expansion of world supply of fats and oils in relation to demand particularly in

TABLE 6-3

MALAYSIA: GROSS NATIONAL PRODUCT BY EXPENDITURE CATEGORY, 1975-80

In current and (in brackets) 1970 prices

	1975 ($ million)	*1980 ($ million)*	*Average annual growth rate (%) 1976-80*
Consumption	16,797 (12,106)	30,128 (17,651)	*12.4* *(7.8)*
Private	*12,052* *(9,036)*	*20,661* *(12,331)*	*11.4* *(6.4)*
Public	*4,745* *(3,070)*	*9,467* *(5,320)*	*14.8* *(11.6)*
+Investment	5,838 (3,622)	11,528 (5,423)	*14.6* *(8.4)*
Private	*3,320* *(2,062)*	*7,189* *(3,315)*	*16.7* *(9.9)*
Public	*2,518* *(1,560)*	*4,339* *(2,108)*	*11.5* *(6.2)*
+Change in stocks	−667 (−442)	−712 (−300)	— —
+Exports of goods and non-factor services	9,835 (7,151)	18,559 (10,704)	*13.5* *(8.4)*
−Imports of goods and non-factor services	9,506 (4,899)	19,070 (7,245)	*14.9* *(8.1)*
=Gross domestic product at market prices	22,297 (17,538)	40,433 (26,233)	*12.6* *(8.4)*
−Indirect taxes less subsidies	3,397 (2,223)	6,119 (3,160)	*12.5* *(7.3)*
=Gross domestic product at factor cost	18,900 (15,315)	34,314 (23,073)	*12.7* *(8.5)*
−Net factor payments abroad	550 (392)	1,300 (857)	— —
Gross national product at market prices[2]	21,747 (17,146)	39,133 (25,376)	*12.5* *(8.2)*

[2] Gross national product at market prices = Gross domestic product at market prices less net factor payments abroad.

the developed countries. For Malaysia, these trends emphasize the need for research which leads to an extension in the end-uses of palm oil and palm kernel oil. The recent announcement that the United States will not restrict imports of palm oil into the country is encouraging.

357. The generally favourable international price outlook for the country's major exports will lead to greater utilization of existing capacity in the production of the commodities concerned. This factor will be especially significant in the case of natural rubber where price levels directly influence the extent to which the productive potential of the industry is utilized. Together with expansion in the capacity of the economy itself for export production, the volume of export production is projected to grow by 8.4% per annum and yield an annual increase in export earnings of 13.4% during the period of the TMP.

TABLE 6-4

MALAYSIA: EXPORTS, 1975-80

	1975	*1980*	*Average annual growth rate (%) 1976-80*
Rubber			
Volume (000 tons)	1,417	1,888	*5.9*
Unit value (cts./lb)	63.5	84.0	*5.8*
Value ($ million)	2,016	3,552	*12.0*
Tin			
Volume (000 tons)	76.7	78	*0.3*
Unit value ($/ton)	15,867	18,000	*2.5*
Value ($ million)	1,217	1,404	*2.9*
Sawlogs			
Volume (000 tons of 50 cu. ft.)	5,800	7,453	*5.1*
Unit value ($/ton)	108.9	168	*9.0*
Value ($ million)	632	1,252	*14.7*
Sawn timber			
Volume (000 tons of 50 cu. ft.)	1,152	1,722	*8.4*
Unit value ($/ton)	315	463	*8.0*
Value ($ million)	363	797	*17.0*
Palm oil			
Volume (000 tons)	1,062	2,140	*15.8*
Unit value ($/ton)	1,236	950	*−5.1*
Value ($ million)	1,268	2,033	*9.9*
Palm kernel oil			
Volume (000 tons)	104	228	*17.0*
Unit value ($/ton)	1,034	899	*−2.8*
Value ($ million)	107	205	*13.9*
Crude and partly refined petroleum			
Volume (000 tons)	3,685	7,429	*15.1*
Unit value ($/ton)	231.5	231.5	*0*
Value ($ million)	853	1,720	*15.1*
Petroleum products			
Volume (000 tons)	402	1,394	*28.2*
Unit value ($/ton)	305	354	*3.0*
Value ($ million)	123	493	*32.0*
Copper			
Volume (000 tons)	21.4	108	*38.2*
Unit value ($/ton)	817.8	1,147	*7.0*
Value ($ million)	18	124	*47.1*
Canned pineapple			
Volume (000 tons)	45	51	*2.5*
Unit value ($/ton)	1,155	1,474	*5.0*
Value ($ million)	52	75	*7.6*

TABLE 6-4—(*cont.*)

MALAYSIA: EXPORTS, 1975-80—(*cont.*)

Pepper			
Volume (000 tons)	32	45	*7.1*
Unit value ($/ton)	3,400	3,500	*0.6*
Value ($ million)	109	157	*7.6*
Manufactures ($ million)	1,912	4,600	*19.2*
Sub-total ($ million)	8,670	16,412	*13.6*
Others ($ million)	419	781	—
Total gross exports ($ million)	9,089	17,193	*13.6*
Total merchandise exports f.o.b. ($ million)	9,085	16,849	*13.2*
Service ("invisible") exports ($ million)			
Freight and insurance	140	450	—
Other transportation	220	470	—
Travel	140	380	—
Investment income	330	470	—
Government transaction n.i.e.	110	180	—
Other services	140	230	—
Total exports of goods and services ($ million)	10,165	19,029	*13.4*

Investment

358. The investment target of 8.4% per annum in real terms entails an increase in private investment of almost 10% and public investment growth of 6.2%. The forecasted growth of the economy will enlarge the supply of funds for investment. Given further the ample untapped opportunities for productive investment in natural resource development and manufacturing industry, private investment is targetted to expand much faster than in the last five years when it increased by 7.2% per annum. The scope for a larger effort on the part of private enterprise in industrial development is particularly evident when it is noted that the degree of industrialization of the country is still low relative to its *per capita* income and population size. It will be the object of Government policy to ensure that this latent scope for further industrialization is tapped for it will be the rate of industrial growth which will increasingly determine the rate of overall economic expansion. To this end, the Government will take such steps as may be necessary for the maintenance of an investment climate which directly conduces towards the healthy growth of private investment.

359. Having expanded rapidly by 17.6% per annum during the SMP, largely in response to the need to counteract severe downswings in overall economic activity in 1972, 1974 and 1975, public investment during 1976-80 is projected to grow by 6.2%[3] per annum. The principal aim will be to consolidate expansion of the public sector in the endeavour to increase

[3] This target growth of public investment implies a cumulative development expenditure of $20 billion in current prices. The cumulative amount of development expenditure provided for in the Plan at this time is $18.6 billion. The Government will endeavour to meet the target of $20 billion in development expenditure in the course of implementing the TMP.

the productivity of investment and to sharpen Government's efforts in poverty redressal and the promotion of greater racial and regional balance in the economic life of the nation. The objective of greater consolidation of the investment effort aside, public investment could have been targetted to increase somewhat more strongly but for the expansion requirements of the security forces.

360. On the basis of the above targets, the share of the public sector in total investment will drop from 43.1% in 1975 to 38.9% in 1980 after expanding by 17.6% during 1971-75, while the share of private investment will rise to 61.1% in 1980 from its current level of 56.9%. Overall, the ratio of fixed investment, in both the public and private sectors in real terms, will remain around 21%. In current prices, however, the ratio of 27% in 1975 will rise further to 30% by 1980, reflecting continued increases in the price of investment goods.

361. A number of changes are expected in the TMP period in the sources of growth for individual sectors compared with the SMP. Exports will continue to be the principal source of growth in both the agricultural and manufacturing sectors. They will account for about one-half of the growth of value added in both sectors. In fact, industries such as oils and fats, wood products, tyres and rubber products and rubber processing will become even more export-oriented in the TMP. Increases in private consumption will provide the next largest contribution to the growth of value added. The contribution of private consumption is projected to increase from 30% to 40% in the case of agriculture and from 17% to 19% in the case of manufacturing. In contrast, the relative contributions of import substitution are expected to be less significant than in the SMP, as overall demand growth, both domestic and external, becomes even more important in the stimulation of agricultural and industrial production. Whereas during the SMP period, import substitution accounted for about 30% in the growth of value added in manufacturing, it is forecast to decline to about 12% in the TMP. These declines will occur principally in beverages and tobacco, paper and printing, chemical products and plastics, tyres and rubber products, ferrous metals and products and electrical machinery.

VI. UTILIZATION OF RESOURCES

362. Along with investment, consumption expenditure—both private and public—is estimated to increase by 12.4% per annum so that the total value of domestic expenditure will rise by 13.3% per annum. With 8.5% annual GDP growth in real terms and 12.7% in nominal terms, the expansion of Gross Disposable Income (or the GNP after adjustments for taxation) will be impressive. Taking into account annual population growth of 2.7%, *per capita* Gross Disposable Income in nominal terms will rise by 9.6% per annum making increases of *private consumption* of 3.6% *per capita* in real

terms (8.6% in current prices) entirely feasible. Though much faster than the average under the SMP, private consumption is projected to grow more slowly than GNP with the result that the share of private consumption in GNP will drop from 55.4% in 1975 to 52.8% in 1980—thus enlarging the real value of the stock of private savings for financing investment.

363. *Public consumption* too, is forecast to expand substantially with its share in GNP rising from 21.8% in 1975 to 24.2% in 1980. Though already high by international standards, further growth of public consumption is dictated by the need to extend Government's efforts in the implementation of the NEP and strengthen the security capabilities of the nation.

364. A comparison of the growth of expenditure on private and public consumption and investment with estimated resource availabilities (after taking account of net transfer payments abroad) is shown in Table 6-5. A resource gap of $5.2 billion for the five-year period is indicated which will have to be filled by an inflow of real resources from abroad.

TABLE 6-5

MALAYSIA: RESOURCES AND THEIR ALLOCATION, 1975-80

($ million)

	1975	*Share of GNP (%)*	*1980*	*Share of GNP (%)*	*Cumulative total, 1976-80*
Domestic expenditure					
Consumption	16,797	*77.2*	30,128	*77.0*	119,742
Private	*12,052*	*55.4*	*20,661*	*52.8*	*84,053*
Public	*4,745*	*21.8*	*9,467*	*24.2*	*35,689*
Investment	5,838	*26.9*	11,528	*29.5*	44,193
Private	*3,320*	*15.3*	*7,189*	*18.4*	*26,785*
Public	*2,518*	*11.6*	*4,339*	*11.1*	*17,408*
Change in stocks	−667		−712		−240
− Total resources (Gross national product at market prices).. ..	21,747		39,133		158,984
= Deficit on goods and services account of the balance of payments	221		1,811		4,711
− Net transfer payments abroad ..	125		65		450
= Deficit on current account of the balance of payments	346		1,876		5,161

365. Projected earnings from the export of goods and services (services defined to include non-factor services and factor income receipts), as discussed in Section V above, will amount to a five-year cumulative total of $80.4 billion. Imports of goods and services (services defined as non-factor services and investment income payments) are estimated to increase by 14.9% per annum in current prices (8.1% in real terms) and to amount to a cumulative total of $85.2 billion.

366. The import projections take account of further progress in import substitution of consumption as well as capital goods. Notwithstanding such progress, high import growth is forecast in view of the recent expansion of private consumption; continued growth of investment; and additional imports of investment goods in the early years of the Plan to make up for the constraints experienced in 1975.

367. The magnitude of the resource gap may also be examined in terms of the difference between investment and savings as shown in Table 6-6 below for the economy as a whole as well as for the private and public sectors separately. The significantly larger size of the investment-savings gap in the public sector, as compared with the private sector, illustrates the nature of the fiscal and monetary challenge confronting the Government.

TABLE 6-6

MALAYSIA: SAVINGS AND INVESTMENT, 1975-80

	1975		*1980*		*Cumulative total, 1976-80*
	$ million	*Share of GNP (%)*	*$ million*	*Share of GNP (%)*	*($ million)*
Private savings and investment					
Disposable incomes	15,807	*72.7*	27,980	*71.5*	115,763
Consumption	12,052	*55.4*	20,661	*52.8*	84,053
Savings	3,755	*17.3*	7,319	*18.7*	31,710
Investment (+ change in stocks)	2,653	*12.2*	6,477	*16.6*	26,545
Balance	+1,102		+842		+5,165
Public savings and investment					
Revenue	6,059	*27.9*	11,453	*29.3*	44,332
Consumption and transfers	4,989	*22.9*	9,832	*25.1*	37,250
Savings	1,070	*4.9*	1,621	*4.1*	7,082
Investment	2,518	*11.6*	4,339	*11.1*	17,408
Balance	−1,448		−2,718		−10,326
Total					
Gross national savings	4,825	*22.2*	8,940	*22.8*	38,792
Gross investment	5,171	*23.8*	10,816	*27.6*	43,953
Balance	−346		−1,876		−5,161

368. Bridging the public sector gap without due regard to the impact that such measures can have on the inducement to invest in the private sector could be counter-productive. In financing its investment programmes, it will therefore be the object of fiscal and monetary policy to ensure that taxation levels do not constrain the inducement to invest; domestic borrowing does not become a source of inflationary finance; and that the remaining resources required are mobilized externally on terms which keep the external debt burden within reasonable limits.

VII. BALANCE OF PAYMENTS PROSPECTS

369. The quantitative composition of the capital that needs to be attracted from abroad to cover the overall resource gap is shown in Table 6-7 below. The projections of merchandise exports and imports, as discussed in paragraphs 365 and 366 above, yield surpluses for all the years of the Plan and cumulate to a total of $4 billion. On the other hand, the services and transfer accounts, as in the past, will remain in deficit throughout the Plan period. These sums comprise in the main payments for freight and insurance; investment income payments; and private transfer payments—an item which is progressively diminishing. While net payments for freight and travel will continue to be sizeable, the operations of the Malaysian International Shipping Corporation (MISC) and the Malaysian Airline System (MAS) will make important and increasing contributions to invisible export earnings. Nevertheless, large as the deficit on the services account will be, it remains a necessary cost given the importance of foreign trade and foreign investment to the national economy.

TABLE 6-7

MALAYSIA: BALANCE OF PAYMENTS, 1975-80

($ million)

	1975	*1980*	*Cumulative total, 1976-80*
Goods and services			
Receipts ..	10,165	19,029	80,443
Payments ..	10,386	20,840	85,154
Net position ..	− 221	−1,811	−4,711
Transfers (net)			
Private ..	− 160	− 110	− 655
Government ..	+ 35	+ 45	+ 205
Balance on current account ..	− 346	−1,876	−5,161
Long-term capital (net)			
Public ..	+ 827	+1,518	+5,800
Private ..	+ 525	+ 900	+3,650
Basic balance ..	+1,006	+ 542	+4,289
Errors and omissions including short-term capital ..	− 835	− 400	−2,450
Overall surplus (+) or deficit (−) ..	+ 171	+ 142	+1,839
Allocation of IMF Special Drawing Rights ..	—	—	—
Net change in external reserves (increase − decrease +)	− 171	− 142	−1,839

370. Taken together, the merchandise, services and transfer accounts show a deficit on the current account of the balance of payments amounting to $5.2 billion for the five-year period. In relation to GNP, the ratio is 3.3% which cannot be considered high. The task of policy will be to attract some $9.5 billion of capital from abroad to cover this resource gap, as well as customary out-flows of net short-term capital, while maintaining at the same time a reasonable level of foreign exchange reserves.

371. The target for long-term private capital inflow is a cumulative total of \$3.7 billion (net) or an annual average of \$0.7 billion—some 40% higher than the corresponding level during 1971-75. As with the target for private investment, Government policy will seek to ensure that the investment climate continues to be enhanced in the interest of attracting greater volumes of foreign investment in the context of overall economic expansion.

372. Inflows of official long-term capital are projected at \$5.8 billion for the five-year period. The amounts to be raised take account of reasonable expectations with respect to loans from international lending institutions, bilateral sources and supplier credits with the targets for borrowing from the World Bank and the Asian Development Bank accounting for three-quarters of the total. While the potential for market borrowing is large, the amounts actually capable of being so mobilized inevitably remain a matter of uncertainty, dependent as they are on international monetary and market conditions. With the above targets for official long-term capital, the external public debt service ratio would rise from a low of 3.4% in 1975 to about 7% by 1980. The implied debt service is low by international standards and remains consistent with the dictates of sound fiscal policy given the country's favourable long-term economic prospects.

373. On the basis of the above estimates, the net inflow of all long-term capital is projected at \$9.5 billion for the five-year period. After allowing for net short-term capital movements, the estimated amounts of external capital projected to be available will be sufficient to cover the cumulative deficit on current account as well as permit the accumulation of external reserves of the order of \$1.8 billion.

VIII. CONCLUSION

374. The resilience of the Malaysian economy in the face of adverse external economic conditions was amply demonstrated during the period of the SMP when the economy registered an annual rate of growth of 7.4%. The continuation of such a pace of expansion is vital for the achievement of the objectives of the NEP, especially in the light of the current security threat facing the nation.

375. The prospects for even further progress in the course of the TMP are favourable with stronger and more stable growth conditions forecast for the world economy as a whole. Yet the lesson of 1971-75 must not be ignored given the susceptibility of the Malaysian economy to changes—sometimes unexpectedly wide—in the course of world economic activity. As the Government embarks upon the TMP, it will therefore continue to ensure that domestic as well as external economic conditions are closely monitored so that flexibility is maintained in the execution of macro-economic policy to meet changing circumstances as they occur from time to time.