CHAPTER VII

# Prices: Trends, Problems and Policies

## I. INTRODUCTION

376. World economic conditions will continue to exercise a direct influence upon prices in the Malaysian economy. In turn, price trends will have a significant bearing on the performance of the economy and the achievements of the Third Malaysia Plan (TMP).

377. Stability in the domestic price level of the type experienced in the sixties is not expected to recur given that the nation will be utilizing more fully its resources for overall socio-economic development. Even more important, continuing inflation in the world economy, although at a slower rate than in the last five years, will induce further upward pressures on the domestic price level. The Government will ensure that its fiscal and monetary policies are so designed and implemented that the impact of changes in external conditions is cushioned to the maximum extent possible and that national productive capacity is progressively increased so that domestic price increases are kept within reasonable bounds.

378. This Chapter reviews briefly the factors accounting for price stability in the sixties and the circumstances leading to the upsurge of prices in the early seventies; explains the price forecasts underlying the macro-economic framework of the Plan; and outlines the policies that will be followed to contain the pressures that may be expected on the domestic price level in the next five years.

## II. DETERMINANTS OF THE PRICE LEVEL

379. The openness of the Malaysian economy makes external conditions a primary determinant of changes in the domestic price level. The degree to which the economy is exposed to international economic developments is seen in the fact that exports and imports alone account for about 60% of the value of all goods and services produced and imported by the economy during 1971-75. Apart from the impact of changes in international prices on the domestic economy, the pace of development activity in the country itself under the TMP will contribute to increases in the domestic price level.

Notwithstanding continued expansion of the overall capacity of the economy for production, accelerated economic development will lead to increases in the relative prices of those goods and services in short supply, the requisite production of which can only be effected in the longer run.

## III. EXPERIENCE IN THE SIXTIES

380. Malaysia experienced an exceptionally high degree of price stability in the sixties. Between 1960 and 1971, consumer prices in Peninsular Malaysia rose by less than 1% a year on the average. This remarkable record of stable prices can be explained by a number of factors.

381. During the sixties, import prices remained virtually unchanged while export prices declined. The import price index registered an increase of the order of only 11% over the ten-year period, although consumer prices in the countries of the Organization for Economic Co-operation and Development (OECD) increased by about 50% during the same period. A major contributing factor was that Malaysian importers were then in a position to shift their custom from traditional but inflationary-prone markets to more stable sources.

382. The decline in export prices of the order of 0.4% per annum was made up largely of decreases in the price of rubber which fell from 106.5 cts. per lb. in 1960 to 58 cts. in 1970. Not only was expansion of export earnings constrained despite production increases, the overall impact on the economy was somewhat deflationary. Most important of all, the growth in incomes of the poor in traditional agriculture was held back.

383. Prudent fiscal and monetary management combined with industrial harmony were also important contributory factors in the achievement of price stability in the sixties. While current expenditures in the public sector (Federal and State Governments) grew by 11.7% per annum, public revenue increased by 13.7% per annum resulting in a current account surplus which averaged $270 million per annum during the sixties. Investment was financed through non-inflationary means without recourse to excessive monetary expansion and credit creation. Money supply grew by 5.7% per annum while the annual growth of the Gross National Product in nominal terms was in the region of 6%.

## IV. PRICE TRENDS, 1970-75

384. In comparison with the sixties, the general level of prices in Malaysia rose dramatically during 1971-75 as world inflation gathered strength. Fuelled by explosion of the world money stock between 1970 and 1973, economic expansion in the OECD countries accelerated by 5.3% per annum in the 1971-75 period from 4.9% during 1960-70 with almost all major industrial countries registering growth rates which were unprecedented since the Korean War. At a time when aggregate demand was placing

serious pressures on the supplies of key commodities, adverse weather conditions in a number of countries resulted in failures of major food crops, thus producing severe imbalances in demand and supply for a wide set of key commodities. In consequence, the prices of primary products began to rise in the middle of 1972 and continued to climb in 1973 and early 1974. Combined with the surge of petroleum prices in 1973, fluctuations in major exchange rates and widespread commodity speculation, the international inflation rate rose from 7.1% in 1970 to 21.7% in 1974. The containment of inflation became the prime focus of economic policy in the industrialized world and fiscal and monetary restraints were applied to this end.

385. In the event, capacity utilization in the OECD area fell in early 1974 and triggered-off a slow-down of economic activity of substantial proportions. There was a marked easing of inflation with price increases averaging 10.8% in 1975 but unemployment rose to its highest level since World War II.

386. Very few countries in the world were spared the effects of these cyclical forces and as an open economy, Malaysia was no exception. After falling by 6.0% between 1970-72, earnings from merchandise exports increased by 110% over the next two years but declined by 10.8% in 1975. The unit values of its major primary commodity exports, notably rubber, palm oil, petroleum, coconut oil and sawlogs, which constitute some 50% of all exports, underwent sharp fluctuations—falling somewhat during 1970-72, rising sizeably in 1973-74 and then declining significantly in 1975 as shown in Table 7-1 below. These fluctuations in export earnings produced corresponding fluctuations in the rate of domestic economic activity and the availability of liquidity in the economy and thus directly affected the domestic price level.

387. Rising with domestic inflation in the OECD countries, the prices of goods and services imported by Malaysia added further pressures on the general price level in the country. Despite the floatation of the *Ringgit* which resulted in its upward revaluation against the currencies of Malaysia's trading partners, import prices increased sharply. As shown in Table 7-2, the import price index increased by an average of 14.2% per annum during the period 1971-75, largely due to increases in the price of foodstuff, manufactured goods, machinery and transport equipment. Although Malaysia is almost self-sufficient in rice, imports of rice and other food items, including wheat, dairy products, meat, fruits and vegetables, accounted for over 20% of total imports. The prices of these imports rose by about 102% between 1970 and 1974.

388. The overall impact of world inflation on the domestic price level was severe. After a decade of price stability, domestic prices registered a noticeable upward trend as shown in Table 7-3. Between 1970 and 1972, consumer prices rose by about 2.4% per annum; they were 10.5% higher in 1973 and

TABLE 7-1

## MALAYSIA: PRICES OF PRIMARY COMMODITY EXPORTS, 1970-75

| | *Unit value in $ per ton*[1] | | | | | | *Annual rate of change (%)* | | | | | *Average annual growth rate (%)* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1970* | *1971* | *1972* | *1973* | *1974* | *1975* | *1971* | *1972* | *1973* | *1974* | *1975* | *1971-75* |
| Rubber (cts./lb) .. .. | 58 | 48 | 43 | 69 | 83 | 63.5 | *−17.2* | *−10.4* | *60.5* | *20.3* | *−23.5* | *1.8* |
| Tin .. .. .. .. | 11,135 | 10,576 | 10,477 | 11,178 | 17,958 | 15,867 | *−5.0* | *−0.9* | *6.7* | *60.7* | *−11.6* | *7.3* |
| Sawlogs .. .. .. .. | 102 | 104 | 92 | 138 | 153 | 108.9 | *2.0* | *−11.5* | *50.0* | *10.9* | *−28.8* | *1.3* |
| Sawn timber .. .. .. | 209 | 208 | 229 | 368 | 355 | 315 | *−0.5* | *10.1* | *60.7* | *−3.5* | *−11.3* | *8.6* |
| Palm oil .. .. .. | 668 | 674 | 529 | 594 | 1,224 | 1,236 | *0.9* | *−21.5* | *12.3* | *106.1* | *1.0* | *13.1* |
| Palm kernel oil .. .. | — | 826 | 628 | 855 | 1,813 | 1,034 | — | *−24.0* | *36.1* | *112.0* | *−43.0* | *5.8* |
| Crude petroleum .. .. | 46 | 51 | 55 | 71 | 211 | 231.5 | *10.9* | *7.8* | *29.1* | *197.2* | *9.7* | *38.2* |
| Partly refined petroleum .. | 37 | 45 | 49 | 74 | 236 | 231.5 | *21.6* | *8.9* | *51.0* | *218.9* | *−1.9* | *44.3* |
| Petroleum products .. .. | 60 | 69 | 70 | 92 | 273 | 305 | *15.0* | *1.4* | *31.4* | *196.7* | *11.7* | *38.4* |
| Pepper .. .. .. .. | 2,282 | 2,335 | 2,230 | 2,902 | 3,566 | 3,400 | *2.3* | *−4.5* | *30.1* | *22.9* | *−4.7* | *8.3* |
| Copra .. .. .. .. | 464 | 433 | 326 | — | — | — | *−6.7* | *−24.7* | — | — | — | — |
| Coconut oil .. .. .. | 895 | 871 | 617 | 1,050 | 2,323 | 1,248 | *−2.7* | *−29.2* | *70.2* | *121.2* | *−46.3* | *6.9* |
| Canned pineapple .. .. | 698 | 702 | 712 | 727 | 940 | 1,155 | *0.6* | *1.4* | *2.1* | *29.3* | *22.9* | *10.6* |

[1] Unit values of rubber are presented in cts. per lb.

TABLE 7-2

## PENINSULAR MALAYSIA: IMPORT PRICES BY SITC SECTIONS, 1970-75

| | Weights (%) | *Import price indexes (base 1970 = 100)* | | | | | *Annual rate of change (%)* | | | | | *Average annual growth rate (%)* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *1971* | *1972* | *1973* | *1974* | *1975* | *1971* | *1972* | *1973* | *1974* | *1975* | *1971-75* |
| Food .. .. .. .. | 19.4 | 107.0 | 116.4 | 146.8 | 202.1 | 198.8 | *7.0* | *8.8* | *26.1* | *37.7* | *−1.6* | *14.7* |
| Beverages and tobacco .. | 2.0 | 105.0 | 100.4 | 113.2 | 111.2 | 134.9 | *5.0* | *−4.4* | *12.7* | *−1.8* | *21.3* | *6.2* |
| Crude materials inedible .. | 9.2 | 87.3 | 92.2 | 103.7 | 144.7 | 138.9 | *−12.7* | *5.6* | *12.5* | *39.5* | *−4.0* | *6.8* |
| Mineral fuels, lubricants, etc. .. | 6.6 | 126.1 | 127.1 | 143.3 | 378.9 | 454.8 | *26.1* | *0.8* | *12.7* | *164.4* | *20.0* | *35.4* |
| Animal and vegetable oils and fats .. .. .. .. | 0.6 | 106.1 | 99.1 | 121.0 | 183.3 | 179.2 | *6.1* | *−6.6* | *22.1* | *51.5* | *−2.2* | *12.4* |
| Chemicals .. .. .. | 8.4 | 105.4 | 107.0 | 122.4 | 207.3 | 205.0 | *5.4* | *1.5* | *14.4* | *69.4* | *−1.1* | *15.4* |
| Manufactured goods .. .. | 20.2 | 106.5 | 110.8 | 130.1 | 181.2 | 177.7 | *6.5* | *4.0* | *17.4* | *39.3* | *−1.9* | *12.2* |
| Machinery and transport equipment .. .. .. .. | 28.6 | 109.2 | 117.6 | 130.7 | 147.9 | 173.7 | *9.2* | *7.7* | *11.1* | *13.2* | *17.4* | *11.7* |
| Miscellaneous manufactured articles .. .. .. .. | 5.0 | 104.1 | 104.5 | 109.9 | 131.5 | 138.2 | *4.1* | *0.4* | *5.2* | *19.7* | *5.1* | *6.7* |
| Total price index .. .. | 100.0 | 107.3 | 112.3 | 129.9 | 183.6 | 194.6 | *7.3* | *4.7* | *15.7* | *41.3* | *6.0* | *14.2* |

climbed a further 17.4% in 1974; the increase in 1975 was a more moderate 4.5%. A distinctive feature of the price situation was the sharp price increase for almost all food items while retail gasoline prices rose by over 50%. Table 7-4 indicates that the weighted food price index rose by 26.7% in 1974 with price increases of about 37.5% for rice, bread and cereals; 26.9% for meat; 26.1% for fish; and 17.8% for fruits and vegetables. Clothing and footwear, another mass consumption item, registered an 11.6% rise during the year. While price increases for durable goods were not as dramatic, there were nevertheless rapid rises in the cost of building and construction materials with rates of increase reaching almost 60%. For the period as a whole, the consumer price index increased by 7.3% per annum.

TABLE 7-3

PENINSULAR MALAYSIA: ANNUAL PERCENTAGE CHANGE IN THE CONSUMER PRICE INDEX, 1970-75

| | *Weights (%)* | *1970* | *1971* | *1972* | *1973* | *1974* | *1975* | *Average annual growth rate (%) 1971-75* |
|---|---|---|---|---|---|---|---|---|
| Food .. .. .. .. .. | *(46.8)* | *2.1* | *2.0* | *3.0* | *15.4* | *26.7* | *3.3* | *9.7* |
| Beverages and tobacco.. .. | *(8.9)* | *2.0* | *Nil* | *3.9* | *1.9* | *1.8* | *9.0* | *3.3* |
| Clothing and footwear.. .. | *(4.8)* | *1.0* | *1.0* | *2.9* | *21.7* | *11.6* | *−0.7* | *7.0* |
| Gross rent, fuel and power .. | *(9.4)* | *1.0* | *1.0* | *1.0* | *1.0* | *6.7* | *7.2* | *3.3* |
| Furniture, furnishings and households equipment and operation .. .. .. | *(6.6)* | *3.9* | *1.9* | *5.6* | *13.2* | *17.1* | *4.6* | *8.3* |
| Medical care and health expenses .. .. .. .. .. | *(2.0)* | *1.0* | *1.0* | *Nil* | *4.9* | *7.4* | *5.2* | *3.6* |
| Transport and communications | *(10.4)* | *2.0* | *1.0* | *2.9* | *1.9* | *10.1* | *5.8* | *4.3* |
| Recreation, entertainment, education and cultural services .. | *(5.6)* | *1.9* | *4.7* | *3.6* | *4.3* | *5.8* | *2.4* | *4.2* |
| Miscellaneous goods and services .. .. .. .. .. | *(5.5)* | *1.0* | *1.9* | *6.6* | *8.0* | *14.8* | *5.7* | *7.3* |
| TOTAL .. | *(100.0)* | *1.9* | *1.6* | *3.2* | *10.5* | *17.4* | *4.5* | *7.3* |

389. Deliberate domestic policy measures and programmes aimed at curbing inflation were introduced between 1972 and 1974. Fiscal and monetary policies were applied to contain price increases as well as alleviate their impact on the poor. At the same time, the *Malaysian Ringgit* was floated and resulted in an effective revaluation against the currencies of Malaysia's major trading partners.

390. The anti-inflationary measures introduced were designed to:—

(i) *dampen the expansionary impact of enlarged export earnings* through deceleration in the growth of public investment; and the introduction of special tax measures to siphon-off inflationary earnings. To the

TABLE 7-4

## PENINSULAR MALAYSIA: ANNUAL PERCENTAGE CHANGE IN CONSUMER FOOD PRICES, 1970-75

| | *Weights*[2] (%) | *1970* | *1971* | *1972* | *1973* | *1974* | *1975* | *Average annual growth rate (%) 1971-75* |
|---|---|---|---|---|---|---|---|---|
| Rice, bread and other cereals .. | *(13.1)* | *−3.2* | *−1.1* | *2.2* | *23.1* | *37.5* | *3.2* | *12.1* |
| Meat .. .. .. .. | *(8.9)* | *6.5* | *1.0* | *1.0* | *17.8* | *26.9* | *0.7* | *9.0* |
| Fish .. .. .. .. | *(6.9)* | *11.1* | *4.5* | *6.1* | *16.4* | *26.1* | *5.0* | *11.3* |
| Milk and eggs .. .. .. | *(4.8)* | *−1.0* | *1.0* | *5.1* | *9.7* | *11.5* | *2.4* | *5.9* |
| Oils and fats .. .. .. | *(1.6)* | *3.8* | *0.9* | *−6.4* | *11.7* | *55.7* | *−22.3* | *5.0* |
| Fruits and vegetables .. .. | *(6.9)* | *2.1* | *1.0* | *2.0* | *15.7* | *17.8* | *7.2* | *8.5* |
| Sugar .. .. .. .. | *(2.1)* | *7.8* | *10.9* | *11.5* | *3.7* | *12.8* | *23.9* | *12.4* |
| Coffee and tea .. .. .. | *(0.9)* | *Nil* | *2.0* | *1.0* | *4.9* | *8.3* | *6.8* | *4.6* |
| Other foods .. .. .. | *(1.6)* | *6.8* | *1.8* | *0.9* | *3.5* | *11.1* | *16.2* | *6.5* |
| TOTAL .. | *(46.8)* | *2.1* | *2.0* | *3.0* | *15.4* | *26.7* | *3.3* | *9.7* |

[2] Weights within the Consumer Price Index.

latter end, the export duty structure for rubber, palm oil and tin was revised in 1974 to make it more progressive in its incidence; a land speculation tax was also introduced in 1974; and an excess profits tax was brought into force in 1975;

(ii) *expand the availability and reduce the cost of key supplies of domestically produced and imported goods* especially those featuring largely in the budget of the poor. Thus, special export taxes were imposed on timber products, building materials and some food items while the exports of poultry, eggs, beef and cattle and products made from rice, flour and sugar were banned; import duties on 42 items were either reduced or lifted; excise duties on a number of items including diesel, fuel oil and kerosene, wood products and sweetened condensed milk were lifted; and the Green Book campaign was implemented to expand domestic food production, especially rice, beef, poultry, meat, fish and dairy products;

(iii) *control the prices of basic consumption and investment goods* through the expanded implementation of the Price Control Act; extension of the number of commodities whose prices could only be varied with the approval of the Government; launching of the nation-wide anti-hoarding campaign; and extensive price control in respect of rice; and

(iv) *alleviate the impact of inflation on consumers, particularly the poor* through Government subsidies on rice, fertilizers, flour and milk and school textbooks. Special relief allowances were provided to public employees in the lower income brackets. This latter measure was also adopted by the private sector.

391. Monetary policy was aimed at dampening aggregate demand by tightening credit and reducing bank liquidity as well as the liquidity of the private sector. To this end, interest rates were increased from 7.5% in 1972 to 10.0% in 1974; commercial banks and borrowing companies were required to increase their statutory reserves; while close regulation was maintained over the quantity and quality of bank lending. In the design and execution of these policies, however, care was taken to ensure that the orderly expansion of the productive capacity of the economy and the progress of the New Economic Policy was not inhibited. Thus, bank finance continued to be readily available for productive projects including agro-business and housing, particularly for small borrowers.

392. With world inflation abating by the end of 1974, recessionary conditions emerging and price increases beginning to moderate in Malaysia, the anti-inflation policies of the Government were gradually relaxed. The task of policy turned to that of ensuring that the economy was protected to the maximum extent possible from the effects of recession without, however, rekindling inflationary forces. In the fiscal sphere, an expansionary budget was implemented by the Government in respect of current and development expenditure. While low priority projects, especially those involving the importation of large amounts of capital equipment were deferred, several short-gestation, labour intensive projects were added to the development programme and implemented.

393. In the monetary field, credit restrictions imposed to curb inflation were gradually eased so as to ensure that the liquidity of the private sector was adequate to support an early and sustainable recovery of economic activity in the domestic economy. A series of important steps were taken in this regard. Credit growth ceilings previously imposed on the commercial banks and borrowing companies were completely abolished early in the year although they were still required to channel 50% of their loans and advances to priority areas such as manufacturing, agriculture, private housing and the development of Malay and other indigenous enterprise. Interest rates were also reduced while statutory reserve ratios which the commercial banks are obliged to maintain with *Bank Negara Malaysia* were lowered.

394. Recessionary conditions brought in their wake some net retrenchment of labour in the private sector. The numbers involved were, however, marginal with more widespread retrenchment avoided by the high sense of social responsibility demonstrated both by management and unions as manifested by their ready acceptance of the Code of Conduct for Industrial Harmony in February, 1975. The Code provided *inter alia* that retrenchment of workers would not be resorted to except as a last resort and that too, not until all other measures for averting or minimizing retrenchment had been explored.

395. The potentially damaging impact that world inflation and subsequent recession could have had on the Malaysian economy cannot be underestimated considering the heavy dependence of the economy on foreign trade. The large gains in export earnings in 1973 and 1974 due to record prices for primary products made the economy highly liquid. On top of this, expansionary pressures were generated by the Government's anti-cyclical measures undertaken previously to overcome the slow-down in the economy in 1971-72. The succeeding recession was equally severe. Export growth fell sharply in 1975 and dramatically slowed down the growth of private sector liquidity in the first half of the year even while international and domestic prices continued to grow albeit at slower rates than in the previous two years.

396. In the circumstances, the Government's economic policies have attained a large measure of success. *The annual rate of inflation in 1973-74 was kept significantly lower than that in other countries in the region as well as a number of major OECD countries.* The effects of the subsequent worldwide recession were also blunted by Government's anti-recessionary measures to a large extent. Serious unemployment was averted, retrenchment of workers in the private sector was minimal (some 16,600 out of the total labour force of 4,225,000) and the economy grew by a respectable 3.5% in real terms in 1975. The costs involved in an economic growth rate significantly less than the underlying potential of the economy was unavoidable given the need to minimize the danger of rekindling inflationary forces which would in turn affect adversely the course of sustained recovery.

### V. PROSPECTS, 1976-80

397. Prospective movements in the domestic price level during the period of the TMP will, as in the past, depend to a large extent on international price trends. As for the OECD countries which account for 58.0% of Malaysian exports and 65.0% of imports, the general prognosis appears to be that in the light of the sharp inflation of recent years, their Governments are likely to follow more cautious demand policies as the OECD economies recover from the recession of 1975. Given the apparent commitment to avoid a repetition of the gyrations experienced in the recent past, the growth of international prices is forecast to average about 7% per annum over the five year period 1976-80 with modest increases up to 1978 and some deceleration thereafter through 1980. At such rates, inflation would be one-half that of the peak in 1974 but double the average for the sixties.

398. The forecasts of the domestic price level in Malaysia during 1976-80 take account of the above trends in international prices. *Export prices* are projected to increase by 4.7% per annum between 1975 and 1980 compared with 6.6% during 1971-75. Table 7-5 indicates the key projections. The most important determinant of the course of the export price will continue to be *rubber* which in 1975 accounted for 22.2% of the value of all exports. Synthetic rubber prices set the limits within which prices for natural rubber move in the intermediate run. Given the impact of recent increases in the

TABLE 7-5

## MALAYSIA: PROJECTED PRICES OF MAJOR PRIMARY COMMODITIES, 1975-80

| | *Unit values ($ per ton)*[3] | | | | | | *Annual rate of change (%)* | | | | | | *Average annual growth rate (%) 1976-80* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1975* | *1976* | *1977* | *1978* | *1979* | *1980* | *1975* | *1976* | *1977* | *1978* | *1979* | *1980* | |
| Rubber (cts./lb) .. | 63.5 | 80 | 84 | 93 | 89 | 84 | *−23.5* | *26.0* | *5.0* | *10.7* | *−4.3* | *−5.6* | *5.8* |
| Tin .. .. .. | 15,867 | 16,469 | 17,292 | 18,480 | 18,300 | 18,000 | *−11.6* | *3.6* | *5.0* | *6.9* | *−1.0* | *−1.6* | *2.5* |
| Sawlogs .. .. | 108.9 | 120 | 145 | 180 | 172 | 168 | *−28.8* | *10.5* | *20.5* | *24.1* | *−4.4* | *−2.3* | *9.0* |
| Sawn Timber .. | 315 | 346 | 400 | 480 | 470 | 463 | *−11.3* | *9.8* | *15.6* | *20.0* | *−2.1* | *−1.5* | *8.0* |
| Palm Oil .. .. | 1,236 | 850 | 950 | 1,000 | 980 | 950 | *1.0* | *−31.2* | *11.8* | *5.3* | *−2.0* | *−3.1* | *−5.1* |
| Palm kernel oil .. | 1,034 | 867 | 898 | 1,078 | 989 | 899 | *−43.0* | *−16.2* | *3.6* | *20.0* | *−8.3* | *−9.0* | *−2.8* |
| Crude and partly refined petroleum .. | 231.5 | 231.5 | 231.5 | 231.5 | 231.5 | 231.5 | *6.5* | *0* | *0* | *0* | *0* | *0* | *0* |
| Petroleum products .. | 305 | 316 | 325 | 334 | 344 | 354 | *11.7* | *3.6* | *2.8* | *2.8* | *3.0* | *2.9* | *3.0* |
| Copper .. .. | 817.8 | 912 | 956 | 1,000 | 1,100 | 1,147 | — | *11.5* | *4.8* | *4.6* | *10.0* | ~~9.3~~ 4.3 | *7.0* |
| Pepper .. .. | 3,400 | 3,460 | 3,600 | 3,700 | 3,600 | 3,500 | *−4.7* | *1.8* | *4.0* | *2.8* | *−2.7* | *−2.8* | *0.6* |
| Canned pineapple .. | 1,155 | 1,155 | 1,300 | 1,550 | 1,500 | 1,474 | *22.9* | *0* | *12.6* | *19.2* | *−3.2* | *−1.7* | *5.0* |

[3] Unit values for rubber are presented in cts. per lb.

price of petroleum and the prospective excess of demand for all elastomers over projected supply of natural rubber, the export unit value of rubber is anticipated to rise by 5.8% per annum during the period 1976-80. In comparison with the past, however, year-to-year price fluctuations can be expected to be significantly more moderate when the International Agreement on Natural Rubber Price Stabilization materializes. The Agreement encompasses the establishment of an international buffer stock and the implementation of supply rationalization measures involving export curtailment when demand is weak and expanded production when demand exceeds supply.

399. Other commodities whose prices significantly affect the export price index are timber, palm oil, tin, petroleum and manufactured products. The use of *tropical hardwoods* in housing and furniture industries will continue to grow in line with *per capita* income in both the developed and developing countries. In view of the expanding use of timber within the already major exporting countries themselves and the significantly higher cost of tapping new but increasingly inaccessible reserves, the export unit values of saw-logs as well as sawn timber are projected to grow by at least 8%-9% per annum.

400. *Palm oil* prices are not expected to move as favourably as those for other commodities. A decline in the general price trend for all fats and oils is forecasted in view of the anticipated expansion of fats and oils (brought about by rapid acreage expansion of oil bearing crops in recent years and the growing demand for oilseed meals) in relation to demand in the developed countries. Palm oil (which accounts for about 7% of world production of all major fats and oils) is in close competition with soya-bean oil (which accounts for 20.0%) and other lower-priced oils and fats with world production of soya-bean oil anticipated to grow by 5.2% to 9.5% per annum during 1976-80, after expanding by 6.6% per annum in the last 15 years. Palm oil production is projected to grow by 9.5% per annum, with the average price for the five-year period remaining relatively stable at about $950 per ton. However, the price could be more favourable given the expansion of demand in the developing countries as well as the developed countries themselves in view of the widening range of end-uses for palm oil. In the light of these prospects, the Government will emphasize improvements in the quality of the commodity and its end-uses as well as active market promotion. Malaysia as a major supplier will ensure that its exports compete fairly on the basis of price and quality in the world market.

401. The world demand and supply of *tin* will be in approximate balance during the next five years. A price level which is about the mid-point of the price range under the recently concluded International Tin Agreement is thus assumed after allowing for year-to-year variations in consonance with expectations as to the course of the world business cycle.

402. *Petroleum* price trends remain uncertain dependent as they are on the extra-market forces which affect price determination. In these circumstances, the export unit value of crude and partly refined petroleum has been assumed at its 1975 level for planning purposes.

403. *Manufactured products,* as a miscellaneous category, now constitute some 21% of the value of total merchandise exports. The main items comprise food products; textiles; clothing and footwear; wood products; rubber products; machinery; and electronic components. The unit value of these exports as a group is projected to grow by 6.5% per annum compared with the international rate of inflation of about 7%.

404. The *import* price index is envisaged to grow slightly lower than the international inflation rate. The principal determinant of movements in the index will continue to be the import prices of manufactured goods, machinery and transport equipment which accounted for about one-half of the total value of imports in 1975. Other major components of the import basket are food products, mineral fuels, chemicals, inedible materials and oils and fats. Import prices of manufactures, machinery and transport equipment will almost directly reflect movements in the international inflation rate of about 7% per annum. On the other hand, food import prices could soften somewhat from their unusually high levels in the recent past. On the assumption of stable petroleum prices, the import price index could grow in the order of 6.3% per annum with the fastest rate of growth registered by the cost of freight and other service imports.

405. In the light of the above trends in the prices of exports and imports, the domestic price level will continue to increase over the period 1976-80. The task of macro-economic policy under the TMP is to ensure that these increases are kept within reasonable limits. The target is an average annual rate of growth in the general price level of about 5%. As exports and imports constitute some 60% of the total value of goods and services produced domestically and imported, the implied requirement is that price increases for domestically produced goods and services should average about 4% per annum.

406. Most price projections are hazardous undertakings for it is inevitably difficult to forecast with accuracy the directions and intensity of economic forces. The general level of prices as targetted above is no exception. This is particularly the case for an economy as open as Malaysia's where most key prices are exogenously determined. Even within the relatively sheltered sectors, price levels are inevitably subject to the impact that external conditions produce via changes in the demand and supply of the country's exports and imports. As such, the target of the Plan in respect of the general level of prices is not meant to constitute a precise quantitative objective but rather to illustrate the broad directions towards which macro-economic policy will be applied in the endeavour to keep anticipated domestic price increases within reasonable bounds.

## VI. POLICIES

407. The attainment of the objective of reasonable price stability will be no mean undertaking. It will call for great flexibility and adroitness in the design and implementation of fiscal and monetary policy. Several basic requirements are entailed and will receive the close attention of the Government.

408. Given the magnitude and rapidity with which prices can change, more attention will be given to the need for detailed monitoring and surveillance of trends in key prices and their effect on the performance of the Malaysian economy and the welfare of individuals in particular the poor. The objective is the eventual development of an "early warning system" under which macro-economic policy could, with flexibility and promptness, respond to changing conditions.

409. The implementation of *fiscal and monetary policy* along counter-cyclical lines will continue to be an important objective in the endeavour to moderate cyclical fluctuations to which the economy is subject so that a steady momentum of development may be maintained. To this end, the array of instruments at the disposal of *Bank Negara Malaysia* has been extended with the new powers given to it to engage in open market operations. A powerful complement to monetary policy, the budget instrument will continue to undergo progressive reshaping to make it more responsive to changes in the economic situation. The tax system and particularly those elements which can be further developed as stabilization instruments will be an important focus for public policy. Another would be the need for greater flexibility in development expenditures so that, on top of the hard core programmes of the Government, variations in development activity can be effected for counter-cyclical purposes. To this end, the advanced preparation of a reserve package of ready-to-implement, labour intensive, short-gestation projects will be emphasized.

410. A potentially important influence on the general level of prices is the *protective tariff*. With progressive growth of the manufacturing sector, the impact that tariffs can have on the prices of domestically produced goods warrants increasing attention. While current levels of effective tariff protection are reasonable and certainly moderate by international comparison, the rise in effective protection has nevertheless been significant, particularly in the import-substituting manufacturing sector. As industrialization advances and the most obvious opportunities for import substitution are captured, it will become increasingly important for the Government to ensure that tariff protection exploits national comparative advantage in the choice of industry for domestic production; ensures early realization of productive efficiency and maturity on the part of industries so assisted; and minimizes the costs of protection to society and in particular the poor.

411. In the final analysis, the promotion of orderly economic growth and employment expansion with reasonable price stability requires that sustained attention and effort is given to the progressive improvement of supply conditions and the enlargement of productive capacity. To this end, the expansion of food production under the Green Book campaign will continue to be emphasized. While dramatic increases in aggregate demand fuelled by inadequately-contained variations in export earnings and upsurges in import prices are major sources of inflation for an economy as open as Malaysia's, structural rigidities and immobilities in production and distribution are equally important for all developing countries. The maintenance of a reasonable level of price stability clearly requires that as aggregate demand changes, the economic system as a whole is able to elastically overcome temporary bottlenecks and shortages without creating undue cost-pressures which exacerbate inflationary expectations. Progressive improvement of productivity, increases in the elasticity of supply, removal of artificial restraints on production and distribution, efficiency in marketing systems and above all increases in the scope for the full-play of competitive forces are vital elements in this regard.

412. The Government's role in controlling prices has not been excessive. The Government will continue to ensure that controls are minimized and are applied only in the case of basic commodities essential for protecting the poor against unjustifiably high increases in prices. The administrative machinery for monitoring developments in the prices of essential commodities will be given priority to provide the basis for monitoring the effects of price changes on the incomes of the poor and needs of the economy as a whole.