

CHAPTER I

Malaysian Economic Development— Position, Problems and Plans

1. Malaysia has made notable progress in a number of areas of economic and social development. The country enjoys a relatively high standard of living and an atmosphere of social harmony in a multi-racial society. Nevertheless, there are many economic and social problems outstanding and much work to be done. The First Malaysia Plan seeks to attack these problems through a carefully conceived and vigorously executed effort at planned social and economic development. The success of this effort is an essential prerequisite to the achievement of the over-riding goal of a happier and more prosperous Malaysia.

1.—ECONOMIC PROBLEMS

2. The main socio-economic problems facing the nation at present are:
- (i) A heavy dependence upon two export products: rubber, whose world price is falling steadily, and tin, the known reserves of which are rapidly being depleted;
 - (ii) A high rate of population increase, which poses a challenging problem of finding productive employment for each year's new entrants into the labour force and imposes a social cost in that resources which might have been used to increase levels of welfare must instead be devoted to supporting the growing population at the existing standard of living;
 - (iii) An uneven distribution of income, which involves wide disparities between rural and town dwellers and between inhabitants of Malaya and the Borneo States, as well as among various social groups;
 - (iv) A relatively low level of human resource development, which results in shortages of many of the skills needed to carry out development.

II.—OBJECTIVES OF THE FIRST MALAYSIA PLAN

3. The First Malaysia Plan is designed to make a bold and imaginative attack on Malaysia's problems. The main objectives of the Plan are:

- (i) To promote the integration of the peoples and states of Malaysia by embarking upon a development plan explicitly designed to promote the welfare of all;
- (ii) To provide steady increases in levels of income and consumption per head;
- (iii) To increase the well-being of Malaysia's rural inhabitants and other low-income groups, primarily by raising their productivity and thus their income-earning capacity;
- (iv) To generate employment opportunities at a rate sufficient to provide productive work for new entrants to the labour force and lower the rate of unemployment;
- (v) To stimulate new kinds of economic activity, both agricultural and industrial, so as to reduce the nation's dependence on rubber and tin;
- (vi) To educate and train Malaysians from all walks of life in order to equip them for effective participation in the process of economic and social development;
- (vii) To lay the groundwork for less rapid population growth by instituting an effective programme of family planning;
- (viii) To open for development sufficient new land to keep pace with the formation of new farm families and reduce the number of landless people desiring land for agricultural purposes;
- (ix) To provide electric power, transportation facilities and communication services adequate to keep ahead of foreseen demands;
- (x) To progress with health and social welfare development, low-cost housing and a wide range of other projects.

4. The First Malaysia Plan will consolidate past progress and initiate new efforts towards these objectives. It incorporates detailed programmes of action to be undertaken during the next five years, based on a full appreciation of the problems and a general strategy of how they are to be solved over a longer period of time.

III.—MALAYSIA'S PEOPLE AND INCOME LEVEL

5. The states of Malaysia differ widely in their human and natural resources and are at different stages of economic and social development. These differences exist not only between Malaya and the Borneo States but also within Malaya and between Sabah and Sarawak.

6. The productivity of Malaya's modern economic sector has resulted in a level of income *per capita* in the peninsula which is one of the highest in Asia. This modern sector is located primarily west of the main mountain range. Most of the rubber estates and tin mines, most of the towns and 80% of Malaya's population are in this West Coast region, which comprises about 40% of Malaya's land area. East of this area are people and regions far less touched by modern life, few towns and vast areas of virgin jungle. About one-half the population of Malaya are Malays, three-eighths Chinese and the remainder mostly Indians, with a small number of Eurasians, aborigines and others.

TABLE 1-1
MALAYSIA: POPULATION DENSITY, 1965

	Area		Population		Population per square mile
	Square miles	% of total	Thousands	% of total	
Malaya	50,840	39.8	8,052	85.6	158
<i>West</i>	20,840	16.3	6,683	71.0	321
<i>East</i>	30,000	23.5	1,369	14.5	46
Sabah	28,490	22.3	520	5.5	18
Sarawak	48,340	37.9	839	8.9	17
 MALAYSIA	 127,670	 100.0	 9,411	 100.0	 74

7. Sabah and Sarawak are large areas with small scattered populations, made up of heterogeneous racial groups. Sarawak is almost as large as Malaya in area but has only about a tenth as many people. Its two largest racial groups are the Chinese and Sea Dayaks, each of which accounts for about 30% of the population. Malays, Land Dayaks, Melanaus and a number of other indigenous groups make up the remainder. Sabah is three-fifths the size of Malaya and has only one-fifteenth as much population. Its population density is virtually identical to that of Sarawak, a little over a third the density of Eastern Malaya. Kadazans represent about a third of the population of Sabah and other indigenous groups make up another third. Most of the non-indigenous people, nearly a quarter of Sabah's population, are Chinese.

8. Eastern Malaya and the Borneo States rely primarily on small-scale agriculture and fishing. There is relatively little estate agriculture in the Borneo States, although in Sabah the estate sector has expanded significantly in recent years. Both Sabah and Sarawak have benefited in recent years from the rapid expansion of a modern, large-scale timber industry.

9. Malaysia's gross national product (GNP) is about \$8,730 million in 1965. *Per capita* income averages about \$930. Nearly 90% of this income originates in Malaya, which has a *per capita* income level of about \$950, whereas the levels enjoyed by Sabah and Sarawak are somewhat lower, roughly \$860 and \$740 respectively.

TABLE 1-2
MALAYSIA: GROSS NATIONAL PRODUCT AT MARKET PRICES, 1965

							<i>Total</i> (\$ millions)		<i>Per capita</i> (\$)
Malaya	...	...	...	...	...	...	7,663	...	952
Sabah	...	...	...	...	...	...	448	...	862
Sarawak	...	...	...	...	...	...	618	...	737
MALAYSIA							8,729	...	928

IV.—MALAYSIA'S ECONOMIC STRENGTHS

10. Malaysia is a new nation, with its share of the problems which beset many new nations today. But Malaysia is fortunate in having, apart from its political and financial stability, a high level of past economic development from which its effort at planned economic and social development can proceed.

11. Malaysia's relatively high income level has been produced primarily by the growth of the rubber and tin industries. Malaysia is the world's largest producer of both natural rubber and tin, which together account for 55% of the nation's exports and about 30% of GNP in 1965. Particularly in rubber, the progress of Malaysian production has been based on the application of modern research. Nearly 80% of estate acreage and many smallholdings are now planted with high-yielding trees and more of these are maturing each year. The handling and processing of rubber are continuously being improved and developed. A new Standard Malaysian Rubber (ESEMAR) has recently been introduced as a standard quality product based on scientific grading instead of the traditional visual grading.

12. Whereas rubber is peculiarly a twentieth century product, tin has been mined in Malaya for centuries. A substantial share of tin output comes from modern dredges. These machines can economically handle deposits with low tin content and can thus rework areas which have already been mined once. Current favourable tin prices are encouraging expansion of production, as well as greater efforts to find new tin deposits. Most of the expansion during the last two years has been from gravel pump mines, since these can be set in operation much faster and at lower cost than dredges.

13. In these two lines of productive activity and also in foreign trade Malaysia has developed vigorous and capable entrepreneurs and managers. With sufficient capital, skills and managerial competence, Malaysian businessmen have brought these traditional activities to a high degree of development. A growing proportion of the nation's talent and capital is now entering new areas of economic activity. Traders are moving into the servicing of motor vehicles, air-conditioners, television receivers and the rapidly growing list of other modern machines and equipment which are becoming more and more numerous in Malaysia. Other businessmen are entering manufacturing industry; this process is being facilitated by the government's policy of encouraging private industrial enterprise. While there may be difficulties in some individual cases in achieving the necessary scale of production in new activities or in making the psychological transfer from commercial to industrial processes, Malaysia is generally well endowed with business talent.

14. In addition to an efficient and productive private sector, Malaysia has an effective public administration and a tradition of law and order. Since Merdeka in 1957 the Malayan Government has instituted a vigorous social and economic development programme. Sabah and Sarawak have also had public investment programmes but the First Malaysia Plan represents an effort to accelerate economic development in the Borneo States as well as the first attempt to plan for Malaya and the Borneo States together.

V.—THE NEED FOR ECONOMIC DEVELOPMENT

15. Despite the successes of the past and the relatively high standard of living already achieved, Malaysia urgently needs rapid economic development in the future. In the first place, the nation's population is currently growing at about 3% a year. At this rate, population will double in less than 25 years. This extremely rapid rate of population increase imperils efforts to raise *per capita* income levels, since considerable economic growth is required from year to year just to provide for the needs of new additions to the population at existing living standards. The rapidly rising population is also reflected in a high rate of increase of the number of people seeking employment. If economic growth is not rapid enough to provide jobs for these new job seekers, frustration and discontent will be the result. The success of the government's new programme of family planning, aided by changes in attitudes toward family size which are likely to accompany economic development, will in time reduce the birth rate and hence the rate of population growth. But such a process takes time and until the birth rate is brought down the economy must grow rapidly just to keep average income levels from stagnating or even declining.

16. Secondly, present standards of private consumption and public services must be raised, for better education, health services and housing are the legitimate aspirations of the people of Malaysia. And, if the economy is to expand, an improved economic infrastructure—roads, ports, power, telecommunications—will be required. Unless the size of the national income grows it will not be possible to provide these public services save at the expense of increases in private consumption levels.

17. Finally, the fruits of economic growth so far have been unevenly distributed. Several groups in Malaysian society receive much lower private incomes and fewer public services than the rest of the population. These groups include the unemployed and other obviously weak segments of the population such as aborigines in Malaya and shifting cultivators in the Borneo States. But the problem is not limited to these groups. Most small-holders do not have easy access to markets, technical knowledge and skills. Small fishermen are finding it difficult to compete with those who have more capital and modern equipment. Small businessmen often have similar difficulties. Many padi cultivators, especially tenants, do not earn adequate incomes. On the Malayan East Coast and in the Borneo States there are many people who lack adequate access to modern techniques and to credit, markets, storage facilities and transport. Some of these problems also prevail on the Malayan West Coast, especially in rural areas. The government will continue to make every effort to alleviate poverty by providing improved facilities and opportunities for these groups. The resources needed for this effort, if they are not to be extracted at great sacrifice from the rest of the population, can come only from economic growth.

VI.—STRATEGY FOR RAPID GROWTH

18. Rapid development cannot be achieved in the future simply by continuing the traditional pattern of economic growth. The twin pillars of the Malaysian economy, rubber and tin, will remain important for some time to come but they cannot be expected to contribute significantly to income growth, at least over the next five years. Malaysia's natural rubber industry continues to face ever-growing competition from synthetic rubber production in the industrial countries. Because the Malaysian industry has reached a high degree of efficiency it will continue to withstand competition from synthetic rubber more effectively than natural rubber industries in other countries. By progressively reducing its costs of production it will be able to remain viable as prices decline. But it will not be able to prevent the fall of rubber prices, which are determined by the supply and demand of rubber on the international market. Even such very rapid output growth as

is anticipated during the next five years will barely suffice to outweigh the effect of falling prices.

19. Malaysia's second largest industry, tin, must also sell at prices which are determined in the world market. Unlike rubber, tin is in short supply and the development of substitutes for it has been relatively slow. Prices are at favourable levels and may rise further, offering windfall profits to many Malaysian producers. The problem with tin is reserve exhaustion. Known deposits are running out and unless prospecting uncovers new deposits, for example in Malay reservations or offshore, production may decline.

20. Thus the two traditional bulwarks of the economy, though still viable and productive, do not have especially bright prospects for future growth of national income and employment. In particular, over the next five-year period export receipts from rubber and tin are unlikely to rise significantly above their 1965 level (*see* Chapter III). Malaysia must therefore seek to develop new patterns of economic activity which will sustain the growth of the economy during this period of relatively unfavourable circumstances for expanding its traditional exports. There are a number of promising opportunities open to the nation to develop new lines of economic activity.

21. Nearly half the goods and services Malaysians have consumed in recent years have been imported from abroad. The need for imported goods will continue to increase in the future as the country's population, income level and degree of modernisation rise. These imports must be paid for in some manner. As exports of tin and rubber will not expand fast enough, other products which will earn the needed foreign exchange must be sought. In addition, Malaysians must produce for themselves more and more of the items which are at present imported.

22. There are several good possibilities for expanding exports which will be exploited under the First Malaysia Plan.

(i) Rubber replanting will continue, especially on smallholdings, and new rubber will be planted, particularly on land development schemes where soils are not suitable for oil palm. Despite the unfavourable aspects of the world rubber outlook, high-yielding rubber still represents the most productive use of millions of acres of Malaysian land. By raising production and productivity at the fastest possible rates the nation can minimise the adverse effects of falling prices.

(ii) Mineral potentials will be further explored. Malayan tin output and the small petroleum production of Sarawak are both declining as known reserves are gradually exhausted. But knowledge of ultimate mineral potentials is still imperfect and vigorous prospecting may disclose substantial new mineral wealth. In several parts of Malaysia

investigations for oil, tin and other mineral deposits are now underway.

- (iii) Oil palm production is becoming an increasingly attractive alternative to rubber. It is being found to be suitable for cultivation on a wider variety of Malaysian soils than was thought possible at first. Techniques are being developed whereby it can be grown by small-holders as well as estates. Production of oil palm products will expand rapidly and make an increasingly important contribution to the national income.
- (iv) There are many other products which offer opportunities for export expansion and diversification. Among agricultural crops there are bananas, sago, tapioca, cashew-nuts, pineapple, citrus fruit, abaca and many others. In addition, Malaysian industrial products will continue to enter the world market in increasing volume. Over the next five years, however, all these prospects are either too small in their impact on total export proceeds or too far away from readiness for large-scale production.

23. The conclusion must be faced, therefore, that over the next five years export growth will be inadequate to finance import needs and maintain overall economic growth, even after allowance is made for export promotion and diversification.

24. Sluggish export growth is not new to the Malaysian economy. Over the last five years, as outlined in Chapter II, exports also rose slowly. The overall economy, however, grew satisfactorily as production for domestic use increased at a rapid pace. Under the First Malaysia Plan emphasis will again be placed on expanding production for the domestic market. Opportunities for such expansion are extremely favourable. The nation produces only a part of the food it consumes, leaving a wide range of possibilities for import substitution. For manufactured products, reliance on foreign sources of supply is even heavier. Despite its small population, Malaysia's relatively high income level gives it an attractive market for a wide range of manufactured goods.

25. Rice is the leading example of a staple food for which reliance on imports is heavy. Improvement in seed varieties and vigorous extension work are gradually increasing padi production. During the next five years, extensive irrigation works, including the vast Kuala Muda and Kemubu schemes, will add greatly to productive capacity. Involving as it does thousands of small-scale cultivators and a host of inter-woven technical, economic and social problems, however, rice production can be raised only gradually. Other food crops, which are produced in smaller quantities, pose similar problems although some, such as sugar, may be developed into

modern industries in a relatively short time. It is to be expected that domestic food production will grow faster than consumption and that the nation will gradually produce a larger and larger share of the food needed for domestic consumption. But radical changes in the present dependence on food imports will take time to effect.

26. During the period of the First Malaysia Plan the best prospects for import replacement lie in the industrial field. The present high levels of consumption of so many manufactured goods make the opportunities for viable domestic production promising. With the establishment of petroleum refineries, breweries, flour and sugar mills, cigarette and cement plants and a number of other factories, the industrialisation of Malaysia is already off to a good start. Acceleration of this recent progress can be expected under the new Plan. More plants will be set up to process domestic and imported raw materials. And the degree of processing will be extended: for instance, from the assembly of imported components industrialists will move on to the manufacture of some and eventually all of the components in Malaysia. Government policy in the industrial field will become increasingly purposeful and co-ordinated. As in the past, responsibility for the manufacturing operations themselves will be left to the private sector. The government's role will be to maintain a favourable investment climate; to provide industrial estates and transport, power and communication facilities; and to grant tax and other inducements (*see* Chapter VIII for details).

VII.—THE IMMEDIATE ECONOMIC PROSPECT

27. This, then, is the core of the economic programme for the next five years: to promote traditional and new export possibilities, stimulate domestic food production and exploit to the fullest extent the excellent possibilities of industrial production catering for the domestic market. If economic growth can be maintained at an adequate rate through continued development of production for the local market and relatively less reliance upon traditional export commodities, a number of benefits will accrue to Malaysians.

28. First, levels of *per capita* income will continue to rise. It must be recognised, however, that living standards will improve only gradually during the next five years unless rubber and tin perform far better than anticipated. But even gradual rises in income levels will accumulate to substantial improvements in a few years' time.

29. Success in the development strategy for the next five years will also mean that there will be employment opportunities for those who attain working age during this period. The development of new export commodities, the expansion of domestic food production and the rise of a modern

industrial sector will all create new jobs. Similarly, employment opportunities in many parts of the service sector, both private and public, will also expand. 30. Finally, the success of the government's economic programme will mean much more than just increased supplies of the physical necessities of life. Opportunities to lead a fuller, better, more satisfying life increase as production and income levels rise. Because the productive capacity of the economy is increasing succeeding generations will be able to enjoy a fuller measure of educational, cultural, social and recreational services. The stakes are especially high for those groups which at present do not receive even the amenities available to the rest of the population. The ability of the government to help them to extricate themselves from their present position inevitably depends on the resources at its disposal.

VIII.—THE FIRST MALAYSIA PLAN, 1966-70

31. The First Malaysia Plan is a blueprint for making these possibilities materialise. It consists of a programme of public investment for the next five years and an outline of the policies which will be followed to help the private sector make its assigned contribution to development.

32. The overall development expenditure target for 1966-70 is \$4,550 million. Of this total about \$3,810 million will be spent on economic and social development, while about \$600 million and \$140 million will be required for defence and internal security respectively. Approximately \$835 million is to be spent on social services, of which education expenditure accounts for nearly \$450 million. However, the bulk of public expenditure, some \$2,775 million, will be allocated to economic services. Of this allocation, well over \$1,000 million will be spent on agriculture and rural development. Substantial sums will also be expended on roads, power, water supplies, communications and other economic services.

33. The Plan will offer substantial benefits to both the rural and the urban populations. Besides the \$1,000 million to be spent on agriculture and rural development projects, which will directly benefit the rural people by raising their productivity and income levels, expenditure in many other areas will also contribute to rural development. Much of the expenditure to be incurred for education, health, transportation and water supplies will be made in the rural areas. Malaysia's urban sector will share in the development of social and economic services which will take place during the Plan period. Additional housing, education, health, transport and power facilities will contribute to making urban life more pleasant and productive.

34. Underlying the expenditure allocations are certain important investment priorities. A fundamental principle of the public investment programme is that first priority will be given to those programmes and projects which

directly raise output and incomes through agricultural and industrial development or upgrade the quality of human resources through education, especially in the agricultural and technical fields. These are the two main themes of the public investment programme: raising incomes through directly productive investment and building towards much greater productivity in the future through education. Improvement of the relatively underdeveloped transport, communications and utilities networks in the Borneo States has also been accorded first priority but other types of projects have had to take a lower position on the priority scale. The Malayan systems of water supply, power, communications and transportation have already achieved a considerable level of development, so substantial further development in these areas under the First Malaysia Plan is not an urgent necessity. In the fields of community services, health, public housing and other social services, while significant progress will continue to be effected, expenditures cannot be so great as would otherwise be desirable or else sizeable amounts of productive investment would have to be omitted from the investment programme. By concentrating on economically productive projects during this Plan period, the government will be able to increase its resources and thus make it possible in the future to provide a level of social services which will be adequate, even by the standards of developed countries.

IX.—THE FINANCING PROBLEM

35. During the period 1961-65, finances were not a limiting factor on public development expenditure since public revenues and accumulated public sector assets were ample to finance all the projects which the rapidly improving administrative system could implement. In the next five years, however, finance will be the principal constraint on the public development expenditure programme. Because of the large and growing number of calls upon public funds, including those arising from defence and internal security, a larger and larger share of public sector resources will be required each year for purposes other than development. As a result, the annual savings of the public sector will finance only a small share of the development expenditure to be incurred under the First Malaysia Plan. To finance the remainder of the public sector programme the government will therefore have to rely more on mobilising the savings of individuals and institutions in Malaysia, utilising the accumulated assets of the public sector and obtaining loans and grants from abroad.

36. The problem of financing development expenditure under the First Malaysia Plan arises partly from the fact that the government's need for recurrent expenditure is rising rapidly from year to year. The growing population requires not only an ever-increasing quantity and variety of

public services but also improvements in the services already offered. With the large number of development projects which were implemented during the past five years, the annual recurrent cost of manning such facilities is mounting. Furthermore, debt charges are also growing, since loans raised to finance projects have to be serviced. External aggression has also imposed increasingly heavy demands upon public funds. All these factors contribute to the financial problem and make it more difficult for the government to undertake new projects.

37. The financing of public investment during the next five years will thus require greater financial exertions than have ever been made before. A determined effort will have to be made to restrain the growth of recurrent expenditure within certain limits. In order to ensure that recurrent expenditures do not increase unnecessarily and to obtain maximum effectiveness from the money spent on public services, the Federal Government has instituted an Economy Drive. It has also undertaken a comprehensive review of the entire system of public administration.

38. While making every effort to hold the growth of current expenditure within reasonable limits, the government must also raise additional revenue from taxes and charges of various kinds. Aside from the growing revenue which will be raised by existing taxes, it will be necessary to enact additional revenue measures during the five-year Plan period to provide a consolidated governments' surplus of about \$200 million. This new revenue, some of which will come from taxes and some from charges levied for public services, is essential if the investment projects contained in the Plan are to be undertaken. The revenue will come out of the added income created by economic growth, leaving the proportion of national income collected by the government no higher in 1970 than it is in 1965. In addition to the revenue raised by the various levels of government, current surpluses of public authorities are expected to yield about \$425 million to help finance development expenditure.

39. Net domestic non-bank borrowing is estimated at \$1,025 million. The current surplus in the public sector and net domestic borrowing will thus help to finance \$1,650 million or 36% of the \$4,550 million of development expenditure proposed. An additional \$1,000 million can be obtained by running down government accumulated assets and by borrowing from the banking system without adversely affecting the financial stability of the economy. The balance of \$1,900 million will, therefore, have to be financed from foreign sources and the Plan aims to raise \$1,000 million in loans and the remaining \$900 million in grants.

40. The amount of foreign loans and grants envisaged is more than three times the amount raised during the period 1961-65. As the financial situation

is viewed at present, the public investment programme described in Chapter IV and Chapters VII-XIV can be undertaken only if these amounts of aid are forthcoming. Since Malaysia is making substantial efforts to raise funds internally, it has a good case for receiving these amounts of foreign assistance.

41. Because of the free enterprise nature of the economy plans for private investment in 1966-70 are inevitably less precise than plans for public investment. The government will do everything in its power to promote private investment, especially investment in the new lines of economic activity mentioned earlier. It is hoped that foreign as well as domestic private capital will participate actively in the continued modernisation of the Malaysian economy. Financing for the private investment undertaken will be provided by domestic private savings, by public funds channelled into the private sector through institutions such as Malaysian Industrial Development Finance Ltd. (MIDFL) and Majlis Amanah Ra'ayat (MARA) and by capital inflows from abroad.

X.—THE MANPOWER PROBLEM

42. Apart from the problem of mobilising financial resources for public and private investment, Malaysian economic and social development faces one other serious constraint which deserves particular mention. This is the serious shortage of trained and skilled manpower which exists in many areas of economic activity and over a wide range of skills. Shortages of technicians and other key personnel have to a certain extent adversely affected the implementation of some development projects. There are not enough Malaysian doctors, teachers, agricultural specialists, engineers, technicians and administrators. The manpower shortage is most acute in Sabah, where many types of skilled and even unskilled manpower are in extremely short supply. Some of Sabah's manpower problems can be solved by encouraging emigration of people with the needed skills from Malaya but Malaysia as a whole badly needs a substantial increase in the number of trained personnel available.

43. Much of the First Malaysia Plan has had to be formulated in the light of these manpower shortages. In several areas, programmes have had to be trimmed to more modest proportions than was at first thought desirable because the personnel required to implement the projects contemplated were not in existence. Training of Malaysians in most of the technical areas in which manpower shortages exist is being stepped up to levels far greater than anything that has been done before. Still, training requires time, especially at the professional level where several years of education may be necessary. The government is making every effort to ascertain the manpower needs of the nation and develop training and educational programmes which

will create the skilled men and women to satisfy these needs. In the meantime, while the required number of Malaysians is being trained, it will be necessary to trim development programmes to meet the manpower constraint, while continuing to rely to some extent on external technical expertise.

XI.—THE LONG-TERM PROSPECT

44. During the period 1966-70 considerable progress will be achieved in solving many of Malaysia's challenging development problems and a start will be made towards overcoming even the most intractable ones. The prospect for the next five years has already been discussed briefly. It is outlined in greater detail in Chapter III. By 1970 Malaysians will be enjoying higher income levels, a higher rate of employment and a wider range of public services than they do at present. Significant progress will have been made in establishing productive industries to minister to the consumption needs of the country. Education will have reached vastly more people and influenced them more profoundly than ever before. Substantial progress will have been made in bringing about a great transformation in the Malaysian economy and society. Full realisation of this transformation, however, will require much more time than five years. For this reason it is also worthwhile to look farther into the future and ask what the long-term prospect is.

45. There are obvious difficulties in setting targets 20 years ahead. It is, however, essential to set goals for the long-term future and the First Malaysia Plan has been formulated as the first phase of a 20-year Perspective Plan which lays out in general terms what must be done if these long-term goals are to be attained. The numerical framework of the Perspective Plan is presented in Chapter III but the basic objectives and the broad development strategy of the Perspective Plan are briefly summarised below.

46. By 1985 it should be possible to bring about a striking transformation of Malaysia's society and economy. Most of the country's current population will see this transformation take place by the time they reach middle age. The following specific goals have been set as targets to be reached by 1985.

(i) *Per capita income growth.*—By 1985 income *per capita* can be raised to a level of \$1,500 or more. When taken in conjunction with the income redistribution goal mentioned below, this rise in incomes would be sufficient to assure every Malaysian a decent, though not luxurious, standard of living.

(ii) *Full employment.*—Another aim is to eliminate completely involuntary and wasteful unemployment and under-employment. To achieve this goal and find employment for all new entrants into the labour force, the creation of about 2.4 million jobs by 1985 will be required.

- (iii) *Income redistribution.*— Without conflicting with the aim of raising the general income level, Malaysia's low-income groups will be brought closer to the general income level, so that economic development will yield the fullest possible human benefits. This will be done primarily by means of policies designed to increase their productive contributions to society. Education and the application of science to agriculture offer two promising opportunities for using public investment to bring about this objective.
- (iv) *Social and community services.*— By 1985 it should be possible to offer the nation social and community services—education, health, housing, etc.—of a high standard. While it is not desirable that provision of these services take up too large a share of public investment, especially early in the 20-year period, it should be possible to provide gradual improvements in these services throughout the period and attain a very high level by the end of the 20 years.
- (v) *Economic infrastructure.*— The basic infrastructure of the economy—transport, communications and utilities—will be developed considerably during the next 20 years. The coverage and quality of these economic services will be greatly improved.
- (vi) *Population and family planning.*— Reduction of the birth rate is an additional goal and one which is closely related to the primary economic objective of raising income levels. If the birth rate remains at its current high level the rate of growth of national output over the next 20 years is likely to be reduced, since a larger share of the increased income provided by economic growth will have to be used to provide consumer goods for the rapidly expanding population and less will remain for investment. Moreover, the increase in *per capita income* which results from output growth will be less than the rise which will take place if a successful family planning programme is implemented. Family planning offers an opportunity to influence the birth rate and sharply accelerate the pace at which levels of welfare rise. If population continues to grow at 3% over the next 20 years the target level of *per capita* income could be no more than about \$1,400 at most. Only if the rate of population growth can gradually be brought down to 2% a year will the target level of \$1,500 or more be reached.

47. Several basic principles of Malaysian development strategy flow directly out of the long-term objectives listed above. The most important of these is the need for economic diversification, which includes both agricultural diversification and industrialisation. Even after 1970, present indications are that receipts from Malaysia's current leading exports will

not even come close to paying for her import needs. During the next five years, although attempts will be made wherever possible to promote the growth of exports, efforts to solve the problem will probably have to rely mainly on import substitution. Over a longer span of time large-scale development of new exports will emerge as a second feasible strategy. Indeed, in the long run import substitution and export promotion will become harmonising policies since new industries which spring up in response to local demand can later expand, if they are efficient, into export markets.

48. A second basic principle of long-range development strategy is the necessity of maintaining and even increasing the present high investment rate of the economy, while raising by as large a degree as possible the domestic savings rate. The problem of investment finance is closely related to the question of balance of payments stability. During the next five years the economy will be investing a larger amount than it will be saving, i.e. there will be excess aggregate demand. Part of this excess demand, which will be reflected in a goods and services deficit in the balance of payments, will be covered by net inflows of transfer payments, long-term loans and investments from abroad. The balance will be financed by drawing down the country's foreign exchange reserves. Since the present level of these reserves is high, a certain amount of reserve draw-down is permissible, especially during the coming five-year period. In the long run, however, there is a limit beyond which the country's foreign exchange reserves cannot be drawn down without adversely affecting the stability of the economy. Over time the economy will not be able to purchase imports in quantities which are appreciably larger than the sum of Malaysian exports plus long-term capital inflow. If the volume of investment needed to reach the growth target is to be made, then the growth of public and private consumption expenditures must be held within limits which are consistent with basic balance of payments stability. If this strategic necessity is not achieved the result will eventually be the exhaustion of the country's foreign exchange reserves. This in turn will necessitate severe import controls, a sharp drop in living standards as imported goods cease to be available and a probable decline in the rate of economic growth. Clearly, this is a state of affairs which must be avoided at all costs.

49. The solution to this problem is to devise policies which promote investment and savings. Some such policies already exist and others will be formulated in the coming years. Individuals, business firms and the public sector must all play a role in this campaign. The government will provide all possible inducements to save and invest and, when necessary, will institute fiscal and other measures to increase savings.

50. Perhaps the most valuable function of a Perspective Plan is that it indicates what must be done in the immediate future if the full benefits of development are to be enjoyed ultimately. The main point is that it is necessary to intensify efforts to diversify the economy and promote savings. This means more than just trying to promote new crops and industries and maintaining balance of payments stability during the First Malaysia Plan period. It means that the foundations of long-run success must be laid now. Three important types of action must be taken; they come under the headings of knowledge, people and institutions.

- (i) All possible information relating to diversification must be collected. The volume of agricultural research must increase; also, if agriculture is to be diversified, agricultural research must be diversified first. The present heavy emphasis on rubber must be altered, preferably by increasing the amount of work done on other crops while continuing to devote as much effort as at present to rubber. In the industrial field, similar additions to the stock of knowledge are needed; market surveys, resource studies and increased understanding of the general operation of the economy are important in this area.
- (ii) Aside from the building up of knowledge, another necessity is to train people to work effectively in those fields into which the economy is likely to be moving.
- (iii) And thirdly, institutions which will be needed to implement the long-run development strategy should be set up as soon as possible. These include laws and organisations to promote agricultural research and training, undertake industrial research, encourage local and foreign investment and devise a rational tariff structure. Many of these institutions are already in existence or in the planning stage but the effort to provide the best possible institutional framework for development is a continuing one.

51. With the general Perspective Plan as a guide, the First Malaysia Plan has been designed to include as many projects as possible that will build Malaysia's knowledge, people and institutions into a sound base for dynamic long-term economic and social development.