CHAPTER III

The Context and Framework of the First Malaysia Plan

I—THE PROSPECTIVE ECONOMIC SETTING, 1966-70

103. The pace at which the economy develops during the period of the First Malaysia Plan will depend partly on the success of the Plan in achieving its aims and partly upon a number of historical, natural and political factors which are not within the immediate control of development policy. Some of these factors, such as the economy's natural resource base, are given and unalterable. Others, which are of a political nature, can be altered but only by means other than an economic and social development plan. Still others, like population growth and the level of Malaysian exports, can be changed through vigorous execution of sound development policies but only over a considerable period of time; for the next five years they are essentially predetermined. What the government can and will do under the First Malaysia Plan is to create the most favourable environment possible for accelerated development by doing all it can to stimulate investment and encourage the best possible use of Malaysia's human and natural resources.

104. The magnitude of the problems of population growth and the slow rate of expansion in the value of exports with which the First Malaysia Plan has to contend and which it will attempt to alleviate is discussed in the following paragraphs.

POPULATION AND LABOUR FORCE

105. The rapid growth of Malaysia's population in recent years is likely to continue at approximately its present rate during the period of the First Malaysia Plan. In Malaya both birth and death rates have been falling since the mid-1950s. While the rate of natural increase has declined from 3.5% ten years ago to 3.0% at present, it remains one of the highest in the world. Malaysians are beginning to limit the size of their families so as to make better provision for their health and welfare. At the same time, rising income levels and improved public health standards have cut the nation's death rate to a figure which is comparable with death rates in most developed countries. Death rates are so low that they are unlikely to fall further. Thus

as the idea of family planning gains popularity and birth rates slowly decline the rate of natural increase will gradually decrease. By 1970 it should have fallen from the present 3.0% to 2.8% or 2.9%.

106. Population data for the Borneo States are still unreliable, so it is difficult to indicate what trends may be expected. Rates of natural increase have apparently been about 2.5-2.7% in Sabah in recent years and perhaps somewhat less in Sarawak. In recent years health services have been improving in the Borneo States and this is leading to falling death rates and accelerated natural population growth.

107. During the period 1957-62 a considerable volume of net immigration added to the growth of population in Malaya and Sabah. In 1963 and 1964, however, net emigration seems to have developed, with the result that Malaysia's overall rate of population growth apparently dropped below 3% in 1964. Although it is a difficult factor to gauge, international migration is unlikely to be a major element in Malaysian population growth during the next five years. The main source of population growth will probably be natural increase represented by an excess of births over deaths.

108. Taking all these factors into account, it appears that the population of Malaysia will grow at about 3% per annum during the next five years. If net emigration continues or if birth rates in Malaya fall even a little more rapidly than is anticipated, population might grow at slightly less than 3%, say 2.8% or 2.9%. At a growth rate of 3.0%, the population will increase by one and a half million from 9.4 million in 1965 to 10.9 million by mid-1970. Such rapid population growth will present a serious challenge to the effort to provide rising income levels and improved public services.

TABLE 3-1

MALAYSIA: POPULATION AND LABOUR FORCE, 1965 AND 1970

(thousands)

	1965	*1970*	*Annual growth rate (%)*
Population			
Malaya	8,052	9,334	3.0
Sabah	520	613	3.3
Sarawak	839	963	2.8
MALAYSIA	9,411	10,910	3.0
Labour force			
Malaya	2,678	3,055	2.7
Sabah	214	250	3.2
Sarawak	334	382	2.7
MALAYSIA	3,226	3,687	2.7

109. As Malaysia's population is relatively youthful and is receiving more and more years of education, the number of persons seeking employment will not grow quite so rapidly in 1966-70 as total population. Nevertheless, there will be some 460,000 potential workers added to the labour force during the period of the Plan. The labour force will rise from 3.2 million in 1965 to about 3.7 million by 1970. National economic development will thus be needed to ensure that work is available for all these new additions to the nation's manpower supply.

EXPORT FORECASTS

110. Malaysia's present wealth is very largely due to the growth of its exports, particularly exports of the two commodities of which the country is the world's leading producer: natural rubber and tin. The development of efficient modern industries to produce these two commodities and sell them on the world market has significantly contributed to making the average level of income in Malaysia today two to three times as high as the level in most other Asian countries. It is thus important to note the implications of the fact that combined export earnings from tin and rubber are unlikely to rise during the next five years. Along with the rapid population growth just discussed, this problem poses one of the most serious threats to further growth in income *per capita*.

111. Malaysia has the world's most efficient natural rubber industry. Because of the success of the government's replanting programme the industry in Malaya in particular is far better equipped to withstand the pressures of competition from synthetic rubber than are natural rubber industries in other countries. Still, it is necessary to face the fact that synthetic rubber technology will continue to be improved and production of synthetic rubber will rise, depressing the price of natural rubber on the world market. It is estimated that the average export price of Malaysian rubber will fall from nearly 70 cts per lb in 1965 to about 55 cts by 1970. During the same period, Malaysian production will rise rapidly as more and more replanted acreage comes into bearing. By 1970 production should be over a million and a quarter tons, compared with 913,000 tons in 1965. The decline in the world price, however, will mean that Malaysian exporters will earn only $130 million more on this greatly increased volume. On the average, a one-cent fall in the world rubber price during the First Malaysia Plan period will cost Malaysia $25 million a year in export receipts.

112. The problem of the tin industry is quite a different one. Tin prices are favourable at present and are expected to remain at or above their present level over the next few years. By raising their output and taking full advantage of these favourable prices. Malaysian producers have been able to enjoy an outstanding year in 1965. However, known tin reserves are

reach the end of their pioneer relief periods, they will provide a total of about 14,500 jobs.

362. The contribution of pioneer firms to net output and employment in the whole Malayan manufacturing sector is still quite small. The 1963 census of manufacturing industries indicates that pioneer firms accounted for only 9% of manufacturing establishments, 17% of net output and 8% of paid employees in the manufacturing sector. However, for pioneer firms the five-fold increase in the number of establishments between 1959 and 1963 and the rise in the value of net output by 18 times during the same period were much higher than the corresponding increases for the entire manufacturing sector. These results attest to the significant role which pioneer industry concessions have played in industrial progress.

363. In the field of industrial site development, Malaya's first industrial estate at Petaling Jaya in Selangor, covering about 730 acres, is now a thriving success. Virtually all sites are earmarked although not all are fully developed. Six additional estates were established in Malaya in the last five years: at Tampoi (143 acres) and Larkin (154 acres) in Johore Bahru, Tasek (370 acres) in Ipoh, Mak Mandin (320 acres) near Butterworth, Senawang (400 acres) near Seremban and Tupai (105 acres) in Taiping. Two more estates at Batu Tiga (695 acres) near Klang and Kamunting (600 acres) near Taiping are under construction. Apart from the Tupai estate, which will cater mainly for light industries, all other estates will cater for both heavy and light industries.

364. In addition to assistance provided by the government, financial institutions in the private sector have also played their part in stimulating manufacturing development. In Malaya, loans and advances by commercial banks for manufacturing concerns have increased from $53 million at the end of 1960 to $150 million at the end of 1964. There has also been a considerable expansion in the amount of credit extended by Malaysian Industrial Development Finance Limited (MIDFL). Its commitments at the end of the third quarter of 1965 were in the order of $44 million. Assistance was given to the development of both light and heavy industries, especially to enterprises contributing to import substitution and export expansion. The wide range of industries assisted includes those producing furniture, flour, pharmaceuticals, cosmetics, stationery, stout, plastic articles, tanned leather, electric lamp bulbs, domestic electric appliances, rubber products, veneer, plywood, coir, cement concrete blocks, window glass, asbestos, cement and building products and iron and steel. The provision of assistance for the manufacture of veneer, plywood and coir, is resulting not only in the development of export earning industries but is also generating additional value-added to raw materials which otherwise would

be shipped abroad in an unworked state. In the case of the assistance provided to a new cement plant, the additional production capacity created has brought overall capacity in the industry to a level sufficient to meet all foreseeable domestic demand. As a result of the encouragement given to the establishment of a plant for the manufacture of concrete blocks, a special kind of block hitherto not used in Malaysia will be produced. This will substantially reduce building and construction costs.

365. The magnitude of assistance given by MIDFL was made possible by its re-organisation in 1963, which paved the way for an increase in share capital from $17.5 million to $25.0 million, a loan of $24.5 million from the World Bank, an interest-free long-term loan of $37.5 million from the Federal Government and a strengthening of the management and staff organisation of the company.

III.—PROGRESS IN THE CONSTRUCTION SECTOR

366. In the field of building and construction, the increase of activity in Malaysia during the period 1961-65 was spectacular. This was brought about by rapid growth in capital expenditure on dwellings, office buildings, schools and other construction projects. The most rapid growth took place in the public sector, where capital expenditure trebled during the period.

367. The capacity of the Malayan construction industry was increased significantly during 1961-65. The industry increased its share of gross domestic product, in terms of 1960 constant prices, from 3% in 1960 to 5% in 1965. It was Malaya's fastest growing industry during that period, with an annual rate of growth of about 18%. This rapid growth was facilitated by a substantial expansion of loans and advances by commercial banks, which trebled between 1960 and 1964. A significant feature of the Malayan construction industry prior to 1960 was its low degree of mechanisation. However, during the 1961-65 period it was able to rapidly modernise and expand in response to the demand for construction activity generated by the public development programme and the upsurge of private investment, particularly non-residential construction.

IV.—PROGRESS IN THE MINING SECTOR

368. Output in the mining sector increased by about 20% between 1960 and 1965. The principal mineral commodity in value terms is Malayan tin, for which output increased from 52,000 tons in 1960 to about 62,000 tons in 1965. The 1965 level is about equal to that which prevailed before restrictions were imposed by the International Tin Council in 1958/59 in an attempt to contain the price decline which was taking place at that time. Next in importance is Malayan iron ore, the output of which expanded from 5.6

rice mills in suitable areas; and improvement and extension of schemes for the processing of rubber, copra, coffee and pineapple.

345. A sum of $4 million will be provided to the Credit Corporation, agricultural, livestock and fisheries marketing organizations and co-operative societies in Sabah. The Credit Corporation makes loans to smallholders for the purchase of equipment for processing rubber, coconut, oil palm, cocoa, abaca and other crops. Loans are also made to rubber smallholders to tide them over the period when their trees are immature.

346. An amount of $13.5 million will also be set aside for the Sarawak Development Finance Corporation, the Co-operative Central Bank and other co-operative organisations. These institutions will provide credit for crop production and marketing schemes, the purchase of low-cost rural houses and the maintenance of rubber and pepper gardens. Schemes will also be organized for the provision of credit to pig farmers, poultry-breeders and fishermen.

AGRICULTURAL MARKETING

347. To co-ordinate the activities of the various organizations, both public and private, which are involved in the marketing of rural produce, the Federal Agricultural Marketing Authority has been established and will commence operations during 1966. An allocation of $3 million has been made for this purpose. The Authority will collaborate with all concerned to promote efficient and effective marketing arrangements. It will initiate appropriate schemes for the efficient marketing of rural produce. Where necessary, these schemes may take the form of marketing boards for particular commodities. This, however, will only be done if other methods of bringing about marketing arrangements which adequately reward rural producers for their productive effort cannot be devised.

348. At present the marketing of the produce of the small farmer and fisherman is beset with a host of market imperfections which arise, *inter alia*, from his limited bargaining power, lack of market information, lack of grades and standards, middlemen monopsony, cartels and price-fixing. As a result, small farmers and fishermen are open to exploitation and generally obtain a return which is incommensurate with their productive efforts. It will be the object of FAMA to intervene in markets where such operations prevail to rationalise, discipline and build them up so that they will serve the general welfare better and stimulate productive expansion more effectively.

EMERGENCY CONTRACT PERSONNEL SERVICES

349. As has been stressed previously, the principal bottleneck to the implementation of all agricultural development programmes will be the lack

of qualified local personnel to undertake them. While major emphasis will be given to agricultural education and training to produce vast increases in the quantity and quality of local agricultural researchers, educationists and extension workers, the results of this effort will not begin to appear before the next decade. In the meantime, the initiation of this effort itself, as well as the implementation of the research and operational programmes of the government, will depend for their success on the necessary skills being obtained from outside the country. It is hoped that a substantial part of the country's needs will be met through external technical assistance arrangements. The government intends to obtain the remainder through contractual arrangements. For all these purposes, a sum of $5.0 million has been allocated.

VII.—ALLOCATIONS FOR AGRICULTURAL DEVELOPMENT

350. The allocation for agricultural development amounts to $1,086.6 million, as shown in Table 7-4.

TABLE 7-4

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE FOR AGRICULTURAL DEVELOPMENT, 1966-70

($ millions)

	Malaya	*Sabah*	*Sarawak*	*Malaysia*
Agriculture	166.5	11.7	89.3	267.5
Research	*17.0*	*4.5*	*1.7*	*23.2*
Education	*10.0**	*0.8*	*4.9*	*15.7*
Extension	*10.6*	*0.4*	*1.5*	*12.5*
Rubber replanting grants	*93.9*	*5.3*	*61.0*	*160.2*
Other crop subsidies	*35.0*	*0.7*	*20.2*	*55.9*
Animal Husbandry	28.0	2.1	3.7	33.8
Fisheries	17.0	1.3	4.0	22.3
Forestry	10.0	1.1	1.3	12.4
Drainage and Irrigation	319.2	7.0	6.5	332.7
Land Development	335.0	27.8	13.1	375.9
Rural Credit and Marketing	19.5	4.0	13.5	37.0
Emergency Contract Personnel Services ...	5.0	—	—	5.0
TOTAL ...	900.2	55.0	131.4	1,086.6

* The allocations for the expansion of the present College of Agriculture, the establishment of a second agriculture college in Malaya and the expansion of the Faculty of Agriculture, University of Malaya appear in the allocations for the overall Education sector (Chapter XI).

351. External financial and technical assistance will be required for the implementation of the agricultural education and research programmes. With regard to the land development programme, it is hoped that assistance will be provided by the World Bank for the Jengka Triangle project. External technical and financial assistance will also be sought for other land development schemes to be commenced during the period 1966-70. In the field of drainage and irrigation projects, a loan has been approved by the World Bank for the Muda River project, while a request has been entered for the Kemubu project. In addition, assistance is being sought to help meet the plant and equipment requirements of the Federal and State Departments of Drainage and Irrigation.