

Pursuing Balanced Regional Development





Introduction

Regional development aims to reduce imbalances through better spread of socioeconomic benefits among regions and across all states to promote equitable growth and increase the wellbeing of the *rakyat*. Despite efforts to reduce regional imbalances, disparities between and within states and region remain, while urban and rural divide persists. Hence, in the remaining Plan period, 2018-2020, efforts will be undertaken to reduce development gaps between urban and rural areas. Among others, the efforts will include increasing accessibility and connectivity as well as improving basic infrastructure and amenities to generate more economic activities in the less developed areas. Interstate collaboration will also be enhanced to spur economic growth, particularly in bordering areas within the region through better utilisation of resources. Major cities and growth centres in rural areas will be leveraged to accelerate economic growth towards balanced regional development.

In addition to balance regional development within national boundaries, subregional cooperation with neighbouring countries will also be intensified through the ASEAN subregional cooperation¹. The socioeconomic development of less developed areas will be accelerated along international boundaries. This cooperation will promote synergy by optimising the underlying complementarities and comparative advantages among neighbouring countries.



¹ ASEAN subregional cooperation includes the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), Malaysia-Thailand Committee on the Joint Development Strategy for Border Areas (JDS) and Malaysia-Singapore Joint Ministerial Committee for Iskandar Malaysia (JMCIM).

New Priorities and Emphases, 2018-2020

Efforts in addressing regional imbalances will be intensified to narrow the socioeconomic development gap between regions and states to spur economic activities and uplift the wellbeing of the *rakyat*. In addressing regional imbalances, states are clustered based on geographical boundaries as follows:

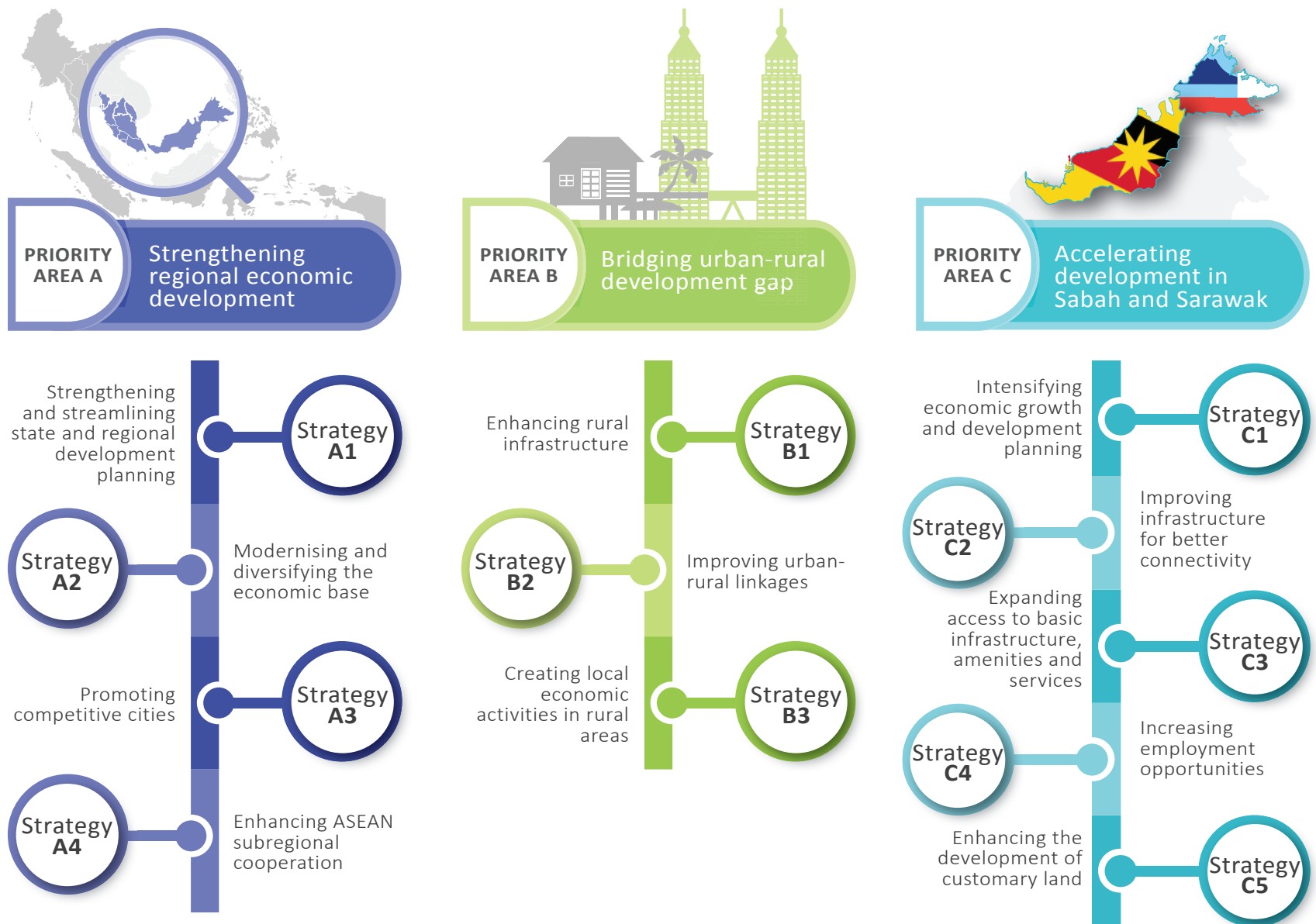




In achieving inclusive growth, measures will be undertaken to reduce development gaps between urban and rural areas. Therefore, the priority areas and strategies towards pursuing balanced regional development are as shown in *Exhibit 12-1*.

Exhibit 12-1

Pursuing Balanced Regional Development



Selected Targets, 2020

Strengthening regional economic development



Integrated regional development framework study



City Competitiveness Master Plan Study

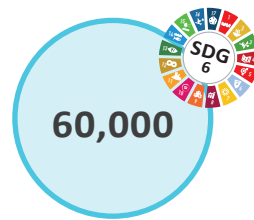
Bridging urban-rural development gap



Urban-rural income disparity ratio



Construction of paved roads



Additional houses supplied with clean and treated water



Additional houses supplied with electricity



New towers
Telecommunication towers in rural areas nationwide



Upgraded towers

Accelerating development in Sabah and Sarawak



Coverage of electricity supply



New towers



Upgraded towers

Telecommunication towers



Sabah



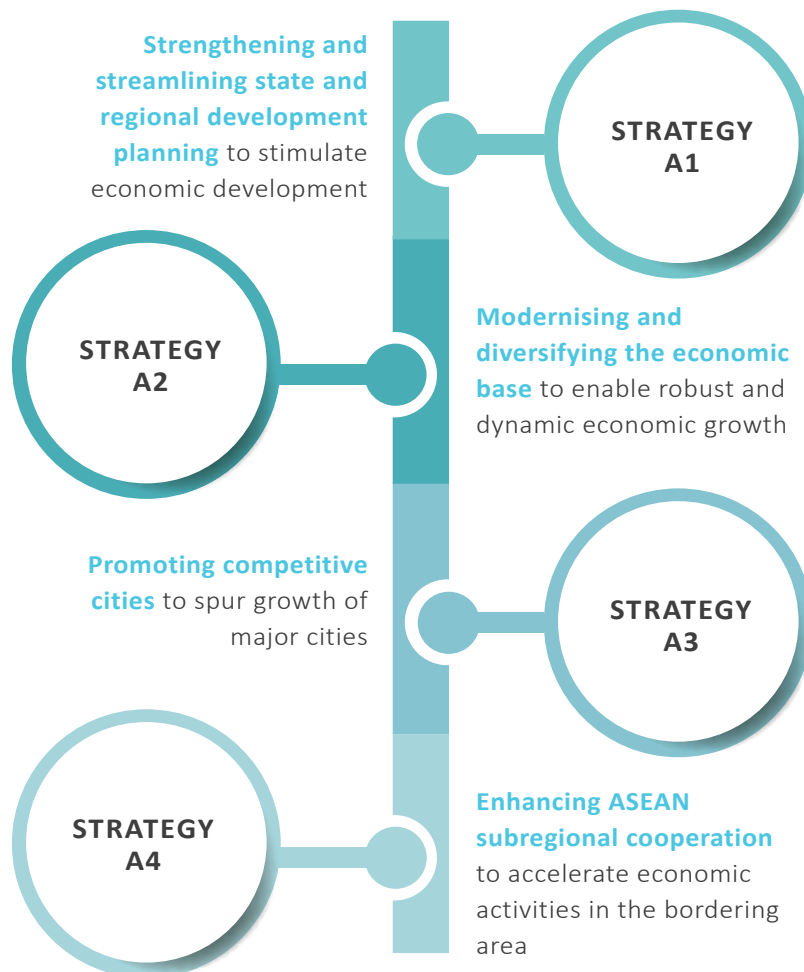
Sarawak

Mapping of Native Customary Rights (NCR) land



Priority Area A: Strengthening Regional Economic Development

Socioeconomic disparities among regions, as illustrated in *Box 12-1*, will be addressed in the remaining Plan period to achieve balanced regional development for the benefit of the *rakyat*. In this regard, efforts will be intensified to accelerate economic growth and address inter- and intra-regional imbalances. Four strategies identified to support this priority area are as follows:



Box 12-1

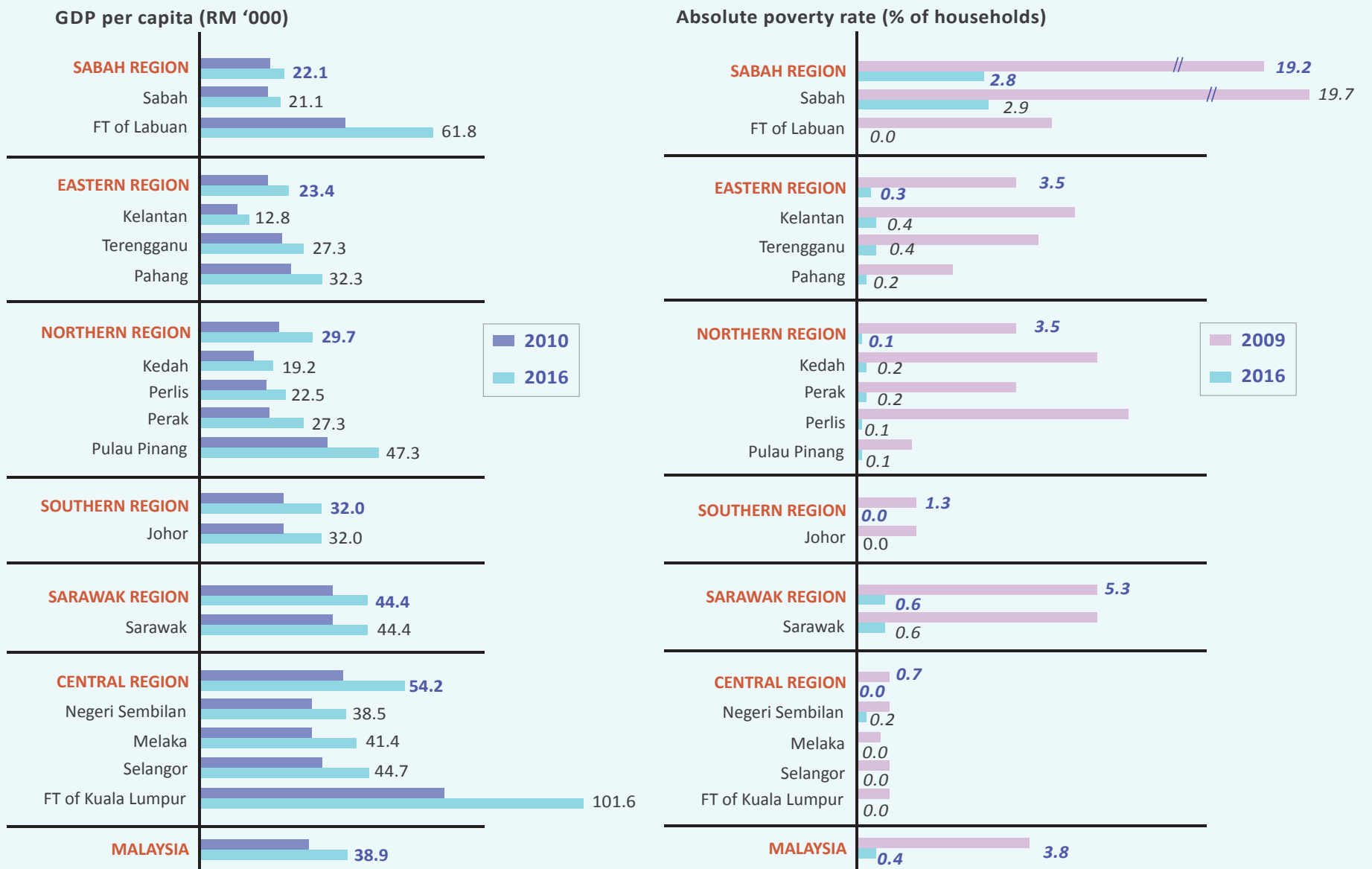
Socioeconomic Disparities among Regions

Socioeconomic disparities among regions and states as shown in *Graph A* continue to exist despite various efforts undertaken to narrow regional development gap. The uneven progress in Sabah, Eastern and Northern regions was illustrated by the relatively low gross domestic product (GDP) per capita as compared to the national average of RM38,915 in 2016. Sabah region recorded the lowest GDP per capita at RM22,098, the Eastern region at RM23,392 and the Northern region at RM29,725 in 2016. Moreover, higher poverty incidences in the Sabah and Sarawak regions also illustrate the socioeconomic imbalances. Although the absolute poverty rate in Sabah fell significantly from 19.7% in 2009 to 2.9% in 2016, it was still higher than the national average of 0.4%. At district level, there were even incidences of double-digit poverty rate in Sabah, such as in Tongod at 14.6% and Beluran at 12.1%.

As Malaysia strives to be an inclusive nation, balanced and sustainable development need to be promoted across regions. Based on regional contribution to the national economic growth as shown in *Graph B*, the growth rates of Sabah, Central and Southern regions were higher than that of national average of 5.1% for the 2016-2017 period. The Sabah region has shown a significant improvement in GDP growth from 4.2% in the Tenth Plan to 6.4% during the 2016-2017 period. Despite establishing regional economic corridors to boost economic activities, the Sarawak, Eastern and Northern regions recorded lower growth than the national average during the period of 2016-2017. These regions, which relied more on industrial commodities particularly oil palm and rubber, were affected by the El-Nino phenomenon in 2016.

Graph A

GDP per Capita, 2010 & 2016 and Absolute Poverty Rate by State, 2009 & 2016



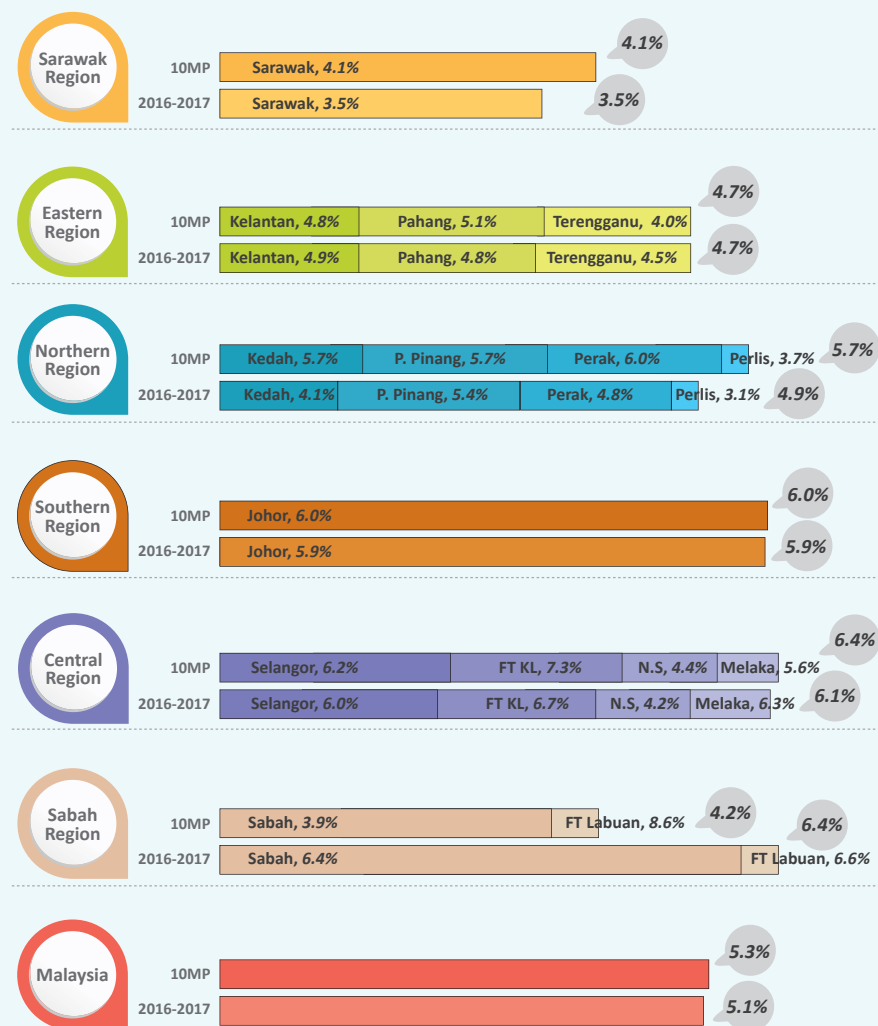
Source: Department of Statistics Malaysia



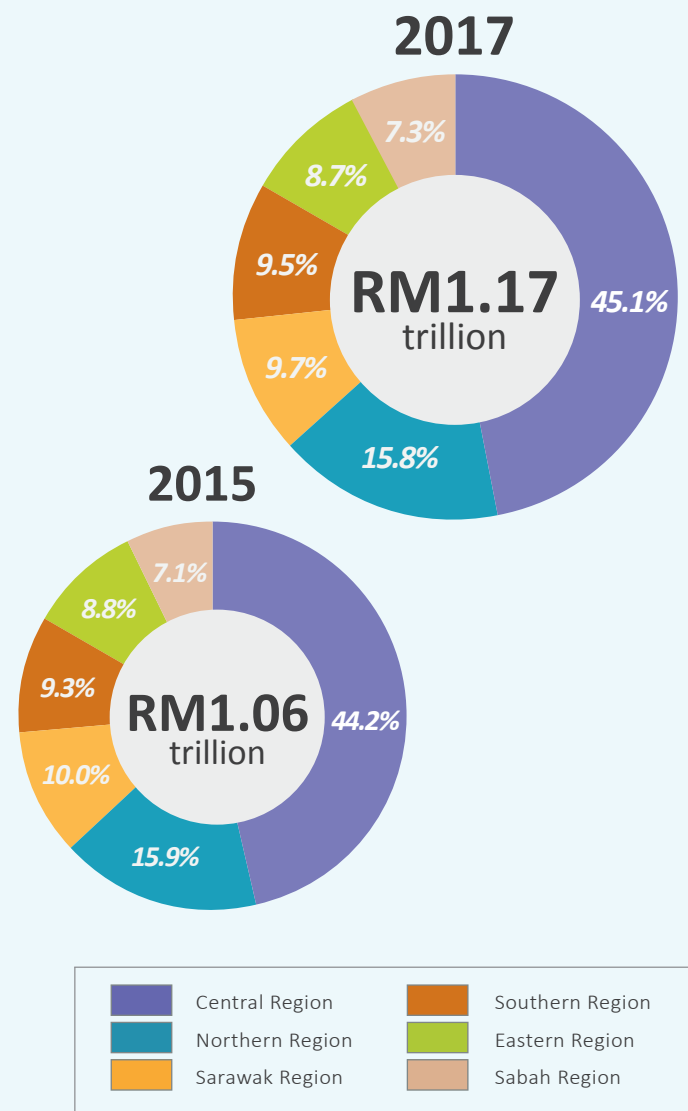
Graph B

Regional Contribution to National Economic Growth, 2015-2017

Growth to GDP by region, % p.a.
(in 2010 prices)



Share to GDP by region
(in 2010 prices)



Source: Department of Statistics Malaysia

The Central region continues to contribute the highest share of GDP, followed by the Northern, Sarawak, Southern, Eastern and Sabah regions as shown in *Graph B*. Although few regions such as the Southern and Sabah regions recorded higher growth in GDP, the growth was insufficient to keep pace with that of the Central and Northern regions.

Income disparity between the regions remains a concern despite the continuous increase in the national median monthly household income at RM5,228 in 2016. The Central and Southern regions continued to record notable achievement at RM6,616 and RM5,652 respectively. The Eastern region recorded the smallest median monthly household income at RM3,917, where Kelantan registered the lowest among states at RM3,079. Kedah in the Northern region was the second lowest, at RM3,811.

The regional disparity remains a challenge despite various efforts undertaken to reduce the imbalances. Thus, comprehensive regional development strategies to focus on narrowing the gap are crucial, particularly for less developed regions. Effective implementation of the specific measures to address socioeconomic disparities among regions is vital to attain balanced regional development.

Strategy A1: Strengthening and Streamlining State and Regional Development Planning

The lack of coordination in socioeconomic planning at various levels poses challenges in implementing integrated and sustainable regional development. Hence, greater efforts are needed to streamline development planning at the national, regional and state levels. In the remaining Plan period, regional and interstate collaborations will be strengthened to build synergies in promoting balanced growth. Meanwhile, state government agencies will have to play a bigger role in fostering economic development in the states. In this regard, several initiatives will be undertaken to provide an integrated regional development framework, ensure better allocation of development expenditure to less developed states, enhance the role of state economic development corporations (SEDCs) and promote interstate coordination in infrastructure provision.

Providing an integrated regional development framework

Development planning will capitalise on the strengths and resources within each region to harness growth potential in niche areas. Simultaneously, the strength between regions will be leveraged to complement and create synergies for further development. New sources of growth within the industry clusters will also be explored to further stimulate economic development in the regions. In this regard, a study on integrated regional development framework will be undertaken to streamline policies, master plans and strategies with the national spatial planning. This framework will also ensure better inter- and intra-states coordination in development planning and implementation.

Ensuring better allocation of development expenditure to less developed states

Allocation of Federal Government development expenditure will be better distributed where priority will be given to the six less developed states during the remaining Plan period. These states are Sabah, Sarawak, Kelantan, Terengganu, Kedah and Perlis. This is to ensure a more balanced growth between states.



Enhancing the role of state economic development corporations

SEDCs have an important role in state economic development. In this regard, the role of SEDCs will be further enhanced to facilitate economic activities at the state and regional levels. The introduction of *Program Transformasi Perbadanan Kemajuan Ekonomi Negeri* in 2017 will enable the reform of SEDCs in strengthening corporate governance and implementing sustainable business models. This will enhance the viability and competitiveness of the SEDCs in the long term. In addition, SEDCs will collaborate with other relevant regional government agencies and private sector in a more coordinated and integrated manner to spur regional growth. Such collaboration will contribute towards equitable growth, investment and employment opportunities, particularly in the less developed regions.

Promoting interstate coordination in infrastructure provision

Greater connectivity and provision of better infrastructure will enhance the movement of people, goods and services as well as improve quality of life. In this regard, coordination and cooperation in interstate projects will be strengthened to enhance regional networks in facilitating economic activities. In this regard, a high level committee will be established to enhance Federal-state planning coordination. Interstate projects such as roads, utilities and flood mitigation infrastructure, require close coordination among states to ensure optimal utilisation of resources as well as foster economic activities in the regions.

Strategy A2: Modernising and Diversifying the Economic Base

Regional competitiveness and ability to attract investors are affected by lack of a supporting ecosystem to promote and sustain economic activities based on specialisation and cluster of each region. In addition, inadequate skills set and education attainment of the locals have resulted in low participation in high value-added and

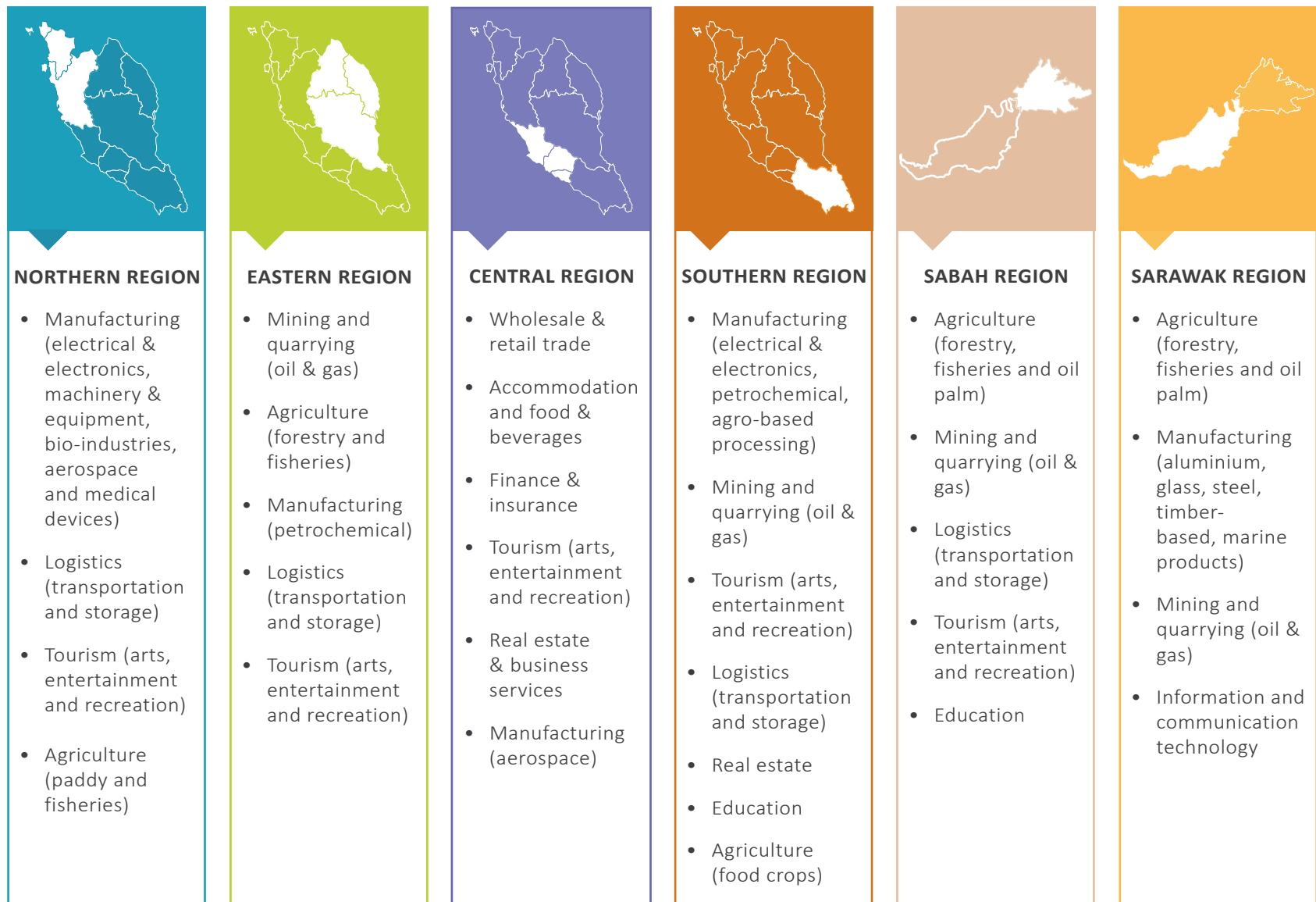
knowledge intensive industries. As such, more efforts to strengthen the ecosystem will be undertaken to promote high value-added activities that enable technology transfer and promote innovation. Efforts will also be intensified to promote specific economic activities that leverage the resources available in the regions. Hence, in the remaining Plan period, initiatives will be implemented to strengthen the ecosystem for economic activities, focus on niche cluster activities as well as intensify skills and human capital development.

Strengthening the ecosystem for economic activities

Efforts will be intensified to strengthen the ecosystem and elevate the entire value chain of economic clusters. These include enhancing human capital development, improving infrastructure, utilities and logistics facilities as well as enhancing the supply chain network. The provision of good infrastructure and utilities, including improving broadband coverage, will ensure better connectivity and increase economic growth. Meanwhile, efficient logistics services are crucial to enable speedy movement of goods and resources. Strengthening the supply chain network will also include efforts to increase linkages between investors and local suppliers, as well as to provide institutional support, particularly investment facilitation. In addition, measures will be intensified to attract quality investment, focusing on high value-added, advanced technology, knowledge intensive and innovation based industries. A strong ecosystem will stimulate growth and enhance economic competitiveness.

Focusing on niche cluster activities

Efforts will be encouraged to attract more investment, particularly for high impact programmes and projects in the identified niche cluster activities, based on the six regional competitive advantages. In addition, collaboration will be intensified to create synergies and raise mutual economic benefit between states and among regions. The states will need to adopt a region-centric approach to complement and leverage the strengths, uniqueness and resources available for economic growth. In this regard, each region is encouraged to undertake key focus areas as follows:



Regions will be encouraged to modernise and diversify the economic base to boost high value-added activities and spur higher growth, in particular regions which are highly dependent on agriculture. Efforts to modernise agriculture sector will be intensified including by expanding downstream activities to encourage higher value-added products with the use of modern technology. For instance, the development of the Kedah Rubber City in the Northern region, which focuses on rubber industries

such as specialised latex and rubber products as well as precision engineered rubber products, will enable the production of high value-added products. Meanwhile, the Palm Oil Industrial Cluster (POIC) in Sandakan and Lahad Datu in the Sabah region will be leveraged to boost investment in higher value-added downstream processing activities. These will stimulate socioeconomic activities including the creation of new jobs for locals, reducing regional imbalances.



Intensifying skills and human capital development

Skilled worker is vital to facilitate investment and promote upgrading of economic activities in the regions. The number of skilled workers is very much concentrated in the Central and

Northern regions as illustrated in *Box 12-2*. This reflects imbalances among regions in creating skilled jobs. Therefore, regions will develop targeted strategies to attract investment which will create skilled jobs based on the requirement of the industry.

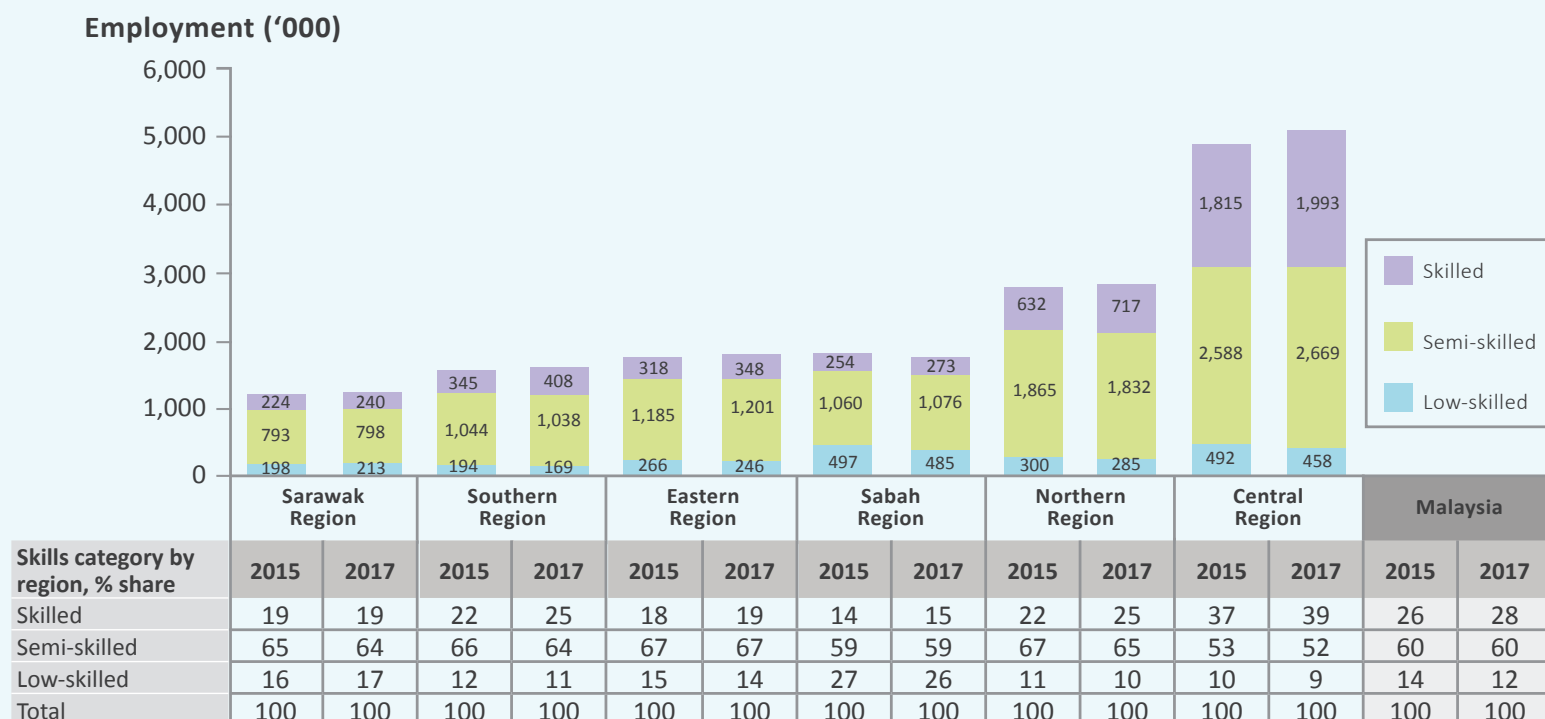
Box 12-2

Employment by Skills Category and Region

The total employment comprising skilled, semi-and low-skilled categories increased in all regions between 2015 and 2017. The share of skilled workers to total employment in all regions showed an improvement in 2017. The Central region recorded the highest share at 39% of workers in the region. However, the share of skilled workers in other regions remained below the national average of 28%. Meanwhile, at national level, the share of semi-skilled workers continues to dominate, accounting for 60% of total employment. The share of semi-skilled workers in four regions exceeded the national average with the Eastern region accounting for 67% of workers in the region, Northern region at 65%, and both Sarawak

and Southern regions at 64%. Conversely, share of semi-skilled workers in the Central region accounted for 52% of workers in the region, while the Sabah region accounted for 59%. As for the low-skilled category, the Sabah region accounted for 26% of workers in the region, followed by Sarawak region at 17%, and Eastern region at 14%. The dependency on low-skilled workers in these regions is reflective of the reliance on labour intensive activities, particularly in the agriculture sector. This underscores the need for all regions to intensify efforts in enhancing skills set and also to attract quality investment which will create higher skilled jobs.

Employment by Skills Category and Region, 2015 and 2017



Source: Department of Statistics Malaysia

Private investment will be leveraged to create skilled jobs and upgrade human capital in less developed regions in line with the measures to modernise and diversify the economic base. In this regard, efforts to meet industry demand include upskilling and reskilling the current workforce through embracing innovation and increasing the use of information technology. These efforts will be implemented through specialised training programmes in collaboration between local training institutions and the industry. The upgrading will enhance competitiveness and accelerate growth across regions in order to promote balanced regional development.

Strategy A3: Promoting Competitive Cities

Rapid urbanisation poses challenges in ensuring all segments of society enjoy greater liveability and quality of life. Despite the vibrant economic growth in cities, low density, lack of affordable housing, inadequate public healthcare services, insufficient connectivity of public transport and traffic congestion continue to affect cities competitiveness. Dynamic urban and rural growth is an indispensable requirement in reducing urban-rural divide and ensuring a balanced regional development. As such, cities are major catalysts in providing opportunities for investment and trade as well as improving the connectivity with rural and suburban areas in the region. In the remaining Plan period, several initiatives will be undertaken to improve the potential of major cities to accelerate regional economic growth, enhance urban competitiveness and accelerate development in identified growth areas.

Improving potential of major cities to accelerate regional economic growth

The global competition for investment and talent continue to increase between cities. Therefore, the Government will continue to leverage on the four major cities identified, namely Federal Territory (FT) of Kuala Lumpur, Johor Bahru, Kuching and Kota Kinabalu to accelerate economic growth. These major cities will be developed to be more vibrant, productive and liveable to attract and retain talent and firms, while at the same time enhance urban-rural linkages and access. Priorities will be given for the implementation of programmes and initiatives identified in the

City Competitiveness Master Plan (CCMP) for the four major cities, by emphasising on key focus areas. These areas, among others, include urban planning and development, provision of public transport and affordable housing as well as improvement in digital connectivity. During the remaining Plan period, CCMP studies for the cities of Georgetown and Kuantan will be undertaken.

Enhancing urban competitiveness for better living and connectivity

Cities are focal points of population and economic growth, which necessitates an efficient urban service that meets the expectations of the *rakyat*. Efforts will be intensified to overcome issues such as increasing urban sprawl, poor urban mobility and connectivity as well as high dependency on private vehicles and traffic congestion. This includes improvements in the city planning guidelines, which will focus on optimising resources. In addition, focus will be given to enhance the liveability and inclusiveness among city dwellers, particularly the bottom 40% income group (B40) households by uplifting the quality of life. In this regard, city dwellers will be able to have better access to economic opportunities, efficient public transport, affordable housing, improved health facilities and services as well as more green and open spaces. The Government will continue to focus on improving urban services through the development of Urban Transformation Centres (UTCs) to provide centralised government and private sector services to urban communities. Three new UTCs will be launched in Pulau Pinang, Bintulu in Sarawak and Sandakan in Sabah.

Accelerating development in identified growth areas

Apart from the major cities, efforts will also focus on accelerating development in identified growth areas, which include conurbations², promoted development zones (PDZs) and catalyst centres, as shown in *Exhibit 12-2*. These growth areas will be the catalyst hubs for economic growth by providing selected business and employment opportunities in the respective regions. Under the National Physical Plan 3 (NPP3), six conurbations, 17 PDZs and 48 catalyst centres will be further leveraged to create investment opportunities to spur the urban economy. The development of the identified growth areas will contribute to balanced regional development.

² Conurbation refers to economic urban growth area encompassing cities, major urban areas and physically connected urban areas, having economic relationship and experiencing population growth to form a continuous developed built-up area.



In Sarawak, focus will be given to accelerate development in specific areas with high economic potential, which are lagging in terms of socioeconomic progress. In addressing regional development imbalances in Sarawak, three subregions have

been identified, namely Highland Area, Upper Rajang Area and Northern Area. Development strategies will be formulated for these subregions to optimise the economic potential and generate employment opportunities for the locals.

Exhibit 12-2

Identified Growth Areas

Conurbations	Promoted Development Zones (PDZs)	Catalyst Centres	
<ul style="list-style-type: none"> ○ 4 conurbations in Peninsular Malaysia ○ 1 conurbation in Sabah ○ 1 conurbation in Sarawak 	<ul style="list-style-type: none"> ○ 12 PDZs in Peninsular Malaysia ○ 5 PDZs in Sabah and Labuan ○ 3 subregions in Sarawak 	<ul style="list-style-type: none"> ○ 37 Catalyst Centres in Peninsular Malaysia ○ 11 Catalyst Centres in Sabah 	
<p>Peninsular Malaysia</p> <ol style="list-style-type: none"> 1. National Conurbation (FT of Kuala Lumpur, FT of Putrajaya and part of State of Selangor including districts of Klang, Petaling, Gombak, Hulu Langat, Kuala Langat and Sepang) 2. Southern Conurbation (around Johor Bahru including Iskandar Puteri, Senai, Kulai, Skudai, Pasir Gudang, Tanjung Pelepas, Pontian, Kota Tinggi, Desaru and Pengerang) 3. Northern Conurbation (Pulau Pinang and part of Seberang Perai) 4. Eastern Conurbation (around Kuantan, Pekan and Gambang) <p>Sabah</p> <ol style="list-style-type: none"> 1. Kota Kinabalu Conurbation (around Kota Kinabalu City, Tuaran, Putatan and Papar) <p>Sarawak</p> <ol style="list-style-type: none"> 1. Kuching Conurbation (around Kuching City) 	<p>Peninsular Malaysia</p> <ol style="list-style-type: none"> 1. Padang Besar-Chuping Valley 2. Kangar-Arau-Kuala Perlis 3. Alor Setar-Jitra 4. Sungai Petani 5. Ipoh 6. Lumut-Sitiawan-Seri Manjung 7. Kota Bharu 8. Kuala Terengganu 9. Seremban-Nilai-Port Dickson 10. Historical City of Melaka 11. Royal Town of Bandar Maharani 12. Penggaram-Kluang Town <p>Sabah and Labuan</p> <ol style="list-style-type: none"> 1. Keningau 2. Sandakan 3. Lahad Datu 4. Tawau 5. Labuan <p>Sarawak¹</p> <ol style="list-style-type: none"> 1. Highland Area-Bario and Mulu 2. Upper Rajang Area-Belaga, Bukit Mabong, Murum, Bakun, Kapit, Song and Kanowit 3. Northern Area-Limbang, Lawas and Bakelalan 	<p>Peninsular Malaysia</p> <ol style="list-style-type: none"> 1. Kaki Bukit-Wang Kelian 2. Beseri 3. Pauh Putra 4. Kuah 5. Bukit Kayu Hitam 6. Kulim 7. Parit Buntar 8. Kamunting-Taiping 9. Gerik 10. Lenggong 11. Teluk Intan 12. Tanjung Malim 13. Tumpat 14. Rantau Panjang 15. Tok Bali 16. Jeli 17. Machang 18. Gua Musang 19. Jerteh 20. Kerteh 21. Chukai 22. Jerantut 23. Bandar Tun Abdul Razak (Jengka) 24. Bentong 25. Bandar Muadzam Shah 26. Temerloh-Mentakab 27. Sungai Besar 28. Kuala Selangor 	<ol style="list-style-type: none"> 29. Kuala Kubu Bharu 30. Seri Jempol 31. Gemas 32. Tampin 33. Pulau Sebang 34. Kuala Linggi 35. Sungai Rambai 36. Segamat 37. Mersing <p>Sabah</p> <ol style="list-style-type: none"> 1. Kudat 2. Kota Belud 3. Kota Marudu 4. Ranau 5. Kimanis 6. Beaufort 7. Tenom 8. Sipitang 9. Kota Kinabatangan 10. Tongod 11. Semporna

Notes: ¹The development of subregions of Highland Area, Upper Rajang Area and Northern Area in Sarawak is under the purview of the Regional Corridor Development Authority (Amendment) Ordinance, 2017.

Source: Federal Department of Town and Country Planning (National Physical Plan 3) and Sarawak State Planning Unit

Strategy A4: Enhancing ASEAN Subregional Cooperation

The ASEAN subregional cooperation platforms have not been fully utilised to accelerate and facilitate economic development, particularly in bordering areas. Furthermore, people-to-people connectivity and economic activities to expedite development are still lacking. This presents both challenges and opportunities for the Government, businesses and *rakyat*. In the remaining Plan period, initiatives will be undertaken to accelerate development in the Special Economic Zones (SEZs) as well as enhance connectivity in the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) and Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) subregions.

Accelerating development in Special Economic Zones

Cooperation in the IMT-GT will be enhanced to accelerate development of SEZs in Bukit Kayu Hitam, Kedah with Songkhla, Thailand and the new proposed SEZs in Arun, Tanjung Api-Api and Sei Mangkei, Indonesia. Initiatives undertaken through the IMT-GT will further increase cooperation with the southern Thailand provinces of Songkhla, Narathiwat, Satun and Yala. These initiatives aim to enhance trade activities, improve local businesses and create employment in border areas of Perlis, Kedah, Perak and Kelantan. Efforts will also be undertaken through BIMP-EAGA to enhance the development of border trade, namely the upgrading of Tebedu, Sarawak and Entikong, West Kalimantan border posts into an international gateway.

Enhancing connectivity in the IMT-GT and BIMP-EAGA subregions

Efforts to enhance connectivity in the IMT-GT and BIMP-EAGA subregions will continue to be undertaken to promote mobility and spur economic growth in the less developed states and regions. Nine infrastructure projects were identified as the IMT-GT Physical Connectivity Projects to facilitate bordering trade activities and improve connectivity. These includes the construction of the new

Immigration, Custom, Quarantine and Security Complex in Bukit Kayu Hitam, Kedah, as well as two new bridges, which will enhance connection between Rantau Panjang, Kelantan and Sungai Golok, Narathiwat as well as establish land connection between Pengkalan Kubor, Kelantan and Tak Bai, Narathiwat. In addition, IMT-GT member countries are finalising a memorandum of understanding on air linkages that will enable better connectivity for the subregional areas.

Malaysia will focus on seven BIMP-EAGA Priority Infrastructure Projects to increase trade and connectivity with member countries. Among others, Kota Kinabalu, Sabah has been identified as the subregional aviation hub to cater for the increase in passengers and freight services, while the construction of Mukah Airport in Sarawak is in progress for a seamless air connectivity. Meanwhile, the roll on-roll off ferry service between Sabah and Palawan in the Philippines will be launched to improve sea connectivity, boost tourism and strengthen border trade activities. In addition, the expansion of the Sapangar Bay Container Port in Sabah will also help to boost the logistics industry in the area. In terms of land transport connectivity, the construction of the Pan-Borneo Highway will boost development in Sabah and Sarawak.

Priority Area B: Bridging Urban-Rural Development Gap

Achieving balanced urban-rural development will continue to remain as a priority area in reducing imbalances among regions. Measures will be undertaken to reduce disparities in development between urban and rural areas within the states and regions. Emphasis will also be given to develop rural growth centres by creating income-generating activities to improve urban-rural income disparity from 1:0.57 in 2016 to 1:0.67 in 2020. This will improve urban-rural development gaps and enhance the wellbeing of the *rakyat*. Three strategies to support this priority area are as follows:



Strategy B1: Enhancing Rural Infrastructure

Rural areas cover almost 75% of total land area in Malaysia. Despite rigorous efforts undertaken, access to basic infrastructure such as rural roads, treated water and electricity supply in rural areas is still limited, especially in hinterlands. This is due to higher cost of development owing to difficult terrain, which restricts access to the project sites as well as increases cost of transportation and materials. Nevertheless, investment in the provision of quality rural basic infrastructure, utilities and services is still required to improve accessibility and narrow urban-rural divide. In the remaining Plan period, initiatives will be undertaken to increase the provision of road network, access to water and electricity supply as well as improve digital infrastructure.

Increasing provision of road network

Coverage of rural roads will be expanded to enhance accessibility of rural communities, including Orang Asli, in order to provide wider socioeconomic opportunities. Although most of rural areas are connected by roads, not all are paved and in good condition. Therefore, the construction and upgrading of the remaining 1,458 kilometres of paved roads in rural areas mostly in Sabah and Sarawak will be continued to achieve the targeted 3,000 kilometres in 2020. Nevertheless, due to a huge number of rural roads that need to be upgraded and constructed, implementation timeline will be planned accordingly, taking into account state priorities and government financial position. Meanwhile, the durability and safety of existing rural roads will be ensured through continuous maintenance of rural roads. The provision of rural roads will improve connectivity and mobility of people and goods, thus spurring economic activities within and between regions. This will contribute to narrow the development gap between regions.

Expanding coverage of water supply

Access to clean and treated water supply in rural areas remains a challenge. Compared with other states, which have achieved more than 90% access to clean and treated water supply in 2016, Kelantan recorded the lowest at 67.7%³ followed by Sabah at 79% and Sarawak at 80.4%. In this regard, efforts to improve access to clean and treated water supply will be intensified through the upgrading of existing pipes and reticulation system. Meanwhile, more than 30% of rural households in Kelantan opted for alternative water supply sources, such as water wells, tube wells and gravity feed system. Therefore, alternative water supply sources will be continuously expanded to cater for rural households. This is to ensure that the target of 99% coverage of clean water supply in rural areas is achieved.

Increasing coverage of electricity supply

Access to rural electricity supply continued to be the lowest for Sarawak at 85.4% while Sabah was at 92.4% in 2017. Hence, the focus of rural electrification will be continued with the off-grid generation for remote and isolated areas. The development of

³ The percentage coverage in Kelantan is low because other alternative sources are used although there is accessibility to clean and treated water supply.

alternative systems such as solar hybrid as well as micro and pico hydro will support the off-grid network to enable a wider coverage. The provision of electricity supply to an additional 41,160 houses in rural areas will ensure the target of 99% coverage for rural electrification is achieved. The wider access to rural electricity supply will help to improve urban-rural development gap.

Improving digital infrastructure

Information and communications technology (ICT) will be leveraged as one of the strategic tools for rural community socioeconomic empowerment to bridge development gaps between urban and rural areas. In the remaining Plan period, the digital infrastructure such as 1,000 telecommunication towers will be upgraded and 300 new towers will be constructed to increase coverage and quality of broadband services in rural areas. In addition, telecentre facilities and services will be optimised to empower communities towards digital transformation. These initiatives will bridge development gap on digital economy between urban and rural areas.

Strategy B2: Improving Urban-Rural Linkages

Most rural areas have not maximised the benefits from the surrounding urban centres due to poor urban-rural linkages. This has resulted in high rate of rural to urban migration, which has affected the economic activities, productivity and income of rural community. In this regard, linkages between urban and rural areas will be strengthened to foster greater economic integration and widen services to rural areas. In the remaining Plan period, initiatives will be undertaken to improve connectivity and mobility to strengthen rural economy as well as expand access to basic services.

Improving connectivity and mobility to strengthen rural economy

Public transportation will be improved to provide better connectivity between urban, small towns and rural areas within the states and regions. Additional buses will be provided to ply routes in rural areas to improve connectivity with urban centres. At the same time, community-based public transport systems will be

explored to further improve transport service in rural areas. These efforts will improve efficiency, affordability and safety of public transport services to link rural areas and urban centres.

Expanding access to basic services

The coverage and accessibility to various social facilities and basic amenities will be enhanced in the rural areas through the improvement of basic services such as education, primary healthcare as well as quality and affordable housing. In addition, the one-stop multi-service and business centres in rural areas, namely Rural Transformation Centres (RTCs) and mini RTCs will provide economic opportunities for rural entrepreneurs to promote and market products. The centres will be rebranded, where the functions and locations of RTCs will be reviewed and the role of mini RTCs be enhanced. This will ensure better provision of services for rural communities through the optimisation of space and reduction of overlapping functions between agencies. Furthermore, options to encourage courier service providers to expand services to rural areas will be explored.

Strategy B3: Creating Local Economic Activities in Rural Areas

Private sector participation in terms of investment and championing economic activities in rural areas remains relatively low. In addition, poor capitalisation of ICT for business development and socioeconomic opportunities as well as low education attainment and lack of skills, have positioned rural communities at a disadvantage. In the remaining Plan period, several initiatives will be undertaken to encourage more private investment, promote rural economic activities, widen the implementation of initiatives under the prosperous village concept, embrace digital economy as well as enhance employability.

Encouraging more private investment

Private sector participation in rural areas will be promoted to attract higher value investment as well as undertake corporate social responsibility (CSR) programmes to further develop rural entrepreneurs. In this regard, several private investors have



successfully undertaken business activities with the participation of rural entrepreneurs. Hence, competent anchor companies will be further encouraged to take the lead for the entire value chain, which include providing skills training for the rural entrepreneurs. This will provide jobs and entrepreneurial opportunities for the locals and will benefit the B40 households.

Promoting sustainable rural economic activities

Sustainable rural economic activities such as agro-based industries and ecotourism will be promoted to narrow the income gap. Other activities in manufacturing and agriculture sectors will be intensified through the development of resource-based industries, leveraging the location advantage. Micro entrepreneurs and local small medium enterprises (SMEs) will be supported to undertake businesses in the rural areas. The diversification of economic activities and provision of necessary support will stimulate the economy of the less developed states and narrow development disparities among regions.

Widening the implementation of initiatives under the Prosperous Village of the 21st Century concept

The Prosperous Village of the 21st Century initiative will be strengthened through strategic partnership programmes with private and government subsidiary companies. This initiative aims to establish and assist the business development of 200 village cooperatives by 2020. The implementation of the prosperous village initiative across regions will boost economic growth and reduce income gap particularly among the B40 households. Partnerships in rural development between social enterprises and relevant agencies will be strengthened to develop expertise of the micro entrepreneurs and SMEs in business decision-making, enhance capacity building and promote awareness on product quality. Meanwhile, SMEs in rural areas will be assisted in commercialising innovative products and getting access to financing particularly at the initial business stage. This includes enhancing rural tourism activities such as homestay, ecotourism and agro-tourism to generate additional income and create business opportunities for rural communities.

Embracing digital economy

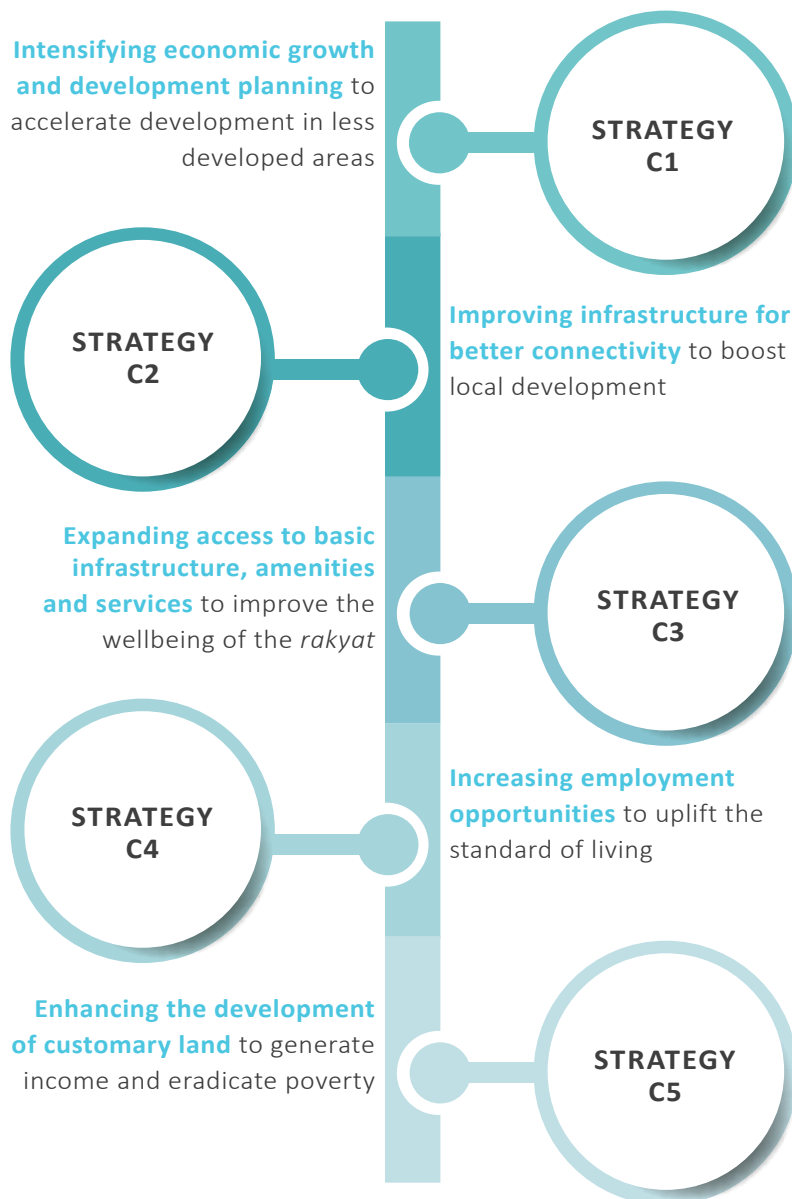
The digital economy will be capitalised for the expansion and sustainability of businesses in rural areas to increase competitiveness and capacity of rural entrepreneurs as well as to narrow the urban-rural digital divide. In this regard, ICT infusion will be increased by expanding digital adoption, utilising cloud services, enabling e-payment, accelerating trade through e-commerce and encouraging the use of fulfilment hubs. In addition, efforts will be undertaken to ensure initiatives in the National e-Commerce Strategic Roadmap (NeSR) are implemented. The NeSR provides end-to-end capability development programmes to effectively promote and encourage businesses, especially SMEs to go online as well as to enable access to a wider market. These initiatives will assist rural entrepreneurs to boost business capacity to overcome the differences of services offered between regions.

Enhancing knowledge and skill for better employability

In enhancing human capital capabilities of the rural communities, efforts will be intensified through knowledge enhancement and skills training to increase employability. Structured training programmes will be further enhanced to develop entrepreneurial and management skills to assist rural entrepreneurs. In addition, training institutions will be equipped with adequate facilities to support skills enhancement of rural youth.

Priority Area C: Accelerating Development in Sabah and Sarawak

Inclusive and equitable development will be strengthened in Sabah and Sarawak regions to benefit the *rakyat*. In this regard, measures will be undertaken to accelerate growth and reduce development gaps with other regions. Economic development will leverage the rich resources and niche areas in both regions. In the remaining Plan period, identified strategies under this priority area are as follows:



Strategy C1: Intensifying Economic Growth and Development Planning

Sabah and Sarawak offer tremendous opportunities for economic growth as both regions will be able to capitalise abundant natural resources. Nevertheless, these resources are yet to be optimised due to the challenging geographical conditions and scattered population. In the remaining Plan period, several initiatives will be undertaken to enhance the role of development agencies in Sabah and Sarawak, develop niche economic sectors, provide fair distribution of petroleum revenue and improve power supply services.

Enhancing the role of development agencies in Sabah and Sarawak

Sabah aims to intensify economic growth and reduce poverty rate with the formulation of the Sabah Long Term Strategic Action Plan (Sabah LEAP), 2016-2035. Through the action plan, various development strategies have been outlined to promote growth of key sectors and improve the quality of life, especially for rural communities. These strategies include enhancing social wellbeing and environmental sustainability to encourage balanced development. Furthermore, efforts will be strengthened to facilitate and encourage investment, particularly to support local entrepreneurs.

In Sarawak, the role of development agencies will be strengthened to spearhead economic development efforts through a comprehensive planning framework to intensify growth. The three newly established development agencies, namely the Highland Development Agency, Upper Rajang Development Agency and Northern Region Development Agency, will accelerate development in the rural areas. These development agencies will harness growth potential and boost rural transformation in the Baram areas⁴ in Sarawak highlands, Kapit Division and Kanowit District in Upper Rajang as well as Limbang Division in northern Sarawak. The focus of development in these areas will be on improving infrastructure including roads, water and broadband connectivity. Leveraging the rich resources in these areas, specific focus clusters, particularly in commercial agriculture and tourism sectors, will be intensified to boost the economic development.

⁴ Baram area includes Marudi, Mulu, Bario, Telang Usan and Long Lama.



Developing niche economic sectors

Leveraging the rich resources that Sabah and Sarawak have to offer in increasing economic potential, niche economic sectors will be further developed. In Sabah, oil palm-based industry remains as the anchor industry, while tourism-related services and agro-based industries have also been identified as significant contributors to the state gross domestic product. In addition, emphasis will be given to enhance safety and security in the east coast of Sabah, to ensure the tourism industry continues to grow. Meanwhile, Sarawak will leverage industrial parks, namely Samalaju Industrial Park in Bintulu and Matadeng Industrial Park in Mukah as well as Tunoh new township in Kapit to attract more investment. Investment in these areas will enable socioeconomic progress of the locals through the creation of more jobs and business opportunities, particularly in the less developed areas.

Providing fair distribution of petroleum revenue

In ensuring the prosperity of the people of Sabah and Sarawak, the Government will provide a fair share of oil and gas revenues in accordance with prevailing laws. At the same time, a special cabinet committee will be established to review and monitor the fair implementation of the Malaysia Agreement 1963. This will enable a transparent and inclusive solution to the two states, particularly to recurring issues in the oil and gas sector.

Improving power supply services

Sabah will be encouraged to establish a holistic power planning strategy, particularly to enhance security of supply, re-evaluate tariff structure and improve quality of service. The strategy aims to create a vibrant electricity industry in the state by ensuring a resilient power grid and financial viability. In this regard, Sabah Electricity Sendirian Berhad (SESB) needs to undertake appropriate reforms, including tariff structure, to become financially sustainable. Meanwhile, efforts will be intensified to address electricity supply deficit in the east coast of Sabah, particularly through the reinforcement of the existing grid. In addition, the Southern Link will be constructed to provide a complete transmission loop within the state grid. The enhanced grid will boost stability and enable surplus generation in the west to be exported to the east coast Sabah.

Strategy C2: Improving Infrastructure for Better Connectivity

Rural and remote areas of Sabah and Sarawak continue to have limited access to basic infrastructure, which is fundamental for development. Hence, living standards have not been improving significantly while business activities have been stunted due to limited connectivity and mobility of people, goods and services. In the remaining Plan period, several initiatives will be implemented to improve road coverage and connectivity. At the same time, to improve state wide connectivity, efforts will be undertaken to increase capacity and efficiency of airports and ports. In addition, other modes of transport will be explored in areas where road connectivity is limited or not possible.

Improving road coverage and connectivity

The coverage and connectivity of roads in linking all major cities, towns and villages in Sabah and Sarawak regions are still inadequate. In this regard, efforts will be intensified to expand road networks including the construction of rural roads and roads to hydro dams as well as the upgrading of former logging roads. Meanwhile, the ongoing construction of Pan Borneo highway will further improve connectivity and mobility across Sabah and Sarawak regions. Improved road connectivity will connect rural settlements as well as spur local economic activities, particularly in commercial farming. This will enhance the socioeconomic status of the *rakyat* as well as reduce the development gaps in the regions.

Increasing the capacity and efficiency of airports and ports

Efforts will be undertaken to increase the capacity and efficiency of airports and ports to enhance inter- and intra-state connectivity as well as increase competitiveness of the states in the regional business environment. In this regard, the construction of a new airport in Mukah will help enhance connectivity and mobility to the coastal areas of Sarawak. In Sabah, the Sapangar Bay Container Port will be expanded to become a transshipment hub in the BIMP-EAGA subregion. The improved capacity and efficiency of airports and ports will reduce travel time and transportation costs, thus further facilitating trade in the regions.

Strategy C3: Expanding Access to Basic Infrastructure, Amenities and Services

The expansion of basic infrastructure such as water and electricity supply as well as access to affordable housing and services including education and healthcare, is vital in accelerating development and enhancing the wellbeing of *rakyat*. Despite rigorous efforts undertaken, access to basic infrastructure and services is still limited due to the challenging geographical conditions and scattered population, especially in rural and remote areas. In the remaining Plan period, several initiatives will be implemented to upgrade access to water and electricity supply, increase broadband coverage and provide better access to affordable housing as well as education and healthcare services.

Upgrading access to water and electricity supply

The coverage of water and electricity supply in Sabah and Sarawak continues to remain relatively lower than other states despite the marginal improvement achieved in 2016. The coverage of water supply in Sabah increased from 87.9% in 2015 to 89.4% in 2016, while the coverage in Sarawak increased from 94.2% in 2015 to 94.5% in 2016. In terms of electricity supply, the coverage in Sabah has improved from 91.7% in 2016 to 92.4% in 2017, while the coverage in Sarawak increased from 83.8% in 2016 to 85.4% in 2017. Therefore, more efforts will be undertaken to enhance the provision of water and electricity supply.

Efforts to improve access to water supply will include encouraging more private companies and non-government organisations to assist in providing clean water through CSR programmes as well as exploring alternative water supply sources in remote areas. Meanwhile, the Sabah and Sarawak electricity supply system will be strengthened through the construction and upgrading of the generation, transmission and distribution networks, thus improving operational flexibility. In addition, utilisation of renewable energy such as solar, micro- and pico-hydro and biomass will be

encouraged, particularly in remote areas. The implementation of these programmes aims to increase coverage of electricity supply to 99% by 2020 in Sabah and Sarawak.

Increasing broadband coverage

Efforts will be continued to improve nationwide broadband coverage and capacity to support economic growth. In 2017, the broadband penetration in Sabah was 64.5 per 100 inhabitants⁵ and Sarawak at 106.5, both recorded lower than the national average of 117.3. This is a result of limited private investment and complicated local authority procedures. In this regard, efforts will be intensified to increase collaboration between Malaysian Communications and Multimedia Commission and state governments as well as local authorities for efficient planning and deployment of broadband infrastructure. In addition, 106 communication towers will be constructed and 400 will be upgraded in Sabah and Sarawak to improve the broadband services. At the same time, participation of the private sector in the development of digital infrastructure will also be encouraged.

Providing better access to affordable housing as well as education and healthcare services

The provision of better access to affordable housing as well as education and healthcare services will continue to be a priority for Sabah and Sarawak. Continuous efforts will be undertaken to provide quality education facilities in order to uplift human capital development. Emphasis will be given to upgrade dilapidated schools based on the needs and requirements. In addition, facilities such as internet access and electricity supply will also be improved in many schools, especially in rural areas, to provide a conducive learning environment.

The provision of affordable housing in Sabah and Sarawak will be part of the 200,000 affordable houses targeted to be constructed during the remaining Plan period. The National Affordable Housing Council will monitor the implementation of this initiative. The Federal Government will continue implementing the existing housing programmes in collaboration with the state governments.

⁵ The rate is calculated by dividing the sum of fixed and mobile-broadband subscriptions by total population and multiplied by 100.



These programmes will take into account the rationalisation of various public affordable housing initiatives and the revision of housing subsidies. In addition, the state governments will be encouraged to expedite the implementation of affordable housing programmes and to ensure private housing developers comply with the affordable housing quota.

In terms of healthcare services, efforts will be undertaken to improve the coverage of primary healthcare such as clinics and rural clinics, as well as upgrade health facilities. Three existing hospitals in Papar, Miri and Lawas will also be upgraded. Healthcare services such as the flying doctor services and mobile clinics will be continued to improve the accessibility to healthcare in the remote areas. Such initiatives will reduce development gaps with other regions in Malaysia and improve the wellbeing of the *rakyat*.

Strategy C4: Increasing Employment Opportunities

The demand for skilled workers continues to increase as economic activities become more complex, particularly with the advent of new technologies. The number of skilled workers with specific skills and expertise remains inadequate, especially in Sabah and Sarawak. In this regard, efforts will be undertaken to ensure the creation of new job opportunities through upskilling and reskilling of human capital as well as enhancing skills in specific industries.

Upskilling and reskilling of human capital

In order to meet industry demand, focus will be given to upskill and reskill local workers by providing training on soft- and hard-skills to boost the quality of workers. In this regard, the 52 public Technical and Vocational Education and Training (TVET) institutions in Sabah and 54 in Sarawak will be enhanced to provide necessary training programmes based on the industry needs. The skills acquired will promote marketability and raise the income level of the workers, thereby increasing productivity.

Enhancing skills in specific industries

Efforts to enhance skills set for the local community will be intensified to cater for specific economic clusters. In the tourism industry as an example, selected hospitality and management skills will continue to be strengthened. Training will include basic

language and tour guiding skills to provide better services to tourists as well as market local products. Homestay owners and local communities will be trained to leverage shared platforms to expand marketing coverage to international tourists. These efforts will increase employment prospects and nurture small entrepreneurs, particularly B40 households, to stimulate economic growth in both states and narrow income disparities.

Strategy C5: Enhancing the Development of Customary Land

The development of customary land is vital to create economic activities and generate income for the local communities in Sabah and Sarawak. Collaboration between State Governments, relevant agencies, land owners and investors will uplift the wellbeing of the *rakyat*, particularly B40 households, in both states. In the remaining Plan period, initiatives will be undertaken to intensify land surveying and mapping activities as well as accelerate the development of Native Customary Rights (NCR) land.

Intensifying land surveying and mapping activities

The surveying and mapping of customary land to demarcate boundaries for NCR land will be expedited. During the review period, a total of 30,702 hectares of NCR land in Sabah and 95,796 hectares in Sarawak have been surveyed. In the remaining Plan period, the mapping of NCR land will cover an additional of 51,000 hectares in Sabah and 225,600 hectares in Sarawak. Completion of perimeter surveys of the NCR land is important to enable the commencement of land development and improve the economic viability.

Accelerating the development of NCR land

Most of the NCR land in Sabah and Sarawak will continue to be developed commercially for agricultural activities through various mechanisms. These include joint ventures with private investors, leasing, contract farming and individual farming, which will provide opportunities for local communities in optimising the land for economic purposes. Through these initiatives, economic growth in both states will be strengthened while urban-rural disparities will be reduced.

Conclusion

Comprehensive strategies and initiatives will continue to be pursued in the remaining Plan period to ensure more balanced regional development that will contribute to national growth. The development of less developed states and regions will be accelerated to further reduce regional disparities. In addition, the linkages between urban and rural areas will be strengthened to spur economic activities and transform rural areas to uplift the wellbeing of the local communities. Cities will also be leveraged to accelerate regional and national economic growth. At the same time, the development in Sabah and Sarawak regions will continue to be a priority to reduce the gaps with other regions. The implementation of various regional development strategies, which is in line with the 2030 Agenda for Sustainable Development of the United Nations, where no one is left behind, will contribute towards providing employment opportunities and achieving inclusive growth.



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C H A P T E R