

Chapter VI
Role of Private Sector

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I. INTRODUCTION

The private sector complements the public sector in the development and structural change of the Malaysian economy. The Fourth Malaysia Plan envisaged the private sector to play the leading role in providing the stimulus to growth and in spearheading further industrialization. There was, however, a reduced dynamism and a decline in the achievement of the private sector in key macro-economic targets and sectoral objectives during the Fourth Plan period.

The Fifth Malaysia Plan presents more demanding tasks and challenges to the private sector as the country proceeds to achieve further growth and the deepening of its industrial base. In view of the resource constraints and consequent consolidation efforts by the public sector which is expected to show a marginal growth in expenditure, growth of domestic demand will have to come from the private sector. The private sector, both domestic and foreign, is also expected to lead in investment, raising its share of total investment from 50.4 per cent in 1985 to 61.7 per cent in 1990.

Policies and regulations with regard to equity ownership, industrial licensing, and overall institutional development will be reviewed and suitable adjustments made to create the necessary environment and conditions in order to realize the investment target. In addition, adequate and attractive investment and infrastructural support facilities will continue to be provided by the Government.

II. PROGRESS, 1981-85

Overall development

Private sector expenditure, consisting of consumption and investment, formed a very substantial proportion of the Gross National Product (GNP). During the Fourth Plan period, it grew at a rate of 3.2 per cent per annum, which was below the annual growth of GNP of 4.9 per cent and of the public sector expenditure of 7.8 per cent per annum.

Private sector investment was mainly concentrated in manufacturing, oil and gas, and non-rubber agriculture sectors. During the Fourth Plan period, private investment registered a growth of only 1.8 per cent per annum compared with the target of 10.7 per cent¹ per annum. This was due to the sluggish growth in external demand, arising from the prolonged world recession and difficulties of access to external markets. In addition, Government consolidation efforts beginning in late 1983 and certain inherent weaknesses of the private sector in the economy contributed to a slowdown in investment. The sluggish trend of private investment resulted in the decline of its share in total investment from 62.6 per cent in 1980 to 50.4 per cent in 1985. The cumulative inflow of long-term private capital was far below the level anticipated for the Fourth Plan.

Private consumption, which accounted for more than 50 per cent of GNP, grew at a rate of 3.6 per cent per annum. The Household Expenditure Survey, 1982 indicated that the bulk of the household expenditure was on food, rent, and transportation and communication. *Per capita* private consumption increased at 1.0 per cent per annum during the Fourth Plan period, reflecting improvements in the standard of living.

The growth of private consumption was closely associated with that of GNP and was also affected by the world recession. In the early years of the Fourth Plan period, consumption declined following the prolonged world recession, but since late 1983 it improved. Consumption spending, however, had a high import content. Imports of consumer durables grew at a high rate during the early years of the Fourth Plan period, although this had moderated substantially in 1985.

Private investment in the manufacturing sector was sluggish, as evidenced by several indicators. Data covering a sample survey of the corporate sector indicated that capital spending grew at an estimated rate of 2.3 per cent per annum during the Fourth Plan period. The two key sources of growth of the sector, namely, domestic demand expansion and exports did not reach the level to provide the stimulus envisaged in the Fourth Plan. This was due to certain structural constraints such as an inadequate incentives and tariff structure, low technological level, lack of integration in the sector as well as poor domestic and external demand growth. Data on approved projects for the 1981-84 period indicated that a sizeable portion of investment continued to be in the light industries involving electronic and electrical products, textiles, and food products. This indicated the traditional preference of investors for such low value-added export-oriented activities. The incentives system, which had been effective in the past, was less successful in promoting the development of an efficient, competitive, and broad-based industrial structure.

¹ Figures are not directly comparable because the 10.7 per cent includes some non-financial public enterprises (NFPEs).

The development of the manufacturing sector, in particular, continued to rely heavily on imports of intermediate and capital goods. This resulted in continued and rapid growth of imports. Although manufactured exports provided some stimulus to investment and employment in the sector, the high import content of exports, particularly electronic and electrical products, contributed marginally to net foreign exchange earnings and local value-added.

Investment in the non-petroleum sector, particularly tin mining, continued its long-run decline due to the depressed and declining tin prices, increasing costs of production, and the export quota restriction of the International Tin Council (ITC). The number of active tin mines fell from 852 in 1980 to 279 by the end 1985. On the other hand, substantial capital spending on petroleum and gas development in the early years of Fourth Plan period boosted the overall performance of the mining sector. Consequently, its value-added grew at 6.0 per cent per annum. Indications, however, pointed to a slowdown of capital spending towards the end of the Fourth Plan period. This was brought about mainly by declining prices as well as the existence of a continued glut of crude oil in the international market.

In the agriculture sector, capital spending by private companies relatively stagnated. Most of the investment was in the replanting of rubber and new planting of oil palm as well as other crops such as cocoa. In addition, new land development by the private sector, either on its own or in joint-venture with state agencies, progressed at a rate below the Fourth Plan target of 20,000 hectares per annum. This shortfall was mainly due to the continued uncertainty in prices of primary commodities, problems relating to land and labour, and the relatively higher returns in the secondary sector.

Investment in rubber declined substantially due to declining price and the presence of more profitable alternative crops. Investment in oil palm, however, expanded mainly due to its better returns. The total hectareage under oil palm increased substantially from 1.02 million hectares in 1980 to 1.46 million hectares in 1985, mainly accounted for by the private sector.

Additional opportunities for investment in the trade sector, particularly in the early years of Fourth Plan period, were created by the expansion of construction and building industries, the agriculture and manufacturing sectors as well as overall exports and imports. There was a substantial expansion in the wholesale business for building materials and hardware to meet construction needs. In the case of retail trade, changing tastes and affluence as well as overall economic growth stimulated further investment in retail activities, arising from the expansion of supermarkets, chain-stores, fast-food stores, and stores selling consumer durables. In the last two years of the Fourth Plan period, however, there was a slowdown in capital spending in the sector.

Private investment in the construction industry in the early years of the Fourth Plan period was strongly stimulated by a rapid pace of commercial and residential building activities including the public sector building and construction programmes. The construction sector was among the rapidly growing sectors during Fourth Plan period with value-added increasing at 8.1 per cent per annum, reflecting both its dynamism and its large contribution to economic activity.

Investment in the services sector was dominated by the setting up of new tourist attractions and facilities and the expansion of existing ones. This followed concerted efforts to promote the country as a holiday destination among foreigners and increasing the awareness of Malaysians with regard to the tourist attractions and facilities in the country. There was a substantial increase in the number of hotel rooms catering for both foreign and local tourists, besides the building of tourist complexes, particularly in the years 1984 and 1985.

Malaysia, through foreign investment, obtained capital, new technology, international marketing outlets, and management expertise. Foreign investment also contributed to growth and structural change of the economy by widening and diversifying the manufacturing base through reinvestment, new investment, introduction of new products, and expansion of capacity. Within the corporate sector, equity holding by foreign residents increased at a rate of 6.9 per cent per annum from \$13,927.0 million in 1980 to \$19,410.5 million in 1985. Its share, however, declined from 42.9 per cent in 1980 to 25.5 per cent in 1985 due to the greater rate of expansion of equity holding by local residents and further equity restructuring, consistent with the New Economic Policy (NEP).

Foreign investment in plantation agriculture declined, while investment in manufacturing industries increased, particularly in export-oriented industries such as electronic and textile. In terms of paid-up capital, foreign investors continued to dominate industries such as beverages and tobacco, petroleum, electronic and electrical products, and industries producing professional, scientific, and measuring equipments. Foreign investors also had substantial interests in textiles and textile products, leather and leather products, and chemical and chemical products. The export-oriented electronic and textile industries which took up about 23 per cent of the foreign equity in manufacturing companies in production as at the end of 1983, had, however, generated low value-added to domestic economy and provided minimal forward and backward linkages to other industries.

Private investment financing

The sources of financing of private investment as shown in Table 6-1, included domestic capital as well as foreign private long-term capital. During the Fourth Plan period, domestic resources financed 78.9 per cent of the private investment. Self-financing accounted for 79.5 per cent of the funding from domestic resources. The

financial system, consisting of the commercial banks, finance companies, and the merchant banks, was an important source of domestic funds, particularly in financing the activities of the manufacturing and construction sectors. Public sector funding of private investment amounted to \$10,060 million, representing 16.2 per cent of total private investment during the Fourth Plan period.

TABLE 6-1
MALAYSIA: PRIVATE INVESTMENT AND ITS FINANCING¹,
1981-85 AND 1986-90
(\$ million)

	<i>Cumulative</i>	
	<i>1981-85</i>	<i>1986-90</i>
Private investment (including stock changes)	62,198	72,990
- Private long-term capital inflow	13,111	13,740
= Domestic financing needs	49,087	59,250
Domestic financing for private investment:		
Private savings before transfers ²	57,259	93,444
- Net transfers	668	950
= Private savings after transfers	56,861	92,494
- Purchases of Government securities	24,263	30,916
- Private sector outflow and balance of payments errors and omissions		
- Increase in currency holdings and private sector deposits with Bank Negara Malaysia } = Self-financing of private sector	-6,429	4,328
+ Public sector financing of investment in the private sector and other transfers ³	10,060	2,000
= Total domestic financing	49,087	59,250
Private long-term capital inflow	13,111	13,740
= Total private investment	62,198	72,990

Notes:

¹ Figures for the Fourth Plan and the Fifth Plan periods are not strictly comparable due to the broadening in the Fifth Plan of the definition of the public sector which has been expanded to include NFPEs.

² Includes accumulated savings.

³ These include transfers from the development expenditure allocations to Government agencies operating in the private sector and public transfers to households.

In addition to financing its own investment, the private sector supplemented the financing of public sector investment. Purchases of Government securities amounted to 42.7 per cent of private savings. Foreign private long-term capital financed 21.1 per cent of private investment during the Fourth Plan period. This capital inflow was concentrated mainly in the petroleum subsector and in manufacturing. The amount of funding from this source however, was below the level envisaged, reflecting the rising cost and the increasing difficulty in obtaining funds.

Private sector contribution to the NEP

The growth and expansion of private sector activities facilitated the increase of Bumiputera participation in the economy. Investments in new and existing

industries provided additional opportunities for employment restructuring and equity participation. In addition, the participation of Bumiputera in these industries enabled them to be exposed to new methods of business management and practices.

The expansion of the secondary and tertiary sectors, where the private sector was dominant, provided increasing employment opportunities to Bumiputera as well as facilitated their employment in jobs requiring specialized skills and in those at the managerial and decision-making level. Most of these employment opportunities were in the urban and established growth areas, thus contributing to the reduction in urban poverty. Bumiputera, however, continued to be under represented, particularly in the high productivity secondary sector as well as in better paying jobs. The main reasons for this included the continued supply problem of trained and skilled Bumiputera and the slow overall growth of the economy.

The rapid expansion in the growth of equity stock in the corporate sector of 18.6 per cent per annum enabled further equity ownership by Bumiputera. Bumiputera individuals and trust agencies increased their share from 12.5 per cent in 1980 to 17.8 per cent in 1985 and achieved ownership and controlling interests in a number of plantation and mining companies and banks. The rate of equity ownership by Bumiputera individuals exceeded that of the trust agencies which in the 1970s, had spearheaded the way for Bumiputera equity participation. The increased importance of Bumiputera individuals in equity ownership followed the expanded efforts at mobilizing the savings of individual Bumiputera for investment in the corporate sector, under schemes such as the National Unit Trust (ASN) and the Mara Unit Trust.

The Bumiputera Commercial and Industrial Community had further expanded during the period, following continued efforts by agencies such as the Council of Trust for Indigenous People (MARA), National Productivity Centre (NPC), Development Bank of Malaysia (BPMB), and other institutions involved in the programme to train, develop, and promote Bumiputera entrepreneurship. In the corporate sector, a greater number of Bumiputera were involved in management roles and continued to build up the capacity of management skills. This was facilitated by efforts of trust agencies, in particular the National Equity Corporation (PNB), through the acquisition and expansion of companies. This resulted in the increase in the number of more trained Bumiputera managers who continued to advance further in the industrial sector. In the non-corporate sector, Bumiputera made substantial progress in ownership and participation, especially in the small-scale commercial and services sectors. This involvement constituted a base for further participation as the community applies its pool of entrepreneurial talent and resources.

III. PROSPECTS, 1986-90

Overall development

The private sector is expected to play the leading role in the growth of the economy during the Fifth Plan period. Its contribution to realize output targets, productivity improvements, and the creation of employment opportunities is crucial. It will have to play a significant role, particularly in the manufacturing and agriculture sectors, for the achievement of the output and export targets and the further strengthening of the economic base to generate and sustain growth.

The Fifth Plan calls for a growth rate of 3.4 per cent per annum of domestic aggregate demand to contribute to annual growth target of 5.0 per cent of the Gross Domestic Product (GDP). The demand impetus will come largely from the private sector since the public sector expenditure is expected to increase at 1.1 per cent per annum as it consolidates and rationalizes its role. Private investment is expected to form 37.1 per cent of the increment in domestic aggregate demand and is anticipated to grow at 7.0 per cent per annum. This will increase its share from 50.4 per cent of total investment in 1985 to 61.7 per cent in 1990.

The achievement of the \$72,990 million target for private investment will require concerted efforts of both the public and the private sectors. The Government will create a more attractive investment climate by introducing additional incentives and measures. Existing regulations and administrative measures will continue to be reviewed and modified to create an environment conducive for greater private investment.

In view of the substantial financial needs for investment, the Government will also increase efforts to promote higher savings through resource mobilization and austerity measures. In addition, efforts will be made to expand exports and reduce imports with a view to increasing and conserving foreign exchange. Investment, both from foreign and local sources, will be further stimulated through the reduction of domestic structural constraints and the improvement of basic infrastructural facilities.

Less emphasis will be placed on consumption in the overall thrust of development in the light of investment financing requirements as well as to reduce the impact of consumption expenditure on the balance of payments. Growth of private consumption is expected to stagnate at 3.5 per cent per annum compared with 3.6 per cent per annum during the Fourth Plan period. Its share of total private expenditure, however, is expected to decline from 75.4 per cent in 1985 to 72.1 per cent in 1990, reflecting the required shift of resources to meet the higher investment growth target of 7.0 per cent per annum in the Fifth Plan.

Private investment in agriculture will continue to be mainly in the planting of traditional perennial crops. Although the rate of investment in the estate sector is expected to decline, particularly for rubber, this will be offset to some extent by smallholders replanting and new planting, particularly of oil palm. Investment in agriculture is expected to grow at a slow rate due to the continued low commodity prices during the Fifth Plan period. New opportunities will be in other commercial crops, particularly for food as well as the expansion of fisheries, including aquaculture.

Investment in the manufacturing sector will focus more on diversifying and broadening the industrial base with emphasis on high value-added industries. The subsectors with greater potential for expanded investment opportunities include rubber processing and rubber products, basic metal products, transport equipment, and electrical and non-electrical machinery. Ancillary and supportive industries will also be encouraged with the coming into full operation of some heavy industries such as the national car project and the steel mills in Terengganu and Sabah. It is also anticipated that new industries will be set up as the market expands with real income growth.

Private investment in the mining sector will be in petroleum, although the rate will be slower, mainly in view of continuing fall in export prices. In the construction sector, the output growth will not be as rapid as in the Fourth Plan period with investment mainly in housing and industrial construction.

Private investment financing

The financing of private investment during the Fifth Plan period will originate more from domestic sources, as shown in Table 6-1. It is expected that the contribution of domestic resources will increase from 78.9 per cent in the Fourth Plan period to 81.2 per cent in the Fifth Plan. Of the total domestic financing, 96.6 per cent will be financed from own source. Self-financing by private sector will constitute 78.4 per cent of private investment.

The public sector will finance only 2.7 per cent of the projected private investment during the Fifth Plan period. More resources are expected to be available to the private sector as the Government reduces its claims on private savings. Sales of Government securities are expected to form 33.4 per cent of private savings during the Fifth Plan period.

Private long-term capital inflow is expected to increase at 15.8 per cent per annum during the Fifth Plan period. It is expected, however, to finance only 18.8 per cent of private investment. The reduced share of private external funding reflects the increasing difficulties of attracting funds due to slow down in world economy, higher interest rate in the international capital market, increased competition, and the reduction in the availability of funds from abroad.

Private sector contribution to the NEP

The private sector will continue to play its role as a contributor in meeting the targets of the NEP. The achievement of the growth target during the Fifth Plan period for which the private sector is given the leading role, will depend on the growth of private sector investment. It is expected that further progress will be made towards achieving the objectives of the NEP. In addition, more reliance will be placed on the initiatives of Bumiputera individuals to promote and increase their participation in both the corporate and non-corporate sectors. The trust agencies, however, are not expected to make substantial contribution to the NEP because of financial constraints.

The progress towards the achievement of employment restructuring target will rely more heavily on the growth of private sector activities as well as on efforts of Bumiputera individuals. The private sector is expected to provide substantial employment opportunities, upgrade skills, and contribute to the further development and participation of Bumiputera at the management, supervisory, and technical levels. Bumiputera individuals are expected to further increase their representation and involvement in the modern and high-productivity sectors, particularly manufacturing.

In the corporate sector, the share capital is expected to grow at a lower rate of 9.3 per cent compared with 18.6 per cent per annum during the period 1981-85, from \$76,112.0 million in 1985 to \$118,471.0 million in 1990. Despite the lower growth, substantial potential still exists for further equity restructuring. Bumiputera equity ownership is expected to increase at 14.2 per cent per annum, raising its share from 17.8 per cent in 1985 to 22.2 per cent by 1990. The bulk of the equity ownership will continue to be undertaken by Bumiputera individuals. With structural changes and the consequent increase in importance of the tertiary sector, wider opportunities will become available for Bumiputera participation.

Policy review and adjustments

The private sector is given the major role during the Fifth Plan period. In line with this objective, policy and administrative measures relating to equity ownership, industrial regulation and licensing, and institutional development will continue to be reviewed to attract investment and encourage reinvestment from both local and foreign sources for more rapid growth of the private sector. In order to attract private investment at a more rapid rate, the strategies to be adopted include the promotion of diversified manufactured exports linked more closely and widely to the domestic industrial sector, the revitalization of the agriculture sector, the development of small-scale industries, and the expansion of tourism. In the promotion of exports, export financing and insurance facilities will be extended to benefit more exporters and products. In addition, new disbursement procedures will be drawn up to make these facilities more effective. These

measures will expand and stimulate further exports, in addition to those from industries already in the Free Trade Zones (FTZs). Export incentives will be based on actual performance, the contribution to value-added, and the development of ancillary industries.

Export incentives will also be provided to indirect exporters to include sales of inputs by local companies to firms in the FTZs or in Licenced Manufacturing Warehouses (LMWs) as well as sales of products of companies in the Principal Customs Areas (PCAs) to general trading companies. The new incentives will provide opportunities for existing manufacturers, particularly the transnational corporations, to set up joint-ventures in downstream industries in order to maximize the tax exemption.

The tariff system which had been instrumental in promoting industrial development, will be restructured to enhance competition and promote exports through the lowering of protection rates. Exports will also be promoted through the establishment of joint-ventures with foreign companies which have the marketing expertise and network, technology, and research and development facilities. This will facilitate the penetration into overseas markets as well as expand the network of world distribution of Malaysian goods.

Investment opportunities, provided by expansion in domestic demand and further import substitution, will be exploited and promoted selectively through fiscal and trade policies. The opportunities for further import substitution are substantial, covering food products and consumer durables, including the manufacture of intermediate goods, and the development of linkage industries arising from industrial deepening, particularly natural resource-based industries. The adjustments to incentives and tariff will be directed towards the attainment of efficiency and growth in the industrial sector.

In support of the objective of revitalizing the agriculture sector, policies will be oriented to encourage greater private sector participation, particularly investment in plantations, either on joint-venture or on wholly-owned basis. Policies on land alienation and transfers, including leasing arrangements, will be modified to facilitate the achievement of this objective. Fiscal incentives will be provided to encourage the corporatization of the agriculture sector. These include the introduction in the 1986 Budget of an agricultural development allowance for crops and agricultural activities not eligible for pioneer status or investment tax credit. The equity requirements for new projects will be liberalized to retain foreign and local interest in the sector.

Incentives for the tourism industry will be expanded to stimulate and increase investment in medium-cost accommodation facilities to meet the requirements of budget-conscious tourists. The investment incentives package for tourism-related infrastructural facilities, both accomodation and non-accomodation, will be

made more generous and cover a wider scope. The recent introduction of the pioneer status and investment tax credit incentives for the tourism industry constitutes an important element of the incentives package.

Small-scale industries complement and support the large firms, besides being an important source of employment and a base for skill development as well as a source of entrepreneurs. They are also more conducive to, and have strong potential for, industrial dispersal. In order to promote further the development of small-scale industries, particularly those tied to exports, new incentives will be considered, in addition to the recent introduction of the abatement of adjusted income incentive based on value added in export sales and the extent of Bumiputera participation. Improvements will also be made to enhance their access to marketing, credit, consultancy, skill development, and technical services. The feasibility of setting up industrial estates for small-scale industries will be further investigated, while the use of flatted factories will be encouraged.

The administrative and regulatory requirements underlying the implementation of the Industrial Co-Ordination Act (ICA), 1975 in respect of existing and new companies have been relaxed. The raising of the exemption level from the share-holders' funds of less than \$250,000 and full-time employment of less than 25 to the share-holders' funds of less than \$1 million and full-time employment of less than 50, will exempt more companies from the ICA. Greater flexibility has also been introduced in respect of conditions regarding capacity expansion. Automatic approval will be given to export-oriented companies undertaking capacity expansion. Flexibility is also accorded to domestically-oriented companies with share-holders' funds of less than \$2.5 million. In addition, companies which expand capacity can continue to maintain the equity structure negotiated at the point of obtaining approval. These regulatory changes will have a positive effect on diversification and expansion of private investment as well as provide greater certainty and continuity with regard to the ownership and control of a company.

The Government will also consider new measures to help accelerate the implementation of industrial projects. These measures are expected to contribute towards making the system of industrial development administration and planning more performance-oriented.

Foreign investment will be further encouraged through the relaxation of the equity ownership conditions, particularly for projects that are export-oriented. Projects that export 51 per cent to 79 per cent of their production volume will be allowed a foreign equity ownership of 51 per cent, while those exporting 80 per cent or more will be allowed an equity share of 80 per cent. A higher percentage is permissible depending on additional factors such as the size of investment, location, value-added, and the amount of local content as well as the technology involved. The main objective is to allow foreign equity participation

and management control to vary with their potential contribution to the widening of the base and the further development of the manufacturing sector.

The financing of investment during the Fifth Plan period will require adequate funds at reasonable cost. The Government will mobilize savings and ensure that they are directed to more productive use. In particular, commercial bank lending will be encouraged towards more productive sectors that contribute to bringing in new technology and increase in net foreign exchange earnings. The banking industry will be rationalized with the view to consolidating and introducing more competition in banking business. Efficiency in the operation of the banking system will be emphasized with the objective of availing to borrowers the benefit of more attractive lending rates.

The Government will further expand and utilize formal and informal mechanisms to have dialogues with the private sector to obtain their views and reaction on its policies. The existing formal arrangements, such as the Industrial Advisory Council, Economic Panel, Dialogue on Annual Budget, and Ministry of Trade-Private Sector Dialogue, and the arrangements with Consumer Associations will be strengthened.

Areas for private sector participation

The continued growth and structural changes envisaged during the Fifth Plan period present various opportunities for private sector participation in the development of the economy. In the manufacturing sector, emphasis will be on the intensive development of resource-based industries, further expansion in exports, selective development of heavy industries, and the diversification and upgrading of non-resource-based industries. The agriculture sector will be revitalized, while the development of tourism will be further encouraged. In addition, privatization will provide added opportunities for private sector involvement.

The development of resource-based industries will open up more opportunities for investment, both for exports as well as for the domestic market. Opportunities exist in the further development of the rubber industry, particularly in the production and exports of tyres and latex products. Substantial availability of palm and palm kernel oils provide opportunities in the development of the oleochemicals industry and the production of fat and palm kernel oil-based products. The wood-based industry offers further investment opportunities, particularly in the production of moulding and furniture, for the export market. In addition, potentials also exist in the production of non-ferrous metal products, such as aluminium and copper products, as well as further downstream development of the tin industry. Further investment opportunities for import substitution exist in the chemical industry. Production of compound fertilizers, urea, and phosphates as well as pesticides could be expanded to meet the growing domestic needs in the

agriculture sector, while the available gas resources allow for the development of the petro-chemical industry.

Non-resource-based industries will also offer attractive areas for investment. These will include the electronic and electrical industry, producing mainly consumer and industrial electronic products. Potentials also exist for the domestic production of components and materials used in the electronic industry as well as in the further development of the machinery and engineering industry, where opportunities exist in the area of basic component module such as valves, pumps, coupling, fabrications, machining, and forging.

The development of heavy industries will be selective since they are large, capital intensive, and involve high risk and long gestation periods. Their development presents opportunities for an intensive and expanded private sector involvement since substantial financial resources, management and marketing expertise, and new and improved technology are required. Such heavy industries include the projects of Heavy Industries Corporation of Malaysia Berhad (HICOM) and that of the National Oil Corporation (PETRONAS). PETRONAS envisages undertaking large investment in petro-chemical projects. The development of heavy industries projects will create ancillary industries and open up new opportunities for foreign investment since they require substantial foreign funding, expertise and technology.

Investment in the agriculture sector, particularly in crop plantation, will be further boosted with the emphasis on primary production of food crops to substitute imports and supply the food-based manufacturing industries. In addition, deep sea fishing and aquaculture offer other areas of investment as the country seeks to modernize the fishing industry and meet its consumption needs.

Additional investment opportunities also exist in the construction sector, following the planned acceleration in the low-cost housing construction programme. The building and construction sector will also generate expansionary effects on the cement, steel, and other industries producing construction materials, following the shift towards using concrete surface in road and highway construction and the expanded housing programme.

Investment opportunities are also available in the financial sector. Local private sector in joint-ventures with international companies, trading houses, and financial institutions, can provide venture capital to small-scale and medium-scale industries. This financing is to meet risk equity for medium and long-term period as well as the financing need for factory leasing programmes. In addition, other opportunities include investment in export financing and trading, arising from further export growth and the enlargement of the export base.

There is a greater need for research and development (R & D) and wider access to new technology and information as the economy develops. Productivity increases and modernization of the agriculture sector as well as increased competitiveness and deepening of the manufacturing sector, require more direct private sector involvement in research efforts. In addition, the private sector should work in joint-venture with public research institutions. R & D efforts by private sector are expected to be further promoted and expanded as the Government reviews and modifies existing incentives package for private sector initiatives in R & D.

Privatization broadly refers to the efforts of the Government to promote greater private sector participation in the ownership, operation, and management of public sector projects and the provision of public services. In support of this effort, the Government has prepared privatization guidelines for use by both the public agencies and the private sector with respect to the objectives and concept of privatization, the identification and preparation of proposals, and the institutional set-up for the implementation of privatization programme. Several services and projects involving important sectors of the economy have since been privatized through the initiatives of both the private and the public sectors.

Through the efforts of the private and public sectors, several programmes and projects have been identified for further privatization involving mainly transport and communication and the services sectors. Notwithstanding this, potentials and opportunities exist for greater private sector involvement in the privatization programme in view of the substantial interests of the public sector which could be privatized. The various forms of privatization, such as contracting, leasing, and transfers of ownership and control, offer more flexibility and a wider choice for private sector participation in the economy. Besides providing the private sector with a greater stake in the ownership and control of the economy, privatization enables it to introduce new dynamism, organizational forms, and production methods as well as improve efficiency in the privatized activities. The private sector is encouraged to further complement the Government privatization initiatives by identifying and offering privatization proposals with the view to accelerating the pace and widening the scope of privatization.

IV. CONCLUSION

The private sector is expected to play the leading role in the achievement of the macro-economic targets and the overall development objectives of the economy. This is particularly important in view of the consolidation efforts of the public sector, given the environment where resource constraints will continue to prevail. Nevertheless, the Government will intensify its efforts to create an investment climate conducive to bringing out the resourcefulness, initiative, and dynamism of the private sector as well as ensure the active participation and contribution of

both local and foreign investors in the development of the economy. The challenges ahead call for a more positive attitude and a renewed vigour on the part of the private sector towards increasing its contribution to national development, in the spirit of Malaysia Incorporated.