

CHAPTER II

Review of the Second Malaysia Plan, 1971-75

I. INTRODUCTION

39. The main thrust of the Second Malaysia Plan (SMP) was to lay the foundations for the implementation of the New Economic Policy (NEP). The SMP itself was the first in a series within the Perspective Plan, 1971-90, aimed at accelerating economic change designed to bring about a more equitable distribution of economic opportunity, income and wealth among the population. Progress in the overall economic development of Malaysia in terms of growth and employment generation has been generally favourable. Progress was also made in respect of the eradication of poverty and the reduction of economic imbalances. This has been achieved despite the uncertainties of the international economic situation and developments beyond the nation's control.

40. This Chapter outlines the economic progress of the nation during 1971-75 and reviews the results in terms of the twin prongs of the NEP for eradicating poverty without regard to race and restructuring society in the interest of national unity.

II. GROWTH BY MAJOR SECTORS

41. The achievement of the two objectives of the NEP depends upon a rapid pace of economic growth and the changing structure of the economy. An expanding economy not only supplies the environment within which the NEP targets can be attained without depriving any one community of its legitimate place in the economy but also the potential for social mobility.

42. In the main, the Malaysian economy achieved a creditable rate of growth during 1971-75. It is estimated that the Gross Domestic Product (GDP) at factor cost, in real terms, grew by 7.4% per annum during the period as shown in Table 2-1 as compared with the original SMP target of 6.8% and the revised target in the Mid-Term Review (MTR) of 7.8%. The shortfall with respect to the MTR target is largely attributable to the impact of worldwide recession on the Malaysian economy during 1974/75. The average annual rate of growth of GDP was 8.4% during 1971-74 as compared with 3.5% in 1975.

TABLE 2-1
MALAYSIA: GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN, 1970-75
(\$ million in 1970 prices)

Sector	1970	1971	1972	1973	1974	1975	Average annual growth rate (%) 1971-75
Agriculture	3,432	3,612	3,720	4,241	4,518	4,563	5.9
Mining and quarrying	613	663	701	666	619	612	0
Manufacturing	1,307	1,436	1,610	1,904	2,175	2,197	10.9
Construction	481	544	569	631	677	711	8.1
Electricity, water and sanitary services	245	260	301	339	372	401	10.4
Transport, storage and communications	606	637	764	901	1,036	1,098	12.6
Wholesale and retail trade	1,423	1,496	1,586	1,824	2,006	2,086	7.9
Ownership of dwellings, banking, insurance and real estate	836	890	928	1,008	1,063	1,109	5.8
Public administration and defence	794	866	979	1,018	1,090	1,199	8.6
Other services	874	918	1,001	1,081	1,189	1,237	7.2
Statistical discrepancy	+97	+267	+190	+254	+52	+102	-
Gross domestic product at factor cost	10,708	11,589	12,349	13,867	14,797	15,315	7.4

43. The fastest growing sectors were transport, manufacturing, public administration and other services with average annual rates of growth of 12.6%, 10.9%, 8.6% and 7.2% respectively during the SMP period. However, in terms of its relative contribution to total growth, agricultural production, mainly arising from the oil palm sector, continued to predominate with over a quarter of the growth in real GDP. Manufacturing and trade accounted for 19.3% and 14.4% of the growth, whilst transport, administration and other services accounted for about 10% each of the increase.

Agriculture, forestry, livestock and fisheries

44. Value added in the agricultural sector, which accounted for about 30% of GDP in 1975, expanded by 5.9% per annum during 1971-75. The most significant increase was registered by oil palm at 24.7% per annum.

45. Rubber production increased by 3.1% per annum from 1,249,000 tons to 1,453,000 tons between 1970 and 1975. The smallholder sector accounted for about 55.4% of total production. Value added in the rubber sector accounted for about 29.7% of total value added by agriculture.

46. Palm oil proved to be the mainstay of growth in the agricultural sector. Value added grew at an average annual rate of 24.7% in constant prices. The share of palm oil and palm kernel oil rose to 12.4% of total value added by agriculture in 1975, next to rubber and sawlogs. The favourable price trends of palm oil as well as palm kernel oil, which dipped less sharply in 1975 as compared with other crops, coupled with steady growth in the volume of exports accounted for the favourable performance of the crop. About 74% of total output in 1975 originated from private estates with the rest from public land schemes.

47. The performance of the timber industry was somewhat more varied. Sawlogs and sawn timber fetched attractive prices in 1972 and 1973. The downturn of late 1974 and 1975 adversely affected the demand for both commodities and led to price declines in excess of 20%. Timber now accounts for 14.4% of total value added, after rubber.

48. The increase in padi production by about 25% from 1.6 million tons to two million tons between 1970 and 1975 resulted largely from the expansion in planted acreages through the increase in double-cropping, the introduction of higher yielding strains and improved water management practices. Attractive prices provided under the Government's Guaranteed Minimum Price Scheme (GMP) contributed to the growth of the sector. As a result, about 87% of total consumption requirements of Malaysia were met by domestic production.

49. Progress was also made in other agricultural activities including fishing, livestock, horticultural, pepper and cocoa production. Although production of these commodities is still small, they have promising potential for the diversification of the agricultural base and the promotion of mixed farming.

Mining and quarrying

50. Value added in this sector declined marginally during 1971-75. The sector's share in GDP thus fell from 5.7% in 1970 to 4.0% in 1975. This was mainly due to the fall in tin production by 9,300 tons from 72,600 tons in 1970 to 63,300 tons in 1975. Iron ore output also decreased sharply following the closure of the iron ore mines in Dungun and Rompin.

51. However, output of crude petroleum increased at an average growth rate of about 40.5% per annum from 6.6 million barrels in 1970 to 36.2 million barrels in 1975, with most of the increase emanating from Sarawak. A most welcome development was the discovery of new fields in Sarawak and Sabah as well as the East Coast of Peninsular Malaysia. These are expected to contribute increasingly to both aggregate production and exports of petroleum under the Third Malaysia Plan (TMP).

Manufacturing

52. The manufacturing sector has become a key sector in the economy. Its share in GDP increased from 12.2% in 1970 to 14.4% in 1975. In real terms, value added by the sector rose at an average annual rate of 10.9% per annum compared with the SMP target of 11.7%. The shortfall is largely attributable to stagnation during the 1975 recession, the average annual growth during 1972-74 being in excess of 16% per annum. The expansion of the sector was the result of advances in export-oriented industries, as well as in other growth industries including palm oil processing, wood processing, textiles, tobacco products, clothing and footwear, rubber products and plastics and electrical machinery, particularly electronics. This expansion was due, in no small part, to Government's promotional efforts including, *inter alia*, tariff protection, pioneer status and other fiscal incentives and the extension of loans and advances from the commercial banks as well as the Malaysian Industrial Development Finance Bhd. (MIDF). The overall performance of the manufacturing sector was influenced to a marked extent by the demand for exports of manufactured goods. The value of manufactured exports grew from \$591 million in 1970 to \$2.1 billion in 1975, accounting for 61.2% of the growth in value added of the manufacturing sector.

Construction

53. The construction sector expanded at an average annual growth rate of 8.1% during 1971-75, with a significant rate of growth of 10.9% in 1973. The share of value added in GDP, however, remained stable at around 4.5%. Rapid growth of non-residential construction resulting from the acceleration of public sector development expenditure, increasing demand for residential construction and the high growth in private investment provided the main stimuli for growth.

Services

54. The services sector, including transport and communications, wholesale and retail trade, utilities, banking and insurance, public administration and defence, as well as other personal services, accounted for about 45% of the GDP in 1975. The leading elements of growth in the services sector were transport and communications which grew by about 12.6% per annum during 1971-75. Value added by utilities and public administration and defence increased by an average of more than 9% per annum. The expansion in value added by transport and communications was largely the result of increased services provided by the Malaysian Airline System (MAS), the Malaysian International Shipping Corporation (MISC) and the Telecommunications Department. Expansion in the other service sectors reflected mainly the widening coverage of education and health services provided by the Government.

III. SOURCES OF GROWTH

55. Economic development during the SMP was largely stimulated by public sector expenditures for investment and consumption. These expenditures constituted the main source of growth under the SMP apart from having provided a counter-cyclical impact on the economy during periods of weak exports and private investment.

Public investment

56. Public investment was the most buoyant source of final demand in the course of the SMP. Although it constituted only 9.0% of the cumulative GDP for the period, its rate of growth was an unprecedented 17.6% per annum in real terms as shown in Table 2-2 compared to 1.9% under the First Malaysia Plan (FMP). The share of public investment to gross capital formation grew from 28.1% in 1970 to 49.1% in 1975.

57. Public investment was the main source of growth for the construction sector accounting for 70% of this growth. This also benefitted the machinery and ferrous products industries.

Private investment

58. Private investment experienced sharp cyclical fluctuations during the SMP period. Negative rates of growth were registered in 1972 and 1975 in contrast with an increase of 22.3% between 1973 and 1974. Over the five year period, private fixed capital formation grew by 17.9% per annum in current prices as shown in Table 2-3 compared with 7.2% per annum in real terms, reflecting the higher cost of imported capital goods.

TABLE 2-2

MALAYSIA: GROSS NATIONAL PRODUCT BY EXPENDITURE CATEGORY, 1970-75
(\$ million in 1970 prices)

	1970	1971	1972	1973	1974	1975	Cumulative total, 1971-75	Average annual growth rate(%) 1971-75
Consumption	9,483	10,087	10,361	11,198	11,941	12,106	55,693	5.0
Private	7,486	7,870	7,998	8,664	9,250	9,036	42,818	3.8
Public	1,997	2,217	2,363	2,534	2,691	3,070	12,875	9.0
Investment	2,152	2,456	2,764	2,920	3,578	3,622	15,340	11.0
Private	1,459	1,660	1,609	1,750	2,140	2,062	9,221	7.2
Public	693	796	1,155	1,170	1,438	1,560	6,119	17.6
Change in stocks	+315	-105	-55	+195	+515	-442	+108	—
Gross national product	12,155	13,005	13,793	15,437	16,734	17,146	76,115	7.1
Surplus on goods and services account..	205	567	723	1,124	700	1,860	4,974	—

TABLE 2-3

MALAYSIA: GROSS NATIONAL PRODUCT BY EXPENDITURE CATEGORY, 1970-75
(\$ million)

	1970	1971	1972	1973	1974	1975	Cumulative total, 1971-75	Average annual growth rate (%) 1971-75
Consumption	9,483	10,302	11,158	13,023	15,822	16,797	67,102	12.1
Private	7,486	8,059	8,381	9,901	12,011	12,052	50,404	10.0
Public	1,997	2,243	2,777	3,122	3,811	4,745	16,698	18.9
Investment	2,152	2,527	3,087	3,795	5,380	5,838	20,627	22.1
Private	1,459	1,675	1,779	2,243	3,223	3,320	12,240	17.9
Public	693	852	1,308	1,552	2,157	2,518	8,387	29.4
Change in stocks	+315	-136	-63	+228	+683	-667	+45	—
Gross national product	12,155	12,501	13,641	17,443	21,234	21,747	86,566	12.3
Surplus on goods and services account..	205	-192	-541	397	-651	-221	-1,208	—

59. In 1970, about 90% of total private investment was accounted for by construction, industrial machinery, trade, transport equipment, rubber and oil palm. Whereas private investment in tree crops remained the same between 1970 and 1975, the share of private investment in industrial machinery and transport equipment increased while it fell in the case of construction. Private investment during the period stimulated the domestic production of rubber products, industrial machinery, transport equipment and non-ferrous products with consequential increases also for wholesale and retail trade and other services.

Public consumption

60. Public consumption accounted for 19.0% of cumulative GDP for the five years under review compared with about 24% in the FMP. In real terms, public consumption grew at 9.0% per annum, thus increasing by over 53% during the period. As a percentage of total real consumption, public consumption grew from 21.1% to 25.4%, increasing at more than twice the rate of private consumption.

61. While part of this increase was due to the more active role of the public sector under the NEP, especially in respect of the eradication of poverty, increases in public consumption were also the result of increases in the emoluments of public servants.

Private consumption

62. Private consumption remains the largest component of final demand, accounting for some 63% of cumulative GDP during the SMP. In *per capita* terms, Malaysia continues to enjoy one of the highest levels of consumption and, despite a rate of population growth of 2.6% per annum, real *per capita* consumption grew by 2.3% per annum.

63. Aggregate real private consumption, however, tended to grow at a rate below GDP, or 3.8% per annum during the last five years. The sense of money illusion associated with the unprecedented changes in price levels together with the impact of Government policy to reduce the demand pull inflation were some of the causes in bringing about the slow increases in private consumption.

64. As a result of rising income levels, the demand for manufactured products and services tended to exceed that of agricultural items including food. Transport equipment, electrical machinery, petroleum products, chemical products and textiles all exceeded the average rate of growth of consumption.

65. Private consumption growth stimulated the food production, food processing and other consumer goods industries as well as the services sectors. The impact upon consumer durable industries such as furniture making, transport equipment and non-ferrous products was somewhat more moderate by comparison.

Exports

66. Exports provided the main thrust of economic growth during the boom years of 1973 and, to a lesser extent, 1974. International prices of raw materials were favourable and the prices of Malaysia's major primary commodities as shown in Table 2-4 reflected this trend. Their impact was directly reflected both on income growth and distribution. Price increases were transmitted through larger export earnings and boosted aggregate demand. This resulted in multiplier effects upon real production and employment generation. Capacity utilization also improved markedly during this period.

67. It is estimated that export earnings increased by 37.6%, with gains from the terms of trade amounting to about 10% of GNP in 1973. The agricultural sector was a natural beneficiary of these developments. Real value added in agriculture rose by 14.0% in 1973 in contrast to the 3.0% recorded in 1971 to 1972. Output and income in the smallholding sector of agriculture increased at an even faster rate than the overall expansion of the agricultural sector itself, thus resulting in substantial gains in purchasing power for a large number of poor rural households.

68. Between 1970 and 1975, exports in real terms grew by 5.9% per annum. Cumulatively, exports accounted for over 41% of GDP at market prices. Given the openness of the Malaysian economy and the rather turbulent nature of world economic events during the last years, it is not surprising that annual fluctuations in exports were of considerable magnitude. During 1970-72 there was an absolute decline of 2.7% per annum in the value of exports, even though export volumes continued to increase by over 3.7% per annum. Better export prices, however, were experienced in 1973 and 1974. The value of exports grew by 37.6% over this period while export volumes only registered an increase of 2.1%. With the downturn of the world economy in the third quarter of 1974 and almost all of 1975, the value of exports declined despite a 2.1% growth in export volume.

69. The export structure of the economy underwent continued transformation between 1970 and 1975. More than 56% of total exports in 1970 (with, among others, 33.4% from rubber, 16.3% timber and 5.1% from palm oil) came from the agricultural sector as against 22.6% from mining and 11.4% from manufacturing, including canned pineapple and petroleum products. By 1975, however, manufactured exports amounted to 23.0% of total exports, even though agriculture continued to predominate with 49.5%. The relative gain by manufacturing compensated for the poor performance in mining, the share of which slipped to 21.7% in 1975.

70. The highest rates of export growth during 1971-75 were registered by electrical machinery (42.0% per annum), palm oil (33.2% per annum), oils and fats (29.0% per annum), textiles and clothing (22.7% per annum) and industrial machinery (21.8% per annum). Fishing and other agriculture also grew in excess of the overall industrial average of about 7% per annum. Declines were, however, experienced in forestry, mining, processed food, paper and printing and non-metallic products.

TABLE 2-4

MALAYSIA: EXPORT PERFORMANCE, 1970-75

	1970	1971	1972	1973	1974	1975	Average annual growth rate (%) 1971-75
<i>Rubber</i>							
Volume (000 long tons)	1,324	1,368	1,343	1,613	1,545	1,417	1.4
Unit Value (cts/lb)	58	48	43	69	83	63.5	1.8
Value (\$ million)	1,724	1,460	1,298	2,507	2,887	2,016	3.2
<i>Tin</i>							
Volume (000 long tons)	91	86	88	80	84	76.7	-3.4
Unit Value (\$/long ton)	11,135	10,576	10,477	11,178	17,958	15,867	7.3
Value (\$ million)	1,013	906	924	897	1,515	1,217	3.7
<i>Sawlogs</i>							
Volume (000 long tons of 50 cu. ft.)	6,288	6,178	6,432	7,145	6,745	5,800	-1.6
Unit value (\$/long ton of 50 cu. ft.)	102	104	92	138	153	108.9	1.3
Value (\$ million)	643	641	590	987	1,032	632	-0.3
<i>Sawn timber</i>							
Volume (000 long tons of 50 cu. ft.)	961	922	1,203	1,522	1,231	1,152	3.7
Unit Value (\$/long ton of 50 cu. ft.)	209	208	229	368	355	315	8.6
Value (\$ million)	201	192	275	561	437	363	12.6
<i>Palm oil</i>							
Volume (000 long tons)	394	564	686	785	887	1,026	21.1
Unit Value (\$/long ton)	668	674	529	594	1,224	1,236	13.1
Value (\$ million)	263	380	363	467	1,086	1,268	37.0
<i>Palm kernel oil</i>							
Volume (000 long tons)	—	5	48	65	91	104	113.6
Unit Value (\$/long ton)	—	826	628	855	1,813	1,034	3.8
Value (\$ million)	—	4	30	56	165	107	127.4

<i>Crude and partly refined petroleum</i>											
Volume (000 long tons)	..	..	..	..	..	..	..	..	..	..	..
Unit Value (\$/long ton)	..	..	..	..	..	..	..	..	..	..	..
Value (\$ million)	..	..	..	..	..	..	..	..	..	..	..
	4,743	7,807	4,173	3,766	3,099	3,685	3,099	3,766	3,099	3,685	-4.91
	42	50	53	72	217	231.5	217	72	217	231.5	40.7
	203	390	223	270	674	853	674	270	674	853	33.3
<i>Petroleum products</i>											
Volume (000 long tons)	..	..	..	..	..	..	..	..	..	..	..
Unit Value (\$/long ton)	..	..	..	..	..	..	..	..	..	..	..
Value (\$ million)	..	..	..	..	..	..	..	..	..	..	..
	2,790	1,539	1,379	1,104	546	402	546	1,104	546	402	-32.1
	60	69	70	92	273	305	273	92	273	305	38.4
	156	106	95	101	149	123	149	101	149	123	-4.6
<i>Copper</i>											
Volume (000 long tons)	..	..	..	..	..	..	..	..	..	..	..
Unit Value (\$/long ton)	..	..	..	..	..	..	..	..	..	..	..
Value (\$ million)	..	..	..	..	..	..	..	..	..	..	..
	—	—	—	—	—	21.4	—	—	—	21.4	—
	—	—	—	—	—	817.8	—	—	—	817.8	—
	—	—	—	—	—	18	—	—	—	18	—
<i>Pepper</i>											
Volume (000 long tons)	..	..	..	..	..	..	..	..	..	..	..
Unit Value (\$/long ton)	..	..	..	..	..	..	..	..	..	..	..
Value (\$ million)	..	..	..	..	..	..	..	..	..	..	..
	26	28	27	24	30	32	30	24	30	32	4.2
	2,282	2,335	2,230	2,902	3,566	3,400	3,566	2,902	3,566	3,400	8.3
	59	66	61	69	106	109	106	69	106	109	13.1
<i>Canned pineapple</i>											
Volume (000 long tons)	..	..	..	..	..	..	..	..	..	..	..
Unit Value (\$/long tons)	..	..	..	..	..	..	..	..	..	..	..
Value (\$ million)	..	..	..	..	..	..	..	..	..	..	..
	62	58	58	53	54	45	54	53	54	45	-6.2
	698	702	712	727	940	1,155	940	727	940	1,155	10.6
	43	41	41	39	51	52	51	39	51	52	3.9
<i>Manufactures (\$ million)</i>											
..
	392	425	594	968	1,431	1,912	1,431	968	1,431	1,912	37.3
<i>Sub-total (\$ million)</i>											
..
	4,697	4,611	4,494	6,922	9,533	8,670	9,533	6,922	9,533	8,670	13.0
<i>Others (\$ million)</i>											
..
	466	406	360	450	656	419	656	450	656	419	-2.1
<i>Total gross exports (\$ million)</i>											
..
	5,163	5,017	4,854	7,372	10,189	9,089	10,189	7,372	10,189	9,089	12.0

1 The decline in export volume of crude and partly refined petroleum and petroleum products reflects decreases in imports for re-exports in Sarawak.

71. Although exports have had a favourable multiplier effect upon domestic production in general, the impact of exports upon different sectors of the economy was quite variable. In general, export demand had a positive impact on agricultural production. Among manufacturing activities, however, the impact was relatively more moderate with the possible exception of agro-based industries such as oils and fats, sawmilling and rubber processing.

Imports

72. Imports of goods and non-factor services in constant prices amounted to over one-third of GNP. In real terms, imports grew at 0.4% per annum between 1970 and 1975. However, this masks the fact that there were absolute decreases in 1970 and 1975, in contrast with an annual 7.4% growth in the intervening period.

73. Among the major components of the import bill were electrical and industrial machinery (24% of total imports), transport equipment (11%), industrial chemicals and fertilizers (5%), textiles (7%) as well as various food and agricultural items (more than 17%). Manufactured imports such as industrial chemicals and fertilizers and electrical and industrial machinery all grew at two to three times the overall rate of growth of imports at current prices. Imports of consumer non-durables including food and textiles tended to grow more slowly if at all.

74. In spite of the very small changes in real imports between 1970 and 1975, the period concerned witnessed considerable shifts in the pattern of import demand. These changes in import demand were accompanied by changes in the structure of domestic production. It is evident that light manufacturing such as non-ferrous products, textiles, paper and printing, processed food and beverages all owed more than 50% of their growth to production for domestic demand. Electrical machinery, chemical products and, to a lesser extent, transport equipment have also benefitted.

IV. THE EXTERNAL ECONOMY, 1971-75

75. Despite fluctuations in the world economy, Malaysia continued to maintain a favourable basic balance in its exports and imports of goods and non-factor services. Cumulatively, the basic balance remained in Malaysia's favour amounting to \$3 billion as shown in Table 2-5 for the five years between 1970 and 1975. This was in spite of an outflow of \$2.6 billion in investment income accruing to non-nationals. In addition, another \$710 million of outflows were accounted for by net public and private transfers for the same period.

76. On the capital account, Malaysia received about \$5.3 billion in net capital inflows from abroad. About 6% was in the form of private short-term capital, 50% in private long-term capital and the rest as foreign borrowing by the public sector.

TABLE 2-5

MALAYSIA: BALANCE OF PAYMENTS, 1970-75
(\$ million)

	1970	1971	1972	1973	1974	1975	Cumulative total, 1971-75
<i>Goods and services</i>							
Receipts	5,602	5,473	5,291	7,994	11,051	10,165	39,974
Payments	5,397	5,665	5,832	7,597	11,702	10,386	41,182
Net position	+205	-192	-541	+397	-651	-221	-1,208
<i>Transfers (net)</i>							
Private	-199	-188	-176	-185	-175	-160	-884
Government	+19	+51	+19	+34	+35	+35	+174
Balance on current account ..	+25	-329	-698	+246	-791	-346	-1,918
<i>Long-term capital (net)</i>							
Public	+21	+398	+692	+120	+276	+827	+2,313
Private	+292	+291	+493	+480	+834	+525	+2,623
Basic balance	+338	+360	+487	+846	+319	+1,006	+3,018
<i>Errors and omissions including short-term capital</i>							
.. .. .	-270	-157	-98	-270	+133	-835	-1,227
Overall surplus (+) or deficit (-)	+68	+203	+389	+576	+452	+171	+1,791
<i>Allocation of IMF Special Drawing Rights²</i>							
.. .. .	+64	+61	+60	—	—	—	+121
Net change in external reserves (increase - decrease +)							
.. .. .	-132	-264	-449	-576	-452	-171	-1,912
Special Drawing Rights ..	-72	-61	-60	+8	+10	-11	-114
IMF gold tranche position ..	-47	+35	—	-22	+1	-21	-7
Gold + foreign exchange ..	-13	-238	-389	-562	-463	-139	-1,791

² (-) denotes accumulation and (+) denotes drawdown.

77. In the main, Malaysia's favourable trade balance and substantial inflow of funds both public and private enabled the country to accumulate some \$1.9 billion in external reserves over the last five years. This has been instrumental in further enhancing Malaysia's financial strength, giving the *Ringgit* a 164.9% backing as of 1975, and providing the nation sufficient resources to sustain six months of retained imports.

78. Despite adverse terms of trade faced by the nation during the SMP period the strength of the country's balance of payments was maintained by the large inflow of capital, reflecting its strong credit worthiness. In general, declines in the value of traditional primary commodity exports, with the exception of petroleum were attributable to price declines rather than contractions in the volume of exports, particularly during the early years of the SMP period. The year 1973, and to a lesser extent, 1974 provided a brief respite to these price declines but 1975 again saw the resumption of the downward trend.

79. The prices of imported capital equipment and intermediate industrial products continued to increase for the greater part of the SMP period. The import price index for industrial machinery and transport equipment for example, increased by about 74%. Worldwide shortages of food grains, including rice, during 1974 further exacerbated the situation by driving up the price of imported rice, which accounted for some 3.5% of total imports.

80. In retrospect, therefore the policies of earlier Plans aimed at reducing the impact of secular declines in export prices through agricultural diversification and industrialization were fully justified. As Malaysia moves into the eighties, the contribution of manufactured exports will be substantial in moderating long-term secular declines in primary commodity prices.

V. THE FINANCING OF DEVELOPMENT

81. Despite the problems faced by the foreign trade sector, Malaysia has found it possible to finance its development without incurring an unduly large public debt burden or running down its reserves. The external public debt in 1975 was about 11% of GNP which is considered by international financial organizations as comparatively low. Between 1970 and 1975, gross capital formation amounted to some \$20.7 billion as shown in Table 2-6. Domestic savings, (or the difference between the exports and imports of goods and services less net transfers abroad) financed some \$18.8 billion or about 91% of gross capital formation. Total net capital from abroad amounted to another \$5.3 billion. This not only closed the 9% savings-investment gap but made it possible for reserves of some \$1.9 billion to be accumulated over the years. On the average, 6.0% of total capital flows were in short-term funds, another 50%, private long-term capital, and the rest, foreign borrowing by the public sector.

TABLE 2-6

MALAYSIA: SAVINGS AND INVESTMENT, 1970-75 (\$ million)

	1970	1971	1972	1973	1974	1975	Cumulative total, 1971-75
Gross investment (plus change in stocks)	2,467	2,391	3,024	4,023	6,063	5,171	20,672
External surplus (+) or deficit (-)							
Goods and services	+205	-192	-541	+397	-651	-221	-1,208
Transfer payments	-180	-137	-157	-151	-140	-125	-710
Current account	+25	-329	-698	+246	-791	-346	-1,918
Domestic savings	2,492	2,062	2,326	4,269	5,272	4,825	18,754
Domestic savings as % of GNP	20.5	16.5	17.1	24.5	24.8	22.2	21.7
Gross investment as % of GNP	20.3	19.1	22.2	23.1	28.6	23.8	23.9

82. The external public debt service ratio amounted to 3.4% of export earnings in 1975. Although this is low in comparison with countries at a similar stage of development, the Government will be prudent in its recourse to foreign borrowing so as to ensure productive use of funds raised. The Government will also continue to encourage the inflow of foreign private capital as a major resource in the financing of total investment.

VI. PRICE TRENDS

83. Price movements during the SMP period were radically different from past trends. During the sixties, Malaysia experienced a high degree of price stability, with the consumer price index rising less than 1% per annum on the average. Some of the more important factors accounting for this low rate of increase in prices were the ability of the economy to shift to lower-cost sources of supply, the implementation of prudent economic policies and industrial harmony.

84. A sequence of events in the seventies was responsible for this break with the past. The world as a whole and the developed economies in particular, experienced unprecedented rates of inflation, and this, coupled with worldwide shortages of food grains, sent import prices rising by almost 100% during the five years of the SMP period. The increase in food import prices by over 37% in 1974 contributed to the 41% increase in overall import prices in that year. The very large increases in fuel, fertilizer and chemical prices in turn exacerbated the inflationary situation by raising the cost of inputs required for domestic food production.

85. On the demand side, the upsurge in commodity prices had both direct and indirect effects upon domestic incomes and demand. There was also some evidence that expectations of price increases were themselves having a lagged effect upon future rounds of price movements. This is a particularly plausible explanation for the sharp increase in the costs of housing, in addition to rapid rises in the cost of building materials.

86. The anti-inflationary measures implemented by the Government were designed to dampen the expansionary impact of exports, expand the supply of consumer non-durables, control the price of basic essentials and certain investment goods and alleviate the impact of inflation upon the lower income groups through subsidies. A special programme to increase food supplies was the promotion of greater public participation in food production under the Green Book campaign. Selective controls were placed upon the extension of bank lending to cut down credit for speculation without inhibiting capital for productive purposes and borrowing for trade and industrial activities by the Malays and other indigenous people.

87. In tune with the downturn of the economy in late 1974 and 1975, the anti-inflationary policies of the Government were gradually reversed to ensure that the economy was cushioned from the effects of declining export earnings. Short gestation and labour intensive projects were added to the Government's current and development expenditure programmes while credit restrictions placed on the private sector were gradually lifted. For a while the Government had to contend with inflation and falling aggregate demand at one and the same time. The mix and timing of policies proved largely successful. The accelerating increase in consumer prices abated in 1975 without leaving in its wake a large measure of unemployment.

VII. EMPLOYMENT AND UNDEREMPLOYMENT

88. In the five-year period of the SMP, the economy achieved a rate of 3.3% per annum in employment growth compared with 3.2% per annum in the growth of the labour force. This resulted in a net increase of some 588,000 new jobs. Although somewhat short of the target set in the MTR, the achievement was nonetheless creditable especially in the light of the circumstances mentioned earlier.

89. Four sectors of the economy accounted for almost 90% of the increase in new jobs. Some 24% of the total came from employment in the services sector, 26% from agriculture, 18% from manufacturing and 20% from wholesale and retail trade. In terms of the rate of employment growth, manufacturing was clearly the pace setter with a rate of employment growth of some 6.6% per annum.

90. It is even more encouraging to note that the increase in employment was not at the expense of increasing underemployment. Successive rounds of labour force surveys indicate a trend of constantly improving labour utilization, with the proportion of the labour force working less than 25 hours a week falling from 14.1% to 9.6% between October 1971 and October 1974.³ This was particularly true for the rural labour force. Survey results also indicate an improvement in the youth unemployment problem. In general, improvements in the labour market tended to benefit most job seekers with lower secondary and middle secondary education. Improvements were also noted among the hard-core of the unemployed with the proportion of those unemployed between one to three years falling from 29.2% to 24.0% of all the unemployed during October 1971 and October 1974.

³ These figures are obtained from the Labour Force Surveys conducted by the Department of Statistics. The technique used is stratified random sampling with a rotation scheme in which a 50% sub-sample in each half year was repeated in the successive rounds. The surveys cover both urban and rural areas, selected on the basis of the 1970 Population Census Distribution of Living Quarters and the National Household Sampling Frame.

91. A major cause of improved labour market conditions was the rate of real growth of the economy. Even though productivity increased at an average annual rate of about 4% for the period under review, employment continued to grow so that the SMP successfully dealt with, in some measure, the backlog of the unemployed.

VIII. POVERTY ERADICATION

92. The lack of productive employment opportunities is a major cause of poverty. Open unemployment and the underemployment of human resources resulting from the lack of complementary inputs such as land, capital and entrepreneurship underlie poverty in every sector of the economy.

93. The rapid economic growth attained during the SMP period enabled the alleviation of the poverty problem through the stepping up of the pace of employment creation thus leading to a decline in the rate of unemployment as a percentage of the labour force from 7.4% in 1970 to 7.0% in 1975. In addition, there was significant reduction in the extent of underemployment particularly in rural areas.

94. Average real productivity (value added in real terms per worker) also rose at a rate of about 4% per annum for the five-year period largely as a result of investments in the sixties. A notable increase of 4.5% per annum in average real productivity was registered in the agricultural sector, a key sector in employment generation as well as poverty eradication. Government policy to increase agricultural productivity through land development carried out by the Federal Land Development Authority (FELDA), the Federal Land Consolidation and Rehabilitation Authority (FELCRA), the Rubber Industry Smallholders Development Authority (RISDA), State land development agencies, and the provision of the other complementary inputs to agriculture such as irrigation, fertilizer and marketing and credit facilities were largely responsible for the performance of the agricultural sector.

95. It is estimated that about 83% of the land development target, or about one million acres, were attained between 1970 and 1975. Around 412,000 acres were developed by FELDA aimed at the settlement of 20,000 families. During the SMP period over 13,700 families were settled. About 288,000 acres and 112,000 acres of the new land were planted with oil palm and rubber respectively by FELDA with the balance in other crops. Other land development programmes undertaken by FELCRA, RISDA, the State Economic Development Corporations (SEDCs), other State Government agencies and the private sector (including joint-ventures) accounted for the development of the remaining 598,200 acres. Such development will result in higher income streams for settlers.

96. As the incidence of poverty is considerably higher among single-crop padi farmers, the Government expanded its efforts in the provision of facilities for double-cropping. A total of 324,000 acres was provided with irrigation facilities in the SMP period with 272,000 acres capable of being double-cropped. The availability of irrigation facilities led to a total of 527,000 acres being planted with off-season crops by 1975, an increase of more than 60% over the 1970 figure. The use of improved inputs, particularly fertilizer, pesticides and farm machinery, made possible by credit and subsidies of the Farmers' Organization Authority (FOA), co-operatives and other agricultural institutions also led to productivity increases. In the Muda region alone, yields per acre increased by over 7.5% per annum during the period under review.

97. Government policy to modernize the fishing industry helped to reduce the incidence of poverty amongst fishermen particularly on the West Coast of Peninsular Malaysia. The Fisheries Development Authority of Malaysia (MAJUIKAN) extended facilities by way of trawlers, multi-purpose boats and ice factories for use by fishermen. Apart from the continued provision of subsidies, the Fisheries Division of the Ministry of Agriculture expanded its programmes for the construction and improvement of landing facilities and navigational aids. It also provided training for fishermen during the period under review.

98. All these programmes contributed in varying degrees to reductions in the incidence of poverty among rural households. The reductions were fairly significant among padi smallholders, mixed farmers and fishermen. However, the incidence of poverty still remains high in these groups. The incidence of poverty also continues to be high for rubber and coconut smallholders. The adverse price trends which they encountered were a major factor in this regard. However, in the case of rubber, Government purchase of rubber from smallholders under the national price stabilization scheme benefitted smallholders through the moderation of price declines.

99. It may be seen that the achievements of the SMP in respect of the eradication of poverty would have been much more favourable had rubber prices not declined during 1974/75. In the case of padi, where prices were influenced by domestic policy, higher padi prices from 1973 onwards worked to the advantage of padi farmers.

100. Recognizing the need to improve socio-economic conditions among estate workers, the Government initiated efforts to improve their living conditions. While there was some progress in respect of housing, better progress was effected in basic services in the form of electricity and potable water supply over the 1971-74 period. The proportion of resident labour receiving free tap water supply increased from 74% to 91% on rubber estates and from 73% to 85% on oil palm estates. In respect of free electricity supply, the proportion increased from 32% to 45% in rubber estates and from 56% to 66% in oil palm estates. The proportion of directly employed workers eligible for free medical attention also increased from 89% to 97% for rubber estates and from 69% to 100% for oil palm estates.

101. The plight of the squatters and residents of New Villages continued to receive attention during the SMP period. Grants were disbursed for minor projects aimed at improving the facilities available in New Villages. In addition, New Villages within the jurisdiction of city councils and other local authorities benefitted from the supply of basic necessities such as piped water and electricity. Overall growth of the national economy helped to improve the economic conditions of residents of New Villages engaged in traditional service activities although they were seriously affected by inflation.

102. The provision of housing and other social amenities also contributed to enhancement of the well-being of the urban poor. Whereas 12,200 units of low-cost houses were constructed throughout the country, about 6,700 squatters in Kuala Lumpur were resettled into flats and other accommodation. New polyclinics, dental clinics, outpatient clinics and health offices-cum-maternal and child-care centres were completed in urban areas and other townships to extend the reach of modern health services to lower income groups in the urban community. The development of more efficient public transport services through the introduction of mini-bus and commuter train services for Kuala Lumpur and its surrounding areas also benefitted the urban poor.

103. The high rates of growth of the economy particularly in manufacturing and construction stimulated the expansion of employment in these sectors thereby contributing to a reduction in the incidence of poverty among the urban poor. Government policy in respect of the payment of subsidies and bonuses with special relief allowances which was also adopted by the private sector enabled the adverse impact of rising consumer prices to be somewhat mitigated. As no comprehensive base-line studies of urban poverty have been undertaken, it has not been possible to identify the details of the problem. The requisite studies will be undertaken in the course of the TMP.

104. The Government's strategy for poverty redressal has not been restricted to improvements in income levels alone. It has sought to encompass the improvement in the quality of life through the provision of basic services for improving the standards of living. Low income by itself is thus but one component in the many dimensions of poverty. Although the effects of such investment in social infrastructure and in the improvement of the stock of human capital are not easily quantifiable, there is little doubt that these investments have improved the living conditions, life opportunities as well as the real incomes of the poor.

105. In the course of the SMP, the lower income groups have benefitted from various amenities such as electricity and piped water supply, education, health and family planning as well as low-cost housing. During this period, over 300,000 families benefitted from the provision of piped water, and some 50,000 from electricity. The number of places for primary and secondary education increased by 215,000 and 319,000 respectively. A large

proportion of the increase was the result of the deliberate policy to improve educational opportunities for rural children, as is evident by the completion of ten fully residential science schools. In the field of rural health services, a comprehensive review of existing infrastructure was undertaken and a new two-tier system was introduced. A total of 29 main health centres, 66 health sub-centres and 339 midwives clinics was completed. Emphasis was also given to preventive measures aimed at eradicating and controlling the spread of communicable diseases.

IX. RESTRUCTURING OF SOCIETY

106. The NEP embodies specific proposals designed to restructure the pattern of employment and ownership of wealth in the country. The overriding objective is that of national unity with implementation to be so effected that no one racial group should feel deprived in the process.

107. The NEP has set as its target the ownership and management by Malays and other indigenous people of at least 30% of commercial and industrial activities in the economy and an employment structure at all levels of operation and management that reflects the racial composition of the nation by 1990. Since restructuring is planned to result from growth, Government policy was directed towards assisting the Malays and other indigenous people to participate fully in the growth of commerce and industry. The Government adopted inter-related programmes for this purpose. These included training, advisory assistance, credit facilities, a scheme of preferences for contractors and suppliers among the Malays and other indigenous people as well as the purchase and reservation of share capital in trust for them.

108. The output of skilled Malays from the formal education system in Peninsular Malaysia has increased considerably. Malay graduates from domestic tertiary institutions increased from 916 in 1970/71 to 3,107 in 1974/75. Increases in the fields of accountancy, business studies and commerce, law and administration as well as other fields which are amenable to direct recruitment into employment within the commercial and industrial sectors have been particularly marked. The number of other Malaysians who graduated from domestic tertiary institutions increased from 1,984 in 1970/71 to 2,541 in 1974/75. In addition, it is estimated that a total of about 31,500 Malaysian students are enrolled in educational institutions abroad in 1975. Of the total 4,005 Malaysians, including scholarship holders who were newly enrolled in tertiary level institutions in the United Kingdom, Australia and New Zealand in 1975, 20.0% were Malays and other indigenous people as compared to 69.0% Chinese, 9.2% Indians and 1.8% Others.

109. In addition, much effort has been made to ensure that the skills of existing as well as intending businessmen among the Malays and other indigenous people are upgraded through intensive training. In order to develop their business skills, various agencies are currently offering short courses to personnel in small businesses.

110. The National Productivity Centre (NPC) offers some 800 short-term courses on a variety of management topics ranging from industrial engineering to management accounting, sales and marketing to management development and industrial relations. The Centre also conducts a two-week entrepreneurial development programme for the Malays and other indigenous people. A follow-up survey of the graduates of such courses revealed considerable success in their emplacement. Since its inception, the *Institut Teknologi MARA* (ITM) has offered a wide range of courses ranging from engineering to hotel catering. The Government initiated through ITM a programme for executive development, a twelve-week intensive introduction to management skills and concepts for new university graduates among the Malays and other indigenous people.

111. Another important programme is the provision of advisory services at subsidized rates. MARA provided advice for 7,463 clients and undertook about 27 feasibility studies. The Advisory Services Division has also provided consultancy and intensive follow-up services to small businessmen applying for loans from MARA. In addition, the NPC undertook industrial consultancies. The MIDF through its subsidiary, the MIDF Industrial Consultants Sdn. Bhd. (MIDFIC) offered consultancy services ranging from market research to financial management. Since it commenced operations in 1972, MIDFIC has completed 81 assignments, two-thirds of which were undertaken on behalf of Malay and other indigenous clients.

112. Since many enterprises start off as small businesses, the Government has intensified efforts to increase credit for small business enterprises with special emphasis on the needs of the Malays and other indigenous people. Government agencies involved in this effort include MARA, MIDF, the Malaysian Industrial Estates Sdn. Bhd. (MIEL), *Bank Bumiputra*, the Urban Development Authority (UDA), SEDCs and *Bank Pembangunan*. As a result, the share of the Malays and other indigenous people of the total institutional credit increased from about 14% in 1971 to almost 30% in 1975. Even so, Government activities in this field has not been confined to the Malays and other indigenous people alone.

113. The number of MARA loans including guarantees and the total volume of credit entailed amounted to 27,700 loans worth \$163 million between 1970 and 1975. However, the level of financial assistance provided to its clients has not kept pace with the growing volume of credit but it is expected that this will improve in the course of the TMP. *Bank Bumiputra*, with its wide geographical coverage and the establishment of its special Bumiputra Participation Advisory Services Department and Special Bumiputra Units at branch level, caters to an increasing volume of business with clients among the Malays and other indigenous people. Of a total of \$980 million in loans outstanding at the end of 1975, some 39% were for Malays and other indigenous people and an additional 14% for joint-ventures between them and other Malaysians.

114. In addition, all commercial banks were also required to give special attention to granting credit facilities through the Credit Guarantee Scheme of the Credit Guarantee Corporation (CGC) which was established in 1973. Under the scheme, commercial banks are required to increase their loans to small businesses to up to 10% of their total savings deposits. By 1975, loans amounting to some \$302 million had been provided. The Malays and other indigenous people accounted for 42% of the total loans advanced. Special units were also set up in all commercial banks to facilitate the provision of loans to businesses belonging to the Malays and other indigenous people. In addition, during the period of the SMP, total loans and advances to the Malays and other indigenous people rose ten-fold from \$80 million at the end of 1970 to \$791 million at the end of 1975. In 1975 and 1974, they received 29% and 34% respectively of the increase in total loans and advances of the commercial banks.

115. Apart from the above-mentioned facilities, Government Departments have also been directed to give preference to Malay and other indigenous suppliers in the consideration of tenders and quotations for the supply of goods and services. The differential ranges from 2% to 10% for supplies up to \$5 million. For works contracts, the Public Works Department (PWD), a major contract-issuing department of the Government, sets aside at least 30% of its contracts for Malay and other indigenous contractors.

116. As a result of the restructuring policies of the Government, there has been substantial improvement in the racial structure of employment both by industry as well as occupational groups. In general, Malays and other indigenous people have managed to obtain an increasingly larger share of employment in the more productive sectors although this has been principally at the lower levels of the occupational hierarchy. It is estimated that the percentage of Malay employment in manufacturing increased from 28.9% in 1970 to 33.1% in 1975. Malay employment in the services sectors also grew at a rate of 5.6% per annum, construction at 10.8% per annum and mining at 5.6% per annum, all of which exceeded the overall rate of growth of employment. The share of Malay employment in these sectors stood at 50.6%, 28.8% and 33.1% respectively in 1975.

117. In terms of the occupational composition of employment,⁴ it is estimated that the Malay share of administrative employment increased from 22.4% in 1970 to 32.4% in 1975. Corresponding increases in the Malay share of employment in clerical occupations resulted in Malays filling some 39% of the total clerical positions in 1975. The Malay share of professional employment which is roughly equal to their share in the population stood at 48.5%. Although there are still significant differences between the Malays and the other Malaysians, it may be seen that considerable improvements in the position of Malays have been achieved. The

⁴ (a) Estimates of employment by occupation and race were derived from the Labour Force Surveys and the Manpower Survey conducted by the Department of Statistics.

(b) The occupational classifications used are those of the Dictionary of Occupational Classifications published by the Ministry of Labour and Manpower.

Government is cognizant of the broad problems of restructuring and will continue its efforts to improve the employment position of all races under the TMP.

118. Progress was also made in restructuring employment by industry and occupation for other Malaysians although not to the extent envisaged by the Outline Perspective Plan in respect of the agricultural and services sectors. Chinese employment in the agricultural sector increased from an estimated 300,900 to 317,600 during the period under review. In the services sector, Chinese employment increased from 169,200 in 1970 to 217,800 in 1975. In so far as the Indians are concerned, their employment in manufacturing grew from 14,000 in 1970 to 24,300 in 1975 whilst Indian employment in commerce increased from 66,400 to 68,000 for the same period. The occupational composition for these two communities also changed in consonance with the overall pattern of skill upgrading. Chinese professional employment increased from an estimated 48,900 to 63,800 for the period under review with a corresponding increase from 15,000 to 18,400 in administrative and managerial occupations. Professional and technical workers amongst Indians (including Ceylonese and others) likewise grew from 16,500 in 1970 to 21,300 in 1975 while the number of administrative and managerial workers almost doubled from 1,700 in 1970 to 3,300 in 1975.

119. Progress in restructuring⁵ the ownership of share capital and assets was somewhat slower. Nevertheless, headway was made by Malay and other Malaysian interests during the SMP period towards attaining the targets of the NEP. In the corporate sector as a whole, the proportion of foreign holdings of share capital declined from 63.3% in 1970 to 58.1% in 1973 and 54.9% in 1975 with corresponding increases of Malaysian ownership from 36.7% to 41.9% and to 45.1%, and ownership by the Malays and Malay interests from 2.4% to 5.3% and 7.8%. In absolute terms, however, the holdings of share capital by foreigners, Malays and other Malaysian interests have increased consistent with the growth of the economy.

120. In terms of the non-corporate sector of modern agriculture, the Malays increased their share of the acreage from 13% in 1971 to 19% in 1973, largely reflecting the achievement of public sector programmes of FELDA, FELCRA and other Government agencies.

121. Similar changes took place in respect of the ownership of industrial fixed assets. The activities of public bodies such as the *Perbadanan Nasional* (PERNAS), MARA, UDA and the SEDCs have maintained for the Malay and other indigenous community its option to invest in the growing volume of corporate assets. Available information indicates an average growth of 43.6% per annum in the value of shares held by Malay individuals and Malay interests between 1970 and 1975. In fact, acquisition of new share capital by Malays and Malay interests under the SMP was estimated to be 33.1% of the new share capital.

⁵ Figures in the paragraph for 1970 and 1973 are actual and 1975 are estimates.

122. On the basis of the progress attained in restructuring corporate ownership and the projected higher levels of economic activity during the TMP and beyond, the restructuring targets of the NEP for 1990 are feasible provided that the economy continues to expand and that active efforts are made to mobilize the necessary savings. With the increasing level of income generated through the employment of the Malays and other indigenous people in the more productive sectors of the economy, it is expected that they will have an increasing propensity to save and therefore to participate in the growing corporate sector envisaged under the NEP.

123. The significant increase in the ownership of share capital of Malays and other indigenous people has not been at the expense of existing holdings by other Malaysians and foreign interests. In fact during 1971-75, the ownership of such capital by other Malaysians increased from 34.3% in 1970 to 37.3% in 1975 reflecting a rate of growth of 16% per annum during the same period. In line with the policy of Government to encourage foreign investment, the amount of share capital owned by foreigners in the private sector increased by an estimated 10% per annum during the period under review or some \$2.1 billion in absolute terms. This underlines the success of restructuring in the context of dynamic growth under the NEP.

X. CONCLUSION

124. In many respects, the SMP differed in substance and scope from previous Plans. Its premises were the two prongs of the NEP. Its paramount objective is to set the nation upon a path of growth and development culminating in a united and progressive nation within a generation. Within this context, it is to be recognized that all communities have benefitted from policies and programmes emanating from the implementation of the two-prong strategy. Whilst it is evident that the poverty redressal programme benefitted all the poor, irrespective of race, the restructuring programme also generated favourable spillover effects and opened up new avenues of opportunity to the other communities.

125. The SMP is but a first step. The efforts made towards the eradication of poverty and the restructuring of society have to be sustained and enlarged. In particular, the planning, implementation and administration of projects under the TMP will need to increasingly reflect the interrelated and mutually supportive nature of these two objectives for the attainment of national unity.

126. Although the programmes for poverty redressal have had their fair share of success, greater effort will be made to continually monitor the dynamics of the changing pattern in the distribution of income and life

opportunities and to further refine policy instruments to deal with the problem. The Government is fully cognizant of the many dimensions of the poverty problem as well as the many and diverse groups afflicted. The implementation of broad policy will continue to ensure that the many facets to the poverty problem will receive co-ordinated and consistent treatment.

127. In view of the growing supply of skilled personnel among the Malays and other indigenous people entering the job market, the attainment of the targets of the NEP with respect to their participation in the modern sectors of the economy within the stipulated period is entirely feasible. Although there still remain considerable differences in the skill composition among the major ethnic groups, these have narrowed considerably even within the five years of the SMP. The Government will continue to monitor closely developments in this area with a view to ensuring that the objectives of the NEP are attained.

128. Progress has also been made in the restructuring of ownership. The ownership of assets required the wherewithal as well as the willingness to invest. These in turn depend upon the availability of savings and investment opportunities. Admittedly, much remains to be done in formulating appropriate policies to increase the ownership by the Malays and other indigenous people in the modern sectors in line with the goals of the NEP.

129. It cannot be over-emphasized that the achievement of the targets of the NEP requires a high rate of economic growth and rapid structural change in the economy. These in turn are dependent upon political stability in the country, the capacity of Malaysians for thrift and hard work and the dedication of all parties concerned to the task of social and economic upliftment. The Government will continue to be watchful of bottlenecks which inhibit the projected growth of the economy. Government policies will ensure that a favourable investment climate prevails. In the final analysis, the binding constraint will be specific shortages of middle and high level manpower. The education system will be developed in ways which ensure a closer match between the output of skills and the demand for them.

130. Even though the rate of unemployment has declined over the past five years, there will be growing pressure upon the economy to create even more new jobs during the TMP and subsequent Plans. This calls for not only an actively developing economy but an appropriate mix of policy instruments designed to make the best possible use of the existing stock of human resources while upgrading it at the same time.

131. The rather violent economic fluctuations during the SMP call for even greater effort to monitor the impact of cyclical factors upon the economy and the design of appropriate policy instruments for socio-economic management. The experience of the SMP indicates that the objectives of the NEP and their attendant demands upon growth and employment creation are more easily attainable under conditions of steady growth and a regime of reasonable price increases. In as much as the remarkable stability of prices prevalent during the sixties is unlikely to be replicated, it will be the objective of fiscal, monetary and price policies to attain growth with reasonable price stability.

132. With the NEP, the nation is committed to the forging of a united and socially just society in a generation. The SMP has demonstrated the acceptance of the objectives of the NEP and the political will and capacity to realize these objectives. These will be the foundations for the Third Malaysia Plan.