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East Malaysia in Malaysian Development Planning

David Lim

I. Introduction

Malaysia consists of Peninsular Malaysia and the two East Malaysian states of Sabah and Sarawak. Development planning in Peninsular Malaysia began as early as 1950, while the first plan for the whole of the Malaysian federation founded in 1963 was published in 1966. Have the two East Malaysian states been integrated properly into the various Malaysian plans? Or have they, with their somewhat different economic, political and social backgrounds, been treated as a nuisance element and appeared in the plans only as an afterthought? In any case, is the planning experience of Peninsular Malaysia relevant for solving the problems of the much less developed East Malaysian states?

Section II gives a brief history of planning in Malaysia, and Section III an evaluation of it. Section IV argues the case for adopting planning in East Malaysia, and the relevance of the planning experience of Peninsular Malaysia for East Malaysian economic development, in spite of social and economic differences between the two. Section V argues that the style of planning adopted in Sabah and Sarawak before they became part of Malaysia in 1963 is quite consistent with that adopted in Peninsular Malaysia, thereby further showing the relevance of the one for the other. Section VI contains some concluding thoughts on the future of planning in East Malaysia.

II. Malaysian Planning: History

Four five-year Malaysian development plans have been published since the formation of the Malaysian federation in 1963. Before that there were separate plans for Malaya, Sabah and Sarawak. The First Malaysia Plan, 1966-70, was the first integrated plan for the three regions. It was also the first of a twenty-year Perspective Plan and presented the short—run measures of the government to solve the economic and social problems of the country within a broad and long-run strategy of economic development.\(^1\) The fundamental aim of the Perspective Plan was the creation of an environment in which all the various ethnic groups could live in dignity and harmony. This was to be achieved through a faster rate of economic growth, the creation of greater employment opportunities, and a reduction in the relative economic imbalance in the distribution of income and wealth. Economic diversification, infrastructural development, manpower training and other programmes were simply operational devices to bring about the basic aim. The private sector was to play the leading role.

The Second Malaysia Plan, 1971-75, saw the introduction of the New Economic Policy with its twin objectives of poverty eradication and the economic restructuring of the country.\(^2\) The New Economic Policy was the government’s dramatic response to the racial disturbances of May 1969, which it saw as the result of the unequal distribution of the benefits of economic growth. The poverty eradication programme sees increasing the access of the poor to land, capital, training, and other public amenities as the most effective way of reducing the incidence of absolute poverty.
The restructuring programme aims at reducing the dependence of the Malays and other indigenous people on subsistence agriculture and increasing their role in the modern rural and urban sectors of the economy. It has two explicit quota-goals. The first is that employment by sector should approximate the racial composition of the population: 54 per cent Malay and other indigenous people, 35 per cent Chinese, 10 per cent Indians, and 1 per cent others. The second is that by 1990 the Malays and other indigenous people should own and manage at least 30 per cent of the capital of the corporate sector, as compared to the 2.4 per cent share in 1970. These are to be brought about by a growth and not a redistributive strategy. This means that the increase in the Malay share of corporate capital is to come about by the active involvement of Malays in an expanding output, not by the redistribution of the existing output. The same marginal approach is envisaged for the employment restructuring programme.

The Third Malaysia Plan, 1976-80, is the second of four five-year plans designed to implement the objectives of the New Economic Policy. The strategy adopted is the same as that of the previous plan, which is to reduce the incidence of poverty and to restructure society through a growth rather than a redistributive strategy. The main source of economic growth was expected to come from the private sector, with exports and private investment playing the dominant role. This was in contrast to the position in the Second Malaysia Plan, where public consumption and investment were the principal sources of growth in output.

The Fourth Malaysia Plan, 1981-85, continues the strategy adopted in the previous two plans in implementing the New Economic Policy. The private sector is expected to provide the bulk of the increase in output and employment required for the restructuring programme. The main emphasis of the public investment expenditure programme is to consolidate past and existing development projects, in order to increase the overall effectiveness of the public sector programme.

III. Malaysian Planning: Evaluation

The planning model adopted by the four Malaysian plans is the aggregate Harrod-Domar one. This basically assumes that the crucial constraint to economic growth is the shortage of capital. The growth of such an economy, ignoring population growth, is given by \( g = s/k \), where \( g \) is the growth rate of output, \( s \) the rate of saving and \( k \) the incremental capital-output ratio. The four Malaysian plans thus continue the format that was first used by the Second Malaya Plan, 1961-65. Typically the plan document begins with a review of the progress made by the previous one. This is then followed by an analysis of the prevailing problems of the country and a statement of the objectives of the current plan. The sectoral programme for fulfilling these objectives by both the private and the public sectors are presented. The financial resources required are then estimated and the possible sources of funds examined. Attempts at ensuring sectoral balances are made, though not necessarily in any sophisticated input-output way. Thus, as far as the presentation and the technique are concerned, the Malaysia plans and the Second Malaya Plan are superior to their predecessors in Peninsular Malaya and in Sabah and Sarawak. The use of the Harrod-Domar model gives direction to the development effort, firstly, in identifying overall objectives and, secondly, in presenting some of these in numerical form. It also provides a more objective basis for the allocation of public development expenditure between the various government departments, thereby avoiding the scramble for funds under the previous system. The role...
of the private sector can also be better assessed and the fiscal policies required to encourage this role more easily worked out.

The plans have also been successful in achieving the targets for the growth of the real GDP. Thus while the First Malaysia Plan. 1966-70, planned for a 4.9 per cent annual growth rate for the real GDP, the rate achieved was about 6.0 per cent. For the Second Malaysia Plan. 1971-75, the annual growth rate of 7.4 per cent exceeded the original target rate of 6.8 per cent, while for the Third Malaysia Plan, 1976-80, the actual growth rate also exceeded the targeted one, though by a smaller margin (8.6 per cent compared to 8.4 per cent per year).

The employment target set for the 1966-70 plan was, however, not achieved. For Peninsular Malaysia the rate of open unemployment rose from 6.0 per cent in 1965 to 8.0 per cent in 1970. The plan had anticipated a decline to 5.2 per cent. For Malaysia as a whole the rate of unemployment increased from 6.0 per cent to 7.3 per cent, showing that the rate of unemployment had also increased in East Malaysia but that the shortfall there was not as marked as that in Peninsular Malaysia. A related failure of the First Malaysia Plan was the inability to arrest the worsening inequality in income distribution. There are no reliable statistical data to substantiate this claim. but the Second Malaysia Plan did admit that the income gap between the rich and the poor had widened over the period 1966-70.

From 1970 onward Malaysian planning has been consumed with the implementation of the New Economic Policy. In the process direct and indirect government intervention in the economy has risen to a level which has begun to adversely affect the running of the economy. The incidence of poverty has undoubtedly been reduced by continuing the traditional programme in the rural sector. The same programmes have also increased income inequality, even for the Malay community, the target group of the New Economic Policy. This process has been helped, in no small measure, by the approach taken by the government in implementing the New Economic Policy.

In 1970 49.3 per cent of all households in Peninsular Malaysia lived below the poverty line. By 1983 the incidence of poverty had declined to 30.3 per cent. In the agricultural sector the decline was from 63 to 55 per cent and in the urban sector from 19 to 11 per cent. In Sabah the incidence of poverty in the urban areas went down from 26 to 16 per cent over the period 1976-82, while in the rural areas the decline was from 66 to 36 per cent. In Sarawak the decrease in the urban sector was from 23 to 9 per cent, while in the rural sector it was from 64 to 39 per cent. 8

The Malaysian government has guardedly concluded that income distribution has become slightly more even since the inception of the New Economic Policy, as the Gini coefficient has decreased from 0.513 to 0.508 over the period 1970-79. 9 However. other data published in the Fourth Malaysia Plan and the Mid-term Review of the Fourth Malaysia Plan show that even this guarded conclusion is not warranted, and that, in fact, there has not been a consistent movement towards income equality in Peninsular Malaysia since 1970. Data on the mean and the median real monthly household incomes were provided separately for Peninsular Malaysia for the period 1970-79. An increase in the ratio of the mean to the median monthly household incomes would signify an increase in income inequality. Table 1 shows that such an increase was evident for Peninsular Malaysia as a whole, and for the urban, rural, Malay, and Chinese populations for the period 1970-76.
Over the more recent period, 1976-79, the ratios for Peninsular Malaysia and its urban areas fell but only to their 1970 levels. The ratio for the rural areas remained the same. That for the Chinese fell but to a level that was higher than its 1970 level, while for the Malays the ratio increased, showing a consistent increase in income inequality over the entire period of 1970-79. Thus while the incidence of poverty has been reduced this was accompanied by an increase in income inequality in most sections of the population in Peninsular Malaysia. It has not been a case of the “rich getting richer and the poor poorer”, but rather one of the “poor getting less poor, and the richer much richer”. The result has, therefore, not been altogether bad but must have, nevertheless, been disappointing for a government so bound up with “growth with equity” issues. Income distribution data were not available for East Malaysia but it would be surprising if there had not been the same movement toward increasing income inequality since the same development strategy was pursued and the presence of factors which might have reversed or slowed the movement toward inequality was even less evident.

Another criticism that can be made of the New Economic Policy is that its explicit quota-goals have been too ambitious, and that the measures that have been taken to achieve them have impeded the growth process. upon which the fulfilment of the New Economic Policy depends. For example, the target share of the corporate stock in Peninsular Malaysia for the Malays and other indigenous people for 1975 was 14.4 per cent. The actual share obtained was only 7.8 per cent. The low income of the Malays and the correspondingly low propensity to save meant that many of the shares reserved for Malays in private enterprises could not be taken up by Malay individuals and firms. In order to achieve the target, various statutory bodies (e.g., MARA. PERNAS and the Permodalan Nasional Berhad) began to hold the share capital in trust for the bumiputra population. However, even with the “bumiputra trust agencies” and not “bumiputra individuals” spearheading the wealth restructuring programme of the New Economic Policy. there was a significant shortfall in the programme.

\[\text{TABLE 1}\]
\[\text{RATIO OF MEAN TO MEDIAN REAL MONTHLY HOUSEHOLD INCOMES IN PENINSULAR MALAYSIA, 1970–79}\]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Peninsular Malaysia</td>
<td>1.59</td>
<td>1.60</td>
<td>1.64</td>
<td>1.59</td>
</tr>
<tr>
<td>Urban</td>
<td>1.62</td>
<td>1.66</td>
<td>1.67</td>
<td>1.62</td>
</tr>
<tr>
<td>Rural</td>
<td>1.44</td>
<td>1.47</td>
<td>1.49</td>
<td>1.49</td>
</tr>
<tr>
<td>Malay</td>
<td>1.43</td>
<td>1.48</td>
<td>1.48</td>
<td>1.50</td>
</tr>
<tr>
<td>Chinese</td>
<td>1.47</td>
<td>1.56</td>
<td>1.64</td>
<td>1.51</td>
</tr>
<tr>
<td>Indian</td>
<td>1.59</td>
<td>1.47</td>
<td>1.49</td>
<td>1.45</td>
</tr>
<tr>
<td>Others</td>
<td>3.25</td>
<td>3.66</td>
<td>3.22</td>
<td>3.46</td>
</tr>
</tbody>
</table>

Sources: Federation of Malaysia, Fourth Malaysia Plan, 1981–85, p. 56.
Federation of Malaysia, Mid-Term Review of the Fourth Malaysia Plan, 1981–85, p. 94.
This resulted in an even greater dependence on the statutory bodies to hold corporate shares in trust for the Malays. A number of economically adverse consequences followed from this. First was the inefficiency which arose from the concentration of power under bureaucratic control. There is no guarantee that state enterprises will be run efficiently. Their senior managers are usually politicians or civil servants on secondment who may not necessarily make good businessmen, or owe allegiance to the statutory bodies they head. Second, the very rapid concentration of economic power in the hands of a small group of people inevitably increased the scope for “rent seeking”. Third, the greatly increased role of the state in the economy would create fear and uncertainty in the private sector with adverse effects on private investment.

If private investment were to slow down and there is gross inefficiency in the operation of the statutory bodies. the growth of the economy and the corporate sector will be adversely affected. This will then require a higher Malay share of the increase in the stock of wealth, which may further slow down the rate of growth in the corporate stock. Unless the efficiency of the statutory bodies is increased and/or a scaling down of the restructuring targets is accepted, the original growth strategy on which the New Economic Policy is built may be abandoned in favour of a redistributive one.

These criticisms acquire greater significance against a background of growing inequality in income and wealth distribution within the Malay community. The majority of the shares reserved for the Malays have been bought. as could be expected. by the richer members. The purchase of shares to be held in trust for the poor not only increases the power of the relatively small number of Malay politicians and civil servants in charge but also boosts their income very considerably. This growing inequality is inevitable in the short-run. The fear is that it will persist, for without tight supervision the trustees of the assets may come to administer them on their own behalf rather than on behalf of the intended beneficiaries, the Malay poor.

Most of these weaknesses of Malaysian planning have been recognised by the government in the Mid-term Review of the Fourth Malaysia Plan. Concern was expressed about the shortfall in private investment and the rapid increase in public investment (16.5 per cent p.a. against a planned 4.1 per cent p.a.). The government saw the main macro-economic task for the remainder of the plan period as the reversal of this trend, a move that began with the 1984 budget's cut-back of public consumption. The review also saw the need to revise the goals of the New Economic Policy, to rely more on "privatisation" to bring about the transfer of corporate wealth, and to ensure that a wider cross-section of the bumiputra community benefit from the restructuring programme. There was also concern over the dramatically rising debt service charges (from 11 per cent of government revenue in the 19705 to one of 25 per cent in 1984), brought about. in large measure. by the massive acquisition of foreign-owned Malaysian assets. which was spurred on, in turn. by the restructuring programme of the New Economic Policy. The Malaysianisation of assets does not necessarily create wealth and the probable economic growth forgone and the certain outflow of funds have necessitated a slowing down of the programme.

IV. Need for Planning in East Malaysia and the Relevance of the Peninsular Malaysian Experience
Malaysian planning is influenced very heavily by the Peninsular Malaysian experience. This is to be expected for a number of reasons. First, the personnel responsible for formulating the overall strategy for development are, without exception, from Peninsular Malaysia. Second, the planning skills available for drafting the First Malaysia Plan, in the sense of being able to produce a document that is more than an aggregation of the expansion programmes of separate government departments, were derived from the work involved in drawing up the First and the Second Malaya Plans. Third, Peninsular Malaysia is very much more important than East Malaysia: in 1970 it accounted for 85 and 86 per cent of the Malaysian population and gross domestic product respectively.

Under such circumstances, it would have been strange if the strategies adopted for the four Malaysian plans have not been influenced significantly by the development experience of Peninsular Malaysia. The extent to which this experience is relevant for solving the development problems of East Malaysia depends on how similar their economic structures and social indicators are. Differences in these would show, to a large extent, differences in the constraints to growth and differences in the strategy required to break them. It also depends on the development planning that was carried out in Sabah and Sarawak before they became part of Malaysia in 1963. If this was substantially different from the Peninsular Malaysian approach, then it would be difficult to incorporate the one into the other.

The industrial origins of the GDP of Malaysia. Peninsular Malaysia, and East Malaysia and its constituent pans of Sabah and Sarawak for 1970 and 1983 are given in Table 2. It can be seen that the agricultural, forestry, and fishing sector is much more important for East Malaysia, especially for Sabah. Mining and quarrying activities are also more significant to Sabah and Sarawak, especially the latter. On the other hand, manufacturing plays a much less important role in East Malaysia, particularly in the case of Sabah. Equally interesting is the fact that these structural differences have become more pronounced over the years.

What these differences show is that the Peninsular Malaysian economy is much less dependent on primary-producing activities and much more dependent on secondary ones than the East Malaysian economy. This is confirmed by the differences in the occupational distribution of their labour force. Table 3 shows that a far larger proportion of East Malaysians found work in the agricultural sector, while the reverse is true as far as manufacturing (which takes in production workers) and tertiary activities (which take in service and sales personnel) are concerned. These differences are also shown by the much larger role played by the agricultural and services sectors, and the much smaller role played by the manufacturing sector, in job-creation in East Malaysia.
<table>
<thead>
<tr>
<th>Sector</th>
<th>Malaysia</th>
<th>Peninsular Malaysia</th>
<th>East Malaysia</th>
<th>Sabah</th>
<th>Sarawak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry &amp; fishing</td>
<td>30.5</td>
<td>22.8</td>
<td>28.5</td>
<td>20.8</td>
<td>43.2</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>6.6</td>
<td>4.4</td>
<td>6.3</td>
<td>3.3</td>
<td>8.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14.7</td>
<td>18.3</td>
<td>16.1</td>
<td>20.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Construction</td>
<td>4.3</td>
<td>5.7</td>
<td>4.2</td>
<td>5.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.9</td>
<td>2.5</td>
<td>2.0</td>
<td>2.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Transport, storage &amp; communications</td>
<td>5.0</td>
<td>8.1</td>
<td>5.1</td>
<td>8.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Wholesale &amp; retail trade,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>hotels &amp; restaurants</td>
<td>13.6</td>
<td>13.7</td>
<td>13.8</td>
<td>14.2</td>
<td>12.4</td>
</tr>
<tr>
<td>Finance, insurance, real estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&amp; business services</td>
<td>8.9</td>
<td>8.1</td>
<td>9.2</td>
<td>8.4</td>
<td>7.3</td>
</tr>
<tr>
<td>Government services</td>
<td>11.6</td>
<td>13.6</td>
<td>11.8</td>
<td>13.8</td>
<td>10.3</td>
</tr>
<tr>
<td>Other services</td>
<td>2.8</td>
<td>2.6</td>
<td>3.0</td>
<td>2.8</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total: (%)</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>($m., in 1970 prices)</strong></td>
<td>12618</td>
<td>30810</td>
<td>10888</td>
<td>26661</td>
<td>1730</td>
</tr>
<tr>
<td><strong>Per Capita GDP ($, in 1970 prices)</strong></td>
<td>1172</td>
<td>1836</td>
<td>1190</td>
<td>1886</td>
<td>1074</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Occupational Group</th>
<th>Share in Total Labour Force (%)</th>
<th>Share of Increase in Labour Force (%)</th>
<th>Average Annual Growth Rate 1971–80 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1970</td>
<td>1980</td>
<td></td>
</tr>
<tr>
<td></td>
<td>P. M'sia</td>
<td>E. M'sia</td>
<td>P. M'sia</td>
</tr>
<tr>
<td>Professional &amp; technical</td>
<td>4.8</td>
<td>3.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Administrative &amp; managerial</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Clerical</td>
<td>5.0</td>
<td>4.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Sales</td>
<td>9.1</td>
<td>4.7</td>
<td>10.2</td>
</tr>
<tr>
<td>Service</td>
<td>7.9</td>
<td>4.9</td>
<td>8.3</td>
</tr>
<tr>
<td>Agriculture</td>
<td>44.8</td>
<td>66.5</td>
<td>34.8</td>
</tr>
<tr>
<td>Production</td>
<td>27.3</td>
<td>14.4</td>
<td>33.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: The Mid-Term Review of the Fourth Malaysia Plan provides data for 1983 but these have not been used because of mistakes and inconsistencies in them (e.g., the number of productive workers in East Malaysia exceeded the number of such workers for the whole of Malaysia).

Another very important difference between East and Peninsular Malaysia is in the social indicators of economic development. The former is much less well-placed in the provision of infrastructural facilities (e.g., roads and railways), education (e.g., the teacher-student ratio and the upper secondary/form VI transition rate) and medical services (e.g., the number of persons per registered doctor or per acute hospital bed). The balance in favour of Peninsular Malaysia is equally true for Sabah, in spite of the fact that in 197] and 1983 the per capita GDP of Sabah was higher than the average for Peninsular Malaysia. These two sets of data simply show the very strongly dualistic nature of the Sabah economy, where there is a small but highly productive modern sector of oil, timber and cash crops, co-existing with a larger, low-productivity subsistence sector.

Another difference between East and Peninsular Malaysia lies in the availability of land. East Malaysia has over 60 per cent of Malaysia’s total area and about 50 per cent of its developed area but only about 17 per cent of its population. The low population density is especially striking for Sarawak, with 1.1 million people on 30.7 million acres of land or 40 per cent of the country’s total land area. Another way of looking at the disparity is to note that Sabah alone has as much land suitable for agriculture and still available for development as Peninsular Malaysia, while Sarawak has two and a half times as much. The “undeveloped” state of the East Malaysian economy has also probably meant that mineral exploration inside it has only begun, although the offshore oil-fields in Malaysia are located in East Malaysian waters.

The analysis so far shows that East Malaysia is very significantly more dependent than Peninsular Malaysia on primary production. This will remain so for some time to come because of the great abundance of untapped cultivable land there. East Malaysia lags very considerably behind in its infrastructure, manpower development, and medical facilities. The population density is also very much lower. Perhaps symptomatic of the relatively “undeveloped” state of the East Malaysian economy is the severe shortage of statistical data.

These social and economic characteristics of East Malaysia suggest that the development planning required is essentially one of producing an efficient land-use programme, of ensuring that the development of natural resources is not carried out haphazardly, with scant regard for the rate of depletion and market demand. This does not make development planning any less necessary or easy. A natural resource development programme will require a detailed topographical study of the country to find out what crops and minerals can be produced, an equally detailed study of the market demand for these products to ensure that what are produced will be sold profitably, an examination of the various strategies of, say, land development for the cultivation of various cash-crops once these have been decided, and the choice of production methods within each sector. It would also require programmes to develop the supporting infrastructural facilities and manpower resources.

The need for topographical and market demand analyses are self-evident and they require analytical skills of a very high order. Land development strategies have to be examined to find out whether the early small-scale Felda (Federal Land Development Authority) format is more suitable than its more recent integrated rural development one. This exercise requires agricultural, technical, economic, and sociological skills separately and in conjunction with
one another. The integrated approach would provide economies of scale and externalities but would cost a great deal more and require a much greater range of skills. The choice of production methods is also important as there are, for example, different ways of clearing the land and of building the road-system and houses within a land development scheme and these will have quite different impacts on efficiency, employment and equity. At the same time the supporting infrastructure and manpower resources must be developed.

A development strategy that is based on the development of natural resources and the accompanying infrastructural and manpower services is therefore not a “hit and miss” affair. Nor is it one that requires no development planning in the normally accepted sense. Thus a most needed macroeconomic framework for estimating the savings and foreign exchange required for the natural resource and infrastructural development programmes can be provided by the open Harrod-Domar model. The sectoral approach can then be integrated into this broad framework to ensure that the activities of the various sectors are co-ordinated. There is, however, little need for the sophisticated inter- industry programming approach with its severe data requirement. If an input-output table is at all needed, it has only to be in the most rudimentary form. Econometric modelling is also a luxury. On the other hand, it is important to have skills in social cost- benefit analysis.

There are thus important differences between East and Peninsular Malaysia. However, Malaysian planning, though influenced very heavily by the Peninsular Malaysian experience, is relevant for East Malaysia. It is true that in 1984, Peninsular Malaysia is much less dependent on the primary sector than Sabah and Sarawak and that it is many years ahead in most areas of social and economic development. However, it is equally true that until only very recently Peninsular Malaysian economic growth was based on primary production and that even in 1984 the primary sector is only slightly less important than the manufacturing sector. Thus Peninsular Malaysian planning was, and continues to be, significantly concerned about primary production. As such the experience of the last 25 years and the knowledge required for the future development of the primary sector in Peninsular Malaysia are relevant for planning development in East Malaysia.

As a geographical unit, Peninsular Malaysia is more advanced than East Malaysia in social-economic development. However, there are areas in Peninsular Malaysia (e.g., Kedah and Kelantan) where infrastructural facilities, medical services and human resources require upgrading. In this respect, then, there is much that Peninsular Malaysian planners have learned about regional development that is of direct relevance to Sabah and Sarawak. The fact that, for the most part, the ruling parties in the two East Malaysian states are part of the National Front means that there are no political constraints to federal funds being spent there. This is very different from the situation that existed in Kelantan when it was starved of federal development projects for being under the control of the opposition Pan Malaysian Islamic Party.

The influence of the Peninsular Malaysian planning style is seen in the allocation of public development expenditure by sector in Sabah and Sarawak over the period of the four Malaysian plans, 1966-85. Table 4 shows that over this period the ratios of economic expenditure to social expenditure for Peninsular Malaysia, Sabah and Sarawak were 4.0, 4.25 and 4.2 respectively. Thus the balance in Peninsular Malaysia between economic expenditure and social expenditure has been adopted for the East Malaysian states.
Another similarity is the importance given to agriculture and rural development and energy and public utilities in the economic sector and the importance given to education and training in the social sector. There are differences, the most significant being the much greater emphasis placed on transport in East Malaysia. Development expenditure in administration also gets a bigger share. While security expenditure assumes much greater significance in Peninsular Malaysia.
Another similarity is the importance given to agricultural and rural development expenditure in East and Peninsular Malaysia. The similarities in, and the differences between, the sectoral allocations of development expenditure are consistent with the similarities in, and the differences between,
differences between, their economic structures and stages of development. The sectoral allocations for Sabah and Sarawak are also consistent with a development strategy that is based on the development of natural resources. There is, first, the emphasis on agricultural and rural development to reflect the dominance of agriculture in the East Malaysian economy. The equally large expenditure on the transport sector shows recognition of the need to “free up” the two states for economic development. The increasing attention to the development of the energy and utilities sector can also be seen in this light, as can the emphasis on increasing the level of education, training, and administrative support. The impression given, then, is of a public sector development expenditure strategy that is concerned with providing the supporting infrastructural and manpower services to enable the vast natural resources of Sabah and Sarawak to be developed along “vent for surplus” lines. Whatever industrial activities encouraged are limited to those which enjoy natural protection or those which make intensive use of locally available natural resources. The small population of East Malaysia almost guarantees that manufacturing activities outside these two areas cannot be economically viable.

V. Similarities in Pre-1963 Planning in East and Peninsular Malaysia

Some form of development planning had been adopted and implemented in Sabah and Sarawak before they joined the Federation of Malaysia in 1963. The philosophy that lay behind this planning and the operation and procedures used were quite close to those adopted by planners for Peninsular Malaysia over the same period. The level of sophistication was lower but this does not make the Peninsular Malaysian experience irrelevant for East Malaysia, nor does it make the incorporation of the two state development plans into the various Malaysia Plans difficult.

The first pre-1963 plan of any note for Sabah (then British North Borneo) was the Plan for Reconstruction and Development for 1948-55. This was formulated in response to the passing of the United Kingdom Colonial Development and Welfare Act of 1945 which provided £120m for development and welfare schemes in British colonies over the period 1945-56. The Draft Development Plan of 1950-55 for Peninsular Malaysia (then Malaya) was prepared under the same circumstances.

The main aim of the 1948-55 plan for Sabah was to rehabilitate the largely war-devastated economy. A total expenditure of £6m was provided, with £2.2m for reconstruction and £3.8m for development. The highest priority was placed on infrastructural activities, which were very underdeveloped even before the Second World War. Some emphasis was also put on the development of agriculture and livestock.

The next plan was the 1959-64 Development Plan. It was originally formulated in 1958 and approved in 1959, with a development expenditure of $60m, to be funded from the Colonial Development and Welfare Fund (43 per cent), loans raised by the Sabah Government (16 per cent), and surplus funds from the ordinary budget of Sabah (41 per cent). There was a contingency fund of $10m. The largest share of the budget of $71m went to the transport and communications sector (43.7 per cent). Expenditures on public buildings, social services and public utilities were also significant. The total expenditure eventually came to $156m, as revenues were boosted by the buoyant prices for timber.
The next plan, the 1965-70 Sabah State Development Plan, was incorporated into the First Malaysia Plan, 1966-70. However, the basic philosophy and objectives of the Sabah Plan were not changed significantly as a result of this. Four long-term development goals were identified. These were the promotion of economic growth as fast as the state's human resources would permit, the rapid development of the state's human resources, the widening of its social and economic facilities, and the reduction of economic and social inequalities.

The specific operational objectives of the 1965-70 plan were to promote land development, provide universal primary education by 1970, construct road links between major towns, extend the system of agricultural feeder roads, upgrade other infrastructural facilities, develop the communications system, expand preventive and curative medical services, and fill the extreme shortages of skilled and semi-skilled labour.

The 1965-70 plan was thus a more comprehensive and ambitious effort than its predecessors in mobilising the state’s human, financial and natural resources to achieve both long-term and short-term goals. It also set the pattern and scope for the subsequent development plans for Sabah which were incorporated into the various Malaysia Plans.

Pre-1963 development plans for Sabah were no more than aggregations of the expansion programmes of separate government departments. The planning procedure was simple. Each government department was requested to submit its own bid for recurrent and development expenditure. The total of these claims would normally exceed the funds available. and a committee would then reduce the sum total of these claims until it equalled that of the funds available. The exercise would be carried out in accordance with the government's declared priorities.

The plans were therefore largely programmes of public investment expenditure. They were not comprehensive development plans with explicit economic targets and a concern for internal consistency. They were thus essentially the same as the Draft Development Plan of Malaya, 1950-55, and the First Malaya Plan, 1956-60. As such, they were no more difficult to incorporate into the more comprehensive and sophisticated Malaysia Plans than their Peninsular Malaysian counterparts. The 1965-70 plan was an advance on previous Sabah plans, and its presentation and approach were quite consistent with those of the Second Malaya Plan, 1961-65.

The same conclusions can be made about planning in Sarawak. As in the case of Sabah, a plan, the Development and Welfare Plan of 1947-56, was drawn up to rehabilitate and develop an economy which had suffered years of neglect and damage because of the Second World War. In 1951 a revised plan, covering the period 1951-57, was prepared partly in response to the request of the Consultative Committee of the Colombo Plan to British colonies to draw up development programmes so that their needs for foreign aid could be assessed and partly because of the buoyant export earnings. This plan was superseded by one for the period 1955-60, and this, in turn, was followed by the Development Plan for 1959-63.

As with the early plans for Peninsular Malaysia and Sabah, these plans for Sarawak were little more than public expenditure programmes aimed at infrastructural development,
especially road building, and the development of the subsistence agricultural sector. Take, for example, the case of the 1959-63 plan. This was conceived and implemented basically as a long-term budget, to be adjusted according to the availability of funds and the progress of the projects supported. No macroeconomic targets were set, so the plan could not be assessed by comparing the actual with the planned growth rates of the state’s output and employment levels. Such plans are typically evaluated by comparing the actual with the planned sectoral expenditures. Thus for the 1959-63 plan, agricultural performance was said to have been disappointing as the actual share of agriculture in the total expenditure was only 17 per cent. compared to the target of 27 per cent. Though some individual agricultural projects would have been evaluated, the over-all approach could not have shown the extent to which agricultural output had fallen below the targeted level and so the expected agricultural contribution to Sarawak’s output and employment growth.

The 1964-68 Development Plan of Sarawak attempted to be more than a public expenditure programme. It stated that “for the proper planning of development it is necessary to view the economy as a whole and to decide the general aims which it is hoped to achieve, before one maps out the part to be played by the Government. A development plan should result in an outline of the government’s capital expenditure for the period covered; but the government’s investment is not an end in itself and it is the total results of the economy which matter to the people gaining their living from it”. Thus the aim of planning was seen as an improvement in the standard of living of the people and this was set in terms of output and employment targets. Government expenditure played an important part in achieving these targets and they were to be concentrated on infrastructural development (especially road building), agriculture (especially rubber planting), education, and public utilities (especially health and electricity). The 1964-68 plan could therefore be assessed in terms of macroeconomic targets, sectoral allocation targets, and project efficiency, and was thus a more comprehensive plan document than its predecessors. In this sense it compares relatively well with the 1965—70 Sabah Development Plan and the Second Malaya Plan 1961-65. and was incorporated easily into the First Malaysia Plan 1966-70.

VI. Concluding Remarks

It would thus be fair to conclude that the planning experience of Peninsular Malaysia has been relevant for Sabah and Sarawak. and that the East Malaysian plans have been incorporated relatively easily into the various Malaysia Plans. However, this does not mean that the development strategy adopted for East Malaysia has no weaknesses. One obvious weakness lies in the implementation of the New Economic Policy along the Peninsular Malaysian lines. All of the criticisms that have been raised against the restructuring programme in Peninsular Malaysia will be more pointed in East Malaysia, given the generally lower incomes of the indigenous people and the smaller number of skilled indigenous civil servants. There is a greater tradition of “ministerial” capitalism in East Malaysia, especially in Sabah, without having necessarily the efficiency of a market or even “state” capitalism. The restructuring programme of the New Economic Policy has accentuated this tendency.

Another may have been a lack of awareness of the effects of what has been popularly known as the “Dutch disease”, especially in the case of Sabah. Over the period 1945-75 the Dutch economy grew rapidly, largely because of its efficient agricultural export sector.
Large reserves of natural gas were found in the early 1960s and gas exports became significant after 1975. This resulted in a massive appreciation of the Dutch guilder and marked increases in government spending. The former led to a loss of competitiveness in traditional Dutch exports, an effect which was compounded by the rapid increase in inflation rates in the wake of the increase in government spending. The gas windfall, therefore, brought mixed blessings to the Netherlands. Hence the so-called “Dutch disease”, an “illness” that is suffered by the oil-exporting economies of Mexico, Indonesia, Venezuela and Nigeria.

In the 1960s and early 1970s the Sabah economy benefited from the export of timber, and in the late 1970s and early 1980s from the export of oil. There can be no adverse effect emanating from the foreign exchange end as Sabah is a part of Malaysia and does not run its own currency. However, inflationary pressures could have been created, not only because of increased government spending but also because money supply increased much faster than the supply of goods and services. No research has been carried out to see whether the Sabah economy has suffered from the “Dutch disease”. The various Malaysian plans have tended to treat the problem of primary production as one of declining terms of trade and revenue instability. However, it is possible that there can be problems of plenty.

[Footnotes]

5. For a more detailed evaluation of Malaysian planning, see D. Lim, "Malaysian Development Planning", Pacific Affairs 55 (Winter 1982-83): 613-39
9. Ibid., p. 95
11. The “vent for surplus” approach to economic development shows how international trade enables an abundant resource with no effective internal demand to be exported and so to earn the foreign exchange to import the goods for which there is an internal demand, see H. Myint, "The 'Classical Theory' of International Trade and the Underdeveloped Countries", Economic Journal 68 (1958): 317-37