Malaysian development planning

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DEVELOPMENT PLANNING has been described as “a deliberate governmental attempt to co-ordinate economic decision-making over the long-run and to influence, direct and, in some cases, even control the level and growth of a nation’s principal economic variables (income, consumption, employment, investment, saving, exports, imports, etc.) in order to achieve a pre-determined set of development objectives.”¹ One set of reasons for planning centres round the operation of the market system. Thus, market prices are often distorted and can result in a misallocation of scarce resources. Another set revolves round the need to have a rallying point for local and foreign interests in eliminating poverty. A development plan is seen to provide this psychological boost for the local population, while to the foreigners it is “proof” that the country is serious about development.

There are basically three types of planning models. First, there are the macro or aggregate models which deal with the entire economy in such aggregate terms as consumption, saving, investment, exports and imports. These are either of the Harrod-Domar type or of a more econometric nature. If capital is assumed to be the crucial constraint to growth, the former can be used to estimate the saving required to achieve a certain target growth-rate for a given marginal productivity of capital. If, on the other hand, the shortage of foreign exchange is the crucial constraint, then the Harrod-Domar model can be used to highlight the role of the foreign sector. Macro econometric models consist of a number of equations with the same number of unknown variables, with the equations representing the basic underlying structural relationships of the economy.

The second general type of planning model is the sectoral model, which can in turn be divided into two approaches. The first approach is to divide the entire economy into two or more main sectors with the aim of formulating an overall plan that is based on the co-ordinated activities

of these sectors. Examples of disaggregation are the division into the agricultural and the non-agricultural sectors or the division into the consumer, producer, and export-oriented sectors. The second approach is a partial one, where each sector or industry is assessed on its own merit without reference to the extent of interdependence between sectors or industries. This approach is popular among countries which lack statistical data and skilled planners. However, it runs the danger of presenting a haphazard collection of assorted development projects which apparently have no connections with one another.

The third and by far the most sophisticated type of development planning is the inter-industry approach, in which the activities of all the productive sectors of the economy are linked to one another through a set of simultaneous linear equations which express the specific production processes of each industry. This model can be used to estimate the intermediate material, import, labour and capital requirements for any given target output of a sector and so to produce a comprehensive plan with mutually consistent production levels.

The distinguishing feature of this approach is, therefore, its ability to ensure internal consistency. Input-output tables are often used in planning specifically for this purpose. However, it is possible to extend the technique to include feasibility and efficiency checks, where the aim is further to ensure that the production levels are possible with the given stock of resources and to see that they constitute the most efficient combination.

It should be noted, of course, that most of the day-to-day investment decisions are made at the micro-economic level, with the use of project appraisal or social cost-benefit analysis. Macro models may be used to set the broad strategies of development, and input-output analysis employed to ensure sectoral consistency. However, it is with the use of project appraisal that planners ensure the efficient allocation of scarce funds between individual projects within each sector. Effective planning requires that none of these three stages of planning be ignored. Thus, the choice of a correct strategy and the presence of internal consistency will be of little avail if projects are badly chosen.

THE HISTORY OF MALAYSIAN DEVELOPMENT PLANNING

Seven “development plans” have been published so far in Malaysia. Are they plans in the accepted sense? What strategies have they adopted? Are they internally consistent? Has project appraisal been
used? And how successful have they been in achieving their stated objectives? Before we evaluate the seven “development plans,” we shall describe them briefly.2

Draft Development Plan, 1950–55

This was formulated in response to the passing of the United Kingdom Colonial Development and Welfare Act (1945) which provided £120 m. for development and welfare schemes in British colonies over the period 1945–56. In 1946, heads of departments were asked to submit proposals within the framework of a ten-year development programme. The outcome was an estimate of M$542 m. for capital expenditure and $98 m. for recurrent expenditure. Over the next two years, two committees were set up: first, to select so-called “priority schemes” for immediate submission to the Colonial Office for grants from the Colonial Development and Welfare funds; and second, to allocate these funds between Singapore and West Malaysia. The guiding principle in the first task was to finance revenue-producing schemes out of loans, annually recurrent expenditure out of revenue and non-revenue-producing schemes out of grants from the Colonial Development and Welfare funds. About $43 m. was made available from the Colonial Development and Welfare funds to the two territories: West Malaysia was allocated $24 m., Singapore $7 m., while the balance of $12 m. was to be spent on joint projects.

The above exercise formed the basis of the Draft Development Plan, 1950–55, which was described as “an attempt to define the objectives of social and economic policy for the period 1950–5, to balance them in relation to each other and to plan them within range of the resources available to finance them.” The plan itself was divided into four parts: (1) the development of social services, (2) the development of national resources and utilities, (3) the development of trade and industry, and (4) a description of the sources of finance. The total capital expenditure

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by the government was set at $214.6 m., of which $55.2 m. was for the development of social services and $159.4 m. for the development of resources and utilities. Recurrent expenditure was estimated to be between $22.5 m. and $28.5 m. The projected amount for the development of social services varied from $13.2 m. to $17.7 m., while that for the development of resources and utilities was from $9.3 m. to $10.8 m.

While the Draft Development Plan was being written, the Consultative Committee on South and Southeast Asia convened for the first time, in Sydney in May 1950. This committee had been established in January 1950, in Colombo, by the Foreign Ministers of the Commonwealth countries in order to accelerate the rate of economic development in South and Southeast Asian countries. It was believed that such development was essential to the maintenance of political stability in the area and for the growth of world trade and the world economy. One decision of the meeting in Sydney was to draw up a programme for economic development for the region over the period 1951–56, and invitations were sent out to the participating countries to prepare six-year development plans. Non-Commonwealth countries in the region were also invited to take part in the exercise. The committee also decided to provide funds for a technical assistance programme for the area.

West Malaysia’s contribution to the Colombo Plan was only the Draft Development Plan in a slightly modified form, as the original estimates for the period 1950–55 were simply projected forward linearly for the period 1951–56. An additional capital expenditure of $169 m. for new items of development was included, resulting therefore in a total capital expenditure of $383.6 m. as against the $214.6 m. in the Draft Development Plan.

First Malaya Plan, or A Plan of Development for Malaya, 1956–60

The basis of this plan was the report of the IBRD mission which came to West Malaysia in 1954, at the height of the Emergency and the decline in the boom generated by the Korean War, to gauge the economic potential of the country. The mission noted that the infrastructure for the main export industries, particularly the European-dominated sections, was well-developed. It recommended, therefore, that social overhead development should be concentrated on the non-export, predominantly Malay, rural sector of the economy. It also emphasized the need for a massive rehabilitation programme for the rubber industry to enable it to compete successfully with the synthetic rubbers industry. The mission recommended a public-development expenditure of
$778 m. over the period 1955–59. The biggest single item of expenditure was for rubber replanting ($125 m. or 16.6 per cent), followed by $94 m. (or 12.1 per cent) for the construction of roads and bridges in basically the non-export sector. The emphasis given to rural development can also be seen in the allocation for other development items.

The IBRD Report was a great help in the formulation of the First Malaya Plan, as it was the first detailed and comprehensive study of the problems and the needs of West Malaysia. The plan went along with the IBRD mission’s emphasis on the need to rehabilitate the rubber industry and to develop the rural subsistence sector. It differed from the IBRD mission in that it also saw improvements to the tin industry and industrial development as being of the “highest priority.” Significant differences can be seen in the allocation of public-development expenditure. In terms of the allocation between three broad categories—economic, social, and government miscellaneous and unallocated—the IBRD mission recommended 62:25:13, while the plan’s suggested ratio was 60:30:10. In terms of the overall level of expenditure, the plan increased the IBRD Report recommended figure of $778 m. by nearly 48 per cent, to $1,149 m. This was to take care of the expected increase in the cost of construction and in the expenditure for certain “priority” items. The plan was dominated by the defence and security sector and the need of finding the revenue to finance the Emergency expenditure—problems aggravated by the decline in the prices of rubber and tin in the aftermath of the Korean War boom.

Second Malaya Plan, 1961–65

This was formulated with technical assistance from the IBRD and was conceptually more satisfactory than the previous plans in being more than an aggregation of separate departmental expansion programmes. The objectives, in the order in which they were given, were an improvement in the rural standard of living, the provision of greater employment opportunities and a faster rate of economic growth, the diversification of agricultural and industrial activities, and an expansion of social overhead facilities. The planning technique used was the incremental capital-output ratio one, where the investment requirement is calculated on the basis of the desired rate of growth of output and a given incremental capital-output ratio (ICOR). With a target rate-of-increase of 22 per cent in the total output over the period 1961–65, and an ICOR of 4, the investment ratio was estimated at 18 per cent or $5,050 m.—an increase of nearly 67 per cent over the actual amount
invested over the preceding five years. In terms of the investment ratio, it involved an increase from 12 per cent to 18 per cent.

The public sector was expected to spend $2,150 m., or more than twice the amount of the actual public development expenditure of the previous five years. The private sector was expected to invest the other $2,900 m., which again represented a substantial increase (40 per cent) over the level achieved under the First Malaya Plan, 1956-60. The bulk of this increase was projected to take place in the manufacturing, road transport, construction, and commerce sectors. The highest rate of increase in output was expected to take place in the construction industry (79 per cent), and the lowest in the agricultural and other services sectors (15 per cent). The other sectors into which the economy had been divided—the mining and manufacturing sector, the transport and utilities sector, and the government services sector—were projected to grow at the rates of 36, 24, and 22 per cent, respectively. The level of employment was expected to go from 2,215,000 to 2,555,000 jobs, an increase of 15 per cent. The construction industry was projected to increase its intake of labour fastest (75 per cent), which was in line with the projected increase in output, though a slight employment lag was assumed. The overall employment lag was expected to be much higher, as the percentage increase in employment was assumed to be only 68 per cent of the percentage increase in output.

First Malaysia Plan, 1966–70

Before the formation of Malaysia in September 1963, each of the three component states—West Malaysia, Sabah and Sarawak—had its own development plan. The First Malaysia Plan was the first integrated plan for the three regions. It was also the first phase 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. The stated objectives and the planning technique adopted were basically the same as those in the previous plan. The fundamental aim was the creation of an environment in which all three 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 and family-planning programmes were simply operational devices to bring about the fundamental objective.
The technique used was primarily the ICOR approach. The real gross national output was projected to grow by 4.9 per cent per annum, or 24 per cent over the period 1966–70. With an assumed ICOR of 3.9, investment was set at $9,730 m., or 19 per cent of the gross national product. The private sector was expected to be the "engine of growth"; its share of the investment was $6,160 m., the bulk of which was to take place in the industrial sector and its related trades. The traditional areas of estate planting and replanting, dwellings and commercial buildings, and mining equipment were scheduled to play a smaller part. The aim was to create a level of investment which would increase from $1,010 m. in 1965 to $1,400 m. in 1970, consisting of a constant level in the perennial crops sector, a 5 per cent annual increase in housing investment, and a 10 per cent increase per year in the other areas. The target of $6,160 m. represented an increase of about 40 per cent over the level achieved in the preceding five years.

The share of the public sector in the programme was $3,570 m., projected at an average annual level that was only equal to the 1965 level of about $715 m. The dominant factor in determining this relatively conservative target for public capital-formation was the tight financial position of the public sector. A shortage of administrative and implementational capacity in the East Malaysian states was also a problem.

Employment was projected to increase by 377,000 jobs in West Malaysia and 84,000 jobs in East Malaysia. If the target was reached in West Malaysia, the rate of unemployment would be reduced from 6.0 per cent in 1965 to about 5.2 per cent in 1970. The employment lag would be slightly smaller than that projected for the Second Malaya Plan, as the percentage increase in employment was assumed to be only 62.5 per cent of the percentage increase in output.

The objective of a more equitable distribution of income and wealth was to be achieved through the provision of better rural infrastructural facilities and the establishment of land-development schemes. Malay participation in the commercial and industrial sectors was planned only on a very minor scale.

Second Malaysia Plan, 1971–75

The formulation of this plan was influenced very significantly by the civil disturbances of May 1969, which revealed that under the apparent calm and prosperity there was a strong undercurrent of discontent in West Malaysia. Consequently, the plan gave highest priority to achieving a more even distribution of income and wealth. Its New Economic Policy
aims at the eradication of poverty by raising income-levels and increasing employment opportunities for all Malaysians, irrespective of race. The New Economic Policy also aims at accelerating the process of restructuring the Malaysian society to correct the economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function.

The New Economic Policy consists, therefore, of two prongs. The first—the poverty prong—aims at increasing the access of the poor to land, physical capital, training, and other public amenities. By increasing the quantity and the quality of the factors of production at the disposal of the poor, it is hoped that the incidence of absolute poverty will be reduced substantially. The second prong—that of restructuring—aims at reducing the dependence of the Malays and other indigenous people on subsistence agriculture and seeks to increase their role in the modern rural and urban sectors of the economy. These changes are projected to occur over a twenty-year Perspective Plan period, 1971–90, and the plan was the first in a series of development plans to be formulated and implemented over this period.

In operational terms, the restructuring prong has two explicit quotas. The first is that employment by sector should approximate more 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 a share of at least 30 per cent of the capital of the corporate sector (as compared to the 2.4 per cent share in 1970). The share owned and operated by other Malaysians is to increase from 34.3 per cent to 40 per cent, while that by foreigners is to drop from 63.3 per cent to 30 per cent.

A growth rather than a redistributive strategy is to be adopted in eradicating poverty and in restructuring society. As far as the eradication objective is concerned, this means that policies will be pursued to ensure the compatibility of growth and equity objectives. As far as the restructuring objective is concerned, this means that the increase in the Malay share of corporate capital is to be brought about by the active participation of Malays in an expanding output, not by the redistribution of the existing output. Likewise, the restructuring of the labour force is to be effected by the active participation of Malays in the new employment opportunities generated by economic growth, not by the displacement of existing non-Malay workers.

The gross national product in 1965 prices was expected to grow by 6.8 per cent per year. No mention was made of the ICOR approach to
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planning. The aggregate level of planned investment was $12,150 m., which was 16.6 per cent of the gross national product. This sum was about 48 per cent greater than the level actually achieved over the period of the First Malaysia Plan. The private sector was expected to contribute $7,843 m., as compared to the $5,051 m. actually invested in the preceding five years—an increase of over 55 per cent. The contribution of $4,307 m. from the public sector represented an increase of nearly 37 per cent over the level actually invested in the period 1966–70.

Employment was projected to increase by 596,000 jobs at an average annual growth-rate of 3.2 per cent. The labour force was expected to increase at the same rate to produce 645,000 additional workers. The number of people unemployed was therefore expected to increase by 49,000, and the rate of unemployment to be held at no more than its 1970 level of 7.3 per cent of the labour force.

In contrast to the First Malaysia Plan, the government was expected to take a more active and direct part in reducing the economic disparity between the Malays and the non-Malays. Land development would be stepped up with greater Malay participation in commerce and business actively encouraged, either through a more determined implementation of existing policies or through the establishment of enterprises for Malays by such statutory bodies as PERNAS (Perbadanan Nasional Berhad). In the past, the programme to encourage Malay participation in the modern urban sector concentrated on the provision of educational and credit facilities. Equipped with paper qualifications and some capital, the aspiring Malay “entrepreneurs” had been left to fend for themselves in a highly imperfect market system. This passive programme had failed, and the government had now decided to play a more direct and active part in its programme to place 30 per cent of the commercial and industrial activities under Malay management and ownership by 1990.

Third Malaysia Plan, 1976–80

This is the second of four 5-year plans designed to implement the objectives of the New Economic Policy. The strategy adopted is the same as that of the Second Malaysia Plan, which is to reduce the incidence of poverty and to restructure society through a growth rather than a redistributive strategy.

The target set for the real GDP was 8.5 per cent per annum, and it was anticipated that growth would be concentrated in the first part of the plan period, as external demand would be weak from 1978 onward.
The main source of this 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.

Employment was planned to increase by 743,000 jobs, thereby reducing the unemployment rate from 7.0 per cent to 6.1 per cent. The bulk of this increase was scheduled to come from the manufacturing, public administration, wholesale and retail trade, and agricultural sectors, in descending order of importance. This increase in employment was expected to provide for 41 per cent of the increase in real GDP of 8.5 per cent per annum.

**Evaluation of Development Plans**


The above plans were no more than aggregations of the expansion programmes of separate governmental departments. The planning procedure was simple. Each government department was requested to submit its own claim for recurrent and development expenditure. The total of these claims would normally exceed the funds available, and a committee, acting under certain unwritten rules and criteria, would reduce the sum total of the claims until it equalled that of the funds available. These were, therefore, partial plans which were formulated with no regard for internal consistency. Moreover, the method by which the respective claims of the government departments were reduced to achieve equivalence between funds demanded and funds available left much to be desired. Priorities were not stated, nor were ground rules laid. Under such conditions, the scope for haphazard decisions based on non-economic considerations was very wide.

At the same time, the implementation of these plans, which were meant to spearhead the economic development of the country, was often delayed and, in certain cases, even halted because of the needs of the Emergency. This was especially true of the Draft Development Plan, whose duration coincided with the most intensive period of communist activities. Over the period 1950–53, the total expenditure on defence, internal security services, and the Emergency came to $640 m.—nearly 41 per cent of the total expenditure of the federal government. Scarce skilled personnel had also to be diverted to Emergency duties. Technical
and administrative departments were already greatly understaffed for normal duties over this period, yet some of them had to release members of staff for work connected with the Emergency. For example, in 1951 forty technicians and twenty Malayan Civil Service senior officers had to be temporarily seconded for Emergency duties. Such diversion of human resources from the developmental effort delayed and sometimes even prevented the implementation of the Draft Development Plan.

Unfortunately, it is not possible to substantiate this claim directly with empirical evidence, as there are no published data on the rate of implementation either for the overall or the sectoral level of public development expenditure. However, an interim report on the Draft Development Plan over the period 1950–52 did emphasize the delays and the disruptions caused by the Emergency, and there is no a priori reason for believing that the situation over the second part of the plan period was any better.

The implementation of the First Malaya Plan was also affected by the Emergency, as many backlogs of administrative work—such as the applications for land for industrial development—had to be cleared. However, compared to the period of the previous plan, the overall impact of the Emergency was relatively slight. Actual public development expenditure amounted to $970 m., or some 85 per cent of the target level of $1,150 m. This represents, in fact, quite a remarkable rate of implementation, especially in view of both the unavoidable adjustments in the government machinery after independence in 1957 and the unforeseeable world-wide recession in 1957–58, which reduced government revenue considerably.

Thus, as far as the overall rate of implementation of the development programme of the public sector is concerned (and this, in substance, was the First Malaya Plan), the plan can be said to be a success. In terms of the expenditure by sector, Public Works Department plant and equipment (181 per cent) and utilities (111 per cent) had the highest rates of implementation. They were followed by transport (93 per cent), agriculture (86 per cent), communications (82 per cent), industry (77 per cent), social services (65 per cent), and general activities (52 per cent).

The total gross investment over the period of the plan was $3,000 m., or about 12 per cent of the total income. The private sector, therefore, accounted for about 60 per cent of the total investment, which represents a substantial increase over the private investment undertaken in the preceding five years. The bulk of this increase occurred in the manufacturing sector as a result primarily of the investment incentives provided under the Pioneer Industries Ordinance of 1958. The agricul-
tural sector, particularly the rubber industry, responded rapidly to the development programme. Financial assistance from the replanting cess on smallholder rubber (Fund B of the Rubber industry Replanting Fund Ordinance 1952) and other government assistance resulted in 308,000 acres being replanted and 86,000 acres being newly developed. The estates responded even faster, for they replanted 357,000 acres and developed 79,000 acres. As a result of all these activities, the acreage under high-yielding materials increased from 30 to 46 per cent of the total acreage over the plan period.

In its review of the First Malaya Plan, the Second Malaya Plan pointed out that rough estimates of the total output of goods and services over the period 1956–60 showed an average arithmetic growth-rate of 4.0 per cent per annum. This was faster than the corresponding growth-rate of the population, so that the per capita income went up by an average of 0.7 per cent per annum. The respective average compound rates of growth were 3.7 per cent and 0.6 per cent. These rates of increase, while respectable in themselves and relatively high compared to those achieved in other less developed countries, probably underestimate the achievement of the First Malaya Plan. It should be remembered that the plan’s two major aims were the rehabilitation of the rubber industry and the provision of more and better physical amenities to the rural sector. Both programmes were successfully implemented; but, as their gestation periods were much longer than five years, the benefits were not reflected in increases in the GDP over the period 1956–60. In any case, the First Malaya Plan did not contain any forecasts regarding income growth.

To sum up, the Draft Development plan and the First Malaya Plan were constructed without adequate knowledge of planning techniques. They were basically development programmes for the public sector, formulated without any check for internal consistency. No attempt was made to relate capital requirements of both the private and the public sectors to target levels of such variables as income and employment. However, if they are assessed within this narrow framework—that is, as public development programmes—then they were carried out quite satisfactorily, especially in view of the heavy demands of the Emergency.

Second Malaya Plan, 1961–65

This document was superior to its two predecessors both in presentation and technique. It contained four chapters which were laid out in a systematic way. Thus, it started with a review of the progress made under the First Malaya Plan, following up with an analysis of the
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prevailing problems of the country and a statement of the objectives of the current plan. The financial resources required for the fulfillment of these objectives were then estimated and possible sources of funds examined. This presentation was in sharp contrast to that in the First Malaya Plan and the Draft Development Plan, where both the style and the logical sequence left much to be desired.

An aggregate Harrod-Domar model was used to estimate the level of investment required to achieve the target output growth-rate of 22 per cent over the five-year period. Ignoring population growth, the rate of growth of a Harrod-Domar economy is \( g = s/k \), where \( s \) is the rate of saving and \( k \) the marginal or incremental capital-output ratio. With a target annual rate of growth of \( g \) equal to 4.4 per cent and a \( k \) equal to 4, the rate of saving works out to be 17.6 per cent of the total output, or $5,050 m. in terms of value.

This approach to planning was conceptually more satisfactory than that adopted in the preceding plans. It gave direction to the development effort firstly in identifying overall objectives and secondly in presenting some of these in numerical form. It also provided an 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 use of the Harrod-Domar model also enabled the requisite level of private investment to be estimated. Although this is often derived as a residual, its inclusion as a target provided the planning authorities some picture of the role of the private sector. In a country such as Malaysia, where there is a large private sector, this inclusion is important.

The Second Malayan Plan, again unlike its predecessors, had an employment target. This was set at 340,000 additional jobs—an increase of 15 per cent which corresponded to that expected of the labour force over the plan period. The target was estimated on the assumption that a one per cent increase in output would produce a 0.68 per cent increase in employment.

The plan was successful in several regards. The private investment target of $2,150 m. was exceeded by some $500 m., while the rate of implementation in the public sector was over 123 per cent. The plan also achieved its stated overall objectives. For example, the annual growth-rate of the GDP at constant prices was 6.4 per cent against the target growth-rate of 4.4 per cent. The revised target-number of additional jobs was 326,000, while the actual number created was 344,000; as a result, the rate of unemployment was kept at the 1960 level of 6.0 per cent. More facilities were provided and opportunities created to improve the economic and social well-being of the rural population. Thus, the
completion of a large number of irrigation and drainage schemes increased the area of rice under double-cropping from 38,000 to 193,000 acres. The rubber replanting scheme enabled 50 per cent of the smallholder acreage to be under higher-yielding seeds by the end of the plan period. At the same time, medical and educational facilities in the rural areas were improved.

The Second Malaya Plan is open to two kinds of criticism. The first concerns the relevance of the Harrod-Domar model for planning in less developed countries, especially those with large foreign-trade sectors. The Harrod-Domar model assumes that shortage of capital is the crucial bottleneck to economic growth—an assumption that is not borne out in a number of less developed countries, and certainly not in Malaysia. If the country involved has a large export sector—as does Malaysia—the usefulness of the model is in even greater doubt, for then the fate of the economy is determined largely by exogenous factors. It should also be noted that capital requirements for a given target income-growth are determined, under the Harrod-Domar model, on the basis of a given ICOR. Malaysia, like many other less developed countries, is undergoing rapid technological and social change, so that the marginal productivity of capital is changing all the time. It should, therefore, come as no surprise that predictions based on the Harrod-Domar model are often inaccurate.

The second area of criticism concerns the employment and the equity objectives. Though the plan succeeded in fulfilling its employment target, the rate of unemployment was still at a relatively high 6 per cent. In all probability, the actual rate of unemployment was higher than 6 per cent, because the use of Western-oriented concepts of employment, unemployment and underemployment in Malaysian conditions tended to underestimate the seriousness of the problem. To the extent that the provision of rural infrastructure had improved the health and living conditions of the rural population and had provided cheaper and easier access to the market, the government might have felt justified in claiming that it had increased the standard of living of the rural people. However, it can easily be argued that many of the benefits of this indirect approach had accrued to the middlemen who controlled not only the sale of agricultural products, but also the goods purchased by the farmers.

First Malaysia Plan, 1966–70

This plan was also based on the aggregate Harrod-Domar model, so that the criticisms directed at this model of planning in connection with
the previous plan are also applicable here. Our evaluation will therefore be concentrated on the fulfillment of planned development expenditure and achievement of overall objectives such as income and employment.

The total investment was $8,204 m., which was about 15.6 per cent short of the target of $9,730 m: private investment amounted to $5,050 m., about 18 per cent below the target of $6,160 m., while public investment was $3,153 m., some 12 per cent short of the target of $3,570 m. In terms of public development expenditure—which is public investment plus expenditure on defence, purchase of land, loans and grants to the private sector, and expenditure on the creation of physical assets owned by the private sector—there was only about a 7 per cent shortfall ($4,242 m. as against $4,551 m.) Although investment targets were not achieved, the rate of growth in output was greater than projected. Thus, while the plan envisaged that the GNP in constant prices would increase by 4.9 per cent per annum, the rate achieved was about 6.0 per cent per annum—from $8,637 m. in 1965 to $11,537 m. in 1970. At current market prices, the GNP rose at 6.5 per cent per annum as against the target of 4.8 per cent per annum, in spite of a fall in the prices of the country's major export-commodities.

The failure of the plan to predict the growth of output accurately was due to the insensitivity of the Harrod-Domar model to external factors. The "engine of growth" over the period of the plan was expected to be the domestic sector. Against all expectations, however, it was the export sector which spearheaded the growth of the economy. On the whole, the prices of the country's major export-commodities did not decline as much as projected, and the output of practically all these commodities was higher than estimated. The result was that the value of merchandise exports increased at 6.3 per cent per annum as against the plan's forecast of 0.6 per cent per annum. The error in forecasting the growth of output was "painless," insofar as the planned target was smaller than that actually achieved. However, the same could not be said of the target for employment. The number of jobs created in West Malaysia was 350,000 as against the target of 377,000. At the same time, the labour force increased by 420,000 compared to the plan's estimate of 377,000. As a result, the rate of unemployment rose from 6.0 per cent in 1965 to 8.0 per cent in 1970. The plan had anticipated a decline from 6.0 per cent 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.

The programme to bring about a more equitable distribution of income and wealth was generally felt to have been largely ineffective. There are no reliable statistical data to substantiate this claim, but the
Second Malaysia Plan did admit that the relative economic imbalance between the Malays and the non-Malays had not been reduced significantly, if at all.

Second Malaysia Plan, 1971–75

(1) Economic Growth. The GDP, at factor cost, grew by 7.4 per cent per annum in real terms, exceeding therefore the original target of 6.8 per cent, but falling short of the revised target of 7.8 per cent set in the Mid-Term Review (1973). This shortfall was largely due to the impact of the worldwide recession on the Malaysian economy during 1974–75. While the average annual growth-rate of the real GDP was 8.4 per cent over the period 1971–74, it was only 3.5 per cent in 1975. As the Mid-Term Review was published in 1973 (before the increase in the price of oil), and as the openness of the Malaysian economy makes it highly vulnerable to external forces, the small shortfall, against a revised higher target, could hardly be called a failure in planning.

The main impetus for the growth, by expenditure, came from public investment and consumption. The growth-rate of public investment, at 17.6 per cent per annum, was by far the fastest source of final demand. (The corresponding growth rate under the First Malaysia Plan, 1966–70, had been only 1.9 per cent per annum.) As a result of this rapid increase, the share of public investment in the GNP rose from 6 to 9 per cent, while its share in the gross capital formation grew from 28 to 49 per cent. Public consumption increased by 9 per cent per annum and, as a result, its share in the GNP went up from 16.4 to 17.9 per cent. In contrast, private consumption grew at 3.8 per cent per annum and private investment by 7.2 per cent per annum.

Thus, the target set for economic growth was achieved—and achieved under quite difficult circumstances. But how successful was the plan in fulfilling the twin objectives of the New Economic Policy?

(2) Poverty Eradication. In 1970, 49.3 per cent of all households in Peninsular Malaysia were below the poverty line. The majority of these poor households (73.6 per cent) were in the rural areas, and most of these were found among rubber smallholders (28.6 per cent), “other agriculturalists” (16.0 per cent), padi farmers (15.6 per cent), and estate workers (7.5 per cent). The incidence of poverty in the agricultural sector was 68.3 per cent, as compared to the 27.8 per cent in the non-agricultural sector. The highest incidence of poverty was recorded among “other agriculturalists” (91.8 per cent), followed closely by padi farmers (88.1 per cent), fishermen (73.2 per cent), and rubber small-
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holders (64.7 per cent). Among non-agricultural households, the highest incidence of poverty was only 36.7 per cent; this was found among households in the utilities sector. It would seem, therefore, that policies to eradicate poverty in Peninsular Malaysia must be directed largely at the rural population. Very much the same conclusions can be made about eradicating poverty in Sabah and Sarawak. The available evidence suggests that most of the poor households are located in the rural areas and that the incidence of poverty among these is very high. As in Peninsular Malaysia, therefore, programmes to eradicate poverty in East Malaysia must concentrate on the rural areas.

The actual policies adopted to eradicate poverty in the rural areas over the plan period, 1971–75, were basically the same as those of the earlier period. They emphasized land development, the provision of drainage and irrigation facilities to increase the planted padi acreage, the supply of electricity, and so on. In other words, the programmes sought to increase the quantity and the quality of the factors of production available to the rural population. The result was a decrease in the incidence of poverty in all but one of the agricultural sub-sectors—namely, the estate workers, the majority of whom were rubber-tappers whose wages were tied to rubber prices. Over the period 1970–75, rubber prices rose more slowly than the consumer price index, causing a decline in these workers’ real standard of living. For the agricultural sector as a whole, however, the incidence of poverty decreased from 68.3 to 63.0 per cent.

Two types of criticism can be made against the programme to eradicate rural poverty. The first is that the land-development programme per se does not tackle the existing structural weaknesses of the agrarian economy. The second criticism concerns the format of the land development programme of FELDA (Federal Land Development Authority), the most important of the various land development schemes in Malaysia. FELDA was set up in 1956 with the aim of providing land for the landless through the establishment of comprehensive land schemes. Even though there have been changes in policies over the years, FELDA still conforms largely with its original format of land development—namely, to establish schemes of between 4,000 and 5,000 acres each, plant them with rubber or oil palm, and provide them with water, dwellings, schools, health centres, drainage and irrigation, processing plants, roads, and road links with the main highways. Each scheme is to accommodate 400 families. If the main crop is rubber, then each family will have ten acres, eight of which will be planted with rubber and the rest with rice or fruit trees. If the preference is for oil palm, then each
family will be provided with twelve acres, ten of which will be planted with the main crop. The work of jungle clearing, development of the site, planting of the main crop, construction of the house, and maintenance of the agricultural area between the establishment of the main crop and the time when the settlers take up residence, is carried out by contractors.

The FELDA programme is criticized for being much too comprehensive and rigid. A much larger number of landless peasants would have been settled had the government simply designated suitable areas of land for farming and limited its role to the provision of economic and social overheads. At the same time, the rigid format of FELDA schemes means that the more enterprising settlers are hindered from expanding the scope of their operations, while the less enterprising ones have to bear a heavier than intended repayment load.

The programme to eradicate urban poverty is highly dependent on the programme to erase rural poverty. Failure of the latter will further widen the gap between urban and rural incomes and increase the rural-urban flow. By itself, the expansion of urban employment cannot reduce the flow and so reduce the incidence of urban poverty; it may, in fact, paradoxically increase it. Specific measures to reduce poverty within the urban sector are, first, giving the poor greater access to such basic public services as housing, water supply and sewerage, and, second, providing greater urban employment opportunities. Of the first category, only the programme of building low-cost houses is directed specifically at the urban poor, and the number of such houses built over the period 1971–75 (13,244) was much too small to make a significant impact. The other programmes in the first category had a target population which extended beyond that of the poor, and the benefits accruing to the urban poor could not have been more than peripheral.

The provision of greater urban employment opportunities has always been an objective of planning. However, the actual industrial policies pursued have not always been compatible with such an objective. Mention has often been made of the bias towards capital-intensive activities inherent in the 1958 Pioneer Industries Ordinance and the 1968 Investment Incentives Act. In 1971, amendments were made to the latter to provide special incentives for employing more labour. This provision is known as the Labour Utilization Relief, where the duration of the exemption from the corporate tax depends on the number of workers employed. Thus, a company that can provide employment for 51 to 100 employees on its production day can enjoy tax relief for two years, and the exemption can be extended to a third, fourth and fifth
year if the labour force is expanded to more than 100, 200 and 350 employees, respectively. *Prima facie* evidence suggests, however, that the effect of the Labour Utilization Relief may not be significant.

The provision that the duration of the tax holiday varies directly with the employment level, subject to a qualifying level of 51 employees, means that the scheme is biased, *a priori*, towards the bigger enterprises. In 1972, the year of the most recent industrial census, the number of establishments that employed more than 50 workers each was only 700, or just 6 per cent of the total number of manufacturing establishments in Peninsular Malaysia. The imposition of a qualifying employment level of 50 workers before any subsidy is granted effectively excludes numerous small-scale family concerns from the scheme. Also, given that larger firms tend also to be the more capital-intensive ones, the result of introducing the Labour Utilization Relief may well have been the establishment of large and capital-intensive firms.

These criticisms of the programme to eradicate urban poverty are given weight by the fact that the incidence of poverty only decreased from 21.3 to 19.0 per cent. The programme differed only in degree, and not in kind, with policies implemented before 1970. Had the programme been directed more at the poverty groups themselves, or had the same policies simply been implemented on a wider scale, the government would have enjoyed greater success in this area.

A general criticism of the programme to eradicate rural and urban poverty is that they have increased the inequality in income distribution. Table 1 shows the ratio of the mean to the median monthly household incomes by race and geographical location in Peninsular Malaysia over the period 1970–79. An increase in the ratio signifies a worsening in the inequality in income distribution. It can be seen that, while the average

| Table 1. Ratio of Mean to Median Real Monthly Household Incomes in Peninsular Malaysia, 1970–79 (1970 Prices) |
|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| Malaysia  | 1.59 | 1.60 | 1.64 | 1.70 |
| Urban  | 1.62 | 1.66 | 1.67 | 1.83 |
| Rural  | 1.44 | 1.47 | 1.49 | 1.54 |
| Malay  | 1.43 | 1.48 | 1.48 | 1.54 |
| Chinese  | 1.47 | 1.56 | 1.64 | 1.72 |
| Indian  | 1.59 | 1.47 | 1.49 | 1.49 |
| Others  | 3.25 | 3.66 | 3.22 | 3.42 |

real monthly household income of the urban, rural, Malay, Chinese, and
total populations had increased over the period, this was accompanied
by a worsening in the inequality in income distribution. The incidence of
poverty has been reduced, but this has been achieved at the cost of an
increase in income inequality in most sections of the population. It is not
a case of the “rich getting richer and the poor poorer,” but rather one of
the “poor getting less poor, and the rich much richer.”

(3) Restructuring Society. Given the growth and not the redistributive
strategy of the New Economic Policy, it is possible to determine the
required proportion of the new wealth and jobs that must accrue to the
different racial groups in order to obtain the various distributional
targets by 1990. The formula for working this out is given as:

$$i \left(1 + \frac{g}{1 + g}\right)^n + p\left(1 - \frac{1}{(1 + g)^n}\right) = t$$

where $i$ is the initial Malay participation share in wealth or employment,
$p$ the Malay participation rate in the increment, $g$ the annual growth rate
of wealth accumulation or employment, $n$ the time-period, and $t$ the
wealth distribution or employment composition target. The formula
shows that, for a given time period $n$, the higher is $i$ and $g$ the easier it is,
through a lower $p$, to achieve any target $t$. It is possible also to work out
the implicit phasing of the wealth and employment targets over the
period 1971–90, once values for $g$ and $p$ are determined. For example, if
$g$ is given as 10 per cent for the whole of the period, then $p$ is 35.24 per
cent, and the Malays and Malay interests must own 14.8, 22.4, 27.2 and
30.0 per cent of all corporate stock by 1975, 1980, 1985, and 1990,
respectively.

From the data available in the Third Malaysia Plan, 1976–80, it
would appear that the wealth-target for 1975 for Peninsular Malaysia
was not achieved. The average annual growth rate of the corporate stock
for the period 1971–75 was 13.2 per cent. With a value of 13.2 per cent
for $g$ and, therefore, one of 32.52 per cent for $p$, $i$ in 1975 should have
been 14.4 per cent. The actual share achieved by Malays and Malay
interests was 7.8 per cent—significantly below the target. This does not,
of course, mean that the wealth target for 1990 cannot be achieved; but
it does mean that the growth of the corporate stock would have to be
significantly greater than 13.2 per cent per annum for the rest of the
period.

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3 This formula is taken from R. Thillainathan, “The Second Malaysia Plan: Notes on
the Objectives of Balanced Distribution of Wealth and Employment,” Kajian Ekonomi
An equally important implication is that there must be even greater dependence on public enterprises holding share capital in trust for the bumiputera population. Even before the shortfall occurred, it was evident that the public enterprises were going to have to play the major role in fulfilling the wealth-target. The low income of the Malays and their correspondingly low propensity to accumulate capital meant that many of the shares reserved for Malays in private enterprises could not be taken up by bumiputera individuals or firms. They had to be held in trust by such statutory bodies as MARA (Majlis Amanah Rakyat), PERNAS (Perbadanan Nasional Berhad), UDA (Urban Development Authority), SEDCs (State Economic Development Corporations), Bank Bumiputra, BPMB (Bank Pembangunan Malaysian Berhad), FIMA (Food Industries of Malaysia Sendirian Berhad), and PNB (Pelaburan Nasional Berhad). The expectation that it would be “bumiputera trust agencies” rather than “bumiputera individuals” that would spearhead the wealth restructuring prong of the NEP is borne out by Table 2. The shortfall in achieving the implicit 1975 target of a 14.4 per cent Malay share must place still greater emphasis on the role of the public enterprises in holding corporate shares in trust for the Malays.

There are certain dangers in such a development. The first is the greatly increased role of the state in the economy, with possible adverse effects on private investment because of the uncertainty and fear created: witness, for example, the adverse effects that the passing of the Industrial Co-ordination Act and the Petroleum Development (Amendment) Act in April 1975 had on direct foreign investment. A second danger is the economic inefficiency that can arise from the concentration of even more economic power under bureaucratic control. There is no

| Table 2. Peninsular Malaysia: Ownership of Share Capital in Limited Companies, 1970–75 |
|---------------------------------|-------------------------------|-------------------------------|------------------|
|                                 | $ million | %  | $ million | %  | Average annual growth rate (%) |
| Malay and Malay Interests       | 125.6     | 2.4 | 768.1     | 7.8 | 43.6                          |
| Malay individuals               | 84.4      | 1.6 | 227.1     | 2.3 | 21.9                          |
| Malay interests                 | 41.2      | 0.8 | 541.0     | 5.5 | 67.4                          |
| Other Malaysians                | 1,826.5   | 34.3| 3,687.3   | 37.3| 15.1                          |
| Foreigners                      | 3,377.1   | 63.3| 5,434.7   | 54.9| 10.0                          |
| Total private sector            | 5,329.2   | 100.0| 9,890.1   | 100.0| 13.2                          |

guarantee that state enterprises will be run with economic efficiency. In fact, the economic losses suffered by some of them (e.g., UDA) suggest that the exact opposite may be true. Senior managers are usually politicians or civil servants on secondment and may not necessarily owe allegiance to the statutory bodies they head. Their tasks may be made more difficult and sometimes impossible by the lack of specified goals and by the presence of powerful ex-officio members of the board which may hamper critical analysis and rational decision-making. In any case, politicians and civil servants do not necessarily make good businessmen, nor are they immune to the temptations that inevitably arise from the rapid concentration of economic power in the hands of a small group of people. All these problems will be compounded if the process of concentration is accelerated.

If private investment slows down and there is gross economic inefficiency in the operation of the state enterprises, their economic growth and the growth of the corporate sector will be adversely affected. The slowing down of \( g \) will require a higher Malay share of the increase in the stock of wealth (\( p \)), which then requires an increase in the activities of the statutory bodies—which may further slow down the rate of growth of the corporate stock. Eventually, we may reach a stage where the growth strategy is abandoned in favour of a redistributive strategy.

Another important consequence of an increasing concentration of economic power under bureaucratic control, and of the restructuring strategy of the NEP in general, is the growing inequality in the distribution of income and wealth within the bumiputera community. The majority of the shares reserved for the bumiputera community that are bought are in fact purchased by the richer members of the community. The purchase of shares to be held in trust for the poor bumiputera individuals not only increases the power of the relatively small number of bumiputera politicians and civil servants in charge of statutory bodies, but also boosts their income very considerably. That there was such an increase in income inequality within the Malay community over the period 1970–79 is revealed in Table 1. This growing inequality is inevitable in the short run under the restructuring strategy of the NEP. The fear is that it will persist or even worsen in the long run. Without tight supervision, the trustees of the assets may come to administer them on their own behalf or on behalf of their friends and relatives—rather than on behalf of the alleged beneficiaries, the Malay poor. It may be a case of “so near, and yet so far” for the Malay poor, and this may well lead to an erosion of their political support which the NEP was intended to increase in the first place.
The employment-composition target of the New Economic Policy requires that the employment pattern by sector and occupation be more reflective of the racial composition of the population by the year 1990. By using the estimated employment growth-rates for 1970–90 from the Third Malaysia Plan, we can calculate, through formula (1), the percentage of the new jobs created that must be taken up by the various racial groups in the primary, secondary and tertiary sectors. In Table 3, these are compared to the figures actually realized for the period, 1970–75.

It can be seen that significant divergences exist between the intended and the actual percentage shares in the three sectors. In the case of the agricultural sector, the actual shares of the Malays and the Indians were much higher than the required shares, while those of the Chinese were well below. In the secondary sector, the actual shares of the Malays in the new jobs created were below those required, while in the tertiary sector they were slightly below. As a result of these divergences, the fulfillment of the employment restructuring target by sector by 1990 must require, for the remainder of the period, a much faster rate of movement of Malays from rural to urban areas and of non-Malays from urban to rural areas. Unless the economy and employment grow much faster and important changes in net emigration among the racial groups take place, it appears most unlikely that the employment composition target will be achieved by 1990.

Third Malaysia Plan, 1976–80

(1) Economic Growth. The target set for the real GDP was an average annual growth rate of 8.4 per cent, which was well above the 7.1 per cent per annum accomplished under the Second Malaysia Plan. The growth-rate achieved was 8.6 per cent. In terms of expenditure, the main impetus for growth in the first part of the plan period (1976–78) came from public investment and consumption. Public investment increased by 8.3 per cent per annum, as against the target rate of 6.2 per cent per annum. If the investment undertaken by the Malaysian Airline System (MAS) and the Malaysian International Shipping Corporation (MISC) had been excluded, then public investment would have grown even faster at 10.0 per cent per annum. Private investment was targeted to increase at 9.9 per cent per annum, but what was actually achieved was a growth rate of 7.1 per cent per annum. In the second part of the plan period (1978–80), the external sector demand increased very markedly, producing an average annual growth-rate in private investment of 13.6 per cent over the whole of the plan period—much higher than the 9.3 per cent recorded in public investment.
### Table 3. Targeted and Actual Percentages of New Jobs Accounted by Racial Groups, 1970–80: Peninsular Malaysia

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<tbody>
<tr>
<td></td>
<td>Malays</td>
<td>Chinese</td>
<td>Indians</td>
<td>Malays</td>
<td>Chinese</td>
</tr>
<tr>
<td>Primary</td>
<td>37.8</td>
<td>54.4</td>
<td>7.7</td>
<td>75.3</td>
<td>15.5</td>
</tr>
<tr>
<td>Secondary</td>
<td>64.6</td>
<td>25.4</td>
<td>9.7</td>
<td>46.4</td>
<td>40.6</td>
</tr>
<tr>
<td>Tertiary</td>
<td>54.9</td>
<td>33.3</td>
<td>11.1</td>
<td>47.4</td>
<td>41.7</td>
</tr>
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The major source of capital formation over the entire plan period was therefore in line with expectation, which was that it should come from the private sector. The evidence shows that this was fortuitous to a certain extent. The Mid-Term Review of the plan commented that the public sector provided a “counter-cyclical impact on the economy which was marked by relatively slow growth in private investment in 1976 and by weak export growth in 1977” (p. 5). The review admitted that the introduction of the Industrial Co-ordination Act and the Petroleum Development Act had to some degree contributed to this problem. In terms of the analysis presented earlier, it may be argued that the rapid expansion of the power of the bureaucracy has reduced the confidence of private investors and so produced a shortfall in the level of private investment. The response of the government has been to increase the level of public investment by increasing the funding of statutory bodies involved in acquiring assets on the behalf of Malays. The beginnings of a vicious circle might well have been avoided more by luck than judgment.

(2) Poverty Eradication. The overall incidence of poverty in Peninsular Malaysia declined from 43.9 per cent in 1975 to 29.2 per cent in 1980. In the agricultural sector, the decline was from 63.0 to 46.1 per cent; in the non-agricultural sector, it was from 26.2 to 16.8 per cent. In the urban sector, the decline was from 19.0 to 12.6 per cent. The programmes implemented to bring about this improvement in the economic welfare of the rural and urban poor in the period 1976–78 were basically the same as those used in the period of the Second Malaysia Plan, 1971–75. As such, they are subject to the same type of criticism. In the rural areas they did not deal significantly with the fundamental problem of landlessness: there was no attempt to reform the land-tenure system in non-FELDA acreage, and the comprehensive and expensive “captive” FELDA approach did not permit a faster rate of land development. In the urban areas, specific programmes aimed at the urban poor were few, and tax incentives continued to favour large-scale and capital-intensive enterprises. Income distribution continued to become more unevenly distributed (Table 1).

(3) Restructuring Society. The corporate stock in Malaysia for 1975–80 increased at an average annual growth-rate of 14.9 per cent. The implicit ownership target for Malays and Malay interests for 1980—given such a growth rate, an implied participation-rate of 32.97 per cent, and an initial (1975) Malay ownership share of 9.2 per cent—was much higher than the 12.4 per cent share actually achieved. This shortfall can be eliminated and the target of 30 per cent by 1990 be achieved only by stepping up very significantly the purchase of shares to be held in trust.
by statutory bodies—which will, of course, exacerbate the tendency towards greater bureaucratic control. Over the period 1971–80, corporate wealth in the hands of bumiputera individuals increased by 23.5 per cent per annum, while that in the hands of bumiputera trust agencies went up by 39.0 per cent per annum. This disparity in favour of the latter will now probably be accentuated.

The actual shares of the total number of jobs created in 1975–80 going to the various racial groups are presented in Table 3. The table shows that the movements went only a little way to compensate for the massive divergences between the targeted shares and the actual shares in the period 1970–75. The actual percentages of new jobs held by the three racial groups at the mid-way stage of the New Economic Policy period suggest that the achievement of the employment composition target by 1990 may not be possible. The results obtained so far suggest either that changes in composition have to be less drastic in all sectors or that the target date must be moved back. The employment composition target is in fact much more difficult to achieve than the wealth target. While more and more shares can be held in trust for the Malay poor by a few unit trusts for a manageable outlay, the same cannot be said of expanding the employment function of the government.

Conclusions

Our assessment of development planning in Malaysia over the period 1950–80 shows that it achieved the target rates of economic growth and reduced the incidence of poverty. However, the record also shows that the restructuring programme fell behind schedule significantly and that income distribution had worsened.

The Fourth Malaysian Plan, 1981–85, claims that it will continue the strategy adopted in the previous two plans in implementing the New Economic Policy. However, it is highly unlikely that such an approach can fulfill the restructuring objective of the programme. The second decade of the New Economic Policy must see a marked increase in the role of the public sector in the restructuring programme if the operational targets are to be achieved.

This will further increase the bureaucratic control of the economy. Until now, this process has had no marked adverse effect on economic growth. However, the situation may change as the easy phase of “government substitution” comes to an end. There is also the possibility of a precautionary discounting of potential investment returns on the
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part of the private sector. This will then necessitate further government intervention, producing further shortfalls in private investment—and so on, in a vicious circle.

It is also highly unlikely that the trend towards increasing unevenness in income distribution will be arrested. In the past, this was perhaps not as politically important an issue as it was made out to be. In the beginning, so long as the poorest of the poor were provided their basic needs, as was done in programmes to reduce the incidence of poverty, the rural electorate remained content. Once these basic needs were provided, however, the recipients became more concerned about relative poverty or affluence, and the issue of increasing income inequality became more pressing. The Fourth Malaysia Plan obviously does not see the mid-way stage of the New Economic Policy period as a watershed in this respect, as its prescription is to have more of the same medicine. This suggests either political fine-tuning or political brinksmanship of the highest order.

Griffith University, Australia, June 1982