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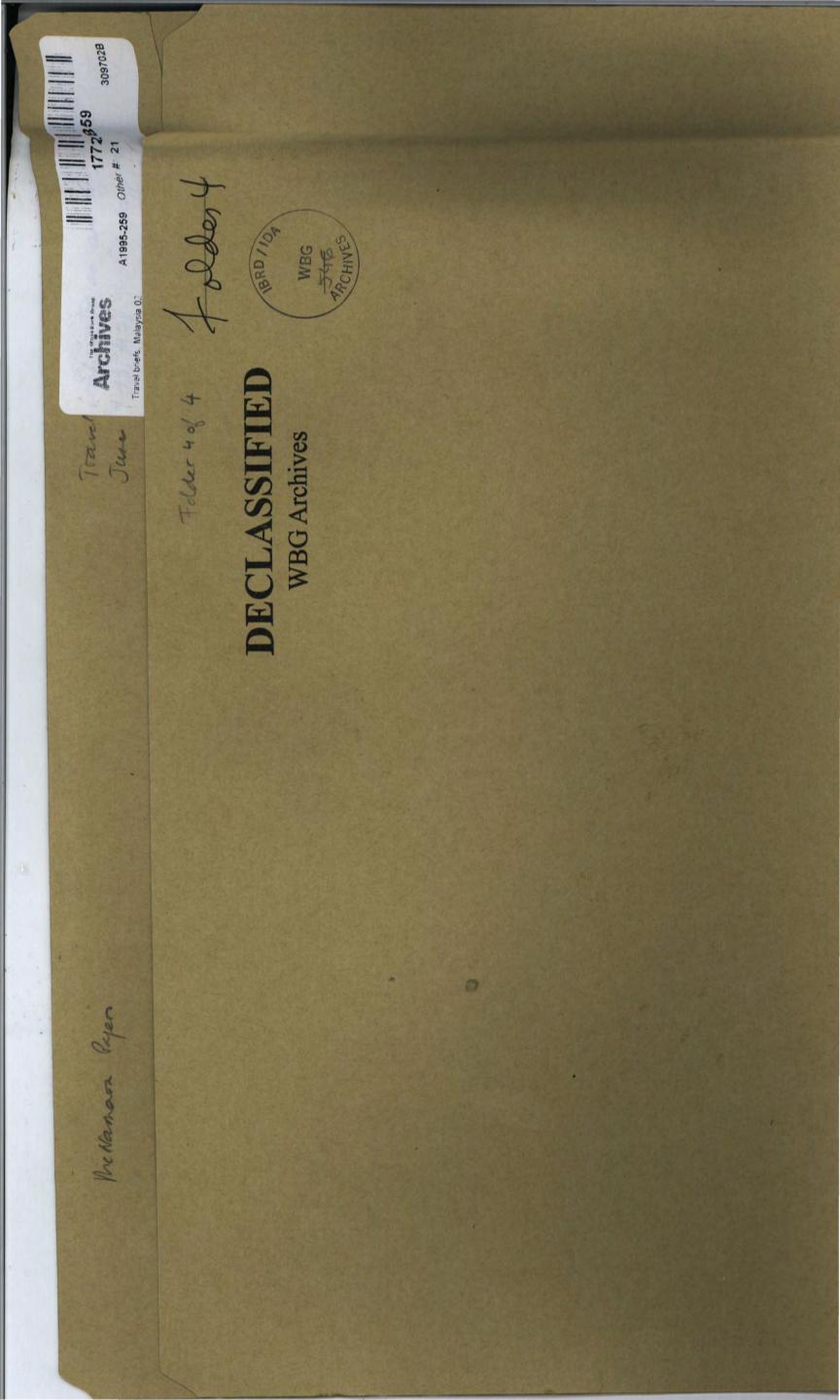
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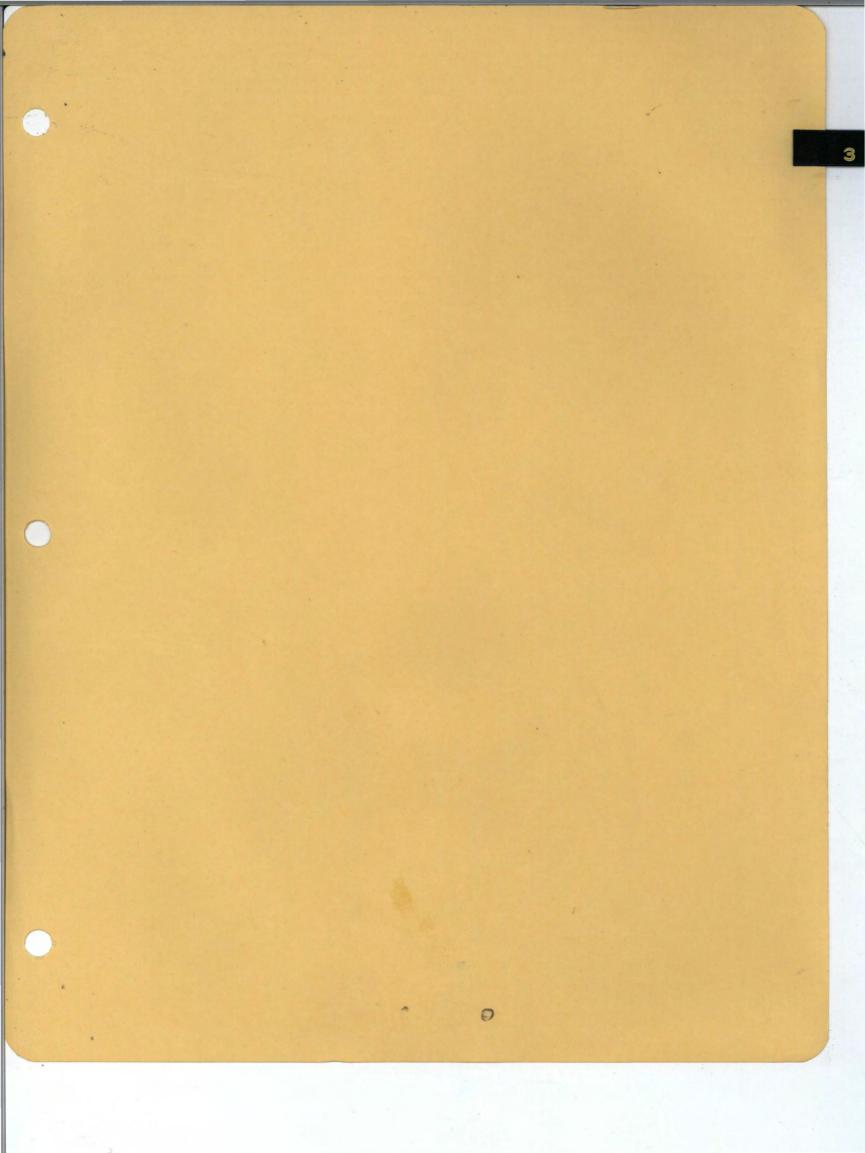


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F. REFERENCE MATERIAL

3. The Economy

By most economic indicators, Malaysia has done well in the past and, in particular, during the Second Malaysia Plan (SMP, 1971-75). The per capita income of U\$\$860) (in 1976) is among the highest in Southeast Asia. Public and private investment activity was stepped up and, as a result, GNP growth, which during the 1960s averaged 6% a year, increased during the SMP to 7%. Moreover, the trend decline in the terms of trade during the 1960s was reversed during the 1970s, and as a result there was an acceleration in per capita income growth on a trend basis from 2% during the 1960s to about 5% during the Second Plan period. Progress has also been made in reducing the economy's dependence on rubber, and the manufacturing sector has performed well in terms of output, employment, and exports. With a high export component in GNP, the country is very vulnerable to external fluctuations, which were significant during the SMP. In spite of the increased investment activity and resulting current account deficits in the balance of payments, Malaysia managed to maintain a strong external position during the SMP with relatively low debt service payments and growing international reserves.

Notwithstanding this good performance, existing racial inequalities in income and employment, and considerable poverty, especially in the countryside, persisted. The inferior income position of the Malays is related to the concentration of Malays in traditional smallholder agriculture and their meager ownership of corporate assets; furthermore, Malays in the modern industrial sector are poorly represented especially in managerial, professional, supervisory, and clerical occupations. The inequalities threatened the stability of the country and, in 1971, prompted the Government to introduce a New Economic Policy, which is designed to achieve national unity through the two-pronged objective of eradicating poverty and restructuring society to eliminate the identification of race with economic function.

More specifically, the policy proposes to reduce in a 20-year period (1970-90) the sharp income differences between Malays and non-Malays by reducing disparities in the ownership and control of wealth in the corporate sector, and by reducing the concentration of Malay employment in traditional low-income rural activities while increasing Malay presence in the relatively high-income urban sectors. Since poverty is largely concentrated among Malays, a redressal of poverty would contribute significantly to a reduction of the racial inequalities of income.

The principal means proposed to achieve these objectives is rapid growth of the industrial and service sectors. This growth will not only increase average incomes but will also serve the objective of racial restructuring of the labor force. In addition to pursuing a rapid growth strategy, the Government also proposes to achieve its goals through more direct means: on the poverty side, mainly through public investment programs directed towards the poor and, on the racial restructuring side, through controls and quotas.

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In mid-1976, the Government initiated the Third Malaysia Plan (TMP, 1976-80) reconfirming the goals of the New Economic Policy. The major objectives of the TMP are: (a) to reduce the overall incidence of poverty (from 44% in 1975 to 34% by 1980, which would mean reducing poverty in the agricultural sector from 63% to 49%); (b) to increase Malay employment in the modern sectors of the economy (from the 1975 Malay share of 32% towards the 1990 goal of 50%); and (c) to increase the share of Malays in the equity ownership of the corporate sector (from the 1975 Malay share of 8% to 16% in 1980).

The TMP goals are set out in a framework of substantial economic growth. The target growth rate for GDP is set at 8.5% per annum. Private investment is targeted to grow about 10% a year and public investment about 6%, resulting in an investment of M\$44 billion, in current prices, over the TMP period. Public development expenditures were set at M\$18.6 billion, with a higher level of M\$20 billion targeted if additional resources became available.

In addition to following a rapid growth strategy, the Government also proposes to reduce poverty through direct programs that will raise agricultural productivity and production. In the Third Plan, one quarter (M\$4.7 billion) of total public development expenditures is allocated to this sector (compared with 22% or M\$2.1 billion in the SMP). Of this, more than one third will be spent on increasing productivity in existing agricultural areas. In addition, one million acres of new land are scheduled for development. As a means of reducing poverty, the TMP also provides for improved housing and other essential services for the poor in both rural and urban areas. The TMP also stresses that greater attention will be given to improving the less developed states.

Improved economic information on 1975 and 1976, however, have significantly altered the macro framework of the Third Plan. First, there was a larger recovery in traditional exports and in the terms of trade in 1976, as well as higher present and prospective levels of oil production. Second, it now appears that real private investment fell considerably in 1975 and declined further in 1976.

During 1976, significant increases in exports, both in prices and volumes, particularly of oil exports, combined with moderate import increases, resulted in a current account surplus equivalent to 6.2% of GDP. Despite a reduction in market borrowing by the Government, reserves increased by US\$900 million. At the end of 1976, gross official reserves were the equivalent of about seven months of imports.

Current projections of oil exports and of export prices in general are higher than those used as a basis for the TMP. Therefore, the resource outlook for Malaysia is now brighter than was forecast in the Third Plan. Overall export earnings during the Plan period should be about US\$5 billion more than was forecast in the TMP. Largely as a result of this increase, public sector revenues are also expected to be higher by about US\$3 billion. The likelihood of these additional resources has prompted the Government to

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choose the higher TMP target for development expenditures of M\$20 billion (see para. 8 above) and, if implementation constraints are overcome, an even higher target could be set.

While the availability of resources is thus expected to be considerably improved, there is some uncertainty about achieving the Plan's private investment targets. As a result of the decline in private investment in 1975 and 1976, private investment would now have to grow at more than double the projected 10% rate during the remaining years of the Plan in order to achieve the Plan targets. While there are a number of possible factors that were involved in this downturn in manufacturing investment, it is difficult to determine with any certainty their relative importance. First, there was the world recession in 1974-75 which, no doubt, had some negative impact on investment activity in Malaysia. Second, 1974 was a peak period for private investment in Malaysia so that some cyclical decline in the rate of private investment in 1975 would probably have been experienced in any event. Third, there was considerable uncertainty in the private sector regarding the impact of the Industrial Co-ordination Act (ICA), passed by Parliament in 1975, which enforces racial restructuring targets for equity and employment through a system of licensing of existing and new firms above a certain minimum size. As far as the ICA is concerned, the Government acknowledged the uneasiness in the business community and amended the Act in 1976. Two important changes approved were the establishment of an appeals procedure and an increase in the minimum size at which a firm will be expected to restructure its equity. It is still too early, however, to judge the reaction of the private sector to these changes.

Assuming a moderate long-term recovery in private investment, Malaysia's balance of payments should be in substantial surplus. During the next five years, the cumulative current account surplus could amount to over 5% of GDP compared to a negligible current surplus in the previous five years. Since such a current account surplus would be sufficient to provide for an adequate level of reserves, capital inflows may moderate in the future. At present, about 19% of public debt outstanding and disbursed is from the Bank; this percentage may increase somewhat by the early 1980s. Reserves are also expected to continue to increase slowly, while the debt service on public obligations is likely to remain at its present level of 4%-5% of export earnings. The Bank's share of debt service is currently about 11% and may increase to 12%-14% by the early 1980s.

In general, over the next few years, it is likely that the Government will need less external capital than previously forecast, largely because of strong commodity prices and oil earnings. At the same time, Malaysia has a serious income distribution and poverty problem. The country needs technical assistance and expertise to help develop poverty alleviation programs, and to assist in designing and packaging projects that reach out directly to lowincome families. The Malaysians believe strongly that project borrowing, particularly from development institutions such as the World Bank, is necessary to assist them to mount an effective attack on poverty. Bank lending is therefore focused on strengthening Government efforts to directly reduce poverty.

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ANNEX I Page 1 of 4 pages ۰.

	MALAYSIA			TORS DATA SHEET		age 1 of 4	pages
LAND AREA (THOU KM2)		MALAYSIA			ENCE COUNT	RIES (1970)	
101AL 329.7 AGRIC. 60.3	1950	1970	ST RECENT ESTIMATE	PERU	PORTUGAL	MEXIC	**
P PER CAPITA (US\$)	230.0*	440.0 *	860.0*/a ·	470.0*	950.0*	690.0*	
POPULATION AND VITAL STATISTICS POPULATION (MID-YR, MILLION)	8.1	10.8	12.7/4	13.3	9.1	50.4	
POPULATION DENSITY PER SQUARE KM. PER SQ. KM. AGRICULTURAL LAND	24.0 152.0	33.0 185.0	39.0/a 211.0/a	10.0 45.0	99.0 211.0	26.0 52.0	
VITAL STATISTICS CRUDE DIRTH RATE (/THOU, AV) CRUDE DEATH RATE (/THOU, AV) INFANT MARTALITY RATE (/THOU) LIFE EXPECIANCY AT DIRTH (YRS) GROSS REPRUDUCTION RATE	45.6 17.8 62.0 51.7 2.9	42.2 12.9 40.8/a 56.7 2.6/a	2 38.7 9.9 35.4/b 59.4 2.4/b	42.9 14.7 65.1/a 50.0 2.9	21.1 10.4 58.0 66.1 1.5	43.8 10.2 68.5 62.4 3.1	
POPULATION GROWTH RATE (%) TOTAL URDAN	2.8	2.9 3.0	2.8	2.8 4.7	0.1/a 1.8	3.4 4.8	
URBAN POPULATION (X OF TOTAL)	25.9	26.9	30.2	52.5	26.9	58.7	
AGE STRUCTURE (PERCENT) O TO 14 YEARS 15 TO G4 YEARS 65 YEARS AND OVER		$\frac{b}{b} \frac{44.7/a}{52.17a}$	42.7/b 53.975 3.475	45.0/a 51.9/a 3.1/a	28.5 61.8 9.7	46.2 50.1 3.7	
AGE DEPENDENCY RATIO ECONOMIC DEPENDENCY RATIO	0.9/a, 1.4/a,		0.9 <u>/b</u>	0.9/a 1.5/a,b	0.6 1.1/b	1.0 2.0	
FAMILY PLANNING ACCEPTORS (CUMULATIVE, THOU) USERS (% OF MARRIED WOMEN)	::	222.2/a 8.0/a	371.8/b	::	::	55.5	
EMPLOYMENT							
TOTAL LABOR FORCE (THOUSAND) LABOR FORCE IN AGRICULTURE (X) UNEMPLOYED (X OF LABOR FORCE)	2300.0/a 56.07a 2.07a.	49.5	4200.0 45.2 7.2	4300.0 45.0/a 5.0/c	3300.0 29.2 /c 2.6	13000.0	
INCOME DISTRIBUTION .							
X OF PRIVATE INCOME REC'D BY- HIGHEST 5X OF HOUSEHULDS HIGHEST 20X OF HOUSEHULDS LOWEST 20X OF HOUSEHULDS LOWEST 40X OF HOUSEHULDS	:	28.3 56.0 3.5 11.2		• :		37.8 63.2 4.2 10.2	
DISTRIBUTION OF LAND OWNERSHIP							
X OWNED BY TOP 10% OF OWNERS X OWNED BY SMALLEST 10% OWNERS	- ::	:	::	· :	• .:	37.1	
POPULATION PER PHYSICIAN POPULATION PER PHYSICIAN POPULATION PER NURSING PERSON POPULATION PER HOSPITAL BED	6500.0 /d 2600.0 /d 290.0 /d	 270.0/a	4400.0 <u>/b,c</u> 1570.0 <u>7b</u> 270.0 <u>7b</u>	1920.0 3200.0 470.0	1120.0/d 1090.07e	1460.0 1620.0/a	• •
PER CAPITA SUPPLY OF -	290.0 <u>7d</u>	<u>/a</u>	<u>/b</u>	470.0	170.0	960.0	
CALDRIES (X OF REQUIREMENTS) PROTEIN (GRAMS PER DAY) -DF WHICH ANIMAL AND PULSE	:	110.0 49.0 /b 20.0 7b	115.0 54.0	98.0 62.0 24.0	118.0 85.0 40.0	114.0/b 65.0 28.0/c	
DEATH RATE (/THOU) AGES 1-4		5.5	4.0 /b		3.4	9.8	
ADJUSTED ENROLLMENT RATIO	91.0 /a	bo o la	h .				
SECONDARY SCHOOL YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)	19.0 /A 19.0 /A	$\frac{89.0 / a}{34.0 / a}$ 13.0 / a	92.0 <u>/b,c</u> 37.0 <u>/b,c</u>	114.0 36.0	98.0 57.0	104.0 22.0	
VDCATIONAL ENROLLMENT (X OF SECONDARY) ADULT LITERACY RATE (X)	5.0 /a	3.0 /a	13.0 <u>/b</u> 3.0 <u>/b</u> ,c	12.0 19.0/d	13.0	12.0	
HOUSING	10.0 /1	b 55.0	60.0 <u>7c</u>			76.0	
PERSONS PER ROOM (URBAN) OCCUPIED DIELLINGS WITHOUT		2.3 /a			0.8/f	. 2.2	
ACCESS TO ELECTRICITY		65.0 /a	<u>c</u>		65.5	61.0/d	*
(X OF ALL DWELLINGS) RURAL DWELLINGS CONNECTED		43.0 /a			64.2	59.0	
TO ELECTRICITY (X)		30.0 /n				28.0	
CONSUMPTION					$i=2^{1}i\pi$		
* RADIO RECEIVERS (PER THOU POP) PASSENGER CARS (PER THOU POP) ELECTRICITY (KNH/YR PER CAP) NUMSPRINT (KG/YR PER CAP) SCE NOTES AND DEFINITIONS ON REVEL	37.0 13.0 200.0 /d 0.0	41.0 27.0 362.0 4.0	40.0 34.0 541.0/b 2.9b	134.0 17.0 415.0 3.7	142.0 61.0 824.0 5.1	276.0 24.0 567.0 3.2	

	-		E-192	
21	United oth 1973 and 1		ted, date for 1960 refer to any year between 1939 and 1961, for 1970 between 1968 and 1970, and for Hoet Recent Extinate between	
	CKP P4	r copite	date are based on the World Bank Atlas methodology (1974-76 basis).	
			a rapid park of industrial expansion and since Halaysia's industrial base is relatively small and the country has the capacity pand its industrial production rapidly in the future, Hexico has been selected as the objective country.	
	BALAYSIA	1940	Le Peninsular Heleyels; 10 1957; 1c 1962, registered applicante for work; 1d rederation of Heleye.	
3	15	1970	Le Peninsuler Keleyete; 15 1964-66; 1c Piped weter Inelde.	
		MOST N	CENT EST DUTE: 10 1976; 15 Peninsular Kalayola; 1c 1972.	
	MAN	1970	/ Excluding Indian jungle population: 10 Ratio of population under 15 and 65 and over to total labor force; /c Urban only; /d including evening schools.	
	POSTICAL	1970	Le Due to emigration population growth rate is lower than rate of natural increase: <u>/b</u> Ratio of population under 15 and 65 and over to total labor force; <u>/c</u> Excluding une-ployed; <u>/d</u> Registered, including physicians practicing dentistry; <u>/a</u> Including essistant nurses; <u>/t</u> Total, urbgn and rural.	
	KIX1CO	1970	1ª Including eveletent nurses; 1b 1969-71 everage; 1c 1964-66; 1d Inside only.	
			. All, November 1, 1977	

FOLS

MTDITIOS OF ICCIAL INDICATORS

Land Ares (thou ba2) Jotal - Total surface ares comprising land ares and inland ugters. Artic. - West recent estimate of agricultural ares used temporarily or p bestly for crops, pastures, market 6'bitchen gardens or to lie fallow. -

OP per capita (175) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1973-75 baris); 1960; 1970 and 1975 data.

Population and vital statistic: Population (mid-year stillion) - 4s of July first: if not available, average of two end-year estimates; 1.460, 1970 and 1975 data.

<u>Population density - per square kn</u> - Hid-year population per square kilometer (166 hectares) of total area. <u>Population density - per square kn of spric. land</u> - Computed as above for sgricultural lacd only.

Tital statfatics

- Wital statistics <u>Stude Dirch rate per thousand, average Annual live Dirchs per thousand of</u> <u>mid-year population; ten-year stituetic averages ending in 1960 and 1970,</u> and five-year average ending in 1975 for most recent estimate. <u>Frude death rate per thousand, average</u> Annual decths per thousand of mid-year population; ten-year artituetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate. <u>Interstelley rate (Thou)</u> Annual deaths of infants under one year of ege <u>Interstelley tents</u>.

- fancy at birth (vrs) Average number of years of life remaining at sually five-year averages anding in 1960, 1970 and 1975 for develop-norfer. bir ng countries
- Ing countries. <u>Great reproduction rate</u> average number of live daughters s voman will bear in her normal reproductive period if she experiences present age-specific fertility rate; usually five-year averages ending in 1960, 1970 and 1975 for developing countries. <u>Population growth rate (3) total</u> Compound annual growth tates of mid-year population for 1950-60, 1960-70 and 1970-75. <u>Population growth rate (3) uthan</u> Computed like growth rate of total population; different definitions of urban areas may affect comparability of <u>Gate spoulation</u>; different <u>definitions of urban areas may affect comparability</u> of data smong countries.

- Its structure (percent) Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population. An dependency ratio Ratio of population under 15 and 65 and over to those of ages 15 through 64.
- of ejes 15 through 64. <u>Iccurstic dependency ratio</u> Ratio of population under 15 and 65 and over to the labor force in size group of 15-64 years. <u>Instity planning acceptors (comulative, thou)</u> Comulative number of acceptors of birth-control devices under suspices of national family planning program
- eince inception.
- fraily planning users (L of married voten) Percentages of married voten of child-bearing age (1)-w years) who use birth-control devices to all married voten in same age group.

- Exception to the set of set of
- Jasoma distribution Percantage of private income (both in cash and kind) feedined by elchast 31, elchast 201, poorest 201, and poorest 401 of houses helde.
- Elitthation of land conversity Percenteges of land owned by wealthiest 102 and powerst 102 of land convers.
- 8 .t.r.
- the President Population divided by number of practicing President and president and president and president and a section of the president and the presiden

- INDICATORS
 Population per nursing person Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and swillary personnel with training or experience.
 Population per heapitel had Topulation divided by number of hespital beds available in public and riverse general and specialized hespital and technolitation centers; excludes nurses, include hows and establishments for custodial and preventive care.
 Per capita supply of calories (2 of requirements) Computed from energy equivalent of net food supplies available in food myre capita per capita supply of calories (2 of requirements) Computed from energy equivalent of net food supplies available in country per capita per day; available in stock; net supplies available in country per capita per day; available in stock; net supplies available in country per capita per day; available in stock; net supplies available for increal activity and health comsidering environmental temperature, body weights, are and sex distributions of population, and elloving 10% for vaste et household level.
 Per capita supply of protein (areas per day) Protein context of per capita best supply of food per capita established by 150 Is defined as above; requirements for a minimum allowance of 60 graps of total protein grave, and 20 grams of animal and pulse protein, of which 10 grams should be enimal protein; these stabilable are lower than those of 35 grams of total provein and 30 grams of animal and pulse in verses for the vorid, proposed by FAO in the Third World Food Survey.
 Per capita protein supply from enimal and pulse Protein supply of food der capita and pulses in a serage for the vorid, proposed by FAO in the Third World Food Survey.
- Per capits protein supply from enimal and pulse Protein supply of food derived from enimals and pulses in grams per day. Death rate (/thou) ages 1-4 Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of
- malnutrition.

- Education Adjusted enrollment ratho primary school Enrollment of all ages as per-centage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are tel-w or above the official school age. Adjusted enrollment ratio secondary school Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded. <u>Years of schooling provided (first and second levels</u> Totel years of actooling; at accoustry level, vocational instruction may be partially or completely excluded.

- completely excluded. completely excluded. <u>Vocational enrollment () of secondary</u> - Vocational institutions include technical, industrial or other programs which operate independently or an departments of secondary institutions. <u>dult literacy rate ()</u> - Literate solute (able to read and write) as per-centege of total solut population aged 15 years and over.

- Housing Persons per room (urban) Average number of persons per room in occupied conventional dvellings in urban areas; dvellings exclude non-permanent attructures and nonccupied parts. <u>Occupied dwellings without inside or outside piped vater facilities</u> as percentage of all occupied dvellings. <u>Access to electricity (C of all dvellings</u>) Conventional dvellings with allectricity in living quarters as percent of total dvellings in urban and rural areas.
- <u>Burel dwellings connected to electricity (%)</u> Computed as above for rural dvellings only.

sumption

- Fedio receivers (per thou pop) All types of receivers for redio broadcasts to grossel public per thousand of population, ascludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abulished licensing.
- seenger cars (per thou pop) Passenger cars comprise motor cars seating less than eight persons; excludes subulances, hearess and wilitary 1. whicles.
- vehicles. <u>Flectricity (byh/yr per cap)</u> Annual consumption of industrial, comparcial, public and private electricity in kilowatt hours par capita, tenerally based on production date, without allowance for losses in gride but ellow-ing for imports and experts of electricity.
- Reventing (bg/yr par cap) Per capits annual consumption in kilogiana estimated from domestic production plus bet imports of newsprint.

C002/J10991/D1401/A-11/12

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COUNTRY PATA - MALAYSIA

AREA			POP	POPULATION (1976)			DENSITY			
330 thousand sq km			. 1	12.7 million			37 per sq km			
POPULATION CHARACT	ERISTICS	(1970-7	S AVETA	ge)			HEAL	тн		
Birth rate Death rate Population growth	-	- 38.7 - 9.9 - 2.7						inn (19 al bed		4,400 <u>/a</u> 270 <u>7a</u>
EDUCATION (1972)						ACCESS	TO ELE	CTRICIT	Y (1970)	
Adult literacy rat Primary school enr		- 60Z - 92% <u>/a</u>					- 432 s - 302			
CNP PER CAPITA IN	1976: U	S\$860 /b								
CROSS NATIONAL PRO	BUCT IN	1976:		4	NNUAL R	ATE OF	GROWTH	(% in c	onstant	prices and
		US\$ Mln	-	<u>x</u>	1960	-65	1965-7	0 1	970-75	1976
GNP at Market Pric Gross Domestic Inv Gross National Sav Current Account Ba	estment ing lance	10,561 2,111 2,794 683	22	0.0 0.0 6.5 6.5	6. 9. 11.	8	5.6 7.7 7.9		7.0 6.2 10.8	11.3 6.6 11.5
Exports of Goods, Imports of Goods,		5,555 4,409		2.6	4.3.		6.5 5.7		5.8	20.1 10.8
OUTPUT, LABOR FORC PRODUCTIVITY IN 19										
Ū	Value . S\$ Mln	Added X	-	- L M1	abor Fo	rce Z			V.A. Per US\$	Worker
Industry 2	,367 ,224 ,553	29.1 27.1 43.0	3	1. 0. 1.	6	45.2 14.3 33.3		3	,246 ,707 ,538	59.7 177.5 121.6
Unemployed				0.		7.2			,088	
Total/Average 8		100.0	<u>-</u>	45	2 1	00.0		-	,000	100.0
COVERNMENT FINANCE		•								
-		M\$ Min 1976 .	-	2 o 976	f GDP 1973-	73				
Current Receipts Current Expenditur Fublic Authorities		7,032 6,490 193	2	5.6 3.6 0.7	24.9 22.9 0.6					
Current Surplus Development Expend Foreign Borrowing	itures	735 2,965 371	1	2.7 0.8 1.3	2.7 10.7 2.0					
HONEY, CREDIT AND	PRICES		1969	1970	1971	1972	1973	1974	1975	1976
				(Mil	lion M\$	outsta	inding c	nd peri	od)	
Honey and Quasi-Mo Bank Credit to Pub Bank Credit to Pri	lic Sect		3,724 909 1,841	4,131 833 2,246	4,666 1,045 2,572	5,770 1,186 3,014	7,574 1,375 4,586	8,729 1,746 5,278	10,001 2,148 6,084	12,769 3,036 7,471
					(Percen	tages c	or Index	Number	s)	
Money and Quasi-Mo Consumer Price Ind Annual Percentag	ex (1967	= 100)	33.1 99.4	33.3 101.3	36.0 102.9	40.4	40.0 117.4	37.8 137.8	45.1 144.0	46.4 147.7
Consumer Price Ind		or	-0.4	1.9	1.6	3.2	10.5	17.4 27.0	4.5	2.6

1b World Bank Atlas.

EC

. not applicable

ROTE: All conversions to dollars in this table are at the average exchange rate prevailing during the period covered, 0

C002/J16932/D1401/A-13

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TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

MERCHANDISE EXPORTS (AVERAGE 1974-76)

. <u>1974</u> (US	1975 \$ milli	<u>1976</u> on)		US\$ 11n	_%
Exports of Goods, NFS 4,420	4,076	5,555			
Exports of Goods, NFS 4,420 Imports of Goods, NFS 4,424	3,965	4,409		Rubber 1,087	24.8
Resource Gap (deficit = -1) -4	111	1,146		Tin 577	13.2
Interest Payments (net) -50	-57	-115		Timber 677	15.4
Other Factor Payments (net) -199	-172	-291		Palm Oil 441	10.0
Net Transfers -58	- 52	-57		Petroleum 441	10.0
Balance on Current Account -311	-170	683		All Other Commodities 1,160	26.6
				Total. 4,384	100.0
Direct Foreign Investment 373	229	130			
Net MLT Borrowing /a				EXTERNAL DEBT, DECEMBER 31, 19	76
Disbursements 182	589	390			_
Amortization 52	. 75	105			US\$ Mlr.
Subtotal 130	514	285.			
				Public Debt, incl. Guaranteed	1,619
Other Capital (net) -5	(-502	(-185		Non-Guaranteed Private Debt	
Other items n.c.i.	((Total Outstanding & Disbursed	1,619
Increase in Reserves (-) -187	-71	-913			
Net Official Reserves			*	DEBT-SERVICE RATIO FOR 1976 /b	
(end year) 1,615	1,695	2,504			%
Fuel and Related Materials	•			Public Debt, incl. Guaranteed	4.3
Imports 416	425	519		Non-Guaranteed Private Debt	
of which: Petroleum 215	425			Total Outstanding & Disbursed	4.3
Exports 345	402	744		iotal outstanding a bisbuised	4.5
of which: Petroleum 281	355	688			
		000		IBRD/IDA LENDING (January 31, (US\$ million)	1978)
RATE OF EXCHANGE					IBRD
Average rate during period:				Outstanding & Disbursed	309.3
M\$ per US\$	USS	per M\$		Undisbursed	426.5
In Ter ter		Per in		Outstanding incl. Undisbursed	735.8
1971 3.05	0.	33			
1972 2.82	. 0.				
1973 2.44		41			
1974 2.41		41			
1975 2.40		42			
1976 2.54		39			

<u>Ia</u> Medium and long-term capital flows are obtained from World Bank debt data and are not comparable with balance of payments estimates.

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/b Ratio of debt service to exports of goods and nonfactor services.

.. not available

F. REFERENCE MATERIAL

3. The Economy

By most economic indicators, Malaysia has done well in the past and, in particular, during the Second Malaysia Plan (SMP, 1971-75). The per capita income of US\$860 (in 1976) is among the highest in Southeast Asia. Public and private investment activity was stepped up and, as a result, GNP growth, which during the 1960s averaged 6% a year, increased during the SMP to 7%. Moreover, the trend decline in the terms of trade during the 1960s was reversed during the 1970s, and as a result there was an acceleration in per capita income growth on a trend basis from 2% during the 1960s to about 5% during the Second Plan period. Progress has also been made in reducing the economy's dependence on rubber, and the manufacturing sector has performed well in terms of output, employment, and exports. With a high export component in GNP, the country is very vulnerable to external fluctuations, which were significant during the SMP. In spite of the increased investment activity and resulting current account deficits in the balance of payments, Malaysia managed to maintain a strong external position during the SMP with relatively low debt service payments and growing international reserves.

Notwithstanding this good performance, existing racial inequalities in income and employment, and considerable poverty, especially in the countryside, persisted. The inferior income position of the Malays is related to the concentration of Malays in traditional smallholder agriculture and their meager ownership of corporate assets; furthermore, Malays in the modern industrial sector are poorly represented especially in managerial, professional, supervisory, and clerical occupations. The inequalities threatened the stability of the country and, in 1971, prompted the Government to introduce a New Economic Policy, which is designed to achieve national unity through the two-pronged objective of eradicating poverty and restructuring society to eliminate the identification of race with economic function.

More specifically, the policy proposes to reduce in a 20-year period (1970-90) the sharp income differences between Malays and non-Malays by reducing disparities in the ownership and control of wealth in the corporate sector, and by reducing the concentration of Malay employment in traditional low-income rural activities while increasing Malay presence in the relatively high-income urban sectors. Since poverty is largely concentrated among Malays, a redressal of poverty would contribute significantly to a reduction of the racial inequalities of income.

The principal means proposed to achieve these objectives is rapid growth of the industrial and service sectors. This growth will not only increase average incomes but will also serve the objective of racial restructuring of the labor force. In addition to pursuing a rapid growth strategy, the Government also proposes to achieve its goals through more direct means: on the poverty side, mainly through public investment programs directed towards the poor and, on the racial restructuring side, through controls and quotas.

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In mid-1976, the Government initiated the Third Malaysia Plan (TMP, 1976-80) reconfirming the goals of the New Economic Policy. The major objectives of the TMP are: (a) to reduce the overall incidence of poverty (from 44% in 1975 to 34% by 1980, which would mean reducing poverty in the agricultural sector from 63% to 49%); (b) to increase Malay employment in the modern sectors of the economy (from the 1975 Malay share of 32% towards the 1990 goal of 50%); and (c) to increase the share of Malays in the equity ownership of the corporate sector (from the 1975 Malay share of 8% to 16% in 1980).

The TMP goals are set out in a framework of substantial economic growth. The target growth rate for GDP is set at 8.5% per annum. Private investment is targeted to grow about 10% a year and public investment about 6%, resulting in an investment of M\$44 billion, in current prices, over the TMP period. Public development expenditures were set at M\$18.6 billion, with a higher level of M\$20 billion targeted if additional resources became available.

In addition to following a rapid growth strategy, the Government also proposes to reduce poverty through direct programs that will raise agricultural productivity and production. In the Third Plan, one quarter (M\$4.7 billion) of total public development expenditures is allocated to this sector (compared with 22% or M\$2.1 billion in the SMP). Of this, more than one third will be spent on increasing productivity in existing agricultural areas. In addition, one million acres of new land are scheduled for development. As a means of reducing poverty, the TMP also provides for improved housing and other essential services for the poor in both rural and urban areas. The TMP also stresses that greater attention will be given to improving the less developed states.

Improved economic information on 1975 and 1976, however, have significantly altered the macro framework of the Third Plan. First, there was a larger recovery in traditional exports and in the terms of trade in 1976, as well as higher present and prospective levels of oil production. Second, it now appears that real private investment fell considerably in 1975 and declined further in 1976.

During 1976, significant increases in exports, both in prices and volumes, particularly of oil exports, combined with moderate import increases, resulted in a current account surplus equivalent to 6.2% of GDP. Despite a reduction in market borrowing by the Government, reserves increased by US\$900 million. At the end of 1976, gross official reserves were the equivalent of about seven months of imports.

Current projections of oil exports and of export prices in general are higher than those used as a basis for the TMP. Therefore, the resource outlook for Malaysia is now brighter than was forecast in the Third Plan. Overall export earnings during the Plan period should be about US\$5 billion more than was forecast in the TMP. Largely as a result of this increase, public sector revenues are also expected to be higher by about US\$3 billion. The likelihood of these additional resources has prompted the Government to

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choose the higher TMP target for development expenditures of M\$20 billion (see para. 8 above) and, if implementation constraints are overcome, an even higher target could be set.

While the availability of resources is thus expected to be considerably improved, there is some uncertainty about achieving the Plan's private investment targets. As a result of the decline in private investment in 1975 and 1976, private investment would now have to grow at more than double the projected 10% rate during the remaining years of the Plan in order to achieve the Plan targets. While there are a number of possible factors that were involved in this downturn in manufacturing investment, it is difficult to determine with any certainty their relative importance. First, there was the world recession in 1974-75 which, no doubt, had some negative impact on investment activity in Malaysia. Second, 1974 was a peak period for private investment in Malaysia so that some cyclical decline in the rate of private investment in 1975 would probably have been experienced in any event. Third, there was considerable uncertainty in the private sector regarding the impact of the Industrial Co-ordination Act (ICA), passed by Parliament in 1975, which enforces racial restructuring targets for equity and employment through a system of licensing of existing and new firms above a certain minimum size. As far as the ICA is concerned, the Government acknowledged the uneasiness in the business community and amended the Act in 1976. Two important changes approved were the establishment of an appeals procedure and an increase in the minimum size at which a firm will be expected to restructure its equity. It is still too early, however, to judge the reaction of the private sector to these changes.

Assuming a moderate long-term recovery in private investment, Malaysia's balance of payments should be in substantial surplus. During the next five years, the cumulative current account surplus could amount to over 5% of GDP compared to a negligible current surplus in the previous five years. Since such a current account surplus would be sufficient to provide for an adequate level of reserves, capital inflows may moderate in the future. At present, about 19% of public debt outstanding and disbursed is from the Bank; this percentage may increase somewhat by the early 1980s. Reserves are also expected to continue to increase slowly, while the debt service on public obligations is likely to remain at its present level of 4%-5% of export earnings. The Bank's share of debt service is currently about 11% and may increase to 12%-14% by the early 1980s.

In general, over the next few years, it is likely that the Government will need less external capital than previously forecast, largely because of strong commodity prices and oil earnings. At the same time, Malaysia has a serious income distribution and poverty problem. The country needs technical assistance and expertise to help develop poverty alleviation programs, and to assist in designing and packaging projects that reach out directly to lowincome families. The Malaysians believe strongly that project borrowing, particularly from development institutions such as the World Bank, is necessary to assist them to mount an effective attack on poverty. Bank lending is therefore focused on strengthening Government efforts to directly reduce poverty.

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ANNEX I Page 1 of 4 pages

	MALAYSIA		TABLE SA SOCIAL INDICAT				
LAND ANEA (THOU KM2)		MALAYSIA			RENCE COUNT	RIES (1970)	
10TAL 329.7 A RIC. 60.3	1960	1970	ESTIMATE	PERU	PORTUGAL	MEXICO **	*
P ER CAPITA (USS)	230.0*	440.0 *	860.0*/a ·	470.0*	950.0*	690.0*	
POPULATION AND VITAL STATISTICS POPULATION (MID-YR, MILLION)	8.1	10.8	12.7/a	13.3	9.1	50.4	
POPULATION DENSITY PER SQUARE KM. PER SQ. KM. AGRICULTURAL LAND	24.0 152.0	33.0 185.0	39.0/a 211.0/a	10.0 45.0	99.0 211.0	26.0 52.0	
VITAL STATISTICS			e				
CRUDE DIATH RATE (/THOU, AV) CRUDE DEATH RATE (/THOU,AV) INFANT MORTALITY RATE (/THOU) LIFE EXPECTANCY AT BIRTH (YRS) GROSS REPRODUCTION RATE	45.6 17.8 62.0 51.7 2.9	42.2 12.9 40.8/a 56.7 2.6/a	38.7 9.9 35.4/b 59.4 2.4/b	42.9 14.7 65.1 <u>/a</u> 58.0 2.9	21.1 10.4 58.0 66.1 1.5	43.8 10.2 68.5 62.4 3.1	
POPULATION GROWTH RATE (%) Total Urdan	2.8	2.9	2.8 4.8	2.8 4.7	0.1/a 1.8	3.4 4.8	
URBAN POPULATION (X OF TOTAL)	25.9	26.9	30.2	52.5	26.9	58.7	
AGE STRUCTURE (PERCENT) 0 10 14 YEARS 15 TO G4 YEARS 65 YEARS AND OVER		b 44.7/a 52.17a 5.27a	42.7/b 53.975 3.475	45.0/a 51.97a 3.17a	28.5 61.*8 9.7	46.2 50.1 3.7	
AGE DEPENDENCY RATIO ECONOMIC DEPENDENCY RATID	0.9/a, 1.4/a,	b 0.9/a	0.9 <u>/b</u>	0.9/a 1.5/a,b	0.6 1.1/b	1.0 2.0	
FAMILY PLANNING ACCEPTORS (CUMULATIVE, THOU) USERS (% OF MARRIED WOMEN)	::	222.2/a 8.0/a	371.8/b	:: -	::	55.5	
EMPLOYMENT							
TOTAL LABOR FORCE (THOUSAND) LABOR FORCE IN AGRICULTURE (X) UNEMPLOYED (X OF LABOR FORCE)	2300.0/a 56.07a 2.07a.	49.5	4200.0 45.2 7.2	4300.0 45.0/a .5.0/c	3300.0 29.2 /c 2.6	13000.0	
INCOME DISTRIBUTION .							
S DF PRIVATE INCOME REC'D BY- HIGHEST 5% OF HOUSEHCLCS HIGHEST 20% OF HOUSEHCLCS LOWEST 20% OF HOUSEHCLCS LOWEST 20% OF HOUSEHCLCS	::	28.3 56.0 3.5 11.2		• :		37.8 63.2 4.2 10.2	
DISTRIBUTION OF LAND OWNERSHIP	•						
X OWNED BY TOP 10% OF OWNERS X OWNED BY SMALLEST 10% OWNERS	- ::			:	• ••	37.1	
HEALTH AND NUTRITION					••	0.3	
POPULATION PER PHYSICIAN POPULATION PER NURSING PERSON POPULATION PER HOSPITAL BED	6500.0 /d 2600.0 /d 290.0 /d	270.0/a	4400.0 /b,c 1570.0 7b 270.0 /b	1920.0 3200.0 470.0	1120.0/d 1090.07e 170.0	1460.0 1620.0/a 960.0	
PER CAPITA SUPPLY OF - CALORIES (% OF REQUIREMENTS) PROIEIN (GRAMS PER DAY) -OF WHICH ANIMAL AND PULSE	:	110.0 49.0 /b 20.0 7b	115.0	98.0 62.0	118.0 85.0	114.0/b 65.0	
DEATH RATE (/THOU) AGES 1-4		5.5	4.0 /b	24.0	40.0	28.0 <u>/c</u>	
EDUCATION			10/10		3.4	9.8	
ADJUSTED ENROLLMENT RATIO				1.11.2.1			
PRIMARY SCHOOL SECONDARY SCHOOL YEARS OF SCHOOLING PROVIDED	91.0 /a 19.0 /a	89.0 /a 34.0 /a	92.0 /b,c 37.0 /b,c	114.0 30.0	98.0 57.0	104.0 22.0	
(FIRST AND SECOND LEVEL) VDCATIONAL ENROLLMENT	13.0 /a	13.0 /a	13.0 /b	12.0	13.0	12.0	
(X OF SECONDARY) ADULT LITERACY RATE (X)	48.0 /A	3.0 /a	3.0 /b,c 60.0 /c	19.0/1	32.0	24.0	
HOUSING	1A	0	110 12		• ••	76.0	
PERSONS PER ROOM (URBAN)		2.3/0			0.8/f	2.2	
OCCUPIED DAELLINGS WITHOUT PIPED WATER (X) ACCESS TO ELECTRICITY		65.0 /a			65.5	61.0/d	
(X OF ALL DWELLINGS) RURAL DWELLINGS CONNECTED		43.0 Ja			64.2	59.0	
TO ELECTRICITY (X)		20.0 /A				20.0	
CONSUMPTION						1991	
RADIO RECEIVERS (PER THOU POP) PASSINGER CARS (PER THOU POP) ELECTRICITY (KMHYR PER CAP) NEWSPRINT (KG/YR PER CAP)	37.0 13.0 200.0 /d 0.0	41.0 27.0 302.0 4.0	40.0 34.0 541.0/b 2.9/b	134.0 17.0 415.0 3.7	142.0 61.0 824.0 5.1	276.0 24.0 567.0	•

1.1			
1	Unites oth 1973 and 1		ed, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970, and for Host Recent Extinate between
		r copite d	late are based on the World Bank Atlas mathodology (1974-76 basis).
			r rapid path of industrial expansion and eince Heleysia's industrial base is relatively small and the country has the capacity and its industrial production rapidly in the future, Hexico has been selected as the objective country.
	BALAYEIA	1940	Le Peninsuler Heleyels; 10 1957; 1c 1962, registered applicants for work; 1d Federation of Heleye.
-		1970	La Peninsular Halayeia; 10 1964-66; 1c Fiped water inside.
		HOST RIC	TAT PST DATE: 14 1976; 15 Penineular Kalayela; 15 1972.
	MRU	1970	La Excluding Indian jungle population: 10 Ratio of population under 15 and 65 and over to total labor force; /c Urban only; /d including evening schoole.
	PORTICAL	1910	Le Due to emigration population growth rate is lower than rate of natural increase; <u>/b</u> Ratio of population under 15 and 65 and over to total labor force; <u>/c</u> Excluding unesployed; <u>/d</u> Registered, including physicians practicing dentistry; <u>/e</u> including assistant nurses; <u>/c</u> Total, urben and rural.
	MIXICO	1970	10 Including essistant nurses; 15 1969-71 everage; 1c 1964-65; 1d Inside only.

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MT DITIONS OF LOCIAL INDICATORS

land Ares (thou ba?) Joral - Total surface ares comprising land ares and inland upters ic. - Most recent estimate of spricultural area used temporarily or p ratly for crops, pastures, market 6 kitchen gardens or to lie fallow. Asrte or perma-

<u>SXP per capite (US5)</u> - GNP per capits estimates at current market prices, esiculated by esse conversion method as World Bank Atlas (1973-75 basis); 1960; 1970 and 1975 data.

Population and vital statistic: <u>Population (mid-year cillion)</u> - us of July first: if not svailable, sverage of two end-year estimates; 1.460, 1970 and 1975 data.

Jepulation density - per square bm - Mid-year population per square kilometer (160 hectares) of total area. Jopulation density - per square km of spric. land - Computed as above for spricultural land only.

Yital statistics (tude birth rate per thousand, average - Annual live births per thousand of Bid-year population; ten-year artitmetic averages ending in 1960 and 1970, and five-year average ending in 1955 for most recent estimate. (rude death rate per thousand, average - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate. ('nt mortality rate (/thou) - Annual deaths of infants under one year of ege usend live births. tancy at birth (yrs) - Average number of years of life remaining at

famoy at birth (vrs) - Average number of years of life remaining at soundly five-year averages anding in 1960, 1970 and 1975 for develop-ntries.

- Jesually five-year averages anding in 1960, 1970 and 1975 for develop-ing countries.
 frow reproduction rate average number of live daughters a voman vill bear for her normal reproductive period if she experiences present age-specific fertility retes; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.
 Population for 1950-00, 1960-70 and 1970-75.
 Population for 1950-00, 1960-70 and 1970-75.
 Population; different definitions of urban areas may affect comparability of data aroug countries.
 Strate population; different definitions of urban to total population; different definitions of urban areas may affect comparability of data among countries.

- <u>ise structure (percent)</u> Children (0-14 years), working-age (15-64 years), aud retired (05 years and over) as percentages of mid-vear population. <u>And dependency ratio</u> Ratio of population under 15 and 65 and over to those of ages 15 through 64.
- of eyes 15 through 64. <u>Economic dependency ratio</u> Ratio of population under 15 and 65 and over to the labor force in axe group of 15-64 years. <u>Easily planning acceptors (comulative, thou)</u> Oumulative number of acceptors of birth-control devices under auspices of national family planning program e lace inception. fently planning - users (1 of married women) - Percentages of married women of child-bearing age (13-44 years) who use birth-control devices to all married
- men in same ses group.

- [agloymant] [etcl. isbor force (thousand) Economically active parsons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not cooperable. [etcl. incression of itshing] as percentage of total labor force (in farming, forestry, honting and itshing) as percentage of total labor force. Demployed (I of labor force) Articulture is lub on a tiven day, remained out etc. and stating work for a specified intram period not exceeding one weak; may not be cooperable between countries due to different definitions ef unemployed and ecote of date, e.g., exployment office etclictice, sample surveys, compulsary unemployment insurence.
- Jasona distribution Percentage of private income (both in cash and kind) tereleed by sichest 31, tichest 201, poorest 202, and poorest 402 of househelde.

Distribution of land convership - Percentages of land owned by wealthiest 102 and posters 102 of land convers.

A POILATORS
 Appulation per nursing person - Population divided by number of practicing male and lease graduate nursee, "trained" or "certified" nursee, and an all and lease graduate nursee, "trained" or "certified" nursee, and anutilary personnel with training or experience.
 Appulation per housing hereon - Population divided by number of hespital bede available in public and private general and specialized hospital and resultation centers: excludes nursing homes and escabilisments for custoful and preventive cere.
 Ar espita supply of calories (2 of requirements) - Computed from energy evident of ner food supplies available in country part capits per day: evident of ner food supplies available in country part capits per day: evident of nerginal and preventive cere.
 Ar espita supply of calories (2 of requirements) - Computed from energy evident of ner food supplies available in country part capits per day: evident of nerginal and preventive cere.
 Ar espita supply of calories (2 of requirements) - Computed from energy evidence in a stock; net supplies available in country part capits per day: evidence of a food processing and lowers in distribution; requirements were estimated in food processing and lowers in distribution; requirements were estimated and processing and lowers of on start set estimates are to population, and ellowing 10% for waste et household level.
 Ar espita supply of food per day; net supply of food is defined as above; requirements for all countries established by ISDA formatic kessarch Services provide for a suffax and 10 person in the third vorted food survey.
 Ar espite protein alower than those of 15 press of total protein and 20 press of animal and pulses protein, of which 10 press should be animal and for a survey.
 Ar espite protein alower in graces per day.
 Ar espite protein as an average for the vortid, proposed by food an the third vorted food Survey.

- Education Adjusted antolizent ratho primary school Enrolizent of all ages as per-centage of primary school-see population; includes children sgad 6-11 years but adjusted for different lengths of primary education; for contries with unfversal education, enrolizent may exceed luut since same pupils are tel-w or above the official school age. Minard enrolizent ratio secondary school Computed as above; secondary
- or above the official school sge. <u>Adjusted enrollownt ratio secondary school</u> Cooputed as above; secondary education requires at least tour years of approved primary instruction: provides general, worstional or teacher training instructions for pupis of 12 to 17 years of sge; correspondence courses are generally excluded. Years of schooling provided (first and accord levels) Total years of schooling; at secondary level, vocational instruction may be partially or
- completely excluded. Completely exclused. <u>Vocational enrollment (1 of secondary)</u> - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions. <u>Adult liceracy rate (1)</u> - Licerate adults (able to read and write) as per-centage of total adult population aged 15 years and over.

- Housing Persons per room (urban) Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.
- Coupled duellings, without piped vater [:] Occupied conventional duellings in orban and tural areas without inside or outside piped water facilities as parcentegs of all occupied duellings. Access to electricity (: of all duellings) Conventional duellings with electricity in living quarters as percent of total duellings in urban and tural areas.
- rural areas.
- Burst dwellings connected to electricity (7.) Computed as above for rural dwellings only.

nsumption

- <u>Endio receivers (per thou pop)</u> All types of receivers for radio broadcasts to general public per thousand of population, ascludes unlicensed receivers in countries and in years when registration of radio acts use in effect; dets for recent years may not be comparable since most countries abolished licenter.
- stenetur. <u>stanger cars (per thou pop)</u> Passanger cars comptise motor cars seating less than sight persons; eacludes explances, bearses and ulitary vehicles.
- Venicies. <u>Flectricity (tub/yr per cep)</u> Annual consumption of industrial, consercial, public and private electricity in kilowatt house par capita, cenerally based on production data, without allowance for losses in gride but allow-ing for imports and expurts of electricity. <u>Moveprint (bg/yr per cep)</u> Fer capits annual consumption in kilogramm estimated from donastic production plus bet imports of newsprint.

ANNEX 1 Page 3 of 4

COUNTRY DATA - MALAYSIA

AREA			ULATION	(1976)		DENSITY			
330 thousand sq km		. 1	. 12.7 million			37 per sq km			
POPULATION CHARACTERISTICS	(1970-7	5 AVETA	ge)			HEALT	гн		
Birth rate Death rate Population growth rate	- 38.7 - 9.9 - 2.7							73) - (1973) -	4,400 <u>/a</u> 270 <u>/a</u>
EDUCATION (1972)					ACCESS	TO ELEC	CTRICIT	Y (1970)	
Adult literacy rate Primary school enrollment	- 607 - 92% /a			All dwc Rural d		- 43%			
CNP PER CAPITA IN 1976: U	S\$860 /b								
CROSS NATIONAL PRODUCT IN	1976:		٨	NNUAL R	ATE OF	GROWTH	(Z in c	onstant	prices and 1
	US\$ Mln	_	<u>x</u>	1960	-65	1965-70	<u><u> </u></u>	970-75	1976
GNP at Market Prices Gross Domestic Investment Gross National Saving Current Account Balance	10,561 2,111 2,794 683	2	0.0 0.0 6.5 6.5	6. 9. 11.	4	5.6 7.7 7.9		7.0 6.2 10.8	11.3 6.6 11.5
Exports of Goods, NFS Imports of Goods, NFS	5,555 4,409		2.6	4. 3.		6.5 5.7		5.8	20.1 10.8
OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1975									
Value US\$ Mln	Added 2	-	· L M1	abor Fo	z			V.A. Per US\$	Worker 2
Agriculture 2,367 Industry 2,224 Services 3,553	29. 27. 43.	3	1. 0. 1.	6	45.2 14.3 33.3		. 3	,246 ,707 ,538	59.7 177.5 121.6
Unemployed .	•		0.	3	7.2			:	•
Total/Average 8,144	100.	0	44	2 1	00.0		2	,088	100.0
COVERNMENT FINANCE	•								
	M\$ Mln		States and and the survey of	f GDP					
	1976 .	-	976	1973-					
Current Receipts	7,032 6,490		5.6	24.9					
Current Expenditures	193		0.7	0.6					
Public Authorities Surplus	735								
Public Authorities Surplus Current Surplus Development Expenditures	735 2,965 371	1	0.8	10.7					
Public Authorities Surplus Current Surplus Development Expenditures Foreign Borrowing (net)	2,965	1	0.8	10.7		1973	1974	1975	1976
Public Authorities Surplus Current Surplus Development Expenditures Foreign Borrowing (net)	2,965	1	0.8 1.3 <u>1970</u>	10.7 2.0 <u>1971</u>	1972	<u>1973</u>			<u>1976</u>
Public Authorities Surplus Current Surplus Development Expenditures Foreign Borrowing (net) MONEY, CREDIT AND PRICES	2,965	1	0.8 1.3 <u>1970</u>	10.7 2.0 <u>1971</u>	<u>1972</u> outsta				<u>1976</u> 12,769
Public Authorities Surplus Current Surplus Development Expenditures Foreign Borrowing (net) MONEY, CREDIT AND PRICES MONEY and Quasi-Money Bank Credit to Public Sect	2,965 371 or	1 <u>1969</u>	0.8 1.3 <u>1970</u> (Mil	10.7 2.0 <u>1971</u> 1ion M\$	<u>1972</u> outsta 5,770 1,186	anding ci	nd peri	od)	
Public Authorities Surplus Current Surplus Development Expenditures Foreign Borrowing (net) MONEY, CREDIT AND PRICES MONEY and Quasi-Money Bank Credit to Public Sect	2,965 371 or	1 <u>1969</u> 3,724 909	0.8 1.3 <u>1970</u> (Ni1 4,131 833	10.7 2.0 <u>1971</u> 1ion M\$ 4,666 1,045 2,572	<u>1972</u> outsta 5,770 1,186 3,014	7,574 1,375	nd peri 8,729 1,746 5,278	od) 10,001 2,148 6,084	12,769 3,036
Public Authorities Surplus Current Surplus Development Expenditures Foreign Borrowing (net) MONEY, CREDIT AND PRICES Honey and Quasi-Honey Bank Gredit to Public Sect Bank Gredit to Private Sec Money and Quasi-Money as 2	2,965 371 or tor .	1 1969 3,724 909 1,841 33.1	0.8 1.3 <u>1970</u> (Hi1 4,131 833 2,246 33.3	10.7 2.0 <u>1971</u> 1ion M\$ 4,666 1,045 2,572 (Percen 36.0	<u>1972</u> outsta 5,770 1,186 3,014 tages o 40.4	7,574 1,375 4,586 or Index 40.0	nd peri 8,729 1,746 5,278 Number 37.8	od) 10,001 2,148 6,084 s) 45.1	12,769 3,036 7,471 46.4
Public Authorities Surplus Current Surplus Development Expenditures Foreign Borrowing (net) <u>HONEY, CREDIT AND PRICES</u> Honey and Quasi-Money Bank Credit to Public Sect Bank Credit to Private Sec Money and Quasi-Money as 2 Consumer Price Index (1967 Annual Percentage Change	2,965 371 or tor .	1 1969 3,724 909 1,841	0.8 1.3 <u>1970</u> (Hi1 4,131 833 2,246	10.7 2.0 <u>1971</u> 1ion M\$ 4,666 1,045 2,572 (Percen	<u>1972</u> outsta 5,770 1,186 3,014 	7,574 1,375 4,586 or Index	nd peri 8,729 1,746 5,278 Number	od) 10,001 2,148 6,084 \$	12,769 3,036 7,471
Public Authorities Surplus Current Surplus Development Expenditures Foreign Borrowing (net) HONEY, CREDIT AND PRICES Money and Quasi-Money Bank Credit to Public Sect Bank Credit to Private Sec Money and Quasi-Money as 2 Consumer Price Index (1967	2,965 371 or tor . of CDP = 100) s in:	1 1969 3,724 909 1,841 33.1	0.8 1.3 <u>1970</u> (Hi1 4,131 833 2,246 33.3	10.7 2.0 <u>1971</u> 1ion M\$ 4,666 1,045 2,572 (Percen 36.0	<u>1972</u> outsta 5,770 1,186 3,014 tages o 40.4	7,574 1,375 4,586 or Index 40.0	nd peri 8,729 1,746 5,278 Number 37.8	od) 10,001 2,148 6,084 s) 45.1	12,769 3,036 7,471 46.4

16 World Bank Atlas.

. not applicable

NOTE: All conversions to dullars in this table are at the average exchange rate prevailing during the period covered. C002/J16932/D1401/A-13

ANNEX I Page 4 of 4 pages

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

MERCHANDISE EXPORTS (AVERAGE 1974-76)

1974	1975	1976		US\$ Mln	%
(US	5\$ milli	.on)			
Exports of Goods, NFS 4,420	4,076	5,555		•	
Imports of Goods, NFS 4,424	3,965	4,409		Rubber 1,087	24.8
Resource Gap (deficit = $-$) -4	111	1,146	-	Tin 577	13.2
Interest Payments (net) -50	-57	-115		Timber 677	15.4
Other Factor Payments (net) -199	-172	-291		Palm Oil 441	10.0
Net Transfers -58	- 52	-57		Petroleum 441	10.0
Balance on Current Account -311	-170	683		All Other Commodities 1,160	26.6
				Total. 4,384	100.0
Direct Foreign Investment 373	229	130			
Net MLT Borrowing /a		100		EXTERNAL DEBT, DECEMBER 31, 19	76
Disbursements 182	589	390		DRIDARID DINI, DEGREMAN SI, 1.	10
Amortization 52	75	105			US\$ Mlr.
Subtotal 130	514	285.			000 1111
Dubtotal	514	205.		Public Debt, incl. Guaranteed	1,619
Other Capital (net) -5	(-502	(-185		Non-Guaranteed Private Debt	
Other items n.c.i.	1 302	1 105		Total Outstanding & Disbursed	1,619
Increase in Reserves (-) -187	-71	-913		iotal outstanding a Disbuised	1,015
		220			
Net Official Reserves			*	DEBT-SERVICE RATIO FOR 1976 /h	
(end year) 1,615	1,695	2,504	1		%
Fuel and Related Materials	•			Public Debt, incl. Guaranteed	4.3
Imports 416	425	519		Non-Guaranteed Private Debt	
of which: Petroleum 215				Total Outstanding & Disbursed	4.3
. Exports 345	402	744			
of which: Petroleum 281	355	688			
				IBRD/IDA LENDING (January 31,	1978)
				(US\$ million)	
RATE OF EXCHANGE	•				IBRD
Average rate during period:				Outstanding & Disbursed	309.3
M\$ per US\$	US\$	per M\$		Undisbursed	426.5
				Outstanding incl. Undisbursed	735.8
1971 3.05	0.	33			
1972 2.82	. 0.	35		-, 2	
1973 2.44		41			
1974 2.41		41			
1975 2.40		42			
1976 2.54		39			
			-		

<u>Ia</u> Medium and long-term capital flows are obtained from World Bank debt data and are not comparable with balance of payments estimates.

/b Ratio of debt service to exports of goods and nonfactor services.

.. not available

Perspectives On Malaysia's Economic Development

Malaysia is a resource rich country and has exploited these resources to achieve a per capita income in 1976 of US\$860 making it one of the most prosperous countries in Southeast Asia. To day Malaysia is the world's leading exporter of tin, rubber, and palm oil, is a major exporter of tropical hardwoods, and has significant resources of oil and natural gas. In recent years Malaysia's manufacturing sector has also registered substantial growth and while the share of manufacturing output is still relatively small, the country has become an important exporter of manufactured goods. The rapid growth of this sector together with a major expansion of public sector investment during recent years has been a main reason for the acceleration of the overall growth rate from 6 per cent during the 1960s to about 8 per cent in the seventies. The substantial expansion in production has been achieved in the context of economic freedom and stability.

This pattern of development has resulted in an economy that is highly open with exports and imports each equivalent to almost half of GNP. While the size of the Government has increased substantially, it has generally not competed with nor constrained the private sector. Reflecting both low world inflation and careful economic management by Government, a long record of price stability has been achieved. The acceleration of inflation in recent years can be almost wholly attributed to the large increase in world inflation.

A look beyond macro economic aggregates however reveals a serious problem: a substantial part of the population is poor. In 1970, for instance, the Government estimated that almost half the population had incomes insufficient to provide minimum requirements of food, shelter, clothing, and other basic needs. Since then there has

1/ This version of the overview to the proposed publication on the Malaysian economy reflects most of the substantive changes which were agreed with the Government. The major revision still outstanding is to include a discussion on the importance of accelerating rural development and of limiting the rate of population growth. been a definite decline in poverty such that by 1976 the incidence of poverty has probably fallen to about 40 percent. Also by international comparison Malaysia's poverty line appears to overestimate the extent of absolute poverty. Nonetheless serious problems of poverty and uneven distribution of income remain. Further the ethnic composition of the poor is very unequal with poverty largely concentrated amongst the Malays.

- 2 -

How can this poverty be reconciled with rapid growth and relatively high per capita CNP? First, the agriculture sector, the main source of employment in the economy, has historically developed in a highly dualistic manner. Thus despite the presence of a relatively high productivity estate sector, the majority of households in agriculture is still engaged in lower income traditional activities consisting mainly of smallholder rubber and rice farming. Further this dualism has signification racial commotations. By and large Malays, who held the land by custom have stayed in traditional agriculture while the immigrant groups of Chinese and Indians entered the sectors which eventually proved to be more dynamic: tin mining, agriculture estates commerce and eventually manufacturing. As a result most of the poor are Malays and many Malays are poor.

Second, Malaysia has experienced very rapid population growth during the 1960's which has reduced the per capita production growth to half that of total output. In addition the country experienced a serious and sustained terms of trade loss during the 1960's which further reduced average real income growth during the period. Of particular

significance was the large decline in the price of rubber; in the course of one decade the unit value of this main export product was halved (in terms of real purchasing power). Since rubber tapping is the principal occupation of Malaysia's poor, this has had a serious negative effect on the efforts at poverty alleviation. As a result, during the 1960's the position of many of Malaysia's poor improved only very slowly.

3.

This generally disappointing outcome occurred notwithstanding the very effective programs to increase agricultural productivity, which were undertaken by the government as well as in the private sector. These programs resulted in a growth of smallholder output which was almost as high as for the sector as a whole (6 percent). Real price of rubber and paddy smallholder output in particular made substantial gains, which were, after 1970, no longer offset by a decline in the real price of rubber.

Through a vigorous replanting program, smallholder rubber output rose substantially. In fact during 1960-75, smallholder output grew almost twice as fast as that of estates. Large irrigation projects, in particular the MUDA scheme, substantially increased rice output of smallholder producers. The Government also instituted a large land development program which opended up virgin territory to the landless as well as poor farmers. This program not only provided above poverty incomes to large numbers of poor households but also relieved pressure on the land already being farmed. The private sector as well as the government in some of its land development schemes moved from rubber into palm oil, thereby not only increasing the short-term return but also contributing to the long-term diversification of the economy. Government also expanded its role in providing social services and there were substantial increases in the provision of education and health to the poor. These programs have increased the welfare of many of the poor significantly, as is evidenced by the fact that death rates have declined substantially and life expectation increased for all segments of Malaysian society, while primary education is now almost universal.

The above serves to illustrate that it would hardly be appropriate to judge the government policies only on the basis that the incomes of the poor generally did not show much improvement. Rather, it should be emphasised that significant improvements, in raising production levels, diversifying output, and improving social services, were made and there would have been greater impact on rural incomes had it not been for a poor external environment. Alternatively, given the decline in primary product prices, Malaysia's poor would have been much worse off if there had been no Government intervention.

Because the problem of poverty is both large and persistent, the Government has given top priority to poverty eradication. This is one of the twin objectives of the New Economic Policy (NEP) announced by Government in 1970. The other objective is to reduce the racial imbalances that exist in income, employment and asset ownership. Thus by 1990 the NEP stated objectives are to reduce the incidence of poverty by two-thirds, to

4.

achieve a pattern of employment by sector and occupation that reflects the racial composition of the population and to increase the bumiputra share of equity ownership of the corporate sector from 2 per cent in 1970 to at least 30 per cent by 1990. While Government intervention would continue as an important means of achieving these objectives, the New Economic Policy gives new emphasis to the necessity of rapid modern sector growth as the context within which the objectives will only be attainable. Thus the Government's long-term plan is based on the requirement that almost 90% (2.1 million) of the total new jobs to be created during 1975-90 would be in industry and services. This implies a substantial reduction in the share of agriculture employment and a net shift out of agriculture of over one million jobs compared to the number that would be employed in agriculture if present employment patter**ns** were to persist.

Work undertaken by the World Bank during the past few years has reaffirmed the importance of maintaining a long-term GNP growth rate of at least 8 per cent per annum as well as even more rapid growth of the manufacturing sector in order to achieve the NEP targets. Without this high growth, employment growth of over 3 per cent per annum will not materialize if, at the same time, rural incomes are to be increased significantly. Also the relative position of the Malays could not be improved to the desired extent without a worsening of the absolute position of the non-Malays. A lower growth rate would make it very difficult to achieve a substantial reduction in poverty notwithstanding reasonable agriculture growth and some redistributive measures. For instance a growth rate of 6 per cent a year would probably result in at least twice as many households in poverty in 1990 as are projected in the Perspective Plan. Similarily such moderate

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growth would substantially reduce the creation of new employment in the modern sector. This would make it impossible to achieve the restructuring targets because it would imply the non-Malay growth of employment in the modern sector were held well below labour force growth and substantial reverse migration of non-Malays from urban to rural areas. The general thrust of this argument is completely in line with Government policy which stresses that the goals of the NEP have to be achieved in a context of rapid economic growth. The Government's long-term plan, for instance, calls for a GDP growth of over 8 per cent.

6 -

Given the necessity of high growth, how can it be achieved? Since the Third Plan was drafted there have been significant changes in a number of key factors affecting growth. Resources prospects are much better as a result of both larger oil and natural gas exports now being projected as well as generally more favourable prospects for the prices of Malaysia's other export commodities. Both the balance of payments and the resource position of Government will therefore be significantly improved compared to the past. During the Third Plan for instance exports could be as much as 15-20 per cent higher than earlier projected, significantly increasing foreign exchange resources available for growth. These improved export prospects especially for oil will also greatly increase Government revenues. Public sector revenues could increase from the equivalent of 26% of GNP during the Second Plan Period to about 33% during the next decade. The availability of resources, which has not been a serious problem in the past, is not expected to be a constraint in the future. Compared to most other developing countries therefore, Malaysia is in an excellent position.

7/-

While Malaysia appears to have the financial capacity to achieve rapid growth, there are number of factors which will require a change in the pattern of growth. First the growth of Malaysia's labour force is likely to be even higher than the rapid rate recorded in the sixties and early seventies. In addition the economy will have simultaneously to meet the employment restructuring targets of the NEP. Thus the pattern of growth will have to allow for a considerable shift of Malays from agriculture to industry and services as well as absorb the growth in the non-Malay labour force. In confronting these demands, the economy will be able to rely less than in the past on rapid growth of primary productions.

While Malaysia is still rich in natural resources, which will provide a reliable base for the expansion of the economy, the physical growth rates of such major commodities as rubber, palm oil, forestry products and petroleum are all likely to be less than in the past. With growth in the resource sectors decelerating, rapid industrial growth will become increasingly essential to a successful economic performance. This imperative arises not only from the view point of production and the creation of real incomes, but also from the view point of employment and its restructuring. However the economy is not well poised at the moment for such rapid industrial growth due to the decline in manufacturing investment during the past two years. A number of reasons have been advanced for this decline, and it is difficult to determine the relative significance of these various explanations. However, it is clear that a substantial increase in manufacturing investment is needed if the manufacturing growth rate is not to falter in the coming years.

8/-

While Government does not have direct control over private investment as it does over public investment, it can play stronger instrumental role in providing a policy framework conducive to vigorous private sector growth. Because the more obvious areas of import substitution have been exhausted, sustaining rapid growth in manufacturing will have to increasingly rely on export expansion. Therefore policies will have to ensure a favourable export environment. In this context a modification of the current tariff structure which tends to discriminate against some manufactured exports given the relative set of export incentives merits consideration. Also exchange rate management will have to give careful consideration to the impact on manufactured exports. An attempt to offset high rates of world inflation via substantial exchange rate appreciation could significantly undermine Malaysia's competitive position as well as exacerbate the mal-distribution of income. With regard to institutional factors. Government has already acted to alleviate fears in the private community over the Industrial Co-ordination Act and the Petroleum Development Act. Government has also stressed that it will implemented the ICA in a flexible and pragmatic manner so as to encourage investment and growth. Since much of the concern in the private sector has been over how the ICA will be implemented, a flexible implementation of the Act by Government should help to ease considerably the concern in the non-Malay business community. One area where a flexible approach seems warranted is at the firm level. A further increase in the minimum size of firm to which the ICA would apply for instance might help ease the administration of the Act as well as ease fears among smaller family firms, without endangering the fulfilment of the NEP objectives.

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While much of the discussion about restructuring has recently focussed on the ICA the more general restructuring targets of the New Economic Policy present a considerable challenge to the growth process. Not only does the economy have to provide productive employment for a rapidly growing labour force, but is also required to provide for a considerable change in the recial composition of employment by sector and occupation. Achieving the employment restructuring targets requires a substantial change in the patterns into which new employment needs to be channelled compared to the past. The most sweeping changes would be required in agriculture which would be required to absorb only 5 per cent of the Malay net addition to the labour force. This implies that about 75 per cent of the new places in agriculture would be taken up by non-Malays. Many observers have raised questions about the realism of these targets, which would maintain the proportion of non-Malays employed in agriculture at about 30% and sharply reduce that of the Malay. This objective is further constrained because most, if not all, of the desirable new jobs created in agriculture will be in land development schemes and until now, few new settlers have been non-Malays. There would certainly be a problem with . bypassing poor Malays to give new land to non-Malays. If this were not done, however, Malays would recieve not only the new land, but also many jobs in the modern sector. The non-Malays would have to stay in agriculture and could easily feel bypassed in reaping the benefits of development.

9.

The foregoing discussion serves to demonstrate that the employment restructuring targets may not be easy to fulfil. This is true even if the total employment targets by sector are realized. These targets are rather high, however, at least for the modern sectors. The Third Malaysian Plan explicitly states that not much improvement in productivity has been assumed, in the service sectors, and that some underemployment in these sectors may persist. Because policy instruments have not yet been devised to induce workers to leave agriculture under these circumstances, the estimates may overemphasize the relative shift from agricultural to service employment. If employment in the modern sectors expands less rapidly than foreseen, more workers will remain in agriculture and the restructuring targets, especially those for agriculture, will be even more difficult to reach without forcing them upon reluctant segments of the population. This is not to say that the objective to restructure employment should be put aside as unrealistic or impractical. It does not appear to be desirable, however, to enforce the restructuring targets whatever the cost. Such enforcement may endanger the process of economic growth, which is instrumental to any reasonable effort at restructuring. To be guarded against, then, is the vicious circle that can develop between further enforced restructuring and continuing economic stagnation. A drop in the growth rate to 6 per cent for instance would not allow for a sufficient flow of labour from traditional agriculture to the industry and services sectors to achieve the targeted restructuring of employment.

10.

Under these circumstances, it seems appropriate to conclude that the objective and the process of restructuring are more important than the specific numerical targets set. The major objective is to foster national unity, which will be jeopardized if the vicious circle indicated is allowed to develop. Still, the process of reducing the identification of race with economic function should be continued. But, as Government has stipulated, it should be continued in such a way that all major groups in society feel they are participating significantly and continuously. If this involves softening some of the numerical targets - for example, by including the Malays benefiting from land development schemes among those whose jobs have been restructured - the cost is relatively small if the objective and process of restructuring are retained. In addition, given the relatively comfortable resource position Malaysia will enjoy in the coming years, more use may be made of incentives to attain the restructuring objectives than regulations, which may have a dampening effect on business activity and the growth context in which restructuring has to take place.

11.

The general process of restructuring, especially of occupations, will also require a considerable expansion in the number of technically trained Malays. Judging by the substantial progress made during the Second Malaysia Plan in increasing Malay enrolments while allowing for significant growth in non-Malay enrolments, the Government obviously gives high priority to this issue. Nevertheless the Third Plan raises the spectre of substantial shortages of technical manpower by 1980.

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A re-assessment of the long-term educational requirements may therefore be warranted if shortages in the supply of skills are not to constrain the potential for restructuring made possible through rapid growth.

Another possible constraint on the achievement of the NEP objectives is the capacity of the public sector to undertake a larger development program. The availability of resources is not likely to be exhausted by rapid private sector growth. Thus, whatever happens in the private sector, larger and more effective public sector **programs** to reduce poverty would be financially feasible and economically justified. Areas where Government might consider expanding its poverty program include the stepping up of land development, smallholder replanting schemes, credit and extension services for paddy farmers, and rural roads and electrification. Government might also consider more direct measures to increase the poor's access to and reduce the cost of such basic needs as education and utilities.

While there is a strong justification in terms of poverty alleviation for an expansion of such programs, the implementation of the public sector will require strengthening to make such an expansion possible. Since the scarcity of qualified manpower in the public sector appears to be a serious constraint on expanding the development program Government might consider making greater use of skills available in the private sector on a temporary basis until the public sector proper can be expanded.

0

In summary Malaysia's prospects for continued rapid growth and for an amelioration of the twin problems of poverty

12.

and racial imbalances appear good. Certainly, on the resource serious side there should be no/constraint. To achieve its goals however will require vigorous action by Government along a number of fronts. The policy framework will have to be readjusted as necessary to promote a rapid recovery and sustained growth of the industrial sector. A pragmatic attitude will be needed in interpreting and implementing the quantitative restructuring targets to ensure that the overall goal of improving racial balance is not lost sight of. The education system will require close scrutiny to ensure that it does not constrain the restructuring potential of rapid economic growth. A larger and more effective effort to reduce poverty by direct public sector action is warranted but will require a concerted effort to expand the capacity of the public sector to prepare and implement poverty orientated programs.

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CHAPTER 1

INTRODUCTORY OVERVIEW

With a per capita GNP US\$860, Malaysia is one of the most prosperous countries in Southeast Asia. The country has a relatively favorable population density (averaging about 100 persons per square mile) and is rich in land and natural resources. Around 4 million acres in Peninsular Malaysia (in addition to about 8 million acres now under cultivation) and probably an even larger area in Sabah and Sarawak are still undeveloped and suitable for cultivation. Malaysia also has substantial reserves of oil and natural gas, tin and forests.

A key feature of Malaysia's economy is its substantial dualism. Agriculture provides nearly half of total employment but less than 30 percent of value added. Despite the presence of a relatively high productivity estate sector, the large majority of households in agriculture is still engaged in lower income traditional activities consisting mainly of smallholder rubber and rice farmers. As a result output per worker in agriculture is only about a third of industry and less than half of the service sector (see table 1.1).

pulation.	Share of value added (%)	Share of employment (%)	Index of productivity
Agriculture	lably 28 and 28	49	to ovi at 57 tamelata any
Industry	aquera 31 Decam	21	151 151
Services	41	30	136 and 136
Total/average	100	100	Parlfement aron he State

Table 1.1: MALAYSIA ECONOMIC STRUCTURE 1975

Source: Employment: Third Malaysia Plan; value added: new national account estimates of Department of Statistics.

Another salient feature of the economy is its considerable openness. In 1975 exports and imports were each the equivalent of about 45% of GDP. While there has been a substantial diversification of Malaysia's export base over the past 15 years, Malaysia's exports are still significantly dependent on the performance of a few primary commodities. In 1976 five commodities (rubber, tin, petroleum, timber and palm oil) comprised almost three quarters of Malaysia's merchandise exports and thus the economy remains vulnerable to fluctuations in the world prices of these commodities. Despite such fluctuations, however, the balance of payments position has remained strong. In 1976, Malaysia's reserves were the equivalent of about 7 months of imports and debt service payments were low.

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A third notable feature of the Malaysian economy is the role of the public sector, with public expenditures averaging about 35 percent of GNP, Malaysia has one of the largest public sectors of all developing countries. What is significant is not only the large size of the public sector, but that it has been achieved without sacrificing price stability. By and large the growth in public sector expenditures has been financed from increased public resources within an overall context of conservative fiscal and monetary management.

The most distinctive social characteristic of Malaysia is its ethnic, linguistic, cultural and religious pluralism, broadly based on the Malay, Chinese and Indian populations. At the time of Malaya's independence (1957), an agreement was reached between the two dominant ethnic groups, the Malays and the Chinese. Citizenship was given to large numbers of Chinese along with the understanding that they could freely pursue their business interests. The Malays were guaranteed that certain features of Malay life would be adopted as national institutions, including their language, their religion, their special rights to land, and the position of the sultans. In the 1960s a basic racial balance evolved characterized by the political dominance of the Malays being offset by the economic dominance of the Chinese. The three major ethnic communities banded together to form a common political leadership that continued to rule after Singapore, Sabah and Sarawak joined Malaya in 1963 to form the Federation of Malaysia. However, conflicting communal interests have always strained the country's political unity, and in 1965 they contributed to the separation of Singapore with its large Chinese population.

The greatest challenge to the country's unity came in the general elections of May 1969 when the ruling party lost control of one state and was stalemated in two others. The election returns were widely interpreted as a victory for the extremists of the two major racial groups who had been demanding more rights for their communities. A few days later riots broke out in the capital and some of the other cities. The Government suspended Parliament and the State Assemblies, and the country was run by a National Operations Council. The Council reaffirmed Malay rights and proposed steps to reduce economic and ethnic imbalances. In a relatively short time the country defused its explosive internal divisions, and, since the resumption of political activity at the end of 1970, Malaysia's political structure has been stable. In the last few years, the country's second Prime Minister, Tun Razak, broadened his political support by forming a number of party coalitions. In the last general elections (August 1974), the ruling party's National Front won an overwhelming victory, capturing 87 percent of the seats in Parliament and the State legislative assemblies. After Tun Razak's death in January 1976 there was a smooth transfer of leadership to his Deputy Prime Minister, Datuk Hussein Onn.

There are some very complex issues underneath an apparently stable climate of communal cooperation. A study of the 1970 census data shows that in Peninsular Malaysia the average Malay income per capita was one half that of the Chinese, while the average per capita income of the Indians lay between the two. The Malays account for a little more than half of the peninsular population, the Chinese for slightly over one-third, and the Indians for

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about 11 percent. Almost 80 percent of the Malays are employed in rural areas, primarily in traditional agriculture, compared to only a little over half of the non-Malays. In the urban areas, which account for about onethird of total employment, the non-Malay share of jobs exceeds 75 percent. Racial disparities are greater in the rural areas. In most of the major economic sectors Malays tend to be poorly represented in managerial, professional, supervisory and clerical occupations.

Imbalances in the ownership of assets are a further source of racial disparities. Malay agricultural landholdings outside traditional agriculture have been negligible, although this situation is being changed by the land development schemes. In the rural areas the Chinese landholdings are on average twice as large as the Malay ones. In the corporate sector the Malay share of the country's share capital of limited companies has been only about 2 percent, while the Chinese community holds about one-third, and foreigners the rest.

Less well known and discussed is the equally important and significant overall inequality of income in Peninsular Malaysia. In 1970, the bottom 40 percent of the people received only 12 percent of the income, while the top 5 percent received 28 percent of the income. While the income differences among races are significant and have important political and economic implications, the inequality within the major races is also substantial and only marginally smaller than for the overall population. Thus, for instance, the ratio of the highest quintile to the lowest is 10 for both the Malays and Chinese and 11 for the Indians (see table 1.2).

	Per Capita Income (per month 1970 M\$)	Share of Lowest Quintile	Share of Lowest 40 Percent	Share of Highest Quintile	Share of Highest 5 Percent	Highest Quintile to Lowest Quintile
			perce	. makikyou	ter trea fa	
All individuals	50	4.3	12.3	54.8	28.5	12.7
Malay	34	5.2	14.8	52.2	24.6	10.0
Chinese	68	5.3	14.3	52.8	26.8	10.0
Indians	57	5.0	13.7	56.7	29.5	11.3
Others	185	0.5	2.3	75.5	31.0	151.0

Table 1.2: INCOME DISTRIBUTION, PENINSULAR MALAYSIA, 1970

Source: Department of Statistics, Post Enumeration Survey (PES), 1970.

During the 1960s, overall income inequality in Malaysia appears to have increased, with the income share of the bottom 60 percent of households declining. Incomes of the rural poor appear to have increased, with Chinese incomes rising at a faster rate than Malay incomes. The employment pattern of the main sectors of the economy indicates an increase of the percentage of

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Malays in agriculture and a decline in Malay participation in the manufacturing and construction sectors. It does not appear that in the 1960s the differential impact of poverty redressal programs caused a significant shift in the ethnic distribution of income, although it may have prevented that distribution from becoming even more skewed.

The degree to which ethnic income disparities in recent years contributed to the 1969 riots is a moot point. The important issue is that since the May disturbances, Malay expectations have been raised, and there has been an increasing sense of urgency to improve their economic opportunities. The Government incorporated within the framework of the Second Malaysia Plan, 1971-75 (SMP) a New Economic Policy (NEP) which was spelled out in much more detail two years later in the Mid-Term Review of the Plan. /1 The overriding objective of the NEP is to promote national unity through the twopronged strategy of (a) reducing and eventually eradicating poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race and (b) accelerating the process of restructuring Malaysian society so as to reduce and eventually eliminate the identification of race with economic function. More specifically, the policy proposes to reduce in a 20 year period (1970-90) the sharp income differences between Malays and non-Malays by reducing the disparities in the ownership and control of wealth in the modern sector and by reducing the concentration of Malay employment in traditional low income rural activities, while increasing Malay presence in the relatively high income urban sector. These gains must be realized through high growth rates, permitting non-Malay incomes to grow, albeit more slowly than Malay incomes.

The Government fully realizes that national unity has several facets and, as the SMP stresses, "there must be no delusion that national unity can be achieved by purely economic means". Nevertheless, the formulation of a program that will help achieve the basic goals of the NEP is Malaysia's most important economic challenge. The 1969 riots highlighted the dangers of explosion and breakdown inherent in a multiracial society where prejudices based on ethnic origin are exacerbated by relatively structured economic disparities. The country's long-term political stability will depend largely on the progress made towards correcting these economic disparities.

/1 Government of Malaysia, Second Malaysia Plan, 1971-75 (Kuala Lumpur, 1971) and Government of Malaysia, Mid-Term Plan Review of the Second Malaysia Plan, 1971-75 (Kuala Lumpur, 1973). For detailed discussions of these two documents, see the following reports: IBRD, Development Problems and Prospects of Malaysia, Report No. 217-MA, (August 1973) and IBRD, Malaysia: Recent Economic Developments and Long-Term Issues, Report No. 653-MA, (February 1975).

During the 1950s, overall income incremently in Malayath spectra is have increased, with the increme share of the bornes 40 percent of bornebules declining. Incomes of the rural root separt to have increased, with Colored incomes sisting at a fauthy taken then Weisy incomes. The replayers pattern of the late sectors of the scouldy indicated as increase of the perceptage of

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CHAPTER 2

GROWTH AND CHANGE IN THE MALAYSIAN

ECONOMY, 1961-76

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During the fifteen years 1961-76, the Malaysian economy achieved an average real growth rate of GNP of around 7 percent a year despite rather sharp fluctuations in the prices of its major exports and uncertainties created by such political developments as the confrontation with Indonesia during the first half of the 1960s, the separation of Singapore in 1965, and the communal riots in 1969. These political factors no doubt affected the level of private investment in the 1960s. At the same time, growth in public investment outlays remained sluggish, and the overall ratio of gross fixed capital formation remained stagnant at about 15 percent of GNP in the 1960s. Nevertheless, the GNP growth in the 1960s averaged around 6 percent a year. GNP growth since 1970, while fluctuating widely from year to year, has averaged 7.5 percent a year. This improved performance is the result of sharply higher investment levels, the emergence of sizable crude oil output, and a slowing down of the deterioration in the terms of trade. While the ratio of gross fixed investment to GNP of about 22 percent in 1976 was substantially below the peak of 26 percent reached in 1974, the average level of capital formation during the last several years compares very favorably with that in the 1960s. The terms of trade, which declined nearly 20 percent during 1960-70, showed a net decline of only 4 percent during 1970-76. The secondary income and demand effects of a given increase in output were thus considerably greater in the more recent period. Finally, oil output is becoming a significant factor in both export earnings and government revenue.

For 1961-76 the per capita GNP growth in Malaysia averaged 4 percent a year, above the average of the middle-income developing countries (table 2.1)./1 The sustained high growth in Malaysia is basically a reflection of: the country's wealth in natural resources, especially its ample untapped reserves of cultivable land; an outward oriented growth strategy; good, albeit conservative, economic and financial management; and, not least, relative stability of social and political institutions. More specifically, Malaysia's satisfactory overall performance is in large part the result of: (a) sharp rises in productivity in the rubber sector which cushioned the effects of steep price declines and helped maintain the Malaysian share of the total world rubber market; (b) a big push for export diversification through the rapid expansion of palm oil production and timber extraction; and (c) a fairly rapid manufacturing growth, which averaged about 13 percent a year during 1968-77 and has been increasingly oriented toward exports.

/1 David Morawetz, <u>Twenty-Five Years of Economic Development</u> (Washington, D.C.: World Bank, 1977), Table A2, pp. 82-83.

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wail, has therefore shown as tendency, to desiling as

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It is worth stressing, notwithstanding a rather impressive overall economic performance as measured by GNP growth, that there was only modest improvement until the early 1970s in the income situation of a substantial part of the population. Because of the sizable terms-of-trade loss, average per capita income on Peninsular Malaysia grew by less than 2 percent a year during 1960-70. The increase in average per capita income in the traditional agricultural sector was probably only 1 percent a year, and the employment situation remained difficult under the impact of a sharply rising labor force. During the last several years, however, there has been a significant improvement in the living standard of the large majority of Malaysians, reflecting the acceleration of the GNP growth rate, a leveling of the terms of trade, and the maturing of important investments related to poverty eradication.

Table 2.1: GNP GROWTH IN SELECTED COUNTRIES, 1960-75

Country	Population (1975) (millions)	GNP (1975) (US\$)	GNP per capita growth rate 1960-75 (percent)
Malaysia	12	760	of capital formation 4, ring the last
Brazil	107	1,030	with that in the 1988. The terms of
Hong Kong	4	1,760	dent daring 1960-70.6.1
Iran	34	1,660	6.9
Ivory Coast	7	540	3.3 Tiderable con and
Korea	34	560	7.0 7.0
Mexico	60	1,050	3.0
Singapore	2	2,450	6.6
Spain	35	2,750	5.1 5.1 5.1 5.1 5.1 5.1 5.1 5.1 5.1 5.1
Thailand	42	350	4.5
Taiwan	16	930	5.8
Turkey	40	900	4.0
Yugoslavia	21 21 anolina	1,550	good, albait conserv.4.7

Export Growth and Diversification

Because Malaysia is heavily dependent on the export sector, trends in her exports display the strength of the economy and the structural change over time. The value of Malaysian exports rose from M\$3.2 billion in 1961 to M\$13.4 billion in 1976, a more than fourfold increase (table 2.2). The volume of exports expanded at an average annual rate of 7 to 8 percent during this period, roughly in line with the real growth in GNP./1 The ratio of merchandise exports at around 50 percent of GNP, one of the highest in the world, has therefore shown no tendency to decline over the period.

<u>/1</u> The calculation in this range is influenced by the type of index number used.

effects of steep price decidnes and helped

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Volume ("000 MT)

SITC 5-8 excluding tin-

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Whereas nearly one half of merchandise export earnings were derived from rubber in 1961, less than one fourth originated from this source in 1976 (table 2.3). The share of tin, the other major export in the early 1960s, dropped from 16 percent to 11 percent over the same period because of stagnant tin output and despite a sharp rise in the relative price of tin. Against the fall in the share of rubber and tin, there have been sharp increases in the shares of timber, palm oil, petroleum, and manufactured and das goods. The sharp decline in relative earnings from rubber is mainly the result of a long-term decline in the international price of rubber. Notwithstanding a doubling of the export price of rubber between 1972 and 1976, the unit value of exports at 191 Mc/kg in 1976 was no higher in nominal terms than the average in 1960-62. The index of international inflation, measured by the export prices of manufactured goods from developed countries, showed an increase of 125 percent over the period. As mentioned above, the expansion of rubber production and exports in the face of falling prices was made possible by important gains in productivity. The mature acreage under rubber increased only moderately (13 percent) during 1960-75, but production doubled over the period, indicating an average improvement in yields of 4 percent a year. The major factor in yield increases was massive replanting of old rubber trees by new, technologically improved varieties in rubber estates and the smallholder sector. Malaysia was thus able to increase its share in the world production of natural rubber to its present level of nearly 50 percent.

Source: Bank Negara Quarterly Economic Sulletin, December 1976; Ministry of Finance, <u>Sconomic Report 1977/78</u>, Vol. 9, pp. 77-78, 83.

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Table 2.2: EXPORTS, 1961-70

ginated from this source						
	1961	1970	1976	1961-70	1970-76	1961-76
Rubber and a start a						
Volume ('000 MT)						
Value (M\$ million)						
Value (My million)						
Tin erras Incheson at sed						
Volume ('000 MT)						
Value (M\$ million)						
oned above, the expansion						
Petroleum, crude & partly					roduction	
refined				t gains i	r importan	
Volume ('000 MT)						
Value (M\$ million)						20.5
Timber						
Volume ('000 cu m)	3,036	10,329	15,227	14.6	6.7	11.3
Value (M\$ million)					18.5	
Palm Oil						a ne france
Volume ('000 MT)	95	402	1,339	17.4	22.2	. 19.3
Value (M\$ million)	61	264	1,215	17.7	29.0	22.1
Manufactured Goods /a						
Value (M\$ million)	146	333	2,036	9.6	35.2	19.2
Other /b						
Value (M\$ million)	636	784	1,432	2.4	10.6	5.6
Total merchandise						
exports f.o.b. (M\$ million)	3,238	5,162	13,419	5.3	17.3	9.9
% of GNP	50	43	50			

<u>/a</u> SITC 5-8 excluding tin. <u>/b</u> Residual item.

Source: Bank Negara Quarterly Economic Bulletin, December 1976; Ministry of Finance, <u>Economic Report 1977/78</u>, Vol. 9, pp. 77-78, 83.

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Table 2.3: STRUCTURE OF EXPORTS, 1961-70 (percent)

 Image: Number of the system
 1961
 1970
 1976

 Rubber Tin
 48
 33
 23

 Tin
 16
 20
 11

 Petroleum, crude & partly refined
 3
 4
 13

 Sawn logs
 4
 12
 11

 Sawn timber
 2
 4
 6

 Palm oil
 2
 5
 9

 Manufactured goods
 5
 7
 15

 Other
 20
 15
 12

 Total Exports
 100
 100
 100

increase--from 3.0 million cubic meters in 1951 to note than 15.0 million cubic meters in 1976. At present timber exports are second in value only to

Source: Table 2.2.

tropical hardwood exports (see chapter 7); Malaysia accounts for 20 percent Table 2.4: EXPORTS OF MANUFACTURED GOODS (US\$ million) Increase al babbs sulay sessiont and bas abo 1970 1976 1976 (percent) 3 percent of the TTOTTO Electronics & misc. manufactures 12 191 1,490 Textiles & footwear 10 120 1,100 in a 10 a 10 Subtotal <u>22</u> <u>311</u> <u>1,314</u> It is interesting to dote that independents, shout the sume as Mexico's and Other in 1977 was higher than Independents, shout the sume as Mexico's mind the sume as Mexico's m o sads s Wood products 29 130 348
 Rubber products
 29
 150
 548

 Rubber products
 5
 18
 260
 10 23 130 Chemicals & chemical products Nonmetallic mineral products61183Iron & steel & metal manufactures620233 Iron & steel & metal manufactures020200Machinery & transport equipment72233,086Petroleum products525812 <u>137</u><u>794</u><u>480</u> Total

Note: The definition of manufactured goods used here is somewhat different from that used in table 2.2, so numbers differ somewhat from that table.

Source: Treasury Report 1977/78.

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The strong productivity push in the rubber sector was accompanied by a rapid diversification to oil palm, a high rate of exploitation of forest resources, expansion of petroleum exports, and a sharp increase in manufactured goods exports. In 1961 exports of these four commodity groups totaled about M\$500 million and constituted 16 percent of total exports. By 1976 their exports amounted to M\$7.3 billion, or 54 percent of the total. Thus, more than two thirds of the increment in merchandise exports during 1961-76 was provided by relatively new exports. Starting almost from scratch, Malaysia has become the world's leading producer and exporter of palm oil, accounting for 45 percent of world output. Three factors account for the rapid expansion of oil palm plantations in Malaysia: soil and climate provided an ideal environment for the cultivation of oil palms; land development schemes and estates provided the level of management necessary to achieve maximum yields; the rubber price declined during the 1960s. The competitiveness of Malaysian oil palm production has been a factor underlying the expected increase in share of palm oil in total world oils and fat production from less than 5 percent in 1960 to more than 10 percent in 1985. But largely because of the factors mentioned above, Malaysian oil palm production remains quite profitable.

The volume of timber exports from Malaysia has also shown a dramatic increase--from 3.0 million cubic meters in 1961 to more than 15.0 million cubic meters in 1976. At present timber exports are second in value only to rubber. The Asia-Pacific region now accounts for 75 percent of the world's tropical hardwood exports (see chapter 7); Malaysia accounts for 20 percent of these exports. On a per capita basis, however, Malaysian exports of timber are six times those of Indonesia and five times those of the Philippines, the other major producers in East Asia. Peninsular Malaysia has been able to increase its exports of processed woods and thus increase value added in exports. But 63 percent of the value of timber exports from Malaysia still arises from log exports.

Malaysian output of crude oil more than doubled between 1974 and 1977. The 1977 production level was nearly 200,000 barrels daily, and gross exports of petroleum and partly refined products rose to more than M\$2 billion. It is interesting to note that on a per capita basis, Malaysia's crude oil output in 1977 was higher than Indonesia's, about the same as Mexico's and between 50 and 60 percent of Nigeria's. The oil is concentrated in Sabah and Sarawak and is produced by Shell and Esso under production sharing arrangements that were finalized in 1976.

While primary exports still account for nearly 85 percent of Malaysia's exports, the growth in manufactured goods exports, at an average real rate of 24 percent a year during 1970-76, has been faster than any other major commodity group except petroleum. The total manufactured goods exports of US\$800 million in 1976 were only a fraction of those, say, of Taiwan, Hong Kong, Singapore and Korea. But on a per capita basis they were substantially higher than those of Brazil, Mexico, India, Pakistan, Philippines, and Thailand, the other leading developing country exporters of manufactured goods. A large part of the expansion in manufactured goods exports from

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Sources Treasury Length 1917/78.

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Peninsular Malaysia has been in electronics, garments, textiles, and footwear -- the exports of which increased nearly twelvefold in current prices between 1970 and 1976 to more than US\$300 million. A substantial part of this expansion was from free trade zones (FTZs), where multinational corporations dominate. Electronic assembly firms, the first in the FTZs, dominated FTZ exports, accounting for at least 90 percent of such exports in 1974./1

	Manufactured exports US\$ (1975)	Proportion of total exports	Per capita manufactured exports (US\$)		
Country	(millions)	(percent)	The foregoing		
Malaysia	667	17.7	56		
Brazil	2,192	25.8	21		
Hong Kong /a	4,464	96.5	1,015		
India	2,089/b	45.9/b	3		
Korea	4,136	82.7	117		
Mexico	1,967	56.8	33		
Pakistan	589	56.3	8		
Philippines	258	11.4	6		
Singapore /a	1,286	25.5	571		
Taiwan	4,303	81.1	268		
Thailand	498	22.9	12		
Yugoslavia	2,781	68.3	130		

Table 2.5: MANUFACTURED EXPORTS FROM LEADING DEVELOPING COUNTRIES, 1975

/a Excluding re-exports.

/b Statistical year ending 31 March 1976.

Source: World Bank Economic Reports.

The share of labor-intensive export industries in total export earnings, industrial output, and manufacturing employment has increased significantly during the last several years. The continued satisfactory development of manufactured exports will be a crucial factor in sustaining high rates of

acre in the smallholder sector of wall over 5 percent a year have been much

/1 These exports were mostly subassemblies such as office machine parts, circuit fittings, and parts for television and radio. There were also assemblies of air conditioners and electric calculators.

replacing old rubber trees by replanting with new var

a vigorous government replanting pro

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growth of manufacturing employment and output. Whereas growth in domestic demand and the process of import substitution were the dominant sources of industrial growth in most of the 1960s, manufactured exports have played an increasingly important role in the first half of the 1970s. An input-output model exercise, which includes indirect effects, suggested that 45 percent of industrial expansion during 1970-75 was attributable to exports. Although making precise estimates is difficult, it does seem that manufactured exports now account for about 20 percent of gross manufacturing output and total exports in Malaysia. The comparable figure for Korea is around 30 percent and for the Philippines 5 percent. There is little doubt also that expansion in manufacturing for export accounted for a very substantial portion of 108,000 additional jobs created in manufacturing during the Second Malaysia Plan, 1971-75.

The foregoing review of major export developments shows the crucial role which rapid export expansion has played in economic growth. More importantly it highlights the strong push toward diversification in both primary exports and manufactures, without which overall growth in real purchasing power of exports would have been extremely limited. Rubber exports, which traditionally were Malaysia's principal foreign exchange earner, doubled between 1960 and 1977 in volume terms, but their real purchasing power actually decreased by 15 percent over the period. Thus Malaysia not only adjusted, through technological improvements, to the challenge of a secular drop in the international rubber prices, it developed important new lines of production so that the overall momentum of growth would not slow down. No doubt this push for productivity improvements and diversification was made possible by the substantial availability of land (and more recently petroleum reserves) and was facilitated by the significant foreign interests in the plantation and manufacturing sectors. But the role played by government and by the domestically owned private sector should not be minimized. In rubber, for example, the estates (plantations) did take the lead in replacing old rubber trees by replanting with new varieties. But the smallholder sector also achieved fairly high rates of replanting as a result of a vigorous government replanting program./1

Since the early 1960s, and possibly before, the yield increases per acre in the smallholder sector of well over 5 percent a year have been much faster than in the estate sector. Nevertheless, average yields in the smallholder sector are still about 70 percent of yields on estates, partly because of differences in the extent of replanting. Total smallholder production grew three times as fast as that of estates and now exceeds the latter. Similarly, while estates led the production diversification in palm oil, the Federal Land Development Authority (FELDA) and other land development schemes will nearly reach the level of estate output by 1980.

^{/1} The smallholder sector, defined as holdings of fewer than 100 acres, had replanted to the extent of 68 percent of their acreage by 1975, compared with more than 90 percent by estates.

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The agricultural growth rate in Malaysia during 1961-76 was about 6 percent a year, certainly among the highest agricultural growth rates anywhere. The expansion in production of oil palm and rubber, which presently account for about 50 percent of agricultural output, has been the major factor in agricultural growth. The doubling of rice output between 1960 and 1976 has been another important source of growth, though rice even now accounts for less than 8 percent of value added in agriculture. The high rate of forestry exploitation also contributed significantly to agricultural growth. Although the trend of agricultural growth has been fairly constant, the current trend in agricultural incomes is quite different compared with the 1960s.

In contrast with the high rate of growth of value added in agriculture, the growth in real agricultural incomes during the 1960s was not more than 1 to 2 percent a year. The real income from rubber growing declined between 1960 and 1970 as a sharp decline in prices totally offset the growth in rubber output of more than 5 percent a year. Within the agricultural sector, the modern estate sector should be distinguished from the traditional sector. The modern estate sector in 1970 accounted for only about 18 percent of the agricultural labor force but accounted for 50 percent of Peninsular Malaysia's rubber production and 90 percent of its palm oil production. The lower income traditional sector mainly consists of smallholder rubber and rice farmers and accounts for three quarters of agricultural employment./1

The decline in rubber prices during the 1960s hit the plantation sector especially hard because, even by 1970, more than 70 percent of value added in estates was from rubber. Still, the estate sector was able to earn profits through impressive increases in land and labor productivity. Labor employed on rubber estates declined by 10 percent during the 1960s despite a nearly 50 percent rise in production. Because wage rates either stagnated or rose only slightly, wage costs in relation to gross value of output were reduced. In the traditional sector, including land development schemes, real incomes expanded by 2 to 3 percent a year during the 1960s; employment increased by 1.5 percent a year, indicating only a modest increase in average real earnings per worker during the period $\cdot /2$ Thus, despite the apparent success of government policies aimed at small-scale agriculture, the income disparity in Peninsular Malaysia between the traditional agricultural sector and the rest of the economy widened from about 1:2.5 in 1960 to more than 1:3 in 1970. The fact this happened mainly as a result of external factors and of the inevitably long gestation periods of land development and irrigation projects was probably not fully understood. It was clear, however, that the worsening relative position of the traditional sector hit the Malays;

/1 The remaining agricultural labor force is in forestry and fishing.

<u>12</u> The higher estimate of real income expansion is based on five-year moving averages of agricultural prices.

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more than 50 percent of the Malay employed labor force in Peninsular Malaysia was in the traditional agricultural sector in 1970, compared with less than 20 percent of non-Malays. Thus, there was a certain disillusionment with the programs of rural development toward the end of the 1960s. This was compounded by the communal riots of 1969, because whatever their immediate cause, these riots probably had their roots in tensions arising out of widening income disparity between the predominantly rural Malay and largely urban Chinese communities.

A definite shift in government strategy, under the New Economic Policy (NEP), toward providing greater job opportunities for Malays in the urban sector can thus be linked to the disappointing impact of rural development on absolute living standards of rural Malays. But, as the subsequent discussion shows, there has been nothing inherently wrong with Malaysia's agricultural strategy. If it had not been for the sharp, and to an extent unforeseen, deterioration in the terms of trade, rural incomes per worker would have shown a significant increase, even in the 1960s. On the other hand, rural poverty would have become even more critical if government had been less vigorous in pursuing its rural development programs.

Reflecting in part the payoff of past investments, the trend in rural and agricultural incomes during recent years has been more favorable than in the 1960s. While the rate of growth of the smallholder sector (including land development schemes) has accelerated, the deterioration in the agricultural terms of trade, despite rather wide year-to-year fluctuations, halted. Although precise figures are not available, per capita real incomes in the smallholder sector were at least 25 percent higher in 1976 than in 1970./1 Thus, in sharp contrast with the 1960s, there was little, if any, widening of disparities between rural and urban areas, and the lag in rural incomes was probably no longer a source of widening ethnic income differences.

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A continued high growth rate of manufacturing, averaging about 12 to 13 percent a year during 1961-76, has been crucial for sustaining high overall growth in the Malaysian economy. During the 1960s the manufacturing sector was a particularly important source of growth of incomes because of the adverse price trends in agricultural exports. The share of the manufacturing sector in gross domestic product increased from 8 percent in 1961 to 16 percent in 1976. But, relative to Malaysia's per capita income and population size, the degree of industrialization in Malaysia probably is still low. Part of the reason for Malaysia's deviation from a "normal" level of industrialization lies in the character of the economy, which has historically specialized in the production of primary commodities and allowed the internal demand for manufactured goods to be met from imports rather than

/1 The improvement would probably have been greater but for the revaluation of the Malaysian dollar.

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domestic production. The openness of the economy is illustrated by the fact that Malaysia's manufacturing industry was relatively unprotected up to 1968, in terms of both nominal protection and effective protection. Although this lack of excessive protection probably dampened manufacturing growth, Malaysia was able, by and large, to avoid the pitfall of overprotected industries catering solely to the domestic market. The initial industrial growth relied heavily on import substitution, but since the late 1960s export expansion has been a leading factor in manufacturing sector expansion.

Reflecting the impact of labor-intensive manufactured exports and the avoidance of serious factor-price distortions, manufacturing employment growth has been quite high. It averaged 5.9 percent a year during 1961-70 and accelerated to 6.6 percent a year during 1970-75. Even though manufacturing employment still is only 10 percent of total employment, it has provided nearly one out of every five jobs created during 1961-76. Malaysia is indeed fortunate that it has developed a reasonably strong base of industrial employment and that the land reserves have not yet run out.

Nature and Control of Inflation

The relative size of the Malaysian export sector not only makes the task of short-term economic management difficult, it also increases the susceptibility of the Malaysian economy to imported inflation. Between 1972 and 1974 there was a 30 percent increase in the general price level, as measured by Peninsular Malaysia's consumer price index. This increase was directly attributable to a sharp rise in import costs and the expansionary impact of the rise in export demand. Real purchasing power of exports expanded by more than 60 percent in the short period of two years, between 1972 and 1974 (table 2.6). In 1970 and 1971 there had been a reduction of 16 percent. The expansionary impulse equal to more than 30 percent of GNP during 1973 and 1974 obviously was too large to be remedied by conventional or unconventional stabilization measures. Indeed, except for this relatively short period, Malaysia has enjoyed remarkable price stability. During the 1960s consumer prices rose on average only 1 percent a year, and the rate of price increase again slowed down to an annual rate of 3.5 percent between 1974 and 1976. The average rate of inflation in Malaysia during 1970-76 of 6.7 percent a year, though much higher than the 1960s, compares favorably with most developed and developing countries. Among OECD countries only the United States and Germany had inflation rates lower than 7 percent a year during 1970-76.

Several factors explain why the rate of inflation in Malaysia, a very open economy, has been lower than even the international rate of inflation as measured by the developed countries' index of US dollar prices of manufactured exports./1 First, the secular deterioration in the Malaysian

^{/1} The Malaysian GNP deflator showed an annual average increase of 5.1 percent during 1965-76. During the same period the index of international inflation (1970=100) increased by 7.3 percent a year.

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	Int all	Average	the descent	na min	Actual		Proje	cted
the late	1960-69	1967-69	1970-72	1974	1975	1976	1980	1985
Rubber	190	152	112	149	100	130	134	134
Tin ber attoo	95	99	94	135	100	109	116	124
Logs (Lauan)	114	121	111	137	100	134	157	171
Sawn wood	104	104	104	97	100	100	127	134
Palm oil	110	91	100	174	100	92	87	89
Petroleum	27	25	27	104	100	106	108	108

Table 2.6: COMMODITY PRICES AND PRICE PROJECTIONS (In 1975 constant dollars)

Source: World Bank Commodity staff estimates (June 1977).

Nature and Control of Isflation

The relative size of the Malaysian export sector not only makes the task of short-term economic management difficult, it size increases the

Year	Export earnings (M\$ mln.)	Import price index (1970=100)	Purchasing power of exports (1970 M\$ mln.)	% change in purchas- ing power	% change in real GNP (%)	
1960	3,600	95	3,789	polisallideta	conventional	an 20
1961	3,208	95	3,377	-10.9		short 1960a
1962	3,232	95	3,402	0.7		
	the second se	95		2.0	7.2	
1963	3,296		3,469			
1964	3,346	96	3,485	down 0.5	4.8	9 2+9
1965	3,752	96	3,908	12.1 be	qolev7.3 see	
1966	3,808	97	3,926	0.5	8.4	Inite
1967	3,679	95	3,873	-1.3	5.2	
1968	4,070	99	4,111	6.1	8.0	
1969	4,921	100	4,921	19.7	3.5	
1970	5,020	100.0	5,020	2.0	4.9	
1971	4,884	104.1	4,692	-6.5	6.5	10013
1972	4,736	113.0	4,191	-10.7	9.8	
1973	7,263	122.2	5,944	41.8	10.6	
1974	9,991	146.3	6,829	14.9	7.5	
1975	9,042	162.4	5,568	-18.5	1.6	
1976	13,265	172.5	7,690	38.1	8.9	

Table 2.7: PURCHASING POWER OF EXPORTS, 1960-77

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terms of trade, especially the sharp reduction in real price of rubber, has exercised a dampening effect on money incomes and demand. Second, there has been an upward revaluation of the Malaysian dollar in relation to the US dollar. Until 1971 the exchange rate of the Malaysian dollar was US\$1.00 = M\$3.06. The exchange rate was adjusted in successive steps to US\$1.00 = M\$2.40 by the middle of 1973 when a floating rate was adopted. In relation to a trade-weighted basket of currencies, the Malaysian dollar has appreciated by 13.6 percent since the end of 1971. The upward revaluation, especially in 1973, was definitely an anti-inflationary measure. During the 1960s Malaysia was reportedly able to cushion the impact of imported inflation by successfully shifting to cheaper sources of imports. This adjustment was facilitated by the fact that Malaysia, because of her financial strength, did not have to rely on the use of tied foreign loans and import credits. In addition, Malaysia's sources of imports generally are quite diversified.

On the domestic front, government has scrupulously avoided recourse to inflationary means for financing its budget deficits. During the last decade, public sector revenue has grown rapidly, partly as a result of taxation efforts and partly as a result of the accretion of substantial oil revenue. The ratio of total government revenue to GNP now exceeds 26 percent. During 1970-76 public savings averaged 2 percent of GNP. Although the overall deficit in the public sector during this period was quite large, averaging 8 percent of GNP, it was financed almost entirely by nonbank borrowing. Still, the reliance of the public sector on the banking system in the 1970s has been greater than in the 1960s, when there was hardly any increase in the net claims of the banking sector on federal and state governments. During 1970-76 these claims increased by M\$1.8 billion, constituting about 17 percent of the overall public sector deficit and 20 percent of the overall monetary expansion. Nevertheless, because of the substantial expected increase in oil revenue, government deficits will continue to have limited significance as a source of inflationary pressure. With a 20 percent change.

In terms of monetary aggregates, a more powerful source of expansion has been the foreign sector. Net external reserves, which showed very little change in the 1960s, increased from US\$800 million at the end of 1969 to US\$2.4 billion at the end of 1976. The increase in net foreign assets was responsible for more than 40 percent of the expansion in total money supply (money and quasi-money) from M\$4.7 billion at the end of 1971 to M\$12.8 billion at the end of 1976. The average annual rate of monetary expansion of more than 22 percent during 1971-76 also reflects a nearly threefold expansion in private sector credit. To a substantial extent, this expansion was related to the increase in value of foreign trade and was thus largely the result of exogenous circumstances.

The increase in money supply narrowly defined (currency in circulation and demand deposits) at the average annual rate of 19 percent during 1971-76 was somewhat faster than the growth in GNP in current prices. Quasimoney (time and savings deposits) has grown considerably faster. Whereas quasi-money constituted less than 30 percent of the broad money supply in

sion. A system of compactating protonts, parely invouch adjustments of arreats and taxes due powersourc, table to be deviand along with aspendicute around that can be instituted or can back depending upon the reaks of the

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1960, this proportion rose to nearly 60 percent in 1975. Some of these assets belong to the public sector corporations, which have been growing rapidly. Still, the role of the banking system in Malaysia as a mobilizer of private savings appears to have grown tremendously and now corresponds more closely to some of the neighboring East Asian countries. As a result of the large inflow of time and savings deposits into commercial banks, their liquidity position has remained generally comfortable. In addition, except for the two years from mid-1973 to mid-1975, interest rates have remained low. The prime interest rate, which was raised in steps to 10 percent by April 1974, had gradually come down to 7.5 percent by mid-1977 and was at the same level as the early 1970s. The rate on fixed deposits of twelve months' maturity, which rose to the peak of 8 percent in April 1974, was down to 6.5 percent by mid-1977 and was only marginally higher than the rate a decade before.

Thus, the current position is characterized by a fair degree of monetary stability. This can be easily disturbed, however, if there is resurgence of international inflationary pressure or an outburst of export demand for Malaysia's principal primary exports. As mentioned earlier, it is almost impossible to moderate substantially an expansionary impulse equal to more than 30 percent of GNP, as was the case in 1973 and 1974. But this expansion probably was exceptional. At the international level, the efforts for moderating fluctuations in two of Malaysia's key exports--tin and rubber--through buffer stock schemes should continue to be vigorously pursued. Nevertheless, Malaysia will continue to be faced with substantial fluctuations in its export earnings. Given the sheer size of its export sector, short-term economic management will continue to pose special problems. Even with a moderate 10 percent change in the relative prices of her exports, Malaysia's gross national income will increase or decrease by 5 percent. With a 20 percent change, the real increase or decrease in national income resulting from changes in terms of trade could completely swamp the influence of domestic factors on demand and output.

Still, Malaysia will often have to contend with changes in the purchasing power of its exports equal to 5 to 10 percent of GNP. In these circumstances, the limits of monetary policy should be recognized, and fiscal policy must play a greater anticyclical role. Government has to be more active in designing expenditure programs and adjusting taxes, especially export taxes, to prevent wide swings in economic activity in general and to ensure orderly growth in incomes of the rural masses. In a period of rapidly rising prices, the distribution of gains between traders and producers is quite uneven. Between 1972 and 1974, real earnings from rubber, a major source of income for a large number of smallholders, increased by 60 to 70 percent. The export duties levied were very modest and were not imposed until April 1974. Nevertheless, the present system of progressive rates of export duty on rubber is a built-in stabilizer and should be extended to other major primary products. Government intervention cannot and should not be limited to upswings. Malaysia should be willing to run relatively large deficits on government and balance-of-payments accounts in periods of recession. A system of compensating payments, partly through adjustments of arrears and taxes due government, needs to be devised along with expenditure programs that can be instituted or cut back depending upon the needs of the situation. 0

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High levels of international reserves are an important prerequisite for flexibility in short-term economic management. The present level of external reserves equal to seven months of imports cannot be considered too high in the light of Malaysia's very heavy export dependence. Indeed, as is discussed later, the reserves might well grow somewhat faster than imports in the next few years until the investment level picks up sharply. Any undue growth in external reserve levels will, however, exercise a sharp expansionary influence on money supply and could endanger monetary stability. This further reinforces the argument for stepping up the investment level. Further revaluation of the Malaysian dollar could help to dampen both the balance-of-payments surpluses and the internal inflationary pressure but will not be advisable because of the requirements to preserve the comparative advantage in industry and to ensure continued high rates of growth of manufacturing.

Savings and Investment Trends

As the foregoing discussion suggests, Malaysia's resource position has remained comfortable since independence, reflecting in part the inherently strong export position, an adequate and fairly elastic tax system, and careful and conservative monetary and economic management. While external reserves have been adequate, foreign borrowing has been relatively limited. Total public debt outstanding at the end of 1977 was \$1.6 billion, and the debt service payments during 1976 constituted only about 4 percent of exports of goods and nonfactor services. Taking the period 1970-76 as a whole, the current account balance of payments deficit was negligible. Meanwhile, the national saving rate has increased from around 15 percent in the early 1960s to an average of 29 percent during 1974-76, indicating a very high marginal saving rate.

Considering that resources have not been a major constraint on development, the rate of investment expansion in Malaysia appears to have been disappointing, certainly in the 1960s. The ratio of total fixed-capital formation to GNP of 15 percent in 1968-69 was no higher than the level in 1961. On the one hand, investments in the perennial crops mainly by the estate sector and in tin mines, which accounted for more than one third of total private investment in the early 1960s, tended to stagnate because of structural factors. Although incentives for planting oil palms remained strong, resulting in a doubling of oil palm acreage on estates between 1965 and 1970, rubber replantings came down sharply-from 304,000 acres in 1961-65 to 128,000 acres in 1966-70--because by the late 1960s almost the entire acreage (90 percent) had been replanted with high-yielding varieties. The main constraint for further large-scale investments by the estate sector, which is more than 60 percent-owned by foreign interests, was the availability of land. New land development was, as a matter of government policy, reserved largely for smallholder development assisted by government agencies. This policy made good sense for promoting employment, overcoming rural poverty, and diversifying the gains from the growth. But it did mean, in contrast with the past, that greater responsibility for sustaining a high rate of agricultural investments had shifted to goverment agencies in charge of land development, agricultural modernization, and diversification. Given this growing role of

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government in agricultural development, the virtual stagnation of the ratio of public sector investment to GNP at around 6 percent throughout the 1960s is not easy to understand. Part of the explanation lay in the very modest targets of the First Malaysia Plan, 1966-70, which did project a financial constraint; part in government's inadequate planning and implementation capacity, which led to shortfalls in investment programs. In the private sector, the general business uncertainty following the separation of Singapore in 1965 might have also dampened investment demand. Overall, the ratio of fixed private investment to GNP of about 9 percent in 1969 was not higher than in the early 1960s.

Since 1971, the first year of the Second Malaysia Plan, there has been a sharp and sustained growth in public investment. In constant prices, the growth in fixed public investment between 1970 and 1976 was nearly threefold, indicating an average annual growth of more than 18 percent. As a percentage of GNP, public investment was more than 10 percent of GNP during 1975-76. This expansion reflects the thrust provided by the New Economic Policy and, as mentioned earlier, has contributed significantly to accelerating the growth rate as well as the direct attack on poverty.

The expansion in private investment has also been substantial since the late 1960s, but the trend is less clear-cut. Between 1969 and 1974, there was a big jump in real private fixed investment, estimated at between 120 and 150 percent. As a proportion of GNP, private fixed investment reached a peak of 19 percent in 1974. Nevertheless, private investment fell in absolute terms by almost one third between 1974 and 1976; its ratio to GNP was less than 12 percent in 1976. What is more, the current private investment includes substantial investments in the oil sector in Sabah and Sarawak. The critical importance for overall growth of at least maintaining the present ratio of private fixed investment to GNP is discussed in the next chapter. The general point is worth stressing, however: in relation to comparable middle-income countries, the overall investment level in Malaysia still appears low. The contrast becomes particularly vivid if account is taken of the very considerable economic potential of Malaysia, further improvements in her financial position, and the substantial problems of poverty, employment, and ethnic income disparities--all of which highlight the need for rapid expansion. total private investment is the antip 1960s,

Progress toward Poverty Eradication

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Malaysia not only has had an impressive record of overall growth in the recent past, it also has given special attention to poverty eradication and rural development. The initial thrust of government policies in the mid-1950s was on rural infrastructure so as to improve the living conditions in the rural areas./1 Beginning with the 1960s, emphasis was increasingly placed on providing land to the rural poor and increasing the productivity of

/1 For a discussion of rural development strategies, see the First and Second Malaya Plans 1956-60 and 1961-65, and David Lim, <u>Economic</u> <u>Growth and Development in West Malaysia</u>, 1947-70.

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structured factors. Although through the

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the small-scale farmers. In view of factors mentioned earlier, the incidence of poverty has nevertheless remained relatively high. Table 3.2 suggests 49 percent of households in Peninsular Malaysia in 1970 were estimated to be below the poverty-line income, the income required to provide for minimum nutritional and other nonfood requirements. Eighty-six percent of poverty households were in the rural areas. During the Second Malaysia Plan (1971-75), however, the incidence of poverty was reduced to 44 percent. It is projected to drop sharply to 34 percent by 1980 under the Third Malaysia Plan. Still, the drop in the total number of poverty households will only be from 792,000 in 1970 to 768,000 in 1980.

Despite the continued widespread existence of poverty, high growth rates and a strong political commitment to programs for poverty eradication point on the one hand to the importance of the initial conditions of income distribution and on the other to such special factors as the deterioration in the terms of trade of rubber growers and the relatively long gestation periods of rural investments. These special factors have dampened the impact of essentially well-conceived efforts at rural development, at least in the medium term. The relatively high rate of population growth during the last three decades, averaging 2.8 percent a year in Peninsular Malaysia, has further hampered the task of substantial improvement in the living standards of the low-income groups. These difficulties have undoubtedly been responsible for the disappointing progress toward poverty alleviation. But most of these--strong demographic pressure, extremely uneven pattern of income distribution in the preindependence period, declining rubber prices, and inherently long gestation periods of investments in tree crops-were outside the control of government policies. Notwithstanding these limitations, there definitely has been progress. It would be a pity if the preponderance and the persistence of the poverty problem were to obscure the very solid achievements of the rural development strategy in Malaysia. These achievements are typified by the sustained average rate of growth of smallholder agriculture of close to 6 percent a year over the 1960-75 period, by at least some reduction over the last two decades in the incidence of poverty, and by a substantial increase in access of rural areas to such social services as education, health, water supply, roads, and electrification. The major policy instruments used to bring about improvements in income and the quality of life in rural areas are discussed below. The discussion also focuses on some of the issues which inevitably impinge on the distribution of growth benefits among the various income groups.

Poverty Level

Before analyzing the record of rural development in Malaysia, it is important to point out that official figures which aim at measuring absolute poverty probably exaggerate the problem, at least in relation to international comparisons. According to official figures, all households having an income level of US\$215 per capita in 1975 were below the minimum standard. The corresponding figures for rural areas in Indonesia, Thailand, and the Philippines were respectively estimated by the World Bank at US\$95, US\$95, and US\$155.

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To some extent, the higher income requirement in Malaysia is attributable to the higher domestic price of rice, the staple foodgrain. But the difference still is too large to be explained by this or any other factor. So, purely in absolute poverty terms, the official Malaysian figures exaggerate the problem. But poverty is also a relative concept and can be defined as income levels which are less than, say, one third or one fourth of the national average. Average per capita income in Malaysia during 1976 was estimated at US\$860. The relative poverty criterion--that is income less than one fourth of average income--yields a poverty line of US\$215, which is very close to the official estimate in 1976 prices. Thus official figures can be used as a reasonably good measure of poverty, but not of absolute poverty./1

Sources of Poverty

A basic reason for historically widespread poverty and the high degree of income inequality in Malaysia is the ownership of $land \cdot /2$ Although the area under crops per capita compares very favorably with some neighboring countries, landholdings are very unequal, partly because of the dominant plantation sector. In 1960 the plantation sector accounted for 36 percent of the total acreage under crops of 5.9 million acres in Peninsular Malaysia. Most estate holdings were in rubber, accounting for 50 percent of total rubber acreage of 3.9 million. Nevertheless, the overall acreage in the plantation sector has remained stable at around 2.2 million acres during the last two decades; the total acreage under crops has increased to 7.6 million acres. Outside the new land settlement schemes, 45 percent of around 400,000 rubber smallholders have landholdings of less than 5 acres; the average holding for this group is 3 acres. Similarly, the mean size of padi holdings is 2.8 acres. According to very rough estimates, one half of the agricultural labor force is either landless or has uneconomic holdings.

Because poverty in agriculture is strongly related to the large proportion of agricultural workers with no land of their own or with holdings too small to provide full-time productive employment and income above the poverty line, government has invested heavily in land development, selecting settlers from among the landless poor. Between 1955 and 1975, nearly 1.5 million acres were developed in Peninsular Malaysia alone, about half of this by FELDA. As mentioned earlier, the alienation of land for the plantation sector has been limited.

<u>/1</u> Because per capita GNP in the Philippines and Thailand of US\$410 and US\$380 respectively in 1976 was substantially lower than Malaysia, the adjustment for relative poverty in those countries does not increase the estimate of total number of poor.

<u>12</u> For details, see chapter 9.

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benefits among the various income groups.

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should also be attempted by WLDA, at least on an experiment

Land Development

Land development schemes accounted for a large proportion of job creation in agriculture during the last decade and will be responsible for one third of the incremental output of major agricultural crops, in constant prices, between 1970 and 1980. Nevertheless, several criticisms have been leveled against land development schemes, such as those developed by FELDA. These criticisms center around the high cost of land settlement (more than US\$15,000 per settler family in recent FELDA schemes), the very high proportion of total agricultural development allocations to new land settlement, the relatively limited settler participation in the early development stage, and the fact that direct benefits are limited to a relatively small number of farm households. During 1960-75, for example, FELDA settled only 33,000 families, of which 13,700 were settled during 1971-75. The low settlement level is partly a problem of time lags; in the present mode of settlement, settlers are not brought into the schemes until the second year for oil palm or the third for rubber. The current rate of land development by all agencies in Peninsular Malaysia is about 175,000 acres a year, which should normally provide settlement to 12,000 families and jobs for 18,000 people. This number appears small in relation to the total number of agricultural households below the poverty line-more than half a million. But in relation to the total labor force growth in Malaysia of 120,000 additional jobs a year, job creation through land development has been quite significant. It has helped to accelerate the rate of total employment creation and to contain the number of households in the traditional smallholder sector. A continued high rate of land development offers major opportunities for poverty eradication both directly (by distributing assets to the poor) and indirectly (by stimulating the overall growth of the economy). The end of the second of the second state of the second

The costs of new land development are high, in part because they provide for an eventual income level for settlers in the median range. Nevertheless the economic rates of return of FELDA schemes remain satisfactory at 14 to 16 percent. The benefits of a given level of land development could be spread more widely by lowering the size of the settler holdings, which would result in less employment per settler family. The decision on the size of the holdings or the income level of the settler is a matter of judgment./1 But because the long-run price prospects for rubber and palm oil are more favorable now than a few years ago, the current income objective could be achieved with a somewhat smaller holding. Government already has decided to reduce the size of holdings in future FELDA schemes.

/1 The current objective of the FELDA model has been to ensure that settlers will remain within a reasonable relative income range over the next two or three decades. A much smaller sized holding would create units that are not economically viable in the long run.

programs asy only be statistical. This, however, is a big factor.

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Increasing settler involvement through a "farm enterprise" scheme should also be attempted by FELDA, at least on an experimental basis, not only because the development of the settler's entrepreneurship and selfreliance will be valuable concomitants of this approach, but also because increased settler participation should help reduce financial outlays per acre./1 Past attempts at low-cost settlement in Malaysia have sometimes proved disappointing in terms of land use and income levels achieved. Despite such problems as poor infrastructure and very little extension assistance, however, there is cause for encouragement in the achievements of settlers who developed their own land in some of the early land schemes. Many of the difficulties which plagued some of the earlier efforts could be avoided with more supervision at the early stages of development and with a significantly strengthened general system of agricultural support services to provide technical advice and supervision. Increased settler participation should result in less stringent repayment terms, which would also reduce the required size of holding in relation to income objectives. Various alternatives should be fully explored in the major schemes in order to increase the number of settlers who benefit and to reduce the capital cost per settler

While giving special attention to land development as an important long-run solution to poverty, government has by no means neglected in situ agriculture. Rubber smallholders, excluding those on major land-settlement schemes, increased their output at an average annual rate of about 6.8 percent during 1960-75, considerably faster than the rate of growth of 2.4 percent on estates. /2 What is more important, their rate of yield increases during this period of 5 percent a year was higher than the yield increases in the estate sector. By 1976, however, only 64 percent of traditional smallholders had replanted their rubber, thus indicating considerable scope for further productivity gains. 13 It is also interesting, contrary to widespread impression, that there is no hard evidence that the very smallholders lagged behind in replanting. Indeed, the rate of replanting among registered smallholders of 59 percent was higher than average among the 0-5 acre holdings; the largest holdings had the substantially lower rate of replanting of 37 percent (table 2.9). Nevertheless, Malays who had an average Malay holdings of 4.2 acres, which is substantially smaller than the average Chinese holding of

paople. This number appears small to relation to the total number

<u>/1</u> The Third Plan states that FELDA will carry out pilot projects with greater settler participation and self-help.

size of the holdings or the impose level of the vettier is a matter of judgmant./1 But because the long-run wire prospects for rubber and pain oil are note favorable now that a few years ago, the current loco

- 12 See table 6.7 in chapter 6.
- <u>/3</u> This includes only smallholders registered with RISDA. The proportion of all smallholders who have replanted would be lower. It should be added, however, that to the extent some estates are broken up into small segments (less than 100 acres) the improvement in productivity and replanting progress may only be statistical. This, however, is a big factor. Treasury Report, 1977/78.

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Table 2.2: PENINSULAR MALAYSIA: RUBBER BY SIZE GROUP AND OWNERSHIP: REGISTERED SMALLHOLDINGS, 1974 /a

8.4 acres, tended to replant at a substantially lower rate (44 percent) than Chinese (66 percent). Still, it appears that very impressive productivity improvement in the smallholder sector has been shared quite widely. But the number of rubber smallholders in poverty has not decreased much if at all. The main reason for this is the sharp decline in real terms in the rubber price, which during 1975 was 60 percent below the level in the late 1950s and which has recovered only 30 percent since then (table 2.10). The fact for large numbers of rubber households that the gains in productivity were largely offset by the decline in relative prices should not detract from the importance of the rural development efforts in this area. If productivity improvements had not been forthcoming, the real incomes of rubber growers would have declined sharply, thus increasing the number of poor, because few of them had alternative opportunities.

		1134.21		Total
77.9 73.7 70.6 59.0 39.2	3.76 7.33 11.11 20.09 48.31	180-18 289-34 164-01 170-80 183-70	47.87 53.17 16.56 8.50 3.32	Chinese 0 = 5 0ver 5 = 10 0ver 10 = 15 0ver 15 = 30 0ver 30
	14.8	1.088.23	129.42	Total
58.6 65.7 58.7 50.9 38.4	3-30 7-48 12-06 19-06 51-20	8-89 12-64 6-27 8-38 15-36	2.54 1.69 0.52 0.45 0.30	Others 0 - 3 0 - 3 0 ver 5 - 10 0 ver 10 - 13 0 ver 15 - 30 0 ver 30
				Total
	2.95 7.12 7.12 11.33 49.53 49.53	747.10 791.33 291.33 229.74 244.80 211.49 2.274.63	232.93 111.21 24.70 12.45 4.27 403.56	Total 0 = 5 0ver 5 = 10 0ver 10 = 15 0ver 15 = 30 0ver 30 Total
<u>8.42</u>			<u>estat</u>	Artes

As of December 31, 1974, "Registered Smallholdings" exclude schemes developed by Land Development Anthorities, as well as the holdings of those smallholders that did not have their holdings registered (e.g. because they did not hold a valid title to the land they cultivated). b Categories based on the screege planted with rubber.

Source: Rubber Industry Smallholders Development Authority (RISDA), August 1975.

	Number of smallholders	Total	Average	New planted
group /b	('000)	('000)	(acres)	(%)
as in the	cilles in real tem	the sharp dec	for this is	nosson nism sell
in the Late	below the level			
Malay		550.00	2.76	52.0
	202.52			53.2 36.0
	56.35		6.91	
Over 10 - 15	7.62			33.5
	3.50			
Over 30	0.65	32.43	49.89	25.4
Total	270.64	1,134.71	4.19	43.7
Chinese	1			-
0 - 5	47.87	180.18	3.76	77.9
Over 5 - 10	53.17	389.54	7.33	73.7
Over 10 - 15	16.56	184.01	11.11	70.6
Over 15 - 30	8.50	170.80	20.09	59.0
Over 30	3.32	163.70	49.31	39.2
Total	129.42	1,088.23	8.41	66.4
Others				
0 - 5	2.54	8.89	3.50	58.6
Over 5 - 10	1.69	12.64	7.48	65.7
Over 10 - 15	0.52	6.27	12.06	58.7
Over 15 - 30	0.45	8.58	19.06	50.9
Over 30	0.30	15.36	51.20	38.4
Total	5.50	51.74	9.41	53.1
Total				
0 - 5	252.93	747.10	2.95	59.2
Over 5 - 10	111.21	791.55	7.12	55.0
Over 10 - 15	24.70	279.74	11.33	58.4
Over 15 - 30	12.45	244.80	19.66	51.3
Over 30	4.27	211.49	49.53	37.1
Total	405.56	2,274.68	5.61	54.8

Table 2.9: PENINSULAR MALAYSIA: RUBBER BY SIZE GROUP AND OWNERSHIP: REGISTERED SMALLHOLDINGS, 1974 /a

<u>/a</u> As of December 31, 1974, "Registered Smallholdings" exclude schemes developed by Land Development Authorities, as well as the holdings of those smallholders that did not have their holdings registered (e.g. because they did not hold a valid title to the land they cultivated). <u>/b</u> Categories based on the acreage planted with rubber.

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/c From 1953.

Source: Rubber Industry Smallholders Development Authority (RISDA), August 1975.

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Table 2.10: RUBBER PRICES (US¢/bag, NY market)

Year	irrigation projects, Muda and Kamuba, Financed by World Bank loans. These
	projects were the first applications of large-scale irrigation for double-
1956	cropping cickars. and they proved very 1.27. asis 1.75.3 is antegors
1957	and to send at erem 68.8 and 000.27 girase to second 155.0 decb gletam
1958	and galouber tol 62.0 geet tiestal over bas setted 142.2 alan restood
1959	country's d2.781 and a deports from more than 7.08 ercent of domestic rice
1960	requirements 0.00107 to a puck lower 13 percent 0.88 975-120 Topether, the
1961	a atavalah io iceoing 0.65.0 inucona was atastein owi eseri45.7 bevies asara
1962	rice product 8.141 in the Moda area, on the west 1.63 t of Feninsular Malayer
1963	COLIC and to imaging 0457.81 and has asia ruch at all 129.0 parava ad
1964	farmers are 7.123. Incomes for both owners a8.123.7 are arears
1965	result of the instruction in the second in the second and, together
1966	with a decreinin seasonal migratory labor fro0.52siland and Kelantan
1967	bayongal visaers enew 43.9 unroogo (betacol at soatorg 93.0 ods eredy)
1968	somebive towall be dr43.914 . rodal bevolgnerabou bas a 93.6al facol rot
1969	exists for t7.811 eise aucher of jobs created, 8.75 dly rising wages afford
1970	indirect evie.88 that an improvement took place.64 hoch of the success of
1971	the Muda pro2.27 has been attributed to the care 39.9 proparatory work under-
1972	40.2 40.2 settettettet attagtottag dite col 66.8 co at meded
1973	program, and 9.901 orangelon of Ferners' Association 78.5 to provide credit,
1974	Anguts, and 4.99 ting and extension services 18.68 arts. The Readbu project
1975	stingte a bad cals , 100 65.9 bold and and interespons seal 65.9 cos dyundis
1976	87.2
1977	92.5/a 85.5/a
	Even with fairly dramatic increases in rice output, and an increas

/a Estimated. another an action alevelat relevant at arevers they grows virevog

Source: World Bank, <u>Commodity Trade and Price Trends</u>, August 1976 and latest projections (October 1977).

above the poverty line. Reductions in tenancy, which is widespread with 30 to 40 percent of padi farmers being tenants, Further increases in irrigation.

It must nevertheless be stressed that the decline in the rubber price has to a considerable extent frustrated government efforts to alleviate poverty. Fortunately, the outlook for future rubber prices is good. With the prospective increases in rubber production, a substantial reduction in poverty among smallholders can be expected.

Large increases in output have also been recorded in padi, the second most important smallholder crop. Rice output rose at an average rate of 4.1 percent a year during 1960-75./1 The main source of the increase

/1 See table 6.6 in chapter 6.

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holding of about 3 to 4 acres is needed if a padi

domestic consumption in 1977.

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in output has been the increase in double-cropping from negligible levels in 1960 to 57 percent in 1975; the yield increases per cropped acre of 1.6 percent a year have been relatively modest./1

Increased double-cropping of rice was made possible by two major irrigation projects, Muda and Kemubu, financed by World Bank loans. These projects were the first applications of large-scale irrigation for doublecropping rice in Malaysia, and they proved very successful. They approximately doubled the incomes of nearly 75,000 padi farmers in three of the poorest Malaysian states and were largely responsible for reducing the country's dependence on imports from more than 40 percent of domestic rice requirements in 1967 to a much lower 13 percent in $1975 \cdot \frac{12}{2}$ Together, the areas served by these two projects now account for 60 percent of Malaysia's rice production. In the Muda area, on the west coast of Peninsular Malaysia, the average farm size is four acres, and more than 40 percent of the 51,000 farmers are tenants. Incomes for both owners and tenants doubled as a result of the project. Employment increased by 50 percent and, together with a decrease in seasonal migratory labor from Thailand and Kelantan (where the Kemubu project is located), opportunities were greatly improved for local landless and underemployed labor. Although no direct evidence exists for the precise number of jobs created, rapidly rising wages afford indirect evidence that an improvement took place. Much of the success of the Muda project has been attributed to the careful preparatory work undertaken in conjunction with participating farmers, a seed multiplication program, and the formation of Farmers' Associations to provide credit, inputs, and marketing and extension services to farmers. The Kemubu project, although somewhat less successful than the Muda project, also had a significant impact on padi farmers.

Even with fairly dramatic increases in rice output, and an increase in the purchase price of 75 percent between 1970 and 1975, the incidence of poverty among padi growers in Peninsular Malaysia remains extremely high (77 percent). The main reason for this is the small size of holdings: 55 percent of all holdings are less than three acres; 80 percent are less than 5 acres. The Third Malaysia Plan estimates that an owner-operated double-cropped holding of about 3 to 4 acres is needed if a padi farmer is to earn an income above the poverty line. Reductions in tenancy, which is widespread with 30 to 40 percent of padi farmers being tenants, further increases in irrigation, and a further review of rice price policy are needed to ensure significant further reduction in this large poverty group./3 Unfortunately, very few new irrigation investments were initiated during the last few years, and only modest growth in rice output during the next few years can be expected to come from a further increase in double-cropping. In any case, there are

/1 See table 6.6 in chapter 6.

<u>12</u> Poor crops temporarily increased the need for imports to 18 percent of domestic consumption in 1977.

13 For a discussion of these issues, see chapter 6.

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no additional areas suitable for large-scale irrigation schemes, and future projects will be relatively small-scale./1 Yield improvements and the resettlement of excess labor from poor padi areas on new public land are being promoted under the Third Malaysia Plan. In the long run, however, market limitations will also tend to slow down the growth in rice output. It is clear that Malaysia's comparative advantage does not lie in export of rice. Consequently, any expansion in production would have to be limited to increases in domestic demand.

The incidence of poverty among the smaller groups of agricultural workers--fishermen, coconut farmers, agricultural laborers, and estate workers--is also substantial. More than 60 percent of agricultural households other than rubber smallholders and padi farmers, or a total of 230,000 households, were below the poverty line in 1975. The incidence of poverty among nonagricultural rural households exceeds one third. The dimension of the poverty problem of these diverse groups has come into sharp focus only in recent years. In addition, the policies and programs required for the improvement of their incomes might be more difficult to formulate and execute than, say, the programs for padi growers and rubber smallholders. These groups are quite heterogeneous, and their racial composition is quite distinct. Whereas the bulk of the rubber smallholders and padi growers are Malays, new village residents are almost entirely Chinese and most estate workers are Indians.

Employment Growth

For those rural groups which do not have land, overall employment growth in the economy is a particularly important source of poverty alleviation. Indeed, even in the traditional agricultural sector, the rate of land development and the considerations of achieving a reasonable growth in per capita real incomes put an upper limit on labor absorption. Adequate job creation outside the agricultural sector assumes even greater significance when, as in Malaysia, the labor force is rising rapidly. Reflecting the lagged effect of high population growth period after the Second World War, the rate of labor force growth increased from less than 2 percent a year in the 1950s to 2.8 percent in the 1960s. During the Second Malaysia Plan period, 1971-75, labor force growth increased further to 3.2 percent a year; it is expected to increase to 3.3 percent a year during 1975-80.

Despite relatively high rates of growth of nonagricultural employment in Peninsular Malaysia, especially in manufacturing, total employment growth of 2.6 percent a year during the 1960s did not keep pace with the corresponding growth in labor force of 2.8 percent a year. The open unemployment rate in Peninsular Malaysia increased from 6.1 percent in 1962 to

<u>/1</u> The Third Malaysia Plan aims at expanding the double-cropped acreage by 16 percent.

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8 percent in 1970. This suggests that the 6 percent annual GNP growth recorded in the 1960s was insufficient, even with the heavy emphasis on agriculture, to generate an adequate number of jobs. It should be stressed, however, that this was the result, at least in part, of the deterioration in the terms of trade, which was estimated at more than 20 percent during the 1960s. This deterioration meant that real income growth during that period was substantially less than output growth. Per capita growth of income and consumption was less than 2 percent a year in Peninsular Malaysia during 1961-70 and, as mentioned earlier, only half that rate in the traditional agricultural sector. The relatively low growth of overall agricultural employment of 1.1 percent a year during 1961-70 in Peninsular Malaysia was thus at least partly attributable to stagnating real incomes.

Although labor force growth has further accelerated during the 1970s, the growth in employment opportunities fortunately has been at least equally rapid. According to the Third Malaysia Plan, the rate of job creation for the whole of Malaysia during 1970-75 averaged 3.3 percent a year, which was slightly faster than labor force growth and the open unemployment rate dropped from 7.9 percent to 7 percent. There also was some evidence of a decrease in extent of underemployment: the average number of hours worked in the rural areas increased, and the number of hard-core unemployed decreased./1 Although the evidence is inconclusive, there may also have been some increase in the real wage rate during this period. A basic cause of this improvement was the sharp acceleration in the growth rate of investment and GNP during 1970-76. Furthermore, over this period, there was only moderate (4 percent) further deterioration in the terms of trade. Per capita real income during 1970-76 increased at 4.5 percent a year, compared with less than 2 percent a year in the 1960s. In addition, the real per capita incomes in agriculture increased at roughly the same pace as in the rest of the economy. At the same time, there was a definite increase in the number of families settled on new land. Thus, the overall growth in agricultural employment, which accounts for nearly one half of total employment, increased to 1.6 percent a year. If the growth in nonagricultural employment had not increased a to 4.8 percent a year, reflecting the strong push in labor-intensive manufacturing and further expansion in public administration and investment activities, the overall improvement in the employment situation would have been limited.

The foregoing discussion supports the general impression that the reduction in the incidence of poverty has mainly occurred in recent years and has been closely linked to the rate of overall economic expansion. In the future, therefore, the need is clear for sustaining high rates of overall growth as well as maintaining the momentum of the smallholder sector.

/1 Third Malaysia Plan, 1976-80, chapter II, p. 26.

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ployment fore in Fundamiar Melayata increased from 4.1 percent

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Employment Restructuring

Traditionally the majority of Malays has been concentrated in the agriculture sectors, while non-Malays have been predominant in secondary and tertiary sectors. The attainment of a more equitable racial representation in the employment pattern is a major objective of New Economic Policy. Although systematic efforts to increase the share of Malays are of relatively recent origin, some restructuring of employment has been proceeding under the momentum of growth and the structural change in output. For example, the proportion of Malays employed in the primary sector has come down from 75 percent in 1957 to less than 60 percent in 1975. At the same time, the proportion of Malays employed in the secondary and tertiary sectors respectively increased to 15 percent and 26 percent in 1975, compared with 9 percent and 16 percent in 1957. There is no doubt, however, that the process was accelerated during 1971-75 under the impetus of the New Economic Policy. More than one half of new jobs in the secondary and tertiary sectors have gone to Malays during the Second Plan period. It is interesting to note, however, that the number of Malays in agriculture increased by more than 35 percent between 1957 and 1975, while the number of non-Malays in agriculture hardly changed. Thus, the share of Malays in primary activities -- as distinct from the proportion of Malay-actually increased from 60 percent in 1957 to 67 percent in 1975; the share of non-Malays correspondingly declined. The share of Malays in secondary and tertiary sectors also went up from 26 percent and 31 percent respectively in 1957 to 37 percent and 42 percent respectively in 1975. The apparently paradoxical increase in the share of Malays in all sectors over 1957-75 is explained partly by the increase in Malay share in total employment from 47 percent in 1957 to 53 percent in 1975. This increase reflects the faster growth of the Malay population and labor force, but more importantly the shifts in employment toward secondary and tertiary sectors. In the future as well, two variables will continue to govern the rate of restructuring. The first is the rate of overall growth of tertiary and secondary sectors. The higher this growth, the greater will be the possibilities for absorbing Malays into the urban sector. The second is the trend in number of non-Malays in the agricultural sector. If the number of non-Malays in agriculture remains unchanged, as in the past, there will be relatively greater competition for jobs in commercial and industrial sectors. There will thus continue to be a trade-off between land availability for non-Malays and employment opportunities for non-Malays in the nonagricultural sector.

Educational Restructuring

The goal of restructuring employment by sector and by occupation places a heavy burden on the education system requiring it not only to produce many more trained graduates but also to increase the Malay share of graduates. During the Second Plan period, 1970-75, Malaysia has made considerable progress in restructuring education. The Malay share of enrollment increased at every level but most significantly at the tertiary level where the Malay share increased from 50 percent to 65 percent (see table 2.11). Since Malays make up only about half the population the degree of restructuring may seem excessive. However, it must be viewed against the tremendous

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increase in overall enrollments. Again the largest jump in enrollments has been at the tertiary level where overall enrollments increased by 140 percent. This large overall increase has allowed for both a significant increase in the Malay share as well as a substantial (64 percent) increase in the number of non-Malays enrolled in tertiary education. Thus the rapid overall growth has permitted both a considerable degree of restructuring as well as noteworthy gains for the non-Malays. This substantial enlargement in enrollment should begin to be felt in the labor market in the coming few years.

Table 2.11: ENROLLMENTS BY RACE AND LEVEL 1970 AND 1975

and all all and	Tanahan c		AND AND AND	ALL A LAND ALLEY	and or put	2112.2
w sconomic volicy. ry sectors have esting to note, by more than 35	Malay	1970 Non-Malay	Total	Malay	1975 Non-Malay	Total
vitiesas	of non-Mai	ani system	number	('000)	t between	percer hardly
Primary	759.0	662.5	1,421.5	876.0	710.9	1,586.9
Lower secondary	193.1	185.4	378.5	305.7	255.8	561.5
Upper secondary	43.6	45.8	89.4	101.5	65.6	167.1
Post secondary	4.6	6.0	10.6	8.8	7.5	16.3
Tertiary	6.6	6.7	13.3	20.5	11.0	31.5
		r ada ada <u>r</u>	acial share	e (9 percer	it)	percen
				Soldi 1005.		popula
Primary	53.3	46.7	100.0	55.2	44.8	100.0
Lower Secondary	51.0	49.0	100.0	54.4	45.6	100.0
Upper Secondary	48.7	51.3	100.0	60.7	39.3	100.0
Post Secondary	43.3	56.7	100.0	53.9	46.1	100.0
Tertiary	49.6	50.4	100.0	65.0	35.0	100.0

Source: Third Malaysia Plan

land availability for non-Malays and employment in the nonagricultural sector.

Educational Restructuring

The goal of restructuring employment by sector and by occupation places a heavy burden on the education system requiring it not only to produce many more trained graduates but also to increase the Malay share of able progress in restructuring education. The Malay share of eurollacot increased at every level but most significantly at the tertiary level where the Malay share increased from 50 percent to 65 percent (see table 2.11). Since Malay scan excessive. However, it must be viewed agence turing may seem excessive. However, it must be viewed agence the transmodule turing may seem excessive. However, it must be viewed agence the transmodule C12808/J21608/D1476/A12

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CHAPTER 3

provide to keep unemployment from rising. As a result of a very high population growth rate during the past two decades, there will be a considerable increase in the number of persons of labor force age during the next 15 years.

LONGER-TERM DEVELOPMENT: THE SETTING

This Chapter discusses the main factors that constitute the framework in analyzing Malaysia's longer-term development. These factors provide the limits in some ways and the potential in others, of Malaysia's development prospects. The formulation of policies and pace of development will be highly contingent on these exogenous factors. Five principal factors that provide the essential setting for considering longer-term development issues and which are discussed in this Chapter are: the growth of population and labor force; the goals of the new economic policy; longer-term resource and investment implications of the macro information which has become available since the finalization of the Third Malaysia Plan; the extent of Malaysia's physical resources; and finally the external environment and export prospects.

Population and Labor Force

In 1975 Malaysia's population stood at 12.3 million and was growing at an annual rate of about 2.8 percent, making Malaysia one of the fastest growing populations in Asia./1 The population density was about 37 persons per square kilometer, although Peninsular Malaysia, which had 84 percent of the population, had a density several times higher (79 per square kilometer) than Sabah and Sarawak (10 per square kilometer). Due to rapid population growth in the past, about 43 percent of the population was less than 15 years old in 1970 and the dependency ratio/2 was 0.9. One noteworthy feature of Malaysia's population is its low urban concentration. In 1975 only 32 percent of Malaysia's population was classed as urban compared to over 50 percent in 1970 for countries in a similar income category./3 The population growth rate for the rest of this decade is expected to be around 2.7 percent per annum./4

/1 While the TMP anticipatas some changes in participation rates during 1975-80 due to an increase in female participation and the effects of longer periods of schools, these offects appear to ottaut each other.

- <u>/1</u> During 1965-73, Malaysia average population growth was 2.8 percent per annum compared to an average of 2.4 percent per annum for all developing countries.
- /2 Ratio of those 0-14 years plus those over 65 to those 15-64 years of age.
- /3 Countries with 1970 per capita incomes of US\$376-1,000. See "World Tables 1976," Johns Hopkins Press, 1976.
- <u>14</u> This is the estimate provided in the Third Malaysia Plan. The medium variant of the latest United Nations population projections projects a somewhat higher growth rate of 2.9 percent during 1980-90.

Paninsular Malaysia presented in

of the rate of growth of popula

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An essential element in reviewing a country's longer-term development prospects is the number of additional jobs that the economy will have to provide to keep unemployment from rising. As a result of a very high population growth rate during the past two decades, there will be a considerable increase in the number of persons of labor force age during the next 15 years. The significant factor is that this increase cannot now be influenced by policy. Even if Malaysia is successful in achieving a substantial reduction in population growth during the next 15 years, the number of persons of labor force age during that period has been completely determined by population growth during the previous 15 years. On this basis the Third Malaysia Plan projects the labor force to grow by 3.3 percent per annum during 1975-80/1 and 2.9 percent per annum during 1981-90 (see table 3.1)./2 In comparison with the past, this implies a further acceleration: during 1957-67 for instance, the labor force of Peninsular Malaysia is estimated to have increased by 2.8 percent per annum. The projections imply that during

Table 3.1: THIRD MALAYSIA PLAN: POPULATION AND LABOR FORCE PROJECTIONS, 1970-90 ('000)

had a percent of had a percent of had a percent of the percent of	1970	1975	1980	1990	1970/75		1980/90
	10,777	12,249	13,976	18,103	2.6%	2.7%	2.6%
Labor force	3,607	4,225	4,973	6,587	3.2%	3.3%	2.9%

- /1 While the TMP anticipates some changes in participation rates during 1975-80 due to an increase in female participation and the effects of longer periods of schools, these effects appear to offset each other. The overall participation rate is projected to change only slightly from 63.4 in 1975 to 63.0 in 1980.
- <u>12</u> These estimates, which imply an average growth during 1975-90 of 3 percent per annum are very close to the estimates of labor force growth for Peninsular Malaysia presented in Chapter 11. These latter estimates assume constant age and sex specific participation rates and result in a labor force growth of 3.1 percent per annum during 1975-90, irrespective of the rate of growth of population.

This is the estimate provided (a the Third Malaysis Plan. The medium veriant of the latest United Patiens population projections projects a

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the Third Plan Period, there will be an annual increase in the labor force of 150 thousand persons and during the 1980s, 160 thousand per annum. For Peninsular Malaysia, the comparable figures are about 125,000 and 130,000, respectively. This compares to employment increases in Peninsular Malaysia of 70,000 per year in the decade 1957-67, and of 105,000 per year during 1970-75.

New Economic Policy

49 percent in 1970 to 17 percent by 1990. Given the rapid Besides having to provide productive employment for a rapidly growing labor force, there is a considerable existing backlog of poverty and racial imbalance which, in accordance with Government goals, the economy will also have to help eliminate. Despite Malaysia's relatively rapid rate of overall economic growth since independence, two fundamental problems persisted: serious racial imbalances and widespread poverty. In response to these problems, which were threatening the unity of Malaysia, the Government in 1970 adopted the New Economic Policy (NEP). The NEP set out ambitious targets to be achieved by 1990 for achieving a better racial balance and for reducing poverty. The Government's commitment to the NEP targets has been re-emphasized repeatedly by the present Prime Minister and his Government ever since it assumed office. The NEP is summarized in the Third Malaysia Plan: "... seeks to eradicate poverty among all Malaysians and to restructure Malaysian society so that the identification of race with economic function and geographical location is reduced and eventually eliminated, both objectives being realized through rapid expansion of the economy over time."/1 19 7.1 percent compared to 4.9

Poverty Reduction./2 In 1970 the Government estimated that almost half of the households in Peninsular Malaysia were in poverty; that is, their incomes were not sufficient to provide a minimum adequate diet as well as four essential nonfood items (housing, clothing, utilities, and

call for achieving a sectoral pattern of employment that more closely reflect the racial distribution of the country. Given the disproperiodately inter share of Maleys in agriculture in 1970 compared to other races and the

the objectives imply reducing the Malay share in agriculture and increasing their share of employment in accordary and teaclary employment (and the reverse for the Chinese). The implications for shifts in Indian employment are such less since in 1970 Indian employment in each sector was roughly

/1 Third Malaysia Plan, 1976-1980, 1976, p. 7.

<u>12</u> Poverty estimates pertain only to Peninsular Malaysia due to a lack of income data on Sabah and Sarawak.

uches countries. The Government's definition also does not take into account the significant courtStations ands by the provision of Government services to real income of howseholds. For a more detailed discussion of the data on income distribution and powerty see chapter 10, and for a brief international comparison of powerty lines, see chapter 2.

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transportation)./1 The vast majority of the poor (86 percent) lived in rural areas not only because the population is still largely rural but also because the incidence of poverty was twice as high in rural areas as in urban areas. The two largest groups in poverty in 1970 were rubber smallholders and padi cultivators who together accounted for 44 percent of the total poverty households (see table 3.2).

The Government's target is to reduce the incidence of poverty from 49 percent in 1970 to 17 percent by 1990. Given the rapid rate of population growth projected over this period (households are projected to increase by 3.3 percent a year), this represents a formidable target. This reduction in incidence implies that in 1990, the number of households in poverty would be one third what it would be if there were no reduction in poverty incidence (i.e. about 1 million fewer). While the targets show a reduction in incidence in poverty in both the rural and urban areas, there would be an absolute increase (45 percent) in the number of poor households in urban areas. This increase in urban poverty households is based on the assumption of a continued flow of labor from rural to urban areas. Thus, the targets forecast a growth in rural households of 1.7 percent per annum compared to 6.4 percent for urban households, or a net migration of about 600,000 households from rural to urban areas. In other words, a good deal of the poverty reduction targeted for rural areas is made possible by rural-urban migration. This as well as the simultaneous decline in the incidence of urban poverty is based on a strategy of rapid growth of employment opportunities in the modern sector. Over the period, the targeted growth of nonpoverty households in urban areas is 7.1 percent compared to 4.9 percent for rural areas.

Racial Balance. The racial restructuring targets are more extensive than the poverty targets and cover three major areas. First, they include targets for the racial restructuring of employment by sector. The specific quantitative targets are set out in table 3.3 below. Basically these targets call for achieving a sectoral pattern of employment that more closely reflects the racial distribution of the country. Given the disproportionately large share of Malays in agriculture in 1970 compared to other races and the disproportionately large share of Chinese in secondary and tertiary employment, the objectives imply reducing the Malay share in agriculture and increasing their share of employment in secondary and tertiary employment (and the reverse for the Chinese). The implications for shifts in Indian employment are much less since in 1970 Indian employment in each sector was roughly proportional to their share in the population.

<u>/1</u> This poverty line income is based on the cost of a nutritionally adequate hospital diet and thus provides a greater proportion of calories through nonstaple foods than poverty line diets used for estimating poverty in other countries. The Government's definition also does not take into account the significant contributions made by the provision of Government services to real income of households. For a more detailed discussion of the data on income distribution and poverty see chapter 10, and for a brief international comparison of poverty lines, see chapter 2.

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			Total	Total poor		dence	Percenta			Total poor	Incidence	Percentage
			households	households		(%)	among po	DOL	households 1	households	of poverty	among poo
									(001	- /	(%)	
					1970					madeult 1	975	
			(000)	(2)			27 1	000*	1 (2)	(000))		
Rural												
Agri	culture		852.9	582.4	(58.3	73.0	6	915.1	576.5	63.0	69.0
Rubb	per smallhol	lders	350.0	226.4	(54.7	28.0	6	396.3	233.8	59.0	28.0
Oil	palm smallh	olders	6.6	2.0		30.0		3	9.9	0.9	9.1	0.1
Coco	onut smallho	lders	32.0	16.9			2.	1	34.4	17.5	50.9	2.1
Padi	farmers		140.0	123.4			15.0	-	148.5	114.3	//	13.7
Othe	er agricultu	ire /c	285.9	185.6		64.9	23 .:	-	284.4	183.8	64.6	22.0
	nermen		38.4	28.1		73.2	3.	-	41.6	26.2	63.0	3.1
	er industrie		350.5	123.5		35.2	15.		551.7	153.4	27.8	18.4
Su	ubtotal (run	al)	1,203.4	705.9	1110	58.7	89.	2	1,348.5	729.9	54.1	87.4
										1, 593.0		
Urban										120.04		
Mini			5.4	1.8		33.3	0.	-	5.3	2.0	38.5	0.2
	ifacturing		84.0	19.7		23.5	2.	-	120.4	21.0	30.6	2.5
	struction		19.5	5.9		30.2	0.		25.5	6.1	25.9	0.7
	asport & ut:		42.4	13.1		30.9	1.		64.4	13.8	21.4	1.7
	de & service		251.3	45.4			5.		337.4	62.3	18.5	7.5
Su	ubtotal (ur)	ban)	402.6	85.9	-	21.3	10.	8	553.0	105.2	19.0	12.6
	Total		1,606.0	791.8	415 3	49.3	100.	0	1,901.5	835.1	43.9	100.0
							er 8.			5,510.0	TOISE	Popul
		3.45	No.04	8.0	1980		St	382.	I Selle	beelded 1	990	Todal
Rural			The set		14		8.	10		T. all	Loyneet	gean0
Agri	iculture		957.5	471.8	51 1	49.3	61.	4	908.8	241.5	26.6	46.9
Rubb	ber smallho.	lders	423.4	169.4		40.0	22.	-	417.2	100.1	24.0	19.5
011	palm small	holders	24.5	2.0		8.2	0.		22.8	0.7	3.0	0 1
Coco	onut smallh	olders	34.0	16.0		47.1	2.		28.4	7.7	27.1	1.5
Padi	i farmers		150.1	109.6	1.41	73.0	14.	2	133.4	40.0	30.0	7.8
Othe	er agricult	ure /c	283.0	152.7		54.0	19.	9	266-2	77.1	29.0	15.0
	hermen		42.5	22.1		52.0	2.	-	40.8	15.9	39.0	3-1
	er industri		543.2	174.9		32.2	22.		780.9	147-4		28.7
Su	ubtotal (ru	ral)	1,500.7	646.7	-	43.1	84.	2	1,689.7	388.9	23.0	75.6
Urban									13.6		faires	
Mini	ing		5.4	1.7		31.9	0.	2	5.5	1.0	18.8	0.2
Manu	ufacturing		181.1	25.4		14.0	3.	3	406.2	31.0	7.6	6.0
Cons	struction		33.8	6.8		20.0	0.	9	56.7	7.1	12.5	1.4
Tran	nsport & ut	ilities	84.5	14.6		17.3	1.	9	128.5	11.1	8.6	2.2
Trac	de à servic	es	465.0	73.1		15.7	9.	5	784.2	74.8	9.5	1.6
Su	ubtotal (ur	ban)	769.8	121.6	-	15.8	15.	8	1.381.1	125.0	9.1	24.4
			2.270.5	768.3		33.8	100.		3.070.8	513.9	16.7	100.0

Table 3.2: PENINSULAR MALAYSIA: POOR HOUSEHOLDS /a BY RURAL AND URBAN STRATA, 1970-90 /b

<u>/a</u> The poverty line income employed to distinguish poor households from other households is a monthly income that is necessary to cover minimum nutritional requirements and essential non-food expenses to sustain standard of living.

/b The statistical bases for the estimates and projections include: the Post Enumeration Survey of the 1970 Population Census; the Labor Force Surveys of the Department of Statistics; and socio-economic surveys on specific poverty groups undertaken by various agencies including the Ministries of Agriculture, Primary Industries, Labor and Manpower and Housing and Village Development and the Socio-Economic Research and General Planning Unit of the Prime Minister's Department.

/c The category includes agricultural households in urban areas, agricultural labor, estate workers and mixed farmers.

Source: Third Malaysia Plan.

		Solog Land	Malay	Ch	inese		I	ndian	iian Others		Total		
- (2)		Number ('000)	Percentage of sector total (%)	Number (*000)	Percentag of sector total (%)	N	umber '000)	Percentage of sector total (%)	Number ('000)	Percentage of sector total (%)	Number ('000)	Percentag of total employmen (%)	
												Love	
1970													
Primary /a		951.1	67.6	300.9	21.4		142.0	10.1	12.0	0.9	1.406.0	50.3	
Secondary /b		173.1	30.8	335.1	59.5		51.7	9.2	2.9	0.5	562.8	20.2	
Tertiary /c		312.4	37.9	398.3	48.3		103.9	12.6	10.3	1.2	824.9	29.5	
rerciary <u>/c</u>		312.4	37.9	390.3	40.3		103.9	12.0	10.3	1.2			
Total		1,436.6	51.4	1,034.3	37.0		297.6	10.7	25.2	0.9	2, 793.7	100.0	
Incat		1,430.0	51.4	1,034.3	37.0		237.0	10.7	23.2	0.3	4,173.1	100.0	
Population		4.822.0	52.7	3.274.0	35.8		978.0	10.7	73.0	0.8	9.147.0	100.0	
Labor force		1, 563.0	51.5	1,111.6	36.6		334.4	11.1	26.0	0.8	3.035.0	100.0	
Unemployment		126.4	5115	77.3	5010		36.8		0.8		241.3		
Unemployment ((2)	8.1		7.0			11.0		3.1		8.0		
onemp roymente (and the state of the		
1975													
Primary		1.032.6	67.3	317.6	20.7		170.3	11.1	13.8	0.9	1.534.3	46.2	
Secondary		265.0	36.5	386.9	53.3		71.1	9.8	3.3	0.4	726.3	21.9	
Tertiary		447.2	42.3	499.6	47.3		100.3	9.5	9.5	0.9	1.056.6	31.9	
				47710			10013	,			.,	5,	
Total		1,744.8	52.6	1,204-1	36.3		341.7	10.3	26.6	0.8	3.317.2	100.0	
Population		5, 510.0	53.1	3,687.0	35.5	1	.105.0	10.6	83.0	0.8	10, 385.0	100.0	
Labor force		1,873.1	52.2	1,297.9	36.2		389.0	0.8	30.0	0.8	3,590.0	100.0	
Unemployment		128.3		93.8			47.3		3.4		272.8		
Unemployment	(2)	6.9		7.2			12.2		11.3		7.6		
											dilmin in		
1990		1.091.4	61.4	503.2	28.3		170.6	9.6	12.4	0.7	1.777.6	32.6	
Primary Secondary		782.7	51.9	575.3	38.1		143.1	9.0	7.0	0.5	1, 508.1	27.7	
		1.046.8	48.4	3/3.3	39.0		252.1	9.5	20.0	0.9	2. 163.4	39.7	
Tertiary		1,040.0	48.4	844.3	39.0		252.1	11.7	20.0	0.9	2, 103.4	39.1	
Total		2,920.9	53.6	1,923.0	35.3		565.8	10.4	39.4	0.7	5,449.1	100.0	
Population		8.163.0	54.1	5,230.0	34.6	1	. 599.0	10.6	108.0	0.7	15,100.0	100.0	
Labor force		3.042.0	53.6	2.003.5	35.3		589.5	10.4	41.0	0.7	5.676.0	100.0	
Unemployment		121.1	2.2	80.5			23.7		1.6		226.9	to bit	
Unemployment	(2)	4.0		4.0			4.0		4.0		4.0		

Table 3.3: PENINSULAR MALAYSIA: EMPLOYMENT BY RACE AND SECTOR, 1970-90

/a Agriculture.

/b Mining, manufacturing, construction, utilities and transport.

/c Wholesale and retail trade, banking, public administration, education, health and defence.

Source: Third Malaysia Plan.

A The statistical bases for the extincter and projections include: the free Unemerstem Servey of the 1870 Septimite Consult the Labor Force Dervice of the Department of Statistics; and anti-commute service on specific envery groups undertaked by variant specific including the Numbering of Statistics; foreing the Issuer Industries, Labor and Proposed and Department and the forein-Statemic diseased and General Flagming Unit of the Frin-Minister's Equations;

in The category includes agriculture; becaused in orban stears, agricultured laber, estate verbars and place formers.

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Two things are especially noteworthy in these targets. First, the degree of restructuring is considerable, with, for instance, Malays increasing their share of secondary employment from 31 percent in 1970 to 52 percent by 1990 or the decline in the Chinese share of secondary employment from 60 percent to 38 percent. Second, while there is a relative shift, no group would experience an absolute decline in employment, further, the growth of employment for any racial group in any sector would be no less than the growth in the overall labor force. Thus, the gains are to be made through a redistribution of growth and this redistribution is considerable. For instance, of the additional jobs in secondary sectors, almost 65 percent would go to Malays, on the other hand, over 60 percent of the new employment in agriculture would go to non-Malays. To achieve this objective of substantial restructuring through growth alone requires a rapid and sustained growth of employment of secondary and tertiary industry. Indeed the NEP project a 5 percent annual growth rate for employment in both these sectors. On the other hand, the targets necessitate a relatively low growth of employment in agriculture of 1.2 percent per annum.

In addition to this substantial sectoral restructuring of employment, the NEP also projects a considerable racial restructuring of occupations. The targets again call for considerable change in the occupational pattern with substantial gains by Malays in professional and technical, managerial, sales and production level jobs in the modern sector (see table 3.4). As is the case for the sectoral employment targets, these targets are to be achieved through rapid growth with absolute gains for all groups.

The other major restructuring objective concerns the ownership of share capital. In 1970, 63 percent of the share capital of limited companies was foreign-owned; less than 1 percent was owned by Malays; 1.6 percent was owned by public trust agencies; and the balance, 34 percent, by non-Malays. The restructuring objectives are twofold: first, to increase the domestic ownership of equity to 70 percent by 1990 and to increase the Malay share (Malay individuals and public trust agencies) to 30 percent (see table 3.5). As with the other objectives, all groups, including foreigners, would experience some absolute increase in their equity holdings, however in a relative sense, all the restructuring would be at the expense of the foreigners whose share would be reduced to 30 percent. Thus, non-Malay nationals would experience an increase in their share from 34 percent to 40 percent.

One interesting feature of these targets is that three quarters of the increase in the Malay share would come from the acquisition of shares by Government agencies. These agencies include MARA, PERNAS, Bank Bumiputra, Bank Pembangunan, the Urban Development Authority (UDA), and the various State Economic Development Corporations. These shares are to be transferred to Malay individuals as their incomes and savings increase. The NEP, however, does not indicate how such a transfer would take place. The financial implications of this proposed share acquisition by public trust agencies is considerable. Over the 15-year period, 1975-90 the projections imply that

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First, Malays	Malay	Chinese	Indian	Others	Total	Malay	Chinese	Indian	Others	Total
1 1970 co	rrcent fr	og 11 po	1970	wol quit	andary a	568 10 S	TRUE TRU	1975	sepion	-
Professional &	abao sus -	to statis	1970	13- mala.	1440 A	Dop ada	No. DODI	1975	nam s	
technical workers	61,151	48,876	16,513	3,065	129,605	82,965	63, 544	21,309	3,245	171,063
(%)	47.2	37.7	12.7	2.4	100.0	48.5	37.1		1.9	100.0
Administrative &	177.0	miorden	CIT							
managerial workers	5,099	14,963	1,699	998	22,759	10, 812	18,416	3, 319	828	33, 375
(%)	22.4	65.7	7.5	4.4	100.0	32.4	55.2		2.5	100.0
Clerical workers	46,759	71, 356	20,081	1,824	140,020	69,983	87,231	21, 715	1,713	180,642
(%)	33.4	51.0	14.3	1.3	100.0	38.7	48.3	12.0	1.0	100.0
Sales workers	75,401	204,632	34,857	1,150	316,040	79,625	207,633	30,667	431	318, 356
(%)	23.9	64.7	11.0	0.4	100.0	25.0	65.2	9.6	0.2	100.0
Agricultural workers	937,973	283, 271	131, 472	11,774	1, 364, 490	999, 368	296, 450	154,062	13, 306	1, 463, 186
(2)	68.7	20.8	9.6	0.9	100.0	68.3	20.3	10.5	0.9	100.0
Production workers	112,049	214, 693	30, 782	906	358, 430	175, 502	253, 708	43, 648	1,155	474,013
(%)	31.3	59.9	8.6	0.2	100.0	37.0	53.5	9.2	0.3	100.0
Service & other workers	198, 224	196,470	62, 139	5, 523	462, 356	326, 608	277,080	66, 962	5, 915	676, 565
(%)	42.9	42.5	13.4	1.2	100.0	48.3	40.9	9.9	0.9	100.0
Total	1,436,656	1,034,261	297, 543	25, 240	2, 793, 700	1, 744, 863	1, 204, 062	341,682	26, 593	3, 317, 200
(%)	51.4	37.0	10.7	0.9	100.0	52.6	36.3	10.3	0.8	100.0
			1990							
Professional &	10113020	1111111	1990	1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-	tesedur.			In a		
technical workers	193.470	143, 775	44.663	5.108	387,016					
(2)	50.0	37.2	11.5	1.3	100.0					
Administrative &	ad versos	andreage	DUTA- HET	a figuration	0.000000					
managerial workers	36.449	29,067	7,231	1.103	73.850	al wealst				
(%)	49.3	39.4	9.8	1.5	100.0				roduct	
Clerical workers	178, 319	143, 998	46, 487	3, 386	372, 190					
(2)	47.9	38.7	12.5	0.9	100.0		mploynen			
Sales workers	164, 485	231,063	48, 797	1, 498	445, 843		ith absc			
(2)	36.9	51.8	11.0	0.3	100.0					
Agricultural workers	1,060,478	472,618	155,683	12,085	1, 700, 864					
(2)	62.3	27.8	9.2	0.7	100.0			aur		
Production workers	557,206	407,634	103, 227	4,061	1,072,128			.isdigs		
(%)	52.0	38.0	9.6	0.4	100.0					
Service & other workers	730, 493	494, 845	159,712	12, 159	1, 397, 209					
(2)	52.3	35.4	11.4	0.9	100.0			r publt		
a Fitamente						octives a		tudourd		
Total	2,920,900	1,923,000	565, 800	39,400	5, 449, 100					
(2)	53.6	35.3	10.4	0.7	100.0			a ra do		

Table 3.4: PENINSULAR MALAYSIA: EMPLOYMENT BY OCCUPATION, RACE AND SECTOR, 1970-90

As with the other objectives, all groups, including foreigner.mal9 arevalam brint :soruoz rience some absolute increase in their equity holdings, however in a relative sense, all the restructuring would be at the expense of the foreigners whose abars would be reduced to 30 percent. Thus, non-Malay perionals would experience an increase in their share from 34 percent to 40 percent.

One interesting feature of those targets is that three quarters of the increase in the Malay share would come from the acquisition of shares by Government agencies. These agencies include MARA, FERMAS, Sank Bumiputra, Bank Perbangunan, the Urban Development inthority (UDA), and the various State Economic Development Gorporations. These shares are to be transferred to Malay individuals as their incomes and savings increase. The SEP, however, does not indicate how such a transfer would take place. The financial implications of this proposed share acquisition by public trust agencies is considerable. Over the 15-year pariod, 1975-90 the projections inniv than Table 3.5: PENINSULAR MALAYSIA: OWNERSHIP OF SHARE CAPITAL IN LIMITED COMPANIES, 1970-90

tros page	1970 /	a	1975	/b	Average annual growth rate	1980	/c	1990	/c	Average annual growth rate
t and the first of the first of the first of the first of the first of the first of the first of the first of the first of the first of the first of the first of the first of the first of the first of the first of the first of	\$ million /d	X	\$ million	x	1971-75 (%)	\$ million	2	\$ million	x	1976-90 (%)
Malays & Malay interests	125.6	2.4	768.1	7.8	43.6	3, 284.3	16.0	24,009.7	30.0	25.8
Malay individuals /e	84.4	1.6	227.1	2.3	21.9	695.4	3.4	5,914.2	7.4	24.3
Malay interests /f	41.2	0.8	541.0	5.5	67.4	2,588.9	12.6	18,095.5	22.6	26.4
Other Malaysians /g	1,826.5	34.3	3,687.3	37.3	15.1	8,290.5	40.4	32,012.9	40.0	15.5
Foreign /h	3, 377.1	63.3	5,434.7	54.9	10.0	8,952.2	43.6	24,009.7	30.0	10.4
Total private sector <u>/1</u>	5, 329.2	100.0	9,890.1	100.0	13.2	20, 527.0	100.0	80,032.3	100.0	15.0

/a Actual.

/b Estimated.

/c Targets.

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<u>/d</u> Totals for 1970 differ from those presented in the SMP and its Mid-Term Review because of the exclusion of the Government, the reclassification of the trust agencies as Malay interests and the reallocation of most of the shares previously categorized as "held by other companies" to the shareholders of these companies.

/e Includes institutions channelling private Malay funds such as Amanah Saham MARA and Lembaga Urusan dan Tabung Haji.

<u>/f</u> Shares considered to be held in trust by agencies such as MARA (excluding Amanah Saham MARA), PERNAS, UDA, SEDCs, Bank Bumiputra and Bank Pembangunan.

Ig Includes nominee ompanies and third-company minority holdings.

/h Non-residents.

11 Excludes the Covernment and its agencies except trust agencies.

Source: Third Malaysia Plan.

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about 1.5 percent of GDP would have to be used to purchase share capital for such agencies and it is not clear if the Government is planning to make a financial commitment of such magnitude. Thus, for instance, there appears to be a large discrepancy between the amount targeted for purchase during the Third Plan and the funds actually budgeted for such use by the Plan. The additional funds required over the Third Plan period if the target is to be met are just over M\$2 billion. The Plan explicitly mentions the figure of M\$1.4 billion to be used for establishing new Malay enterprises and acquiring capital held in trust. Not all of this figure is to be directed towards share purchase, the shortfall could therefore be quite high, perhaps of the magnitude of M\$1 billion./1 Since a very important part of the equity restructuring target is to gain national control over the corporate sector, the Government might consider expanding the definition of trust agencies to include such national public corporations as Petronas and the Malaysian Internatinal Shipping Corporation. This would considerably ease the financial requirements on the public sector to purchase share capital as well as help meet the Malay and Malay trust target share of 30 percent.

As noted above, the principal means, proposed in the official development plans, of achieving the dual objectives of the NEP, is rapid growth of the modern sector. This will not only increase average incomes <u>per se</u>, but also enable a shift of workers out of agriculture, where most of the poverty is, into more productive occupations. It will also serve the objective of racial restructuring of the labor force. Indeed, during the Second Plan period there was a notable acceleration in the growth rate of the economy. Resulting from a substantial increase in the growth rate of investment, both public and private, in the early seventies (fixed investment grew by almost 18 percent a year during 1970-74), the economy moved from an historical GDP growth path of about 6 percent to one closer to 8 percent. During the SMP the Government estimates that the incidence of poverty was reduced from 49 percent to 44 percent

The Government's long-term plan, is based on maintaining this higher growth path and projects that over 80 percent (2.5 million) of the total new jobs to be created (3 million) by 1990 would be in industry and services. Compared with the present structure, this implies a net shift out of agriculture of more than a million jobs. Without such rapid growth of modern sector employment, it would be very difficult to reduce the present very high poverty incidence of over 60 percent in agriculture, or to achieve a considerable degree of racial restructuring of corporate equity or employment.

In addition to following a rapid growth strategy, the Government also proposes to achieve its goals through more direct means: on the poverty side, mainly through public investment and programs directed toward the poor, and on the racial restructuring side, through controls and quotas. Since most of the poor live in rural areas and receive the bulk of their income from agriculture, the principal Government antipoverty programs are directed toward rural households. Government agricultural programs fall into two basic categories: <u>in</u> <u>situ</u> development and new land development. The former program, which in the Third Malaysia Plan has been given much more emphasis than before, attempts to increase the productivity of small farmers by supplying them with irrigation

Conceivably, given the much improved financial position of the government (see the next section) this could still be financed.

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and drainage, improved inputs and better access to credit and by teaching them better farming practices. The latter program develops previously uncultivated land and settles on it people with little or no land of their own, thereby providing them with the means to earn a better living, and at the same time relieving the pressure of population on already occupied agricultural land.

During the period 1970-1990, the perspective plan projects a considerable reduction in the incidence of poverty in agriculture in Peninsular Malaysia, from 68 percent to 27 percent. This would be achieved by reducing the number of households in poverty by 340,000 (from 580,000 in 1970 to 240,000 in 1990). About two-thirds of the reduction can be attributed directly to the land development programs and the remainder largely to <u>in situ</u> programs. In addition to its agricultural programs, the Government is also mounting urban and countrywide programs to provide the poor with better access to housing, sewerage, water, electrification, health and family planning.

Government efforts to achieve a better racial balance are diverse and include: direct regulation of private sector enterprises, establishment of public bodies to purchase directly or to create corporate assets on behalf of Malays, expansion of education and training and technical assistance programs for Malays, a system of quotas and preferences favoring Malays in admission to tertiary educational institutions, the introduction of Bahasa Malaysia as the main medium of instruction in schools, a Malay preference in public service jobs, financial credit assistance to Malay enterprises, administrative measures in the public sector giving price preferences to Malay suppliers, and a quota of public construction contracts to Malay firms. The most controversial and potentially far-reaching policy is embodied in the Industrial Coordination Act (ICA), passed in 1975, which will enforce equity and employment restructuring targets through a system of licensing of existing and new firms above a certain minimum size. While it is expected that licenses will be granted automatically, the ICA attaches general conditions to the licence which require among other things, that 30 percent of equity be reserved for Malays, that the composition of the Board of Directors reflect the equity structure of the company, that employment reflect the racial composition of the population, that the company use services of Malaysian enterprises with preference given to Bumiputra /1 companies, that the company enter into agreements only with written approval of the Ministry of Trade and Industry, and that the company appoint Bumiputra distributors to distribute at least 30 percent of domestic output. the Plan for the Fi

Under the aegis of these policies, and before the ICA was starting to be implemented, some notable progress appears to have been made during 1970-75. Malay graduates from higher level institutions increased more than threefold. The Malay share of institutional credit increased from 14 percent to 30 percent. The Government estimates that, in the context of the accelerated

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<u>/1</u> Malay and other indigenous people. Literally translated as "sons of the soil." The other indigenous people account for about 8 percent of the total population. In the Government objectives, as set forth in Tables 3.3, 3.4 and 3.5, this is used interchangeably with "Malay."

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growth of the economy achieved during the Second Plan period, the Malay share of employment in manufacturing increased from 29 percent to 33 percent, and their share of administrative employment increased from 22 percent to 32 percent. The Malay share of corporate equity increased from 2.4 percent to 7.8 percent. The bulk of this increase was due to an increase in shares held by Malay interests (i.e. trust agencies) rather than Malay individuals.

As has been noted above, the future prospects for achieving the longer-term restructuring targets depend crucially on achieving a rapid growth rate. In this respect a controversy has arisen regarding the impact of the ICA which, at least initially, caused some uncertainty in the private sector and which some argue may be hampering investment and growth, thereby jeopardizing the achievement of the restructuring targets themselves. While the ICA may have contributed to the decline in private investment in 1975 and 1976, it is by no means clear how much of the decline was due to this factor or whether the decline was only a temporary phenomenon stemming from the uncertainty about how the Act was to be implemented. Since the Act was introduced, the Government has amended it to meet certain objections and has stressed repeatedly that its implementation will be flexible with due consideration given to maintaining a vigorous private sector. It is still too early to judge whether or not the private sector will recover quickly. For this reason the implications of various investment rates are discussed in Malays, expansion of edmatics and training and to starss sistorsis sisers Chapter 4.

Latest Macro Information and its Longer-Term Objectives

Improved information on events in 1975 and 1976/1 provides a framework for analyzing prospects for Malaysia's development that is different from the TMP's in two important respects. First, resource availability is more favorable and second, private investment growth will have to be significantly faster to achieve the Third Plan targets.

Resources. A significant recovery (12 percent) in Malaysia's terms of trade in 1976, combined with a larger than expected increase in petroleum exports, resulted in a substantial increase in exports and a current account surplus equivalent to 6.2 percent of GDP, one of the highest surpluses in Malaysia's history. As a result, official reserves increased by M\$2.3 billion to a level equivalent to seven month of imports. In addition, Petronas increased its holdings of foreign exchange by about M\$200 million. Further, as a result of the terms of trade improvement, the significant increase in output in 1976 of almost 9 percent was magnified into a 15 percent increase in national income (see table 3.6). This represents about a third of the total increase in national income projected by the Plan for the Five-Year period 1975-80, and nearly one half in per capita inglemented, some notable stoprade superse to he terms. the the Los and and 1970-75. Malay graduates from bighes level transfourth

/1 No national accounts estimates for 1977 are as yet available.

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It that are other tailineous people. Literally transfered as "erus of the poli." The other indigenous people account for short 3 percent of the total population. In the Government objectives, as set forth in Tables 3.3, 1.4 and 2.3, this is used interchargeably sith "males."

about 7 percent during the period, resulting in mational income baiog about

A percent less in 1980 than it otherwise would. The other major factor in Table 3.6: INCOME AND OUTPUT GROWTH /a (M\$ million, constant 1970 prices) anirana-pois

GNP	b/d projected	000,001	Percent cha	inge	pipmi im	Percent change
	1975	1980	1975-80	1975	1976	1975/76
	niikely that	NI BE IN	Europan i	Lavel of	t back	12 50 03000 001
GNP	17,146	25,376	48.0	16,808	18,304	8.9
	- 2,151	- 3,745		- 880	54	
GNY	14,995	21,631	44.3	15,928	18,358	15.3

Source: Third Malaysia Plan; Department of Statistics preliminary estimates of the new system of national accounts for 1971-1975 and provisional estimates for 1976; staff estimates. account would then be in surplus aquivalent

/a Note: The absolute difference between the TMP estimates of GNP and GNY for 1975 and the actual estimates reflects the use of new national accounts data developed by the Department of Statistics which have just recently been released and were not available while the TMP was being drafted. wilk of the development program will soill have to be

Financed by public sector borrowing, Largely as a result of this performance, the resource position of the public sector in 1976 also showed an improvement over the previous year and was markedly better than had been forecast during the preparation of the TMP. The public sector current surplus (excluding Petronas) rose from M\$466 million in 1975 to M\$735 million (2.7% of GNP) in 1976, well above the M\$100 million foreseen in the drafting of the TMP./1

The significant issue in examining these events in 1976 is whether they are temporary or permanent in nature and therefore what the longer run implications are. As for the terms of trade, World Bank commodity and international price forecasts indicate that the improvement achieved in 1976 is not a temporary windfall but represents a return to the trend (from the depressed 1975 level). While year-to-year fluctuations are inevitable, over the longer term, the terms of trade are expected to remain at about the level achieved in 1976. This is in substantial contrast to the Thid Plan which projected a further decline from the already low 1975 level by

/1 The TMP estimates for 1976 are found in a background table to the TMP; since the totals for the plan period in the table differ slightly from those in the plan document itself, the comparisons are approximate. at if resources were available. Since in fact resource availability has increased it is thaly that this higher target will

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This does not imply that such investments uses to which Malaysis could put these

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is not a temporary.

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about 7 percent during the period, resulting in national income being about 4 percent less in 1980 than it otherwise would. The other major factor in the better performance was oil exports. Since the TMP was written the Government and the petroleum companies agreed on a production-sharing contract, and exploration and production are now proceeding on a firmer basis. Following the settlement with the oil companies Petronas issued a new production forecast which projects a production level of 240,000 b/d by 1980, substantially higher than the peak level of 180,000 b/d projected in the TMP. While this estimate can best be described as the Government's working interim estimate, it is fair to say that, if anything, it represents more of a floor than a ceiling and that therefore it is unlikely that production would be cut back to levels forecast in the TMP. Thus the higher oil exports also represent a permanent rather than temporary increase.

The implications of these changes for the future resource availability are very significant. For the period 1976-80, export earnings could be as much as 20 percent (M\$15 billion) higher than projected in the TMP./1 This is approximately equivalent to about 8 percent of GDP during the period. When compared to the TMP estimate of a current account deficit of about 3 percent of GDP during the period, the magnitude of the additional resources is quite substantial. If no other changes occurred, the current account would then be in surplus equivalent to about 5 percent of GDP.

Largely as a result of these exports, particularly oil exports, public revenues are expected to be higher by about M\$12 billion during the Third Plan period./2 Since this represents about 7 percent of GDP over the period, the financial constraint on the public sector will be considerably eased, although the bulk of the development program will still have to be financed by public sector borrowing. Of particular note is that about M\$4 billion of the additional resources would accrue to Petronas. Even assuming that Petronas finances about M\$2 billion of oil, gas and related investments itself during the Third Plan period,/3 the additional amount available to finance the public sector development program would be about M\$10 billion. Assuming also that development expenditures reach M\$20 billion,/4 about half of the program could be financed through the public

- <u>/1</u> This includes only the net export earnings from oil which are assumed to be 73 percent of gross oil earnings.
- <u>12</u> This is a net estimate after taking into account higher current expenditures of about M\$2.2 billion due in large part to the increase in civil service salaries. Since the TMP estimates probably already included some provision for this item, the net estimate is wholly conservative.
- 13 This does not imply that such investments should have priority over other uses to which Malaysia could put these resources. See chapter 4 for a more extended discussion of this issue.
- <u>/4</u> The official TMP target is M\$18.6 billion although a higher target of M\$20 billion was set if resources were available. Since in fact resource availability has increased it is likely that this higher target will be reached.

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sector surplus compared to the TMP estimate of less than 10 percent. Notwithstanding the higher development program assumed, borrowing requirements would be reduced by about M\$6 billion (M\$4 billion without counting Petronas). Considering in addition that this reduced borrowing would occur in the general context of increased private sector liquidity as well as easier access to foreign capital markets, it is clear the constraint on financing development expenditures should be considerably less than forecast in the TMP.

Private Investment. The other significant change in conditions compared to the TMP is the decline in private investment in 1975 and 1976 (see table 3.7). While the TMP estimated a 4 percent decline in private investment in 1975, more recent estimates indicate that private investment fell by 25 percent in 1975. Further preliminary World Bank estimates suggest that private investment fell further in 1976 by about 8 percent.

There is considerable controversy over whether the decline was purely temporary or whether it represented more structural problems. Among the possible causes which have been suggested are the uncertainty in the investment climate caused by the introduction of the Industrial Coordination Act (ICA) in 1975, the international recession in 1975, and a possible deterioration in the competitive edge of Malaysia's manufacturing industry due to the appreciatin of the ringgit against the U.S. dollar. It has also been argued that 1974 was an unusually high year for private investment and that there would, in any event, have been some decline in the rate of private investment afterwards.

It is impossible to determine the relative weight of these various factors; however, the continuing decline of private investment in 1976 and the indications that there has been only a small upturn in 1977, suggest that the decline was due to more than just fluctuations in the business cycle. While there are no separate estimates available for the component of private investment directed towards the manufacturing sector, partial evidence suggests that the decline in manufacturing investment was probably more pronounced than for private investment in aggregate. Thus for instance the imports of capital goods, which could be expected to have a larger weight in manufacturing investment than in other investment such as residential construction or public works, declined by 38 percent during 1975 and 1976, while the construction index declined by only 6 percent during the same period. It is also known that investments by the petroleum sector continued to increase during this period, and that the decline in other sectors must therefore have been larger. Finally, the steep drop in applications and approvals for loans in the manufacturing sector confirms these tendencies. Even under uptimistic assumptions, it therefore appears that manufacturing investment fell from a level of 4.5 percent of GDP in 1971/72 and 5.5 percent in 1974 to a level not higher than 3.3 percent of GDP in 1976. The much lower private investment levels which occurred in 1976 are clearly much lower than the trend values implied in the Third Malaysia Plan. The basic implication is that if the investment targets and therefore longer run growth targets of the TMP are to be achieved, private investment would have to grow at around 20 percent a year in the years 1977-80, more than double

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ounting uld pecur	Fixed	investment	Public	investment	Private inv	estment
nt ou n.forecent	M\$	% GDP	M\$	% GDP	M\$	% GDP
.971	2,609	20.0	783	6.0	1,826	14.0
972	3,088	21.7	1,079	7.6	2,009	14.1
973	3,508	22.1	1,021	6.4	2,487	15.7
974	4,252	24.7	1,205	7.0	3,047	17.7
975	3,767	21.7	1,481	8.5	2,286	13.2
976	3,988	21.1	1,892	10.0	2,096	11.1

Table 3.7: INVESTMENT (MS million constant 1970 prices)

Sources: (a) Fixed investment, 1971-76: Department of Statistics' estimates of preliminary national accounts for Malaysia using new SNA methodology. (1976 is preliminary)

(b) Public investment, 1971-75: estimates provided by Department of Statistics under new SNA definitions of public and private. These do not appear in national accounts but were estimated separately by the Department of Statistics.

(c) Public investments in 1976: estimates by the World Bank, based on historical relationship estimates of development expenditures. various factors; however, the concious decline

(d) Private investment, 1971-76: derived as a residual.

the projected TMP rate./1 The long-term implications of alternative private investment levels are discussed in the following chapter. Physical Resources

instance the imports of capatal goods, which could be appa To a significant extent Malaysia's historical development has been based on the classical pattern of resource exploitation. In the colonial period growth was based on the production of tin and rubber for export. More recently, Malaysia's growth has been bolstered by rapid growth of palm

1 An exact comparison with the absolute investment figures contained in the TMP is misleading since the new national accounts employ different definitions of public and private investment than were used in the previous national accounts and in the TMP. The calculation of a required 20 percent growth rate is thus approximate and is estimated by determining the growth required to meet the TMP private investment growth targets on the basis of the new SNA definition of public investment. Luow insufferent of aviate investment would and in grow at around 20 percent a year in the years 1977-60, more than double

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oil, forestry products and petroleum. In examining Malaysia's long-term prospects for future growth it is important to determine whether Malaysia still has sufficient physical resources to continue this historical pattern. The international demand for its export commodities is considered elsewhere (see chapter 7 on Export Prospects).

Land: While, in general, Malaysia has relatively abundant land resources, there is some question in particular as to exactly how much land is still available for cultivation. In 1975 about 15 million acres were under cultivation, of which 9.4 were under permanent cultivation and 5.6 million (all in Sarawak) were under shifting cultivation (see table 3.8). The Government estimates that the amount of land presently being cultivated is less than half the area that could eventually be cultivated. In total, the Government estimates that another 19 million acres could be developed for agriculture. Of this total, 8.2 million acres would be in Peninsular Malaysia where over 85 percent of the population lives.

These estimates of land availability in Peninsular Malaysia may however be exaggerated. First of all, infrastructure, and various types of wastage are not taken into account, which may require a discount as great as 20 percent. Second, it is also likely that much of the remaining land is marginal and would require substantial fertilizer inputs to make it suitable for sustained yield agriculture. It probably includes a considerable area on slopes for which erosion would be a serious problem for some crops. Third, at least part of the still available land is likely to be in relatively inaccessable areas and in much smaller "blocks." Fourth, it would be advisable for a portion of this land to be conserved in perpetuity for environmental reasons. Until, therefore, more detailed studies of land availability are completed,/<u>1</u> it would be safer to assume that no more than 4 million additional acres could be brought into cultivation on Peninsular Malaysia.

Table	3.8:	Land	Availability,	1975
		('000	acres)	

	Total land area	Land under cultivation (1975)	Undeveloped land suitable for cultivation	Other land
Peninsular Malaysia	32,467	7,400	8,200	16,867
Sabah	17,750	900	4,400	12,450
Sarawak	30,750	6,700 <u>/a</u>	6,400	17,650
Total Malaysia	80,967	15,000	19,000	46,967

/a Includes 5.6 million acres under shifting cultivation.

Source: Third Malaysia Plan, 1976-80.

<u>/1</u> A land survey is presently being undertaken by the Department of Lands and results should be available by mid-1978.

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The Government plans for about 2.4 million acres on Peninsular Malaysia to be developed during 1976-90. This is well below even the lower estimate of available land of 4 million acres and indicates that new land on Peninsular Malaysia will not be exhausted until at least the end of the century. The amount of land development projected for Sabah and Sarawak during 1976-90 is about 1 million acres, less than 10 percent of the official estimate of available land. Even if this official estimate is also optimistic, it is clear that land availability should not become a constraint in Sabah and Sarawak in the foreseeable future. For all of Malaysia, the projected pace of land development of about 3.2 million acres during the next 15 years implies an average annual growth of about 1.8 percent a year in the cultivated agricultural land compared to a growth of about 1.7 percent per annum during the past ten years./1 Thus, solely on the basis of additional land, assuming land fertility does not decline, agricultural output should increase by almost 2 percent a year.

Other resources. Malaysia's other major natural resources are tin, oil, natural gas, and forests. With the exception of natural gas, the prospects for increases in the rate of exploitation of these resources are not as promising as in the past (see table 3.9). With the lack of prospecting and opening of new areas in recent years, no significant increase in tin production is likely in the foreseeable future. Production is therefore tentatively projected to increase at about 1 percent per annum over the next 15 years. Given the current estimate of proven reserves of 1 billion barrels

	Percent	per annum	evailability are co
	Actual	Projected 1976-90	Malaysia.
	1960-76		
Rubber	4.8	3.6	
Palm oil	18.1	9.5	
Sawn Logs	10.1	-1.0	
Sawn Timber	8.8		
0i1	36.0	6.3	
Tin	1.1	1.1	
905-9	000.5	TEA . TEA	Pentnaulay Nel and

 Table 3.9:
 PRODUCTION OF MAJOR PRIMARY COMMODITIES

 1960-75 (ACTUAL) and 1975-90 (PROJECTED)

Sources: Actual - Bank Negara Quarterly Bulletin, Treasury Economic Report

Projected - World Bank estimates

Note: The decline in the growth of primary products will be mitigated to the extent that natural gas for which production is expected to start by the mid 1980s, is omitted from this table.

<u>/1</u> This is based on the estimated existing land under permanent cultivation of 9.4 million acres and one quarter of the land under shifting cultivation.

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of oil, substantial increases in oil production over the current level of about 200 thousand barrels a day are not likely. Assuming some additional finds are made, oil ouput is projected to grow at about 6 percent a year, substantially less than the past rate of 36 percent a year during 1960-76. Given the increasing environmental concern over the rate of forestry exploitation together with the very large increase in production in 1976, it seems unlikely that production levels of sawn logs and sawn timber will increase beyond their high 1976 levels. The major exception to these trends is the production of liquified natural gas which is projected to start production in 1983. While potential gas production is substantial by itself, it is small relative to oil. By 1985 when the LNG plant is operating at full capacity, LNG exports would probably be less than a fifth the value of oil exports.

While not natural resources per se, rubber and palm oil production may be projected with some certainty on the basis of past investments in these crops and the expected rate of new land development. Output growth of these commodities is also likely to be less in the future. Palm oil should continue to increase substantially during the Third Plan period based on plantings undertaken in the past, but the growth rate will fall off sharply in the 1980s given the much larger base of production, and a reduction of palm oil's share of new land development in line with imroved price prospects for other commodities. While rubber will not experience as substantial a deceleration in growth as palm oil some decline is also likely as the benefits from replanting with high-yielding clones will become smaller in relative terms as the proportion of area already replanted grows.

Exports a second down a second date atting association to conservation and

The above prospects for further development of Malaysia's natural resources are key elements in an assessment of the country's future export performance. In 1976, for instance, rubber, tin, oil, palm oil products, forestry products and petroleum comprised 71 percent of Malaysia's exports.

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The detailed commodity specific export projections are discussed in Chapter 7 of this book. Only some of the principal conclusions are presented here. First, over the long term, the prices of Malaysia's main export commodities are expected to maintain or possibly improve their relative positions. Thus during the period 1976-90 the prices of the seven <u>/1</u> major primary exports should increase by an average of 7.6 percent per annum, slightly faster than the rate of international inflation of 7.2 percent per annum (see table 3.10). On an individual basis, only rubber and palm oil will experience a deterioration in real prices, however, these declines should not be too serious; 5 percent for rubber and 20 percent for palm oil for the period as a whole.

This relatively favorable prospect for primary prices together with an average real growth of 3.9 percent per annum of these major exports means that primary products will continue, for the foreseeable future, to dominate

<u>/1</u> Rubber, tin, saw logs, palm oil, petroleum, sawn timber and natural gas.

to grow at about 6 parcent a year,	Average a	nnual growth	h 1976-90
arm over the rate of forestry explain	Prices	Volume	Total
logs and some tight will increase	7.6	I no i toubor	
Major primary commodities Rubber	7.6	3.9	11.8
		(3.6)	(10.7)
Tin as at the line of laitmanadue a	(7.8)	(-0.3)	(7.5)
Sawlogs	(9.8)	(-0.9)	(8.7)
Palm oil	(5.5)	(9.2)	(15.2)
Petroleum	(7.3)	(6.3)	(14.1)
Sawn timber	(11.1)	(0.0)	(11.1)
Natural gas	(7.3)	()	()
Manufactured goods	7.2	9.8	17.7
Miscellaneous exports and services	7.2	5.5	14.8-
Total goods and nonfactor services	7.3	5.4	13.1
International inflation	7.2		

Table 3.10: EXPORT PROJECTIONS: 1976-90

.. Not applicable.

Source: World Bank projections.

Malaysia's exports. The precise weight in the total of course depends upon the performance of manufactured exports which are to a much greater extent than primary exports related to the overall performance of the economy. This is discussed further in the next Chapter. Given, however, the possibility of a lower level of investment in manufacturing and the difficulty of maintaining rapid growth on a larger base, the growth of manufactured exports is likely to be less than in the past. For the period 1976-90, a growth rate of about 10 percent per annum is assumed here. Assuming a growth rate of about 5.5 percent for other exports and services, the overall real growth of exports through 1990 would then be 5.4 percent per annum. If the prices of manufactured exports keep pace with international inflation, the export price index would increase at a slightly faster pace that the import price index /1 resulting in a small improvement (1 percent) in the terms of trade by 1990. The growth of manufactured exports projected would also imply that primary commodities would comprise 60 percent of exports in 1990 compared to 71 percent in 1976 and hence Malaysia's export receipts would continue to be vulnerable to fluctuations in the prices of primary commodities. However, Malaysia's vulnerability will be much less than in the past. For instance, in 1970 two commodities comprised almost 60 percent of merchandise exports, while by 1990 it would require six commodities to make up 60 percent. Further, while rubber would still be Malaysia's largest export, it would, by 1990, account for only 17 percent of exports compared to 40 percent in 1970. In terms of purchasing power, Malaysia's exports are projected to grow at 5.5 percent per annum during 1976-90 compared to 2.2 percent per annum

<u>/1</u> Assumed to increase at the same rate as the World Bank's index of international inflation.

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during 1960-70 and 9.4 percent per annum during 1970-76. However, the large increase during this latter period is almost entirely due to the significant rebound in the terms of trade in 1976. Thus, looking just at 1960-75, the average increase was 3.8 percent, significantly less than the forecast for the next 15 years.

Concluding Remarks

There are a number of significant differences in the setting for Malaysia's development in the next 15 years compared to the past 15 years. First, the growth of Malaysia's labor force is likely to be even higher than the rapid rate recorded in the sixties and early seventies. Besides having to provide productive employment for a rapidly growing labor force, the economy will have simultaneously to meet the ambitious objectives of the NEP. Thus, simply absorbing labor via rapid growth is not sufficient. The pattern of growth will have to allow for considerable migration of Malays from agriculture to industry and services as well as for a substantial improvement in the occupational pattern of Malay employment. In confronting these demands, the economy will be able to rely less than in the past on rapid growth of primary products.

While Malaysia is still rich in natural resources, which will provide a reliable base for the expansion of the economy, the physical growth rates for rubber, palm oil, oil and forest products are all likely to be less than in the past. A major exception to this trend is the development of liquified natural gas in the mid-1980s. Also new land should continue to be available for agricultural development until at least the end of the century, at present rates of land development. These conclusions should, however, be qualified by the considerable uncertainty over the ultimate level of reserves of some major resources. Active exploration is continuing in oil and gas and there is a good possibility of a significant increase in the proven reserves of these resources. There is also a possibility of further discoveries of tin although the likelihood of a major increase in tin output, at current prices, is not large. Finally, there appears to be considerable uncertainty about the size of forest that should be permanently protected. Final decisions on this issue, however, are more likely to lower than raise the current production of forest products.

The clear implication is that, with growth in the resource-based sectors (broadly defined) decelerating, rapid industrial growth is essential to a successful economic performance. This imperative arises not only from the viewpoint of production and the creation of real incomes, but also from the viewpoint of employment and its restructuring. However, the economy is presently not well poised for such rapid industrial growth, due to the decline in private investment during the past two years. A rapid recovery is therefore needed if the higher growth path of the early seventies is to be maintained. On the other hand, the external environment facing Malaysia is more favorable than previously anticipated. The terms of trade on a trend basis are not expected to decline, in contrast to 1960-75, and as a result the purchasing power of exports is expected to increase significantly faster than during 1960-75. This will substantially ease the foreign resource constraint to rapid growth. Similarly, public sector resources, due to generally better export prospects and in particular to the increase in oil (largely achieved in 1976), will be less constrained than in the past.

public sector) by 1990.

<u>CHAPTER 4</u> <u>LONGER-TERM DEVELOPMENT: THE ISSUES</u>

Introduction "Alevalad of tenentswold and by ennogent and has been and any

the other. As the previous chapter indicates the basic development question confronting Malaysia is how to utilize its substantial and recently increased resources to most effectively reduce poverty and racial imbalances in the context of a rapidly growing labor force and somewhat less favorable prospects for increases in primary production. This chapter discusses some of the principal issues that Government will have to consider in answering this question. One of the key issues, given recent developments, is the rapid growth context in which the Government's objectives have been set. Here the main specific questions are what the prospects are for real growth, what will happen if it is not attained, and what the implications are for policy. A second set of issues relates to the management of the public sector itself. Specifically, the question is how the increased public resources can be put to the best use, and what constraints must be overcome or policy decisions made to further the Government's objectives through the operations of the public sector. 1980s, and they will be considerably bigher (but bighty owners

The Growth Imperative

The Government has repeatedly emphasized in its Plans that rapid overall economic growth is essential to attain the goals of the NEP. Only through rapid growth can sufficient employment be generated in the higher income industry and service sectors to substantially reduce poverty. Further rapid growth is essential in order to simultaneously allow for a substantial relative improvement in the economic position of Malays while still allowing for substantial absolute improvement in the position of non-Malays. The Outline Perspective Plan (OPP) of the Government therefore sets a long-term overall annual economic growth rate of over 8%. Moreover within this overall performance, the manufacturing sector is projected to be the leading growth sector with a growth rate of close to 13 percent per annum. The service sector would increase at about the same rate as overall GDP, while agriculture would be substantially slower with a growth rate of about 5 percent per annum.

Since the plan was drafted, however, there have been significant changes in some of the key factors affecting growth. As discussed in Chapters 3, 7, and 8, Malaysia now has much improved external and public sector resource prospects in the medium and longer term and it is a reasonable conclusion that the availability of resources will not be a serious constraint on economic development. Compared to most other developing countries therefore, Malaysia is in an advantageous position.

The other major change is that the performance of private investment during 1975 and 1976 has been much worse than anticipated earlier. It is especially this change, described in detail in chapter 3, which raises questions about the viability of the Government's overall development strategy, dependent as it is on economic growth, through investment, to attain its

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objectives. In order to investigate this question, a simple model was constructed to determine the implications of alternative growth paths for Malaysia's economy. The alternative paths reviewed are based on alternative assumptions about two major uncertainties: private sector investment activity on the one hand and the response of the Government to Malaysia's improved resource position on the other. A detailed discussion of this analysis is presented in the annex to this chapter, but its major conclusions are summarized below. While, like any model, the model that is utilized cannot possibly reflect all the complexities of the real world, it is useful as a tool to sketch at least the major implications of various development for increases in primery production. This maples discusses so strategies. principal tasues that Covernment will have to consider in answert

The three main alternatives which have been analyzed in the appendix can be briefly charcterized as follows: main specific questions are what the pros-

Alternative I Lower Investment in Manufacturing. Under this alternative, manufacturing investment is assumed to remain depressed, other private investment will gradually recover to 1971-1974 levels (in percent of GNP) and public expenditures will be in line with the policies set out in the Third Malaysia Plan. Overall, investments in percent of GNP will, under this alternative, surpass the earlier (1974) peak in the early 1980s, and they will be considerably higher (but highly concentrated in the public sector) by 1990.

Alternative II Recovery in Manufacturing and Higher Public Expenditures. Under this alternative, manufacturing investment recovers by 1980 to the average 1972-1974 level (in percent of GNP) and continues to grow vigorously afterwards. In addition, the Government is assumed to accelerate its current and development expenditures, so that they are 30 percent and 20 percent higher, respectively, by 1990.

Alternative III Attainment of Perspective Plan Targets for Manufacturing. This alternative is designed to show what is necessary to achieve the Perspective Plan manufacturing sector target growth. It implies even more rapid manufacturing growth than Alternative II. For the rest, it is based on the same inputs as Alternative II.

The major macroeconomic and sectoral projections for the various alternatives, and the comparison with the Third Malaysia Plan projections, are summarized in table 4.1. More detail is provided in the annex and its tables. It appears that, in terms of income growth, Alternative II comes closest to the targets set in the Perspective Plan. In Alternative I the growth rate is as much as two percentage points lower, and in Alternative III it is one percentage point higher. These are, however, averages for the whole period. Because of the common starting point, the growth rates diverge much more towards the end. For the period 1985-90, Alternative I shows a real national income (GDY) growth rate of only 4.2 percent, compared to 7.6 percent for Alternative II and 9.5 percent for Alternative III. Given these widely divergent growth rates, the per capita income levels Malaysia

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will have attained by 1990 also are very different: in 1976 prices they amount to \$1,300, \$1,750 and \$2,025 for the three alternatives (against \$900 in 1976). These outcomes only serve to underline the tremendous influence that long-term growth differences have on the welfare levels that can be attained.

Another important outcome that should be noted is, that the income equivalence between the Perspective Plan and Alternative II is partly the result of the fact that Malaysia's international terms of trade are now projected more favorably than they were in the Third Malaysia Plan. The upshot of this is that, in terms of production and therefore also in terms of employment opportunities, Alternative II falls short of the Perspective Plan targets. In fact, production will have to grow nearly as fast as in Alternative III to attain the production and employment targets. Short of this, and assuming agriculture to be the residual sector for employment, the productivity and income growth targets set for agriculture will not be attained. This will have very severe consequences for poverty redressal. In fact, under the low growth Alternative I, it is very doubtful whether the rural poverty incidence can be reduced at all. Basically the same conclusion is reached with regard to employment restructuring: for Alternative I it would simply not be possible to attain the restructuring targets without violating obvious constraints on the policy, and even for Alternative II this would be the case, albeit to a lesser extent.

Thus, as might have been expected, the analysis reaffirms that rapid and sustained economic growth is essential to the attainment of the 1990 income, employment, poverty, and restructuring objectives. Moverover, it is also clear that rapid manufacturing growth is an essential ingredient in achieving these objectives. The significant implication is that, as a policy matter, a rapid recovery in private investment and in particular in investment in manufacturing deserves the highest priority. The analysis also indicates quite clearly that an expanded Government role in the economy would have important direct and secondary effects on overall growth and the achievement of poverty reduction. In light of the good revenue prospects such an expansion of Government activity would be consistent with prudent financial management of the public sector. However, while expanded Government programs would have a significant positive impact on income growth they cannot come close to compensating for a depressed manufacturing sector.

A final point that is brought out clearly in table 4.1 is that even under the more expansionist Alternatives II and III the resource positions, in terms of the balance of payments and public sector surpluses, remains significantly more favorable than during the Second Plan period. Thus, public sector net outlays could be extended well beyond the levels assumed in these alternatives before the country would run into a resource constraint. It will therefore be an important policy question for the Government whether, in the face of still sluggish private investment activity, it wants to increase its impulse to the economy and if so, what priorities to give to development expenditures, reduction of taxation (both presumably aimed at poverty alleviation) and stimulation of the private sector. In addition, the

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Government may want to consider what further returns may be appropriate to reverse the recently so discouraging investment trend, thereby reestablishing the general economic conditions in which its major policy goals can only be attained.

Table 4.1: OUTPUT, EMPLOYMENT, AND RESOURCE PROJECTIONS, 1975-90

Actual	eysta's	Projected	1975-90	JLus
ames at only protocold boy estimate	terms of	Alt.	Alt.	Alt.
svissegaras eds to stode all 1971-75	OPP	ortunities	oyment opj	111
action and employment targets. Short of	bozo ada	nialia n	TTT aver	AJ DR.
se the residual sector for amployment, the		t per annu	m)	a ,shi
Output/Income			bos vity	toubor
CDV	8.0	5.8	7.9	8.9
GDP	8.2	5.4	7.5	8.
Agriculture	5.3	4.4	5.5	5.9
Manufacturing	12.7	7.7	11.1	12.8
and even for Alternative II this would b		OJ BIGIGS	not be po	Ardw
mployment		and mo and		suoiva
Total	3.2	3.2	3.2	3.:
Agriculture an elayland of the topogra	1.0	4.4	3.3	1.
Manufacturing	6.8	4.1	5.9	6.1
and restructuring objectives. Meverover		loyment, p		s piqi
utput Per Worker	A manufa	hany sade		990 in
Total that at noticalicat institute a	4.8	2.1	4.2	5.
Agriculture	4.3	-0.1	2.1	4.
Manufacturing the second and second	5.3	3.5	4.9	5.1
an expanded Government role in the econor	Ly thet	tasio situ	dicates q	và nel
condary effects on overall growth and the	ne byna s		Same Same	f hlen
in light of the good revenue prospects	(Perc	ent of GDP	')	wo I de
tivity would be constatent with prodent		a of Cover	lansars r	uch ar
esources		10 6	BRANA LA	
Net export surplus /a 1.3	Jasshik	10.6	6.7	3.5
Public sector surplus <u>/b</u> -8.4	galasso	-3.0	-0./	-3.

<u>/a</u> Exports of goods and nonfactor services less imports of goods and nonfactor services in current prices.

<u>/b</u> Total revenues less current and capital expenditures of public sector including Petronas.

increase its impulse to the economy and if so, what priorities to give to development expanditures, reduction of taxation (both presumply simed at poverty alleviation) and stimulation of the private sector. In addition, the

Source: See tables A4.1 and A4.2 of annex to this chapter.

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Industrial Policy Issues. The analysis above makes clear that the industrial sector has a major role to play in keeping up the growth rate in production and incomes, and in providing employment for the rapidly growing labor force. A continued rapid rate of industrial growth, particularly in labor intensive manufacturing, is essential to attain the NEP objectives. This growth will have to be achieved, however, in a different context than in the past. First, while the shift from import substitution to export-led manufacturing growth has already begun, this pattern of growth will become increasingly necessary in the future as the more obvious areas of import substitution are exhausted. (This shift may be moderated however by more rapid domestic demand growth resulting from the improved resource position of the export and public sectors.) Second, there are ominous signs of increasing protectionism in the developed countries which are the major markets for Malaysia's manufactured exports. Third, there are substantial technological changes taking place in the electronics industry which is one of Malaysia's major export industries. Finally, the industrial sector will be required to accommodate a much greater Malay participation than in the past. This sector then obviously deserves continuing close attention by Government to ensure that the policy framework is designed to promote vigorous growth. Some of the issues which merit attention are discussed below (a more detailed discussion is presented in chapter 5).

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Although Malaysia has not encountered the "excesses" of protection that characterize some developing countries, its protection policies can be improved. The overall effect of protection, for instance, is still to favor production for the domestic market, though probably this bias is less severe than in many developing countries. The present criteria for tariff-setting amount to giving what protection is judged necessary for financial viability; no firm criteria for economic profitability are applied, and it is thanks to the general philosophy of the Government and the good sense of tariff administrators that protection has not been more extreme. As the obvious candidate industries for import-substitution become progressively fewer, the dangers of escalating levels of protection will increase. The Government is aware of the problems of the present protective system. A recent study on effective protection by the Economic Planning Unit (EPU) underlined the distortions created by differing levels of effective protection within the economy and between manufacturing industries; it suggested that in future the effective protection granted by Government should not go outside a range of 20 to 50 percent and that effective protection for highly protected industries be reduced to within this range. able in the

This recommendation that a broad band with a 50 percent effective protection ceiling be established, deserves support, except possibly in some specific cases (e.g., where labor content is high or specific externalities are identified) which can be identified by a set of well-defined rules or guidelines. The extra burden imposed by the calculation of effective protection would lead to increased manpower requirements in the Federal Industrial Development Authority (FIDA) which would be responsible for state to see the second s

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trends and short-tern fluctuations.

such calculations. There is, however, less argument for automatically raising effective protective levels to at least 20 percent for those industries, existing or potential, that can operate and grow with less protection.

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The analysis above

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The EPU has also studied the existing fiscal incentives system, concluding that tax holidays are perverse in that they are worth more the greater the level of pretax profits (i.e., the less they are needed), and that the alternative forms of fiscal incentives introduced in 1968 are largely ineffective, remaining under most conditions less attractive to investors than the tax holiday. The study proposes a new form of incentive giving tax relief based partly on the value and partly on the labor-intensity of the investment. This suggested formula would have neither the perversity of the tax holiday nor as strong a capital-using bias and, provides a suitable basis for experiment. However, this reform could go substantially further: since protection makes fiscal incentives largely redundant, the scope of tax holidays could be drastically reduced to a small number of cases, in particular the promotion of exports and regional location. Alternatively, Government may consider shifting these fiscal incentives to promote the goal of employment restructuring. Incentive preferences for hiring Malays might not only accelerate the pace of restructing, but would also provide a more condicive atmosphere for private investment, both foreign and domestic.

An important implication of the restructuring effort is the need to encourage Malay entrepreneurship. Entrepreneurial development will require an increasing emphasis on the development of small-scale industry, in particular on helping the smallest firms (particularly Malay) to grow larger and on helping regionally/rurally located entrepreneurs (where the Malay population is concentrated) to develop. A recent EPU study on Bumiputra (Malay) participation in business recommended, inter alia, the strengthening of loan programs (e.g., better appraisal and follow-up) and improvement in technical assistance and advisory services. The development of small-scale industry in general could additionally benefit from the removal of minimum size criteria in investment incentives and efforts to minimize the adverse impact of the direct controls of the Industrial Coordination Act on small firms (larger firms are always more capable of dealing with "red tape" and influencing the administrative decision-making process). The development of Malay small-scale industry in particular is delicate: if preferences to Malays in interest rates and lending conditions are too great, lending programs may fail in their aim of creating small Malay businesses that are viable in the long term; thus moderate margins of preferential conditions, together with heavy doses of technical assistance, etc., should prove preferable.

<u>Stabilization Issues</u>. Malaysia has achieved an admirable record of price stability over the past 25 years. This has largely been achieved by maintaining the openness of the Malaysian economy and by careful monetary and fiscal management by Government. In considering the maintenance of price stability in the future a distinction should be made between longer term trends and short-term fluctuations.

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Considering the longer term first, it is likely that Malaysia will experience a higher rate of price inflation than the past. Because of the considerable openness of the Malaysian economy, with imports the equivalent of 40% of GNP, the rate of international inflation is a prime determinant of domestic inflation. Since the rate of international inflation is now expected to be substantially higher, 6-7 percent per annum compared to less than 1 percent during the 1960s, the rate of domestic inflation in Malaysia will also reflect this increase. This increase in domestic inflation may be moderated by exchange rate revaluations as has occured in the past. Malaysia's generally good export prospects give Malaysia somewhat more flexibility to use this means of reducing inflation than many other developing countries. However, there is an important trade-off between domestic inflation and exchange rate policy. Revaluation affects all exports alike and not only makes primary products more expensive but also manufactured exports. In view of the importance for the growth of the economy and the NEP objectives of rapid manufacturing growth, any action which would worsen the competitive position of Malaysia's manufactured exports should be taken only after carefully considering the costs. In the case of an exchange rate revaluation, the trade-off would be with higher domestic inflation.

Attempts to reduce domestic inflation below international inflation by other means such as restricting domestic demand could have serious adverse consequences on the growth of the economy. The degree of openness of the Malaysia economy would require a considerable deflation of domestic demand to moderate inflation and would seriously jeopardize Malaysia's high growth strategy. While Malaysia may experience a higher rate of domestic inflation than in the past due to higher world inflation, inflationary pressures from other sources are not likely to be serious. The expansionary effect on aggregate demand, from increases in export prices, should be moderate. The longer term outlook for the external terms of trade is for approximate maintenance of the level achieved in 1976. Inflationary financing by Government should also be limited as it was in the past. Revenue projections in chapter 8 indicate that a substantial increase in Government expenditures could be accommodated without undue inflationary financing.

Because Malaysia's exports will continue to be dominated by a few export commodities, Malaysia will continue to be vulnerable to destabilizing influences resulting from short-term fluctuations in the prices of these commodities. Because of the large size of the export sector, this vulnerability is substantial and Government has an important role to play in moderating these influences. In view of the openness of the Malaysian economy with respect to capital flows, monetary policy can play only a limited role in this effort (i.e. restricting access to domestic credit could easily be circumvented by greater external borrowing). Since the excess demand (or alternatively depressed demand) would be concentrated in a few export sectors the role of export taxes can play an important role in moderating these influences. For example, maintaining progressivity in the real prices (as opposed to nominal prices) of a few export commodities would achieve a substantial leveling-out in export incomes. However, too severe a progressivity could impair incentives in the private sector and Government may consider

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Source: Chapter 8, table 8,10-

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other options of stabilizing income without significantly reducing incentives. Consideration may be given, for example, to reducing liquidity without reducing wealth by the requirement that part of additional incomes be temporarily invested in Government bonds.

Public Sector Expansion

While ensuring rapid growth of the private sector is obviously of paramount importance, the public sector also has an essential role to play in achieving the goals of the New Economic Policy. First, by virtue of the public sector's large size alone (it is currently spending the equivalent of over a third of GDP) it will continue to have an important impact on the performance of the economy. Second, a large part of the additional resources available to the economy will in the first instance accrue directly to the public sector. Third, the public sector has much greater flexibility than the private sector to directly attack the problem of poverty and racial imbalance. The rest of this chapter will therefore discuss a number of important issues confronting the public sector. These issues include assessing the extent of the resource availability; determining the appropriate government response in terms of whether to reduce revenues (cut taxes or reduce borrowing) or to increase expenditures or possibly to run larger surpluses; and determining which Government programs to increase or which revenues to cut. These are all complex issues for which there are no ready answers and which Government will have to carefully analyze in the coming years.

<u>Resource Availability</u>. The earlier discussion in this chapter indicated in very broad terms that the resource constraint on the public sector is likely to be much less than in the past. Chapter 8 provides a more detailed assessment of the public sector revenue prospects. These calculations indicate that public sector revenues (including Petronas) will be significantly greater than in the past and combined with moderate increases in current expenditures, there would be a more than threefold increase in the relative size of public sector savings. Thus, public sector savings during 1976-85 would be the equivalent of about 8 percent of GNP compared to 2.4 percent during the Second Plan period (see Table 4.2).

1971-75	1976-80	1981-85
	33.3	33.0
urrent expenditures 23.4	25.2	25.2
Public savings 2.4	8.1	7.8

Table 4.2: PUBLIC SECTOR CURRENT ACCOUNT, 1971-85

Source: Chapter 8, table 8.10.

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During the Second Plan period, the Government borrowed the equivalent of about 8 percent of GNP from both domestic and foreign sources and, together with its current surplus and a small drawdown of assets, financed a development program equivalent to about 11 percent of GNP. The analysis in chapter 8 makes it clear that Malaysia could easily borrow at the same relative levels as in the past without endangering the financial position of the public sector or Malaysia's external creditworthiness. Therefore, in terms of financial resources, the public sector is projected to have the equivalent of at least 5-6 percent of GNP more funds available than it had in the past.

An important element in these projections is the role of Petronas. Petronas' current surplus is estimated to provide about a third of the additional resources available or the equivalent of about 2 percent of GNP. This is an important conclusion to highlight since there may be a tendency to earmark such funds for further petroleum related investments. While developing the petrochemical industry in Malaysia may turn out to be a sound investment, the size of the investment should not be determined by how much Petronas receives from oil revenues. The obvious danger of tying oil revenues to petrochemicals is relative overinvestment in petrochemicals and under investment elsewhere. One way to ensure this does not happen is for Petronas revenues to be included in the normal review and allocative procedures of the public sector. This would not only help determine the appropriate level of investment in petrochemicals, but might also prevent a situation in which some parts of the economy would have surplus resources, while in others worthwhile projects would not be undertaken because of shortages in resources.

Expansion of the Development Program. One possible response to the greater availability of resources in the public sector is to expand the development program. Prima facie there is a strong justification for such an increase. The development program provides one of the most direct ways of assisting poverty groups. The TMP concentrates much of its program on the reduction of poverty, as is evidenced by the allocation of 38% of the program to areas related to poverty reduction, by the increased allocation to <u>in situ</u> agriculture and to housing and by the increased relative allocations to the poorest states. In addition to its ability to assist the poor, the public program has a vital role to play in providing the basic infrastructure for a rapidly growing economy. Finally, as has been discussed earlier in this chapter an expansion of public sector spending will also have significant second order effects via the multiplier on the overall growth of incomes.

Projects that directly benefit the poor obviously deserve high priority in any expansion of the development program. One area where an expanded program would have important poverty impact is in land development. In view of the substantial amount of underdeveloped land in Malaysia, an expansion of the land development program would help significantly ease the employment and poverty problems. At current planning levels, the Government will develop about 3.2 million acres of new land during 1975-90. At an average allotment of 10 acres per family, this would eventually settle about 300,000 families. Because, however, of lags between development and settlement

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and the higher acreage allotments of land per settler during the past five years, actual settlement during 1975-90 would be closer to 235,000 families with a potential employment of about 350,000. This is equivalent to about 15 percent of the total new employment in Malaysia projected for the period. An expansion of this program would therefore have a significant impact. A 50 percent increase in the current rate of development could for instance create an additional 150,000 jobs thereby reducing the number of poor households by about 100,000 (equivalent to about 10 percent of poverty households in 1975). While an expansion of this order would appear to be within the estimated land available in Peninsular Malaysia it is by no means certain what the quality of this land is nor whether an even larger expansion could be accommodated. The land survey which the Government is currently carrying out to determine precisely how much land is still available and its carrying capacity should answer these questions. Besides an overall increase of the size of the land development program, an expansion of the program benefits might also be achieved through other types of settlement arrangements for instance by reducing the allotment per household and increasing settler participation. Such alternatives merit further exploration.

In addition to land development, an expansion of the various <u>in-situ</u> programs would have an important impact on poverty reduction. One of the principal means of reducing the high incidence of poverty among rubber smallholders is through the Government's program to replant rubber trees with higher yielding clones. The Third Plan target for rubber replanting is 450,000 acres. This would leave some 300,000 acres in 1980 still under old low yielding trees. If RISDA were able to expand its capacity to undertake a larger program significant poverty reduction results could be attained. Other <u>in situ</u> areas were an expanded program appears warranted include extension services and credit, particularly in paddy production, and development and promotion of suitable intercrops for coconut farmers.

A portion of the additional resources available to the Government could also be devoted to larger infrastructure programs. In general, the infrastructure sectors have fewer short-run implementation bottlenecks than do other sectors, since consultants can easily be used for specific new projects. In addition, the provision of infrastructure can have a significant impact on poverty, through both the provision of services, such as water supply, rural electrification, housing, rural roads, and the creation of jobs in the construction stage.

Meeting Basic Needs. Besides accelerating programs to increase the productivity and incomes of the poor, Government may also consider more direct measures to improve access of the poor to basic needs. This discussion reflects the analysis and conclusions contained in chapter 9. Substantial progress has already been made in this area in large part through Government efforts to increase food output and the physical supply of basic services. It is generally agreed by most observers, for instance, that hunger is not a significant problem in Malaysia. Malaysia's public school system provides ready access to all students at the primary level, and attendance is essentially universal. Compared with "ther developing countries secondary enrollments at

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40 percent are also relatively high. Significant progress has also been made in providing Malays greater access to higher education. Thus during 1970-75 the Malay share of tertiary education increased from 50 percent to 65 percent. Moreover, because of the large overall expansion of enrollments, this restructuring was accomplished while still allowing for a considerable (65 percent) increase in the enrollment of non-Malays. In health care, standards of preventive health are high compared to other developing countries, further the need for curative care of the poor and most of the rest of the population is largely met through the public system at little private cost.

Despite these considerable achievements serious problems persist. At every level of education, and especially at the higher levels, the enrollment ratio of the poor is less than for the rest of the population. In addition the costs of education borne by the poor constitute a serious burden on their limited incomes. If, to assist the poor, for instance, Government covered for primary and secondary education, about two thirds of the out-ofpocket costs for those in the lower income quintile and about one third for those in the second quintile, the total costs to Government would be less than 1 percent of GDP. For public utilities (electricity, water supply and sewage disposal) access of the poor is minimal and low income appears to be a major constraint on consumption.

Housing is another basic need which is not being adequately provided to the poor. In 1970, for instance, it was estimated that 69% of private dwellings in rural areas were substandard. The Third Plan has set an ambitious target of providing about 45,000 low-cost units per year. An important element of the housing program is the objective of reducing the unit cost of houses financed through the Ministry of Housing and Village Development dramatically, from M\$17,700 during the Second Malaysia Plan to M\$7,700 during the Third Malaysia Plan. Even this reduction, however, would still leave houses substantially beyond the means of the lower 40 percent of the population which cannot even afford houses costing M\$3,000. While it is essential that the Government continue its efforts to reduce the unit cost of housing, it could also consider the institution of capital subsidies for low-cost housing. If, for instance, a housing subsidy were introduced to reduce the unit price of the all housing designed for low-income families from M\$7,700 to M\$3,000, the total cost of the program during the Third Plan period (covering 122,000 houses) would be about M\$350 million (a tenth of 1 percent of GNP).

These examples suggest that Government could substantially improve access of the poor to these basic services by providing some type of financial assistance to help defray part of the cost of these services. Illustrative calculations indicate that significant improvements could be achieved at a cost that is within the financial scope of the Government.

Education. The feasibility of achieving the restructuring projections described earlier depends on a number of factors. One of the most important of these factors is the availability of skills in the Malay labor force to permit the restructuring envisaged across sectors and occupations.

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The perspective plan of Government, for instance, requires that Malays with professional and technial skills grow by about 6 percent a year through 1990. Given this target, it is clear that the rate of growth of the skilled Malay labor force will have to be substantially accelerated.

A systematic evaluation of the feasibility of the target requires a comparison of demand projections with the likely supply of skilled Malay labor. Unfortunately, data for this comparison are not available. The projections do suggest, however, that an elastic supply of Malay labor with the appropriate skills is an essential ingredient of any successful restructuring policy. This points to the importance of ensuring adequate expansion in the educational system.

While no long-term assessment of the educational feasibility of the targets is made here, the Third Plan suggests that there may be some difficulties in meeting requirements at least through 1980. The Plan indicates that for the period 1976-80 substantial overall skilled manpower shortages will continue. Thus the Plan concludes that while there will be a growing surplus of graduates in the nontechnical disciplines, considerable shortages will continue for scientific and technical personnel at both the diploma and degree levels. The most critical shortage will be in the engineering fields. While the racial dimension of these projections is not discussed, attainment of the occupational restructuring objectives would obviously be severely constrained by these overall shortages.

Expansion of Implementation Capacity. While a strong case can be made for a general increase in the development program with particular emphasis on poverty oriented projects, serious implementation constraints are likely to arise in some areas. The Government has been investigating the implementation capacity for construction and building projects, which constitute about 45 percent of the total allocation under the TMP, and has identified problems particularly in the areas of financial and manpower planning at the state level and the supply of key material resources. Since the scarcity of qualified manpower in the public sector appears to be a serious constraint on expending the development program, Government might consider short-term measures to break this bottleneck. One possibility which would not conflict with public sector restructuring policies would be to make greater use of Malaysia's private sector in areas where the skill shortage may not be as acute. This may be done, for instance, thorugh fixed-term consultant contracts until the public sector vacancies can be filled by qualified Malays.

One step already taken to increase implementation capacity is a World Bank/UNDP project which is helping to improve the planning capabilities of two of the poorer states. The Implementation and Coordination Unit (ICU) in the Prime Minister's Department is responsible for coordinating the implementation of development activities, identifying deficiencies in the process, and overseeing the implementation of the New Economic Policy. Toward this end, the ICU is setting up a computerized system designed to monitor the physical and financial performance of projects and public sector corporations. The monitoring of scarce resources, such as skilled manpower, is not included, but is being considered for inclusion. While these are steps in the right direction, the importance of increasing the public development program warrants the introduction of measures to overcome the problems already identified. In those cases where immediate expansion of programs is impossible, it will be important to develop a concrete phased plan to increase planning and implementation capacity. These plans for the various areas and sectors should then be integrated into a national plan for the expansion of public sector development planning and implementation capacity, which should be monitored as closely as the financial plans. In the interim, it is important to signal the agencies that more funds are available so that they can begin to increase their capacity as soon as possible for larger programs in the future.

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Conclusion

Rapid economic growth, particularly in the manufacturing sector, is essential to achieving the broad objectives of the New Economic Policy. This was emphasized by government when it formulated the NEP. It is no less true today. Although changing conditions may require readjustments in the policy framework, as the discussion in this chapter posits, Malaysia's improved resource prospects hold the promise that such rapid growth can indeed be achieved. To ensure that these resources make the maximum possible contribution to growth, government will need to monitor closely the trends in the, private sector and design policies that promote the private sector's vigorous growth. At the same time, government faces the additional task of making sure that the resources available to it have the maximum possible impact on poverty reduction. Given the public resources available, the Government will in no case have to accept an outcome as unfavorable as Alternative I. Even if the private sector picks up substantially, there may however be difficulties with attaining the long-term NEP targets and the Government may consider increasing its outlays even beyond those assumed in Alternatives II or III, since even at these levels the resource constraint is not binding. This would both accelerate growth and ease the constraints on attaining the restructuring targets.

In the short run, such further expansion will however probably be limited by implementation capacity. In the longer run, such a constraint cannot however be considered as binding, since with determined action it should be possible to remove it. Since a major effort is clearly required to expand the public sector's capacity to undertake more effective antipoverty projects and programs, this should therefore be given high priority.

Address and a state investments

CHAPTER 4 Annex

Estimated Effects of Different Investment Levels on Growth, Incomes, Employment and Restructuring, 1975-90 ment and world market condicions as discussed in chapter 7. Finally,

o implicit relationship between public This annex discusses the consequences of different investment levels in Malaysia during the remaining Perspective Plan period, 1975-90. With the help of a simple model of the economy, it first sets out to project the macroeconomic outcomes of three different growth paths of private investment and public expenditures. It then assesses the consequences for the growth in output, employment and incomes by major sector. Finally, it reviews the prospects to attain the NEP policy goals with regard to poverty redressal and restructuring of employment under the various alternatives. can then be derived by converting escoris and imports to current pric

The Model

The seven-sector model used to determine the quantitative outcome of these alternatives is partly supply determined and partly demand determined. The basic distinction made, was to determine the output of certain sectors on the basis of investment and to let other sectors be determined by demand. This dichotomy was employed in order to capture both the demand effects of additional expenditures and the capacity effects of changes in investment. In particular this formulation illustrates the limitations of a pure demand pull strategy (e.g. through lower taxes) which would result in large import leaks if no capacity was simultaneously being created. While like any model, this model has numerous simplifications and shortcomings when judged in light of the complexities of an economy, a number of the major relationships have been accounted for and the results may provide a useful guide to policy decisions of the the state of at an at state the decision but the teta of the decisions but

The major characteristics of the model are as follows. The supply determined sectors are: major agricultural exports, mining, manufacturing, and utilities. The demand determined sectors are other agriculture, construction and services. Imports are determined as a residual and investment is exogenous. The model is run in constant 1970 prices and exports are included in terms of their purchasing power equivalent, with conversion to current dollars done subsequently. The ICOR $\underline{/1}$ used in the manufacturing sector is 2.2 (with a two-year lag) which is derived from the input-output model presented in a previous World Bank report "<u>Malaysia - Second Plan Performance</u> and Third Plan <u>Issues</u>" Volume II, Annex 5 "Input - Output Analysis of Growth, 1975. Demand relationships are also derived from this model. The tax function is based on historical relationships for all taxes except excise and oil taxes which are derived from the analysis in chapter 8 of this book. Consumption functions for both public and private consumption are based on historical data.

With regard to major exogenous inputs into the model, the growth of the agricultural export sector (rubber, palm oil, logs and sawn timber) is based on the analysis of both public investment in agriculture and world

norma out historically (see Chapter St.

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/1 Incremental capital-output ratio.

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market conditions as discussed in chapter 7. Additional public investments in this area are assumed to affect output via an ICOR of 3.5 and a three-year lag. The output of the mining sector is likewise based on an analysis of investment and world market conditions as discussed in chapter 7. Finally, the utilities sector is based on the implicit relationship between public investment and growth in the Third Malaysia Plan.

The model operates sequentially in the following way. First, investment is specified. Then, output in the investment determined sectors is estimated. Based on this, exports are projected. Then, given investment and exports, the model solves for income, consumption and output in the demand determined sectors. Imports are then calculated as the difference between gross demand and domestic supply. The balance of payments implications can then be derived by converting exports and imports to current prices./1

Alternative Scenarios for Private Investment and Public Expenditures. Given the recent decline in private investment and the uncertain outlook for private investment activity in the future, and given also the uncertainty with regard to the reaction of the public sector to its improved resource position, various alternative scenarios will be examined with different assumptions about public an private resource use. Three basic alternatives are examined in detail while various modifications to these basic alternatives are discussed in passing. The basic resource framework for both external and public sector resources is consistent with the forecasts set out in chapters 3 and 8.

Alternative I - Low Investment in Manufacturing. This alternative assumes that the factors affecting the private investment climate are serious and permanent and that therefore there is no recovery in the rate of investment in the manufacturing sector. Thus investment in manufacturing, which is estimated to have declined to about 3.3 percent of GDP in 1976, is projected to stay at that relative level throughout the period 1976-90. This alternative therefore presents what might be called a pessimistic outlook and while not a forecast of the likely course of events it serves specifically to illustrate the significance of the manufacturing sector for the overall performance of the economy, in the context of continued expansion in other sectors. In line with this basic characteristic of Alternative I, other investment is assumed to increase more rapidly. Public investment is projected to increase by about 7.7 percent per annum, in line with the Government's long-term targets. Investment in oil and related areas is also projected to grow rapidly during the late seventies and early 1980s reflecting proposed investments, particularly in a liquified natural gas plant in Sarawak, which at a cost of M\$ 2.4 billion (13 percent of GDP) is probably the largest project ever Gage meton functions for bonn

<u>/1</u> In view of Malaysia's highly open economy it is reasonable to expect that excess demand would quickly be satisfied with additional imports rather than by initiating domestic inflation. Thus domestic inflation is assumed to be the same as international inflation, an assumption which is borne out historically (see Chapter 8).

A Instrumental capital-current ranks.

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undertaken in Malaysia. Once this major project is completed (by about 1983) investments in this area are expected to decline somewhat in the second half of the 1980s. Finally, other private investment (buildings, agriculture, services) which also declined during the past couple of years is anticipated to return to the average level prevailing during 1970-74 of about 9-10 percent of GDP by 1990. Overall, the assumptions result in an average growth of gross investment of 7.7 percent per annum, although the growth rate of the various components would differ substantially. Since, under this Alternative, the GDP growth rate would be lower (see next section), the investment rate would even under this Alterntive still go up substantially. Investments in fixed assets, which (in 1970 prices) were 25 percent of GDP in 1974 and fell to 21 percent in 1976, would recover to 25 percent of GDP in the early 1980s and would reach 28 percent by 1990. In this sense, therefore, Alternative I is not pessimistic. Most of the increase in the investment rate would however be in the public sector. siderad a

Alternative II - Recovery in Manufacturing and Higher Public Expenditures. This alternative varies in two important respects from Alternative I. First, it is assumed that manufacturing investment recovers by 1980 to 5.0 percent of GDP, the average level prevailing in the early 1970s. (This implies an average growth rate of 19 percent per annum in the four years 1977-80, a rate which does not appear to have been realized in 1977). Beyond that, it is assumed that manufacturing investment continues to grow rapidly (12.6 percent per annum). Second, it is assumed that Government substantially accelerates spending both for current expenditure type programs and for development expenditures proper. Specifically it is assumed that by 1990 public investment is about 20 percent higher and public consumption is about 30 percent higher than under Alternative I. Somewhat surprisingly, because of substantially accelerated GDP growth, the investment rate under Alternative II would by 1990 not be higher than that under Alternative I (although it would be higher in the intervening period). The structure of investment would however be markedly different, with private investments taking a larger share of the total.

Alternative III - Attainment of Perspective Plan Targets for <u>Manufacturing</u>. This alternative is designed to show what is necessary to achieve the long-term target growth of the manufacturing sector set out in the perspective plan. This is a very ambitious target which is meant to provide some insight into what is required to achieve the Government targets rather than a forecast of what is likely to happen. Specifically this alternative is the same as Alternative II except that manufacturing investment is expected to grow even more rapidly. Thus, it is assumed that manufacturing investment grows by 20 percent per annum, the rate required to achieve the Government target growth of 12.6 percent per annum for manufacturing output during 1976-90. Under this alternative, gross investment would increase by almost 12 percent a year during 1976-90. The overall investment rate would surpass the earlier 1974 peak before 1980 and would reach 31 percent by 1990.

About 13 percent of this odfurred in 1976 when the terms of reads increased from 87.6 to 100.6.

(This implies an ave

Macroeconomic and Sectoral Results of Various Alternative Strategies. The overall growth and sector consequences of the various alternatives are summarized in table A4.1. In terms of output growth it can be seen that only Alternative III matches the overall growth of the Government's long-term GDP growth target of more than 8 percent. Under the assumptions of Alternative I, the overall GDP growth rate is only 5.4 percent, significantly short of the Government's target. In alternative II, overall GDP growth amounts to 7.5 percent per annum. In terms of income, the three alternatives however appear relatively more favorable. Compared to 1975, World Bank commodity price projection indicate an improvement in the terms of trade of 17-19 percent /1 by 1990 while the TMP projects a 7 percent decline during 1975-80. Assuming no further fall, the Government's long-term output projection would imply a growth of income of 8 percent per annum while the World Bank projection would result in income growth of 5.8 percent, 7.9 percent and 8.9 percent for Alternatives I, II and III respectively. In summary, therefore, the Government's targets will be fulfilled in terms of income by Alternative II, but in terms of production (and employment) by a growth close to that in Alternative III.

A angly 19708. ALTERNATIVE GROWTH STRATEGIES, 1975-90

Table A4.1: AVERAGE ANNUAL GROWTH, CONSTANT 1970 PRICES .25d3 broys8

tive I. First, it is assumed that pasufacturing invest

nditure type program	Born institut 101	diad gatheralt	ernative strate	gies
bild consumption is	TMP	about 20 perc	calopeoli expen	1990 public
estnent rate under	e 0/a	5.8		8.9
GDY GDP	8.0 <u>/a</u> 8.2	5.4	7.5	8.5
Agriculture	5.3	4.4	5.5	5.9
Mining	5.0	2.7	2.7	2.7
Manufacturing	12.7	7.7	10 .11.1 TANTS	12.8
Utilities	9.7	9.7	9.7	10.9
Construction	8.3	7.5	9.7	11.3
Services	8.4	4.7	6.9 -and	7.8

/a The TMP does not project GDY for 1990. The 8.0 estimate assumes that there is no further loss in the terms of trade beyond the 7 percent decline projected by the TMP for 1975-80. If that rate of decline were to continue through to 1990, the growth of GDY would be closer to 7.6 percent per annum.

surpass the estlier 1974 peak before 1980 and would reach 31 percent by

Source: Third Malaysia Plan; World Bank Estimates. almost 12 percent a year durin

About 12 percent of this occurred in 1976 when the terms of trade /1 increased from 87.4 to 100.6.

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Dil percent per anni

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The significance of these different growth rates is more striking when the implied per capita income levels are examined. In current prices and exchange rates Malaysia's per capita income in 1976 was about US\$910. Under Alternative I this level (in 1976 prices) would increase to about US\$1,290 in 1990 while under II it would reach US\$1,745 and under III US\$2,025. Thus, the range indicated by these alternatives is from a 40 percent increase to more than double the current level. This wide range in possible outcomes highlights the importance of the policy options facing Malaysia at the present time. The absolute level implied by the TMP would in comparison be about US\$1,890 by 1990. At the upper end of this range (Alternative III) Malaysia would have a per capita income comparable to the present level of such countries as Hong Kong and Iran while at the lower end (Alternative I) it would be compatible to Iraq, Panama and Brazil.

The sector growth rates also differ considerably from each other and the TMP projections. In agriculture, output will under all projections, especially Alternative I, expand somewhat slower than the average of about 6 percent per annum $\frac{1}{1}$ achieved during the preceding 15 years. First, even if the pace of land development remains constant over the period, the resulting increased output will become a smaller and smaller proportion of total output. Similarly the rubber replanting program benefits will begin to decline relatively as the proportion of acreage replanted with high yielding clones increases. By 1980 for instance, less than 10 percent of rubber acreage would still require replanting if the TMP targets are met. Second, production from forestry is expected to decelerate substantially (see chapter 3). Third, most of the more obvious investments to increase rice yields have already occurred, and by 1980, it is estimated that irrigation will have been extended to most of the paddy land best suited to double cropping and the further expansion of drainage and irrigation facilities will be limited by lack of water and unsuitable topography (see chapter 6). These tendencies towards deceleration are, for the higher overall growth alternatives, at least partly compensated by the demand-pull effects of higher income growth on demand for high value products such as vegetables, fruits, livestock, etc. For the low-growth Alternative I, this explains the difference with the TMP projection, since the assumptions for land development, etc. are similar. For Alternative II, the demand growth is similar to that in the TMP, but land development is stepped up. The difference between Alternatives II and III is due to further impulses from the demand side.

The mining growth rate of 2.7 percent is based on the assumption that oil production will grow by about 5 percent per annum after the target rate of 240,000 b/d is reached in 1980, that liquified natural gas production will begin by 1983 and that these will be offset by a continuing sluggish growth in tin output (see chapter 3). Because the prices are based in 1970,

<u>/1</u> There is no consistent constant price national income series extending back to 1960. This estimate of 6% is from the FAO agricultural production index for 1960-75.

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cutput growth gradually deproaches the growth

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which predates the oil price increase, the weight given to the oil production growth is much less than if 1976 base period prices were to be used. Thus, in terms of import capacity (value of production deflated by the import price index) the growth of mining would be significantly higher, 7.8 percent per annum over 1975-90.

The manufacturing growth rates vary substantially ranging from 7.7 percent to 12.8 percent, due to the very different assumptions about investment in that sector./1 These long-term average rates however mask a substantial change within the period. In the case of Alternative I, the growth decreases over the period so that in the latter half of the 1980s manufacturing is growing at only 6 percent per annum. On the other hand in Alternatives II and III the pattern is reversed with output accelerating so that under II it is growing by 12.8 percent per annum and under III by 15.7 percent per annum during 1985-90./2

Utilities are projected to grow at the same rate as in the TMP i.e. 9.7 percent per annum under Alternatives I and II, since this sector is largely in the public domain, and the public investment in utilities is assumed to be the same as in the Plan. While it might appear inconsistent to have utilities growing so much faster than overall output in Alternative I, given the low rate of electrification of the country, there is a considerable backlog of demand that could be provided for before the increase in existing demand becomes a constraint on output growth. Under Alternative III it is assumed that public investment in utilities is increased to service the rapidly expanding manufacturing sector. Assuming about a third of the inrease in public investment is directed towards this sector and assuming an icor of 7.5, the anual growth of utilities output is increased to 10.9 percent.

- /1 These estimates are based on those, discussed earlier, for manufacturing investment and the ICOR in manufacturing. For long-term projections, this is an appropriate procedure. In the short term, the relationship may however be disturbed by variations in capacity utilization. For example, recently it has been reported that while manufacturers may be unwilling to invest, they are increasing production by using capital more efficiently by, for example, increasing from two to three shifts. To the extent this is occurring the adverse production and employment consequence of low manufacturing investment will be ameliorated. With regard to the outlook for the longer term, this is however not likely to be a panacea since capital utilization has generally been high in Malaysia and therefore the scope for increasing it further is limited. Also this is basically a once and for all effect which, following the recovery in manufacturing output during 1976 and 1977, may have already been exhausted.
- <u>12</u> The reason for these different patterns is that with a fixed ICOR the output growth gradually approaches the growth in investment. Since under Alternative I output growth is initially higher than the 5-6 percent growth in investment, it thus declines over the period towards that level. In cases II and III on the other hand the growth of investment is more rapid than the initial ouput growth and hence output growth increases over the period towards the rate of growth of investment.

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The construction sector, as noted above, is largely dependent on the growth of investment and since in all three alternatives, gross investment grows relatively rapidly, varying from about 8 percent to 12 percent per annum, the resulting growth of construction is high and ranges from about 8 percent to 11 percent per annum.

Finally, it is noteworthy that the service sector grows slightly more slowly than GDP in the three alternatives while in the Government projection services grow slightly faster. The reason for this difference is almost wholly accounted for by the change in the structure of demand. The demand equation used to determine service output in the World Bank projections has an implicit elasticity of 1, assuming no change in the structure of demand. However because the weight given to consumption in service sector demand is much greater than for either exports or investment and because the share of consumption in aggregate demand decreases, the result is that service sector growth is kept below that of GDP. The reason for the fall in the relative weight of consumption is that there is a significant increase in the share of taxes in GDP over time and compared to the implicit level in the TMP. This increase is due to the unanticipated increase in oil revenues (income taxes, royalties and Petronas surplus) as well as an increase in export duties associated with the relatively favorable World Bank commodity price projections. Thus these two components would alone account for between 6-8% of GDP by 1990 compared to less than 3% in 1975./1 This factor is only partially compensated by higher public expenditures in Alternatives II and III.

One result of these projections that also merits explanation is that while the investment rates are as high or higher than in the Government forecast, the GDP growth rates at least for Alternatives I and II, are lower. The principal reason for this difference is that the composition of gross investment is quite different. While the Plan does not disaggregate its private investment rate, it implies a high and growing level of investment in the manufacturing sector in order to sustain the high growth in manufacturing value added. In order to achieve a growth of manufacturing of 12.8 percent, manufacturing investment must be growing at close to 13 percent. As overall private investment is forecast by Government to grow at only 9 percent, the manufacturing share of investment must be increasing while other sectors decreasing. Since the ICOR is considerably less in manufacturing than in other sectors, the output increase resulting from this structure of investment is considerably greater than a pattern where the share of manufacturing investment is less, such as in Alternatives I and II. Besides this, the World Bank projections assume a substantial investment in oil and related areas (such as the LNG plant) which have very high ICORs, and which the Plan does not explicitly include. In addition the World Bank projections have allowed for a considerable investment in building construction which appears

<u>/1</u> While the Government's long-term perspective plan does not indicate the expected level of taxes in 1990, the Plan took a much more conservative view of oil, gas and other export revenues and hence implicitly included a significantly lower tax burden.

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to be less affected by the slowdown in total private investment in 1975 and 1976. Finally, all Alternatives, but especially II and III, have allowed for a continued rapid increase in public investment because of the favorable resource position of the Government. Such investments however tend to have a longer gestation period and a higher ICOR than the average.

One other aspect of these projections that deserves discussion is the intermediate growth implications, the basic point being that the overall period growth rates do not reflect the actual pace of change within the period. These intermediate growth rates are summarized in table A4.2 below. It is also worth noting that a sifnificant increase (15 percent) in income was achieved in 1976 and that the growth rates from 1976 to 85 (column 2) are therefore significantly less than from 1975-85 (see table A4.2).

a tecretes in oil revenues	Avera	age annual gro	owth
· al second in the second a	1975-85	1976-85	1985-90
state in a second first for betw		1010 Decenado	016360 PAR
Alternative I	6.7	5.8	
Alternative II	8.0	7.3	7.6
	8.5	ADD TO MAN AND ADD	8.9

One result of these projections that also parties explanation is

The resource implications of these projections are also quite different (see sable A4.3). On the external side, the projected balance of payments surpluses resources decline as the economy growth rate increases. Thus in the low growth of Alternative I, the 1990 export surplus is over 10 percent of GDP (in current prices) while in the highest growth forecast (Alternative III), this surplus is reduced to 4 percent. Since factor service payments and transfers have historically averaged about -4 percent of GDP, the overall current account in the balance of payments would range from a substantial surplus (6 percent) in Alternative I to an overall balance in Alternative III./1 On the public sector side, the overall dificit also increases with higher growth although the deficit is higher in Alternative II than III since under both these forecasts the Government has accelerated its spending to the same extent while the reaction of the private sector (in terms of investing) is significantly better in Alternative III. In general, while both external and public resource availability become tighter with higher growth, it is clear that, compared to the past, the resource position is much more favorable under all the alternative projections.

<u>/1</u> While the current account would be in balance some borrowing would be required to finance the required increase in foreign exchange reserves. Thus to maintain reserves equal to 6 months of imports, net borrowing would have to be equivalent to about 3 percent of GDP in 1990.

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Table A4.3: RESOURCE AVAILABILITY

l in so case have to Even if the private difficultion with attain and the Government may	Actual Average 1971-75	Projected 1990 Alternatives I II III
Net export surplus <u>/a</u>	1.3	10.6 6.7 3.9
Public sector surplus <u>/b</u>	-8.4	-3.0 -6.7 -5.1

goods and nonfactor services in current prices.

/b Total revenues less current and capital expenditures of the public sector including Petronas.

implications for smoloyment and product

tives have very different Other Possible Strategies: As is clear from the above, Alternatives I and III span a considerable range in private - and especially manufacturing - investment activity, and it appears unlikely that the Government will allow the level of this activity to fall below that of Alternative I or that it will succeed in stimulating it beyond the level of Alternative III. Other possible strategies should therefore reflect alternative assumptions for the public sector, or for the public/private mix. As far as the mix is concerned, a decomposition of the differences between Alternatives I and II, which reflect changes in assumptions for both sectors, throws light on the relative influence of each. Such a decomposition reveals that, between Alternatives I and II, about 28 percent of the increase is due to an expansion of Government spending and the balance, 72 percent, is due to higher private investment. Thus while an expanded Government program can make a significant impact on income growth, it has much less potential for increasing incomes than the recovery in manufacturing investment. Still, if the Government succeeds in giving its additional expenditures a specific antipoverty focus, the impact on poverty alleviation may well be significant.

As Table A4.3 indicates, the resource availability is not exhausted under any alternative, and public sector activity could therefore be extended well beyond the level assumed in Alternatives II and III without running into a resource constraint. In the short run, such further expansion will however probably be limited by implementation capacity (this factor is discussed in chapter 4). In the longer run, such a constraint cannot however be considered as binding, since with determined action it should be possible to remove it. In the meantime - and of course also in the longer term, if so desired there is always the alternative of lowering the tax burden on the private sector and so stimulating it, preferably through larger incentives for production, but otherwise through the increased pull of demand. ini ni base noligenves

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Thus, various levels of public sector activity and stimulation of the private sector can be decided upon, and in the projections they can be combined with various levels of private sector activity. Given the availability of additional opportunities, the Government will in no case have to accept an outcome as unfavorable as Alternative I. Even if the private sector picks up substantially, there may however be difficulties with attaining the long-term NEP targets (see below and chapter 20) and the Government may consider increasing its outlays beyond those assumed in Alternatives II or III, thus accelerating growth and easing the constraints on attainment of the restructuring targets. Moreover, the better the performance of the private sector, the less difficult the task for the public sector will become, as the poverty and employment problems will increasingly be solved through private sector expansion and the Government will therefore have to provide less attention to the difficult direct attack on poverty.

Implications for the NEP Targets and the tarting and asymptot later di

<u>Poverty</u>. As can be seen in table A4.4, the various growth alternatives have very different implications for employment and productivity growth./1 In the low growth forecast (Alternative I) the implied growth of agriculture employment is 4.4 percent /2 and output per worker actually falls. The impact on poverty reduction of such a decline would obviously be considerable. To measure precisely the extent of this effect is impossible without information on the distribution of poverty incomes as well as the distribution of the benefits of growth. However, it is possible to roughly estimate the minimum impact lower growth would have on poverty reduction.

<u>/1</u> The employment implications of the three alternative growth paths have been derived in the following manner. First the overall labor force and employment growth rates of the Perspective Plan (OPP) are taken as given. Second the employment elasticities from the OPP for all sectors but agriculture have been multiplied by the various sector output growth rates to determine employment for those sectors. Third given total employment, agricultural employment is determined as a residual. In Malaysia's circumstances, and given the high employment elasticity already assigned to the service sector in the OPP, it appears reasonable to let agriculture be a residual, rather than for instance services. Thus a greater or lesser availability of jobs in the industrial and service sectors would for the most part result in less or more labor remaining in agriculture. An alternative might be to allow unemployment to be the residual.

<u>/2</u> As noted above, the 4.4 percent is residually determined and if unemployment were allowed to increase there would be a corresponding reduction in the required absorption of labor in the agriculture sector. While it is likely that there would be some spillover into unemployment, the negative impact on poverty reduction is not lessened but increased. Thus the asumption used in this analysis if anything understates the negative impact on poverty of lower growth.

these estimates are

This estimate, which is provided in table A4.5 below, suggests that under the lower growth of Alternative I there would be at least twice as many households in poverty in 1990 as are projected in the perspective plan./1

Total	Agriculture	1975-90	Alternative	Projections
	OPP	I	II	III
				75
1,902	180	Employment		
		ST6		mber of housei
griculture	1.0	4.4	3.3(000)	sbloris1.1 in
lining	0.5	0.3	0.3	0.3 hts
lanufacturing	6.8	4.1	5.9	6.8
Jtilities	4.3	5.3	5.3	6.0 00
Construction	4.7	4.2	5.5	6.4
Services	4.6	2.6	3.8	4.3.99
Total	3.2	3.2 000		3.2
	2) 2	242		Poor household
	<u>Ou</u>	tput Per Worker		Incidence of
griculture	4.3	-0.1	2.1	4.7
lining	4.5	2.4	2.4	2.4
fanufacturing	5.5	3.5	4.9	5.6
Itilities	5.2	4.2 100	4.2	Lone 4.6
Construction	3.4	3.2		4.6
Services	4.1	2.0	3.0	3.3

Table A4.4: EMPLOYMENT AND PRODUCTIVITY GROWTH PROJECTIONS (percent per annum)

Source: Third Malaysian Plan, World Bank estimates.

In Alternative II, it is not as easy to quantify the poverty impact since with output per worker increasing a reduction in poverty incidence in agriculture could probably be achieved. It is clear, however, that with productivity increasing only half as fast as in the Plan projections, poverty reduction would still be considerably less than targeted.

/1 This conclusion needs to be qualified somewhat in view of the fact that real agricultural incomes will, because of the improved terms of trade, grow somewhat faster than production (about 0.6 percent per annum). As against this, the growth in agriculture will be concentrated heavily in the new development schemes, leaving less for the remaining smallholders. Also, if employment does not grow rapidly, the poverty in urban areas will probably remain much closer to the present incidence than is assumed in the table.

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The obvious conclusion is that anything less than the growth implied by Alternative III would have serious adverse consequences on the progress in reducing poverty incidence toward the 1990 goal of 17 percent.

Table A4.5: ILLUSTRATIVE POVERTY PROJECTIONS PENINSULAR MALAYSIA 1975-1990

iternative Frojections	Agriculture	Non Agriculture	Total
1975			
Number of households (000)	915	987	1,902
Poor households (000)	577	258	835
Incidence of poverty (%)	63.0	26.1	43.9
5.9 618		8.8	Manufacturing
1990	5,3	6.4	Utiliteics
5.5 5.4		4.7	Construction
Perspective Plan	2.6	4.4	
Number pf households	909	2,162	3,071
Poor households	242	272	514
Incidence of poverty	26.6	12.6	16.7
Alternative I /a	I.0-	2.4	
2.4 2.4	2.4	4.5	Agriculture
Number of households	1,511	1,560	3,071
Poor households	951	197	1,148
Incidence of poverty	63.0	12.6	37.4
E.C 0.E	Que	1.0	Sarut and Lune ?

<u>/a</u> The Alternative I calculations are given to illustrate the minimal impact on poverty reduction of the lower growth rates. The basic assumptions in these estimates are (i) that households in the agricultural sector grow at 3.4 percent per annum (ii) that given the decline in value added per worker in agriculture there would be no reduction in the incidence of poverty in agriculture from the 1975 level and (iii) that the 1990 poverty incidence target in the nonagriculture would decline to the Plan target of 12.6 percent by 1990 (an optimistic assumption since productivity in these sectors is growing more slowly than in the Perspective Plan). Another assumption in these estimates is that the implicit relationships in the Plan between employment and income growth and poverty reduction are appropriate.

Source: Third Malaysia Plan, World Bank estimates.

grow somewhat faster than production (about 0.6 percent per mmuma). As against this, the growth is spriculture will be concentrated heavily in the new development schemes, leaving less for the remaining smallholders. Also, if employment does not grow repidly, the poverty is urban steas will probably remain much closer to the present incidence than is assumed to the tebuter.

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<u>Racial Restructuring</u>. Based on the sectoral employment growth rates discussed above, the employment restructuring estimates have been re-evaluated./1 The analysis proceeds by taking as given the overall labor force employment growth estimate of the OPP, and calculates the sectoral employment growth rates of the various alternatives outlined above, then the growth of employment of Malays and non-Malays required to achieve the industry and service sector restructuring targets are calculated. Employment by race in agriculture is then determined residually.

Under the low growth projection (Alternative I) satisfying the racial employment objectives in industry and services implies holding the non-Malay growth of employment in these sectors substantially below labor force growth (see table A4.6). Looked at from a different perspective, the targets would mean that over 75 percent of new jobs in industry and 62 percent of new jobs in services would go to Malays (see table A4.7). This would result in either substantial reverse migration of non-Malays to the agriculture sector (as implicit in tables A4.6 and A4.7) or if the racial objective target in agriculture were to be achieved there would be widespread non-Malay unemployment. The first of these outcomes does not seem feasible while the second could obviously not be tolerated within the framework of the NEP which emphasizes that gains of one group are not to be a direct expense of another group but rather would come from a redistribution of growth benefits. The clear implication then is that by providing for employment growth of non-Malays in industry and services at least equal to their labor force increase, the racial restructuring targets could not be met. Under the second alternative, these negative results would be ameliorated considerably, however, there would still be considerable pressure in the non-Malay labor market and reverse migration to agriculture by non-Malays would still be implied. In order to reasonably achieve the racial employment targets, it is imperative therefore that the economy grow at least as fast as implied in the accelerated growth projection of Alternative III. Thus, while from an income growth standpoint Alternative II satisfies the OPP targets, it does not allow the satisfaction of the restructuring targets.

The implications of the various growth alternatives for achieving the racial restructuring targets by occupational categories are not as straight forward, since the OPP assumes some significant changes in the occupational pattern within sectors over the period. As much of the occupational restructuring effort is focused on increasing the Malay share in the two highest level occupational categories, professional and technical and administrative and managerial, in the secondary sector, an examination of the impact on these two job categories highlights the principal issues involved.

Looking first at the professional and technical category, the OPP projects a substantial increase in the relative share of jobs in this category, from 2.5 percent in 1975 to 4.3 percent (see table A4.8). The effect of such an increase is two fold. First, combined with the target of

<u>/1</u> For purposes of comparison with the OPP, the discussion of employment restructuring is converted to a Peninsular Malaysia basis.

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culates the sectors outlined above, the ad to achieve the i	Plan	a qf the various a and non-1	II Percent per a	III
Agriculture	1.0	3.8	2.1	arvice sector
Malay	0.4	2.7	1.3	0.4
Non-Malay	2.1	5.5	3.6	2.3
Industry	4.9	3.5	4.9	5.7 Talak
Malay	7.5	6.0	7.4	8.2
Non-Malay	3.1	1.6	3.0	3.7000 030
Services	4.9	2.6	3.8	4.3
Malay	5.8	3.5	4.7	10305.20105 Lus
Non-Malay	4.1	1.8	3.0	1 193.51 evitor
Total	3.4	3.4	lavola blue	brande and al
Malay	3.5	3.5	antag gains	which 3.5 dolda
Non-Malay	3.2	3.2	3.2	3.2 and and
Labor Force	3.1	3.1	3.1	wind of of the late
Labor Force Malay	3.1 3.3	3.1 3.3	3.1 3.3	3.1 3.3
Malay Non-Malay		3.1 3.3 2.9 m; World	2.9	3.3 2.9
Malay Non-Malay Source: Third <u>Table A4.7</u> :	3.3 2.9 Malaysia Pla EMPLOYMENT F PENINSULAR MA	ESTRUCTU LAYSIA,	2.9 Bank estimat RING IMPLICA 1975-90	3.3 2.9 tes.
Malay Non-Malay Source: Third <u>Table A4.7</u> :	3.3 2.9 Malaysia Pla EMPLOYMENT F PENINSULAR MA Agri	ESTRUCTU LAYSIA, culture	2.9 Bank estimat RING IMPLICA 1975-90 Industry 36.5	3.3 2.9 tes. CIONS, Services
Malay Non-Malay Source: Third <u>Table A4.7</u> : Share share in increment	3.3 2.9 Malaysia Pla EMPLOYMENT F PENINSULAR MA Agri 6 al	ESTRUCTU LAYSIA, Culture	2.9 Bank estimat RING IMPLICA 1975-90 Industry 36.5	3.3 2.9 tes. FIONS, Services
Malay Non-Malay Source: Third <u>Table A4.7</u> : Share share in increment loyment Lan projections	3.3 2.9 Malaysia Pla EMPLOYMENT F PENINSULAR MA Agri dal	Culture	2.9 Bank estimat RING IMPLICA 1975-90 Industry 36.5 66.2	3.3 2.9 tes. TIONS, Services 42.3
Malay Non-Malay Source: Third <u>Table A4.7</u> : Share share in increment loyment Lan projections	3.3 2.9 Malaysia Pla EMPLOYMENT F PENINSULAR MA Agri 6 al	ESTRUCTU LAYSIA, Culture	2.9 Bank estimat RING IMPLICA 1975-90 Industry 36.5 66.2 75.7	3.3 2.9 tes. FIONS, Services

Source: Third Malaysian Plan, World Bank estimates.

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Malays Non-Malays Alternative II

Non-Malays

Non-Malayn

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increasing the Malay share in this category from 40 percent to 57 percent, the required growth of Malay jobs in this category is very high, 11.4 percent per annum over the period. At the same time it allows for a rapid increase for non-Malays of 6.5 percent. The second effect is to substantially dilute the impact of slower industrial growth on meeting this particular target. Thus for example under the low growth alternative, non-Malay employment growth in this category, at 4.9 percent per annum, is still substantially above labor force growth. It is essentially this increase in the relative share of the professional and technical category that provides the cushion for slower growth. A constant occupational structure would have much more severe consequences as is clear from examining the administrative and managerial category. In this category, the OPP projects a slight decline in its relative share from 2.3 percent to 2.1 percent which, when combined with the target of substantially increasing the Malay share, seriously constrains the possible growth of non-Malay jobs in this category. Thus even in the highest growth alternative (III) non-Malay employment is below labor force growth while in the low growth alternative non-Malay growth would be restricted to less than 1 percent if the target were to be met. One conclusion therefore is that the restructuring of occupational categories is made considerably easier, in terms of allowing for non-Malay growth, if there is a significant increase in the relative size of the occupational category as for instance with the professional and technical group. This is a double-edged sword, however, since it also implies significantly more rapid growth of Malay employment in these occupations which will require an intensified effort to provide Malays with the requisite education and skills.

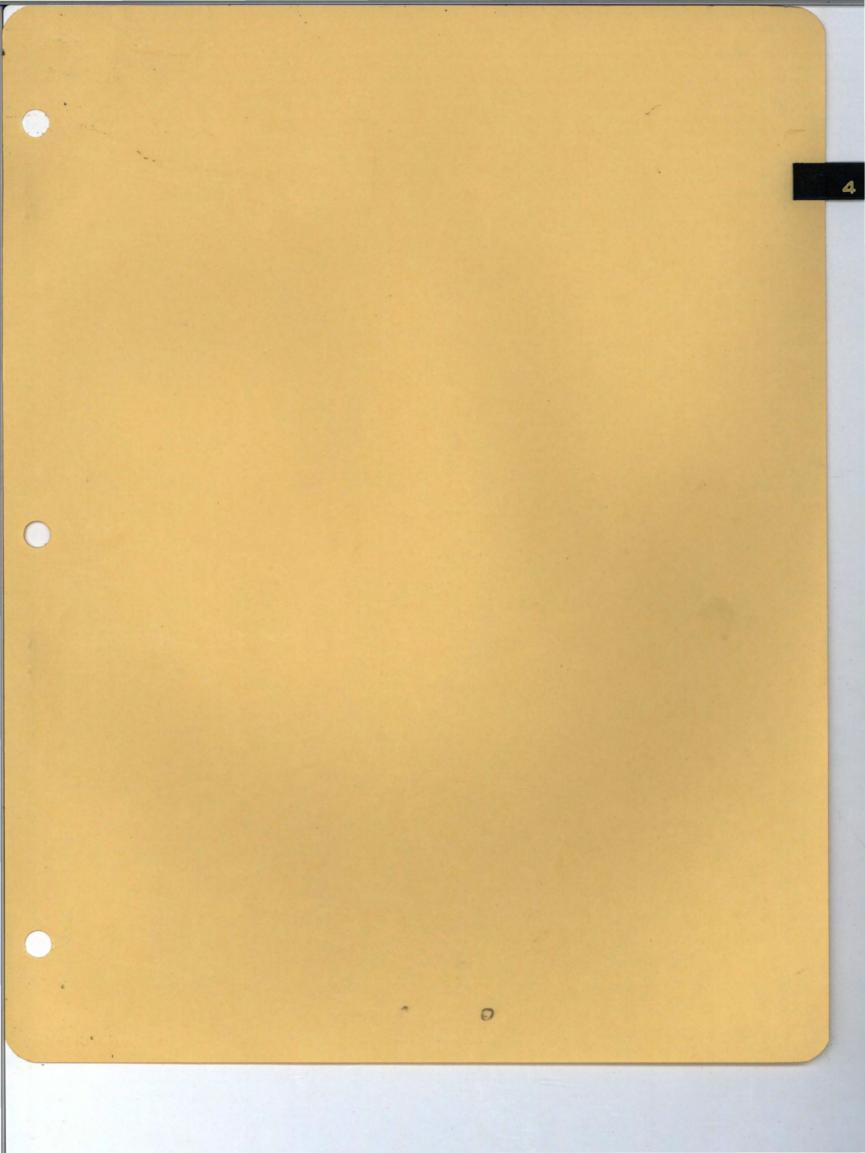
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 it allows for a rapid increase iffect is to substantially dilute eting this particular target, active, non-Malay employment annum, is still substantially 	Professional & <u>technical</u> 1975 1990	Administrative & <u>managerial</u> 1975 1990
y this increase in the relative	Listinases at aT da	North Annal and a land
Projected share of jobs in sector OPP target Malay share (%):	40.0 56.6	21.7 43.2
I. Malay share of additional jo required to meet target (%)	DS 1975-90	1975-90
Action and a series of Alternatives	I 65.6 II 63.2 II 63.0	67.9 63.1
required to meet targets	lowing for non-Malay	assier, in terms of al increase in the relati
UPP	The second state of the se	and the set of the set
Malays	The state 4 an Etanamo	2.3 M ab tyong
Alternative I		
Malays	9.8	8.0
Non-Malays	4.9	0.7
Alternative II		*
Malays	11.3	9.1
Non-Malays	6.4	2.0
Alternative III		
Malays	10.6	9.9
Non-Malays	7.2	2.7

Table A4.8: RESTRUCTURING OF SECONDARY SECTOR BY OCCUPATION

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F. REFERENCE MATERIAL

4. External Debt and Assistance

<u>Current Status</u>. Malaysia's external debt burden is low compared to most other developing countries. At the end of 1976, Malaysia's external public debt stood at US\$1.7 billion (US\$3.2 billion including undisbursed) with debt service payments amounting to US\$237 million, the equivalent of 4.3% of exports (see Table 1).

Of the total disbursed debt outstanding, 45% is in the form of multilateral and bilateral loans, of which the World Bank holds 42%, the ADB 14%, and foreign governments 45%. The largest source of bilateral lending in the past has been the Japanese Government which holds over half of the bilateral debt. Other important sources of bilateral assistance have been the United States, the United Kingdom, and the Federal Republic of Germany which together hold most of Malaysia's remaining bilateral debt. These figures, however, do not reflect the recent substantial increase in assistance, which has been committed but not yet disbursed, from Saudi Arabia and Kuwait. During 1975 and 1976 these two countries accounted for US\$100 million out of the total commitments of bilateral assistance of US\$300 million.

The rest of Malaysia's debt is composed almost entirely of private bank credits, the vast majority of which have come from US banks (76% of private bank credits outstanding in 1976). Supplier credits make up only an insignificant portion of Malaysia's external debt (less the 1% of debt outstanding).

	Disbursed	Undisbursed	Total
Suppliers' Credits	<u>30</u>	<u>4</u>	34
Private Banks and Bonds	825	740	1,565
Multilateral	396	529	925
ADB	91	153	244
IBRD	306	376	681
<u>Bilateral</u>	328	309	637
Canada	7	54	61
Germany (Fed. Rep.)	16	35	51
Japan	169	68	237
Kuwait	1	25	26
Saudi Arabia	-	76	76
United Kingdom .	49	2	51
United States	64	28	92
Other	22	21	43
Other Public Debt	21	-	21
Total public debt	1,619	1,581	3,200

Table 1: EXTERNAL PUBLIC DEBT OUTSTANDING, Dec. 31, 1976 (US\$ million)

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Forecast. By 1981, it is projected that Malaysia's external debt outstanding and disbursed will increase to about US\$3.3 billion (US\$4.4 billion including undisbursed) and that the <u>debt service</u> ratio would increase only slightly to about 4.6% of exports. Of this total, it is expected that the Bank's share of disbursed debt would increase slightly from the current level of 19% to about 22% in 1981. This increase in the Bank's share is based on the expectation that, in view of Malaysia's good external prospects, cash borrowing for balance of payments support will be significantly less than in the past. In terms of total commitments for official project assistance, it is expected that the current real level will be approximately maintained. Within this total there may be a small increase in the share of the multilateral and OPEC donors and a small decline in the share of Japan and other bilateral governments.

		Actual 1972-76		-81
	\$	%	\$	%
IBRD	463	40	752	43
ADB	193	17	345	20
Japan	204	18	250	14
OPEC	111	10	220	12
Other bilateral	169	15	200	11
Total	1,140	100	1,765	100

Table 2: PROJECT ASSISTANCE COMMITMENTS (US\$ million)

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F. REFERENCE MATERIAL

5. Income Inequalities

While overall income inequality between races is acknowledged to be high in Malaysia, the income inequality within racial groups is also considerable. Thus, although <u>Chinese average incomes are twice</u> as high as those of Malays, the spread-within each racial group is much larger than that between racial groups, and most Malays therefore earn more than a poor Chinese or Indian. Looked at from a different perspective, while most of the poor are Malay, there is also substantial poverty among non-Malays. Thus, in 1970, 26% of the Chinese and almost 40% of the Indian populations were poor.

An explicit aim of the NEP is to reduce poverty irrespective of race. The second prong of the NEP, which aims to redress overall racial imbalances, may, however, complicate efforts to reduce poverty among non-Malays. For instance, the main vehicle for reducing poverty is rapid employment growth <u>in industry and services</u>. However, in an effort to racially restructure employment in these sectors, growth of non-Malay employment will be kept to a minimum. At the same time, non-Malays are expected to comprise almost all of the additional employment in agriculture in the future. Further, major government programs, such as land development, severely restrict participation by non-Malays. In this light, we have suggested to Government *K* that it explicitly set as an objective the improvement of income among the poor and near poor in the non-Malay groups.

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F. REFERENCE MATERIAL

4. External Debt and Assistance

<u>Current Status</u>. Malaysia's external debt burden is low compared to most other developing countries. At the end of 1976, Malaysia's external public debt stood at US\$1.7 billion (US\$3.2 billion including undisbursed) with debt service payments amounting to US\$237 million, the equivalent of 4.3% of exports (see Table 1).

Of the total disbursed debt outstanding, 45% is in the form of multilateral and bilateral loans, of which the World Bank holds 42%, the ADB 14%, and foreign governments 45%. The largest source of bilateral lending in the past has been the Japanese Government which holds over half of the bilateral debt. Other important sources of bilateral assistance have been the United States, the United Kingdom, and the Federal Republic of Germany which together hold most of Malaysia's remaining bilateral debt. These figures, however, do not reflect the recent substantial increase in assistance, which has been committed but not yet disbursed, from Saudi Arabia and Kuwait. During 1975 and 1976 these two countries accounted for US\$100 million out of the total commitments of bilateral assistance of US\$300 million.

The rest of Malaysia's debt is composed almost entirely of private bank credits, the vast majority of which have come from US banks (76% of private bank credits outstanding in 1976). Supplier credits make up only an insignificant portion of Malaysia's external debt (less the 1% of debt outstanding).

	Disbursed	Undisbursed	Total
Suppliers' Credits	<u>30</u>	<u>4</u>	34
Private Banks and Bonds	825	740	1,565
<u>Multilateral</u>	396	529	<u>925</u> 244
ADB	91	153	
IBRD	306	376	681
<u>Bilateral</u>	328	309	637
Canada	7	54	61
Germany (Fed. Rep.)	16	35	51
Japan	169	68	237
Kuwait	1	25	26
Saudi Arabia	-	76	76
United Kingdom	49	2 .	51
United States	64	28	92
Other	22	21	43
Other Public Debt	21	-	21
Total public debt	1,619	1,581	3,200

Table 1: EXTERNAL PUBLIC DEBT OUTSTANDING, Dec. 31, 1976 (US\$ million)

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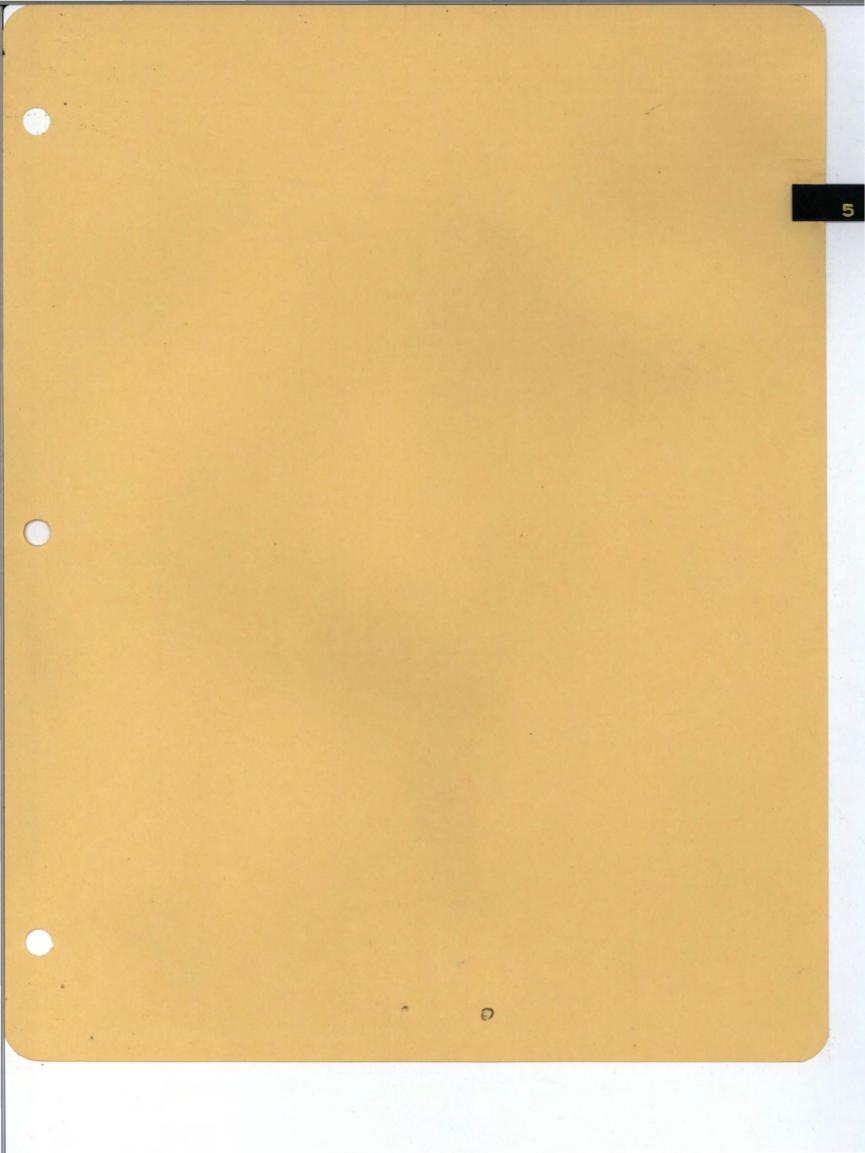
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<u>Forecast</u>. By 1981, it is projected that Malaysia's external debt outstanding and disbursed will increase to about US\$3.3 billion (US\$4.4 billion including undisbursed) and that the debt service ratio would increase only slightly to about 4.6% of exports. Of this total, it is expected that the Bank's share of disbursed debt would increase slightly from the current level of 19% to about 22% in 1981. This increase in the Bank's share is based on the expectation that, in view of Malaysia's good external prospects, cash borrowing for balance of payments support will be significantly less than in the past. In terms of total commitments for official project assistance, it is expected that the current real level will be approximately maintained. Within this total there may be a small increase in the share of the multilateral and OPEC donors and a small decline in the share of Japan and other bilateral governments.

		Actual 1972-76		Projecte 1977-81	
	\$	%	\$	1015	%
IBRD	463	40	752		43
ADB	193	17.	345		20
Japan	204	18	250		14
OPEC	111	10	220		12
Other bilateral	169	15	200	•	11
Total	1,140	100	1,765		100

Table 2: PROJECT ASSISTANCE COMMITMENTS (US\$ million)

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F. REFERENCE MATERIAL

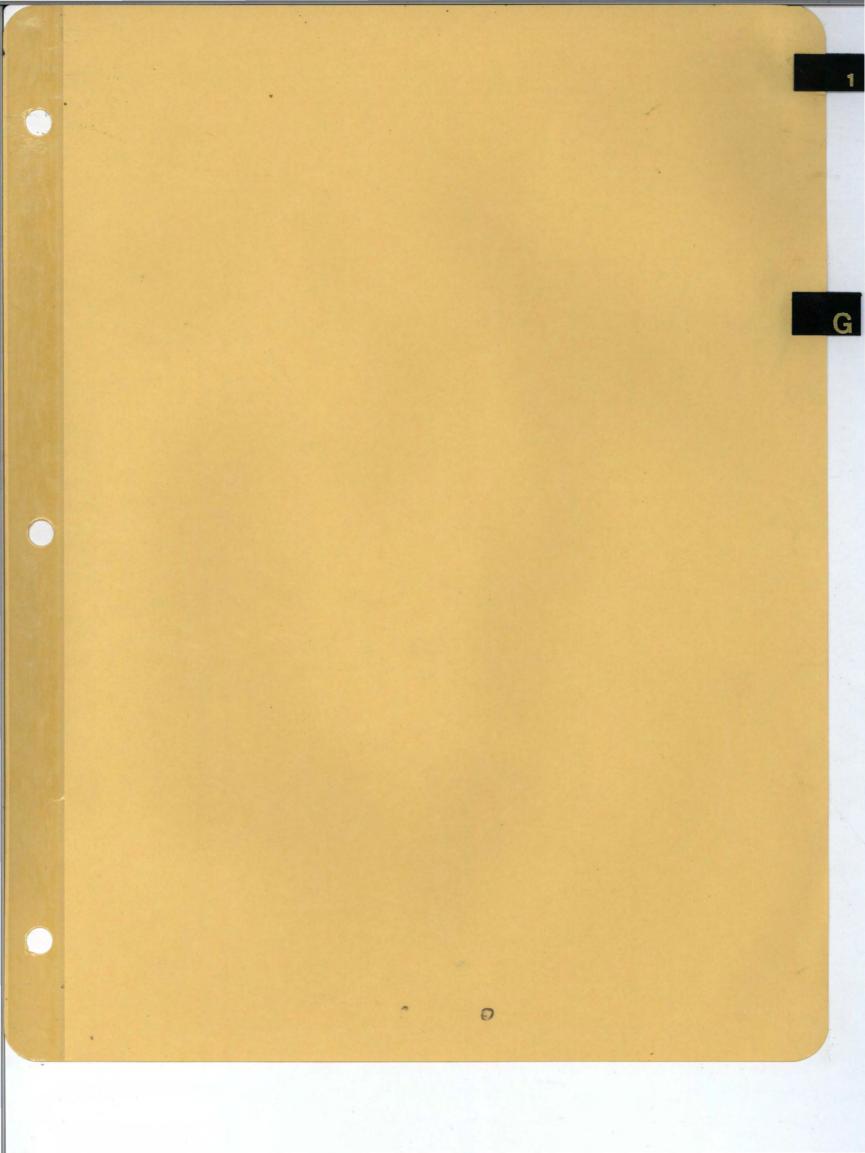
5. Income Inequalities

While overall income inequality between races is acknowledged to be high in Malaysia, the income inequality within racial groups is also considerable. Thus, although Chinese average incomes are twice as high as those of Malays, the spread-within each racial group is much larger than that between racial groups, and most Malays therefore earn more than a poor Chinese or Indian. Looked at from a different perspective, while most of the poor are Malay, there is also substantial poverty among non-Malays. Thus, in 1970, 26% of the Chinese and almost 40% of the Indian populations were poor.

An explicit aim of the NEP is to reduce poverty irrespective of race. The second prong of the NEP, which aims to redress overall racial imbalances, may, however, complicate efforts to reduce poverty among non-Malays. For instance, the main vehicle for reducing poverty is rapid employment growth in industry and services. However, in an effort to racially restructure employment in these sectors, growth of non-Malay employment will be kept to a minimum. At the same time, non-Malays are expected to comprise almost all of the additional employment in agriculture in the future. Further, major government programs, such as land development, severely restrict participation by non-Malays. In this light, we have suggested to Government that it explicitly set as an objective the improvement of income among the poor and near poor in the non-Malay groups.

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. C. Koch-Weser, EXC

FROM:

SUBJECT:

M: R. Overby, OEH

DATE: May 12, 1978

MALAYSIA - Environmental Technical Assistance 1974/75: Information Requested May 2, 1978

Please find below a highly condensed subject summary:

1. Subsequent to a GAO investigation requested by Congressman Henry Reuss in 1973, Mr. Reuss presented his main points in a letter to Mr. McNamara, April 19, 1974. That letter, in turn, was answered on May 3, 1974.

2. During the Bank's Annual Meeting the same year, its environmental interests were discussed with the Honorable Datuk Hussein Onn and it was agreed to send a mission to Malaysia in February 1975 to carry out a joint environmental study, the details of which would be arranged during a preliminary visit by Messrs. Goodland and Overby in November 1974.

These ideas were conveyed by Mr. F.L.C.H. Helmers, AEA, to Mr. C.I. Robless in a letter dated November 4, 1974. Mr. Robless, at that time, was the Deputy Director General, Economic Planning Unit, Prime Ministers' Department. He was instrumental to the subsequent successful conduct of both Bank missions and is now with the Bank here at Headquarters. Possibly he is the person most knowledgeable of how Malaysia, in fact, has reacted to the assistance offered by the Bank.

3. The final report on the Bank's efforts (Attachment I) was dated December 1975 and sent to the GOM as a "Draft for Discussion" document on March 12, 1976, by Mr. C.B. Votaw. To the cover letter was attached an "Environmental Brief" (Attachment II) representing the <u>Bank's</u> recommendations to the Government.

4. Utilizing this material the Government formulated the Chapter XI of the Third Malaysia Plan entitled "Development and the Environment" which represents the nation's Environmental Policies (Attachment III).

5. Subsequent to these accomplishments it is not known to this Office that significant signs of implementation have materialized, nor that Bank project staff have pushed especially hard toward that end as regards wildlife and related issues. It may in fact be true that a second GAO inquiry would be as rational now as when Mr. Reuss had the first one ordered.

If it is desirable to ascertain what steps really have been taken by Bank staff and/or the Government, the AEA should be requested to describe important events. Nobody from this office has visited Malaysia since 1975.

Mr. C. Koch-Weser

Attachments:

- Malaysia, Environment and Development. A report to the Government of Malaysia by a World Bank Environmental Mission, December 1975.
- II. Letter with attachment (Environmental Brief) of March 12, 1976 to Tan Sri Kadir Shamsudin from G. B. Votaw.
- III. Third Malaysia Plan 1976-1980, Chapter XI, Development and Environment
- cc: Dr. James A. Lee, OEHA Mr. R. Goodland, OEHA Mr. J. Tixhon, OEHA

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THE STATUS OF BANK GROUP OPERATIONS IN MALAYSIA

1. STATEMENT OF BANK LOANS (AS OF MARCH 31, 1978)

State of the

States -

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Loan				US\$	ount.in million ancellations).
Number	Year	Borrower	Purpose	Bank	Undisbursed
Fifteen		fully disbursed		276.9	
599	1969	Malaysia	Education (I)	8.8	0.2
774	1971		Ports	16.1	1.5
799	1972	Malayan Railway		14.0	
010	1070	Administration	Railroad	16.0	0.3
810	1972	Malaysia	Education (II)	15.5	9.5
880	1973	Malaysia	Population	5.0	3.9
885	1973	Malaysia	-Land Settlement	25.0	10.9
908	1973	Malaysia	Water Supply (II)	13.5	2.1
931	1973	Malaysia	Highway (II)	19.5	6.3
967	1974	Malaysia	Land Settlement	40.0	23.2
973	1974	Malaysia	Agricultural Development	45.0	40.4
974	1974	Malaysia	Education (III)	19.0	16.9
10,31	1974	National Electricity	- ()		14.0
		Board	Power (VI)	43.3	16.8
.1044	1974	Malaysia	Land Settlement	36.0	29.3
1115	1975	Malaysia	Agricultural Research		
(•	and Extension	28.5	27.6
1178	1975	National Electricity			
		Board	Power (VII)	35.0	31.5
1213	1976	Malaysia	Sewerage	21.5	21.2
1214	1976	Malaysia	Urban Transport (II)	26.0	24.4
1294	1976	Malaysia	KRural Development	21.0	20.7
1329	1976	Malaysia	Education (IV)	35.0	35.0
1376	1977	Malaysia	Highway (III)	35.0	34.0
1443	.1977	National Electricity			
		Board	Power (VIII)	22.0	22.0
1444	1977	Malaysia	Irrigation	39.0	39.0
		Total effective commit	tment	842.6 /	1
		of which has been re	epaid	82.4	
		Total now outstanding		760.2	
		Amount sold	38.5		
		of which has been re	epaid ' <u>13.1</u>	25.3	
		Total effective loans	now		
		held by Bank		734.9	
•		Total undisbursed			416.7

An additional loan of US\$19.0 million for the National Extension Project was signed on January 10, 1978, and another loan of US\$26.0 million for the Northwest Selangor Integrated Agricultural Development Project was signed on March 8, 1978, but they were not effective as of March 31, 1978.

4 Section

STATEMENT OF IFC INVESTMENTS (AS OF MARCH 31,1978)

		Type of	Amoun	t in US\$ Mil	llion
Year		Business	Loan	Equity	Total
1964		Development Financing	-	1.31	1.31
1966	Tasek Cement Ltd.	Cement	1.28.	0.28	1.56
1968	Malayawata Steel Ltd.	Steel	2.45	1.01	3.46
1969	Malayawata Steel Ltd.	Steel	-	0.23	0.23
1970	India-Malaysia Textiles Ltd.	Textiles	1.25	0.25	1.50
1974		Development Financing	-	0.63	0.63
	Total gross commitments		4.98	3.71	8.69
	Less: repayments, sales, c terminations and wri		3.79	3.46	7.25
	Total investments now held	by IFC	1.19	0.25	1.44
	Total undisbursed		-	-	

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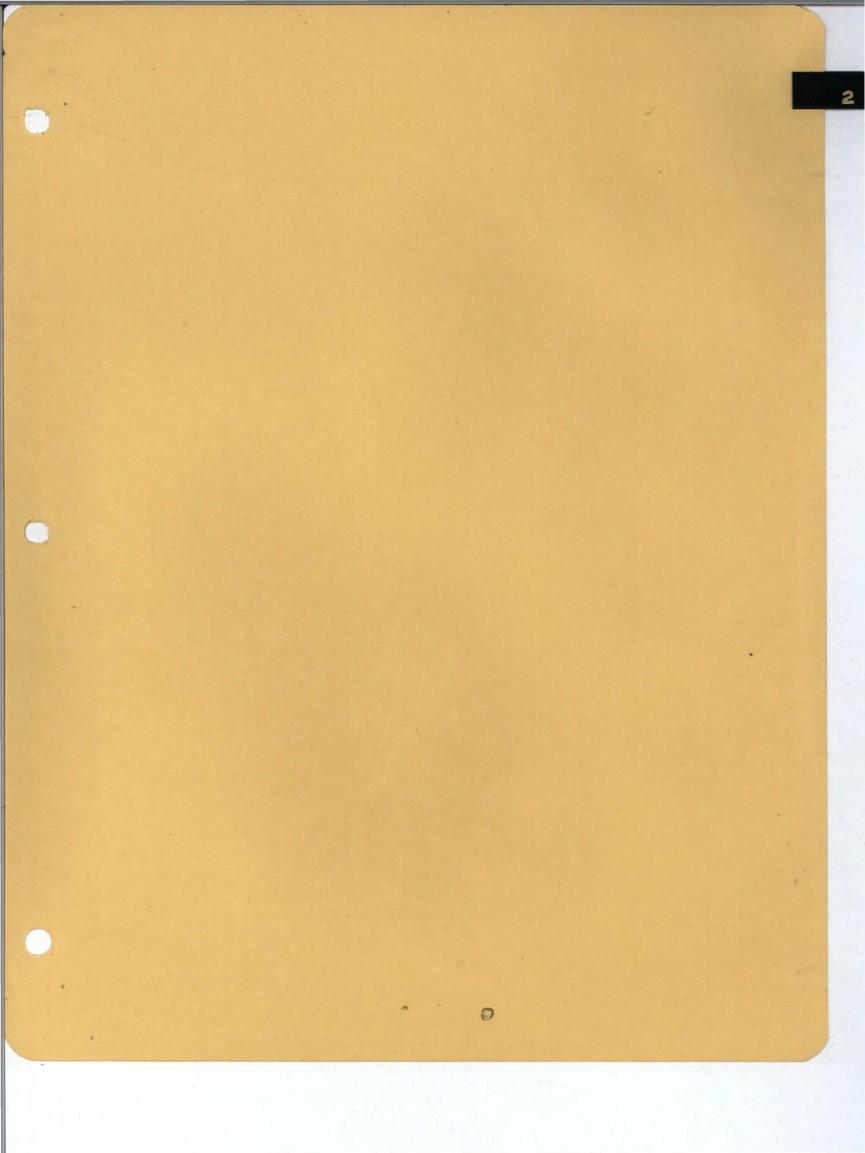
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SUMMARY STATEMENT OF BANK COMMITMENTS

		(US\$M)
Ι.	Total effective commitment as of June 30, 1977: 37 projects	842.6
11.	Committed during FY78 up to June 9, 1978:	
	•• National Extension Northwest Selangor Integrated Rural Devt. Sabah Ports	19.0 26.0 13.0
111.	Total effective commitment as of June 9, 1978: 40 projects	900.6
IV.	To be committed period June 9, 1978-June 30, 1978:	
	Population II Felda VI	17.0 28.0
v.	Total expected effective commitment as of June 30, 1978:	
	42 projects	945.6

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2. PROJECTS IN EXECUTION

Loan No. 774 Sabah Ports Project; US\$16.1 Million Loan of June 30, 1971; Effective Date: August 24, 1971; Closing Date: June 30, 1978

Work has been satisfactorily completed on the new berths at Kota Kinabalu and Sandakan. Slow progress in completing the access road to Sandakan delayed full use of the latter facilities until mid-1977. The new headquarters building has been occupied. Delay in mobilization, procurement of materials and difficulties in retaining suitable consultant engineers, compounded with the world-wide inflation, resulted in a cost overrun of about 50%. Settlement of an outstanding claim by the contractors will delay the final account and the closing date of the loan has been postponed by 18 months to June 30, 1978.

Loan No. 799 Railway Project; US\$16.0 Million Loan of February 11, 1972; Effective Date: April 17, 1972; Closing Date: March 31, 1978

All equipment and materials have been received. Malayan Railway (MR) operations showed an all-round improvement during 1976 and 1977 although some key efficiency indicators were still below acceptable standards, especially those pertaining to locomotive and rolling stock maintenance. As a result of a successful marketing drive in 1976, a modest financial return of about 1% was achieved that year compared to losses incurred during the previous ten years. A substantial wage award effective July 1, 1977 imposed a new strain on financial recovery, but subsequent tariff increases and some economies in expenditure should produce a break-even result in 1977 and enable a profit to be earned in 1978 and thereafter. Reasonable progress is being made in clearing the external audit backlog. The remaining balance of some \$300,000 is expected to be fully disbursed shortly.

Loan No. 931 Second Highway Project; US\$19.5 Million Loan of August 22, 1973; Effective Date: October 25, 1973; Closing Date: March 31, 1980

Overall, the project is about 85% completed. Two of the three contract sections constituting the new Kuala Lumpur-Seremban Expressway have been completed and the third section which is nearing completion has been partially taken over. Except for a two mile section at the northern end, the Expressway was opened for traffic in October 1976. The improvement works to the existing Kuala Lumpur-Seremban Road are substantially completed, while the widening and improvement works of the Kuala Lumpur-Batang Kali Road, which were started in November 1976, will take still one and a half to two years to complete. Consulting services for various studies and detailed engineering have been completed. Construction costs have escalated sharply because of rapid inflation, and the total project cost is now estimated to be US\$46 million, compared to an appraisal estimate of US\$37 million.

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Loan No. 1214 Second Kuala Lumpur Urban Transport Project; US\$26.0 Million Loan of March 11, 1976; Effective Date: November 11, 1976; Closing Date: June 30, 1981

The main objective of the project is to increase the efficiency of the transport system in Kuala Lumpur. Public transport services will be improved while the use of private cars will be restrained. Although primarily concerned with urban transport, the project also introduces new approaches to residential development for low-income families. The main components are: (a) road and intersection improvements, traffic engineering and control schemes and new radial roads; (b) transport policy measures including introduction of minibus services, traffic priorities for high-occupancy vehicles and area road pricing; (c) new serviced plots for about 1,400 households and 150 businesses and improvement of infrastructure services for about 2,100 existing households; and (d) technical assistance to support traffic management and transport planning, to prepare an urban development project for Kuantan, and to review national housing policies and programs. Progress on the transport components has been quite satisfactory although delays have been experienced. Execution of the residential components has been less satisfactory due to administrative and policy problems.

Loan No. 1376 Third Highway Project; US\$35.0 Million Loan of April 4, 1977; Effective Date: May 4, 1977; Closing Date: June 30, 1982

The main objective of the project is to improve the highway network in the East Malaysian State of Sabah through the reconstruction and upgrading of priority links and the development of the Public Works Department's maintenance capacity. A further objective is to protect road investments in Peninsular Malaysia through a pilot road maintenance and pavement strengthening program in three states. The project also includes an urban study of Kota Kinabalu in Sabah and a transport/railway study in Peninsular Malaysia. Construction work on the East and West Coast Roads in Sabah started in September 1977, about five months behind schedule. The highway maintenance and upgrading program in Sabah has not yet been started due to a delay of about. one year in appointing consultants to assist PWD. While satisfactory progress has been made in the preparatory work for the construction in Peninsular Malaysia, the reorganization of maintenance sections in the three pilot states is behind schedule due to staff shortages. The consulting services for the studies are slightly behind schedule and will be completed during the first half of 1978.

Loan No. 1031 Sixth Power Project; US\$45.0 Million Loan of July 25, 1974; Effective Date: October 22, 1974; Closing Date: June 30, 1980

Loan No. 1178 Seventh Power Project; US\$35.0 Million Loan of December 17, 1975; Effective Date: March 10, 1976; Closing Date: June 30, 1981

Loan No. 1443 Eighth Power Project; US\$22.0 Million Loan of August 3, 1977; Effective Date: January 9, 1978; Closing Date: June 30, 1982

The 275 kV transmission lines from Temengor to Papan and from Port Dickson to Malacca financed under the Sixth Power Project have been completed. The Seventh Power Project (the Prai Power Station extension, 3 x 120 MW) and the Eighth Power Project (the Pasir Gudang Power Station, 2 x 120 MW) are still in the early stages of construction; the progress is generally satisfactory.

Based on the Bank's recommendation, the Government has agreed to apply fuel surcharges to commercial and industrial consumers since mid-1975 and to provide NEB with equity of about US\$200 million during the period FY77-81 on a year by year basis to bridge NEB's financial gap. Maximum demand and energy sales for FY77 were 975-MW and 5,297 GWH respectively (16% above FY76 levels).

The co-financing arrangement for the Eighth Power Project (commercial bank loan of US\$30 million) was completed on October 4, 1977.

Loan No. 908 Second Kuala Lumpur Water Supply Project; US\$13.5 Million Loan of June 14, 1973; Effective Date: August 27, 1973; Closing Date: June 30, 1978

The project consists of the expansion of water supply facilities to meet increasing demands in Kuala Lumpur and the Klang Valley area. The first part of the project, comprising ordinary water works, was completed in 1976, practically on schedule and within the cost estimates, and is operational. The construction of the Langat Dam, the last and major work of the project, is progressing satisfactorily and is expected to be completed by the end of 1979. Completion will be two years behind schedule. Cost of the dam is likely to be about 25% more than originally estimated, resulting in an increase in the total project cost of about 15%. No difficulties are foreseen in raising the additional funds required. The Selangor State Water Department, which is responsible for the project, performs well in spite of staffing problems. Its financial management still needs some strengthening.

Loan 1213-MA Kuala Lumpur Sewerage Project; US\$21.5 Million Loan of March 11, 1976; Effective Date: August 25, 1976 Closing Date: December 31, 1981

The project is the first stage (1976-81) of a 30-year master plan for the sewerage development in the Kuala Lumpur Metropolitan area. It includes the extension of sewers (about 70 miles of trunk and lateral sewers) and treatment facilities to serve an additional population of 200,000 in the Kuala Lumpur Federal Territory; the institution of a separate Sewerage Department within the Kuala Lumpur City Hall, with its own accounting system and

finances; engineering and management consultant services; staff training; and the preparation of sewerage and pollution control measures for the Kuala Lumpur metropolitan area. The engineering of the project has been satisfactorily completed. Bidding for two out of the three major contracts (sewers) has also been completed. However, land acquisition and resettlement of present occupants are creating serious problems which are delaying the project. The establishment of a separate accounting system for the Sewerage Department (Kuala Lumpur City Hall) is progressing well. Action to levy the sewerage surcharge on water bills has been undertaken after long delays. Compliance with covenants regarding long-term sewerage and urban planning in Selangor State is lagging.

Loan No. 885	Third Jengka Triangle Land Settlement Project;
	US\$25.0 Million Loan of March 30, 1973; Effective
	Date: June 22, 1973; Closing Date: December 31, 1981

Planting operations have been completed but due to the severe droughts in 1976 and 1977 a heavy supplying program especially on the rubber schemes is being carried out, which is due to be completed by the end of 1978. About 23,500 acres of oil palm and 16,400 acres of rubber have been planted. Planting and maintenance standards are satisfactory. Only scheme 15 is in production. So far, 1,467 houses have been constructed and 1,347 settlers have moved in. Schools and clinics are under construction but will only be completed about one year after settler entry. Due to delays in settler house construction, settler entry will be delayed by two to two and a half years on various schemes. JKR capacity is a major constraint in speeding up house construction. Coordination between JKR and FELDA has improved considerably and FELDA expects that the backlog will not increase. Oil palm mill construction on scheme 18 is on schedule and will be completed by April 1979. Water to schemes 16 to 18 is temporarily supplied from Jengka II due to delays in intake construction on scheme 19. Due to excessive transfers in middle management field staff, there is lack of leadership which affects continuity of work.

Loan No. 967 Johore Land Settlement Project; US\$40.0 Million Loan of February 27, 1974; Effective Date: May 16, 1974; Closing Date: June 30, 1982

Clearing and planting proper are satisfactorily on schedule, except for phase III of the Ulu Dengar scheme due to late logging. Planting and maintenance standards are satisfactory. Oil palm production started on four schemes in 1977. However, due to the severe droughts in 1976 and 1977, early yields are disappointing. Attacks of elephants and wild boar resulted in a loss of 25% of the total oil palm stand. FELDA has embarked on a massive trenching program around the scheme boundaries and indications are that this program may be effective. FELDA is now preparing for a gigantic supplying program. So far, 828 houses have been constructed and 710 settlers have moved in. Due to delays in settler house construction, delays of one to three years in settler entry are to be expected on various schemes. Lack of capacity in JKR and in the Ministries of Education and Health has delayed construction of schools and clinics, but the situation is improving because of the creation of separate units in these Ministries catering for FELDA schemes. Two of the five oil mills to be constructed under the loan were commissioned in 1977.

VANJA

Loan No. 973 Western Johore Agricultural Development Project; US\$45.0 Million Loan of April 5, 1974; Effective Date: August 14, 1974; Closing Date: June 30, 1980

Project civil works are still substantially behind schedule, and acceleration of work has proven difficult due to unusually severe rainfall and flooding, refinements in design requiring construction of numerous small water control structures, and the persistent problems of land acquisition in a settled smallholder area. However, work is progressing on all drainage basin contracts, at costs considerably below appraisal estimates. The project has recently been expanded to include the construction of drainage works and agricultural installations in the Phase II area of Western Johore and construction of a network of secondary roads in the original Phase I area.

Loan No. 1044 Keratong Land Settlement Project; US\$36.0 Million Loan of October 3, 1974; Effective Date: January 9, 1975; Closing Date: June 30, 1983

Clearing and planting operations on schemes 8 and 9 are delayed by about 9 to 12 months due to late logging. Scheme 2 is in production. Production on scheme 3 has been postponed due to labor shortages. Schemes 4 and 5 are expected to come in production by late 1978, but this may also have to be postponed. Despite the labor shortage, maintenance standards are satisfactory. Attacks by elephants and wild boar resulted in a loss of 12% of the total oil palm stand. FELDA will start a trenching program whereafter a supplying program will be initiated. Following the decision to reduce the holding size from 14 to 10 acres, settlers of schemes 1 through 5 will be housed in Town 22, while separate townships will be constructed for schemes 6 through 9. So far, 411 houses have been completed and 283 settlers moved in. The relationship between DARA and FELDA has improved considerably following the changes in DARA top management, and FELDA expects that the backlog in settler entry will not increase. Efforts will be made to clear this backlog.

Loan No. 1115 Agricultural Research and Extension Project; US\$28.5 Million Loan of May 30, 1975; Effective Date: October 21, 1975; Closing Date: June 30, 1982

Project implementation is now about two years behind the appraisal estimates. A new Director General was appointed in mid-1977 and a new Deputy Director for Administration was appointed in January 1978, but the post of Deputy Director for Research is still vacant. Some progress has been made on international recruitment of scientist and research program reviewers. Six scientists are now on board and a total of 15 man-years has been committed representing 15% of the total scheduled under the project. An additional one man-year has been utilized for consultants to conduct nine program reviews. Civil works and fellowships are the only components of the project that have been proceeding at a satisfactory pace. The extension component of the project is also about two years behind schedule and has had similar management constraints with a change in Directors occurring in March 1978. The next six months should be adequate to indicate whether the new management will be able to get the project moving.

Loan No. 1294	North Kelantan Rural Development Project; US\$21.0 Million
11.1	Loan of July 21, 1976; Effective Date: October 28, 1976;
	Closing Date: December 31, 1981

The project includes the Lemal Irrigation component which will provide drainage and flood protection to 30,000 gross ha of farmland and intensive irrigation to 12,000 net ha of paddy; construction of 190 km of rural roads throughout North Kelantan; 15 small irrigation schemes serving 1,300 ha of paddy; construction, rehabilitation and equipping of 25 Farmers Development Centers (FDCs); and establishment of an effective agricultural extension service for Kelantan. The project start-up period has seen rapid implementation of the FDC component, good progress on the agricultural extension component with planning, staffing and preparation of equipment specifications proceeding on schedule, and a welcome degree of cooperation between the Farmers Organization Authority and the Kelantan Department of Agriculture in joint planning of agricultural service buildings and field operations. Some delay in engineering of roads and irrigation works has occurred due to delays in approval of staff, but this problem appears to have been largely resolved.

Loan No. 1444	National Small-Scale Irrigation Project; US\$39.0 Million Loan	
	of August 3, 1977; Effective Date: October 25, 1977;	
	Closing Date: March 31, 1983	

The loan became effective on October 25, 1977 and the project works have just been started.

Loan No. 599 Education Project; US\$8.8 Million Loan of May 23, 1969; Effective Date: September 16, 1969; Closing Date: September 30, 1977

The Project provided US\$8.8 million for the construction of technical, vocational, agricultural and general secondary schools and one teacher training college. All project institutions have been completed and are in satisfactory operation. Savings attributable to lower than expected project costs and the shift in the exchange rate were used to finance additional project items transferred from the Second Education Project (Loan 810-MA). Disbursement of the outstanding balance of US\$0.2 million is expected to be completed shortly.

Loan No. 810 Second Education Project; US\$15.5 Million Loan of April 5, 1972; Effective Date: July 7, 1972; Closing Date: December 31, 1978

The project is financing the establishment of a curriculum development center, science schools for the University of Penang, vocational schools, and an educational television system. With the exception of parts of the University and one vocational school, project institutions are practically completed and operating. Earlier delays incurred in the implementation of these two items necessitated a postponement of the closing date by one year. The delays are reflected in slow disbursements, but the problem is currently being addressed by the Bank and the Government. Project cost overruns (20%) are expected to be financed by the Government.

Loan No. 974

974 Third Education Project; US\$19.0 Million Loan of April 5, 1974; Effective Date: June 26, 1974; Closing Date: December 31, 1980

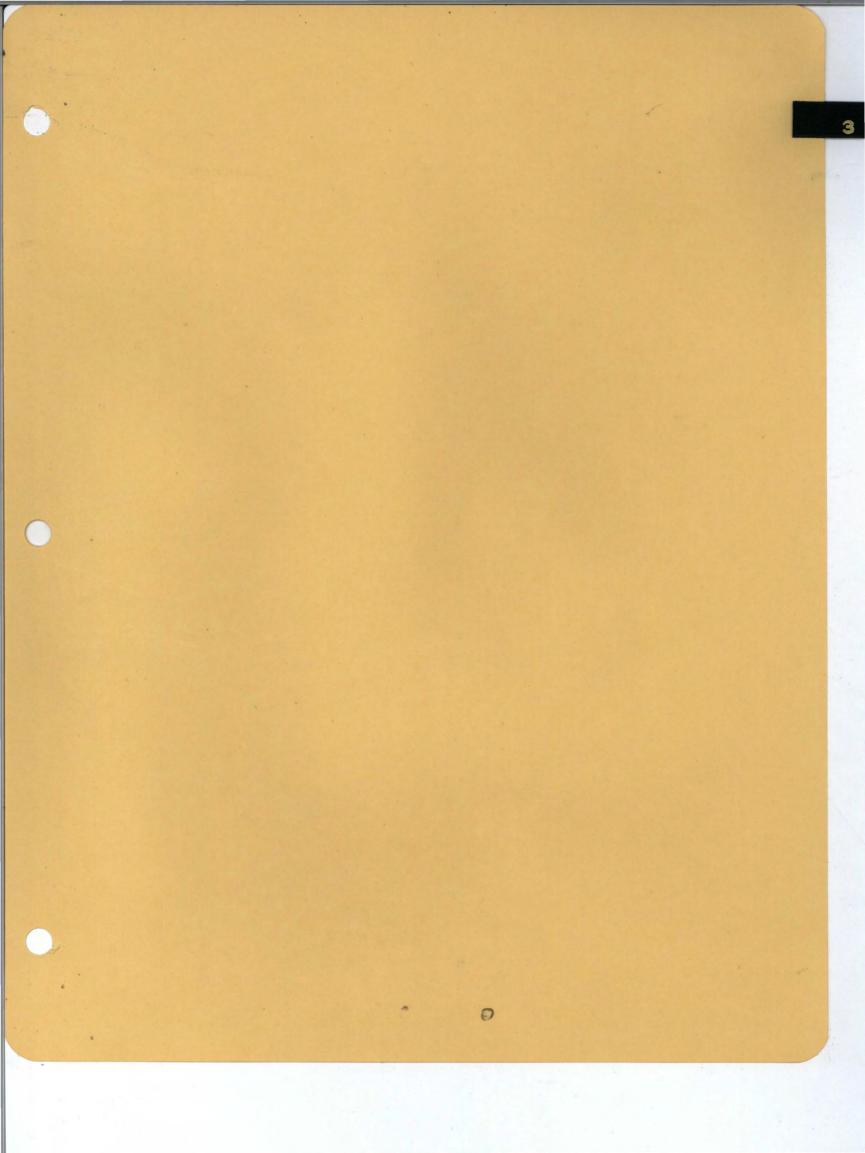
The project assists the Government to develop technical training, pre-service teacher training, and an East Malaysia educational television system. Implementation has improved since a year ago when less than 50% of project civil works had been tendered. Contracts have now been awarded for 11 out of 13 project institutions. Construction began in early 1976 and most of the project institutes are scheduled for completion in late 1978. The Project Unit is functioning satisfactorily, despite current problems with bid evaluation.

Loan No. 1329 Fourth Education Project; US\$35.0 Million Loan of November 18, 1976; Effective Date: January 14, 1977; Closing Date: June 30, 1982

The project is designed to improve the quality of primary schooling and to redress existing imbalances in the provision of primary education by providing additional classrooms in poverty areas, facilities for teacher training and one teacher training college in Sarawak. The project includes three new Industrial Training Centers and expansion of two existing ones. It includes also a study on community education in preparation of government investment in nonformal education. Project implementation began in January 1977 and appears to be satisfactory. Problems in the processing of disbursements have been resolved. Shortage of staff in the Project Unit has been remedied by the Government. Disbursements began a half year behind schedule during the second half of FY78.

Loan No. 880 Population Project; US\$5.0 Million Loan of February 9, 1973; Effective Date: June 21, 1973; Closing Date: September 30, 1978

There has been continued progress of civil works. Out of a total of 571 buildings, 232 have been completed; another 80 are under construction; and a further 148 buildings are at tender stage. An IBM mini-computer has already been procured and put in operation. Computerization of management information is under way. A review of the total program (including the project) has been carried out by an external team of experts. Program performance in 1976 was even better than in 1975 and the number of annual new acceptors was the highest since the inception of the program. Projectassisted extension of integrated rural health and family planning services recorded the highest increase in performance. Disbursement has also increased from 5% in September 1976 to 10% in June 1977 and 22% by the end of March 1978. This is mainly due to the energetic efforts of the new management of the National Family Planning Board (NFPB).



3. PROSPECTIVE BANK OPERATIONS IN MALAYSIA

FY78

Second Population and Family Health Project: US\$17.0 Million Loan; Borrower-Malaysia; Scheduled Board Date-June 20, 1978

The proposed project would assist Malaysia's National Family Planning Program in achieving its goal of reducing the birth rate per thousand from 30.2 in 1976 to 26 by 1985 with a corresponding reduction in population growth from 2.5% to 2% per annum in Peninsular Malaysia. The project would also extend family planning services to Sabah and Sarawak as part of Maternal and Child Health (MCH) services. Improving access to family planning services for the disadvantaged communities and regions is considered an essential element in redressing existing socio-economic imbalances, which is one of the primary objectives of the Government's development policy. The project would provide construction, furniture, equipment, and vehicles for family planning clinics, family planning specialist centers, integrated rural health and family planning training schools, quarters for trainees and trainers, community health centers, facilities for the women's development programs, a warehouse with a print shop, and an audiovisual production center for communication programs. It would also provide equipment and vehicles for MCH services in the rural health clinics and for program evaluation activities. Technical assistance and incremental operating costs for four years are included in the project for a few important activities such as family planning specialist centers, program evaluation, and educational material production.

The project would assist in recruiting one million new acceptors during 1978-85 and would help in reaching the average two-child family norm by 1990, thus attaining a stable population by 2030. By helping to reach progressively greater proportions of the population in the disadvantaged communities and regions, the project would complement Malaysia's development goal of equalizing economic opportunities.

The proposed loan would finance the foreign exchange component estimated at US\$17.0 million or 45% of the total cost (US\$37.7 million). The remaining US\$20.7 million in local cost will be financed by the Government.

Problems could arise if: (a) the managerial capabilities of the implementing agencies fall below expectations; (b) the Government encounters increasing political sensitivity to family planning; (c) the administrative and managerial momentum generated by the present leadership of the National Family Planning Board and the project secretariat is not sustained; and (d) the staffing and organizational commitment of other agencies, such as the Ministries of Health and Agriculture, are weakened. However, the increased interest of the Economic Planning Unit and the improved managerial supervision of the first population project by the National Family Planning Board provide reasons to be optimistic about the success of the proposed project.

FY79

Sixth FELDA Land Settlement Project: US\$28.0 Million Loan; Borrower-Malaysia; Beneficiary-FELDA; On-lending Terms-25 Years Including 10 Years Grace with Interest at 7.5% Per Annum; Scheduled Board Date-June 13, 1978

The project supports the development objectives of the Government to raise productivity and incomes of the rural poor. It would consist of the land clearing and planting of a minimum 62,000 acres of rubber, up to 10,000 acres of cocoa in a pilot project, and 500 acres of annual crops on an experimental basis. About 6,200 families would be settled in the rubber areas, and 1,500 additional families would work on cocoa. The present incomes of these families fall beneath the poverty line. The project includes ancillary roads, settler and staff housing, and health and community service facilities. Project risks are related mainly to the price of cocoa, which is, however, a small component, and to cocoa pests and diseases.

Smallholder Coconut Development Project: US\$21.0 Million Loan; Borrower-Malaysia; Scheduled Board Date-August 1978

The project would include coconut, cocoa.and coffee collection and processing facilities; model of a 16 ton/day capacity copra oil mill; and milk collection facilities. Farmer training and agricultural services would be expanded and strengthened. The project area would consist of 17,000 acres replanting and 40,500 acres rehabilitation of coconut (intercropping with 22,000 acres of cocoa, 8,500 acres of coffee, 8,500 acres of fruits, 3,710 acres of pasture and other crops). The project would also provide 6,400 crossbred dairy heifers and 280 feeder cattle for the establishment of 3,340 integrated dairy and beef operations under coconut. About 19,200 coconut smallholders would receive development assistance in the form of planting materials, fertilizers, chemicals, livestock and livestock production facilities.

Project risks would be related to farmer acceptance of coconut replanting and rehabilitation, effective integration of agriculture supporting services and prices of farm produce. In general, risks would be acceptable given the Department of Agriculture's 14 years of experience in coconut replanting and rehabilitation.

Krian-Sungei Manik Integrated Agricultural Development Project: US\$26.5 Million Loan; Borrower-Malaysia; Scheduled Board Date-October 1978

The proposed loan would finance the foreign exchange costs of two separate irrigation schemes: the Krian Irrigation Scheme with 23,500 ha, and the Sungei Manik Irrigation Scheme with 6,560 ha of padi land respectively. The major objectives of the project are to increase the subsistence and cash incomes of rice farmers and to increase national rice production. The

- project would rehabilitate and improve irrigation, drainage, and transport systems in the Krian and Sungei Manik areas. It would also improve agricultural supporting services. The project consists of the following components:
 - (a) rehabilitation and improvement of existing irrigation and drainage structures; construction of tertiary and quaternary irrigation and drainage systems; improvement of access roads; and improvement of existing perimeter bunds and tidal gates, in two separate projects;
 - (b) construction and furnishing of offices and workshops for the Drainage and Irrigation Departments (DID), multipurpose Farmers Development Centers, and a seed farm; and procurement of vehicles and equipment for agricultural support services;
 - (c) provision of local consulting services to assist DID and consulting services for a Muda Dams study; and
 - (d) a limited number of fellowships and overseas training tours.

Ninth Power Project: US\$36.0 Million Loan; Borrower-National Electricity Board (NEB); Guarantor-Malaysia; Scheduled Board Date-December 1978

The proposed project would consist of the Bersia and Kenering hydroelectric power stations (72 MW and 120 MW respectively) and associated transmission facilities to link the above facilities to the east coast of Peninsular Malaysia for regional development and rural electrification. The proposed Bank loan would finance about 22% of the foreign exchange component of the project (US\$165 million). Co-financing with commercial banks amounting to US\$47 million is being arranged. Additional US\$72 million will be obtained through bilateral or suppliers' credits for mechanical and electrical equipment. The Canadian International Development Agency (CIDA) is providing US\$6.8 million for the engineering services provided by the Canadian consultants (Shawinigan Engineering Co. Ltd.).

Fifth Education Project: US\$40.0 Million Loan; Borrower-Malaysia; Scheduled Board Date-January 1979

The project will include selective expansion of lower secondary schools and construction, equipment and technical assistance for the Ministry of Education Staff Training Institute and for the Public Administrative Training Institute (INTAN). About three-fourths of the project funds would be devoted to a selective expansion of lower secondary education in disadvan-taged areas so as to reduce disparities in educational opportunity. The remaining project funds would be used for public administration training to improve educational quality.

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Second Muda Irrigation Project: US\$33.0 Million Loan; Borrower-Malaysia; Scheduled Board Date-May 1979

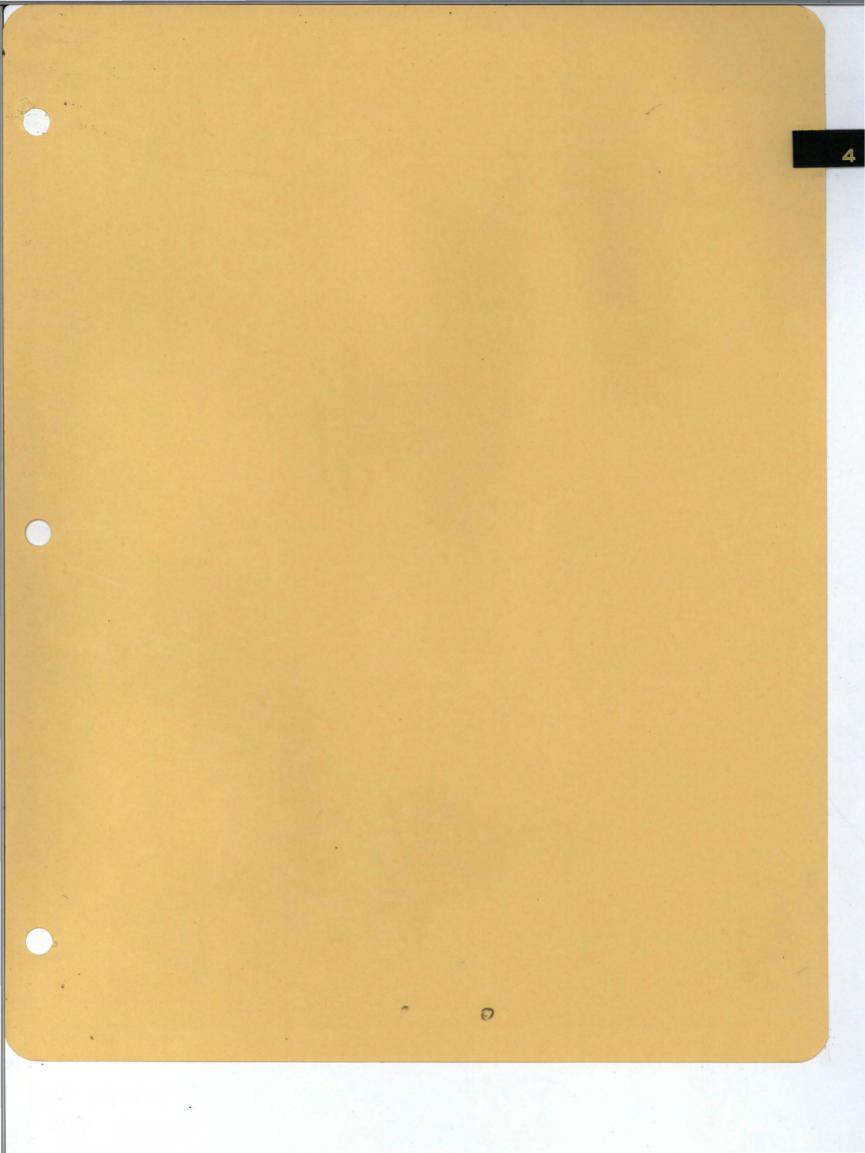
The major objectives of the project are to intensify the irrigation system and agricultural support services and particularly to overcome inadequate water control in the most affected 38,000 ha of the Muda project area (98,000 ha). Tertiary facilities will be provided to reduce ditch-to-drain distance from 2,000 meters to 200-250 meters. About 80% of farm lots in the project area will be given direct access to a delivery ditch, drain and farm road. Yields are expected to be increased 20-30% during a 10-year period.

South Kelantan Rural Development Project: US\$20.0 Million Loan; Borrower-Malaysia; Scheduled Board Date-June 1980

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The primary objectives of the project are to increase incomes and improve living conditions of settlers on 27 State and Land Development Schemes in Southern Kelantan and to improve access and basic infrastructure in this undeveloped part of the state. It consists of: land development and settlement on hitherto undeveloped portions of the schemes; extension services and input supplies for the already developed areas; construction of needed social infrastructure; and road construction and upgrading. Project beneficiaries are primarily present settlers on the KSLD scheme with incomes around M\$100/month/holder (US\$100/capita/year), and small commercial farmers who are at the subsistence level income for the first seven to ten years.



MEMORANDA OF CONVERSATION

MEMORANDUM FOR THE RECORD

FROM

S. Shahid Husain hl

DATE: May 6, 1977

SUBJECT

: Meeting with Mr. Robert S. McNamara by the Minister of Finance of Malaysia, Tengku Razaleigh Hamzah

1. The Minister of Finance of Malaysia, Tengku Razaleigh Hamzah, accompanied by the Governor of the Central Bank of Malaysia, Mr. Ismail bin Mohd. Ali and other officials met with Mr. McNamara on Wednesday, April 27, 1977. The Minister congratulated Mr. McNamara on his reelection to the Presidency of the Bank. Mr. McNamara complimented the Minister for his personal effort and role in redirecting the development effort in Malaysia for the benefit of the least privileged people. The Minister said that this was a difficult problem, but that his Government was determined to do everything possible to bring the poor people of Malaysia into the economic mainstream.

2. The Minister asked Mr. McNamara if it was possible to expand the Bank lending beyond the \$120 million per annum presently envisaged. Mr. McNamara said that a lot would depend upon the Bank's general capital increase, which in the recent Development Committee meeting had been endorsed by many delegations.

3. Apropos lending, the Minister asked if it was possible for the Bank to finance local costs in Malaysia. Mr. McNamara reminded the Minister that, according to the Bank's Article of Agreement, local cost financing was permissible only under special circumstances. Since in its resource endowment and foreign exchange earnings Malaysia was more fortunate than many developing countries, he did not see the possibility of local cost financing in Malaysia.

The Minister mentioned that the Bank's association with 4. Malaysia had been very significant for Malaysia's development, but that this fact was not sufficiently recognized within Malaysia or outside. He asked whether the Bank could undertake a systematic review of the Bank's lending in Malaysia. Mr. McNamara agreed to examine this proposition.

5. Under the UNDP and with the Bank as the executing Agency, a number of experts are to be assigned to the Ministry of Planning for project preparation at the state level. The Minister asked that these

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experts be stationed for two to three-year period rather than on short assignments. Mr. McNamara agreed with the need for longer assignments and to review this matter. (I have examined this and, in fact, the experts will be assigned for two to four years.)

cc: Messrs. McNamara Knapp Votaw

SSHusain:bcl

MEMORANDUM FOR THE RECORD

FROM

: S. Shahid Husain (RVP, AEN) A DATE: September 29, 1977

SUBJECT : 1977 Annual Meetings, Washington, D.C. Mr. McNamara's Meeting with the Malaysian Delegation

1. The Prime Minister of Malaysia, Datuk Hussein Onn, accompanied by Tengku Rithauddeen, Minister of Foreign Affairs; Mr. Richard Ho Ung Hun, Deputy Minister of Finance; Datuk Zaharia, Secretary-General, Ministry of Foreign Affairs; Mr. Thong Yaw Hong, Director-General of the Economic Planning Unit; and Mr. Zain Azraai, Ambassador of Malaysia to the United States, called on Mr. McNamara at the Sheraton Park Hotel on September 29, 1977. Messrs. Chenery and Husain were also present.

The Prime Minister expressed his appreciation of the Bank's 2. assistance in Malaysia's economic development. He noted the emphasis the Bank was placing on agricultural and rural development as well as the eradication of poverty. He said that this was in accordance with his own Government's priority. Mr. McNamara complimented Malaysia on the sound economic and financial management since independence. He said that this policy had served the country well. He, however, noted that perhaps the time had come to be somewhat more ambitious, particularly in trying to eradicate the incidence of poverty among the majority of the Malays. Mr. McNamara noted that 40% of the country's population still lived in absolute poverty. The Prime Minister agreed with this. He, however, noted that the problems of manpower and management were responsible for the slow progress. Mr. Husain commented that perhaps the Government could select some of the key organizations, such as those dealing with the smallholder rubber farms, rural education, rural electrification and rural roads to strengthen their management. Mr. McNamara mentioned that if the Government could develop new programs to combat poverty, the Bank would expand its assistance beyond the levels of the recent past. He also said that the Bank would be prepared to provide technical assistance in this connection. Mr. McNamara inquired about Malaysia's plans to utilize its petroleum revenues. The Prime Minister said that an assessment and analysis of petroleum revenues was under way and on the basis of this study, the Government would make policy decisions. He said that petroleum revenues were a trust and the Government would make every effort to ensure that they were used for the benefit of the Malaysian people.

3. Mr. Husain mentioned that the recent controls on industrial investments might endanger the Government's plans to expand employment and production, and that they might be reviewed to see that they were

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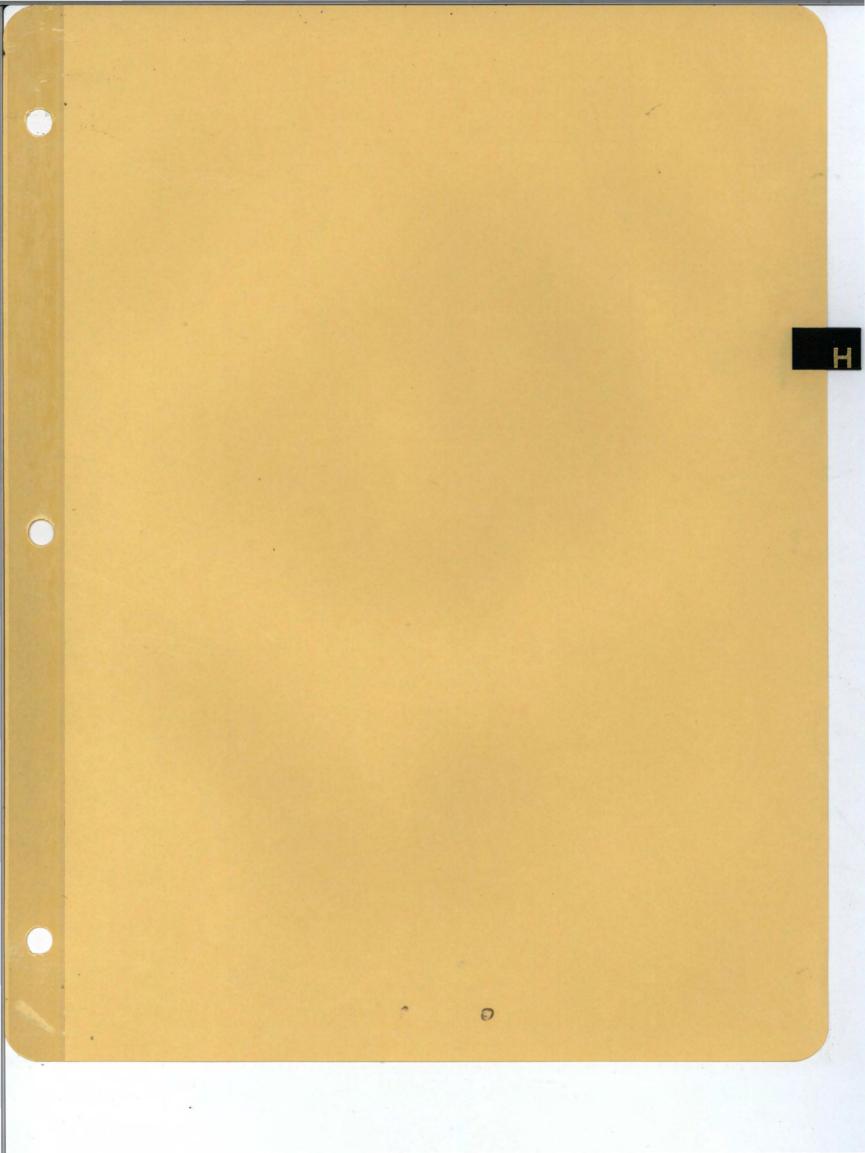
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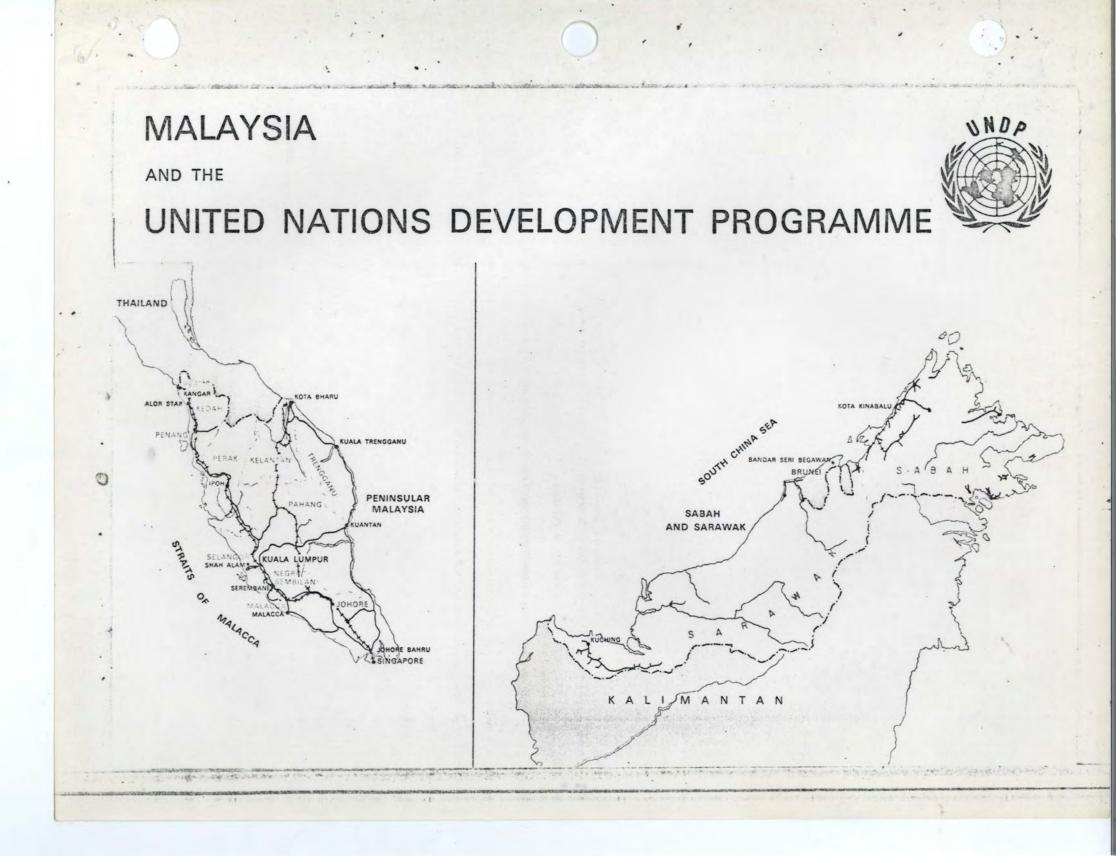
Memorandum for the Record

not overly restricted. The Prime Minister said that the subject was constantly under review and that the Government would make some modifications in due course. Mr. Chenery gave an account of the cooperation between Malaysia and the World Bank on the study of planning methodology and programs to combat poverty. The Prime Minister said that he valued such cooperation and that the World Bank's support was of considerable help to the Government in formulating its own policies.

cc: Messrs. McNamara Knapp Chenery Votaw Kirmani Hasan Helmers

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Malaysia and the United Nations Development Programme

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Foreword

MESSAGE FROM THE FOREIGN MINISTER

I am glad that this second issue of "Malaysia and the United Nations Development Programme" has been published at this time inculcating general awareness of the UNDP Second Country Programme (SCP) for Malaysia which commences this year. It is also a welcomed development that the period of the SCP runs almost parallel with that of the Third Malaysia Plan (TMP) thereby increasing the qualitative role of the UNDP in this country.

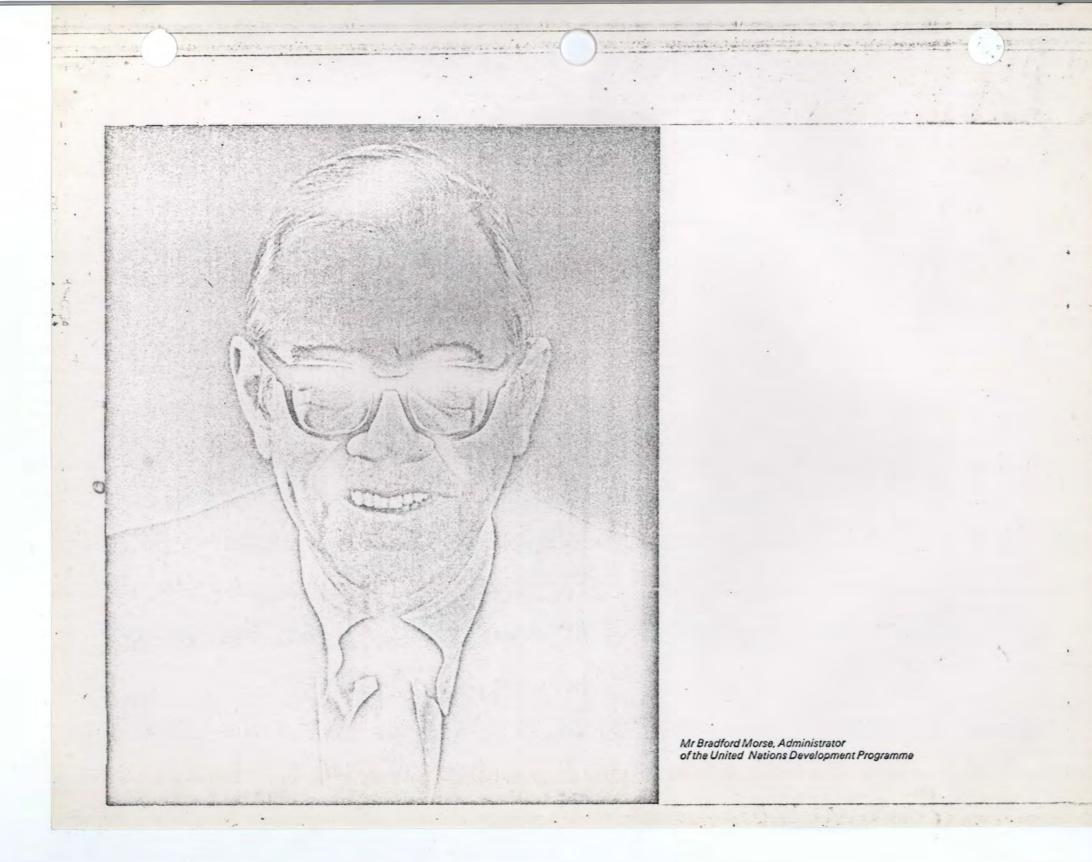
The paramount commitment of the Malaysian Government to deploy every effort for the nation's socio-economic progress cannot be over-emphasized. The deep awareness of the UNDP of Malaysia's development strategy and priorities, as adequately reflected in this booklet would no doubt enhance the means for Malaysia to maintain its socio-economic development course, as laid down currently in the TMP. In this regard, the UNDP, as the largest financing, programming, coordinating and monitoring organization of development aid has continued to extend its valuable support to Malaysia by providing pre-investment and technical assistance inputs to the tune of M \$37.5 million for the SCP.

I wish to express my appreciation to the UNDP Regional Representative and his Staff for their continued and effective cooperation in supporting our socio-economic policies as well as to the many other UN organs which are the participating or executing agencies of Malaysia — UNDP projects. Such cooperation testifies to the importance of UNDP in meeting its assigned role, in consonance with the UN Charter which Malaysia continually upholds.

Kuala Lumpur, 2nd June, 1977.

(TENGKU AHMAD RITHAUDDEEN)

YBM Tengku Ahmad Rithauddeen bin Tengku Ismail, Minister of Foreign Affairs and Dr Kurt Waldheim, Secretary-General of the United Nations



Introduction

As the Regional Representative of the United Nations Development Programme (UNDP), it gives me great pleasure to write this introduction to an information booklet giving an outline of our activities in Malaysia during the 1970s. I am aware of the desirability of disseminating information on the external development assistance provided by the UNDP in what is necessarily a summary form, in addition to briefly pointing out related capital and technical inputs from the United Nations System.

This booklet is a follow-up to an earlier publication, presented in 1970 (also entitled "Malaysia and the United Nations Development Programme"), and basically takes the same approach as its predecessor.

As indicated above, this booklet concerns itself with development assistance to Malaysia as provided in particular by the UNDP. It does not attempt either to cover the whole United Nations System or to explain the total United Nations setting in which the UNDP and the Agencies of the United Nations System function.

As much as we would like the booklet to have been more allencompassing, this has not been possible due to the constraints of space. Therefore, while the booklet concentrates on the inputs of the UNDP to Malaysia it also sets out in some detail how the Programme operates globally and how it functions specifically with regard to this country. Assistance to Malaysia during the 1970s is presented in the setting of the Second and Third Malaysia Plans. On pages 14 and 15 a brief description is given of capital assistance provided to Malaysia by the United Nations System, in particular the World Bank. A complete list of the Specialised Agencies of the United Nations System, which function in the Malaysian context primarily as executing agencies of the UNDP, is set out in Annex I. The activities of organisations having substantive inputs under their own financial auspices, such as the IAEA, UNFPA, UNICEF and WHO, are integrated in the sectoral breakdown.

During the 1960s and 1970s the United Nations System as a whole has provided, or is providing, development assistance to Malaysia in the region of M \$150 million. This figure excludes capital assistance, the primary source of which is the World Bank. It does include however, direct assistance provided by certain Agencies of the United Nations System, i.e., not in their capacity as executing agencies of UNDP.

The booklet attempts to demonstrate the full integration of UNDP with national development plans. In fact, perhaps I should note here that whereas we loosely refer to "UNDP projects", these "projects" are only a part of a greater national development activity. The role of the Malaysian Government in the development assistance provided to Malaysia by UNDP cannot be overemphasized. As can be seen from data provided in the booklet itself, the size of this development assistance in relation to national expenditure on development is very modest and further, for every UNDP dollar invested the Government provides counterpart funds at the ratio of at least three to one. It should be appreciated that UNDP provides not funds as such but rather advisory assistance, related equipment and provision for overseas and in-country training.

The United Nations Development Programme Regional Representative's Office in Kuala Lumpur is responsible in cooperation with the Government for planning, implementation, monitoring, evaluation and overall management of UNDP development assistance, and to a lesser extent the technical assistance provided by the United Nations System. I hope that this booklet will provide sufficient information to those who wish to have some basic knowledge of our development cooperation with Malaysia, and for those who wish to acquire additional knowledge, will stimulate further reading from other sources of information.

I would hope that not only will this booklet create an interest in the UNDP input, but will also stimulate a greater interest in the development plans of Malaysia and, in particular, the current Third Malaysia Plan (1976–1980). If these two purposes are achieved then I will consider that this booklet has served a useful purpose.

Kouros Satrap **Regional Representative**

May 1977.

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"....the overall objective of the new International Economic Order is to increase the capacity of developing countries, individually and collectively, to pursue their development."

> Consensus Resolution of the Seventh Special Session of the General Assembly, 1975.

What is the UNDP?

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For more than 25 years, the United Nations System has been engaged in a growing development assistance effort which now absorbs more than 85% of all its resources. That effort has two main thrusts. The first and most important is supporting the vigorous drive of the world's developing countries to provide their own people with the essentials of a decent life - including adequate nutrition, housing, employment, earnings, education, health care, consumer goods and public services. The second, and closely related, aim is to help these countries increase their output of commodities, raw materials and manufactured items which the whole world increasingly needs - as well as to ensure them a fair return on their trade in those necessities. The United Nations Development Programme (UNDP) is the UNITED NATIONS major arm for international technical cooperation in these fields. Working with nearly every government on earth - and with 24 international Agencies - the UNDP helps support some 8,000 development projects in Asia, Africa, Latin America, the Middle East and parts of Europe. Though they involve a broad spectrum of activities, all these projects focus on one basic target - the fuller and better use of available natural resources and human talents and energies.

Growing out of the Expanded Programme of Technical Assistance founded in 1950, and the Special Fund established in 1959, UNDP marked its 25th Anniversary in 1975. The aggregate project expenditures over the whole of that period rose from US \$6.5 million (M \$16.25 million) in 1950 to a grand total of almost US \$3 billion (M \$7.5 billion)

During its first quarter century, the Programme has helped train millions of developing country nationals in such fields as teaching, industrial management, transportation, communications, public administration and economic development planning. Aggregate investment follow up commitments resulting from UNDP projects over the same period totalled more than US \$20 billion (M \$50 billion). More than 90,000 fellowships were awarded, and almost 75,000 expert-years of technical assistance rendered.

In the course of its first 25 years, UNDP has become the world's largest source of multilateral technical cooperation. In 1975, the total value of UNDP technical cooperation efforts exceeded US\$1 billion (M\$2.5 billion). Reflecting a long-established tradition of self-help, the greater portion of this effort was borne by approximately 130 developing countries and territories which are the Programme's guiding partners in its field work and which provide more than one-half the resources required for project costs.

UNDP projects expenditures on behalf of developing countries amounted to US\$419.6 million (M\$1,049 million) for 1975, a 32% increase over the figure for 1974.

The Programme's 108 field offices provide development planning advice, technical problem-solving, investment support services and other such assistance to developing country Governments. They also provide wide-ranging representational and supporting services for the United Nations System on non-UNDP financed activities. Through national, regional, interregional and global projects, building a capacity for self-sustained development is the prime objective of UNDP-supported technical cooperation, and for developing countries the increased field expenditures in 1975 were a source of encouragement at a time of global economic distress.

While UNDP depends upon year-by-year and entirely voluntary contributions for its resource base, it is among the few development assistance organisations to programme most of its technical cooperation efforts on the forward basis of a 5-year cycle. The total amount of resources assumed to be available to UNDP over that period is allocated on the basis of Indicative Planning Figures (IPFs) for the individual planning purposes of each recipient country, and for regional, interregional and global programmes. Developing country Governments, with the assistance of UNDP field offices, then formulate country programmes designed to apply the expected technical cooperation resources available from UNDP to their priority development needs. During the first programming cycle (1972–1976) a

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total of US \$1.54 billion (M \$3.85 billion) in IPF allocations was made to 127 countries and to UNDP-supported regional, interregional and global programmes.

The total costs, on completion of all current projects, will exceed US \$4 billion (M \$10 billion). Approximately 45% of this amount is financed by UNDP and 55% is furnished by the recipient countries through provision of national personnel, project buildings and facilities, and locally available supplies and services.

The UNDP operates in 5 specific fields :

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- Surveying and assessing such development assets as farm lands and forests; rivers and sub-surface waters; mineral deposits; fuel reserves; and manufacturing, commercial and export potentials.
- Stimulating the capital investments needed to realise these possibilities.
- Training in a wide range of vocational and professional skills, including help in establishing and equipping local training facilities.
- Adapting and applying modern technologies, with appropriate environmental safeguards, to operational development projects in agriculture, health, education, industry and other sources.
- Economic and social planning with particular emphasis on meeting the needs of the least developed countries and the poorest segments of the population, and on development cooperation among neighbouring countries.

How Is The UNDP Organised To Assist?

The administrative structure of the UNDP is headed by a Governing Council made up of delegates from 48 countries. This body provides general policy guidance and direction for the UNDP as a whole, reviewing and approving proposals made by the Administrator.

The Administrator, Mr Bradford Morse, is in effect the chief executive of the UNDP, heading a secretariat responsible for all Programme assistance.

In most of the recipient countries, a UNDP office headed by a Resident Representative* ensures efficient coordination of the planning, monitoring, implementation and evaluation of UNDPassisted projects. As a focal point for all matters relating to development, the Resident Representative serves as point of contact and channel of communication between the Government and the UN System.

In keeping with UNDP's role, the UNDP Regional Office has primarily a programming and monitoring function whereas execution of the great majority of inputs is carried out by the Agencies of the UN System. Those not so executed are carried out, by means of subcontract to universities, governmental or non-governmental bodies, by UNDP itself. It is these Agencies and subcontractors that take substantive responsibility for UNDP funded inputs and recruit the international experts, purchase equipment, arrange for overseas or within-country training and satisfy the other requirements of delivery.

UNDP In Malaysia

UNDP in Malaysia functions under the direction of a Regional Representative, supported by both international and national staff. The Office has responsibility for overseeing the delivery of its Country Programme of development assistance as described below.

The primary purpose of UNDP in Malaysia is to provide the Government with development assistance in the form of pre-investment and technical assistance inputs. Prior to 1972, this assistance was provided on a project-by-project basis and since 1972 has been incorporated into a rational whole, called the Country Programme. Country Programmes are integrated with the Government's own development activities as set out during the 1970s in the Second and Third Malaysia Plans and encompassed within the Outline Perspective Plan 1971–1990.

*In Kuala Lumpur UNDP has a regional office responsible for activities in Brunei and Singapore in addition to Malaysia, and hence the office is headed by a Regional Representative. In order to finance its various inputs in Malaysia, the UNDP draws upon its global resources and has set aside for the 1970s some M\$75,000,000 under the system of Indicative Planning Figures (IPFs). The IPFs enable the Government and the Regional Office to programme UNDP-funded inputs together with Government development projects with external assistance requirements. UNDP inputs form but a part of the total external assistance required by Malaysia and accordingly they are coordinated by the Government.

As indicated above, it is of course the Government itself that provides the most critical recipient input to UNDP-funded assistance and it is only in conjunction with, and as part of Government development projects and activities that UNDP inputs are made.

How Does The Programme In Malaysia Function?

As indicated above, UNDP assistance to Malaysia as of 1972 has been contained in a Country Programme. The First Country Programme (FCP) covered the period 1972–1976 and was integrated with the Government's development activities as set out in the Second Malaysia Plan (SMP). During this period some ninety projects were executed by the Agencies of the UN System.

UNDP funds expended amounted to some M \$38,000,000 while inputs by the Government directly related to this assistance amounted to some M \$125,000,000. UNDP inputs under the FCP contributed to the development activities of some forty Government Ministries, Statutory bodies or quasi-governmental institutions.

The Second Country Programme (SCP) covers the period 1977– 1981 and is integrated according to the development activities foreseen under the Third Malaysia Plan (TMP). As described in this booklet, assistance under the SCP ranges over the following sectors:

- Agriculture, Animal Husbandry, Fisheries and Forestry
- Manufacturing

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Commerce, Tourism, Mining and Construction

- Transport and Communications
- Utilities
- Education and Training
- Health and Family Planning
- Community Services and General Administration
- Multi-Sectoral Planning for Development

The priorities of the SCP are those of the TMP and as a result. the Programme is heavily oriented towards poverty redressal throughout the country, but particularly in the less developed States where the incidence of poverty is highest—Kedah, Kelantan, Perlis, Malacca, Sabah and Sarawak.

The Second Country Programme consists of some M \$50,000,000 of which M \$12,500,000 is directly contributed by the Government. The cost of Government TMP development activities directly related to this input is expected to be in the region of M \$150,000,000.

The content of the SCP was developed by the Government in keeping with the external assistance needs of the TMP. Once broadly identified in the SCP these needs were put into UNDP project document form and as appropriate reviewed and approved by the Government, the UN System and UNDP Headquarters prior to the release of UNDP funds for execution. The project document is the instrument in which the objectives of the assistance are spelt out together with the responsibilities and obligations of the UNDP, the Executing Agency of the UN System and the Government. The partnership between Government and UNDP is thereby reflected in each project.

The Country Programme is a flexible outline of inputs and is subject to modification as required by changing Government priorities. Thus, not only is the Programme as a whole closely monitored by the Government and UNDP, but each project is subject to constant evaluation and is normally reviewed in depth, by the three parties concerned, every six months.

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Role Of The Malaysian Government

As mentioned above, the most critical input for successful development assistance is that of the recipient Government. In financial terms, this input is considerably greater than that of UNDP. More importantly, however, is the need for external assistance from UNDP to be fully integrated with Government development activities.

During the 1970s, the Government has clearly established its national development goals by means of the Second and Third Malaysia Plans. These Plans include identification of technical assistance needs in relation to national development priorities and specific projects. It is in such a setting that UNDP assistance is identified as taking the form of a relatively small input of advisory or other assistance in a larger context. This larger context ensures full utilisation of assistance and provides the means whereby directly related activities of Government absorb UNDP assistance and provide whatever follow-up is required. In short, UNDP inputs cannot and do not function in isolation, but must necessarily form part of Government development project activity.

The Government's inputs, usually very substantial, may take the form of national staff, buildings and equipment plus most of the other material resources necessary for implementation. Each project has its own unique make-up, but increasingly in Malaysia the direction of a project is in the hands of national staff and the UNDP input is limited to advisory assistance of a relatively short duration as Malaysian expertise and management capabilities are readily available.

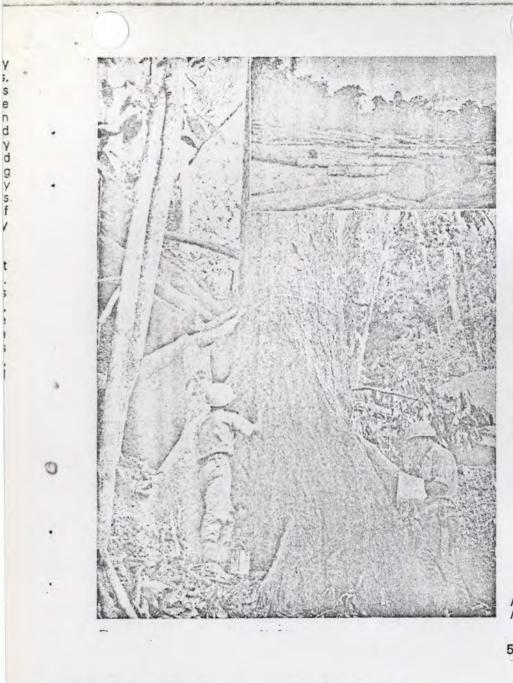
AGRICULTURE, ANIMAL HUSBANDRY, FORESTRY AND FISHERIES

The Second Malaysia Plan's emphasis on poverty eradication within the New Economic Policy concept required an improvement in productivity of rural labour, opening up of land for agricultural use and diversification of cropping. The establishment of new institutions to supplement existing ones was envisaged in order to provide more effective channels of extension, better credit and more substantial marketing and research results. On the one hand, the diversification attempts required research and some technical assistance, while on the other many activities were expansions of already operative enterprises, like rubber and oil-palm planting. As far as forestry is concerned, the full range of activities, from land-use decisions, through exploitation, management and silviculture to industrial uses of timber, had been given gradually intensified attention as the demand for forestry resources increased and as quick exploitation was made possible by the use of modern equipment for felling and transport. The need for developing forests and a forest industry development strategy became evident. The fishing industry had rapidly developed as an in-shore operation and exploited existing resources to the limit. A strategy to modernise the fishing fleet by increasing the size of trawlers in order to permit offshore operations was gradually formulated and, through the establishment of "Majuikan" (the Fisheries Development Authority), this strategy was becoming a reality.

In the Third Malaysia Plan the need to accelerate the development of Agriculture, Forestry and Fisheries is again being emphasized. In 1975 this sector contributed 45.5% to foreign exchange earnings (in spite of it being a year of recession and low raw-material prices), 29.8% of the GDP, and employed 1.9 million workers, or 49.5% of the total labour force. The rural sector does, however, account for a high incidence of poverty, with about 69% of all proverty households belonging to the agricultural sector. The TMP emphasizes, therefore, the implementation of programmes and projects in this sector directed towards the redressal of poverty and regional disparity.

The traditionally important items on the Malaysian list of commodities (rubber, palm oil, timber, padi and pepper) will continue to be emphasized, palm oil rather dramatically with an expected annual growth rate of 16.4%. Livestock will be given further attention, on milk and beef production schemes in particular. Cocoa is fetching an increasing interest among smallholders, while coconut areas are in need of attention. Fisheries development will continue on lines developed during the Second Malaysia Plan.

Many of the accelerated development programmes will require substantial financial assistance for physical structures in irrigation, drainage, land clearing and rehabilitation of rubber and coconut. Research on crops for diversification and production intensification, the fishery fleet and the infrastructure in general will also require substantial inputs.

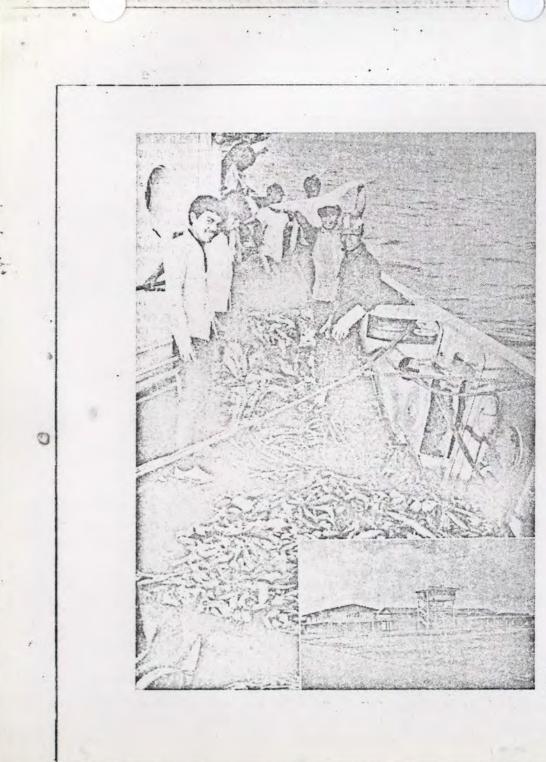


UNDP technical assistance executed by FAO, has covered a wide range of subjects within the scope of the SMP, but the major inputs have been in the forestry sector. Three large-scale projects were directed to develop a strategy for the forestry industry with supporting surveys, studies, silviculture and management, field trials on quickgrowing species and training of sub-professional staff. The Federal Land Development Authority (FELDA), which develops land at a rate of 70–100 thousand acres per year and settles people thereon, has received assistance in a variety of fields. Among these a computer centre for the processing of technical data was set up and a network of training facilities for settlers and FELDA staff was organised.

The Malaysian Agricultural Research and Development Institute (MARDI) received minor assistance in developing research programmes in soils, irrigation, horticultural crops and mechanisation: the crop protection service had a 23-year project in order to strengthen pest-control work in collaboration with the farmers; agricultural institutes were assisted in the training of teachers and assistance was given to the Farmers' Organisation Authority in reorganising the Farmers' Association and Agricultural Cooperatives into a network of farmers' cooperatives. The Ministry's development needs are mainly of a dimension and nature that are best dealt with by major package programmes financed by e.g. the World Bank, like the accelerated research programme by MARDI, the intensification of the extension services, the national irrigation and drainage programme and the Asian Development Bank's fishery development loan. With regard to fisheries, staff for the modernised fleet is being trained at the modern Fishermen's Training Institute in Penang, which was established by a project approved in 1968, and a pilot project for smallscale fisheries on the East Coast is being implemented. Related to this pilot project, but also for overall national application, funds have been allocated for 2 new UNDP projects in the fisheries sector possibly for the promotion of intensive aquaculture.

In Sarawak, the Forest and Forest Industries Development Project was started under the FCP. Small-scale forest management assistance continued through 1976, to be intensified through a longer term and large-scale project in 1977. The project aims at outlining a strategy for forest utilisation on a sustained basis and at appraising of the secondary and tertiary wood-working development potential. Also to be tackled is the concern in East Malaysia over the destructive effects of shifting cultivation and over the lack of adequate technology

Forestry inventory in the Jengka Triangle, Pahang. Inset: Logs awaiting transportation.



in timber exploitation. SCP involvement in the Sarawak forestry sector is costed at M \$2.5 million.

Several projects of a more technical nature are also expected to be implemented during the TMP period in fields such as irrigation, drainage and post-harvest rice protection.

MANUFACTURING

Manufacturing plays a strategic role in the achievement of the New Economic Policy (NEP). Under the Third Malaysia Plan the sector is expected to register an increased rate of expansion, thereby becoming progressively more important in the generation of income and employment. The rapid expansion of this sector is essential to the achievement of the NEP objectives and to correcting imbalances among States and regions. As a proportion of the GDP, value added in manufacturing is expected to rise rom 14.4% in 1975 to 16.8% in 1980.

The objectives of the industrialisation policy over the Second Malaysia Plan were growth of output and employment, growth of manufactured exports, promotion of industrial activities in less developed areas, development of small-scale industries and increased ownership by the Malays and other indigenous people of share capital in commercial and manufacturing companies. The industrialisation strategy during the Third Malaysia Plan will continue to be geared to meet the NEP objectives of eradicating poverty and restructuring society in the context of an expanding economy. Emphasis will be given to the promotion of efficiency, creation of employment, development of small-scale industries and the participation of the Malays and other indigenous people in the growth of the sector. While the private sector will continue to play a significant role in manufacturing, the public sector, through its various agencies, will also be actively involved.

In the context of the above priorities United Nations assistance has covered a wide range of activities in connection with institutions such as FIDA, MARA, SIRIM and MIDF. Assistance was also provided directly to the Ministry of Trade and Industry. Projects covered broad subjects such as the identification of new industrial opportunities and Industrial Development Strategies (FIDA).

Students of the Fishermen's Training Institute, Penang, on board of vessel provided to the Institute by FAO. Inset: The Fishermen's Training Institute. industrial research (SIRIM) as well as more specific subjects such as Footwear Manufacturing (MARA), Shipyards Development (FIDA) and the Johore Industrial Free Zone. Assistance was also provided in the training of Industrial and Trade Instructors for various vocational schools in the country, in advising existing industries and aspiring entrepreneurs on sound industrial management practices, and in establishing the technical unit of the National Trade Certification Board in order to develop national trade standards and certify the competency of carpenters, welders, mechanics, etc. Activities in the future will include assisting FIDA in further expanding the range of activities covered by the Industrial Studies Division and SIRIM in establishing a Metal Industries Development Centre.

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TRANSPORT AND COMMUNICATIONS

Under the Third Malaysia Plan (TMP) inputs to this sector will continue to be improved and expanded, not only to facilitate and promote greater integration, but also to support and stimulate the development of the major sectors of the economy and to ensure its rapid growth and equitable distribution among regions. Extension and improvement of facilities to rural communities will help to contribute to the eradication of poverty. Communication facilities, particularly telephone and telegraph services will continue to be expanded to meet the growing requirements of commerce and industry. Postal, meteorological and broadcasting facilities will also be expanded.

With the rapid expansion of Malaysian international trade, efforts were directed towards the development and expansion of its port facilities and related maritime services, including Malaysia's own shipping line.

The Malaysian International Shipping Corporation (MISC), the National Shipping Line, continued its fleet expansion and diversification programme under the SMP. MISC was established in 1969, and UNDP assisted the Corporation from its inception by providing a Naval Architect/Marine Engineer Technical Adviser until September 1975, under both the IPF and Funds-in-Trust arrangements. UNDP, by providing the services of a short-term consultant, assisted the Malaysian Government to establish equitable freight rates and to determine the types and quantity of available shipping services.

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The Government of Malaysia, with the financial support of the UNDP, established the Telecommunication Training Centre in Kuala Lumpur to provide vocational training courses for recruits and inservice training for existing staff. A team of eight experts was provided and seven fellowships for overseas training were offered in the various fields. Smaller regional training units were set up at Kota Kinabalu and at Kuching.

In 1968 the Telecommunications Department decided to introduce crossbar systems equipment for their national switching network. This was followed by the basic training of staff and counterparts at the Telecommunications Training Centre (TTC). After the basic training had been given and the first crossbar exchanges, had been put into service in 1970–1971 it became necessary to adopt a correct maintenance philosophy for the new switching system and to train the maintenance staff on the new methods and techniques, to enable them to carry out their duties effectively. UNDP assistance was sought to provide such assistance, which was executed by ITU. UNDP assistance also involved the setting up of a Test and Development Line Plant Centre for which 84 man-months of expert services were provided.

To improve weather forecasting and to develop better weather information, meteorological services were expanded, including the installation of a storm-warning radar at Kluang (Johore), the establishment of seismological stations at Kuala Lumpur, Kluang and Kota Kinabalu and upper air stations at Kuala Lumpur, Kluang and Kota Bahru and Kuching. The Meteorological Department also purchased hydrometeorological equipment for its major stations for the reception of weather satellite data. UNDP, through the World Meteorological Organisation has provided experts and regional advisers in order to bring about improvements in the meteorological services of the country.'

UTILITIES

In order to meet the needs of the expanding industrial sector, urban development and the modernisation of rural areas, intensive efforts were launched under the SMP to accelerate power and water supply programmes. These efforts will be continued under the TMP with emphasis directed to economically depressed regions in conformance with the New Economic Policy. Rural electrification and water supply programmes are aimed at improving the health, welfare and living conditions in rural areas. Under the SMP M \$634 million was spent on various electric power projects, including the rapid expansion of the National Electricity Board's capacity, and rural electrification of 297 villages. Under the TMP the sum allocated for power projects would rise to M \$1.6 billion. New water supply schemes under the TMP include a M \$100 million rural water supply programme.

A major UNDP effort in the utilities development area is the assistance which is being given to the National Electricity Board in their endeavour to establish a Training Institute. This project, which began under the FCP will continue under the SCP. It is planned that UNDP assistance will be supplemented by bilateral assistance for the purpose of developing an in-country training capacity to supply the technical manpower requirements resulting from TMP power projects.

Related Assistance

International Atomic Energy Agency (IAEA), under its regular programme of technical assistance, has provided the services of one expert to the National Electricity Board to initiate a programme leading to the introduction of nuclear power in the country. Some fellowships were also offered to NEB in this field, for the training of staff.

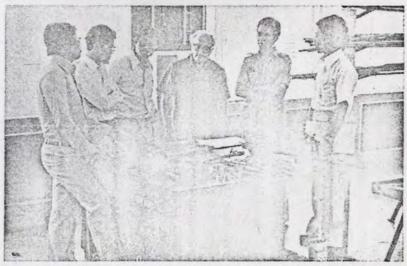
IAEA will also provide one or two experts to Malaysia to assist in finalising the design of a reactor hall and the associated laboratories for the Tun Ismail Atomic Research Centre.

EDUCATION AND TRAINING

The Second Malaysia Plan (SMP) was responsible for major advances in a number of important fields of education and training. The introduction of Bahasa Malaysia in stages, as the main medium of instruction at the primary level was achieved as planned. The expansion in education and training facilities enabled vast increases in in-take of students with enrolments in tertiary education rapidly augmenting. The progress in restructuring the education system towards science, mathematics and technologyorientated courses led to increased supplies of scientific and technical manpower. Education and training programmes were significantly expanded to increase the supply of skilled manpower among the Malays and other indigenous people in order to meet the long-term objectives of a racially balanced employment structure and for the creation of a viable commercial and industrial community among the Malays and other indigenous people.

For this purpose, under the SMP, the Government allocated M \$537.26 million to the education and training sector, the utilisation of which necessitated a series of projects for UNDP support which were consolidated in the First Country Programme (FCP).

Among other projects, UNDP assisted in establishing the Educational Television Service (ETV) to provide programmes for primary and secondary schools particularly in civil languages, science and mathematics, and in initiating a systematic procedure for providing qualified teachers of Agricultural Science at the Teacher's

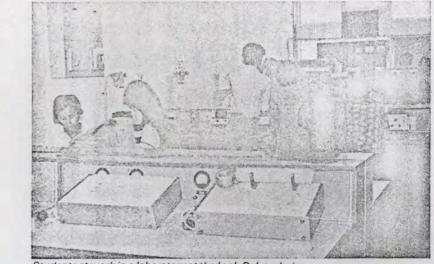


Government Officials, ILO Vocational Training Adviser and UNDP Officer on fact-finding visit to a Vocational Training Institute

Training Centre in Johore Bahru. UNDP assistance was also sought in the development of the National Broadcasting Training Centre.

During the Third Malaysia Plan, policies and programmes for education and training will be oriented to meet the skilled manpower needs of the nation and to provide greater opportunity for education among those in the lower income groups throughout the country. Curricula and extra-curricular activities will be developed to inculcate social responsibility as well as to promote national identity and unity. The education and training system of Sabah and Sarawak will be progressively integrated with the national system.

Full attention will be paid to the increasing demands of primary and secondary education, including the expansion of the existing residential service schools, and technical and vocational schools are to be increased in number. In 1968 UNDP approved a project under which the Government of Malaysia received assistance in the establishment and initial operation of the Polytechnic at Ipoh. The project was executed on behalf of the UNDP by the United Nations Educational Scientific and Cultural Organisation (UNESCO) over a period of five years. The UNDP contribution to the project amounted

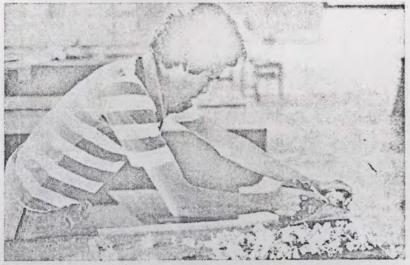


Students at work in a laboratory at the Ipoh Polytechnic

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to approximately M \$4.5 million in the form of experts and instructors, fellowships and equipment. The Polytechnic at Ipoh now serves as a post-secondary educational institute to train high-level technicians in a variety of technical fields and is still to be expanded, while assistance to a new polytechnic institute at Kuantan(Pahang) is envisaged in the SCP.

Two projects have provided advisory assistance at both the administrative and technical levels, to the largest vocational training organisation in the country — MARA. One expert, attached to MARA HQ gave advice on the overall management and future growth planning of MARA's training programmes. Another advisor in the wood-working field assisted the MARA Training Institute in wood-working Trades to organise its workshop and develop its curriculum. Emphasis is to be given to closer coordination and integration of institutional vocational training and to on-the-job training within industry. Assistance was given to the Ministry of Labour in a number of areas including selected techniques, vocational testing, labour market information, labour statistics and vocational training methodology.



Trainee at work at MARA Vocational Training Institute, Sungei Petani, Kedah

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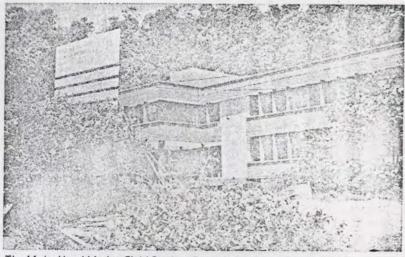
With a view to attaining the Third Malaysia Plan objectives under this sector, and in order to improve the quality of education, continued UNDP assistance to the Curriculum Development Centre will be required.

The Curriculum Development Centre (CDC) was established in January 1973 in order to institutionalise and coordinate all curriculum development work ongoing and planned in the Ministry of Education. UNDP has been assisting the Centre since 1971 and has been closely involved in the planning, establishment and organisation of the Centre. The project which was budgeted through December 1976 has provided 119 man-months of advisers to include a Specialist in Curriculum Development, an Equipment Designer, an Educational Evaluator, a Cognitive Psychologist and a Population Adviser; UNDP assistance also included M \$300,000 worth of equipment and training.

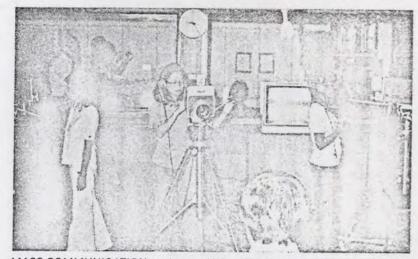
Provision has been made in the Third Malaysia Plan for the establishment of education resource centres in Kelantan, Trengganu, Kedah and Pahang to coordinate efforts at the state level. These centres will train teachers in educational administration as well as disseminate information on various aspects of educational development. UNDP assistance is requested to cover services to all four state centres, plus one advisor to assist in the overall planning of the centres, to ensure clear coordination and integration with the programme and curriculum development concerned with educational media services and with other divisions of the Ministry of Education.

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The School of Biology of the Universiti Sains, Penang, is in the process of establishing a biological field station on the island of Penang to train scientists to conduct research on terrestrial and aquatic ecosystems, with emphasis on marine and fisheries biology, and to serve as a link in the chain of marine service stations in the region. UNDP input to the marine station will involve one expert, one consultant, fellowships and equipment. Also at the Universiti Sains, Penang, UNDP assistance to the Centre for Educational Media Service focused on the development of effective utilisation of media within the educational system and on improving the academic base of training for media practitioners.



The Muka Head Marine Field Station, Penang (about to be completed)



MASS COMMUNICATION students at Universiti Sains in Penang learn television studio techniques in the Educational Technology Centre

ated Assistance

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In 1973, about 36,000 primary and secondary school teachers attended in-service courses at teacher's training colleges throughout Malaysia to be equipped with the recommended teaching methods in mathematics, health education, nutrition, domestic and agricultural sciences.

The United Nations Children's Fund (UNICEF) supported this effort by focusing its assistance on qualitative improvement of the primary level of teachers and on strengthening the existing knowledge, skills and attitudes of headmasters and organisers of primary schools, particularly those teachers in East Malaysia. A few pilot projects such as a multi-media self-learning programme for primary teachers and an integrated curriculum for the first three years of primary schools are being implemented.

HEALTH AND FAMILY PLANNING

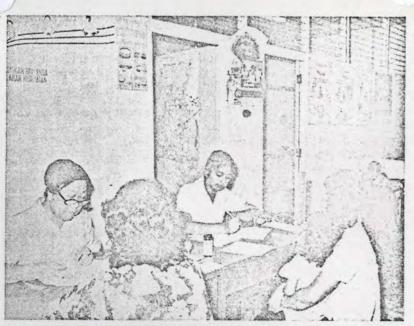
United Nations Fund For Population Activities (UNFPA)*

The Government recognised in the early sixties that Malaysia's high rate of population growth was seriously affecting the effective implementation of its development plans. Thus in 1966 the National Family Planning Board was established and a target for reducing the rate of population growth, from 3 percent, at the time, to 2 percent by 1985, was announced.

The objective of the national family planning programme in the TMP is to bring down the crude birth rate from about 31 per 1,000 in 1975 to 28.2 in 1980. To carry out the new programme successfully the Government is emphasizing a community-based approach to family planning.

The Government of Malaysia and the UNFPA Country Agreement of January 1973 consists of four parts and totals M \$11,310,075 over a five-year period. In addition, the Government of Malaysia is contributing almost M \$12.5 million in counterpart funds. An IBRD loan of M \$12.5 million completes the tripartite arrangement.

*As the UNFPA's overall supervision has been entrusted to the Governing Council of the UNDP, the Fund's activities are dealt with first in this sectoral chapter.



Concern with mother's and child's health, capable staff providing family planning services and good advice at one of FFPA's clinics.

The bulk of UNFPA support pertains to family planning and related health care. One project (MAL/73/PO1), in the amount of M \$3,236,900, is primarily for strengthening the programmes of the National Family Planning Board and the Federation of Family Planning Associations. A second project (MAL/73/PO2), in the amount of M \$4,667,425, relates to the Ministry of Health's programme for supplying family planning as part of Maternal and Child Health (MCH) care in rural areas of Peninsular Malaysia. In this regard UNFPA funding and commodity support is tied in closely with other MCH programmes such as applied food and nutrition, environmental sanitation, etc. The two abovementioned projects are executed by the Government itself, with the assistance of UN participating agencies.

A third UNFPA-supported project (MAL/73/PO3) pertains to providing population education in the Malaysian school system,

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the objective being to infuse population information into the curricula of upper primary and lower secondary schools throughout the country. Malaysia is typical of many developing countries, in that a large proportion of its population consists of children under age 15. One goal of population education is to give children awareness of the impact of population growth on the future of the country.

The fourth project in the Country Agreement is concerned with establishing a Population Studies Centre at the Faculty of Economics and Administration of the University of Malaya. This centre will enable students at both undergraduate and graduate levels to obtain basic training in population-related matters.

Related Assistance

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1. United Nations Children Fund's (UNICEF) aid for 1976– 1977 is not in the traditional form of support for children's services. It aims at improving the delivery of health and nutrition services within the context of an integrated approach, i.e., a "package" of basic services at the village level.

UNICEF (with the co-operation of the World Health Organisation) has assisted the Government since 1950 in projects to improve health services for mothers and children in Peninsular Malaysia. Over 1800 health centres, midwifery clinics, and other institutions have offered basic preventive and curative services, including family planning, to the rural population.

Other medical manpower development at both the professional and sub-professional level has been given high priority in view of the rapid expansion programme in the rural areas. In the States of Sabah and Sarawak a system of rural medical services was established to provide basic health care and rural health assistants and to train midwives.

Since the incidence of worm infestation is very high (80%) in Sabah and Sarawak, the construction of safe water supplies and adequate latrines was given priority.

To improve the nutritional status of the population with special emphasis on the vulnerable groups of children and nursing mothers, UNICEF nutritional programmes will aim at changing attitudes and practices through education and training. Several programmes will be conducted to combat worm infestation, to supply safe drinking water and to rehabilitate malnourished pre-school children. UNICEF is also active in the training of Registered Traditional Birth attendants and health assistants.

2. The main factors taken into account in preparing the programme of the **World Health Organisation's** (WHO) co-operation with Malaysia are the Government's priorities as expressed in the Second and Third Malaysia Plans.

As the Third Malaysia Plan (TMP) establishes as a priority the improvement and expansion of rural health facilities including the provision of potable water and basic sanitation, WHO has provided for 1976 and will provide for 1977 the services of two sanitary engineers, one of them specifically in charge of the rural sanitation programme.

In the field of control and eradication of communicable diseases, WHO continued its long-term support of the malaria eradication programme in Peninsular Malaysia and of the malaria control projects in Sabah and Sarawak by providing malariologists, sanitary engineers, entomologists and by co-operating with the Government in organising courses for the management of malaria programmes. WHO is also providing an epidemiologist and a health statistician to improve the reporting, control and prevention of communicable diseases in the . country.

As the current pace of industrialisation in the country makes it urgent to give adequate attention to industrial accidents and occupational diseases, WHO is helping the Government to identify industrial hazards and to improve protection of the workers by providing the services of a specialist in occupational medicine.

The applied food and nutrition project is a field in which WHO and FAO cooperated with the Government by providing advisory services. The WHO part comprises the training of staff, the strengthening of maternal and child health services, the supplementary feeding of under-nourished infants, toddlers, pregnant and lactating mothers. The development of its health manpower continues to be a priority of the Government and WHO is assisting it by providing fellowships, most of them related to programmes which benefit from WHO cooperation.

WHO is also providing cooperative services in the field of drug abuse, which has become a matter of increasing concern to the Government.

3. The General Hospital has been the main recipient of related International Atomic Energy Agency (IAEA) assistance, which included the services of one expert for the radioisotope in Nuclear Medicine programme in addition to fellowships and equipment costing approximately M\$115,000. IAEA assistance to the project began in 1974 with a request from the Government to assist the Institute of Radiotherapy, Oncology and Nuclear Medicine of the General Hospital. Assistance to this project will be continued in 1977 with one expert in radioisotopes in Nuclear Medicine and equipment worth approximately M\$125,000.

There is an active research programme in food proteins being assisted by IAEA. The University of Malaya has a research contract with IAEA for this activity. Assistance to this project started in July 1975 and is being extended through 30 June 1977.

COMMUNITY SERVICES AND GENERAL ADMINISTRATION

Under the SMP a number of community development projects were launched in community development areas, such as the establishment of rural libraries and pre-school centres, applied food and nutrition programmes, housing and welfare services and the establishment of SOCSO (the national Social Security Organisation which was given the task of implementing and administering the 1969 Employees Social Security Act). Many administrative services of Government were also developed and strengthened under the SMP. The TMP will continue to give emphasis to these programmes with particular attention being devoted to a number of new social security schemes and expanded benefit programmes.

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The United Nations has played a key role in this development

sector through the assistance offered under UNICEF, ILO and the United Nations Office for Technical Cooperation (UNOTC). Under ILO execution, significant assistance has been provided in the fields of social security administration and legislation. Under UNOTC assistance, various projects have helped address Government development priorities in the fields of housing and physical planning.

The ILO project dealing with the Re-organisation and Development of Social Security has influenced the identification of TMP objectives for expanded social security schemes - both geographically and in terms of extended benefits. The projects, which began under the FCP and continues into the SCP has also assisted in streamlining the administrative capacity of SOCSO through the development of a computerisation programme. A UNOTC project entitled Housing and Urban Development Advisors constituted assistance under the FCP to the Urban Development Authority in a number of areas. Perhaps some of the most significant contributions made by this project involved assistance in identifying housing needs and demands in the Federal Territory up to 1990, and analysis of the squatter situation in the Federal Territory, the compilation of a significant data base for planning purposes, and the creation of a pilot "Sites and Services" project which should have far-reaching implications in the field of housing for squatters and low income households throughout the country by providing a tool to implement the New Economic Policy.

Related Assistance

1. **Primary School Libraries.** A one-year pilot scheme of 20 rural primary school libraries was established by the United Nations Children's Fund (UNICEF) in 1972, which included in-service training of 20 teachers in library maintenance. This was followed by a grant from the Canadian International Development Agency and the Canadian National Committee of UNICEF to equip 60 rural primary school libraries and to give orientation courses to school libraries.

2. Applied Nutrition. A pilot project comprising 8 villages with a population of about 9,700 (including 3,000 school children and 2,100 pre-school children) was launched in 1969 and with UNICEF/

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FAO/WHO assistance a base-line survey covering economic dietary, clinical, anthropometric and dental factors, was carried out.

50 senior personnel and 150 ground level workers from various participating Ministries were given orientation courses in nutrition.

3. Tax Policy. Under the Technical Assistance Scheme of the International Monetary Fund (IMF), an expert has been posted to the Tax Division of the Malaysian Treasury throughout 1977. The expert's function in Malaysia is to advise on research methods in the field of tax policy and to train the staff of the Tax Division in these methods. By assisting Tax Division staff to work in areas of interest to the Malaysian authorities, it is hoped that useful on-the-job training can be given.

MULTI-SECTORAL

The UNDP performs an important role in assisting the Malaysian Government in its endeavour to strengthen its planning capacity. In addition to the multitude of technical assistance projects funded by UNDP which possess a planning element, there are a number of projects under the FCP and the SCP which deal entirely with this concern. Indeed, under the SCP a separate sectoral heading entitled Multi-Sectoral Planning for Development was established.

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Under both country programmes two broad categories of planning assistance emerge. One area is concerned with assisting the Government in developing policies and programmes which will result in achieving some of the objectives under the NEP. The other area is the provision of expertise to advise on the actual implementation of already identified policies and programmes. Significant examples of programme policy and planning efforts may be found in the Research and Training for National Planning project which began under the FCP and will continue under the SCP. This project is aimed at assisting the nucleus of the national planning apparatus namely the EPU, Treasury, and the Public Administration Training Institute - INTAN. By extending over 25 higher degree fellowships to officers of these institutions coupled with the services of a high level advisory team from Harvard University, it is the overall objective of this project to strengthen the national planning, administrative, and evaluation capacity of the Government of a more sectorally oriented

nature. Two major projects are planned for in this policy influencing area under the SCP in the area of manpower planning and training.

Under the FCP and continuing under the SCP, a number of projects are aimed towards strengthening the capacities of various ministries and departments to execute National Plan policies and programmes. Nearly one-third of UNDP assistance over both country programme periods has been devoted to this type of assistance. Some important projects within this category are projects in Tariff Reform which sought to counsel the tariff determining and administrative agencies of Government on such tariff determining techniques as effective rates of protection, so as to ensure that domestic industries are not unduly protected and consumers are not economically abused. A number of activities have been devoted to physical planning under the Federal Territory Planning project, the Housing and Urban Development Advisors project and the Urban Planning Advisor project. All of these efforts sought to strengthen the physical planning capacities of the Government which included the EPU, the Urban Development Authority, City Hall and State Planning bodies. Most significant within this category is the SCP World Bank executed project entitled State and Rural Development which seeks to strengthen the project identification, formulation and implementation capacities of the least developed states so that both the planned public expenditure and anticipated private investment under the TMP can be absorbed and used effectively in terms of NEP objectives. This project alone is scheduled to cost approximately US \$5.3 million (M\$13.25 million).

Related Capital Assistance

Project loans from multilateral sources, in particular the World Bank, the Asian Development Bank, and the Islamic Development Bank (IDB), constitute a major source of capital assistance to Malaysia.

During the period 1971–1975, Malaysia secured external capital assistance totalling M \$2.3 billion. Although this was larger than the revised SMP target of M \$1.4 billion, a large share of the assistance secured was for projects whose implementation will stretch into the TMP. Notwithstanding this fact, there were shortfalls in the disbursement of loans secured indicating the need for improvements in project preparation and implementation capacity under the TMP. Aroject loans from multilateral sources amounted to M\$1.3 billion and formed the major component of all assistance received. Of the total, World Bank commitments to Malaysia amounting to M\$710 million, about M\$128.5 million of these loans had been disbursed up to the end of 1975. During the SMP, World Bank financing was secured for 14 projects in land development (Keratong and Jengka), drainage (Western Johore), education, transport (including public transport), water supply and sewerage.

Of the M \$547 million secured from the ADB for 17 projects to be implemented for periods stretching beyond the SMP, a sum of M \$55.4 million had been disbursed. This comprised mainly infrastructural projects for road and port development as well as regional development. Project loans from bilateral sources totalling M \$1.1 billion were utilised for a wide array of projects, in particular consultancy services and projects with considerable equipment components.

The requirements for capital assistance for the TMP have been determined on the basis of a careful evaluation of the experiences learned during the SMP period and an assessment of the resources that can be mobilised. While the financing of the proposed programme of M \$18.6 billion would require substantial foreign borrowing, the favourable prospects on the balance of payments and the strong external reserves position of the country will permit a high level of foreign borrowing from institutional, bilateral and market sources.

The net requirements from the World Bank for the TMP are estimated to amount to approximately M \$1.5 billion. The Government welcomes the increasing emphasis being given by the World Bank to anti-poverty programmes. In this connection, the Government is hopeful that World Bank support will be received for, among others, the following: land rehabilitation schemes of the Federal Land Consolidation and Rehabilitation Authority, the development of coconut areas, village modernisation and development, the Kuantan and Kelantan urban development projects, Sites and Services projects throughout the country and integrated rural development schemes in Peninsular Malaysia, Sabah and Sarawak.

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The net requirements from the ADB are estimated at M \$860 million. In line with the development strategy to open up opportunities for growth in the less developed States, the Government will continue to seek the assistance of the ADB principally for projects

which contribute to greater regional balance. These include irrigation projects in Sarawak, electricity programmes in Sabah, the Kuala Krai/Gua Musang/Lipis Road, the East-West Highway dispersal links, the Trengganu River multi-purpose project and infrastructure for townships in Pahang Tenggara and Trengganu.

REGIONAL PROJECTS

Over sixty regional projects in Asia are sponsored and supported by UNDP. Malaysia is participating in several of them. Three of these projects are based in Malaysia and a fourth has specific activities carried out here.

RAS/72/079 — Southeast Asia Tin Research and Development Centre

On 28 January 1977, UNDP approved US \$1.26 million (M \$3.15 million) for a period of three years to assist the Government of Indonesia, Malaysia and Thailand in the establishment and operation of the Southeast Asia Tin Research and Development Centre.

Some of the immediate objectives of the project are :

- to provide advisory services on problems relevant to the assessment of the region's tin potential and the investigation of hard-rock deposits;
- to organise appropriate regional studies, the compilation of maps relevant to the region's tin industry and the establishment of a regional data service and clearing house covering various aspects of exploration, mining, evaluation, beneficiation of tin, etc.; and
- 3. to assist in all aspects of the tin industry.

Activities started in February 1977 with the arrival of the Project Manager. Assistance approved includes US \$856,000 for expert services; US \$94,000 for training and US \$278,000 for equipment in addition to US \$34,000 for miscellaneous.

The project is attached to the Mines Research Institute in Ipoh.

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RAS/74/013 — South China Sea Fisheries Development and Coordinating Programme (Phase II)

In June 1974, UNDP approved US \$2.8 million for a period of five years to assist the Governments of Indonesia, Kampuchea, Malaysia, Philippines, Singapore, Thailand, Hong Kong (UK) and Viet Nam to:

1. Stimulate fish production in the region ;

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- 2. encourage rational stock management policies;
- facilitate the establishment of a suitable regional coordinating mechanism to ensure the most efficient use of limited national and international funds available for development of fisheries, particularly those of coastal and high seas; and
- 4. assist the participating countries to fulfill their fishery development priorities in keeping with the need for accelerated development. Specifically, the Programme would provide a focal point for fishery development to stimulate investment in fisheries, to introduce management systems and methods to increase protein supplies required to meet national objectives.

The UNDP assisted project has proven to be a catalytic element through which bilateral assistance is being channelled (both at the regional and the national level).

Under the auspices of the said project (located in Manila), a team of experts is assisting the Fisheries Division, Ministry of Agriculture and Majuikan in a pilot scale integrated project at Kuala Besut, Trengganu. This project is intended to serve as a model for small scale fisheries development on the east coast of Peninsular Malaysia and to provide technical inputs for a pending ADB fisheries loan which is oriented towards upgrading the technical levels of small-scale coastal fisheries.

The project has, inter alia, the following objectives:

 to introduce and demonstrate improved fishing equipment and techniques for the optimal development of the inshore fisheries;

- 2. to introduce improvements in fish handling, processing and marketing; and
- 3. to provide technical support to national subsidy or credit schemes for the small-scale fisheries sector in Kuala Besut.

RAS/75/010 Asian Institute for Broadcasting Development (AIBD)

At a 1968 expert meeting in Kuala Lumpur, organized by UNESCO a proposal for the creation of a regional institute for broadcasting, to be located in Malaysia was unanimously adopted.

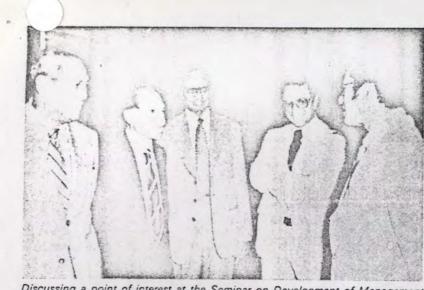
'In 1969, Malaysia began preparations for the construction of a new National Broadcasting Training Centre with a capacity to meet regional training needs as well. UNESCO followed up by providing the services of a Regional Broadcasting Planning Adviser who helped develop plans for a training programme as well as advise on the development of the National and Regional Training Assistance Schemes. A limited training programme was established for Asia and the Pacific in 1972 with two experts funded by UNDP. Since then, a variety of aid sources have either funded courses, provided experts or made available training material for courses at the Institute. To date, 580 trainees have attended courses/seminars at the Institute and 482 trainers have attended "in-country" courses.

UNDP has given the Institute preparatory assistance with a view to assist in the formal establishment of the Institute and to support it up to 1980.

RAS/75/066 Asian and Pacific Development Administration Centre

On 9 October 1973, under the auspices of the UNDP, thirteen governments of the Asia and Pacific formally established the Asian and Pacific Development Administration Centre (APDAC) formerly known as ACDA.

The objectives of the Centre are to assist member countries to improve their administrative capabilities and managerial and ad-



Discussing a point of interest at the Seminar on Development of Management Consultancy Capability in the Public Sector of Asian Countries organised by APDAC. Left to right: Tan Sri Datuk Abdullah Salleh, Chief Secretary to the Government, Prime Minister's Department, Datuk Aziz Zakaria, Director-General of the Public Services Department, Mr B Mahadeva, Director of ACDA, Mr Kouros Satrap, Regional Representative, UNDP, and Dato Seri Dr Mahathir Mohamad, Deputy Prime Minister

ministrative skills in order to effectively meet current and future development needs and to help them modernize administrative and managerial systems and practices in order to better suit their social and economic environment.

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To attain these ambitious objectives, APDAC organizes meetings, seminars and study courses for senior administrators of member countries; it undertakes research and comparative studies on administrative problems related to social and economic development; it collects, analyses and disseminates information on development administration and finally, it provides advisory and consultancy services on request to member countries.

The Government of Malaysia is hosting the Centre, which is based in Kuala Lumpur, and is contributing to its administrative costs.

UNDP has assisted APDAC since its inception and from 1973 through 1977 its contribution to the APDAC budget has totalled approximately. US \$2 million, (M \$5 million) mostly in terms of international expertise and fellowships.

WHO is about to establish a Regional Centre for Research and Training in Tropical diseases and Nutrition, in addition to a Regional Centre for Environmental Health Sciences, in Kuala Lumpur.

CONCLUSION

The foregoing constitutes a very brief and superficial survey of UNDP and UN System assistance to Malaysia. Those who wish to read further are welcome to contact the UNDP Regional Office in Kuala Lumpur and to utilise its very modest reference library. The office address is:

> United Nations Development Programme Blocks K-9 & K-10 Government Offices Complex Jalan Duta P. O. Box 2544 Kuala Lumpur 11-04

Tel. nos: 942555, 942687, 942717 942840, 942905, 942369

Telex: MA 30270

Telegraph: UNDEVPRO KUALA LUMPUR

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		ANNEX I	AfDB	-	African Development Bank
LIST OF	PART	ICIPATING AND EXECUTING AGENCIES	AsDB	-	Asian Development Bank
		Helind Num	UNICEF	-	United Nations Children's Fund
UN	-	United Nations	WFP	_	World Food Programme
ILO		International Labour Organisation	UNHCR	_	United Nations High Commissioner for Refugees
AO .	-	Food and Agriculture Organisation of the United Nations	UNEP	-	United Nations Environment Programme
JNESCO	_	United Nations Educational, Scientific and	WIPO	_	World Intellectual Property Organisation
		Cultural Organisation	WTO	_	World Tourism Organisation
/HO BRD	_	World Health Organisation International Bank for Reconstruction and	AFESD	-	Arab Fund for Economic and Social Develop- ment
MF	_	Development (World Bank) International Monetary Fund	ESCAP	-	Economic and Social Commission for Asia and the Pacific
CAO	_	International Civil Aviation Organisation	UNFPA	-	United Nations Fund for Population Activities
IPU	_	Universal Postal Union			
U	-	International Telecommunications Union			ANNEX II
VMO	-	World Meteorological Organisation		1	LIST OF ABBREVIATIONS
мсо	-	Inter-Governmental Maritime Consultative Or- ganisation	APDAC	_	Asian and Pacific Development Administration Centre
AEA	-	International Atomic Energy Agency	AsDB		
NIDO	-	United Nations Industrial Development Or-		_	Asian Development Bank
		ganisation	APDI	-	Asian and Pacific Development Institute
INCTAD	-	United Nations Conference on Trade and Development	AIBD	-	Asian Institute for Broadcasting Development
DB	-	Inter-American Development Bank	ARTEP	-	Asian Regional Team on Employment Pro- motion

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•.	\bigcirc	-	Economic Planning Unit	SEATAC	- Southeas	st Asian Agency for Regional Transpor-
	FCP	-	First Country Programme			d Communications Development
	FELDA	-	Federal Land Development Authority	SIRIM	— Standard Malaysia	s Industrial Research Institute of
	FELCRA	-	Federal Land Consolidation and Rehabilitation Authority	SMP	- Second M	Malaysia Plan
	FIDA	-	Federal Industrial Development Authority	SOCSO	- Social Se	ecurity Organisation
	GDP	-	Gross Domestic Product	TMP	— Third Ma	alaysia Plan
	INTAN	-	Abbreviation for National Institute for Public Administration	-	A	NNEX III
	ITI	-	Industrial Training Institute		IST OF UNDE	PROJECTS 1960/70s
	MADA	-	Muda Agricultural Development Authority			
	MAJUIKAN	-	Abbreviation for Fisheries Development Authority	Agricultur	e, Animal Husba	andry, Fisheries And Forestry
	MARA	-	Abbreviation for Council of Trust for the Indigenous People	Agency	Project No.	Project Title
	MIDF	-	Malaysian Industrial Development Finance	FAO	MAL/66/509	Food Technology Research and
	MIDFIC	-	MIDF Industrial Consultants			Development Centre
	NBTC	-	National Broadcasting Training Centre	FAO	MAL/67/512	Pilot Plantations for Quick Growing Industrial Tree Species
	NEB ·	-	National Electricity Board	UNESCO	MAL/68/008	Agricultural Education
	NITTCB	-	National Industrial Training and Trade Certifica- tion Board	FAO	MAL/68/010	FELDA — Jengka Division
	RECSAM	_	Regional Centre for Science and Mathematics	FAO	MAL/68/011	Staff Settler Training Adviser
	SCP		Second Country Programme	FAO	MAL/68/516	Forest Industries Development Pro- gramme
	SCSP	-	South China Sea Fisheries Development and Coordinating Programme	FAO	MAL/68/520	Fishermen's Training Institute, Pe- nang

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Agency	Project No.	Project Title	Agency	Project No.	Project Title
FAO	MAL/69/012	Agricultural Education Fellowship	FAO	MAL/75/010	Management of the Apprenticeship
FAO	MAL/69/014	Cocoa Agronomist			Training Programme of the Fisher- men's Training Institute
FAO	MAL/71/005	Malaysian Agricultural Research & Development Institute	FAO	MAL/75/012	Forestry Development — Peninsular Malaysia
UNESCO	MAL/71/007	Training of Teachers in Agricultural Science	FAO	MAL/75/013	Forestry Development — Sarawak
FAO	MAL/71/009	Sugar Cane Expert	FAO	MAL/76/003	Forestry Industry Development Ad- visor (STIDC)
FAO	MAL/71/013	FELDA Data Processing	FAO	MAL/76/008	Sarawak Forest Development
UNESCO	MAL/71/015	Hydrology and Water Resources Fellowship	FAO	MAL/76/011	*DID Water Management
FAO	MAL/71/529	Technical Assistance to FELDA Re-	FAO	MAL/76/013	*Post Harvest Crop Protection
IAU	WAL/11/020	search Centre	FAO	MAL/77/002	*Dairy Development for Small-
FAO	MAL/71/531	Forestry College	FAO	MAL/77/007	Holders Pilot Project for Small-scale
FAO	MAL/71/532	Agricultural University	FAU	MAL/11/001	Fisheries Development
FAO	MAL/72/005	Home Economics — Serdang	Manufact	uring	
FAO	MAL/72/006	Strengthening of Crop Protection Service	FAO	MAL/66/509	Food Technology Research and Development Centre
FAO	MAL/72/009	Forest Industries Development	UNIDO	MAL/68/005	Industrial Economist, MIDF
FAO	MAL/74/003	Training in Data Analysis	UNIDO	MAL/68/006	Commerce and Industry Division,
FAO	MAL/74/004	Farmers' Organisation (Integration)	UNIDO	MAL/00/000	MARA
FAO	MAL/74/006	Sarawak Agriculture Development Organisation	UNIDO	MAL/69/013	Financial Advisor, MIDF
FAO	MAL/74/009	Land Development Institute (FELDA)	ILO	MAL/69/521	Industrial and Trade Instructor Train- ing Programme
FAO	MAL/74/011	Cocoa Processing (FELDA)	ILO	MAL/70/015	Medium and Small-scale Industry
FAO	MAL/75/001	Agricultural Planning and Project Analysis	*Pipeline Pro	ojects — not approved	Consultancy Service yet.

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	UNIDO	MAL/70/522	National Institute for Scientific and Industrial Research	UNIDO	MAL/76/007	Industrial Project Identification
	UNIDO	MAL/71/011	Industrial Development Strategy Mission	UNCTAD	MAL/76/020	Expert Credit Insurance Scheme
				Transport	And Communic	ation
	ILO	MAL/71/012	Expert in Retail Trade, FELDA	IBRD	MAL/67/514	Transport Development Plans
	UNIDO	MAL/71/536	Malaysian Metal Industries Deve- lopment Centre	ITU	MAL/67/515	Telecommunication Training II
	UNIDO	MAL/72/001	Industrial Project Identification and	IMCO	MAL/68/014	National Shipping Line
			Development Team	ITU	MAL/69/007	Telecommunication Training
	UNCTA		Tariff Reform	ITU	MAL/69/009	Network Management and Quality Control
	ILO	MAL/72/004	MARA Vocational Training Plan- ning Team	1MCO	MAL/70/004	Maritime Training
	UNIDO	MAL/73/004	Plastic Application	ICAO	MAL/70/006	Air Traffic Services
	UNCTAD	MAL/73/005	Freight Study Unit	UNESCO	MAL/70/008	Broadcasting Training
	ILO			WMO	MAL/70/011	Hydro Meteorology
. 9	120	MAL/74/001	The Establishment and Develop- ment of the Technical Unit of the	ILO	MAL/70/012	Training of Seafarer Ratings
	4		National Industrial Training and Trade Certification Board	ITU	MAL/70/014	Telecommunications
0	FAO	MAL/74/006	Sarawak Agriculture Development Organisation	ITU	MAL/71/008	AT & E Crossbar Switching Systems and Crossbar Exchange Main- tenance
	OTC	MAL/74/008	Management and Business Adminis-	ICAO	MAL/72/008	Automatic Switching Centre
	••		tration	ITU	MAL/72/018	Crossbar Switching Maintenance
	ILO	MAL/75/004	MARA Vocational Training Section Development	IBRD	MAL/72/019	Transportation Training
	FAO	MAL/76/003	Forest Industry Development Ad-	UNCTAD	MAL/73/005	Freight Study Unit
	122		viser (STIDC)	IMCO	MAL/74/010	Establishment of a Marine Academy

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Agency	Project No.	Project Title	Agency	Project No.	Project Title
UNDP	MAL/75/007	Adviser to Public Transport Unit	FAO	MAL/71/531	Forestry College
ICAO	MAL/77/004	Civil Aviation Training Centre	FAO	MAL/71/532	Agricultural University
мйо	MAL/77/005	*Marine Meteorology	UNESCO	MAL/71/534	Educational Television and Edu- cational Media Service
Utilities ILO	MAL/71/530	Vocational Training Institute for NEB	UNIDO	MAL/71/536	Malaysian Metal Industries Develop- ment Centre
Education	And Training		ILO	MAL/72/004	MARA Vocational Training Plan- ning Team
UNESCO	MAL/65/505	Faculty of Engineering, University	FAO	MAL/72/005	Home Economics - Serdang
		of Malaya	UNESCO	MAL/72/011	Educational Media Service
UNESCO	MAL/68/008	Agricultural Education	UNESCO	MAL/72/012	Science School Evaluation
FAO	MAL/68/011	Staff Settler Training Adviser	ILO	MAL/74/001	The Establishment and Development
UNESCO	MAL/68/518	Ungku Omar Polytechnic, Ipoh	iLU	WAL/14/001	of the Technical Unit of the National Industrial Training and Trade Certifi- cation Board
FAO	MAL/68/520	Fishermen's Training Institute, Penang			
ILO	MAL/69/521	Industrial and Trade Instructor Train-	FAO	MAL/74/003	Training in Data Analysis
		ing Programme	FAO	MAL/74/009	Land Development Institute
UNESCO	MAL/70/008	Broadcasting Training			(FELDA)
UNESCO	MAL/71/003	Curriculum Development Centre	IMCO	MAL/74/010	Establishment of a Marine Academy
UNESCO	MAL/71/007	Training of Teachers in Agricultural	UNESCO	MAL/74/012	Muka Head Research Station
UNESCO	MAL/71/015	Science Hydrology and Water Resources Fellowship	ILO	MAL/75/004	MARA Vocational Training Section Development
ILO	MAL/71/530	Vocational Training Institute for NEB	*Pipeline Proj	ect — not approved y	vet.

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A	Project No.	Project Title	Agency	Project No.	Project Title
UNDP	MAL/75/008	Short-term Consultancy Service to INTAN	UNESCO	MAL/71/001	National Archives Building Consul- tant
UNESCO	MAL/76/017	*Kuantan Polytechnic	OTC	MAL/71/010	Fellowship in Economic Planning
UNESCO	MAL/76/018	*State Education	FAO	MAL/71/013	FELDA Data Processing
UNESCO	MAL/76/019	*Educational Expertise	OTC	MAL/71/014	Development Bank of Malaysia
			WHO	MAL/71/533	Sewerage Planning
	Family Plannin		FAO	MAL/72/002	Rural Youth Activities
WHO	MAL/68/012	Malaria Eradication Programme — East Malaysia	UNCTAD	MAL/72/003	Tariff Reform
			FAO	MAL/72/013	Rural Youth Club Organisation
		General Administration	OTC	MAL/72/014	Urban Planning
ILO	MAL/68/007	Employment and Training, Ministry of Labour and Manpower	OTC	MAL/72/015	Urban Development Advisers
FAO	MAL/68/013	Agricultural Census and Survey	WMO	MAL/72/017	Flood Control Forecasting
		Adviser	ILO	MAL/72/998	Accounting Adjustment
	MAL/69/010 MAL/69/011	Director of Finance Social Security Adviser	отс	MAL/74/002	Malaysian Centre for Developmen Studies (MCDS)
UNIDO	MAL/69/013	Financial Adviser, MIDF	ILO	MAL/74/014	Reorganisation and Development o
UNOTC	MAL/70/002	Computer Science Adviser			Social Security
UNESCO	MAL/70/005	National Library Adviser	OTC	MAL/75/002	City Hall Consultancy
ILO	MAL/70/015	Medium and Small-Scale Industry Consultancy Service	UNDP	MAL/75/008	Short-term Consultancy Service, to INTAN
отс	MAL/70/524	Department of Statistics	UNDP	MAL/76/005	Advance Management Training
	s — not approved y		OTC	MAL/76/021	Consultancy Service to Departmen of Environment

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Agency	Project No.	· Project Title		Agency	Project No.	Project Title
Multi-Secto	oral Planning F	or Development		LIST OF R	EGIONAL PRO	JECTS
FAO	MAL/71/527	Regional Planning and Devel Study of the Klang Valley Re		UNESCO	RAS/68/559	Marine Science Asia & Far East — Regional Expert
οτο	MAL/72/014	Urban Planning		UNDP	RAS/71/180	Coconut Technology - Economic
OTC	MAL/72/015	Urban Development Adviser	S			Studies
отс	MAL/74/002	Malaysian Centre for Devel Studies (MCDS)	opment	UN	RAS/71/214	Asian & Pacific Development Ad- ministration Centre
	NAN 1741005			UNCTAD	RAS/71/722	Asian Trade Expansion Programme
UNDP/OTC	MAL/74/005	Post-Graduate Training Prog — EPU	gramme	UNESCO	RAS/71/237	Regional Seismological Network
UNDP/OTC	MAL/74/015	Manpower Planning Cons (EPU)	sultancy	FAO	RAS/72/023	Asian Regional Centre for Livestock Development
FAO	MAL/76/009	*Sabah-Sarawak Development	nt	FAO	RAS/72/024	Agrarian Reform & Rural Develop- ment Programme
IBRD	MAL/76/014	State and Rural Developmen	nt		D 4 0 /70 /05 4	
ILO	MAL/76/015	Vocational Training Policy	Adviser	UNESCO	RAS/72/054	Education Planning & Facilities Unit — Asia
ILO	MAL/76/016	*Employment Promotion/Plan	ining	UNESCO	RAS/72/065	Educational Innovation for Develop-
FAO	MAL/77/001	*Consultancies for Sabah Sarawak	n and	UN	RAS/72/071	Social Welfare & Dev. Centre for
FAO	MAL/77/003	*Sabah Development				Asia & the Pacific
UNDP	MAL/77/006	*Consultant/TMP Implement	tation	UN	RAS/72/079	South East Asia Tin Research and Development Centre
Project titles Kuala Lumpu	dated prior to 1 r.	965 are available at the UNDF	P office,	WHO	RAS/72/084	Teacher Training for Health Personnel
*Pipeline Proje	cts — not approved	yet.		UN	RAS/72/088	Advisor on Housing Policy

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ancy	Project No.	Project Title	Agency	Project No.	Project Title	
UNCTAD	RAS/72/104	Food Processing - inplant Training	UNCTAD	RAS/74/046	Cooperation in Commodities	
UNCTAD	RAS/72/113	Course on Packaging for Export	UNCTAD	RAS/74/049		
ICAO	RAS/72/117	Regional Civil Aviation			Establishment of Regional Asian Reinsurance Corporation	
FAO	RAS/72/125	Tropical Forest Management	UNESCO	RAS/75/010	Asian Institute for Broadcasting	
UNDP	RAS/72/158	Development Support Communica- tions Service — Bangkok	FAO	RAS/75/020	Development Regional Forestry Development	
UN	RAS/72/160	Trans-Asian Railway	ILO	RAS/75/031	Organisation and Development of	
ICAO	RAS/73/003	Civil Aviation Training Centre -			Cooperation for the Disabled	
		Bangkok	UNESCO	RAS/75/041	Technical Cooperation — Asian Re-	
UN	RAS/73/012	Task Force on Human Environment			gion	
UNCTAD	RAS/73/017		FAO	RAS/75/042	Fruit and Vegetable Industries	
		Asia & Pacific	FAO	RAS/75/047	Statistical Institute for Asia & the	
UNCTAD	RAS/73/020	Regional Advisory Services — Trade			Pacific	
1010			UNCTAD	RAS/75/064	Trade and Development	
ICAO	RAS/74/012	Civil Aviation Manpower & Training Survey	отс	RAS/75/067	Asian & Pacific Development Insti-	
FAO	RAS/74/013	South China Sea Fisheries Prog-			tute (Phase III)	
		ramme (Phase II)	UNDP	RAS/76/011	*Technical Assistance for ASEAN	
UNCTAD	RAS/74/022	Facilitation of Trade Procedures and Documentation	*Dinalina prai	not annual		
			*Pipeline projects - not approved yet.			

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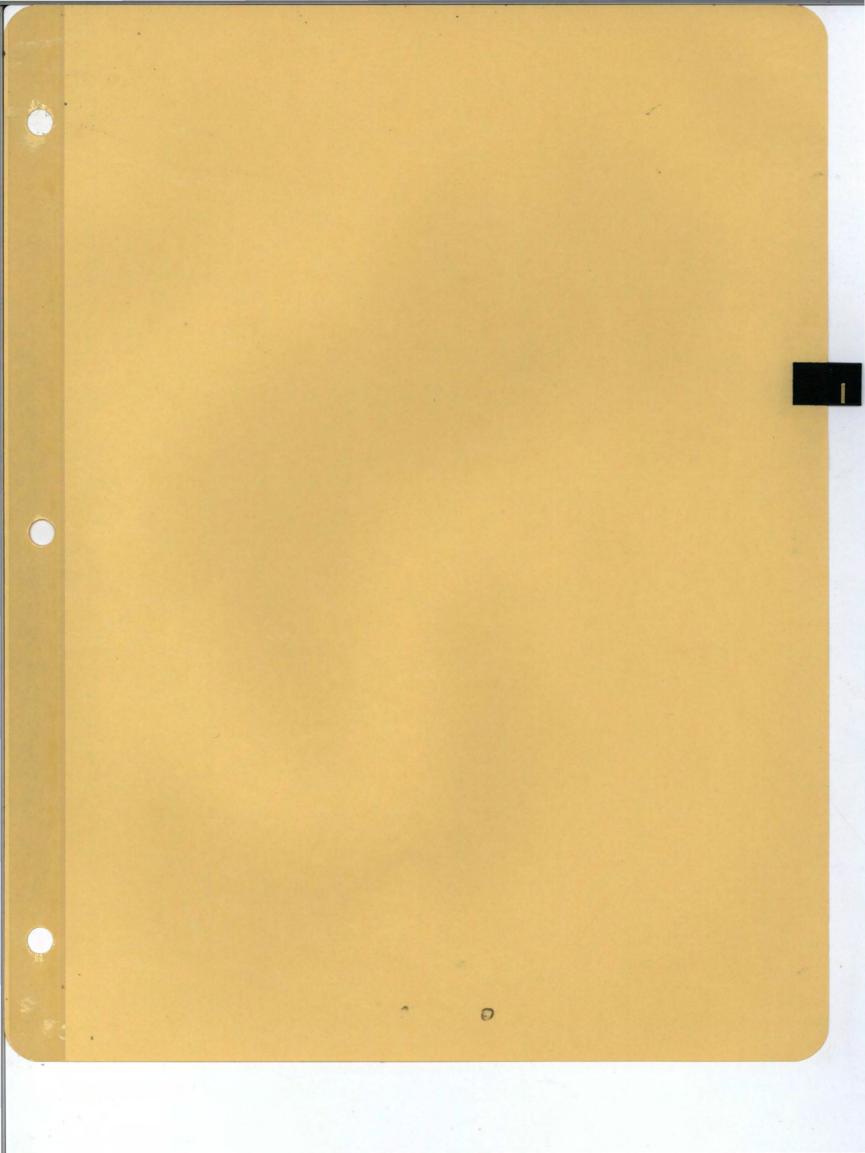
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No. 155 64)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL FINANCE CORPORATION

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Widespread Discontent

Ethnic Upheaval Malaysia Torn by Drive For More Malay Rights At Expense of Chinese

So Far, No One Is Satisfied By Government's Actions In Commerce, Education

'Better if British Had Stayed'

By BARRY NEWMAN

Staff Reporter of THE WALL STREET JOURNAL KUALA LUMPUR, Malaysia—This is a lucky country. It has a small population, rich crop-land, abundant natural resources, an efficient civil service and capable planners. Through 20 years of independence, only one thing has held Malaysia back: the race problem.

It isn't an ordinary race problem. The Malays, on the one hand, have nearly half the population and most of the political power, yet they have very little of the money. The Chinese, on the other hand, are a minority and hold very little power, yet they have most of the money.

The Malays find themselves in an enviable position for economic underdogs: They can do something about it. With the government under their control, the Malays set about adjusting their anomalous situation a few years ago with an affirmative-action program so forceful it would probably astound black activists in the U.S.

In the process, the concept of equal protection under the law was qualified, racial discrimination in school admissions was legalized, and questioning of the government's racial policies was made an act of sedition.

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The result so far is that practically everyone is dissatisfied. Some Malays have made visible strides, but many others haven't seen any benefit. The Chinese, for their part, have encountered palpable privations- most notably their near exclusion. from Malaysian universities.

The Chinese are being asked to cooperate, but many here wonder how long they can tolerate the discrimination. "This is my country too!" a Chinese cabby yells at his passenger. "This feeling of frustration and dissatis-

"This feeling of frustration and dissatisfaction with the government," says a Chinese chamber of commerce internal memorandum, "is an unhealthy state of affairs."

Malay leaders defend the changes. "Our leaders have to think how to make this country safe for 2,000 years, not just 20 years," says Abdul Kadir Fadzir, a politically active Malay lawyer. "A lot of people have to make short-term sacrifices. It's a temporary, transitional phenomenon."

The British Influence

The Chinese account for 35% of Malaysia's 12.2 million people. They arrived at their unlikely position of economic might and political impotence through a quirk of colonialism. They flocked to Malaysia's tin mines from the north in the late 1800s, and under the British, who didn't leave until 1957, came to control just about everything the Westerners didn't. But because the Chinese were immigrants, they were kept off the land and out of the government.

The Malays, meanwhile, had been here for centuries. The British ruled through the Malay sultans, granting the "sons of the soil" preferred rights of citizenship and land ownership. With independence, the government was passed on to the Malays, who now make up between 45% and 50% of the population. People from India and a variety of jungle dwellers make up the rest of the population. The Malays preserved their favored status in the new constitution and, in an unabashed gerrymander, guaranteed their own political dominance.

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But the Malays were poor. Their agrarian ways and Islamic gentility were no match for the aggressive, urbanized Chinese. There was little hope for the Malay to break into the clannish domain of Chinese business; he stayed on the farm, tethered to a line of credit from a Chinese merchant.

Language Barrier

The races never got along. In America, blacks and whites at least speak the same language, wear the same clothes, eat the same food and often go to the same church. The Chinese and Malays haven't any such common ground. To the Chinese, Malays are indolent and incompetent. To the Malays, the Chinese are ruthless and unprincipled. Racial remarks roll off the tongue in America's Deep South in the 1950s.

Years after the Malays gained control of the government, they remained in the economic back seat. Malay households earned only half as much as Chinese households; 65% of the Malays lived in poverty, compared with 25% of the Chinese. In 1969, about the time affirmative action for blacks was coming into vogue in the U.S., the Malays rioted in Kuala Lumpur.

In a bloody *amok* (a Malay word) about 250 Chinese were murdered, along with 50 Malays and Indians. It was an explosion of Malay resentment that exposed, the government later concluded, "an area of weakness which undermined the very foundations of the nation." A year later, affirmative action came to Malaysia in earnest.

The government proclaimed a "New Economic Policy." Its objective: to "ensure the creation of a Malay commercial and industrial community in all categories and at all levels of operation, in order that within one generation Malays and other indigenous people can be full partners in the eco-aonic lafe of the nation."

By 1900, the government resolved, Malays' participation in every educational, professional and commercial field would match their share of the population-about half. And Malays would own 30% of the country's

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Ethnic Upheaval: Malaysia Torn by Drive For More Malay Rights

Continued From First Page capital. If they couldn't buy it themselves,

the government would buy it for them. Several agencies, including the government's own commercial bank, were set up to make soft loans to Malay businessmen and to buy shares in private businesses "in trust" for Malays. One such government holding company now has subsidiaries in mining, palm oil, real estate, insurance, electronics, hotels and shipbuilding. The immediate payoff is in leverage. With a 50% stake in the Kuala Lumpur Hilton, for instance, the holding company can insist on 50% Malay staff at all levels.

Two years ago, the government gave itself a more persuasive tool: a sweeping law, tied to the racial policies, requiring licenses for most factories. A manufacturer who doesn't make an effort to comply might end up making nothing. The Malays have made a dent. By 1975

The Malays have made a dent. By 1975 (the latest year for which figures are available), their slice of manufacturing jobs had grown from 25% to 32%. Their share of bank credit had jumped from 3.4% to 12.2%, and their ownership of capital from 2.4% to nearly 8%. But nowhere has the change been so significant as in education.

When the British were here, for more than a century, they sent Malays to Malay primary schools and taught them in the Malay language. Education ended there. The British "protected" the Moslem Malays from Christian missionaries; the Chinese, unprotected, went to mission schools taught in English. The University of Malaya used English from the start and, naturally, the student body was overwhelmingly Chinese. In 1969, the government decided to make

In 1969, the government decided to make Malay the language of instruction; the switch will be complete in 1982. The university population has since multiplied tenfold, to 31,000, and new students have been predominantly Malays. They now account for 70% of the student population. Of 5,700 freshmen admitted this school year, only 1,200 were Chinese. The mechanism for doing this makes

The mechanism for doing this makes American affirmative action pale by comparison. The constitution was simply amended to allow Malays a "reasonable proportion" of every entering class. The quality of the competition doesn't matter. "On strict merit, we could give all our places to non-Malays," says Rahum Mohkzani, deputy vice chancellor at the University of Malaya. As it is, thousands of qualified Chinese are being turned away.

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When Malaysia's government embarked on its new economic policy, it declared that Malay advancement would take place only in an atmosphere of rapid economic growth, No group, it said, would experience "any loss or any sense of deprivation." The country is certainly growing, but so is the sense of deprivation.

If the Chinese see any right as fundamental, it is the right to do business. Clearly, they consider that right to be under attack. In an internal memorandum, the Chinese chamber of commerce in Selangor (the Malaysian state surrounding the capital of Kuala Lumpur) says the government's employment rules and educational policies represent "a steady erosion of equal rights and denial of equal opportunities."

While Malay unemployment is down to : about 7%. Chinese unemployment is up to around 8%. Domestic investment (most of it from Chinese industrialists) is dropping. Wealthier Chinese students - about 25,000 of them-have departed in droves for universities in the West. Some Chinese with marketable skills are said to have left the country; many others say they would like to.

many others say they would like to. The government is all too aware of the potential for backlash. Lately, it has softened its rhetoric on Malay privilege and placed fresh emphasis on the need for national unity. Yet, at the same time it is being pulled in the opposite direction by impatient Malays who see the government's programs as benefiting a 'small' group of weil-placed entrepreneurs and doing little for the majority still trapped in rural poverty.

Caught in the middle of all this are the Indians. Unlike the Chinese, they have little wealth. Unlike the Malays, they have no privilege. They are a minority with only a tenth of the population, and they lack political influence. The unemployment rate among Indians is over 12%.

Nobody, it seems, is happy in Malaysia, except perhaps for the jungle aborigines, who are aloof from the problems. As if its crash efforts to correct an economic imbalance were bound by a law of physics, the country is discovering that the more affirmative the action, the more negative the reaction. Everyone here can complain, with some justification, that he is being discriminated against.

"The Malays think they aren't getting enough," says a young Malay thtor at the university, "and the Chinese think they're being robbed." As for the Indians, says a Sikh clerk and recent university reject: "I think, sir, it would have been better if the British had stayed." FORM NO. 155 (1.64)

INTERNATIONAL DEVELOPMENT ASSOCIATION

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Winds of Change A Britisher Carries On Malay Plantation Life, But It's Different Now

Donald Macpherson Stayed After Countrymen Left: Baronial & Bizarre Times

Tea, Tigers and a Wee Dram

By BARRY NEWMAN

Stall Reporter of THE WALL STREET JOURNAL SEGAMAT, Malaysia - Each day at 4 p.m. Donald and Katie Macpherson sit down to tea.

It is wheeled on a lacquered cart by a Tamil servant onto the veranda of their spacious hilltop bungalow overlooking a sea of rubber trees. A ceiling fan turns overhead; bamboo shades fend off the tropical sun. Be-yond the high, open archways are gardens brilliant with blossoming vines. Fruit trees are heavy with mangosteens and mangoes papayas and rambutans. Golden orioles flit among them.

The Macphersons munch biscuits and cheese for half an hour, chatting about the elephants that are eating the oil palms. At 4:30, Mrs. Macpherson switches on the shortwave radio for the day's first news from the BBC. The Macphersons settle into their cane chairs, teacups in hand, and listen as the announcer begins, "This is London. . . ."

Staying On

Britain gave this country its freedom two decades ago, and most of the British were going or gone by the mid-1960s. But the Macphersons weren't inclined just yet to take up residence in Kirkcudbrightshire, the Lowland village in Scotland they both come from. After years of war and insurgency, the life of a rubber planter on the Malay Peninsula was quiet for the first time since Somerset Maugham was here. While everyone else was packing off, the Macphersons stayed on.

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From the veranda of their planter's bungalow, it is somehow difficult to believe that darkness has actually descended on the Empire. Mr. Macpherson manages Segamat Estate for Dunlop, the big British tire and rubber company. Seventy miles inland from Maiacca, he rules 5,700 acres of rubber trees, laid out in long, arched corridors over soft hills. He is master of 1,500 tappers and weeders and their iamilies, most of whom live on the plantation in austere, concrete row houses

Mr. Macpherson refers to Thailand as Siam. When speaking of this country, he chooses Malaya as often as Malaysia-the latter a name that sounds to him like the invention of an advertising agency. His daily routine is much like that of every planter who has passed this way since Dunlop arnved in 1910. But there has been a change for the Macphersons: Their friends are gone. Many have left, and many have been buried here. The only "white faces" in Segamut and for 20 miles around are their own.

The Scots "Would Have Held On"

At most, the Macphersons themselves part of the world." have three years left. Mr. Macpherson, his have three years tert, and output son, his in 1949, it seemed as it there would be a hair steel-gray and his face unlined, is only future for rubber planters. Fresh out of the 52. But the Malaysian retirement age is 55. Queen's own Cameron Highlanders, Mr. Thirteen years ago, Dunlop still had 100 Macpherson was playing rugby in Kirkcud-

Young as he is, Mr. Macpherson has been on the plantations and in the jungles of. the peninsula for nearly 30 years. Mrs. Macpherson, dark-haired, bright-eyed and nine years younger, arrived 19 years ago to become his bride. (They have had three daughters here, all bundled off to boarding schools in Edinburgh.) In many ways the life has been almost baronial. In many other ways it has been bizarre. Donald Macpherson has done a thing or two in his three Malayan decades that would wow them in Kirkcudbrightshire.

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Pythons, Monkeys and Tigers

He has heaved grenades into the darkness as Communists attacked his bungalow. He has scoured the jungles for the killers of three of his friends. He has dined on python and monkey and shoe leather. He has been swept over jungle waterfalls and has been offered wives by Stone Age aborigines. And he has been dropped into a tiger trap with the tiger still in it.

His memory is awash with tales, some taller than others, and he tells them with little concern for chronology, as if present and past were one. At tea, palm-eating elephants are on his mind: "Nobcdy ever gets elephants," he said.

"Only me. Last month one was shot. I didn't actually shoot it; I like the old pachyderm. I knew an aborigine who sent a man out after an elephant with an ordinary shotgun. Can't do it. You need to stop him. You need to knock him right down. Why, you ought to have talked to old Hasiop about this. Jimmy had one hell of a time in that swamp. ..." "There is just no future," Mrs. Macpher-son interrupts, "for the elephants in this

In 1949, it seemed as if there would be a Thirteen years ago, Dunlop still had 100 Macpherson was playing rugby in Kirkcud-British planters here. Transfers and attri-brightshire when he saw an ad in the Glas-brightshire when he saw an ad in the Glas-sponetry." He applied, and sailed off into a war. The estate was in Kedah, 15 miles from the Siam border. Mr. Macpherson was a junior assistant manager, and the manager Please Turn to Page \$1, Column 2

(continued)

Winds of Change: Planiation Life 1s Different for a Britisher in Malaysia

Continued From First Page was "Pickax" Thompson, who had survived the horrors of the Siam Railway in World War II. The first thing Pickax did was to hand Mr. Macpherson a Sten gun.

"You've heard of the Communists, haven't you?" Pickax asked.

"Oh yes, yes," Mr. Macpherson replied. "Russia." "Oh no," Pickax said. "That's why

On no, Precax said. That's why you've been issued a gun." It was the start of "the Emergency." Britain's understated name for its 12 year war with the Malayan Communists. It was a war of terrorism, and isolated British plant-

ers were the prime targets. Mr. Macpherson slept with a pistol under his pillow, carried a carbine on his planta-

his pilow, carried a caroine on his planta-tion rounds, and drove in an armored car. Soon after he arrived, his bungdlow was burned down. He moved in with Pickax, and together they fought off assaults as many as three nights a week. "I've never put a bullet in a Communist that I know of," he says. "But, by God, I've had many bullets close to

me." Mr. Macpherson sailed to Malaya with Mr. be lost track of one. five other young men. He lost track of one. Another was badly wounded in an ambush. The rest were killed.

After three years of this, the company Mr. Macpherson was working for went out of business. He left planting and for a time became a government "game warden." In fact, his job was to seek out aborigines deep

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in the jungles and percent aborigines deep in the jungles and persuade them to spy on the Communists for the British. Before long, Mr. Macpherson was speak-ing an aboriginal dialect and had an aborigi-nal name ("Not to be quoted; I might use it someday"). When an anthropologist friend died feiling en a given of hember globelt someday"), when an antiropologist mean died falling on a clump of bamboo shoots, Mr. Macpherson "inherited" his aborigue wife. "I persuaded her to go back," he re-members. "I got her married off to a head-

At one point, while floating down a river At the point, while hotting down a river on a rait, hree of Mr. Macpherson's British co-workers were ambushed and murdered. He spent 10 days tracking the killers through the jungles but found only their weapons. In 1954, his best friend was killed. "Permanent and Pensionable"

Mr. Macpherson had been working under Mr. Macpherson had been working under contract, but in the circumstances thought be ought to be made "permanent and pen-sionable." The government wouldn't hear of it. On leave, in London, Mr. Macpherson protested. "Oh, my. Well," he remembers a civil servant saying. "Haven't you all been killed?" That was when Mr. Macpherson left Ifer Majesty's Service and went back to planting rubber planting rubber.

Gradually, the emergency tapered off. Mr. Macpherson moved from plantation to plantation working for Dunlep, and rose in the ranks. By 1959 it was safe for Mrs. Macof course, there have been moments. Mr. Macpherson was once lost in the jungle for a Machinerson was once tost in the junction of a few days while chasing butterfiles. A roar-ing flood inundated the estate where the Machiersons were living in 1970; he had to climb along the cables of a suspension bridge to get his wife and children out of their bungalow.

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And there was that tiger, which Mr. Mac-pherson and some Malay game wardens were trying to retrieve from a deep pit.

"I put a dart in the rump," he says, "Tiger fell over, Finished, 'Go down,' I said. 'Haul tiger up.' Nobody went. So I tied a rope around my walst and they lowered me

"I put my foot down-can you inagine it?-and as I touched him, the beast junged up and roared. I screaned at the into pull me up, but the beggars let at them to pull yards

"They all thought that was the end of the tuan," Mr. Macpherson says with a smile, "but the tiger fainted."

A More Subdued Life

This has happened only once, which is enough. Most of the time, Mr. Macpherson's life has followed a somewhat more subdued pattern.

Up at first light, he drives a canopied "Mini Moke" down the hill to his Spartan office, decorated principally by a color photo-graph of the aged Sultan of Johore. For an hour or two, he looks over the "muster books" and the previous day's harvest re-ports, and then heads out on the rounds.

Tappers in spattered sarongs are scat-tered over the hills. With knives like safety razors, they shave a thin curl of bark from records, they shave a trun our of bark from each tree, allowing the milk-while latex to rise and flow slowly into glass cups. In the stillness, marked by the steady scraping of the tappers' knives, Mr. Macpherson runs a finger along the diagonal of a cut, pulls a weed, takes a note.

weed, taxes a note. By 10:15 he is breakfasting with his wife on eggs, bacon, and "bubble and squeak"—a British concoction of fried potatoes, onions and cabbage. After breakfast he tours the other withere are been accommented of estate villages-somber arrangements of concrete houses enveloped in charcoal smoke.

He looks in on the nursery and the dispensary, and he watches as a few men put up a steeple on the tiny Christian church. "I'll get a bell in Singapore," Mr. Macpher-son tells them. "Thieves' market. Old ship's bell. Ring in the flock."

Having a "Wee Dram" Tappers on bicycles and motorbikes crowd the latex stations by early afternoon. Mr. Macpherson looks on for a while as the "conductor" using the tennoon constant and the Mr. Macpherson looks on for a while as the "conductors" weigh the tappers' care and dunp the latex into big vats bubbling with ammonia gas. A light lunch is ready in the bungdow at 2 p.m. Mr. Macpherson "lies off" for half-an-hour, spends another hour or so at the office, then it's teature. A few evenings a week, Mr. Macpherson drops by at the Gagak Country Club for a "wee dram" with neighboring planters, who are all Asians. His wife used to spend her days playing golf and bridge with the other British wives, but the nearest ones aren't

British wives, but the nearest ones aren't near enough anymore. Once a year all the British planters and their families put on their whites for a cricket match. Even the High Commissioner puts in an appearance, but there are barely enough planters left to man one side. Chris Whitehead, formerly of the Bengal

Luncers, is long gone. So is Alex Good-friend, "the best drinker and storyteller in the area." Mr. Macpherson's friends are burled in Kuala Lumpur, Batu Gajah, Ipoh and Penang. Pickax Thompson is in Tas-monto.

madia. The Macphersons have bought them-selves a little granite house in Kirkrud-brightshire. Before too long, they will be moving in. "The trout are getting bigger all the time in Scotland," Mr. Macpherson says. "And here I've been for 30 years, de-nying my fishing. It's a bloody laugh, isn't It?"

NEWS MEDIA IN MALAYSIA

Some forty dailies in five languages and six scripts serve the 12.6 million multiracial people of Malaysia. The most important dailies are in English, Malay and Chinese, reflecting the three most important racial groups in the country. Papers are also published in Punjabi and Tamil for the Indian community. The Malay-language papers use two scripts--Jawi which is of Arabic origin and roman.

Prior to the disturbances of May 1969, Malaysia's press was one of the freest in Asia, despite some restrictions aimed at safeguarding the coexistence of diverse racial and cultural groups.

Because of the disturbances, emergency censorship was imposed by the authorities. Though the emergency has passed, certain "sensitive" topics, concerning language, religion and citizenship, may not be discussed in public or in Parliament. Two senior staff of the New Straits Times Group are being held without trial on charges of instigating Malay-language editors in Singapore to sow seeds of doubt about Islam in their writing.

The Official Secrets Act and the Sedition Act set limits to press freedom. The government closely monitors the papers. Ministers call up editors to indicate displeasure over news stories and offer suggestions on their treatment. The editors generally toe the line. Thus, the news of the arrest of the secretary general of the leading opposition party--Democratic Action Party--under the Official Secrets Act was treated as a court case and given "legalistic" coverage in all papers.

The most important Malaysian newspapers with nationwide circulations are published in Kuala Lumpur, principally by two groups--the New Straits Times Group and the Utusan Melayu Group.

The Malaysian press, especially the <u>New Straits Times</u>, regularly gives good coverage to World Bank affairs, and has commented favorably on Mr. McNamara's speeches at the Annual Meeting.

The New Straits Times Group

Group Editor: Lee Siew Yee

The New Straits Times Group publishes the most important English-language daily in Malaysia. Its flagship--the New Straits Times--is conservative and supports the government. It has never been known to disagree with the government except on issues of press freedom. It is read mainly for its political, government and business news. Circulation: 290,000.

The financial arm of the group is the <u>Business Times</u>. In early March, the paper sponsored the Asean-West Asia Investment Conference in Kuala Lumpur, bringing together high-level government and business representatives from the five Asean countries and the capital-surplus Arab oil-exporting countries. Its editor is Henry Chang. Circulation: 4,000.

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The <u>Malay Mail</u>, an evening tabloid, is read as much for its advertisements as its news. Circulation: 49,000.

Besides the three English-language papers, the group also publishes in Malay. The Berita Harian, in roman script, has a circulation of 70,000.

Group Editor Lee Siew Yee is a veteran of the Straits Times of Singapore, long before the Malaysian group was formed.

The Utusan Melayu Group

Group Editor: Mazlin Nordin

The Utusan Melayu Group represents Malay opinion. The group also publishes the Utusan Melayu (circulation: 45,000) for Malays who can read the Jawi script, which is of Arabic origin. For the Malay as well as the non-Malay, the group offers the Utusan Malaysia which has a circulation of 110,000, printed in roman script. The group is controlled by the United Malays National Organization.

Chinese-Language Press

The Chinese-language press has an important place in the country. The two leading Chinese newspapers published both in Kuala Lumpur and Singapore are Sin Chew Jit Poh (Editor-in-Chief: Ng Chong Lee; circulation: 170,000), and Nanyang Siang Pau (Editor-in-Chief: Chu Chee Chuan; circulation: 95,000). Both papers are business-oriented and are widely read in the Chinese community.

Other Papers

The Star, a new English-language daily, is becoming important. It carries a weekly column by Tunku Abdul Rahman, former Prime Minister. It has recently been bought by the Malaysian Chinese Association (MCA). Reflecting its ownership, the paper covers news of MCA heavily and is critical of opposition parties within the Chinese community. Circulation: 20,000.

Watan is a bilingual daily in English and Malay. It was founded by Khir Johari, former Minister of Education and former Ambassador to the United States. It represents the dissident wing of the United Malays National Organization (UMNO) and carries the freest expression of Malay opinion.

Tamil Nesan is a Tamil-language paper for the Tamil community. Editor: Murugu Subramanian. Circulation: 12,500.

News Agencies

The national agency, Pertubohan Berita Nasional Malaysia (Bernama), began operations in May 1968. Its headquarters are in Kuala Lumpur and it has bureaux in the main provinces. With 90 subscribers (including Reuters, AP and AFP), it serves all the media throughout the country, as well as government, educational, industrial and diplomatic users. News is exchanged with 10 other Asian news agencies.

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The Information Department of the Ministry of Information and Broadcasting also provides material for the printed media, including press releases and photos, and publishes its own weekly tabloid.

Malaysian newspapers, radio and television are supplied with overseas news by AP, UPI, AFP and Reuters, all of which have bureaux in the capital and correspondents in the main towns.

Radio

Broadcasting is a government monopoly conducted by the Ministry of Information and Broadcasting and financed by an annual government allocation. Revenue is derived from licence fees, commercial advertising and sponsored programs. Radio Malaysia headquarters are in Kuala Lumpur, coordinating the three networks of West Malaysia, Sabah and Sarawak, which are capable of covering 80% of the population.

Television

The-Malaysian television service is operated by the Ministry of Information and Broadcasting's Television Department. Network 1, established in 1963, with its main station in Kuala Lumpur (100/20kW video/audio power) and regional stations at Johore Bahru, Taiping, Penang, Ipoh, Malacca, Batu Pahat and Luang, is on the air for nine hours a day. Network 11, with stations in the same eight towns, broadcasts for four hours a day.

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DOCUMENTATION RELATING TO AWARD CEREMONIES

A mark

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1.	Citation
2.	Acceptance Speech
3.	Obituary of Tun Abdul Razak
4.	C.V.'s of Lord Suffian (Chairman -
	Tun Razak Foundation) and of
	Tun Abdul Razak's wife, Tun Rahah
5.	C.V.'s of Other Awardees
	a. Tunku Abdul Rahman

b. Vice Chancellor Ungku A. Aziz

INTERNATIONAL DEVELOPMENT INTERNATIONAL BANK FOR ASSOCIATION RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: May 12, 1978

FROM: John L. Maddux

SUBJECT: Requested Background on the Tun Abdul Razak Foundation's Award Ceremony

The ceremony will be held in the main Convocation Hall of the University of Malaya. The University is about three miles outside Kuala Lumpur.

Presumably it will be presided over by Tun Mohamed Suffian, in his capacity as Chairman of the Board of Trustees of the Tun Razak Foundation. Suffian is Lord President of the Courts of Malaysia, thus the head of the Judiciary, and equivalent to the U.S. Chief Justice of the Supreme Court. His bio is attached, as is Tun Razak's.

This is the first time the Foundation has made awards, and there will be three presented at this ceremony. The other two recipients are: Tunku Abdul Rahman (the first Prime Minister of independent Malaysia; bio attached); and Ungku A. Aziz (Vice Chancellor of the University of Malaysia, and Professor of Economics; bio attached). The awards will be presented by Tun Abdul Razak's widow, Tun Rahah (bio attached).

[The titles Tunku, Tun, and Ungku all mean Prince. Tunku, however, is a hereditary title, and Tun is not. Ungku is hereditary, but signifies a more distant relative of the royal family than Tunku.]

I have requested the text, or at least the main points, of the Citation that will be read for your Award. Mr. Cheah of the Malaysia Embassy cabled Kuala Lumpur for this two weeks ago, but as yet has had no reply. He is annoyed at the delay and is cabling again. But the probability is that the Citation has not yet been written. In his original letter to you, Tun Mohamed Suffian says: "The Board of Trustees, Tun Abdul Razak Foundation, have decided to give Your Excellency an International Award for uplifting the standard of living of the people, for inculcating and promoting mutual understanding among racial groups and mankind, and for promoting peace and understanding among nations."

We have not been able to get, as yet, any detailed information on the audience, but the strong presumption is that it will be large [the Hall accommodates over 1,000], and that it will include high government officials, possibly the Prime Minister and the Cabinet, and the Diplomatic Corps, as well as prominent personalities from Kuala Lumpur and the University. It is likely that the ceremony will be covered by TV. It is possible that parts of the program may be in the Malay language, but certainly the portion dealing with your Award will be in English.

JLMaddux : mwm

Citation for the Tun Razak International Award

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on

Mr. Robert Strange McNamara

The decision of the Board of Trustees of the Tun Razak Foundation to confer the Foundation's International Award to Mr. Robert McNamara is in recognition of this man's major contribution to international economic development; of his efforts which have made the World Bank Group the largest international development agency; of his views which have focussed international action to eliminate poverty; and of his vision, humane and realistic, on how in his own words "the attack of absolute poverty cannot be forgotten, cannot be forever delayed, and cannot be finally denied by any global society that hopes tranquilly to endure".

Born on 9th June 1916 in San Francisco, Mr. McNamara graduated from the University of California in 1937, and received an MBA degree from the Harvard Graduate School of Business Administration in 1939. After 3 years as an Assistant Professor of Business Administration in Harvard, he was with the US Air Force during the Second World War when he was awarded the Legion of Merit. Thenhe was with the Ford Motor for 15 years in various positions culminating in his becoming the President of the Ford Motor Company in 1960. At the request of President John F. Kennedy, he agreed to be the US Secretary of Defence, where he held office for seven years till March 1968. He was elected to be the President of the World Bank as from April 1968, and is currently serving his third five-year

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term.

Mr. McNamara is internationally known as the President of the World Bank, which is owned by more than 125 member nations, including Malaysia. . It is due to his strivings that today, the World Bank Group (including its two affiliates the International Development Association and the International Finance Corporation) is the largest development agency in the world. Shortly after he took over office, he launched an expansion plan, whereby for the five years ending June 1973, the World Bank Group would lend twice as much as it had done during the previous five years, or a total that would approach the entire amount lent in the first 23 years of the Bank's operations. Not only was this target fullfilled, but an equally ambitious second five year plan was also fullfilled. For the current financial year, the World Bank Group will be committing a total of US\$8.7 billion in loans and other assistance to the developing countries. For 1979, the commitment target is to be US\$9.8 billion. He now feels it reasonable to expect the Bank Group to begin the decade of the 1980s at a level of operations in excess of US\$10 billion per year.

His period of office sees not only a sharp expansion in activities but a transformation of the World Bank from an institution that would assist developing countries to build some of their infrastructure facilities to one which is attempting to an urging a global effort to eliminate poverty. His book on the "Dimensions of Development" focussess on the problems of the less developed "One Hundred Countries" with their "Two Billion People". He recognises that their recent record of development over the

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third quarter century 1950 to 1975 is a very impressive one. Historically, it is without precedent. Never has so large a group of human beings - two billion people achieved so much economic growth in so short a time. But that economic growth has been uneven both between countries and within countries. Not only have the poorest nations suffered unacceptably low growth rates, but such growth as there has been - both in the poorest and in the middleincome developing countries - has too often bypassed the poorest people in all these societies.

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In his latest speech delivered to the Governors of the World Bank, his "profile of absolute poverty in the developing world" could not have been more grim. To him "the absolute poor and those trapped in conditions so limited by illitracy, malnutrition, disease, high infant mortality, and low life expectancy as to be denied the very potential of the genes with which there were born. Most tragic of all, many of them are children. For the total of two billion people in the developing countries, some 860 million are under the age of 15. There are the chief hope of their societies' future. And yet almost half of them suffer from some debilitating diseases likely to have long-lasting effects. Well over a third of them are under-nourished. 290 million of them are not in school".

Consequently an effective development strategy must not only accelerate growth but must also channel more of the benefits of growth to the poorest 40% of a country's population. From the rich developed countries he seeks more aid and a reduction of trade barriers. From the

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developing countries he seeks the will to re-direct growth and face often unpleasant political pressures; and for the will to implement measures to eliminate poverty, to enhance the productivity of the poor and to redesign public services to this end. While no government can do everything, poverty will persist and grow if decisions too often favours peripheral extravagances over critical needs. To him, it is the poverty itself that is a social liability, not the people who happen to be poor. They represent immense human potential. Investing in their future productivity, if it is done effectively, is very sound economics. Certainly what is very unsound economics is to permit a culture of poverty to so expand and grow within a nation that it begins to infect and erode the entire social fabric.

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In the field of international economic development, Mr. McNamara stands tall, at 62 years of age, a giant in the field and a relentless worker, who shapes a massive organisation that provides the largest amount of assistance to developing countries. On the one side he has to persuade the richest countries and the largest donors to continue and increase their aid when they seemed to be disillusioned and had fallen well below targets adopted by the UN General Assembly in 1970. On the other hand, he needs to ensure that the assistance and loans given to the developing countries will effectively benefit these countries and the poorest 40% of their populations. The frustrations inherent in financial aid management can test the most dedicated. It is a testimony of his inner strength and personal dedication, that he remains coldly calculating in

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terms of aid opportunities and costs, and yet warmly humane in his objectives and visions on how the developing countries may be assisted to eliminate poverty on a global scale.

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- 5 -

The Tun Razak Foundation has been established to commemorate a man, who in his life time had placed primary emphasis on Malaysian economic development; and who had inaugrated the development plans which aim at eradicating poverty in Malaysia within a life time. It is most appropriate and fitting that the Foundation has decided to confer the Tun Razak International Award to Mr. Robert Strange McNamara.

TUN ABDUL RAZAK FOUNDATION

The announcement of Tun Abdul Razak's death on 14th January, 1976, came as a shock to friends, colleagues and the nation alike. No one had known how seriously ill he had been. After the first shock was over, the people spontaneously sought to honour him. Many of his friends felt that the best memorial to him would be a foundation that would continue his life-work.

Five weeks after his death, on 20th February, 1976, the Foundation was launched by Tengku Tan Sri Razaleigh Hamzah at a function initiated by the New Straits Times Press and attended by many of the Tun's friends. The Lord President, Tun Mohamed Suffian, was appointed Chairman of the Board of Trustees.

Others also proposed launching similar institutions and in order to avoid confusion the Government decided, in March, to set up one national Foundation incorporating the already existing Foundation and all other proposed similar organizations. A Committee under the Minister of Finance studied in detail all aspects of the Foundation and in the July session of Parliament a Bill setting up the Tun Abdul Razak Foundation was passed, which received the Royal Assent on 28th October, 1976.

The Foundation's objectives are as follows:-

- (a) To perpetuate the good name of Tun Abdul Razak;
- (b) To achieve the aspirations and to perpetuate the good work of Tun Abdul Razak;
- (c) To inculcate and promote mutual understanding among races and mankind;

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- (d) to promote peace and understanding among nations; and
- (e) To improve the standard of education in all fields and to uplift, the standard of living of the people.

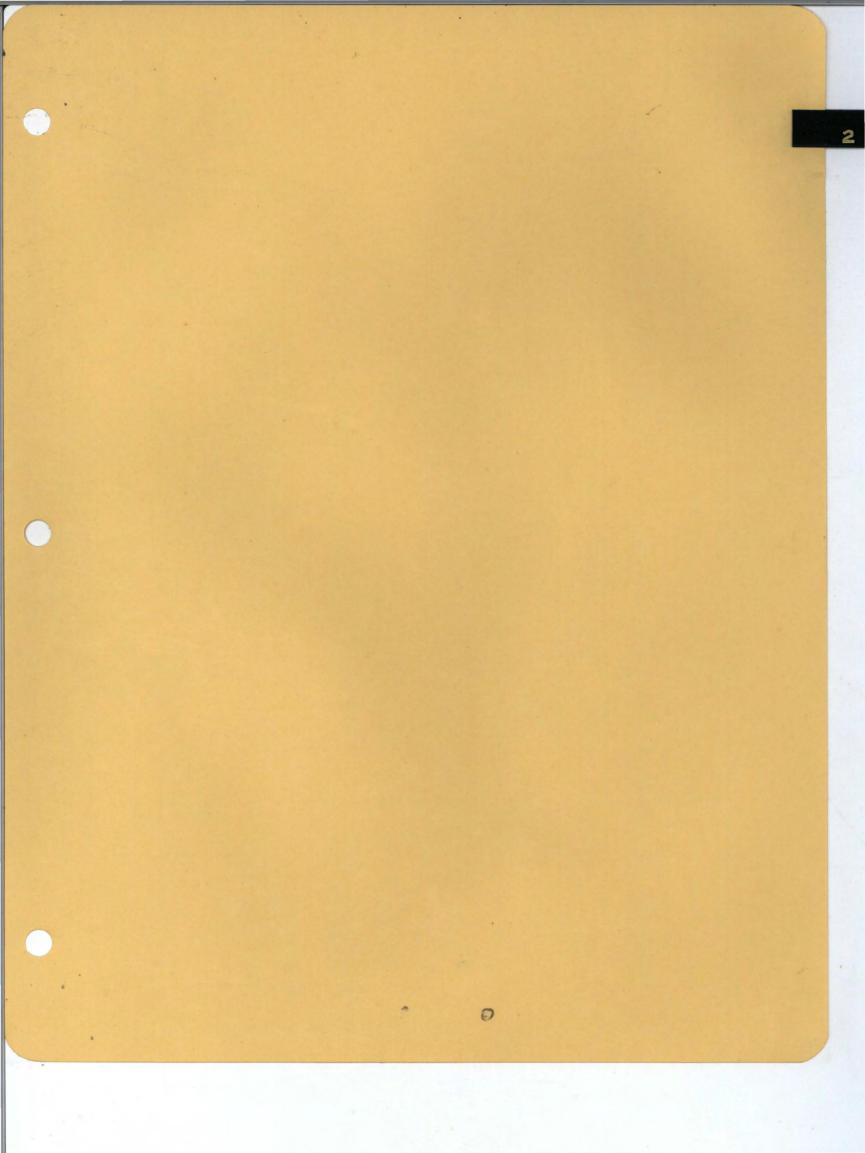
This year the Board of Trustees has decided to make three Awards: two International and one National. The Board hopes to make three categories of Awards in future years as follows:

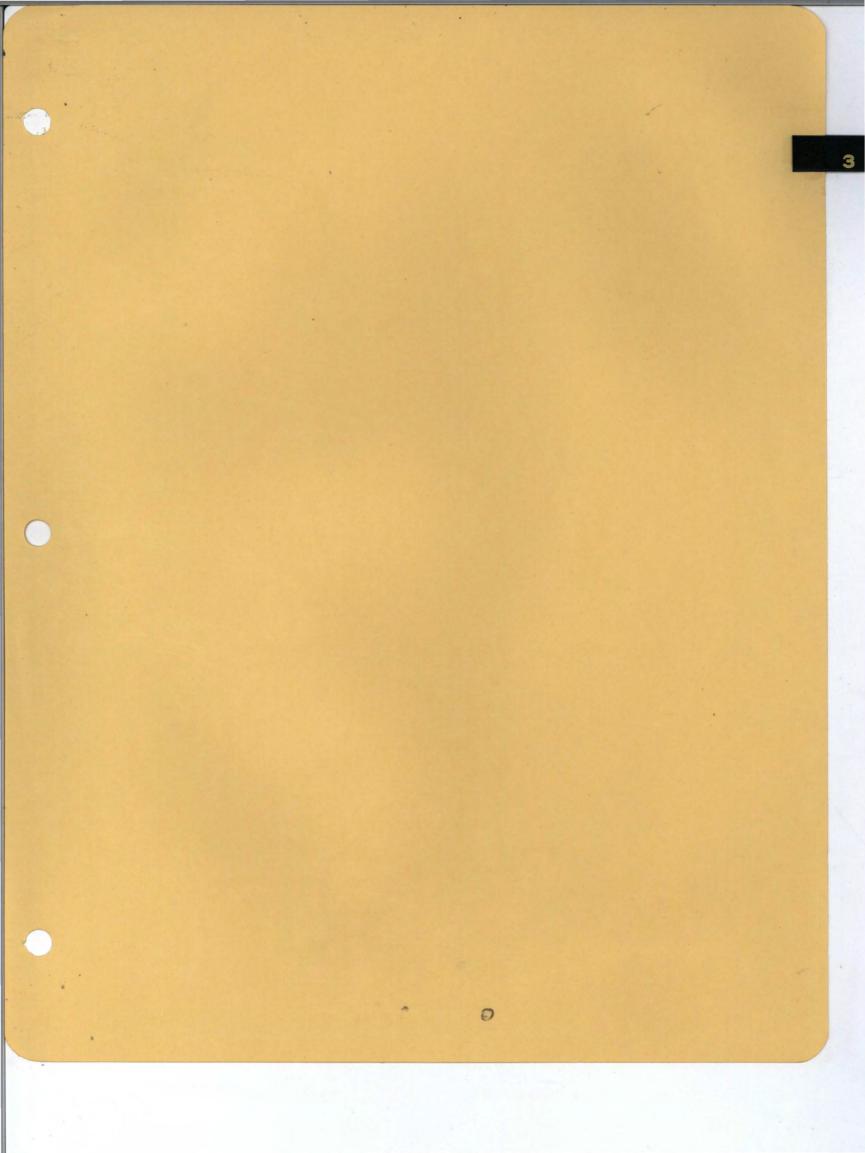
- The Tun A. Razak International Award to a person in or outside Malaysia;
- (2) The Tun A. Razak National Award to a person in Malaysia; and

(3) The Tun A. Razak Award to an Organization. Generally speaking, an award will be made to a person or organization engaged in work and service encompassing the objectives of the Foundation, work and service of the kind to which the late Tun dedicated his whole life; in particular work and service to better the life of the poor in rural and urban areas by making available to them decent living conditions, a reasonable return for their labour, good medical and health and educational facilities, thus increasing their standard of living; also work intended to promote racial harmony and understanding among mankind generally, and work intended to promote understanding and peace among nations.

The Foundation has received over \$3m in donation from Governments, statutory bodies, companies and firms and from ordinary members of the public; and has also been generously promised by the Sabah Government a half share in a 5000-acre cocca estate being established in that State.

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A TRIBUTE TO LATE TUN HAJI ABDUL RAZAK BIN HUSSEIN, Prime Minister Of Malaysia from Sept. 22,

1970 to Jan. 14, 1976.

TUN HAJI ABDUL RAZAK BIN HUSSEIN, S.M.N. PERDANA MENTERI

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A leader of endless drive and boundless energy, Tun Razak was hailed as the Father of Development. His life was one of never ending service to the nation until his last days. This he did despite the fact that he had been living on borrowed time. In fact his doctors had warned him that he was suffering from an incurable disease which must necessarily shorten his life.

The brave man that he was, Tun Razak carried on his work undaunted and unafraid. To him fulfilment of his duty to the nation was more important than the care for his own health. Selfishness did not overcome him. He redoubled his dedication to serve his people and this took its heaviest toll when he passed away in London on January 14, 1976. His body was flown back to Kuala Lumpur on Jan. 15 when it was buried in the National Mousoleum in Kuala Lumpur.

Tun Razak was born on March 11, 1922 in Pulau Keladi, Pekan, Pahang. He was married to Tun Puan Rahah bti. Tan Sri Haji Noah. They have five children. He studied Law at Lincoln's Inn, London. Passed Bar Final Examination in April 1949 and was called to the English Bar in May 1950.

Tun Razak joined Malay Administrative Service in 1939. Appointed to M.C.S. in 1949. In 1951, appointed an unofficial member of Federal Council and served until Council was prorogued in 1955. Appointed State Secretary, Pahang in 1952 and in February 1955, was Acting Menteri Besar, Pahang. In July 1955, contested 1st Federal Elections. Appointed Minister of Education on August 9, 1955. Was a member of Merdeka (Independence) Mission to London January 1956. After Independence of Federation of Malaya on August 31, 1957, was appointed Deputy Prime Minister and Minister of Defence in September 1957. In February, 1959 appointed second Prime Minister when Prime Minister, Tunku Abdul Rahman Putra resigned to campaign for General Elections of 1959. After 1964 General Elections, continued as Deputy Prime Minister with additional portfolios of Minister of National and Rural Development and Minister of Defence. On May 16, 1969, following General Elections and subsequent disturbances of May 13, was appointed Director of Operations under Proclamation of Emergency for 22 months until Emergency was lifted and Parliament resumed on February 22, 1971. In addition to being Director of Operations, held portfolios of Deputy Prime Minister, Minister of Defence and Minister of Finance in Emergency Cabinet. On September 22, 1970, took over as Prime Minister of Malaysia on retirement of Prime Minister, Tunku Abdul Rahman. Tun Razak realised his life-long ambition when he was called to the Bar in May, 1975.

In 1961 Tun Razak was conferred Honorary Degree of Doctor of Laws, University of Malaya; in 1967 Magsaysay Memorial Award for Community Leadership and in 1971 Honorary Bencher of Lincoln's Inn England.

Tun Razak visited U.S. in 1954 on U.S. Leadership Grant. He led goodwill missions to North Africa, in 1964 and visited France and U.K. same year. In May 1968 the Tun visited India and Western Europe on a goodwill mission and was first Senior Minister and top Malaysian Government leader ever to visit Soviet Union at invitation of Soviet Government shortly after establishment of USSR Embassy in K.L. On May 28 — June 2, 1974, led a Malaysian delegation on the first official visit to Peking and signed an agreement for the establishment of diplomatic relations with The People's Republic of China.

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The Tun was Chairman of Committee which produced The Razak Report on Education in Malaya 1956, and the Rural Development "Red Book" - a blueprint for Development in Malaysia 1960. Honours: 1950 O.K.I.S. - Orang Kaya Indera Shahbandar, Pahang (hereditary title as one of Four Major Chiefs of Pahang); 1959 S.M.N. — Seri Maharaja Mangku Negara (Malaysia's Highest award other than to Heads of States which carries title of "Tun"). 1960 D.P.M.B. -Darjah Paduka Mahkota Brunei, 1961 — S.P.M.K Seri Paduka Mahkota Kelantan, 1961 S.P.M.J. Seri Paduka Mahkota Johore; 1964 S.P.M.P. Seri Paduka Mahkota Perak; 1964 — S.P.M.T. Seri Paduka Mahkota Trengganu; 1965 S.P.M.S. — Seri Paduka Mahkota Selangor; 1967 S.I.M.P. Seri Indera Mahkota Pahang; 1970 D.K. Darjah Kerabat Yang Amat Dihormati (D.K.) Kelantan; 1971 S.P.D.K. — Seri Panglima Darjah Kinabalu (Sabah): 1973 — K.O.M. Darjah Utama

Tun Razak, the patriot and statesman, is no more but his example of selfless service to the nation remains.

ABDUL RAZAK

Obituary New York Times January 15, 1976

Abdul Razak Dead at 53; Malaysia Prime Minister

London, January 14 (UPI) - Prime Minister Abdul Razak of Malaysia died today in a clinic here after having undergone treatment for nearly a month in France and Britain for acute leukemia complicated by mononucleosis. He was 53 years old.

In Kuala Lumpur, Deputy Prime Minister Hussein Onn became Acting Prime Minister.

Mr. Hussein Onn, who is Mr. Abdul Razak's brother-in-law, said in a broadcast that Mr. Abdul Razak's body would arrive in the Malaysian capital tomorrow night and lie in state Friday in the National Parliament Building. After the announcement, radio and television stations broadcast Moslem prayers and funeral music.

Architect of Independence, by Peter B. Flint.

Mr. Abdul Razak was a key architect and mainspring of gaining his country's independence from Britain in 1957 and of leading it as its second Prime Minister. He eased Malaysia from its former staunch pro-Western position toward nonalignment, and in 1974 established diplomatic relations with China.

He believed that the peace and neutrality of all the countries of Southeast Asia should be guaranteed by the United States, the Soviet Union and China.

A soft-spoken conciliator and shrewd organizer, he served a 13-year apprenticeship as Deputy Prime Minister to Prince Abdul Rahman before succeeding him in 1970.

He served as a guerrilla fighter against Japanese occupation forces in World War II. In 1969, he led the Government's drive to end murderous race riots between the Chinese and Malays, which killed 500 people in the racially polarized country.

Three years earlier, he was the key negotiator in ending Malaysia's war with Indonesia. He also directed his Government's suppression of Chinese Communist insurgents. Acknowledging Mr. Abdul Razak's importance, Prince Abdul Rahman once said of him: "He does everything. You can see that because he's losing his hair and I'm not even though he's 20 years younger."

The new Prime Minister, a devout Moslem Malay, worked to help the rural, poorer Malays catch up with the Chinese, who dominate the Malaysian economy. Many Malaysians called him the "father of development" because of his drive for improved economic well-being. A touchstone of his policies was international economic cooperation.

The policies of the short, bespectacled Prime Minister gained general economic progress for Malaysians. In 1974, his National Front coalition Government won an overwhelming victory in national elections, taking 135 of the 154 seats in Parliament.

Mr. Abdul Razak was born on March 11, 1922, the son of a minor Malay nobleman. He was educated at the Malay College in Kuala Kangsar and at Raffles College in Singapore. After World War II he earned a law degree in London in little more than a year.

On returning home, he joined Prince Abdul Rahman to form the United Malay National Organization. In the preindependence election in 1956, the group won a landslide victory and Mr. Abdul Razak became Minister of Education.

A year later, when the country became independent, he moved up to become Deputy Prime Minister, a post he held until he was designated Prime Minister in 1970.

Since independence, Malaysia has been regarded as a controlled democracy, where dissent is allowed within carefully prescribed limits.

Mr. Abdul Razak, who took little time from his leadership duties had one hobby, golf.

His widow is the former Toh Puan Raha, the daughter of a former legislative leader. They had five sons.

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TUN HAJI ABDUL RAZAK BIN HUSSEIN

Prime Minister of Malaysia

(September 22 1970 - January 14 1976)

A Biographical Note

Born on March 11, 1922 at Pulau Keladi, Pekan, in the state of Pahang, Malaya (West Malaysia). Son of Dato' Hussein bin Mohd. Taib (Deceasød) who was a member of the Malayan Civil Service and a Territorial Chief of Pahang, and of Hajah Teh binti Haji Daud. Married to Toh Puan Rahah and has five children. Educated at Malay College, Kuala Kangsar, Perak. Awarded a scholarship in 1940 to study in Raffles College, Singapore (now University of Singapore). Awarded a scholarship in 1947 to study law in England and in October of that year joined Lincoln's Inn. Passed Bar Final Examination in April 1949 and was called to the Bar in May 1950. During World War II joined Force 136 Malay Resistance Movement "Wataniah" and was Captain in that force. While in England from 1947 to 1948 was Secretary, Malay Society of Great Britain and Chairman of Malayan Forum. In August 1950 inherited from his late father the Title of Orang Kaya Indera Shahbandar (O.K.I.S.) a major Chief of Pahang, Malaya. In January 1952 was appointed State Secretary, Pahang and in February 1955 was appointed Menteri Besar (Chief Minister) Pahang. In August 1950 was elected Leader of United Malays National Organisation (U.M.N.O.) Youth Section and became one of its Vice-Presidents.

In August 1951 became Deputy President U.M.N.O. and has been re-elected yearly since then. Became President of U.M.N.O. in 1971.

A founder member of first United Malays National Organisation--Malayan Chinese Association Alliance. He is Chairman in the ruling Alliance Party.

In February 1951 was appointed an unofficial member of the Federal Council and served until the Council was prorogued. As member of the Federal Council, served on many committees such as the special committee on education.

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Elected to Parliament at the first national elections in 1955 and returned at every subsequent elections. Was appointed Minister for Education, Malaya, on August 9, 1955. Was the moving force behind the Report on Education in Malaysia (1956) which bears his name and which has guided Malaysian Education in Policy since. Was member Merdeka (Independence) Mission to London in January 1956.

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On Independence of the Federation of Malaya, appointed Deputy Prime Minister and Minister of Defence in September 1957.

In December 1959 became Minister of Rural Development in addition to portfolios of Deputy Prime Minister and Minister of Defence. After 1964 General Elections, continued as Deputy Prime Minister and additional portfolios of Minister of National and Rural Development and Minister of Defence. He had been the foremost architect of National and Rural Development in Malaysia. The Rural Development "Red Book" and the National Operations Room co-ordinating projects in Malaysia have been widely emulated by other developing Countries in pushing their new strategies for development. From June 1967 held an additional portfolio of Minister of Internal Security (later renamed Minister of Home Affairs). On May 16, 1969, following the General Elections and the subsequent May 13 disturbances, appointed Director of Operations under the Proclamation of Emergency. In addition, held the portfolios of Deputy Prime Minister. Minister of Defence and Minister of Finance in the Emergency Cabinet.

Prime Minister of Malaysia since 1970 and guided the return to Parliamentary government in February 1971. Appointed Chairman of the Alliance Party in February 1971. Attended the Commonwealth Prime Ministers' Conference in Singapore and Ottawa 1971 -- 1973 and Five-Power Defence Talks in London in April 1971. Thereafter paid official visits to France and Federal Republic of Germany. Visited U.N., Canada and Japan in October 1971 and Switzerland, Republic of Austria, Poland and Soviet Union in September 1972.

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In 1973, visited Palembang, Indonesia for talks with President Soeharto on bilateral relations. Visited Songkla, Thailand, in May 1973, for talks with Prime Minister Kittikachorn, after opening the Golok Bridge a joint Malaysia/ Thai project under the auspices of ASEAN. In July 1973 led the Malaysian Delegation to Commonwealth Heads of Government Conference in Ottawa, Canada. In September 1973, led Malaysian delegation to the Conference of Non-Aligned Nations in Algiers. In February 1974, led the Malaysian delegation to the Conference of Islamic Nations at Lahore, Pakistan. Following the Conference, made a five-day visit to Saudi Arabia in April and an unofficial visit to Burma. May 28, to June 2, 1974, led Malaysian delegation on the first official visit to Peking and signed an agreement for the establishment of diplomatic relations with The People's Republic of China. Tun Razak passed away in London on January 14, 1976.

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CLUBS AND ASSOCIATIONS

President, Olympic Council of Malaysia.
President, Malaysia United Nations Association.
President, Royal Asiatic Society, Malaysia Branch.
President, Malaysian Historical Society.
President, Malaysian Zoological Society.
President, Malaysia St. John's Ambulance Association.
Chairman, Advisory Council of Malaysia Association of Youth Clubs.

President, Malaysian Hockey Federation.

HONOURS AND AWARDS RECEIVED

-	Orang Kaya Indera Shahbandar.
-	Sri Maharaja Mangku Negara (Malaysia's
	highest award other than to Head of State).
	Sri Paduka Mahkota Kelantan.
_	Darjah Paduka Mahkota Brunei.
_	Sri Paduka Mahkota Trengganu.
_	Sri Paduka Mahkota Perak.
-	Sri Indera Mahkota Pahang.
	Sri Paduka Mahkota Johor.

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S.P.M.S.	_	Sri Paduka Mahkota Selangor.
S.P.M.P.	_	Sri Paduka Mahkota Perlis.
DK. (Kelantan)	-	Darjah Kerabat Yang Amat di-Hormati (Kelantan)
Knight Grand Con	rdon of	the Most Noble Order of the Crown

of Thailand.

Order of the Service Merit First Class (Korea).

Vietnam National Order Grand Officer.

Belgian Order of the Grand Cross in the Order of the Crown. Associate Knight of the Most Venerable Order of the Hospital of St. John of Jerusalem.

Grand Order of Merit (Federal Republic of Germany). Dutch Grand Cross of the Order of Orange Nassau.

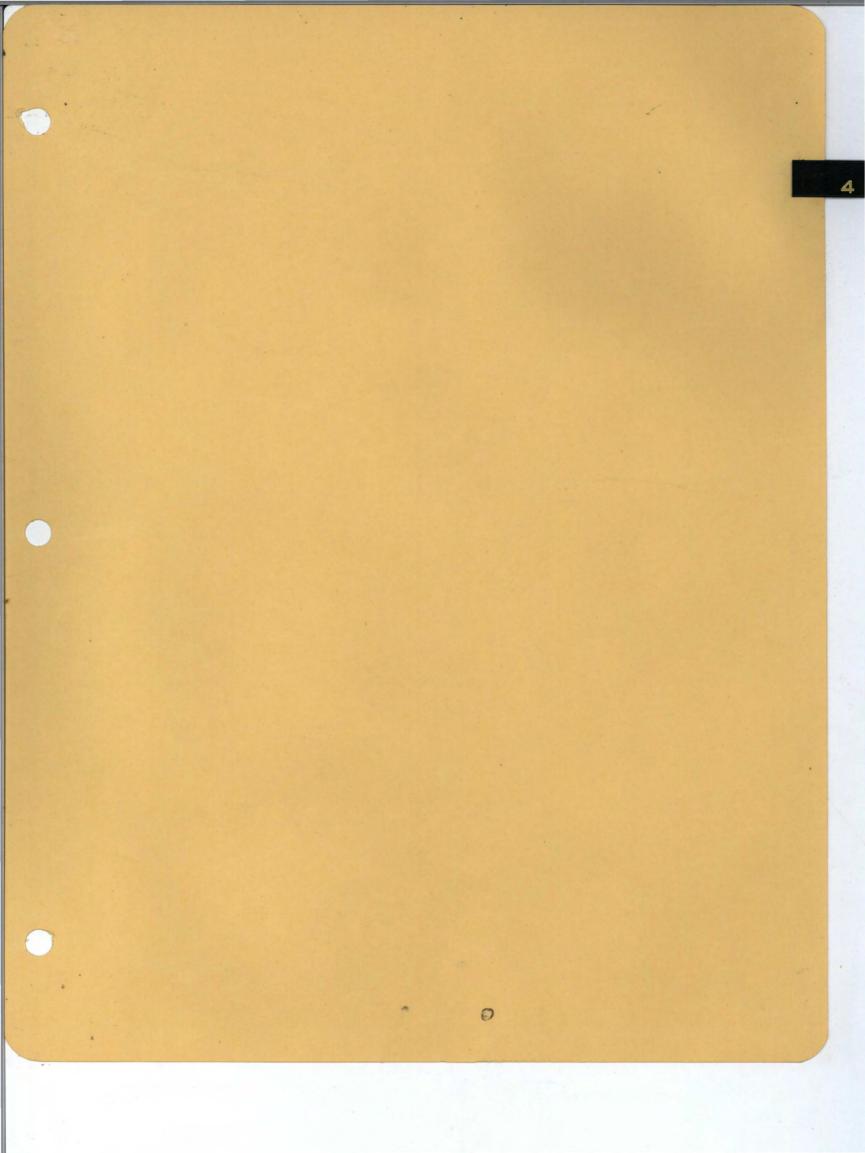
Bintang Republik Indonesia Kelas Dua.

Bintang Kartika Eka Paksi (Indonesia).

Magsaysay Award for Community Development (Philippines). Honorary Degree of Doctor of Laws, University of Malaya.

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Rahah bti. Hj. Noah, Tun Hajjah — Born on June 11, 1933, Muar, Educated at Convent of the Holy Infant Jesus, Johore Bahru. Widow of the late Tun Abdul

Razak, the former Prime Minister of Malaysia. She was made a Tun by His Majesty the Yang DiPertuan Agung when he assumed office She has four sons and an adopted Chinese daughter. National President of the Girl Guides Association of Malaysia until 1976 when her elder sister Datin Suhaila, wife of Dato Hussein Onn,



the Prime Minister took over as the President. An active member of UMNO Kaum Ibu. Went with Tun Razak to U.K., Australia and other parts of the world. Recreation Swimming and Badminton. Address: 3478, Sri Taman, Jalan Spooner, Kuala Lumpur.

WHO'S WHO IN MALAYSIA

LORD PRESIDENT OF THE COURTS OF MALAYSIA

TUN MOHAMED SUFFIAN BIN HASHIM S.S.M., P.S.M.



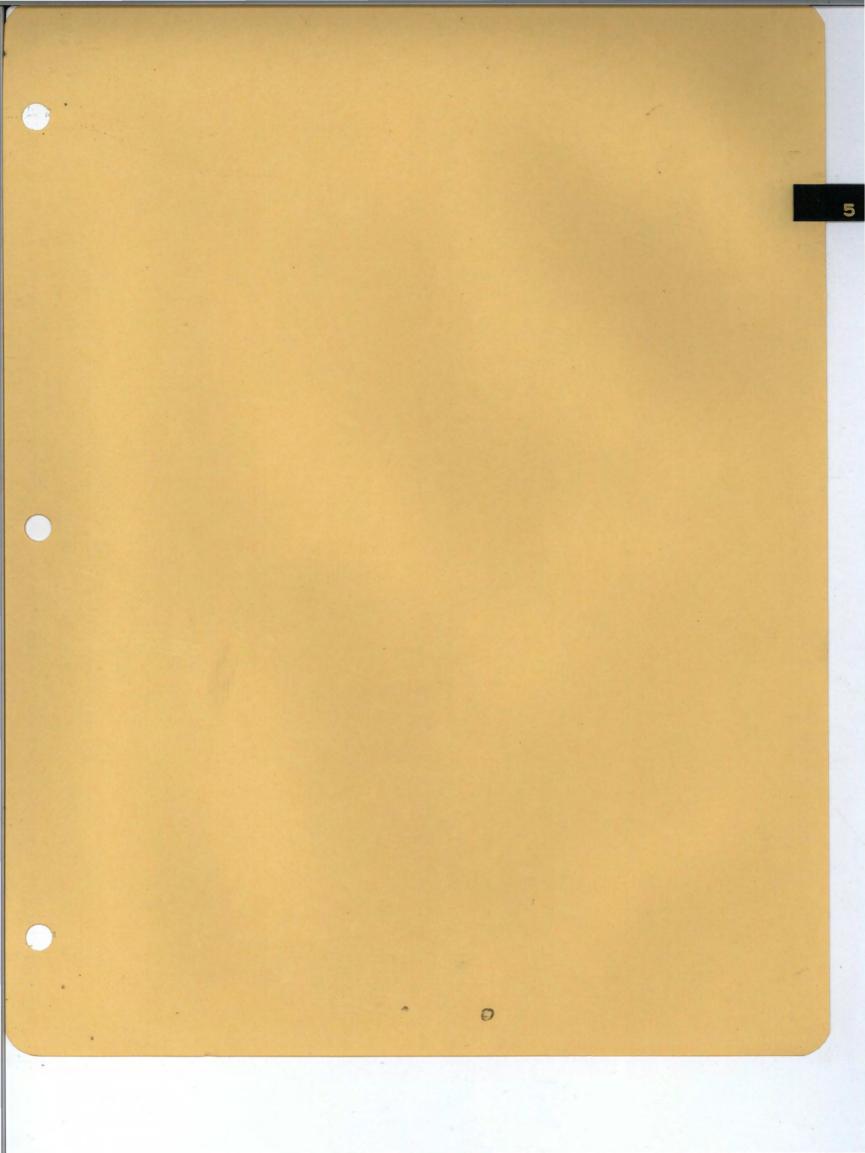
Tun Mohamed Suffian bin Hashim, S.S.M., P.S.M., D.I.M.P., S.M.B. (Brunei), J.M.N., P.J.K. (Pahang), Honorary LL.D. (S'pore), Hon. D. Litt, Hon. (Malaya) M.A. (Cantab), LL.B. (Cantab), Bar-at-Law. Lord President, Pro-Chancellor of Univ. of Malaya and member Advisory Editorial Board Malayan Law Journal - Born November 12, 1917, K.K. Educ. Malay School, Lenggong 1924-27. Clifford School, K.K. (1928-1935) Gonville and Caius Coll., Cambridge (1936-40, 1946-47), Middle Temple, London School of Oriental and African Studies (1947) and London School of Economics (1947); 1936 F.M.S. Queen's Scholar, 1939 B.A. (Cantab), 1940 LL.B. (Cantab), 1941 Called to Bar. 1942/5 All India Radio, New Delhi; 1945/6 B.B.C. London; 1946 married Bunny Grange; 1948 joined M.C.S. Magistrate and Harbour Master, M'cca, 1949 transferred to Legal Service, appointed D.P.P. J. Bahru (five years). 1953 L.A. Pahang, acted as State Secretary, Pahang twice. 1956 Mem. of Conference of Rulers' Constitutional Advisory Committee and L.A. Johore; 1957 Senior Federal Counsel; 1959 Solicitor-General (Malaya); in Brunei for five months as Constitutional Adviser to Sultan of Brunei. 1961 Judge. 1963 Appointed Pro-Chancellor; Member Judicial & Legal Service Commission Malaya and also Borneo Branch (1963-68).

He has published a Malay translation of Constitution of Federation of Malaya. 1964 Awarded Eisenhower Exchange Fellowship. 1965 Appointed Chairman Salaries Commission. External Law Examiner, Univ. of Singapore. Chairman Eisenhower Fellowship Nomination Committee for 1967-72. On Jan. 1, 1968 appointed Judge of Federal Court. 1968 appted. Chairman of Committee to enquire into resignation of academic staff from Univ. of Malaya and Chairman of Committee to draft a constitution for Univ. of Penang and for National University. 1972 Published An Introduction to Constitution of Malaysia. in January, 1972. It was reprinted with minor corrections in July 1972. A second edition of this book, the first of its kind in this region, was published early in 1976.

"A MAN OF HIS TIME"

A book on his life and career, entitled "A MAN OF HIS TIME", by J. Victor Morais was published in August 1974. In the foreword, Tun Sir James Thomson, the first Lord President of the Courts of Malaysia wrote: "Sufficient to say that in the end Suffian has attained the highest post in the Judiciary of his country and that, in the opinion of many qualified to judge, is his country's gain. And this record of his career will not only be read with profit by those who have themselves lived through the period it covers but will form part of the material with which the historians of the future will build". From 1972 to 1974 he was the Chairman of Higher Education Advisory Council. 1972 Awarded Hon. LL.D. by Univ. of S'pore and Hon. D. Litt. by Univ. of Malaya. 1973 Chief Justice, Malaya. 1974 Lord President, Malaysia and member Editorial Advisory Board Malayan Law Journal. His Majesty Yang Dipertuan Agung conferred on him title of Seri Setia Mahkota (S.S.M.) on the occasion of his birthday on June 4, 1975. At a combined meeting of the Academy of Medicine, Malaysia and Singapore in Kuala Lumpur on September 6, 1974, Tun Suffian delivered the Tun Dr. Ismail oration. He was also invited to address the Fourth Commonwealth Magistrates Conference on August 10, 1975 on "The Problems Facing the Courts in the Administration of Justice."

In December, 1976 he attended a meeting in Tonga to discuss the Training of Magistrates in the Pacific Region. This was organised by the Fourth Commonwealth Magistrates Conference. Recreation: Orchid Growing. Address: Federal Court, Kuala Lumpur.



Ungku A. Aziz, Professor — Professor of Economics — Born on Jan. 28, 1922 in London. m. Sharifah Azah Aziz. c. One daughter — Zeti Akhtar. Education:



Diploma in Arts, Class II, Raffles College, S'pore 1940-41 and 1947; Bachelor of Arts (Honours), Class I in Economics, 1951, Univ. of Malaya, S'pore; Doctor of Econs. (Hakase), Waseda Univ., Tokyo, 1964. Career: Vice-Chancellor, Univ. of Malaya and Professor of Economics. Speciality: Rural Econs. He was in Johore

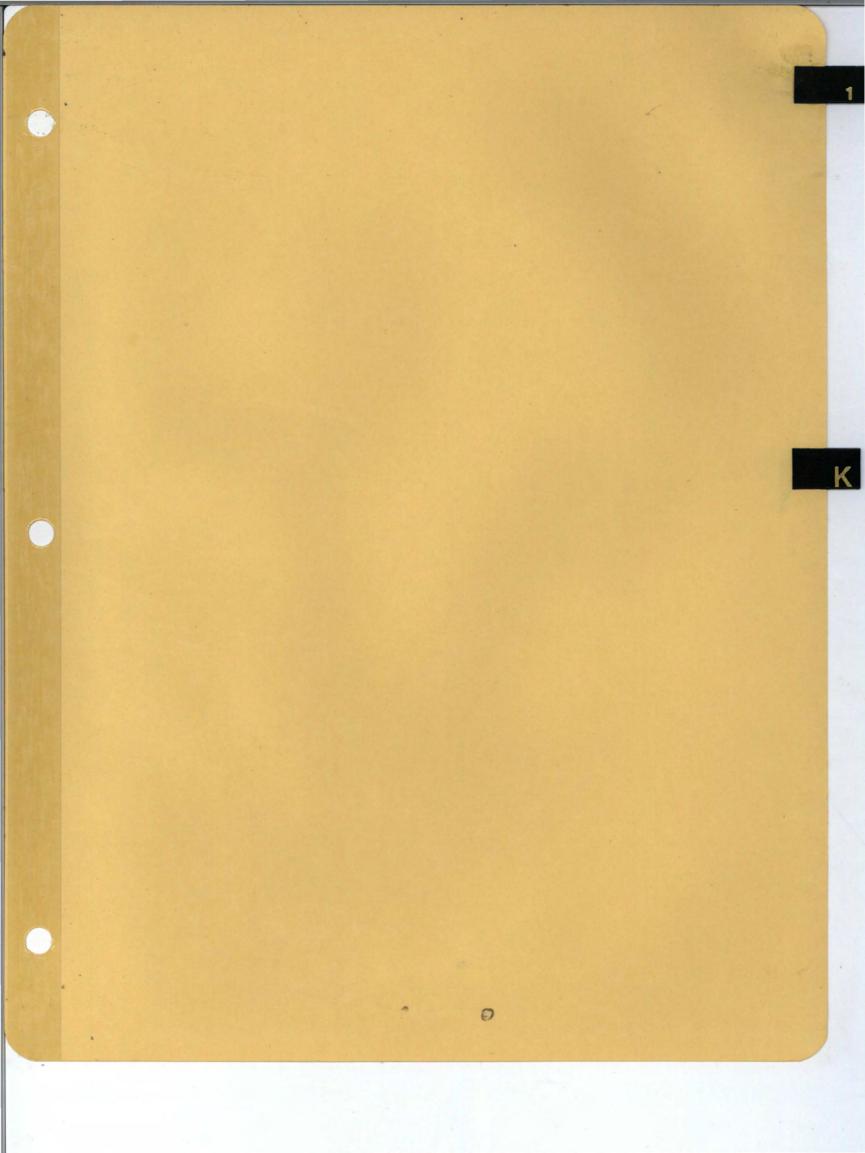
State Civil Service. Later lecturer in economics, Univ. of Malaya, S'pore, 1952; Head, Dept. of Econs., Faculty of Arts, Univ. of Malaya, K.L.; Dean, Faculty of Econs. and Administration, Univ. of Malaya, 1965 and Vice-Chancellor since Oct. 1968. Offices held: Member of Commission, Joint UNESCO-IAU Research Programme in Higher Education, K.L.; Served as Expert in U.N. Agencies (ECAFE, Bangkok); (ILO, Geneva); FAO (Ceylon and India), (Indonesia); (UNESCO Cyprus); Member. of "Persatuan Ekonomi Malaysia" (Economic Assn. of Malaysia) and Editor, 1967, of "Kajian Ekonomi Malaysia" Malaysian Economic Studies); Member of Scientific Commission of International Council of Research in Cooperative Development (CIRCOM); Member, International Assn. of Agricultural Economists; Member, Joint Advisory Committee, FAO/UNESCO/ILO; Advisor, Editorial Board, International Encyclopaedia of Social Science 1964-68; President, Assn. of Southeast Asian Inst. of Higher Learning (ASAIHL), 1973-early 1975; Member of Board of Trustees, Asian Inst. of Technology, 1972-77; Member of International Advisory C'ttee of Britannica International Encyclopaedia, 1972; Corresponding Member, Advisory Board of Modern Asian Studies, 1973-75; Chairman, Assn. of Commonwealth Universities (ACU), 1974-75; Member of National Consultative Council, Malaysia; National Unity Advisory Council, Malaysia; Represented Univ. of Malaya as Chairman, Board of Trustees, National Art Gallery; Member, Malayan Rubber Fund Board, since 1970; President, National Co-operative Organization (ANGKASA) since March 1971 and Member of National Farmers' Organization (Lembaga Pertubuhan Peladang-LLP) since Jan. 1976. Awarded "Order Des Arts et Des Letters" by Govt. of France, 1965 and elected as Fellow Member of World Academy of Arts and Science, 1965 and Doctor of Humane Letters by University of Pittsburgh, U.S.A., April, 1971. Address: Chancellery, University of Malaya, Kuala Lumpur.

Tunku Abdul Rahman Putra Al-Haj Ibni Al-Marhum Sultan Abdul Hamid Halim Shah — Former Prime Minister of Malaysia — Born on Feb. 8, 1902. m. Puan Sharifah



Rodziah. In 1919, 'he went to England for studies and returning to Malaysia after obtaining his B.A. from St. Catherine's College, Cambridge. Called to the Bar from Inner Temple in 1949. In 1952, he became President of UMNO. After first Federal Election in July, 1955, the Tunku became Chief Minister and Minister for

Home Affairs. Under his leadership, the Federation of Malaya obtained Independence on Aug. 31, 1957, and Tunku became Malaya's first Prime Minister. Resigned in Sept. 1970. He was Secretary-General of Islamic Secretariat. Now National President of Perkim (Muslim Welfare Organisation Malaysia). He is the Chairman of the Trustee Board of the Anti-Drug Campaign. Received the Ramon Magsaysay Award from the Philippines in 1960 for Community Leadership. The Tunku was bestowed with "Grand Cordon of Royal Order of Cambodia", 1964 in Phnom Penh. On March 8, 1965, the Tunku was awarded the insignia of the highest order of Darjah Kerabat Yang Amat Dihormat, D.K. by H.R.H. the Sultan of Selangor. Tunku was bestowed with Korea's highest award - the Order of National Foundation - on April 29, 1965. On Oct. 14, 1965, the Raja of Perlis, Tuanku Syed Putra, conferred on Tunku the "Darjah Kerabat Baginda Syed Putra" (the Most Esteemed Royal Family Order of Perlis State). Holder of the Kedah Order of Merit - he was also conferred D.M.N. by H.M. The King June 6, 1960 Cambridge University conferred on Tunku an Hon. Doctorate of Laws. Same honour was conferred on him also by Malayan University, Sydney University, Araneta University, Philippines, Saigon University and Aligarh Muslim University in India. Doctor of Law; by University Sains in June, 1975 The Tunku wrote s took, "May 13 - Before And After", giving his views on the cause of the disturbances and the declaration of the Emergency on May 13, 1969. Governor of Penang, Tan Sri Sardon, conferred on him the State's highest award of Darjah Utama Pangkuan Negeri (DUPN) on My 15, 1975. Address: Ayer Rajah Road, Penang and Kenny Hill, Kuala Lumpur.



K. DOCUMENTATION RELATING TO FIELD TRIPS

1. Bank-Financed Irrigation Development in North Kelantan

The State of <u>Kelantan</u> is the poorest of <u>Malaysia's 13 states</u>, in part due to its history of geographical and political isolation. It lies on the northeastern coast of Peninsular Malaysia, sharing a long border with Thailand, stretching inland through wide tracts of unpopulated jungle to the headwaters of the Kelantan River in the Central Mountain Range. Most of the State's <u>population of about 800,000</u> is concentrated in the densely populated flood plain of the Kelantan River, in the northern coastal portion of the State, where padi production from <u>very small holdings</u> (averaging about 0.8 ha of padi land per family) is the basis of subsistence. Many padi farmers have small plots of rubber which provide some cash income throughout the year, as does tobacco cultivation, coconut production and livestock rearing.

Substantial investments in irrigation facilities have been made over the past two decades in the north Kelantan region, with the primary objective of promoting the double-cropping of padi. These developments began with three contiguous schemes (Sungei Lemal, Alor Pasir, Pasir Mas) containing 12,000 net ha of padi on the left bank of the Kelantan River, which were provided with headworks (two pumphouses on the Kelantan and a small storage dam on a minor stream), main and secondary canals, and some drainage and flood protection works during the 1960s. The 19,000 ha of padi land on the right bank of the river were provided with basic irrigation facilities (including a large pumping station) under the Bank-financed Kemubu Irrigation Project (Loan 500-MA), constructed between 1967 and 1973. Upon completion of Kemubu, all the irrigation schemes in the region were amalgamated under a semi-autonomous agency, the Kemubu Agricultural Development Authority (KADA), patterned after the highly successful Muda Authority. Unfortunately, neither the level of agricultural development in the KADA areas nor the organizational strength of the agency itself has begun to fival the successes of MADA. Reasons for this failure-by-comparison include weaker management, a difficult political situation including domination of the State Government by an opposition religious party; a farm community more bound by tradition and more culturally isolated; poorer soils; and a rainfall regime /1 which discourages agricultural innovation. Nevertheless, double-cropping is increasingly practiced, and investments in irrigation have proved economically justifiable. /2

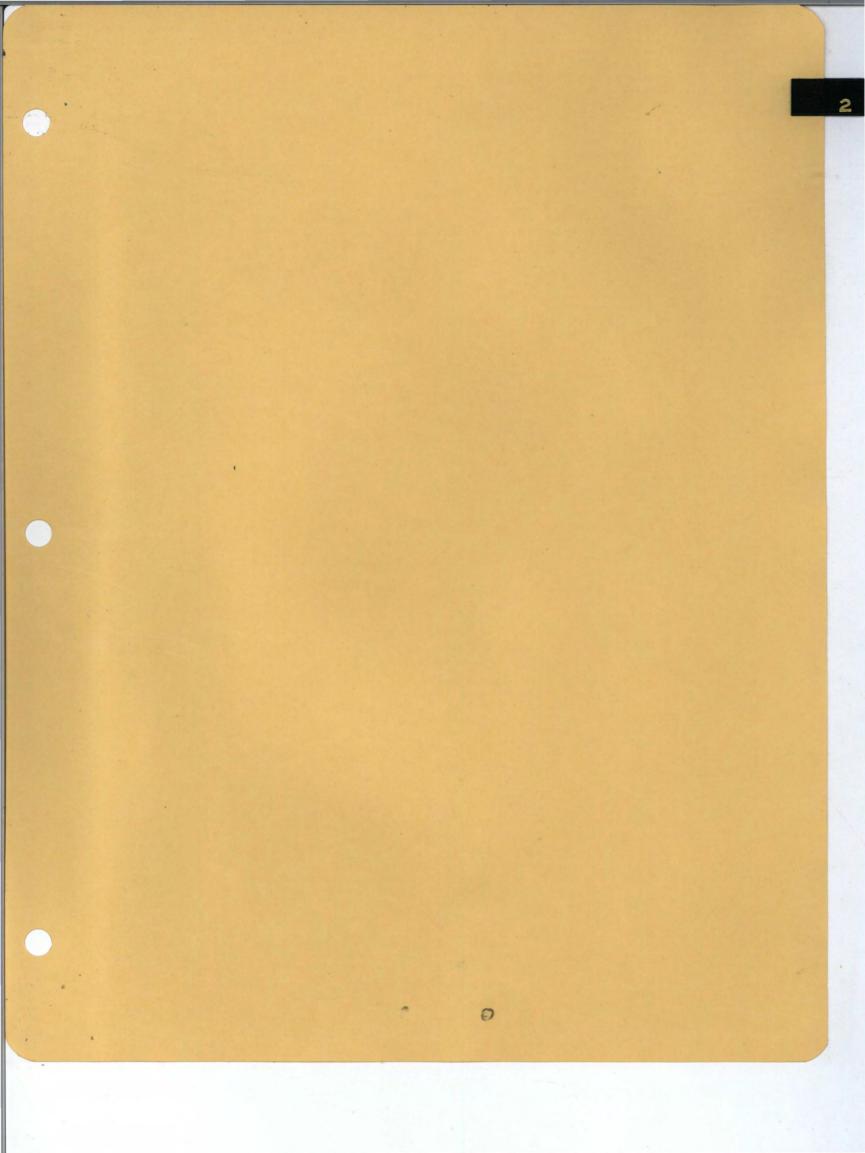
- /1 The full force of the Northeast Monsoon brings an average of 1,500 mm (60 in) in the November-January period. Kota Bharu recorded 162 mm (6 in) in one hour and 400 mm (16 in) in 24 hours. Even with the best system of river dikes and drains, short-statured padi crops would suffer great damage from localized flooding in such circumstances.
- 12 The ex-post rate of return of Kemubu was estimated at 10% in 1974, and higher current rice price projections would result in a higher figure if recalculated today.

In July 1976, a Bank loan was signed for the North Kelantan Rural Development Project (Loan 1294-MA). That project represents an attempt to provide a package of infrastructure elements and agricultural programs designed to resolve some of the major agricultural problems faced by Kelantan smallholders. Major improvements in existing irrigation facilities are being implemented in the three scheme areas on the left bank of the Kelantan River (para. 2), including the installation of structural tertiary canals /1 to improve water distribution, major and minor drainage and flood control works and access roads. A large road component, covering the entire region, will consist of a mixture of low and medium standard access roads linking villages and isolated agricultural areas with State and Federal highways, and one high-standard Federal road link which will link the area between the Thai border and the Kelantan River and simultaneously serve as a flood dike protecting the irrigation areas. A small-scale irrigation component, which served as the forerunner for the National Small-Scale Irrigation Project (Loan 1444-MA), will provide for the construction of 15 dispersed small irrigation projects, each serving between 20 and 200 ha of padi, each of which is being appraised by Malaysian Government teams following a format established at appraisal. An agricultural extension component, which served as the forerunner for the National Extension Project (Loan 1493-MA), is organizing and upgrading the entire State extension service along the lines of the training and visit system, and for the first time is providing for sustained and intensive contact between an expanding corps of extension agents and the smallholders. A Farmers Development Center component is providing the physical facilities, equipment, and credit required to meet the farmers' needs for input supply, tractor rental, storage, padi drying floors and marketing and transport services.

This package will raise the incomes of tens of thousands of poor people, but will raise few out of relative or even absolute poverty, given the shortage of good agricultural land in the region relative to the population. For that reason, a feasibility study aimed at upgrading and expanding 27 existing land settlement schemes in the southern part of the State was included in the project. Further development in the northern region buys time for these and other settlement projects and spontaneous emigration to other parts of Malaysia to partially alleviate the population problem, and for industrialization programs to provide additional employment opportunities for those who remain.

/1 These canalets, constructed of hardwood frames and fiberglass panels, were developed and are manufactured by a Malaysian firm. They were tested and approved by the Drainage and Irrigation Department following a one-year testing program initiated and reviewed by Bank missions.

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K. DOCUMENTATION RELATING TO FIELD TRIPS

2. Malaysia's Family Planning Program

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Family planning received its first official sanction in Malaysia in 1966, when it was incorporated into the First Malaysia Plan. Subsequently, its objectives have been reconfirmed in the Second (1970-75) and Third (1976-80) Plans. The justification for family planning in the first two Plans was set largely in a macroeconomic and public expenditure context slower population growth resulting in increased per capita income, reduced pressure on education and health services, housing and employment, with the reduced pressures translated into increased investment, broadening the nation's productive capacity leading to further increases in national and per capita wealth.

In the early 1970s, the strength and buoyancy of Malaysia's economy and the vastness of the apparent land available for development caused these macroeconomic arguments to lose much of their urgency. Thus during the Third Plan period there is increased emphasis on another more compelling argument which does convey a sense of urgency to reducing population growth and promoting family planning, namely, the encouragement of a more equitable distribution of income and wealth. This is a particularly relevant argument in Malaysia, where, despite relatively high and growing per capita income, there exist great disparities in income, and, broadly speaking, income levels and economic function are largely delineated along racial lines. The redistributive argument is closely related to the objectives of Malaysia's New Economic Policy, namely, the restructuring of Malaysian society to correct the economic imbalances which have characterized the country's multiracial population. Studies in Malaysia have clearly shown an inverse correlation with income level and family size. Since the Third Malaysia Plan is unequivocal in its intent to attack poverty, family planning has been given high priority.

In 1966, with the inauguration of the family planning program, Malaysia set a target to reduce the population growth rate from its then 3% per year to 2% by 1985, with a corresponding reduction in the crude birth rate from 37 to 26 per 1,000. By 1990, it is hoped to achieve an average two-child family norm, thus attaining a stable population of about 18 million by 2030. The service delivery system of the program in the urban areas consists of the National Family Planning Board clinics and the Family Planning Association clinics; the rural areas are served by the Ministry of Health through its rural health centers which integrate family planning with rural health services. The broad strategy was to begin to expand family planning services in the urban areas and gradually to expand to more remote rural areas.

The initial growth in new acceptors in the late sixties was quite rapid (from about 20,000 in 1966 to about 70,000 in 1969). However, by the early 1970s, growth fell off sharply as the easily tapped urban potential was exhausted. It was during this time that Malaysia sought World Bank assistance in expanding its family planning program (see below). Between 1971 and 1975, the period of the Second Malaysia Plan, the National Family Planning Program recruited nearly 300,000 new acceptors. In addition, the estimated 134,000 nonprogram acceptors (i.e. obtaining services/supplies, not from program clinics, but from private doctors, midwives, pharmacists, etc.)

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brought the total number of acceptors to 434,000. This represents 81% of the planned target of 535,000. Also, during the Second Plan period, the crude birth rate fell from 33 per 1,000 to 30.3 per 1,000, as compared with a target of 30 per 1,000. (The first World Bank project began during the Second Plan period, in 1973 and its targets and achievements are discussed separately below).

During the Third Malaysia Plan, the objective is to reduce the crude birth rate to 28 per 1,000 by 1980. This is to be achieved by recruiting 1 million new acceptors, split evenly between program and nonprogram sources.

World Bank Involvement

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The first Bank project (Ln. 880-MA, dated February 9, 1973) was designed to: (a) improve the administration and management of the national family planning program; (b) extend family planning services in rural areas; (c) expedite training of paramedical staff in family planning; (d) demonstrate effects of concentrated family planning inputs; and (e) strengthen communication efforts and population research-evaluation capabilities. Total project costs were US\$10.2 million, of which the Bank loan financed (US\$5-million.

Despite initial delays and difficulties, considerable progress has been made in the following crucial project activities: (a) completion of family planning training of 2,700 Ministry of Health auxiliary health staff; (b) the provision of staff and equipment in the intensive input demonstration activities and the completion of related baseline surveys; (c) appointment and posting of 11 national and child health/family planning officers; (d) preparation of 20 Information Education and Communication training modules and expansion of IEC activities; (e) establishment of a population education unit in the Ministry of Education; (f) installation of a mini-computer for the National Family Planning Board; (g) initiation of a population study program in the University of Malaya; and (h) completion of a management study and an external review of the program. Almost all vehicles and special equipment have been either procured or ordered. Most of the advisers have completed their assignments. About 232 buildings out of a total of 571 have been completed and the remaining are scheduled for completion during the next 15 months.

Delays in disbursement were largely due to slow implementation of civil works components. However, this has picked up remarkable momentum in recent months. This is reflected by the increase in the disbursement from 5% in September 1976 to 10% in June 1977 and about 23% in May 1978.

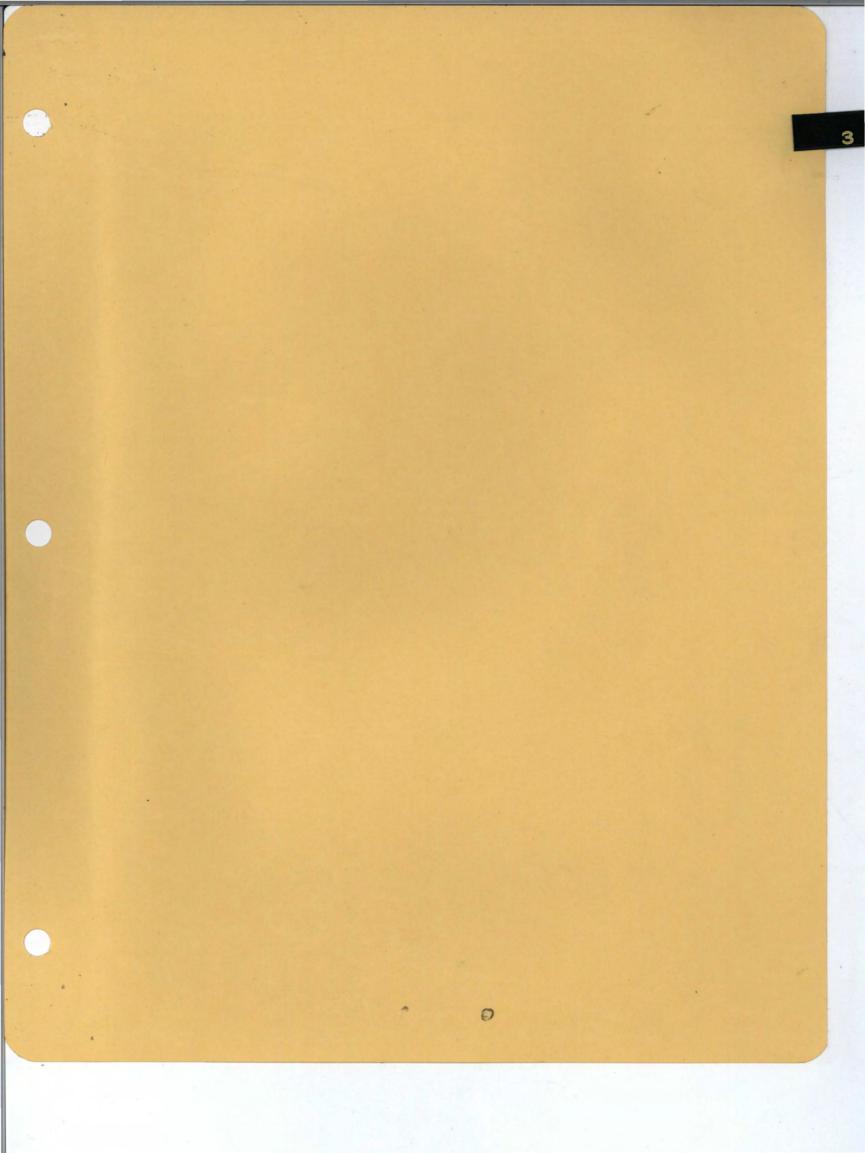
In terms of demographic impact, the project helped in reversing the sharp fall in the annual contraceptive acceptance level. Annual new acceptance rose fom 56,000 in 1973 to over 75,000 in 1976. Project-assisted integrated health and family planning programs in rural areas registered the highest increase in performance - new acceptors increased from 3,000 in 1973 to 22,000 in 1976. The intensive input demonstration program begun under the project achieved 88% of the annual target compared with that of 54% in the nonintensive area program. The program has also been recruiting a greater proportion of younger, low-parity, low-income and less-educated groups.

During 1970-76, the ethnic composition of acceptors has gradually approximated the composition of the population. During this period, the birth rate of 33 per thousand population declined to 30.3 (compared to the target of 30), the total fertility rate of 4.9 declined to 4.3. Seventy-four percent of this decline occurred in the age groups of 25 years and over with a corresponding increase in contraceptive practice among them. Among the ASEAN countries, the Malaysian Family Planning program stands second only to Singapore. In 1976, the percentage of women in child-bearing age using contraception in West Malaysia was 49.3, exceeded only by Singapore (77). Corresponding figures for Thailand (32), Philippines (22), and Indonesia (15) were much lower. In this region, the Malaysian family planning program budget as a percent of the total national budget (0.11%) is the highest.

A Second Population Project is scheduled for Board presentation in June 1978. The second project would cover the period 1979-83 and would focus on further expansion into remote rural areas, low income urban areas and Sabah and Sarawak which are presently unserved by the Government's program. During the project period the annual recruitment of new acceptors (from program sources only) is expected to increase from about 100,000 in 1979 to about 130,000 by 1983. By helping to reach a progressively greater proportion of the population in the disadvantaged communities and regions, the project would complement Malaysia's development goal of equalizing economic opportunities.

The project would provide construction, furniture, equipment, and vehicles for family planning clinics, family planning specialist centers, integrated rural health and family planning training schools, quarters for trainees and trainers, community health centers, facilities for the women's development programs, a warehouse with a print shop, and an audiovisual production center for communication programs. It would also provide equipment and vehicles for maternal and child health services in the rural health clinics and for program evaluation activities. Technical assistance and incremental operating costs for four years are included in the project for a few important activities such as family planning specialist centers, program evaluation, and educational material production. The proposed loan would finance the foreign exchange component estimated at US\$17.0 million or 45% of the total cost (US\$37.7 million). The remaining US\$20.7 million in local cost will be financed by the Government.

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K. DOCUMENTATION RELATING TO FIELD TRIPS

3. The Muda Irrigation Project

The Muda Irrigation Project (Loan 434-MA) area lies on the North Kedah Plain, in the States of Kedah and Perlis on Peninsular Malaysia's northwest coast. It is Malaysia's traditional "rice-bowd," having been largely devoted to padi cultivation at least since the early part of the 19th century. Some major drains still in use were constructed during the period of Siamese hegemony over Kedah, which ended in 1909. During succeeding decades, the (British) Colonial Government's Drainage and Irrigation Department (DID) constructed several controlled drainage and irrigation schemes which provided assured wet-season irrigation to the northern half (50,000 ha) of the plain. During the 1950s, DID developed the concept of the present Muda project, which involved development of storage reservoirs in the mountains and a main irrigation distribution system adequate for double-cropping of padi (rice). The concept of double-cropping was regarded with considerable skepticism in Malaysia (and probably elsewhere) as late as the late 1960s, as it depended on large changes in the work patterns, attitudes, and social lives of tens of thousands of smallholder farmers; use of newly developed, short-duration, nonphotosensitive padi varieties and associated increases in use of purchased fertilizer; and a substantial increase in mechanized 11 plowing. The fact that the Muda project successfully stimulated these revolutionary changes is apt to be forgotten.

Technical project preparation, including major design concepts, was largely the work of Sir William Halcrow and Partners (1960-63), although DID eventually designed the reticulation system and project works, like the Kedah River Tidal Barrage, which can only be called "minor" in comparison with the Muda and Pedu Dams and connecting Saiong Tunnel. The designers were faced with a river (Muda) with a large catchment area but little storage capacity at potential dam sites, and another river (Pedu), closer to the plain, with a much smaller catchment and a much larger storage capacity. The solution adopted was to build two dams, diverting the Muda flow through the tunnel to the Pedu storage site. The reservoir water is released down the Pedu River channel, which joins the Padang Terap River, from which the flow is eventually diverted (about 35 km below the Pedu Dam) at the Pelubang headworks into the main north and south canals, which were also constructed under the project. Water is distributed to the fields by a system of downslope laterals and cross-slope distributaries, the latter being spaced at 1-2 km intervals.

Despite the drought and the current crop failure, which is the first in the history of the scheme, the project has been an important success in every conceivable aspect. Construction of major works began in 1966 and was completed in 1970, within a few months of the scheduled date and at the original estimated cost. Double-cropping was implemented over 97% of the nearly 100,000 ha of padi by 1974, a year ahead of the original "optimistic" schedule. Yields have also risen faster and farther than anticipated at appraisal. Padi production rose from 283,000 tons in 1966 to 679,000 tons in 1974, adding substantially to Malaysia's domestic supply and reducing rice imports in a period of extraordinarily high prices./1 The

/1 The net economic benefits of the project in 1974-75 far exceeded the investment costs (in real terms) between 1963 and 1975. revised economic rate of return of the project was estimated at over 18% in early 1975; since then long-term projections of the price of padi have risen substantially and a recalculation today would result in a much higher figure. These calculations pertain only to easily measured direct benefits. Preliminary results from the FAO/Bank Muda Study indicate that secondary benefits of the project within the regional economy have been equal to as much as 90% of the direct benefits.

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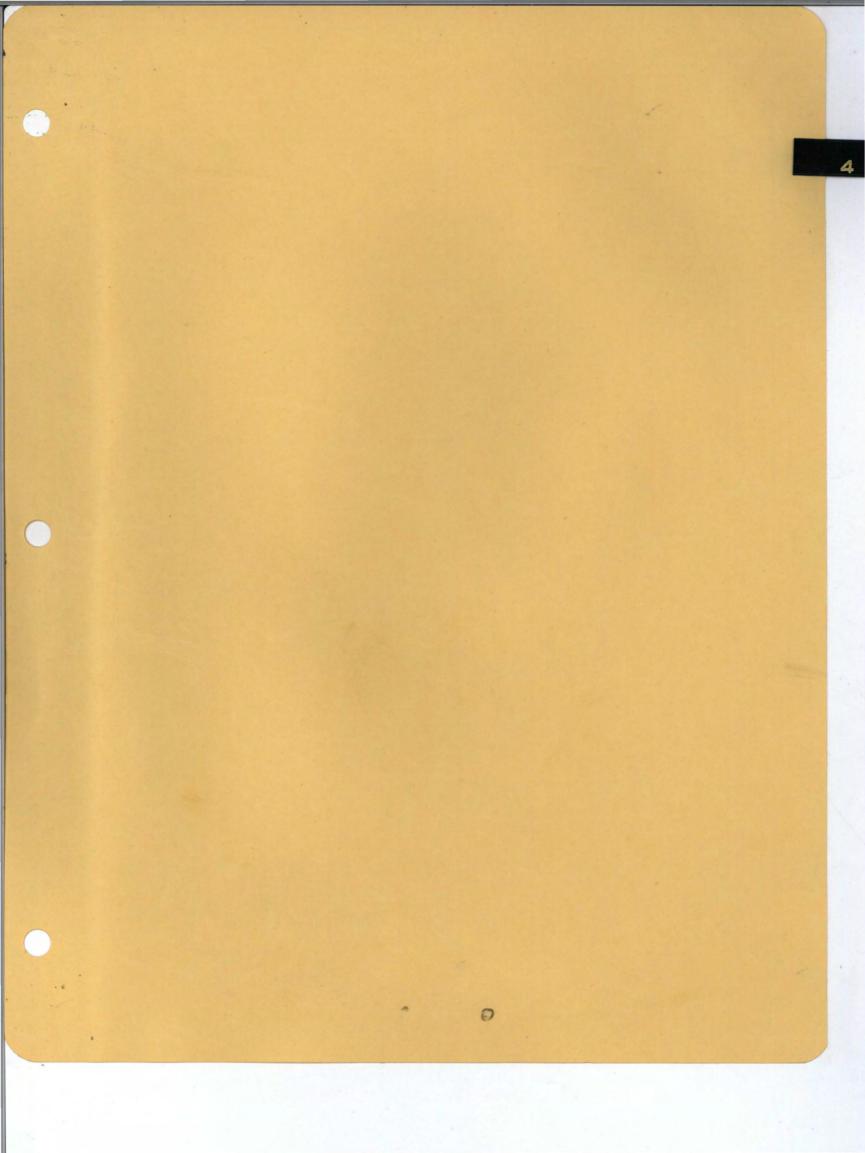
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Institutionally, the padi production credit scheme devised for Muda by project-financed consultants led directly to the creation of Bank Pertanian Malaysia (the Malaysian agricultural bank), now a powerful financial institution, and was expanded to padi areas throughout the Peninsula. The Farmers' Association (government-sponsored cooperatives) concept, developed for Muda by the Government in 1967, has also been implemented throughout the country, and led to the formation of the Farmers' Organization Authority. Rice varieties developed at the Bumbong Lima research station have again been distributed widely. Finally, an entire generation of Malaysian irrigation engineers and agriculturalists who were thrown into the task of implementing the project and operating it successfully, are now in senior positions in various government agencies, utilizing the experience and self-confidence gained in making Muda work. Since 1970, the Muda Agricultural Development Authority (MADA) has been responsible for general management, engineering operation and maintenance, agricultural extension, and agroeconomic studies and projects within the Muda area.

The possibility of increasing Muda's storage capacity to avoid future water shortages led the Bank to focus attention on the structural safety of the dams, particularly in view of the series of minor problems encountered in their operation and maintenance since completion. To ensure a thorough reanalysis of their safety characteristics and possibilities of increasing storage, a consultant study (to be executed by a Malaysian/Pakistani engineering consortium) is proposed for inclusion in the proposed Krian project loan, scheduled for negotiation in June 1978.

The original Muda project was a required first step in transforming Muda from a poor, backward, traditional padi area into one of the more prosperous and efficient rice areas in the developing world. The next step, required to raise actual yields to their physical potential and to make more efficient use of scarce water supplies, would be to introduce the small-scale infrastructure needed to distribute and drain water more evenly and rapidly within the large irrigation block, and to provide better access to the fields and villages for input supply, harvesting, mechanization, agricultural extension, operation and maintenance, and basic communication purposes. The proposed Muda II project, for which the appraisal process has already been largely completed, would provide those physical improvements (tertiary and quarternary canals and drains and access roads) on 24,000 ha in Muda (1/4 of the total net padi area), representing those blocks in which water control is at present least effective and reliable. That project would also implement the training and visit system of agricultural extension throughout the Muda area, in line with its introduction in other parts of Malaysia under the North Kelantan, Northwest Selangor, National Extension, and Krian projects.



K. DOCUMENTATION RELATING TO FIELD TRIPS

4. Kota II Small-Scale Irrigation Scheme

Kota II is a small (1,500 ha) single-cropping padi area, situated along the Kedah coast and on the right bank of the Muda River. Between 1952 and 1960 the area was reclaimed from swamp and wasteland by the Kedah State Drainage and Irrigation Department, which constructed coastal and river bunds to prevent recurrent inundation, and a system of gated drains. This permitted a system of water management known as "controlled drainage" in Malaysia, whereby rain and flood waters are dammed and retained in the padi areas before and during the planting season, and eventually drained at harvest. This system is differentiated from "positive irrigation," which supplies water on demand from a reliable water source, and where water levels in each block can be controlled by application of water as well as by periodic draining. As it is dependent on rainfall, and as controlled drainage implies the presence of deep water in the fields throughout much of the season, Kota II can produce only one crop of tall-statured, traditional-variety padi per year.

Under the National Small-Scale Irrigation Project (Loan 1444-MA), a positive irrigation system will be constructed in the Kota II area. A new pumphouse will be built on the Muda River, the existing main canal serving a neighboring scheme (the Pekula Scheme) will be enlarged to carry the additional water to the boundary of Kota II, and new distributary canals will be built through the padi area, along with new drains, drainage gates in the bunds and dikes, and access roads along the banks of the larger canals and drains. The total investment would be about US\$1.5 million, or about US\$1,000/ha and the same amount per family, as the average padi holding is one ha. The investment is expected to result in rapid adoption of double-cropping, which has occurred in contiguous positive irrigation schemes already, and a substantial simultaneous increase in yield, as the modern varieties required for double-cropping because of their shorter terms are also higher yielding than traditional varieties. The Pekula Scheme, completed in 1969, has been double-cropping successfully for the past nine years. The rate of return of Kota II was estimated at (23% by the Bank appraisal mission.

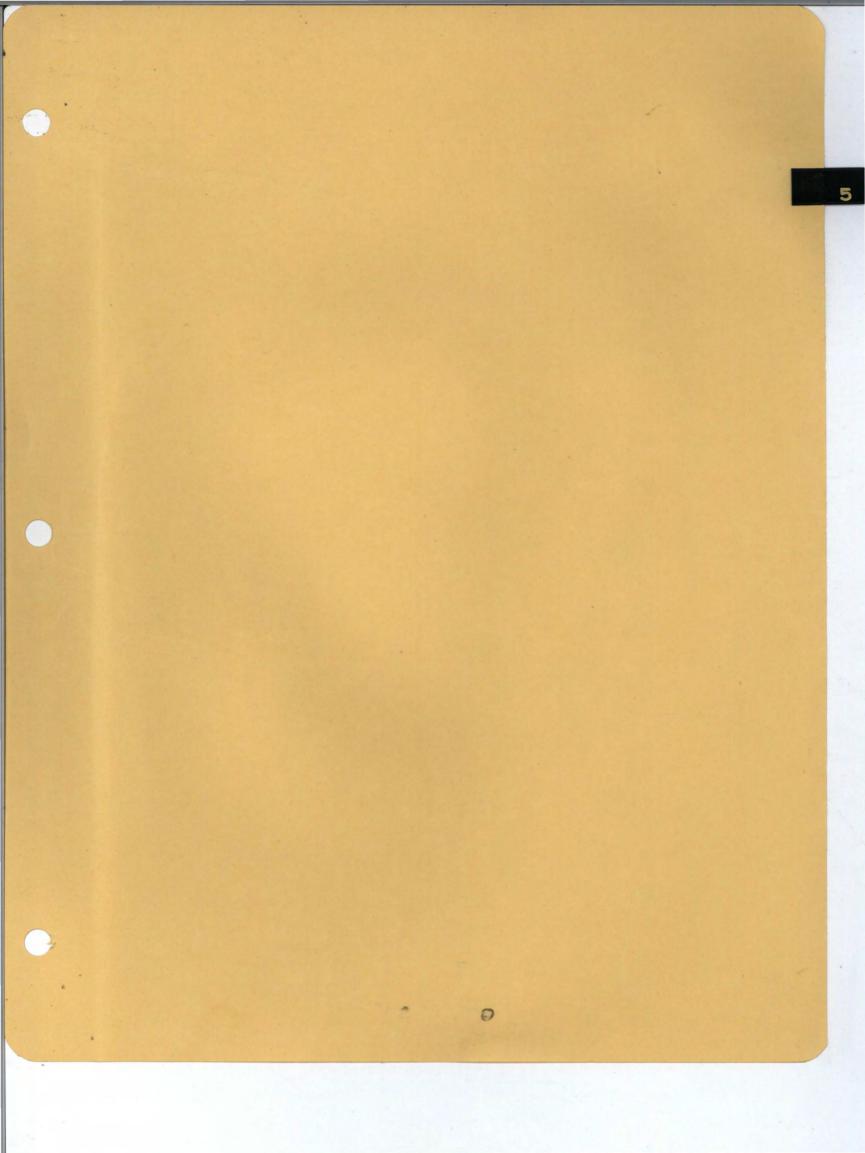
3. Kota II in itself is not a significant investment, at least from the point of view of transferring resources from the Bank to Malaysia. On the other hand, it is an obviously justifiable investment whose benefits almost exclusively will be reaped by poor rural people. The fact that Kota II had not yet been fully developed was an indication that Government resources in this field were in fact constrained. This dilemma confronted the mission which first visited Kota II, more or less by accident, between preparation visits to Muda in the north and the large Krian padi area in the south. In concrete terms, the mission saw that it was impossible in terms of

time and manpower constraints, for themselves or their colleagues to prepare and appraise a sufficient number of small irrigation schemes of similar quality to form a project package of sufficient size for Bank financing. The solution was to entrust the preparation and evaluation of such a package to Malaysian Government irrigation engineers, agriculturalists and agricultural economists, who had collectively proven themselves fully capable of such work in preparing previous projects for Bank financing.

A detailed procedure for subproject identification, preparation and evaluation within the Government was worked out with the agencies concerned, and a multi-disciplinary team of technical experts drawn from various departments was established under the project to undertake this work. Before appraisal, data forms and questionnaires were prepared and sent to the 13 State Directors of Drainage and Irrigation, whose detailed responses, screened by the Federal Drainage and Irrigation Department, formed the basis for appraisal estimates of subproject numbers (195 schemes), total base construction costs (US\$54 million), padi area benefited (54,000 ha), farm families benefited (60,000), and other pertinent information. The list of proposed schemes prepared for appraisal now functions as the agenda for the Malaysian preparation and evaluation team, which sends its reports to the Bank for review. Small schemes demonstrated to provide a return of 10% or greater are approved for inclusion in the project, as are schemes with an 8% rate of return which can be shown to predominantly benefit relatively poor people in areas without alternative sources of employment. The system appears to be working well and the preparation and evaluation work reviewed thus far meets all expectations.

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K. DOCUMENTATION RELATING TO FIELD TRIPS

5. The Kedah Rubber Smallholder Area

The state of Kedah is predominantly Malay and agricultural. Some 70% of the population are Malay; 20% are Chinese; and 10% Indian. About 50% of the land area is used for agriculture, which provides almost 70% of employment and contributes about 53% of the state's G.D.P. Agricultural production is dominated by rice and rubber which are estimated to utilize 31 and 53% respectively of the agricultural area (not including double cropping) and to provide 52 and 34% respectively of the value of farm production.

Agriculturally, the state can be divided into the main Muda coastal plain in the west center which produces mainly rice, and the surrounding foothills which are predominantly utilized for rubber and mixed cropping, mainly by smallholders. The major emphasis of past development has been on the Muda area where an extensive irrigation system has been developed to provide for double cropping. This is supported by effective supply and extension services.

While this program has been very effective in raising padi output and incomes, the result has been to exaggerate the division between the two rural subregions of the state. Based on estimated population and adjusted 1970 income figures, the following picture emerges. In the rural areas about 145,000 households are involved in agricultural activities, of which 50,000 are in the Muda area and 95,000 in the non-Muda areas. As regards the poverty profile, about 33% of the Muda area households are in poverty and 65% of the non-Muda area households are in poverty.

In the non-Muda area, the typical farm enterprise comprises 1-2 acres of single-cropped, poorly irrigated padi, 3-5 acres of rubber, with minor production of livestock, fruit, and vegetables. Typical incomes are in the range of M\$2200-2600 (US\$910-1080); based on rubber earnings of M\$900-1600 (US\$375-670) and padi value of M\$400-800 (US\$160-330); average household incomes are estimated at M\$4,200 (US\$1750) in Muda areas and M\$2,900 (US\$1210) elsewhere.

Current Work

Consultants are currently carrying out a development study of Kedah and Perlis. The major thrust of these studies is to identify potential projects and programs to raise productivity and incomes with particular reference to the non-Muda areas. Preliminary reports have just now been prepared; a draft final report is expected in June, with the final report due in August/September. The major agricultural elements of this program will be accelerated rubber replanting and intensification of agricultural production in a number of intensive development areas.

Rubber replanting is the responsibility of Rubber Industry Smallholder Development Authority (RISDA). There are estimated to be over 350,000 acres of rubber in Kedah of which 250,000 are registered with RISDA. Much of the rest is assumed to be held without title. About 150,000 acres have been replanted; about 200,000 acres remain.

In recent years the annual rate of replanting has declined from a level of about 10,000 acres to 7,000, which is inadequate. The Kedah/Perlis consultants propose an accelerated program of replanting of 15,000 acres per year. However, the details of how to achieve this target are not yet worked out. The present slow pace of replanting is assumed to result from a combination of several factors: lack of land titles, old age of smallholders, absentee or divided ownership, poor access to holdings, and inability to bear loss in income during immature period. RISDA carried out a socio economic survey of smallholders in 1977 (which is still being prepared for analysis) which aimed at determining the relative importance of these and other factors and means of overcoming them. In the meantime, RISDA is carrying out discussions with the state government on means of facilitating provisions of titles to those currently illegally occupying land.

The consultants are also proposing a series of intensive development projects for 13 low-income mixed farming areas. Detailed investigations in two areas are underway and proposals for these projects will be submitted in the draft final report in August/September. These proposals are likely to include: accelerated replanting of senile rubber, and rehabilitation of mature stands (through RISDA); strengthening, coordination and reorganization of extension services (now provided by several agencies); expansion of input supply and credit; improved drainage and irrigation of padi where possible, and improved infrastructure, particularly roads.

Next Steps

More than 10 organizations have been working in these areas in a generally uncoordinated manner. A major element of these projects will be to establish a mechanism for effective coordination of preparation and implementation of individual subprojects. The State Economic Planning Unit (SEPU) has already been strengthened through the UNDP State and Rural Development Project. Proposals are currently under consideration to establish an agricultural projects unit at the state level, possibly attached to SEPU, to be responsible for detailed project preparation and subsequent coordination of implementation. Major issues, including staffing and relationships to state and line agencies, will have to be resolved. The State and Rural Development Project has been more useful in bringing together all the relevant organizations to address these issues and initiating work to identify priority areas of poverty and to determine the current level and availability of public services in rural areas, particularly in health and education.

Preliminary discussions have been held with EPU and RISDA about a possible project which could be prepared within 12-15 months, and which would have the following major elements:

- (a) a package of subprojects in two or more intensive development areas, with subcomponents as noted above;
- (b) a statewide rubber improvement component, covering a 3-4 year period of replanting on about 50,000 acres, with additional expansion and improvement of rubber extension services to boost yield and product quality from existing mature stands.

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