DEVELOPMENT PLANNING AND REGIONAL IMBALANCES IN MALAYSIA

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INTRODUCTION

The international trade and foreign capital are the main factors contributed to the Malaysian economic development since pre-independence. Basically, the economy is an export-oriented. The government development plans beside restructure and diversify production bases, conversely, the plan had reinforce and revitalize dependency on external sector for economic growth. The First Outline Perspective Plan, 1971-1990 (FOPP), which implanted New Economic Policy was regarded the main catalyst of rapid economic growth and development that the country's achieved now. The objectives and strategies of FP continued in the Second Outline Perspective Plan, 1991-2000 (SOPP). The development plans constituted dual approaches, i.e (i) government intervention mainly eradicating poverty and restructuring society regardless of races; and (ii) rely on private sector for industrial development (emphasise on role of foreign direct investment). Land reformation (new development and rehabilitation) proceeded, i.e by establishing industrial zone, and agricultural center (new development for agricultural land stopped in 1984), as a “growth pole” to stimulate urbanisation and economic growth. The plans succeeded transform the economy from agricultural to industrial bases, and poverty have been reduced relatively. On the other hand, due to policy makers and foreign investors preferences, strategic economic locations and transportation facilities, had develop economic disintegration and an acute economic disparities among regions of the country. The government recognised the issue and has (re)constructed a plan to promote development in less developed regions, but the move failed address the matters significantly. In this paper we will apply a static approach to analyse the impact of the Malaysian government planning on regional economic disparities.

DEVELOPMENT PLANS AND STRATEGIES

The development planning during pre-independence relied on private sector and laisse-fair approach. The government concentrated economic development sector mainly in agricultural and infrastructure, industrial and social development were less emphasized.

After independence in 1957 and up to year 1970, the role of private sector in the development plans resumed. Also during the period, the government started introduce industrial development base on import-substitution (ISI) strategy under economic diversification programme. Social sector received less attention if refer to the government allocation as stated in Table 1. As mentioned by Mohd Yaakub and Kiong C.S (1990), development policies and programmes have been oriented primarily towards accelerating the growth of the economy through investment in the leading sectors such as agriculture, mining and primary industries, without an explicit formulation of distribution targets to redress socio-economic imbalances which have characterised Malaysian society at the time of independence. The development programmes was concerned accelerating economic growth at the expense of growing regional and rural-urban inequalities (Mohd. Yaakub
The introduction of ISI as a momentum for industrialisation failed in accelerating economic growth, unemployment rose to 8 per cent in 1968 (total population about 10 million), while distribution of income widened as noted by Gini coefficient increased from 0.49 to 0.55.

As social-economic imbalances worsening\(^1\), and indigenous people, Malays (Bumiputras) left out in the economic (business) sector, the government introduced a new development strategies. The New Economic Policy (NEP) formulated and the NEP incorporated in the twenty-year First Outlined Perspective Plan, 1971-1990 (FOPP) (see Table 1 and 2 for details). The NEP takes full recognition of the problems and needs in a multi-racial society and was designed to ensure that the governments is sufficiently equipped to influence the pattern of economic growth in directions which will bring about a more equitable sharing of the benefits of growth and development among all Malaysians so that no particular group will experience any loss or feel any sense of deprivation. The NEP formulated to allowed Malay join the economic activities and compete with non-Malay mainly Chinese.

There are two pronged objectives of the NEP: (i) to eradicate poverty among all Malaysians, irrespective of race, through raising income levels and generating new employment opportunities, and (ii) to restructure Malaysian society in order to correct racial economic imbalances in terms of wealth, education and employment and economic (business) opportunity. The NEP introduced due to the existence of widespread poverty and income and wealth ownership disparities between the Bumiputras and non-Bumiputras\(^2\). The plan proposed that the inequalities be reduced drastically so that greater unity could be achieved. One of the ways to do this, apart from rural and urban development, would be to promote regional development rather than maximizing growth (Wah L.Y and Ee T.S, 1988). The rationale for emphasizing regional development was to achieve closer integration among the various regions of the country as well as to achieve a more equal distribution of incomes (Wah L.Y and Ee T.S, 1988). To supplement this strategy, four basis methods were relied upon by the planners; they include and the creation of new growth centres incorporated under new-land or resource-frontier development and industrial dispersion (create industrial zone), and in-situ development in rural areas.

**GROWTH CENTRE**

Under the FOPP the government emphasize the growth center strategy to eliminate poverty, decrease disparity among regions and states and to promote economic growth. The growth center adopted or assumed as a catalyst to future economic development. The growth center created to enhance industrial development and agricultural expansion and to increase urbanisation. There are two type of growth-center base on location. First establishment of industrial zone (or free trade zone) as growth center and the center located near to major town. The strategy seeks to encourage new manufacturing industries to move to the less developed parts of the country especially in the east coast states from the congested Klang Valley and other major urban centres in the west coast. A number of instruments have been used to achieve this including tax holidays, investment allowances, provision of industrial estates and free trade zones (Alden and Awang, 1985). Industrial decentralisation is seen as a means to accelerate development in the poorer states through the utilisation of the local resources and thus absorbing a large number of the unemployed, especially the Malays. This strategy is linked to the strategy of growth centres in that the development of these centres would spread the development to the hinterlands.

Second establishment of growth center to promote “agri-town or center” by development of new land. New land development accompanied with the establishment of new centre of growth (new town). This type of growth centre to promote rural urbanisation. The main mechanism under this

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1 Racial riot occurred May 13, 1969.
2 According to Fatimah (1990), the NEP which seeks to create a viable Malay middle class and to ensure 30% Malay participation in equity and empoyment in all sectors of the economy by 1990. More importantly, the NEP serves the primary ideological tool for mobilizing the Malay masses towards solving two crucial problems: (1) rural poverty and more specifically reproduction of rural labour and (2) the exclusion of the Malay masses from the capitalist sector (Fatimah, 1990).
program, that the government open up new land and selected settlers to manage the land. Also the government created agricultural processing center to attract other type of industries or similar to locate nearby. One of main feature of this the new town that the center located quite far from the major town nearby or area which high density of population.

The development of new land proposed in the states which has high abandon of land or resource unutilized and less have economic activities such as in Pahang, Terengganu and east of Johor. (on it west coast mainly in Pasir Gudang and Tampoi, manufacturing is a main economic activities).

ROLE OF STATE AND FOREIGN CAPITAL

There are solely two agent in the economic development planning in Malaysia, i.e the government (or the state) and foreign capital. We can divided the role of the state and foreign capital according the areas. The state largely involve in agricultural sector and also in economic activity by establishing state enterprises. While the foreign capital mainly devoted in the manufacturing sector. There are foreign capital in agricultural and services (banking and financial), but we neglected in this paper.

State Enterprise.

One of the major objective under the NEP to increase the Bumiputra wealth by 30% at the end of FOPP. Theoretically, the NEP justified state or government intervention in the economic in area of labour organization, capital restructuring (acquisition of private companies) and establish corporate enterprise (known as a public enterprise). The government has made an acquisition of major companies in the plantation and tin mining sector and financial sector; by pressure on companies to restructure their equity to comply with NEP requirements (thus forcing some to dispose their shares at below market value). By rapid establishment of new state enterprises preferably in joint-venture with multinationals and especially in the fast developing industrial sector the state was able to expand its share in the economy to have virtual control over the organization of national production (see Fatimah, 1990). In the decade of the 1970s to 1980s the state was almost always the leading investors in the private sector. Generally, the public enterprises (PE) account about one-quarter of the economic activities in Malaysia, responsible for almost one-third of growth in investment and emerge as the major borrowers in external market (Ismail Salleh, 1993).

In 1951 there were only 10 public agencies, increased to 701 in 1979 and by April 1989 there were 1,139 public enterprises. The government held equity and control of 60% of the tin mining sector, 77% of the combined capital of 21 Malaysian banks (60-70% of Malaysian banking services in 1986), 60% of planted acreage and virtual monopoly of the petroleum sector. Particularly, there are 144 PE in agriculture sector; 131 in building and construction; 33 in extractive industries; 125 in financial institutions; 327 in manufacturing; 299 in services; 68 in transportation and 22 others. Out of the 1,139 firms, 291 (25.55 percent) have been identified as inactive (Ismail Salleh, 1993). These include firms whose operations have been ceased, closed down or dormant, under liquidation, in pre-operation stage, under receivership, suspended or are just “shell” firms (Ismail Salleh, 1993). Total paid-up capital of the total Pes about RM21.4 billion and the government share (federal and state) about 71.1%. Total loans by the PE as at April 1989 about RM40.14 billion. The expansion of PE also attributed in increase of employment in the sector. Total employent in the public sector increased to more than 900,000, forming about 23% of total national workforce.

In the early 1950’s foreigners controlled over two-thirds of the Malayan economy comprising mainly tin and rubber production and the export-import trade (Fatimah, 1990). The Chinese share amounted to 14%. The Malay (or alternatively, Bumiputra) share was only 2.6. Europeans handled about 60-70% of the trade. The Malay equity was 4.3% in 1971 and in 1990 it was 20.3%. Non-indigenous local participation also increased from 34% in 1971 to 54.6% to in 1985. Foreign participation however, declined from 61.7% in 1971 to 25.1% in 1990 (Mohamed Aslam,
In some extent the state control and direct capital accumulation has stimulated interest in the question of state autonomy.

The establishment of the PE as mentioned earlier to achieved the NEP goals. There are PEs in the agricultural sector which were mainly helping the government eradicating poverty in the rural areas where majority are Malays. There are few large federal and state agricultural corporation such as FELDA, FELCRA and KEJORA (as will be mentioned in subsequent subject) involve in new land development. To achieve the objective of restructuring society, the government participated directly by establishing entreprises for Bumiputras through such statutory organizations as PERNAS and MARA. Additionally, the rural sector would be modernized, regional imbalances corrected, opportunities for education provided to more Bumiputras, and urbanization stepped up. The private sector, too, was expected to play a positive role and complement the government’s efforts in achieving the objectives.

Agricultural

Since the incidence of poverty was very high and critical in rural areas, the policy towards eradicating poverty in the sector by creating new areas of development and modernise the sector. The goal of eradicating poverty basically base on increasing infrastructural development in the rural areas, establishing more land development schemes, and providing a wide range of free or subsidized social services. In the urban sector, programmes aimed at alleviating poverty took the form of greater public amenities, such as low-cost housing and utilities. In this part we only focus on agricultural.

Development in agriculture sector divided into two main focus (i) regional development- new land development forms a major means in the future growth of agriculture. The exploitation of natural resources and development of agro-based activities complement the land development in resource rich states, and (ii) the development of existing agricultural areas with a high incidence of poverty through an integrated in situ development approach. The strategies aimed to reduce imbalance between sector of the economy, between rural and urban areas, and between races. For the development of the sector the government has allocated a huge amount of fund as indicated in Table 3. In 2MP total allocation on the sector about RM7.4 billion and the allocation increased to RM80.33 billion in 5MP.

The regional development strategy under the NEP seeks to bring about closer integration among the states of Malaysia. This will be achieved through redressing economic and structural imbalances among the regions in the country. It will draw and build upon the strengths of each region for agricultural and industrial development particularly in the less developed states, to ensure that regional development contributes towards the national goals for economic development. The underlying aim is equitable distribution not only of income but also of facilities for health, education, utilities, services, recreation, housing and most important of all, opportunities for social and economic advancement of the people in accordance with the goals of the NEP.

Regional Development

The new land development schemes form the most important sectoral planning strategy under Malaysia’s rural development programme. It aims to create employment opportunities in the rural sector, thereby stopping the rural-urban migration flow, to increase farm productivity, and to produce viable farming communities. These schemes concentrate on the cultivation of commercial crops such as rubber, oil-palm, and cocoa (LY, 1988). Such schemes are operated by public agencies such as FELDA, Federal Land Cultivation and Rehabilitation Authority (FELCRA) and RISDA (Rubber Industries Smallholders Development Authority). Ne land also developed by state agencies, the significant once such as Pahang Tenggara Regional Development Authority (DARA), Jengka Development Authority (JENGKA), Johore Tenggara Development Authority (KEJORA), Trengganu Tengah Development Authority (KETENGAH), th Kelantan Selatan Development Authority (KESEDAR), Kedah Developmet Authority (KEDA), Penang Regional Development Authority (PERDA) and Bintulu Regional Development in
Sarawak (see Map 1-Peninsular Malaysia). Under the new land development, the government has developed about 403767 hectar of land in 2MP and the development increased in 5MP, 690666 hectares of land has been developed (Table 4). In future, the new land development scheme will reduce due to the constraint of land for industrial and residential development. Since SOPP, rehabilitation of existing land has been emphasize rather than develope new land. On the other the government of state of Sarawak and Sabah (East Malaysia) continued develop new land.

Up to 1989 there are 454 federal and state-run land schemes and consist of about 400,000 settlers. Among the land schemes FELDA was a major successful. The FELDA schemes are very comprehensive The FELDA is not only have they attained the objectives of creating employment, providing ownership of optimal-sized holdings and a capacity to earn higher incomes, but they have also developed technology and group organization through management inputs to raise efficiency and productivity up to the level of many private estates (Wah LY and Ee TS, 1988). It had resettled 79,900 families and developed more 480,00 hectares of land for the cultivation of commercial crops such as rubber and oil-palm. The cultivated acreage forms 41 percent of the total land development under the various schemes. Nowadays FELDA concentrated on oil-palm and it was a major producer of oil-palm in the country.

**In-situ**

Basically *in-situ* is a top-down approach. In this approach the government will direct relevant machinery (agencies) to the undeveloped agriculture area or less fertile or less productive to become more productive in terms of yield. *In-situ* development aimed at increasing productivity in existing depressed rural areas is given equal emphasis. In-situ development programmes are mainly in the form of specific project plans, referred to as Integrated Agricultural Development Projects (IADP). This type of project planning involves the provision of necessary infrastructure, inputs and service support, institutional development, extension and training facilities – all of which are integrated into a package focusing on the development of specific potential areas. In the late 1980s a total of 15 IADPs were being implemented, covering an area of 847,500 hectares and has benefited by 480,100 farm families. The income has grew from 23.6 to 197 percent per household and productivity increases ranging from 23 to 103 percent (Wah LY and Ee TS, 1988).

Most of the in-situ project concentrated in the paddy sector which located in north of Peninsular Malaysia, namely Kedah, Perlis and Kelatan. Also in north of state of Perak there is a large paddy areas. These regions were the main produces of rice in Malaysia. Development of the sector supervise by the Muda Agricultural Development Authority (MUDA) (for kedah and Perlis), Kemubu (for state of Kelantan) and Besut (for state of Terengganu). Also there are agencies related to the modenisation of paddy sector, Department of Agriculture, Malaysia Research Development Institute (MARDI-developed new seeds), Farmers Organisation (FAO) and LPN (National Paddy and Rice Authority-has been privatised, known as Bernas).

Other in-situ development programmes carried out are drainage and irrigation schemes, replanting and rehabilitation programmes, fisheris, and livestock and forestry development programmes. There are also facilities such as training and extension programmes provided under the National Extension project and credit and subsidy schemes, offered by the Agricultural Bank (Bank Pertanian Malaysia), Agencies such as RISDA, MARDEC (Malaysian Rubber Development Corporation), FAMA (Federal Agricultural Marketing Authority) and LKIM (Malaysia Authority Fisheries Development)- extend processing and marketing services to ensure stable and fair prices for the farmes. In general, under FOPP development of agricultural sector has been given strong emphasize to improve income distribution among rural-urban areas.
Industrialization.

In pre-independence period manufacturing activity was limited to the processing of primary products, handicraft and a few essential goods produced on a small scale. The lack of industrial development was because of (i) the effective demand generated by foreign trade, which stimulate various economic activities, leaked abroad through the profits from mining, rubber planting, and trading paid to foreigners, (ii) the two important ports of Singapore and Penang which were free ports acted as a deterrent to the establishment of diversified industrial activity, (iii) the small size of the population and therefore the small size of the market, and (iv) the absence of government policies to encourage industrialisation (Rao,Bhanoji, 1980: 93). Thus, industrialisation during that period was inadequate to build concrete diversification of the country’s economy and unsuccessful to reduce dependence on imported finished products mainly for consumption use.

The Malaysian government started to give attention to industrial development as part of economic planning since 1955. Industrial development was promoted on the basis to reduce dependence on a few primary products and the need to absorb an increasing labour force. The early stage of industrial development was ISI. Export-oriented industry (EOI) was in second phase introduced in 1968 and has been a major industrial policy under FOPP. The development of the ISI and EOI was to meet the ‘balance-growth’, to expand and diversify the economy’s production base and not only concentrate on the primary sector, as well as to reduce violation of the instability of commodity prices, while EOI strategy to absorb unemployment and accelerate economy growth by growth of export of manufactures. Since the country lacked of capital, expertise and technology, foreign capital was sought to promote industrialisation. Reliance on foreign capital in industrial development is an essential condition for Malaysia. Although the embarkation of industrialisation was to promote modernization and self-sufficient development, but this direction increased the degree of dependency at the ends.

Policy of Industrial Development

The government established Pioneers Industries Ordinance (PIO) in 1958 to encourage development of ISI industrial sector. The PIO is the mark of formal industrial development in Malaysia. The strategy (ISI) involved protection (granted selectively) of domestic producers against foreign competition and explicitly attempted to foster the development of domestic industries at a faster rate (Naya,S.1990). Tariff and quotas were imposed to encourage the establishment of ISI industries. The government established the tariff board, i.e. the Tariff Advisory Committee (TAC) in 1959, to recommend tariff protection. By 1963, the TAC had instrumentally established a modest tariff protection (Peng T.K, 1977: 49). However, the institution was quite slow and cumbersome in advising the government on the matter. In 1963, the government set up the Tariff Advisory Board (TAB) and in 1969 it was reconstituted and renamed the Action Committee on Tariffs and Industrial Development (ACTID). The major task of the committee was to introduce and reconstruct tariff protection (including non tariff barriers), give consideration to pioneer status applications, export incentives and any matter concerning industrial development. The TAB and ACTID ceased to function after May 1969 and were formally abolished in August 1970. The TAC, TAB and ACTID had undoubtedly increased tariff protection level, however the level is still below international standards. In mid 1969, the Capital Investment Committee was established to take over TAB and ACTID responsibilities. Basically, the CIC was used to enhance business confidence and to increase employment. Its main tasks were (i) to identify industries with the potential for development and formulate policy guidelines and incentives to encourage them; and (ii) to streamline the government machinery so as to accelerate the pace of industrialization (Peng, K.P., 1977: 52). The tariff was used vigorously and discriminately to attract industries under the auspice of CIC. Besides the CIC (was de-established in 1971), the Federal Industrial Development Authority (FIDA), now known as the Malaysia Industrial Development Authority (MIDA) has been developed, and some of the functions of TAB and ACTID have been taken over by MIDA. The government has also formed the Special Advisory Committee on Tariffs (SACT), and it is serviced by the Tariff Unit of the MIDA. The body is responsible for imposing or removing tariffs, besides recommending on investment and export incentives.
The CIC and SACT were initiated after the government announced the Investment Incentive Acts (IIA) in 1968. The act offered industrial and fiscal incentives such as exemptions from company tax and duty on imported inputs, investment tax credits and accelerated depreciation allowances on investment. The IIA does not directly promote ISI industries further, but encourages and promotes export-oriented industries (EOI). The government has recognized that the ISI lacks exports expansion, economic growth and employment opportunities. Therefore, for future prospects for industrial development the country has to depend upon the EOI (Athukorala, P.M., 1996). In addition to IIA, in 1971, the Free Trade Zone (FTZ) Act was enacted to enhance the expansion of the EOI industries base, also on top of that Licensed Manufacturing Warehouses (LMW) were established as a ‘tariff-free zone’. EOI has been reinforced further in 1986 with the introduction of Promotion Investment Act (PIA), the PIA also as a replacement of IIA 1968. Under the PIA, government allowed foreign ownership to 100% provided the ventures export at least 50% of their products; sell at least 50% to factories in the free trade zones and employ 350 full-time Malaysian workers. To enjoy a list of other concessions like being allowed to employ five expatriate staff, companies must have a paid-up capital of US$2 million and be established between October 1986 to December 1990 (Fatimah H, 1990).

Even though the EOI industries were strongly promoted in the early 1970s, the government still encouraged the development of the ISI type industries (also resource-based industries) but on a selective basis. The committees, CIC and SACT assist the government on tariff protection and incentives matter for both industrial strategies. In the early 1980s, the government reinstated the ISI strategy by promoting heavy industrial projects. The Heavy Industries Corporation of Malaysia (HICOM) was established in 1980 to lead heavy industrial development. The government has granted tariff protection to the heavy industries, and the effective rate of protection (ERP) has increased firmly for the automotive, steel, cements and paper industries. The establishment of industrial institutions such as tariff committees, MIDA and HICOM, have resulted in the reconstruction of tariff protection frequently to gear industrial development. The tariff rates vary and diverge largely by products and industries. Generally, tariff rates in Malaysia are low compared to other developing countries. The average tariff rate of 21 per cent in 1960 increased to 24 per cent in 1969 before declining to 16 per cent in 1984 and fell to about 9 per cent in 1996 (Mohamed Aslam, 2000). The unweighted average nominal rates of protection (NRP) in 1973 and 1978 were 36.7 per cent, respectively, and in 1987, the NRP value fell to 27.31 per cent. While the effective rate of protection (ERP) dropped from 64.9 per cent in 1970 to 45.1 per cent in 1987 (Mohamed Aslam, 1993).

Foreign Direct Investment and Industrialisation

In the 1960s, foreign participation in the industrial development was small, even though the government had provided pretty incentives. On top of that, since the ISI industries type needed protection for growth, the government had restructured the tariff systems so as to lean to ISI development. Although FDI was encouraged by the tariff protection, however, the FDI inflow in this sector was considered small. FDI, actually, had contributed to the Malaysian economic development in the early part of development, i.e. pre-independence. The growth of rubber plantation and tin mining sectors were due to the foreign capital mainly from British sources. Foreign capital has been regarded as the main agent and stimulator and has strengthened the foundation or base of the Malaysian economy. For diversification of the production bases, under the industrialisation programme, foreign capital reinvited due to the lack of capital (saving) in the country itself. This paper argues that the foreign capital role is inherited in the Malaysian economic development. The economy in caught in dependency because of the inherent relationship between developed and developing nations.

Foreign capital inflow in Malaysia has increased tremendously since the 1970. In 1970 capital inflow which was RM200 million increased to RM21 billion in 1980 and in 1995 was recorded at RM24 billion. As a percentage to domestic private capital formation (DPCF), it has also shown some significant descriptions. On average the percentage of FDI to DPCF is 20 per cent per year. A look at the FDI by industry shows that the non-resource based industries, namely electrical and electronics; and chemicals and chemical products; and other machinery, accounted for a relatively high proportion of the investment. The capital has increased from RM50.9 million in 1980 to RM4825.4 million. Followed by chemicals and chemical products, and the textiles and
textiles industries. These sectors mainly were labour intensive and located largely in the (EPZs) areas.

The expansion of industrial development in Malaysia was driven by FDI (input-driven growth) (Aoki, T and Takayasu. Ken-chi, 1995: 163). To a certain extent, the Malaysian economy has gained a greater degree of sophistication through the industrialisation process which has been contributed by the FDI. The industrial structure is polarized between a modern sector based on foreign companies located in the FTZs (capital and technology intensive, high technical level large corporations oriented toward exports and non-resource based) and at the other pole the indigenous industries with very weak linkage between the two. In short, the Malaysian economy can be called a disintegrated co-habitacion economy (Aoki and Takayasu, 1995: 165). Whether by design or not, the Malaysian economy can be said to be an economy “with no average values” (Aoki and Takayasu, 1995: 165)

REGIONAL ECONOMIC PERFORMANCE

In evaluating the development plans, it could be stated generally that reasonable progress was achieved in respect of the specific objectives of eradicating poverty and reducing economic imbalances. There was overall economic development in terms of growth and employment generation, despite the uncertainties of the international economic situation. On average GDP grew by 8 percent per annum in 1998-1997, about 7.4 percent from 1971-1984. The agricultural on average grew by 5 percent per annum, due mainly to the phenomenal growth of palm-oil (which was registered a 25 percent per annum growth rate), and remained the predominant sector in the economy. Transport and manufacturing grew by more than 10 percent annually during the period. Economic growth during this period was largely the result of public investment and consumption, which also provided a counter-cyclical impact during periods of weak exports and private investment. In terms of employment, the number of new jobs created was 588,000 in 1970s increased to 4,816,900 in 1980. The unemployment rate was 5.7 percent. However, the job opportunities dropped in 4MP due to economic recession in 1983-86. The fall in major commodities prices harmed the performance of economy. There was major retreatment in the manufacturing, mainly owned by foreigner located in EPZ. The unemployment grew to 7.5 percent in 1986. Since recover from economic depression in 1987, the economy grew rapidly and the unemployment declined below 3 percent since 1994. The rate of employment growth was highest in the manufacturing sector, which registered a rate of 6.6 per cent annually.

As a result of the restructuring policies of the government, which included preferential treatment of the Bumiputras in education, financial assistance in the of easy credit facilities, training and advisory assistance, and so on, there was substantial improvement in the racial structure of employment as well as ownership of share capital. The percentage of employment of Bumiputras in all the main sectors increased considerably, and all the rates of growth exceeded the overall rates of growth of employment. In restructuring patterns of emplomentys Bumiputras were still under-represented in manufacturing and commerce and other highearning profesional jobs. In terms of equity restructuring, Bumiputra ownership went up from 12.5 percent in 1980 to 22 percent in late 1980, due mainly to acquisitions by government trust agencies.

Since affected by the economic recession, public sector spending has been trimmed. The government has decreased investment. The private sector has been encouraged to contributed to economic growth. The government has promoted privatization and “Malaysia Incorporated” announced in 1983 to reduce the burden of Pes. The government and private sectors expected to be no longer regarded as separate entities; they were to complement each other for the overall benefit of the nation. In keeping with these concepts, the government was to hand over selective public services and industries (e.g. television, telecommunication, public utilities) to the private sector.

The end of the 5MP marked the closing of two decades of development planning in Malaysia. During this period, regional development approach was geared towards disparities between states and regions in both social and economic terms. While there was some success in the distribution of social amenities and infrastructure, there was however, limited success in efforts
towards narrowing states and regional disparities (Mohad Yaakub, 1990). Discussion on achievement of development plans will be based on FOPP.

**Economic Growth**

Over the period, from 1971-1990, economic growth was concentrated in the Central Region, comprising Melaka, Negeri Sembilan and Selangor (including the Federal Territory of Kuala Lumpur). The slowest growing regions seemed to be the Northern and Eastern Regions. The state with the lowest GDP per capita over the period was Kelantan (Table 5). There are few main points we mention about the imbalances.

Firstly, concentration of foreign direct investment. Foreign investment prefers to locate their activities at the rich regions or where there is a good and sufficient incentive in terms of infrastructure development, location matter (near to major town and financial centre, port) and federal administration. FDI largely concentrated in the west coast of Peninsular Malaysia as noted in Map 2 (Peninsular Malaysia). This also can be traced based on approval of investment by MIDA as stated in Table 6. There are three states preferred by the foreign investors, Johor, Selangor and Penang. Huge investment in Terengganu since 1990 attributed to the petroleum and chemical projects, since Terengganu one of the major states producing petroleum, beside Sarawak. Therefore job opportunities are high in the regions as noted in Table 7. As a result, a migration rural-urban inevitable. The rate of unemployment in the state receive high FDI reduce dramatically contrast to the states receive less FDI as indicated in Table 8.

Secondly, the growth centre based on agricultural activities less stimulate urbanization than industrial zone located in the west coast of Peninsular Malaysia. The agricultural centre as developed by FELDA and other state agencies such DARA, KEJORA and JENGKA concentrated in particular economic activity, producing oil-palm (and rubber). There is no incentive creating or spill-over effect on other development of industries. Consequently, expansion of the created town centre actually retarded, less development in terms of expansion of residential area and shop houses or commercial outlets. This is contrast to industrial zone which located at near major town. There are no homogeneous firms in the zone and of course there is should be spill-over effect Tampoi near to Johor Bahru; Shah Alam and Petaling Jaya near to Kuala Lumpur; Bayan Baru, Seberang Jaya, Prai near to Georgetown. [The main states as mentioned above, Johor (major town/city: Johor Bahru), Selangor (major town/city: Petaling Jaya and Shah Alam, next to Kuala Lumpur metropolitan) and Penang (major town/city: Georgetown)]. Base on this fact, the urbanization rate will be much higher than other states which receive low FDI and have large plantation areas. Excluded Kuala Lumpur, the three main states as mentioned included Perak (main town Ipoh) has a higher urbanization rate as shown in Table 9.

Thirdly, historical factor. Centre of economic development and urbanisation in Malaysia begins with the growth of the Straits Settlements of Penang (port) and Singapore (port) near to Johor Bahru and the mining towns of Ipoh (Perak) and Kuala Lumpur (Kuala Lumpur was in Selangor) during British colonial rule.

**Poverty**

Generally, the government policy eradicating poverty under the NEP (FOPP) has produced remarkable results. In Peninsular Malaysia incidence of poverty has been reduced from 49.3 percent in 1970 tp 15 percent in 1989. In Sabah the rate has been reduced from 58.3 percent in 1976 to 34.4 percent in 1989, while in Sarawak the rate has reduced from 56.5 percent to 21.0 percent (Table 10). The same pattern of decline of incidence of poverty encounter in rural-urban areas in the regions. In agriculture sector the incidence of poverty also showed a decline trend, where in 1970 the incidence rate 68.3 percent and reduce to 23 percent in 1985 (Mohamed Aslam, 2000). In particular, the incidence rate is still alarming or high in group of rubber small-holder (40 percent in 1987), coconut small-holder (39.2 percent in 1987), paddy farmer (50.2 percent in 1987), fisherman (24.5 percent in 1987 and estate workers (15.0 percent) (see Mohamed Aslam, 2000).
If compared between the richest and poorest states over the 1971-1990, there is a gap between the regions. If compared Kelantan (poorest) and Selangor (which is one of the most developed states in Malaysia), there was an increase in income inequality. In terms of GDP per capita, the rich regions received high income compared to poorest regions. GDP per capita in Terengganu is high due to the petroleum industry, but if look on incidence of poverty the rate in the country still considerable about 31.2 percent in 1990. Indicator of GDP per capita is not a good measure showing income distribution. Table 11 show incidence of poverty by state actually describe the picture of income distribution in Malaysia. The richest states, namely Selangor, Penang and Johor has a low incidence rate of poverty than other regions of the country. There is no conclusive evidence to suggest that inter- and intra-regional inequalities have narrowed (Mohd Yaakub, 1990). There is a correlation between inflow of FDI, urbanisation, economic growth and income distribution in Malaysia.

REVITALIZATION OF DEPENDENT DEVELOPMENT

Malaysia's economic development was of a dependent type and was regarded as one of the more open economy in the world. The economic growth is due entirely to external factors rather than from internal causes. This can be traced from year 1870 onwards where the British colonial rule designed the Malaysian (Malayan) economy into export-import economy. Rubber and tin were two commodities which made-up the export-import economy. It was considered as the fundamental or backbone of the production and export bases of the economy. These two commodities were produced wholly for exports and were the sterling area’s top dollar earner before 1950 (White, Nicholas J. 1996: 179). Tin and rubber industries were mainly dominated by the foreign firms, substantially owned by British (White, Nicholas J. 1996: 179) and followed by Chinese capitalists. Both sector were the mark of the dependent development of the Malaysian economy. The openness of economy continued into the post-war era, whereby reliance on both commodities still dominant. External trade (both exports and imports) account for a significant and rising portion of its Gross Domestic Product (GDP). In 1960, exports to GDP of 55 per cent increased to 69.4 per cent in 1980 and recorded 89 per cent in 1995. Import proportions to GDP in 1960 were 42 per cent and increased to 69 per cent and 91 per cent in 1980 and 1995 respectively. This reflects the importance of international trade to the Malaysian economic development.

After independence, the base and pattern of dependence of the Malaysian economy has been broaden. The structure of international trade has changed significantly since Independence, especially in the 1960s. The export base has been broadened and diversified, whereby palm oil, pepper and a few minerals such as bauxite and aluminum have been introduced in the export components besides the major commodities of rubber and tin. Prior to industrial development in the 1960s, agricultural products had been predominant. They contributed more than 75 per cent of exports before pre-Independence and decreased to 66.1 percent in 1960. The merchandise share to total exports value has declined since the 1970s. The contribution of this sector fell to 43.6 per cent in 1980 and to 12 per cent in 1999. Rubber initially was the principal export in pre-independence days. However in the 1960s, oil palm and forestry products contributed significantly, and their shares to the agricultural sector have increased over the years.

Industrialisation in Malaysia depends on trade strategy and industrial policy, that is either by adopting ISI or EOI or both simultaneously. These policies had contributed to the growth of export of manufactured goods. The share of the manufacturing sector outputs to Gross Domestic Products (GDP) has increased from 8.5 per cent in 1960 to 13.1 per cent in 1970, 20.5 per cent in 1980 and 35 per cent in 1997. The average share of exports in the total production of the manufacturing sector has increased from 36.5 to almost 50 per cent during the same period. The ISI strategy discouraged export growth and expansion of the manufacturing sector. The contribution of the manufacturing sector to the GDP in the 1960s was less than 10 per cent, the export of manufactures increased very marginally (Mohamed Aslam, 1998). The embarkation of EOI significantly accelerated production of manufactured goods. Exports of manufactures increased from 11 per cent in 1970 to 24 per cent in 1980 and 85 percent in 1997.

Not only did manufactured exports increase their share to total exports, but the structure of manufactured exports had also undergone substantial changes. In the 1960s, petroleum products
dominated exports, followed by food, beverages and tobacco and wood products. By the 1980s, electrical and electronic goods had become the major export, accounting for more than 61 per cent during 1990-1999 (during 1966-1970, 4.4 per cent), followed by textiles, transport equipment, and wood based products. The success of Malaysia’s export has certain features that is worrying : (i) a very high degree of concentration, in terms of reliance on a few manufactured products - especially electronic - to drive exports, (ii) TNCs continue to dominate Malaysian exports, providing over three-quarters of the total value of manufactured exports, and (iii) the local content of most manufactured exports remains low (Jomo K.S. et. al,1997: 107).

The import structure has also changed from one of a more broad-based imports to one emphasizing imports of intermediate goods and investment goods. In the 1960s, imports of consumption goods were more than 40 per cent on average, while imports of investment and intermediate goods were above 20 per cent. However in 1999, imports of consumption goods slipped to 13 per cent, whereas, imports of intermediate and investment goods were above 40 per cent. The substantial imports of intermediate and investment goods are linked to foreign direct investment, mainly in EOI industries, as mentioned earlier. Also the growth of the imports influenced by the reduction of tariffs of the goods, and the imports of the goods are for “habit formation’ and not for “inventory behaviour” (Mohamed Aslam, 1997a).

The transformation of the economy into a more industrialized base is evident from the changing export structure and export mix over the period. The trends of exports and imports have followed the investment trends. This is particularly evident in the period after 1987, consequential to the increased inflow of FDIs into the country, which in turn can be attributed to the intensified efforts of the government to attract FDIs. It can also be discerned that trade is investment-driven, as can be seen from the relationship between total exports and imports as against approved capital investment. For example, in the exports of electric and electronic products, the export trend generally follows the level of approved investments (MITI, 1996: 96). This is particularly evident in the post-1987 period, following the steep rise in FDI inflows. Although electrical and electronic products, including electrical machinery, appliances and parts constituted the major export category in 1985, 1990 and 1994, it has a high import content (MITI, 1996: 96). For example, although the exports of thermionic valves and tubes reached a value of RM11.7 billion and RM33.1 billion in 1990 and 1995, respectively, imports under this same category reached RM10.3 billion and RM39.3 billion respectively (MITI, 1996: 98).

In regards to industrialization, eventhough the EOI regime had accelerated the growth of manufactures exports, however, the recipient income is not accrued to the country but to the foreign firms. Thus, outflow of the income in terms of dividend, profit and interest increased hugely in 1980s. The EOI strategy has contributed significantly to the GDP and to export growth, besides increasing employment generation, thus decreasing the level of unemployment. The outcome of the strategy has produced overwhelming results and has increased the well being of the people of Malaysia by reducing the poverty level. However, the development produced by the EOI strategy is not real development because the main actor of the development is foreign capital and not the local.

The inflow of FDI has resulted the foreign ownership in Malaysia increased and it was growing in import-substituting industries in the 1960s and in non-resource based export-oriented manufacturing since then, as well especially from the late 1980s onwards. The foreign share of gross fixed manufacturing assets has increased from 19 per cent in 1985 to 40 per cent in 1991. Electric/electronic, beverages and tobacco, and some other manufactures (mainly scientific instruments and toys) continue to be strongly dominated by foreign capital, which accounts for more than 60 per cent of such investments. Textiles and garments have been more than 50 per cent foreign-owned, while foreign capital has also owned more than 40 per cent of fixed assets in rubber products, transport equipment and machinery (Rasiah,R. 1995: 112). Japan’s share of foreign-owned fixed manufacturing assets in 1993 was 33.6 per cent, followed by Singapore’s 14.8 per cent, the USA’s 10.0 per cent, Taiwan’s 6.9 per cent, the United Kingdom’s 6.3 per cent and Hong Kong’s 5.0 per cent (Menon and Athukorala, 1996). Foreign establishments increased from 7.6 per cent of all firms in 1985 to 16.2 per cent in 1991, while industrial output from foreign firms increased from 34.6 per cent in 1985 to 47.1 per cent in 1991 (Rasiah,R. 1995: 115).

Most developmentalists do not deny the contribution of foreign capital in economic (industrial)
development, as suggested by the structuralists and neo-classical theorists. But increased foreign capital participation in the economic development (industrialisation) will eventually create foreign control of an economy, and in certain circumstances will dilute the sovereignty of a particular nation-state. This was evident in Latin America. Industrialisation was supposed to be the way to beat dependency and become self sufficient, now it is increasingly seen that industrialisation has turned out to be a new vehicle of dependency through direct investment and control by foreign capital, especially the capital controlled by transnational corporations (Larrain J; 1989: 151).

The above matter contrast with what happen in agricultural sector in terms of foreign involvement. In the agricultural sector, the expansion of the sector largely attributed to the large state capital in the sector (federal: FELDA, FELCRA; states agencies: DARA, JENGKA, KETENGAH, KEJORA and SALCRA), essentially in expanding production of palm oil. the a massive new land development, contribution of the palm oil to exports increase dramatically. In agricultural sector, most of capital and income of export from the sector accrued to the state. The state involvement in this area has speed up the exports of the commodity (palm oil) and accummulation of capital increased tremenously (see Halim Salleh, 1990). The government since in late 1980s has put less emphasis on rubber and tin sectors. These two commodities rae very price sensitivity. Moreover, private sector no longer keen to invest in the sectors. The major producer of rubber is small-holders generally. Currently there are about more than 200,000 smallholder in rubber industry. Contribution of the rubber to the exports are getting less significant. In primary commodities sector, palm oil and petroleum has become major foreign exchange earnings. However, most of the production exports to foreign market. More than 94 percent of total of production of palm oil exports to abroad. Also to petroleum. Within the primary commodities, pattern of depencency has shifted shifted from rubber and tin to palm oil and petroleum.

The land development and industrialisation basically has reinforced of the dependent development, which created by British. The government policy on economy development is basically export-oriented. The only changes in terms of ownership of wealth, restructuring of employment sectors which depend substantially on the government intervention.

Reference


