Chapter 1

Reinforcing Economic Fundamentals

1 REINFORCING ECONOMIC FUNDAMENTALS

I. INTRODUCTION

1.01 The Seventh Malaysia Plan, 1996-2000, sets out a new phase of development with the objective of transforming the economy from being input-driven to one which is premised on productivity and quality. Various strategies were formulated to enhance output, augment efficiency and increase competitiveness so as to sustain rapid growth which is crucial to the attainment of the objective of balanced development under the National Development Policy (NDP) and that of becoming a fully developed nation as envisaged in Vision 2020.

1.02 The Mid-Term Review of the Seventh Plan took place in very trying circumstances. Although the performance during the first two years of the Plan period was commendable, the economy was adversely affected in 1998 by the financial crisis which began in July 1997. Malaysia, however, successfully contained the crisis and thus, avoided the potentially extreme effects of the crisis such as high unemployment, mass poverty and civil unrest. This was due to the relatively strong initial conditions both in terms of the real economy and the financial sector that allowed the Government to institute swift and pragmatic policies in line with the changing circumstances during the course of the crisis. The National Economic Action Council (NEAC) was set up to restore confidence and formulate the National Economic Recovery Plan (NERP) which, among others, recommended the easing of monetary and fiscal policies to reactivate growth. These policies are showing positive results and initial signs of economic recovery have emerged.

1.03 During the remaining Plan period, the focus will be on accelerating the process of economic recovery and restoring economic growth to a level consistent with its potential output. This is to ensure that the achievement of the objective of balanced development and the aspiration to become a developed nation by 2020 will proceed as planned. In this respect, the thrust will be to further strengthen economic fundamentals to enhance the resilience of the economy to external developments. This will involve, among others, ensuring continued low inflation rate, prudent fiscal management and strong reserves of national savings; sustaining surplus in the current account of the balance of payments; improving efficiency and productivity; and strengthening the financial sector. Efforts to promote potential sectors of the economy including manufacturing, agriculture and the services sector, particularly information technology (IT) will be continued. The attainment of socio-economic objectives, particularly with respect to further reducing the incidence of poverty, narrowing inequalities and improving the quality of life will also continue to be pursued.

II. THE FINANCIAL CRISIS

1.04 The financial crisis was triggered by the speculative attack on the Thai baht due to concerns of a deceleration in exports and fall in asset prices in Thailand. This resulted in investor perception of similar risks in the other economies of the region. The deterioration in market sentiments and the general erosion in investor confidence in turn triggered sudden and massive reversals of short-term capital flows and a series of downward adjustments in regional currencies and stock markets. The baht, which had been pegged to the US dollar (USD), was floated in July 1997 and immediately depreciated. Subsequently, the Philippine peso and Indonesian rupiah were allowed to float more freely. The ringgit as well as the Singapore dollar came under selling pressure followed by the Korean won and Taiwan dollar.

1.05 The continued speculative activities of hedge funds, which were excessively leveraged, seriously destabilized selected East Asian currencies. These speculators borrowed enormous amounts of these currencies and in turn sold them for USD, raking in huge profits in the process. The trade value of goods and services in 1996 was only US$6 trillion compared with the daily global currency turnover which was estimated at US$1.2 trillion, indicating that the huge currency turnover could be largely associated with speculative activities and short-term capital flows.

1.06 The near collapse of the Long-Term Capital Management Fund in 1998 exemplified the multiple proportions to which these hedge funds were leveraged, the extent of disruption they could cause to financial markets, and the ramifications they could have on the real economy. Heavy speculation by some hedge funds on selected East Asian currencies led to the rapid outflow of short-term capital from the regional economies including Malaysia, which in the immediate term resulted in the severe reduction in asset values and currency exchange rate, and the deterioration of investor confidence.

1.07 The financial crisis had wide-ranging effects on Malaysia. It weakened the financial sector, affected the real economy, and had socio-economic implications. The massive flight of short-term capital which precipitated the drastic depreciation of the ringgit and weakening of the stock and property markets as well as the resultant loss in public and investor confidence adversely affected the growth targets set out in the Seventh Malaysia Plan. The target for real Gross Domestic Product (GDP) growth was 8.0 per cent per annum, but the economy only grew by 3.0 per cent per annum on average between 1996-1998 and is expected to achieve 3.0 per cent per annum growth for the whole Plan period as a result of the contraction of the economy in 1998. Subsequently, the achievement of the per capita income target of RM14,788 by the year 2000 has been severely impaired. In the year 2000, the per capita income, both in real and nominal terms, is expected to be lower than that in 1997. Further, the fall in stock prices and property value had a negative wealth effect.

1.08 The growth in private consumption and investment were far below the targets. The output of all sectors was also adversely affected, with the agriculture and construction sectors experiencing a contraction during 1996-1998. The position of the public sector account for the whole Plan period will also be worse off compared with the original Plan estimate. However, the current account of the balance of payments performed above expectation and this will be sustained through the remaining Plan period. This was attributed to the strong surplus in the trade account largely due to a significant reduction in imports.

1.09 The crisis also disrupted the achievement of socio-economic targets, with the incidence of poverty increasing in 1998 after a sustained period of decline and the limited progress achieved in terms of equity and employment restructuring. The unemployment level was also slightly higher in 1998 compared with the attainment of full employment in the first two years of the Plan.

1.10 In response to the crisis, the Government introduced a series of measures to deal with the financial crisis and stabilize the economy. Initially, the Government adopted an approach containing elements of the International

Monetary Fund's (IMF) prescription for other regional economies. This involved further tightening of the monetary policy by increasing interest rates and limiting credit growth. In addition, the Government also exercised greater fiscal restraint by reducing both operating and development expenditures. These measures, while addressing demand pressures, were deflationary and coupled with the weak external demand and a prolonged period of uncertainty in the regional economies, led to the contraction of the economy.

1.11 Amidst the deteriorating economic condition, the NEAC was established on 7 January 1998 to prepare the NERP. The NERP, which was launched on 23 July 1998, provides a comprehensive framework for economic recovery, including steps to counter the negative effects of the ringgit depreciation and decline in the stock market as well as ensures the continued implementation of socio-economic development programmes. Besides responding to the immediate economic crisis, the NERP also seeks to address structural and medium-term issues.

1.12 In mid-1998, policy focus shifted towards preventing a further contraction of the economy and reactivating economic growth mainly by relaxing both fiscal and monetary policies, introducing selective exchange control measures and fixing the ringgit exchange rate *vis-a-vis* the USD as well as ensuring the implementation of projects intended to mitigate the impact of the crisis, including those targeted at the low-income and poor households. These measures have shown positive results and contributed towards the restoration of public and investor confidence. Signs of recovery in terms of private consumption and investment indicators as well as exports have emerged. The international reserves at *Bank Negara Malaysia* (BNM) have increased and stock prices at the Kuala Lumpur Stock Exchange (KLSE) have stabilized and strengthened. The selective exchange control measures and the fixing of the exchange rate helped to insulate the domestic economy from uncertainties in the international financial system. Given the improvements in the economic environment, the Government partially eased its selective exchange control measures, effective 15 February 1999, by introducing an exit tax to allow foreign investors to remit their proceeds from the sale of securities ahead of the September 1999 deadline.

1.13 Besides the measures which have been put in place on the domestic front, there is a need for reforms in the international financial architecture to achieve a comprehensive resolution to the crisis. Malaysia participated actively in the international fora to build a consensus on the need for reforms. Malaysia raised these concerns as early as September 1997, during the IMF-World Bank

Annual Meetings as well as through bilateral discussions. In particular, Malaysia voiced its concern on the need to monitor and regulate the activities of the highly leveraged institutions to ensure that such activities do not contribute to market volatility. Malaysia made several specific proposals for reforms. These reforms include the need to ensure a more balanced approach to the issue of transparency and disclosure by both the public and private sectors and regular information sharing among national and international regulatory agencies; establishment of a global regulatory authority to oversee the orderly functioning of world capital markets and supervise the movement of short-term capital flows as well as prevent market manipulation and volatility; setting-up of a mechanism to make international rating agencies more accountable for their actions; and the establishment of a framework for the orderly liberalization of the capital account in line with the development of the domestic economic and financial system and establishment of appropriate prudential and regulatory standards. Malaysia will continue with its selective control measures until there is a normalization in the global financial environment.

III. ISSUES AND CHALLENGES

1.14 Although signs of recovery of the economy are becoming evident, there are several issues which need to be addressed in order to ensure a sustained recovery of the economy and restore the growth momentum. Malaysia, being an open economy, was affected by the Asian financial crisis, reversing the high growth enjoyed by the nation for almost a decade. The sudden slowdown and subsequent contraction of the economy revealed its vulnerability to developments of the regional and international environment. In this context, among the challenges confronting the nation during the review period were maintaining strong economic fundamentals, improving the level of productivity, ensuring sustained strong performance of the private sector, overcoming the constraints in the productive sectors, ensuring continued attainment of equity and distributional objectives, and sustaining the quality of life.

Maintaining Strong Macroeconomic Fundamentals

1.15 Prior to the financial crisis, the nation enjoyed rapid growth rates, averaging 8.5 per cent annually since 1990. This high growth rate was accompanied by low inflation and full employment. Private investment and exports played a key role in spearheading the growth while the fiscal position showed considerable strength. External reserves were at respectable levels and on average, sufficient to finance about four months of retained imports. Exposure to external debt, including short-term, was comparatively low at US$60,313 million or 61.6 per cent of GDP in 1997. The external debt-service ratio was healthy at 6.2 per cent. The currency composition of liabilities corresponded fairly close with that of earnings, providing a natural hedge against currency risk. The national savings rate at 39.4 per cent of Gross National Product (GNP) was comparable with other countries having high savings rates. The banking system was sound with non-performing loans (NPLs) at 3.6 per cent and the capital adequacy ratio at about 12 per cent at the end of June 1997, exceeding the Bank for International Settlement (BIS) minimum standard of 8 per cent.

1.16 However, the financial sector witnessed high credit growth averaging 30 per cent annually during the period 1995-1997, leading to a high degree of leveraging of the private sector which increased its sensitivity towards domestic interest rate and exchange rate movements. Correspondingly, the exposure of banks to vulnerable sectors such as the property sector and stocks, grew at a rapid rate, reaching 40 per cent by June 1997. This problem was compounded by the lack of a well-developed local bond market, necessitating corporations to rely more on banks for funds with the attendant concentration of risks in the banking system. These developments were perceived as a build-up of risks in the financial system. With the start of the crisis, the ringgit came under attack and there was a massive and rapid withdrawal of short-term capital flows as well as a sharp fall in the prices of stocks.

1.17 The ringgit depreciated from RM2.52 *vis-a-vis* the USD on 1 July 1997 to RM3.53 at the end of 1997, before reaching an all-time low of RM4.88 in early January 1998, and was subsequently fixed at RM3.80 on 2 September 1998. Stock prices were volatile with the KLSE Composite Index (KLSE CI) falling by 73 per cent and market capitalization decreasing by 74 per cent between 1 July 1997 and 2 September 1998. In the banking system, NPLs rose to 11.4 per cent by August 1998.

1.18 As the crisis deepened, the real sector of the economy also came under pressure. The decline in output was evident in all major sectors due to weaker demand from the domestic and external markets. Real output contracted at an unprecedented rate of 6.7 per cent in 1998. The inflation rate rose to 5.3 per cent mainly as a result of the depreciation of the ringgit as well as higher cost of inputs. The rate of unemployment increased to 3.9 per cent. The Federal Government account registered an overall deficit for the first time since 1993 due to a fall in revenue collection and the introduction of the fiscal stimulus package by the Government. External debt increased, particularly due to net loss in exchange rate revaluation from the weakening of the ringgit and increased public sector borrowing arising from the counter-cyclical measures introduced by the Government. However, there was a turnaround in the current account of the balance of payments into a significant surplus position mainly arising from import compression due to a sharp fall in domestic demand. This surplus strengthened the country's foreign exchange reserves and thereby, improved the ability of the country to meet its external commitments. Notwithstanding this, the macroeconomic fundamentals need to be strengthened to facilitate the recovery process.

Improving the Level of Productivity

1.19 During the review period, the economy continued to be input-driven with growth achieved primarily through high rates of capital accumulation. An important thrust of the Seventh Plan was to enhance the contribution of total factor productivity (TFP). TFP refers to the additional output generated through enhancements in efficiency arising from improvements in workers' education, skills and expertise, acquisition of superior management techniques and know-how, improvements in organization, gains from specialization, introduction of new technology and innovation of existing technology, and enhancements in IT.

1.20 Productivity, measured in terms of the contribution of TFP to GDP growth, was lower in 1996-1997 at 19.5 per cent compared with 28.7 per cent during the Sixth Plan period. The decline in the contribution of TFP may be attributed to the transition of the economy to high technology activities which involved a high level of capital accumulation at the initial stage.

Revitalizing the Private Sector

1.21 The performance of the private sector during 1996-1997 was remarkable but with the contraction of the economy in 1998, its performance was adversely affected. The period of rapid growth that preceded the crisis witnessed excessive growth of credit to certain sectors of the economy and large inflows of foreign funds. The crisis accentuated the vulnerabilities of the corporate sector including the banking sector. The tightening of fiscal and monetary policies at the initial phase of the crisis, while intended to contain inflationary pressure, also resulted in increases in interest rates. The corporate sector, particularly those which were highly leveraged, increasingly faced liquidity problems and higher debt service commitments.

1.22 The sharp fall in domestic and external demand following the crisis, coupled with the increase in the cost of capital and the price of imported inputs, eroded corporate profits. Accordingly, there was an increase in the number of defaults and insolvencies. The reluctance of many banks to lend during the initial phase of the crisis also placed enormous strain on the cash flow position of firms. The fall in the value of collateral arising from the sharp fall in equity and asset prices put further pressure upon businesses as well as banks.

1.23 As the crisis deepened, the corporate sector adopted a more cautious attitude towards investment due to increased risks and uncertainty in the economic environment arising from exchange rate instability, inability to determine the extent and depth of the financial crisis as well as developments in the regional economies. This resulted in the fall in private investment. The high interest rate also posed a disincentive to investment. The crisis, therefore, left the corporate sector with losses, higher loan commitments as well as reduced access to loanable funds at a reasonable cost.

1.24 The decline in inflow of foreign direct investment (FDI) further dampened the performance of the corporate sector. Net private capital flows to emerging markets declined in 1997 and 1998 compared with that in 1996. This reduced inflow was partly attributed to increased competition for such funds among developing as well as developed economies in Latin America and Europe and the economic slowdown in Japan, one of the main contributors of FDI. The crisis resulted in a further deceleration of FDI to regional economies including Malaysia, as investors became more cautious and preferred to see clear signs of stability and recovery before resuming investments in the affected Asian economies.

1.25 The relaxation of both monetary and fiscal policies in mid-1998 reduced interest rate to pre-crisis level and increased liquidity in the banking system. This relieved the corporate sector in terms of lower debt service commitments and eased accessibility to new loans. Loans growth, however, continued to remain flat partly due to the cautious sentiment of borrowers.

Overcoming Constraints in Productive Sectors

1.26 Although the economy as a whole and the productive sectors in particular, have undergone structural changes to ensure sustained growth, the pace of structural change in certain sectors needs to be further accelerated. The manufacturing sector is undergoing a phase of transition as it is venturing into higher value-added, high technology and skill-intensive subsectors. In order to support the smooth transition into these industries, there is a need to augment the required human resources both in terms of quantity and quality, develop research and development (R&D) capability and enhance the ability to absorb and innovate new technologies. Efforts to enhance domestic capability in these areas are important, particularly with respect to the electrical and electronics subsector so that its significant contribution in terms of share to GDP, employment and export earnings can be maintained as well as its value-added increased. In this respect, enhancing the capability of the small- and medium-scale industries (SMIs), strengthening domestic linkages as well as deepening and diversifying the manufacturing base will need to be addressed. Most sectors are still narrow-based and concentrated in a limited number of activities. In this regard, the potential of the resource- and material-based export-oriented industries needs to be fully exploited.

1.27 In the agriculture sector, the structural changes during the last decade now require serious re-evaluation especially to address related issues as a result of the current economic downturn. Labour productivity in the agriculture sector was lower compared with other sectors. The productivity differential was also wide between organized modern agriculture and the unorganized traditional agriculture. The production of food commodities was not able to keep up with the increase in domestic demand and this resulted in the lowering of the self-sufficiency levels of several food items. Other related perennial issues in the agriculture sector include the problems of idle agricultural land and shortages of labour.

1.28 In the services sector, concerted efforts were undertaken to increase output, particularly in the education, health, tourism, shipping, insurance and re-insurance subsectors. Although there have been some positive results, there is a need to accelerate the output of these subsectors so as to strengthen the economic base of the country as well as correct the persistent deficit in the services account of the balance of payments. It is also necessary to strengthen intermediate services, particularly transport, storage and communications, finance, real estate and business services which are important to support the growth and continued competitiveness of the primary sectors. In order to do so, the level of domestic capacity, in terms of expertise and skill, will have to be enhanced and there has to be a commitment for greater investment in these areas.

Ensuring Continued Achievement of Distributional Objectives

1.29 Satisfactory progress was made with respect to poverty redressal and restructuring of society as a result of the continuous growth of the economy, particularly during 1996-1997, and the implementation of various Government programmes and projects for the poor and Bumiputera. However, the economic downturn in 1998 constrained the pursuit of distributional objectives. The incidence of poverty increased slightly and Bumiputera ownership of the corporate sector fell below the 1995 level. The economic slowdown also restricted the potential for more rapid employment restructuring and the creation of a competitive and resilient Bumiputera Commercial and Industrial Community (BCIC).

Sustaining Quality of Life

1.30 The quality of life improved significantly as growth has brought about a steady improvement in income and corresponding decrease in the incidence of poverty as well as continued enhancement in education, health, transportation and communications, employment and family life. However, the current economic slowdown has adversely affected several aspects of socio-economic well-being and subsequently, the quality of life. The crisis resulted in the deterioration in real per capita income and wealth, and an increase in unemployment.

IV. DEVELOPMENT THRUSTS

1.31 The focus of the Mid-Term Review will be to expedite the process of economic recovery and set in motion a steady and continuous rate of economic growth. An important prerequisite to reactivate the economy will be the restoration of public and investor confidence. Recent measures by the Government to restore stability in the ringgit exchange rate, interest rates and the stock market have substantially reduced risks to trade and investment, and resulted in a resurgence in business confidence. The turnaround in the current account of the balance of payments to register a large surplus and the subsequent increase in external reserves is expected to allay earlier concerns about the strength of Malaysia's external position. The financial sector restructuring measures aimed at strengthening the resilience of the banking system will also contribute to a shift in public and investor sentiment. The Government will need to continue to introduce appropriate measures to ensure a favourable investment environment and address emerging concerns in order to rebuild public and investor confidence.

1.32 Efforts to firmly place the economy on a sustainable growth path during the remaining Plan period will necessitate the strengthening of economic fundamentals, given the continued uncertainties in the global environment. The economic contraction with the attendant losses in terms of social development requires concerted measures to overcome key problem areas and sources of vulnerability. As there are potential risks in the external environment, particularly in relation to the continued instability in the global financial market, slowdown in growth in certain developed economies and deceleration in world trade, it is critical that the country strengthens the resilience of the domestic economy. In addition to implementing measures to assist early and sustainable recovery, the longer term and structural issues will be addressed to foster fresh dynamism during the remaining Plan period.

Strengthening Macroeconomic Fundamentals

1.33 The recent crisis highlights the need to further strengthen macroeconomic fundamentals. The economic contraction that was even more severe than expected compelled the Government to continuously fine-tune its adjustment measures. The focus of macroeconomic management during the remaining Plan period will be to facilitate economic growth, contain inflationary pressures, improve external position, eliminate resource gaps and sustain prudent fiscal balance.

1.34 Efforts to stabilize prices and bring down the inflation rate to pre-crisis levels will be continued. In this respect, monetary and fiscal policies, while promoting growth, will continue to ensure that inflation is kept at a low level. The supply-enhancement measures which include improving distribution and marketing channels, will also continue to be taken to ease constraints and bottlenecks which eventually will reduce pressure on prices. In addition, the Government will further improve its price monitoring mechanism and dissemination of price information to the public as well as continue with its efforts to curb profiteering and unethical business practices.

1.35 Savings will continue to be encouraged to ensure adequate investible resources to narrow the savings-investment gap. The emphasis will be on increasing the quality of investments by ensuring that it is channelled largely to the priority sectors of the economy as well as used efficiently. In this respect, efforts will be taken to limit the exposure of the economy to vulnerable sectors.

1.36 The current account of the balance of payments will be strengthened through concerted measures to reduce leakages by further improving the merchandise account and lowering the deficit in the services account. The international reserve position of the economy will be maintained at a high level to be able to finance a satisfactory period of retained imports.

1.37 In order to further enhance trade at the regional level, Malaysia along with the Association of South-East Asian Nations (ASEAN) partners will work towards eliminating non-tariff impediments and harmonizing standards for selected product groups. Within the Asia Pacific Economic Cooperation (APEC), Malaysia will, among others, continue to participate in trade facilitation measures. Within the context of multilateral trade relations, Malaysia will work towards ensuring an open and predictable international trading environment. It will resist protectionist tendencies by continuing to maintain a liberal trade policy and, at the same time, work with other members of the World Trade Organization (WTO) to keep Malaysia's export markets open.

1.38 During the remaining Plan period, the public sector will take on a stimulative role while continuing to maintain fiscal prudence. In this respect, public sector financing will be more accommodative. It will continue to undertake deficit budgeting at a manageable level and will revert to surplus position once the economy strengthens. The deficit will be financed from domestic and external borrowings, particularly from bilateral and multilateral sources. The external debt position of the Government will continue to be kept in a healthy position as its existing outstanding external loans are small due to concerted prepayment of previous loans. Public sector expenditure will be mainly directed to projects which have a short gestation period, contribute towards increasing exports and import substitution, generate demand for domestic goods and services as well as projects which are targeted at the low-income group and poor households.

Increasing Supply of Knowledge and Skilled Manpower

1.39 The rapid economic growth during the first two years of the Plan period enabled the attainment of full employment in the economy. Despite the economic slowdown in 1998, unemployment increased slightly from 2.6 per cent in 1996 to 3.9 per cent in 1998. The labour market continued to be characterized by labour shortages and the employment of foreign workers to help meet the demand for labour.

1.40 The strategic thrust for human resource development during the remaining Plan period will focus on increasing the supply of skilled manpower to support the country's restructuring efforts towards capital-intensive and knowledge-based activities. At the same time, it will also help reduce the dependence on foreign workers as continued employment of these workers is likely to lock the country into unskilled and labour-intensive activities.

1.41 In the effort to create a skilled and productive workforce, emphasis will be placed on increasing access to quality education and training. Continued investments will be made in education and training to improve the education and skill levels of the labour force and increase labour productivity. Attention will be given to increase the effectiveness of the education and skill delivery system to respond more effectively to the changing requirements of the economy. In this respect, closer linkages between the education and skill training providers and the industry will be actively promoted to ensure that the skills imparted are relevant and in line with the structure and growth of labour demand. Alongside improvements in the delivery system, investments will be made in expanding the capacities of the education and training institutions to meet the demand for more educational and training opportunities in the country. In this regard, greater private sector participation in education and skill training will be encouraged.

1.42 Realizing the importance of improving labour market mobility between states, occupations and skills, the labour market information infrastructure will be strengthened. An electronic labour exchange to register and monitor job vacancies and placement activities as well as disseminate labour market information will be set up to ensure optimal utilization of labour and effective matching of labour demand and supply.

Reducing Poverty and Restructuring Society

1.43 The thrust of poverty redressal will continue to be directed at eradicating poverty in areas and groups with high incidences of poverty. To reduce the full impact of the economic downturn on the poor and low-income group, the Government will undertake necessary measures to widen and strengthen programmes aimed at providing basic services and amenities to these households. In this regard, additional resources will be provided to deal with the expected increase in the number of poor. As part of the efforts to improve the living standard of the hardcore poor, the programme to provide new houses or rehabilitate houses will continue to be implemented.

1.44 With regard to the restructuring of society, efforts will be focused on lessening the impact of the economic downturn on the restructuring objectives. Necessary adjustments will also be made to various programmes, so as to increase their coverage and effectiveness. This will be done through a more rigorous implementation of existing programmes including an expansion of various programmes to areas outside Klang Valley. At the same time, the provision of opportunities and assistance will continue to be given to Bumiputera to enable them acquire tertiary level educational qualifications in line with the objective to increase the number of Bumiputera professionals and technical personnel. Efforts will also be intensified to deal with the expected higher number of retrenchment and graduate unemployment among the Bumiputera. Measures to correct the ethnic imbalance in the ownership of corporate equity will be continued. However, consideration will be given to greater foreign ownership in selected industries and companies with the objective of increasing FDI and helping to revive economic growth.

1.45 In the face of a widening income inequality, special efforts will be taken to create a bigger and more prosperous middle-income group. In line with this, the enlargement of the Bumiputera middle-income group, through the development of more Bumiputera professionals and managers, will continue to be emphasized so as to reduce the income imbalance between Bumiputera and non-Bumiputera.

Consolidating the Financial Sector

1.46 The financial sector has undergone gradual restructuring over the years in response to the changing economic and financial environment. The initiatives taken, particularly with respect to the development and strengthening of the banking system, have placed the banking system in a better position to withstand the current financial crisis. However, the increased fragility and vulnerability arising from the destabilizing contagion effects emanating from developments in the regional and global financial market have posed serious challenges, requiring increased surveillance by the authorities to strengthen the resilience of the banking system.

1.47 Efforts will continue to be directed at strengthening the regulatory and supervisory framework of the banking system. BNM will further strengthen its capacity to better monitor and detect emerging risks in the financial system. In this respect, an early warning system will be developed to provide advance warning on the condition of individual financial institutions to enable pre-emptive measures to be taken to avert bank failure and contain associated systemic risks.

1.48 Nevertheless, as the rising NPLs would affect the intermediation process and weaken the capital base of the banking institutions during the current crisis, the Government has set up two institutions to address these issues. The national asset management company, *Pengurusan Danaharta Nasional Berhad* (Danaharta) will acquire NPLs from financial institutions at fair market values; and a special purpose vehicle called *Danamodal Nasional Berhad* (Danamodal) will undertake capital injection to assist domestic banking institutions to meet their capital adequacy requirement. The main objectives of Danaharta are to remove the distraction of managing NPLs from financial institutions in Malaysia and to maximize recovery value of the acquired assets. Danamodal, in its capacity as a strategic shareholder, will also serve as a catalyst to consolidate and rationalize the banking sector as well as accelerate the formation of a core of strong domestic banks. As of 31 December 1998, Danaharta had acquired gross NPLs amounting to RM8,106 million as well as managed on behalf of BNM gross NPLs including interest-in-suspense of RM11,622 million. Danamodal, on the other hand, signed Conditional Agreements with 11 banking institutions, of which nine received capital injection amounting to RM4,550 million.

1.49 In order to support economic recovery, banking institutions will have to play their intermediation role more effectively and efficiently. At the same time, banking institutions must continue to restructure to strengthen their position and preserve the stability of the banking system. A comprehensive plan for Islamic banking is also being drawn up which includes formulating new strategies for the next millennium. New guidelines and targets for Islamic banking will be introduced, including the further development of Islamic banking units in existing banking institutions.

1.50 Measures to further broaden and deepen the financial markets will continue so as to maintain monetary and financial stability, improve the efficacy of monetary policy, raise the efficiency of the intermediation process and enhance the risk-bearing capacity of the economy. Among these will be the accelerated development of the bond market which will provide an additional source of investment financing, while reducing the concentration of risks in the banking system. Efforts will also be taken to encourage the growth of Islamic capital markets, in particular, those in Islamic equities, private debt securities and fund management activities.

1.51 The Securities Commission (SC), in its continuing efforts to develop the capital market, will focus on strengthening the regulatory framework to manage systemic stability and ensure financial integrity of the capital market. There will be a move towards front-line regulation where market institutions will self-regulate the primary and secondary markets in areas of operational details. This will be complemented by disclosure-based regulation that will enhance transparency through comprehensive and timely disclosure.

1.52 In respect of the insurance industry, efforts will be undertaken to strengthen the financial position of insurers, enabling them to withstand the economic fluctuations as well as preparing them to compete in a liberalized environment. Towards this end, a programme for the consolidation of the industry through mergers and acquisitions will be implemented in accordance with the guidelines which were issued at the end of 1998. The consolidation will facilitate the development of a core of well-capitalized and well-managed domestic insurers.

Rehabilitating the Corporate Sector

1.53 A comprehensive framework for addressing problems of financial distress among corporations was put in place, including debt restructuring. The Government recognized the need to institute a coordinated approach to corporate debt restructuring to address problems of excessive leverage through orderly workout programmes. Constructive debt restructuring is crucial to ensure that viable businesses survive and continue to receive financing for their operations, thereby preserving jobs and productive capacity. However, the restructuring has to be market-based so that it will facilitate the redeployment of assets from low- to high-value uses to increase efficiency and market accountability.

1.54 In this respect, the formation of a joint public and private sector committee known as the Corporate Debt Restructuring Committee (CDRC), provides a framework for voluntary debt workouts between creditors and debtors so that they could arrive at schemes of compromise and reorganization without resorting to legal process. In addition, Danaharta, which can acquire NPLs from banks and assets from distressed companies, will provide companies with some room to undertake restructuring in an orderly manner. As at the end of 1998, CDRC received 39 applications involving RM19,700 million.

1.55 Corporate governance, based on a set of market practices, will be implemented with the objective of realizing long-term shareholder value while taking into account the interests of other stakeholders. As the financial crisis revealed some limitations in the area of corporate governance, measures were put in place to address the issues of related and interested party transactions, transparency and disclosure standards as well as protection of minority interests. Amendments were made to six laws and regulations, namely the Companies Act 1965, the Securities Industry Act 1983, the Securities Industry (Central Depositories) Act 1991, the Securities Commission Act 1993, the Futures Industry Act 1993 and the Securities Industry (Substantial Shareholders' Reporting) Regulations 1998. The recommendations by the High Level Finance Committee will further enhance the standards of corporate governance.

1.56 The KLSE announced measures to strengthen and restore confidence in the stock market and enhance transparency, covering changes in rules on the trading of listed securities, new disclosure requirements, off-market deals, new scrip issues and central depository system withdrawals and transfers. Under the new rules, all dealings in securities listed on the KLSE must be effected through the KLSE or through a stock exchange recognized by the KLSE. Stock-broking companies are required to take all reasonable steps to obtain essential information pertaining to their clients, including nominee accounts. The off-market dealings will be permitted only in the form of direct business through the Security Clearing Automated Network Services (SCANS) while all new issues of securities must be made by way of crediting the securities into the Central Depository System (CDS) accounts. It is also mandatory for all share certificates to be deposited with the Malaysian Central Depository (MCD) which is in line with international standards for, among others, script immobilization. In addition, all withdrawals of securities will be prohibited except for circumstances allowed in the notice issued by the KLSE. These measures are intended to benefit all industry participants and assist relevant regulatory bodies in discharging their responsibilities.

Revitalizing the Agriculture and Rural Sector

1.57 Agricultural development priorities for the remaining Plan period will continue to focus on revitalizing the sector, particularly in strengthening domestic food production in order to reduce the dependence on imports as well as on accelerating modernization to enable the country to become a high value-added agricultural producer. In order to meet this objective, agricultural development strategies will continue to be directed at improving productivity and enhancing competitiveness by encouraging greater private sector involvement in large-scale commercial agriculture. The role of the public sector will continue to focus on facilitating and supporting the private sector, particularly the smallholders, through extension services and R&D.

1.58 The National Agriculture Policy (NAP) was reviewed during the period to ensure its strategies remained relevant and effective by taking into account the domestic and external changes that have occurred since the NAP was formulated. The reviewed policy, the NAP3, sets the maximization of income as the underlying objective of agricultural development. This objective is to be realized through two major approaches, a broader agricultural base under an agro-forestry approach and a more focused development under a product-based approach. The agro-forestry approach emphasizes the integration of agriculture with forestry to enable wider crop-mix possibilities in order to increase the value of agricultural resources and income. The product-based approach provided for the development of agricultural activities that are consistent with the strategic clusters identified under the Second Industrial Master Plan (IMP2) of 1996. The development of the agriculture sector under this approach is to strengthen the critical linkages and clusters to meet specific niche markets.

1.59 Under the broad thrusts of the NERP and NAP3, agricultural development strategies will emphasize intensification in the use of agricultural resources, particularly land and labour, in view of the increasing shortages of land and labour. Emphasis will also be given to strengthening the export sector including the industrial commodities, through the promotion of greater private sector involvement, particularly in large-scale commercial ventures. In addition, greater focus will be directed at promoting the adoption of technological innovations in agriculture such as modern marine fish-cage rearing and labour-saving technologies such as mechanization as well as other labour-saving techniques such as low-intensity tapping system (LITS), to ensure the sector remains competitive.

Reviving the Growth of the Manufacturing Sector

1.60 In order to sustain the level of investment in the manufacturing sector, the Government will introduce measures and incentives that will help to boost investor confidence, further promote reinvestment by multinational corporations (MNCs) and encourage export diversification. Among the measures that will be taken are enhancing the country's business and investment environment and reducing the cost of doing business.

1.61 The thrust of the industrialization policy will be to accord greater importance to resource-based export-oriented industries that present high potentials in terms of domestic value-added activities, trade balance and linkages. In this regard, special focus will be given to increasing productivity and intensifying downstream activities especially the production of new and improved products to the resource-based industries which will be the new sources of growth for the sector. At the same time, efforts to accelerate the strategic shift towards high technology and knowledge-based industries with emphasis on the production of high value-added products with export potential will continue.

1.62 Industrial development will be guided by the Manufacturing++ strategy under the IMP2 which among others, entails moving up along the entire value chain as well as emphasizing productivity-driven growth. The IMP2 goes beyond the focus on manufacturing operations to include R&D and product and process design capability, development of integrated supporting industries as well as active involvement in marketing and distribution activities. It sets out a cluster-based industrial development approach to provide the basis for a more cohesive and integrated framework for industrial development.

1.63 Productivity improvements will be the key in increasing the country's international competitiveness to promote exports. New and existing industries will be encouraged to be more efficient in terms of upgrading their technologies and processes to produce higher-end products, quality parts and components as well as improving their reliability of supply. The Government will continue to assist the private sector by providing a range of support services to enable local manufacturers to adapt to the changing needs of the highly competitive export market.

1.64 In line with the export-led strategy for industrial growth, increased efforts will be taken to ensure the availability of adequate finance and insurance coverage for exports. The current Export Credit Refinancing (ECR) scheme was expanded to provide wider accessibility, particularly to the SMIs. At the same time, the Export-Import Bank of Malaysia (EXIM), will continue its role in providing enhanced trade financing facilities to local exporters, including Malaysian international trading companies.

1.65 The current level of the ringgit has enhanced the competitiveness of Malaysia's manufactured products. Since imports have become relatively expensive, industries will have to source an increasing proportion of their parts and components locally to remain competitive. Hence, investments in intermediate and investment goods, particularly for the electronic sector, will be increasingly important for the future expansion and deepening of the industrial sector.

1.66 Another principal thrust of the industrialization programme is the development of a modern, competitive and technologically innovative SMI sector. To further strengthen this sector, SMIs will be encouraged to integrate or merge activities to attain economies of scale, diversify their market base and penetrate the global market. The Government, through Malaysia External Trade Development Corporation (MATRADE) and Small- and Medium-Scale Industries Development Corporation (SMIDEC), will facilitate and expedite the greater involvement of SMIs in the export market.

Enhancing the Development of the Services Sector

1.67 Efforts will be intensified to achieve the target of creating a modern and outward-oriented services sector to strengthen the economic base of the nation and to contribute directly towards improving the services account of the balance of payments. The impetus to the growth of the services sector will be air and sea transportation, insurance, finance, tourism, education, health and consultancy services subsectors.

1.68 Malaysia will be developed into a regional hub for transportation. Port Klang will be promoted as a transhipment and load centre while the state-of-the-art KL International Airport (KLIA) as a regional aviation hub. Malaysia will also strive to be a regional educational centre of excellence. This will reduce expenditure on education abroad as well as attract foreign students to Malaysia. Changes have already been made to the legal framework affecting higher education and various incentives put in place to promote the opening of local institutions of higher learning. In tandem with the recent increase in private medical centres which provide state-of-the-art facilities and world class specialist services, health services will also be promoted.

1.69 The promotion of Malaysia as an attractive and competitive tourist destination in this region will continue to be the major thrust of the tourism subsector. Emerging challenges and increasing global competitiveness will demand adjustments be made to existing tourism policies and programmes and a holistic approach be adopted in the development of the tourism industry. The integrated efforts of all the participants of the industry such as hotels, airlines, and tour operators as well as the Malaysia Tourism Promotion Board are vital to boost tourism in the country. Investments will be encouraged in special-interest products such as eco-tourism, sports and adventure tourism. In addition, extensive campaign to publicize the availability of value holidays resulting from the depreciation of ringgit, and aggressive promotion of niche tourism products in strategic markets will be undertaken to increase tourist arrivals and receipts. Malaysia will also continue to be promoted as a centre for international conference, convention and exhibition. Measures will also be implemented to increase domestic tourism, particularly through innovative holiday packages at affordable prices. To complement the efforts of the private sector, the development and maintenance of tourism infrastructure such as transport and recreational facilities will continue to be supported.

1.70 Measures will be taken to further strengthen the finance sector including the insurance industry, so that they will contribute effectively as a growth sector of the economy and support other sectors such as manufacturing and construction. The assets of insurance industry constitute only 3.1 per cent of the total assets of the financial system in 1997, indicating that the industry is far from achieving its full potential. The insurance industry, particularly life insurance could be transformed into an important source of future investment funds. In this regard, the insurance industry will be encouraged to introduce products that allow further pension savings.

1.71 As part of the efforts to reduce the deficit in the services account of the balance of payments, measures will be taken to encourage greater utilization of domestic business and professional services. The expansion of domestic professional services and their involvement in the use of state-of-the-art technologies in construction will be promoted. In addition, to reduce the current excess capacity in the sector, the accumulated expertise and intellectual capacity of the business and professional services will also be promoted internationally.

Harnessing Information Technology

1.72 Malaysia is preparing itself to be part of the Information Age where IT and multimedia will be the strategic enabling tools for the creation of a knowledge-based and civil society. The thrust of IT will be to develop and expand the requisite IT infrastructure as well as instil an IT culture among the people to be more receptive to new living and working lifestyles emanating from an information-rich society. The economic slowdown will not, however, deter Government's efforts to transform the country into a knowledge-based economy.

1.73 The National Information Technology Agenda (NITA) was formulated to provide a framework for the balanced development of three strategic elements of human resource, infostructure and IT-based applications. To further strengthen the implementation of NITA, a strategic agenda will be designed. In this regard, five thrust areas of Sovereignty, Learning, Community, Public Services and Economy will be examined to adequately prepare Malaysia to meet the demands of a knowledge-based economy.

1.74 The Multimedia Super Corridor (MSC) was created as a greenfield hub to provide the environment for the introduction and synergistic expansion of IT-related and multimedia industries. The implementation of the flagship applications of electronic government, multipurpose card, telemedicine, smart schools, R&D cluster, worldwide manufacturing web and borderless marketing will provide the catalyst for the spawning of new IT industries and services. In this regard, efforts will be taken to encourage small- and medium-enterprises (SMEs) to collaborate with larger firms in expanding the value chain of IT and multimedia industry. In addition, R&D in IT in priority areas will be intensified to support the development of the industry.

1.75 Recognizing that the utilization of IT and multimedia technologies and applications will enhance efficiency, productivity and competitiveness of the economy, measures will be taken to facilitate the widespread application of IT and raise the level of awareness of IT best practices especially in the potentially high growth sectors of manufacturing, services and telecommunications. More specifically, to further improve the efficiency of IT infrastructure and optimize the resources invested in the various telecommunications networks, measures will be taken to ensure interconnectivity and interoperatability of the networks. For this purpose, supervision will be strengthened to ensure that telecommunications operators comply with the guidelines on interconnection, sharing of infrastructure and resources as well as benchmarking the quality of services provided. With the convergence of IT and communications technology, an open multimedia network based on the asynchronous transfer mode (ATM) technology capable of multi-protocol user interfaces, particularly in the MSC, will be developed. This infrastructure will enable the distribution of voice, data and graphics in support of IT and multimedia applications.

1.76 The rapid growth in telecommunications networking, particularly the use of Internet throughout the world, will accelerate the application of e-commerce to serve an enlarged market. With the fast changing IT and multimedia technology, e-commerce will generate a wide array of innovative business practices in the production and delivery of goods and services. While e-commerce creates new opportunities, it also presents challenges to domestic businesses, particularly in the services sector. In this regard, to ensure an orderly development of e-commerce, a master plan will be formulated.

1.77 In order to implement IT strategies and programmes more effectively in the various sectors of the economy, there is a critical need to develop an IT-literate workforce. In this regard, computer education and training will be further intensified and expanded. Education and training curricula will be continuously adapted to be in line with the demands of the IT industry. To facilitate a more comprehensive approach to manpower planning for IT, a study has been launched to provide a framework for matching the supply and demand of IT workforce in the economy.

1.78 Efforts will continue to be taken to develop a conducive legal environment to further accelerate the use of IT and multimedia. Towards this end, IT-related laws and legislation will be reviewed to keep pace with the rapid advancements in IT and multimedia technology. Enforcement capabilities will also be strengthened to ensure the effective implementation of the enacted cyberlaws such as the Copyright Act 1997, Computer Crimes Act 1997 and Digital Signature Act 1997.

Strengthening Science and Technology

1.79 The role of science and technology (S&T) as a critical tool for development will continue to be emphasized in line with the country's structural transformation towards a high technology and knowledge-based economy. The current economic slowdown and the need to improve the competitiveness of exports necessitate a greater role for S&T, in particular R&D, which will help revitalize the industrial and agriculture sectors as well as develop further the services sector. High technology and strategic R&D programmes that will augment overall productivity, increase the local content and capacity of industry as well as the technological capability of the country will thus, be introduced. Efforts will also be made to promote and upgrade indigenous capacity and competence in scientific and technological innovations.

1.80 Efforts will be intensified to strengthen the foundation for the building of S&T-based society and economy. In this regard, the requisite infrastructure expansion and technical skills upgrading will be stepped up to accelerate the wider use of S&T, particularly IT, in the various sectors of the economy. This will contribute significantly towards enhancing the country's industrial productivity and competitiveness, which in turn will attract potential investments in high technology and IT-related industries and services.

1.81 As the country seeks to accelerate technological innovation for higher growth, productivity and competitiveness, there will be increased emphasis on the integration of existing S&T strategies with economic and other policies. The Government will provide the necessary support for greater coordination in the formulation and implementation of S&T strategies among the public sector academia, research institutions and industry. The private sector, on the other hand, will be encouraged to assume a more proactive role in technology acquisition, transfer and commercialization.

1.82 Increased private sector participation and investment in R&D will become more important as it will have to ensure an adequate supply of commercially viable and suitable technologies to meet the growing needs of the economy. Private sector involvement, especially in resource-based and industrial technology development programmes will be further encouraged through the provision of tax and other incentives. This will include incentives to foster closer cooperation between the public sector research institutes, universities and the private sector, with the view to increasing the relevance and cost-effectiveness of R&D programmes. Apart from in-house R&D, private industry can choose to undertake research in collaboration with or contract to institutions as well as form joint ventures and strategic partnerships.

1.83 Attention will be directed to the acceleration of technology development in a selected number of industrial sectors to tap the comparative advantage of the country. In this regard, a technology mapping study is being prepared that will provide in greater detail the specific technologies that need to be harnessed to meet the present and future challenging times. The thrust of the study is to ensure that R&D and technology development efforts are concentrated on a few industries with the highest potential for growth, wealth creation and employment.

1.84 While the primary concern will be the development of a stronger indigenous technological base, the acquisition and transfer of technology from abroad will continue to be crucial. Strategic partnerships and other forms of collaboration, in the area of technology innovation, technology financing and technology-oriented education and training programmes will be expanded. This will not only reduce upfront learning costs and the risks of technology adoption, but more importantly will allow for the build-up and upgrading of innovative and marketing capabilities required for improving technological competitiveness.

1.85 In order to effect the structural transformation towards a knowledge-based economy, the Government will ensure that S&T and related policies are relevant and aligned to changing conditions and environment. In view of this, existing S&T policies and strategies will be reviewed in order to strengthen S&T planning as well as R&D and technology management. The aim is to develop a more comprehensive national innovation system that will support the country's drive towards a digital economy.

Improving Quality of Life

1.86 The Government is faced with an even greater challenge during the remaining Plan period to continue focusing development on the social dimension as well as creating a united and resilient society with strong values, greater self-discipline and appreciation for the arts and culture. In this regard, emphasis on the provision of social infrastructure facilities in education and training, housing, health, youth, women, family and community development will be stepped up. This is essential as the provision of social infrastructure facilities is pivotal in achieving human development, improving the quality of life as well as fulfilling the basic needs of the people. In addition, they also provide an important foundation to nurture a competitive, progressive, caring and respected Malaysian society.

1.87 Access to basic education especially in the rural areas and the quality of education will be improved while tertiary education will be expanded to meet the growing demand. The Government will continue to increase the supply of manpower in the health sector and give priority to training through the expansion of existing training colleges. Other social services provided by local authorities will also be emphasized, particularly to improve urban services, social amenities, cleanliness and beautification as well as drainage and flood mitigation. Efforts aimed at improving the provision of quality social services to enhance the welfare of the people will be continued in line with the objective of creating a caring society. The focus will continue to be on specific groups such as the low-income, women, children, elderly and the disabled. Housing for the low-income families and the poor will be given priority to enable them to have greater access to affordable and quality housing. In this regard, the Government will ensure more low-cost houses will be built for sale or rent. To enable these people to buy houses, financial institutions will be required to provide more credit facilities especially for the self-employed.

1.88 Recognizing that the changing structure of and inter-relationships within families pose challenges which affect individuals and families, a social action plan or *Pelan Tindakan Sosial* (PINTAS) was formulated. The Plan provides strategies and programmes to address and alleviate the occurrence of social problems as well as monitor the impact of social and economic development on the well-being of families.

1.89 The challenge in the present economic situation is to address environmental and resource issues without compromising economic productivity and growth. Action will be taken to ensure that the conditions necessary for achieving sustainable development are not undermined. Steps will be taken to ensure that efforts in sustainable resource management and environmental protection do not place additional demands on the nation's budget. Emphasis will be placed on applying an economic approach in addressing environmental issues and on improving the environmental and natural resource database and information system for more effective planning and decision-making. In addition, the Government will promote healthy cities to ensure a high quality living environment.

1.90 The Government will also continue with the agenda to inculcate positive values and good work ethics, promote the tenets of good corporate governance and encourage a high regard for civic responsibility at all levels of society. A good value system for the country will be evolved through constant emphasis on religion, traditions and civics especially through the education system. Intrinsic values of society such as loyalty, good citizenship, respect for the rights of citizen, social justice and tolerance to others, which constitute the core of effective democracy will be further enhanced. Such a system of positive values will expedite the moulding of *Bangsa Malaysia*.

V. IMPLEMENTATION AND COORDINATION MACHINERY

1.91 The effective implementation of policies aimed at ensuring the sustained recovery of the Malaysian economy necessitates efficient planning and implementation at all levels of government. The capacity, efficiency and effectiveness of the government agencies will be strengthened to meet the challenges and implement projects according to schedule and prevent delays that will invariably affect the recovery process and the attainment of national development objectives. In this regard, duplication of work and wastage will be reduced while procedures streamlined and barriers that inhibit expeditious project implementation removed. Effective implementation is premised on the need to promote growth, enhance productivity and ensure a more effective utilization of resources.

1.92 The role of the NEAC will continue to be paramount as a consultative body to the Cabinet to deal with the economic problems and restore the economy. At the state level, the State Economic Action Councils will execute the decisions of the NEAC, provide feedback on the progress as well as design and implement state-specific projects to achieve economic recovery. Various Cabinet Committees have been strengthened to closely monitor the implementation of government policies and programmes.

1.93 Fundamental to effective implementation of policies, programmes and projects is the close cooperation between the different tiers of government and their different agencies involved. Cooperation will be facilitated by better and enhanced coordination between the agencies involved as it will eliminate delays in project implementation. In this context, channels of communication will be further strengthened. Besides these measures, IT will be fully utilized to ensure effective implementation and coordination to realize the objectives of national development.

1.94 As the private sector will continue to spearhead economic growth, cooperation between the public and private sectors will be further enhanced in line with the Malaysia Incorporated policy. Towards this end, more dialogue sessions will be held at the ministry, department, state and district levels. Feedback from these dialogues will enable the public sector to further improve its operational efficiency and the quality of its service in line with the demands of the private sector.

VI. CONCLUSION

1.95 The first two years of the Seventh Plan period witnessed continued rapid growth of the economy and the achievements of most development targets set under the Plan. The Asian financial crisis which started in mid-July 1997, however, adversely affected the financial sector, the growth of the real economy and the standard of living of the people. Malaysia was, however, able to avoid the extreme effects of the crisis due to its strong initial conditions, particularly with respect to macroeconomic fundamentals as well as the swift and pragmatic measures introduced by the Government to address the crisis. Since mid-1998, policies have focused on preventing a further contraction of the economy and reactivating economic growth mainly by relaxing both fiscal and monetary policies. These measures have been effective and initial signs of recovery have become evident in terms of private consumption and private investment indicators as well as exports.

1.96 The focus of the Mid-Term Review is to expedite economic recovery and bring the economy back to a sustainable growth path so that the underpinning objectives of balanced development and becoming a developed nation by 2020 are realized. This will require, among others, strengthening macroeconomic fundamentals and the financial sector, promoting potential sectors of the economy including manufacturing, agriculture and the services sector, and pursuing socio-economic objectives, particularly with respect to further reducing the incidence of poverty and improving the quality of life.

Chapter 2

Macroeconomic Perspective

2 MACROECONOMIC PERSPECTIVE

I. INTRODUCTION

2.01 Macroeconomic performance during the period 1996-1997 was impressive, with most economic indicators exceeding the Seventh Plan targets. However, the emergence of the Asian financial crisis affected regional economies, including the Malaysian economy during the last quarter of 1997 and particularly in 1998. The Government as a result began to undertake measures to strengthen the economy and the financial system to prevent a severe contraction of the economy. The measures were aimed at stabilizing the ringgit, restoring market confidence, containing inflationary pressure, improving the external position, tightening prudential requirements in the financial system, and providing adequate support to low-income and poor households. In mid-1998, the policy shifted towards easing monetary policy and providing a fiscal stimulus in order to resuscitate the economy.

2.02 Macroeconomic management during the remaining period of the Plan will be centred on managing the crisis. Macroeconomic policies will focus on strengthening the economic fundamentals and the financial system to enhance the prospects for a speedy economic recovery and ensure sustainable growth over the medium-term. Monetary policy will aim at ensuring sufficient liquidity for priority sectors and complementing the expansionary fiscal stance while maintaining low inflation. The flexibility in policy response to changes in the national and global economic environment will be crucial to ensure expeditious economic recovery. Efforts to address longer term structural issues and strengthen the long-term basis for growth will also continue so as to ensure that the economy enters the twenty-first century with strength and renewed optimism. Priority will be given, *inter alia*, to realign total investment with total savings, improve the quality of investment, facilitate the progression towards productivity-driven growth, and improve the balance of payments position.

II. PROGRESS, 1996-1998

2.03 During the review period, real Gross Domestic Product (GDP) grew by 3.0 per cent per annum, lower than the Plan target of 8.0 per cent for the period 1996-2000. The slower growth during the period was largely on account of the severe contraction of economic growth in 1998, following the financial crisis which started in July 1997 with the flotation of the Thai baht. The financial crisis subsequently spread to the regional economies, including Malaysia. Prior to this, the Malaysian economy expanded at an average rate of 8.2 per cent per annum during 1996-1997, slightly higher than the Plan target.

Aggregate Demand

2.04 Economic growth during the review period was largely external demand-driven. Although domestic demand was the main contributor to growth during 1996 and early 1997, exports picked up towards the middle of 1997 and subsequently strengthened further, as a result of the weaker ringgit. In addition, imports slackened towards the second quarter of 1998 due to falling domestic demand. These two factors resulted in a net increase in contribution from the external sector. The expansionary fiscal policy and the relaxation of the monetary policy in mid-1998 did not result in a significant revival of domestic demand in 1998. The implementation of public sector projects under the fiscal stimulus package required a lead time to restart after its earlier deferment. Further, the credit growth target of 8.0 per cent by the end of 1998 set by *Bank Negara Malaysia* (BNM) was also not achieved due to the extremely cautious attitude of financial institutions. On an annual basis, loans growth declined from 14.8 per cent in January 1998 to negative 1.8 per cent in December 1998.

2.05 *Private investment* which was targeted to grow by 7.8 per cent per annum in real terms during 1996-2000, registered a negative growth of 19.7 per cent per annum during 1996-1998, as shown in *Table 2-1*. After increasing by 13.4 per cent in 1996, private investment growth slowed down to 8.4 per cent in 1997, and registered a negative growth of 57.8 per cent in 1998. The share of real private investment to GDP declined from a high of 34.2 per cent in 1996 to 15.6 per cent in 1998. The decline in private investment, particularly during the last quarter of 1997 and 1998, was largely due to volatile capital flows, which adversely affected the ringgit exchange rate, stock market as well as investor confidence. Private investment was also affected by the high cost of investment arising from higher import prices and interest rates as well as the deferment of selected projects. This period was also marked by increases in

Table 2-1

GROSS NATIONAL PRODUCT BY EXPENDITURE CATEGORY, 1995-2000

(In current prices with 1978 prices in italics)

Category	RM million			Average Annual Growth Rate (%)				
				7MP Target				
	1995	1998	2000	Original	Revised	1996-1997	1998	1999-2000
Consumption	172,131	144,546	167,054	10.2	4.8	8.1	-6.5	7.1
	73,036	*72,071*	*78,105*	*7.4*	*3.7*	*4.8*	*-20.5*	*4.4*
Private	104,685	116,338	131,054	10.8	4.6	8.8	-7.5	7.1
	56,268	*54,737*	*58,582*	*7.4*	*0.8*	*3.6*	*-12.8*	*4.4*
Public	27,636	28,208	36,000	8.5	5.4	5.4	-1.5	8.2
	17,768	*18,334*	*20,813*	*7.0*	*2.4*	*3.1*	*-5.2*	*7.2*
Investment	94,120	71,925	91,766	7.6	-0.5	11.8	-39.6	13.0
	73,727	*46,362*	*48,587*	*3.8*	*-4.7*	*9.3*	*-44.9*	*8.9*
Private	56,577	40,209	38,963	9.7	-4.0	13.7	-51.3	10.6
	38,432	*20,480*	*21,771*	*7.8*	*-8.6*	*10.8*	*-57.8*	*7.4*
Public	37,543	31,712	42,803	3.8	9.2	7.8	-6.1	16.2
	35,384	*26,127*	*26,610*	*6.0*	*4.9*	*4.9*	*-20.0*	*13.1*
Change in Stocks	974	86	768	—	—	—	—	—
	644	*47*	*404*	—	—	—	—	—
Export of Goods & Non-factor Services	208,890	320,677	333,836	16.8	10.0	11.9	20.1	1.7
	138,427	*172,890*	*180,640*	*10.8*	*8.3*	*8.9*	*-0.7*	*2.8*
Import of Goods & Non-factor Services	217,451	262,566	289,347	12.5	5.9	8.5	2.0	5.0
	145,770	*140,131*	*145,477*	*8.2*	*0.9*	*7.2*	*-16.3*	*3.7*
GDP at Purchasers' Value	**218,671**	**278,724**	**305,857**	**11.0**	**6.9**	**12.2**	**1.2**	**4.8**
	120,272	***114,258***	***119,145***	***8.0***	***3.8***	***8.2***	***-6.7***	***3.8***
Net Factor Payments	-10,377	-16,230	-17,296	—	—	—	—	—
	-6,766	*-6,782*	*-7,229*	—	—	—	—	—
GNP at Purchasers' Value	208,294	262,494	288,601	11.3	6.7	12.6	0.5	4.9
	113,704	*124,476*	*111,919*	*8.3*	*3.6*	*8.3*	*-6.3*	*2.9*
GNP Per Capita at Purchasers' Value (RM)	10,666	11,835	12,423	8.8	4.3	9.4	-1.6	2.4

non-performing loans (NPLs) and bankruptcies as well as a decline in liquidity which affected the capacity of the banks to provide credit. NPLs of the banking system, as a ratio of total loans on a net basis, increased from 4.1 per cent as at the end of December 1997 and peaked at 11.4 per cent at the end of August 1998.

2.06 *Public investment* grew at an average annual rate of 4.5 per cent during the period 1996-1997, reflecting a further consolidation of the public sector in line with the Government's policy to reduce the size of the public sector. In 1998, the Government initially took measures to reduce public sector expenditure including development expenditure to complement the tight monetary policy in order to stabilize the economy. However, as the regional crisis became more prolonged and severe than anticipated, the Government subsequently reinstated the initial expenditure cuts and injected additional development expenditure in line with the decision to undertake counter-cyclical measures to prevent a sharp contraction of the economy. During the review period, public investment declined by 0.4 per cent per annum compared with a growth of 0.6 per cent targeted in the Plan.

2.07 The contribution of *total factor productivity* (TFP) was much lower than that targeted under the Seventh Plan, as shown in *Table 2-2*. During

Table 2-2

CONTRIBUTION OF FACTORS OF PRODUCTION

Factors	[illegible]		[illegible]		7MP Target			
	[illegible]		[illegible]		*Original*		*Revised*	
	% of Contribution	% of Total	% of Contribution	% of Total	% of Contribution	% of Total	% of Contribution	% of Total
GDP	**8.7**	**100.0**	**8.2**	**100.0**	**8.0**	**100.0**	**3.0**	**100.0**
Labour	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capital	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TFP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Note:

Total Factor Productivity refers to the additional output generated as a result of the introduction of new technology, upgrading of technology, innovations, superior management techniques, gains from specialization, improvements in efficiency, know-how, workers' education, skills and experience, and advancement in information technology.

1996-1997. TFP's contribution was 19.5 per cent of GDP growth compared with the target of 41.3 per cent. During the Sixth Plan period, the contribution of TFP was 28.7 per cent of GDP growth. The contribution of labour in 1996-1997 was 15.7 per cent and that of capital was 64.8 per cent, indicating that growth continued to be increasingly input-driven, particularly by capital.

2.08 The measures put in place to enhance the contribution of TFP during the review period included, among others, greater resources for research and development (R&D), expansion in education and training, and improvements in technology to transform the economy to one which is productivity-driven. Productivity improvements as a result of these measures would only be realized in the medium-term. In addition, the transition of the economy to high technology and knowledge-based industries resulted in a decline in TFP contribution to growth as capital accumulation increased rapidly in the process.

2.09 Real *private consumption* moderated to 6.0 and 4.7 per cent in 1996 and 1997, respectively, after experiencing high growth rates during the second half of the Sixth Plan period. Private consumption registered a negative growth of 12.4 per cent in 1998 due to the negative income and wealth effects, more cautious spending, increase in precautionary savings and erosion of purchasing power due to higher inflation arising from the crisis. Income was depressed due to lower wages and allowances, reduced overtime, and higher unemployment. The sharp fall in stock market capitalization and asset prices had a negative impact on wealth, which in turn affected spending, particularly on consumer durables such as automobiles and home appliances. Imports of consumption goods also declined significantly. During the review period, private consumption recorded a decline in growth by 0.9 per cent compared with the growth target of 7.4 per cent as envisaged in the Plan.

2.10 Real *public consumption* increased at a rate of 1.0 per cent per annum during the review period, a significant decline compared with the Plan target of 7.0 per cent. Public consumption grew at 3.2 per cent per annum during 1996-1997, before declining by 3.5 per cent in 1998, following the decision to cut Government's operating expenditure as part of the overall effort to manage the economic crisis.

2.11 Real *exports* grew by 5.6 per cent per annum during 1996-1998, lower than the Plan target of 10.9 per cent. After having grown at double-digit rates of between 17 to 23 per cent during the second half of the Sixth Plan, the decline in world demand, particularly for electrical and electronic products in

1996 and 1997, resulted in a slower growth in gross exports. In 1998, real export growth declined by 0.7 per cent, attributed mainly to the lower growth of exports to regional markets and Japan which were themselves facing a slowdown in economic growth.

2.12 Real *imports* declined by 2.3 per cent per annum during the review period, reflecting both slower export growth and the effects of the depreciation of the ringgit. Since about 60 per cent of Malaysia's exports are import-intensive, the deceleration in real exports accounted largely for the import compression. The depreciation of the ringgit which resulted in a corresponding increase in import prices also dampened the demand for all categories of imports.

Sectoral Output

2.13 Growth rates of almost all sectors decelerated relative to Plan targets during the review period, as shown in *Table 2-3*. Output growth in manufacturing, construction and some of the services sectors was impressive and exceeded the Plan targets during 1996-1997 but decelerated in 1998 when the financial crisis affected the real economy. Agricultural output moderated during 1996-1997 while in 1998, the sector registered negative growth. The growth of the mining sector exceeded the Plan target during 1996-1997 while in 1998, it registered a small positive growth.

2.14 The *agriculture sector* growth in 1996-1997 was supported by the better than expected output of palm oil which grew by an average of 8.3 per cent per annum compared with 3.2 per cent estimated in the Plan. The high growth was due to the increase in new mature areas and improvements in oil extraction rate as well as biological yield cycle. The production, however, declined in 1998 as yield was adversely affected by the prolonged dry weather and tree stress. The output of rubber, cocoa and sawlogs also continued to decline during the review period. Natural rubber production continued its downward trend due to declining prices and labour constraints. The slowdown in logging activities reflected, among others, sharply lower regional demand, and the downturn in the domestic construction sector, particularly in 1998. Fisheries and livestock production, however, increased due to measures taken by the Government to promote these subsectors. The growth of the agriculture sector, as a whole, declined by an average of 0.2 per cent per annum during the review period compared with the original Plan target of 2.4 per cent.

TABLE 2-3

GROSS DOMESTIC PRODUCT BY INDUSTRY OF ORIGIN, 1995-2000

Sector	RM million (in 1978 prices)			% of GDP			Average Annual Growth Rate (%)				
							7MP Target		1996-1997	1998	1999-2000
	1995	1998	2000	1995	1998	2000	Original	Revised			
Agriculture, Forestry, Livestock & Fishing	16,251	16,152	17,000	13.5	12.3	12.6	2.4	1.9	1.7	-4.0	1.2
Mining & Quarrying	8,938	8,551	8,786	7.5	7.3	7.6	2.3	1.7	2.7	-0.8	1.2
Manufacturing	39,796	45,155	46,247	33.1	34.4	34.7	10.7	3.9	12.4	-10.2	3.4
Construction	5,203	5,066	4,951	4.3	3.8	3.3	10.2	-2.8	10.9	-24.3	-1.7
Electricity, Gas & Water	2,707	3,412	4,084	2.2	2.6	2.9	10.7	7.6	12.3	3.6	3.1
Transport, Storage & Communications	8,952	10,651	11,422	7.4	8.2	8.2	10.7	2.2	9.2	1.2	3.6
Wholesale & Retail Trade, Hotels & Restaurants	14,701	16,350	17,656	12.3	12.6	12.8	8.0	3.8	8.2	2.0	2.5
Finance, Insurance, Real Estate & Business Services	12,938	16,943	18,897	10.8	12.9	13.6	10.2	7.6	13.0	4.4	3.4
Government Services	11,016	12,023	13,733	9.3	9.0	9.8	4.2	4.5	5.2	2.4	3.6
Other Services	2,478	2,896	3,082	2.1	2.2	2.2	8.0	5.1	7.8	2.5	3.6
(-) Imputed Bank Service Charges	8,505	11,309	14,086	7.1	8.6	10.0	4.9	10.5	16.7	7.5	9.9
(+) Import Duties	5,060	3,277	3,780	4.2	2.5	2.7	2.7	-3.6	-6.4	-38.0	7.6
GDP at Purchasers' Value	**120,272**	**131,258**	**139,140**	**100.0**	**100.0**	**100.0**	**8.0**	**3.8**	**9.2**	**-6.7**	**3.6**
Adjusted for Import Duties less Imputed Bank Services Charges											
Sector											
PRIMARY	24,514	24,676	25,625	20.4	18.8	18.4	2.7	0.8	2.1	-4.2	1.3
SECONDARY	42,967	47,092	49,508	35.6	35.9	35.6	10.7	2.2	11.8	-14.0	2.3
TERTIARY	51,631	60,090	64,217	42.9	45.8	46.2	8.8	8.0	8.2	-0.9	1.4

2.15 Output of the *manufacturing sector* grew at 4.3 per cent per annum during 1996-1998, lower than the Plan target of 10.7 per cent. While the period 1996-1997 witnessed a slowdown in the electronics industry, the performance of the manufacturing sector was supported by strong growth in the chemical, paper products and palm oil processing industries, which were primarily domestic-oriented. Construction-related industries also performed remarkably well during this period, reflecting the strength of the construction boom before the financial crisis. The crisis and the ensuing drop both in domestic and external demand resulted in negative growth of the manufacturing sector in 1998, thereby pulling down the overall growth rate for the period. The negative growth of the sector in 1998, to a large extent, was due to the slowdown in the construction-related industries and reduced demand in some of the other domestic-oriented industries such as transport equipment.

2.16 The active property market and accelerated development of infrastructure projects resulted in the *construction sector* growing at a double-digit rate of 11.8 per cent per annum during 1996-1997. In early 1997, the Government instituted measures to consolidate the sector to prevent the development of a property bubble. In 1998, the sector contracted by 24.5 per cent and for the review period as a whole registered a negative growth of 1.9 per cent compared with the Plan target of 10.2 per cent.

2.17 The *mining sector* recorded a slightly slower growth rate of 2.1 per cent per annum during 1996-1998 compared with the 2.3 per cent targeted in the Plan. During 1996-1997, the sector grew mainly due to strong output of gas and quarrying subsectors. However, output of the sector decelerated in 1998 because of lower crude oil production in response to softening prices, reduced demand for Liquefied Natural Gas (LNG) from Japan and the Republic of South Korea as well as a drastic drop in quarrying activities as a result of the slowdown in construction.

2.18 In tandem with strong GDP growth in 1996-1997, all services subsectors recorded high growth, with the *services sector* as a whole growing at 8.2 per cent per annum during the period. The services sector, however, was affected by the financial crisis in 1998 and contracted slightly. Wholesale and retail trade was affected by income moderation and loss of wealth as consumer spending fell significantly and investment declined sharply. The transport subsector also contracted on account of the declining volume of trade. Nevertheless, the growth of the sector was supported by higher production of electricity, expansion in communication services and continued growth in the finance and insurance subsector.

Balance of Payments

2.19 The current account of the balance of payments registered a surplus of RM36,068 million in 1998 compared with a deficit of RM21,647 million in 1995, as shown in *Table 2-4*. This surplus was equivalent to 13.7 per cent of Gross National Product (GNP) in contrast to a deficit of 10.4 per cent in 1995, attributed largely to the slower growth of imports following the deceleration in economic growth and the negative effect of the depreciated ringgit on the demand for imports. Merchandise exports grew at 28.9 per cent in 1998, while merchandise imports increased at 2.6 per cent, resulting in a surplus of RM69,322 million in 1998. The improvement in the merchandise surplus was offset by the large deficit in the services account and net outflows in the transfers account. The deficit in the services account was RM23,381 million in 1998, the bulk of it being investment income, and freight and insurance. The deficit in the transfers account was RM9,873 million in 1998, mainly due to increase in remittances by foreign workers.

2.20 As part of the effort to address the persistent large deficit in the current account, the Government took several measures in mid 1997 to reduce imports of goods and services, particularly lumpy imports. These measures included the postponement of projects with high import content, cuts in government spending, review of the purchase of foreign goods by public sector agencies, promoting utilization of domestic goods as well as imposition of higher duties on construction materials and equipment, consumer durables and motor vehicles. At the same time, the Government continued with on-going measures to promote exports, including exports to non-traditional markets.

2.21 Measures were taken to strengthen the capacity of the services sector to export services as well as substitute imports of services. In this respect, measures included the active promotion of tourism, education, health and consultancy services. Various efforts were initiated during the review period to reduce expenditure on education abroad and at the same time attract foreign students to Malaysia. Changes were made to the legal framework affecting higher education such as the introduction of the Private Higher Educational Institutions Act 1996 and amendments to the University and University Colleges Act 1971. Various fiscal incentives were also provided to strengthen the development of the sector.

2.22 The overall balance shifted from a deficit of RM4,403 million in 1995 to a surplus of RM40,301 million in 1998. Consequently, the nation's external reserve position at the end of 1998 strengthened to RM99,424 million or US$26,168

TABLE 2-4

BALANCE OF PAYMENTS, 1995-2000

Item	RM million			% of GNP			7MP Target			
							RM million		% of GNP	
	1995	1998	2000	1995	1998	2000	Original	Revised	Original	Revised
Merchandise Account	**97**	**69,322**	**52,699**	**0.0**	**26.4**	**18.3**	**64,727**	**200,608**	**4.4**	**15.2**
Exports	179,491	282,987	288,495	86.2	107.4	100.0	1,405,332	1,259,886	90.3	95.7
Imports	179,394	212,665	235,796	86.1	81.0	81.7	1,340,605	1,059,278	84.7	80.3
Services Account	**-19,229**	**-23,381**	**-23,521**	**-9.2**	**-8.9**	**-8.2**	**-109,164**	**-109,127**	**-7.5**	**-8.3**
Freight & Insurance	-9,029	-8,652	-9,807	-4.3	-3.3	-3.4	-44,217	-45,962	-3.1	-3.5
Other Transportation	797	2,269	2,640	0.4	0.9	0.9	7,215	11,357	0.5	0.9
Travel	4,143	3,071	5,238	2.0	1.2	1.8	37,213	20,863	1.6	1.6
Investment Income	-10,538	-15,711	-16,509	-5.0	-6.0	-5.7	-75,446	-71,724	-5.2	-5.4
Government Transactions	-23	-188	-189	0.0	-0.1	-0.1	-118	-635	0.0	0.0
Other Services	-4,720	-4,199	-4,834	-2.3	-1.6	-1.7	-25,415	-23,026	-1.8	-1.7
Transfers	**-2,515**	**-9,873**	**-6,867**	**-1.2**	**-3.8**	**-2.4**	**2,085**	**-29,914**	**0.1**	**-2.3**
Current Account	**-21,647**	**36,068**	**22,311**	**-10.4**	**13.7**	**7.7**	**-42,352**	**61,567**	**-3.0**	**4.7**
Capital Account										
Official Long Term Capital	6,147	2,136	3,513	3.0	0.8	1.2	2,985	16,578	0.2	1.2
Corporate Investment	10,464	8,740	9,000	5.0	3.3	3.1	75,000	54,775	5.0	4.2
Overall Balance	**-4,485**	**40,391**	**11,124**	**-2.1**	**15.4**	**3.9**	**35,601**	**64,945**	**2.3**	**4.9**
Net Central Bank Reserves	63,770	99,426	...	30.6	37.9	...	99,171	...		
Months of Retained Imports	4.1	5.7	...				3.1	...		

million, equivalent to 5.7 months of retained imports. Short-term capital account recorded a large net outflow, particularly in 1997 and 1998, in the wake of the currency turmoil in the region. Nevertheless, net inflows of long-term capital including additional external loans raised by the Federal Government to finance the counter-cyclical fiscal spending improved the overall balance in 1998. The outstanding external debt of the Federal Government remained low despite the additional borrowing. Prior to the crisis, Non-Financial Public Enterprises (NFPEs) such as *Tenaga Nasional Berhad* (TNB), *Telekom Malaysia* (Telekom) and *Petroliam Nasional Berhad* (PETRONAS) took advantage of lower international interest rates and the availability of long-term debt at thin margins to source funds from abroad for their investments, refinancing and prepayment of their expensive loans. As such, the outstanding external debt of NFPEs increased to RM361 million by the end of 1998. The policy of limiting private sector external loans to corporations and individuals with foreign exchange earnings contained the private sector external debt at a manageable level. Overall, the outstanding total external debt was kept within prudential limits to reduce vulnerability to adverse movements in exchange rates and interest rates.

Selective Exchange Control

2.23 Selective exchange control measures, namely the requirement for approval for transfer of funds between external accounts, the requirement that purchase and sale of ringgit financial assets be transacted only through authorized depository institutions, the requirement that trade settlements be in foreign currency and limits to currency held by travellers were introduced on 1 September 1998. The objectives are to regain monetary independence and to minimize the impact of possible further deterioration of the world economy and global financial environment on the Malaysian economy. These measures will help curb speculative activity on the ringgit, reduce the impact of short-term capital flows on the domestic economy, and restore a viable environment for investment and growth. Recognizing that there are positive signs of recovery and a return of stability to the economy, the Government on 15 February 1999 partially relaxed the exchange control measures through the introduction of an exit tax which will permit foreign investors to repatriate the proceeds from the sale of securities before the September 1999 deadline. The principal capital brought in, effective 15 February 1999 will not be subjected to any tax. However, profits earned on that capital will face a levy. The modifications are intended to encourage portfolio investors to take a longer term perspective of their investments in Malaysia and to attract new funds, while discouraging destabilizing short-term flows.

Price Developments

2.24 Prices remained stable during 1996-1997, but inflation became a concern in 1998 as a result of the sharp depreciation of the ringgit which led to higher producer and consumer prices. The rate of increase in the Consumer Price Index (CPI) declined to 2.7 per cent in 1997 compared with 3.5 per cent in 1996, but increased to 5.3 per cent in 1998, as shown in *Table 2-5*. All categories of consumer items recorded price increases, the most significant being food, accounting for 63 per cent of the increase in the CPI. The Producer Price Index (PPI), which measures the average rate of change in price charged by domestic producers of commodities and those paid by importers, also registered significant increases during the review period. The PPI increased by 2.3 per cent in 1996, 2.7 per cent in 1997 and 10.7 per cent in 1998.

2.25 The Government implemented a combination of monetary, fiscal and administrative measures aimed at maintaining price stability. Monetary measures till mid-1998 included the tightening of monetary policy, with the increase in interest rates aimed at containing inflationary pressure. The Government, during the review period, maintained fiscal prudence as well as introduced measures to curb profiteering and strengthen the distribution system. To check imported inflation, the Government encouraged greater use of local substitutes and where this was not possible, the importation of goods from cheaper sources.

TABLE 2-5

PRICE DEVELOPMENTS, 1996-1998

(annual % change)

Item	1996	1997	1998
Consumer Price Index	3.5	2.7	5.3
Food	3.7	4.1	8.9
Beverages and Tobacco	2.2	3.3	4.3
Rent, Fuel and Power	1.2	1.2	4.4
Medical Care and Health Expenses	3.7	3.9	9.2
Producer Price Index			
Domestic Economy	2.3	2.7	10.7
Local Production	2.8	2.3	11.2
Imports	0.6	2.9	9.2

Resource Balance

2.26 During the review period, *gross national savings* grew at 13.7 per cent per annum compared with the growth in GNP in nominal terms of 8.0 per cent. This growth largely reflected higher private sector savings which expanded by 17.3 per cent per annum compared with public savings which grew at 8.9 per cent. Thus, national savings rose from 35.3 per cent of GNP in 1995 to 41.1 per cent in 1998, as shown in *Table 2-6*. Gross investments grew strongly in 1996 and 1997 at an average rate of 10.9 per cent, but subsequently fell in 1998 due to the effects of the crisis. Investment declined from an average of 44.3 per cent of GNP in 1996-1997 to 27.4 per cent in 1998. As a result, the resource balance improved from a deficit of 5.3 per cent of GNP in 1996-1997 to a surplus of 13.7 per cent in 1998.

TABLE 2-6

RESOURCE BALANCE, 1995-2000

(% of GNP)

Sector	1995	1998	2000	7MP Target Original	7MP Target Revised	1996-1997	1998	1996-2000
Public								
Savings	15.7	16.1	13.4	10.9	15.3	16.1	16.1	12.4
Investment	13.4	12.1	15.0	10.7	13.0	11.9	12.1	14.7
Resource Balance	**2.3**	**4.0**	**-1.6**	**0.2**	**2.3**	**4.2**	**4.0**	**-1.3**
Private								
Savings	19.6	25.0	26.3	24.0	24.6	20.9	25.0	27.6
Investment	32.3	15.3	17.6	27.2	22.2	32.4	15.3	16.4
Resource Balance	**-12.7**	**9.7**	**9.3**	**-3.2**	**2.4**	**-12.5**	**9.7**	**11.2**
Total								
Savings	35.3	41.1	39.7	34.9	39.9	36.0	41.1	40.0
Investment	45.7	27.4	32.6	37.9	35.2	44.3	27.4	30.1
Resource Balance	**-10.4**	**13.7**	**7.1**	**-3.0**	**4.7**	**-5.3**	**13.7**	**9.3**

2.27 A number of measures were taken during the review period to ensure that the momentum to create a strong reserve of national savings would be sustained. Beginning January 1996, the contribution rate of employees to the Employees Provident Fund (EPF) was increased from 10 to 11 per cent. Various tax exemptions were also provided to encourage savings in other pension funds and life insurance as well as exemptions on interest income. In August 1996, the *Amanah Saham Wawasan 2020* (ASW 2020), a unit trust fund aimed at mobilizing savings of young Malaysians was launched.

2.28 Another major effort was the launching of the National Savings Promotion Campaign in December 1996. In this respect, the Cabinet Committee on Savings Promotion was established and entrusted with the task of looking into various strategies to create an awareness on the importance of savings, particularly non-financial savings among the three main target groups, namely women, workers and school children. Various savings promotion programmes and activities have been implemented since the launching of the campaign.

Terms of Trade

2.29 The terms of trade during the review period improved marginally by 0.8 per cent. For 1996-1997, the terms of trade was more favourable with an improvement of 1.1 per cent compared with 0.2 per cent in 1998. The decline in the terms of trade in 1998 was associated with the lower price for some major export commodities such as crude petroleum and rubber as well as the generally higher price of imports arising from the depreciation of the ringgit.

Regional Balance

2.30 During 1996-1997, all states registered favourable real GDP growth rates, ranging from 3.1 per cent to 11.9 per cent, as shown in *Table 2-7*. However in 1998, as a result of the financial crisis, all states experienced a contraction in growth. In consonance with the growth performance, all states recorded an improvement in their per capita GDP in 1996-1997, before declining in 1998. For 1999, the per capita GDP of Pulau Pinang, Selangor, Terengganu and Wilayah Persekutuan Kuala Lumpur were above the national average while Kedah, Kelantan and Sabah fell short of the target of two-thirds of the national average income. At the sectoral level, while generally the manufacturing sector continued to be the main contributor of growth in most states, for Kelantan, Perlis, Pahang and Sabah, agriculture continued to be the lead sector. The contribution of the agriculture sector was also significant in Kedah, Perak and Sarawak.

TABLE 2-7

GROSS DOMESTIC PRODUCT BY STATE, 1995-2000

State	GDP at Purchasers' Value						Per Capita GDP						Ratio of Per Capita GDP to Malaysian Average		
	RM million in 1987 prices			Average Annual Growth Rate (%)			RM in current prices			Average Annual Growth Rate (%)					
	1995	1998	2000	1996-1997	1998	1999-2000	1995	1998	2000	1996-1997	1998	1999-2000	1995	1998	2000
Johor	13,787	15,295	16,818	8.8	-7.8	5.8	8,773	11,728	12,308	15.2	-2.4	4.3	0.85	0.86	0.86
Kedah	5,598	6,287	6,867	10.1	-7.3	4.0	6,290	8,064	8,806	12.1	-1.1	3.6	0.61	0.61	0.60
Kelantan	2,723	2,892	3,067	5.8	-5.3	3.1	3,548	4,047	4,295	8.9	0.1	2.7	0.35	0.31	0.30
Melaka	3,102	3,425	3,988	8.3	-7.5	3.6	8,530	11,864	12,765	12.3	-1.6	3.8	0.83	0.87	0.88
Negeri Sembilan	4,014	4,478	4,792	9.5	-7.7	4.3	9,134	11,290	12,092	12.1	-1.3	4.1	0.89	0.93	0.87
Pahang	5,403	5,873	6,510	7.9	-3.8	4.6	8,177	9,838	10,786	9.6	0.1	4.6	0.79	0.81	0.84
Perak	9,456	10,881	11,678	8.7	-6.6	3.6	8,366	10,308	11,482	13.6	0.6	5.3	0.82	0.80	0.81
Perlis	781	859	930	9.1	-4.7	7.6	6,722	8,994	8,728	10.1	-0.9	3.8	0.65	0.67	0.68
Pulau Pinang	8,111	9,836	10,216	5.4	-7.9	3.6	15,898	16,624	17,508	10.2	-1.5	2.6	1.25	1.27	1.26
Sabah [1]	8,291	8,847	10,026	5.3	-2.8	7.7	6,387	6,857	7,858	6.8	0.7	8.1	0.63	0.53	0.57
Sarawak	8,936	10,295	10,758	11.5	-9.8	3.6	8,398	10,577	11,106	13.8	-3.3	3.5	0.82	0.87	0.86
Selangor	19,529	25,061	27,068	8.6	-8.8	5.8	15,376	17,364	17,706	8.5	-4.3	0.6	1.38	1.41	1.37
Terengganu	3,947	5,174	5,890	10.8	3.1	2.9	17,890	19,800	20,423	11.7	3.3	3.8	1.53	1.61	1.64
W.P. Kuala Lumpur	15,659	16,880	17,413	3.5	-3.2	2.6	20,766	23,190	26,442	8.1	3.9	2.6	1.22	2.06	2.07
Malaysia	128,272	135,238	139,148	8.2	-6.7	3.8	10,273	12,344	12,884	9.8	-2.2	2.9	1.00	1.00	1.00

Note:
[1] Includes Wilayah Persekutuan Labuan.

III. PROSPECTS, 1999-2000

2.31 The prospects for the remaining Seventh Plan period will largely depend on the efficacy of the measures which have been put in place to strengthen the real economy and the financial sector since the beginning of the crisis as well as those that will be implemented during the remaining Plan period. The pace and the urgency at which these measures are implemented will determine the speed and the rate of recovery. The restoration of investor and public confidence will be crucial. External developments will also influence the prospects for the economy during the remaining Plan period.

Macroeconomic Thrusts

2.32 Macroeconomic policy during the remaining years of the Seventh Plan will be guided by the objectives of the National Economic Recovery Plan (NERP), which aims at maintaining the stability of the ringgit and the capital market, strengthen economic fundamentals, revitalize affected sectors, and restore market confidence. In this context, the focus of macroeconomic policy will be to stimulate the economy and place it on a sustainable growth path. The key macroeconomic strategies will, therefore, be:

- ❑ *reactivating private investment while ensuring efficient use of capital so as to support the resumption of high quality growth;*
- ❑ *reorientating public sector expenditure to provide the stimulus for economic recovery while maintaining a prudent fiscal stance;*
- ❑ *further strengthening the current account of the balance of payments, particularly by boosting exports, encouraging domestic production of selected intermediate goods and expanding potential activities in the services sector;*
- ❑ *consolidating and strengthening the financial sector through more stringent supervision and greater disclosure standards as well as resolution of the NPL problem, recapitalization and merger programme;*
- ❑ *sustaining high domestic savings and ensuring that it is channelled to productive sectors;*
- ❑ *developing other financial intermediaries such as the bond and debt markets to support domestic investment;*
- ❑ *facilitating productivity-enhancing measures over the whole spectrum of economic activities to ensure the shift towards productivity- and quality-driven growth; and*

- *enhancing exports by venturing into new and innovative products to remain competitive, developing market niches in potential industries, and restructuring existing industries to become technology- and knowledge-intensive.*

2.33 Boosting private investment will be crucial to the recovery towards sustainable growth. As investors have become highly risk averse, efforts to restore market confidence will be emphasized. The Government will create a conducive environment for investors as well as ensure that there is adequate loanable funds at a reasonable rate for viable and productive investments. The rate of increase in credit growth will have to be in line with the increase in consumption and investment. The vigorous implementation of structural adjustment measures in the banking and corporate sectors is also expected to enhance the investment capability of the private sector.

2.34 The easing of fiscal policy in the present recessionary environment will complement private investment initiatives. Construction projects, which have strong linkages with other economic activities, will be promoted. The Infrastructure Development Fund, set up in 1998 to provide financing for infrastructure projects, will assist Government efforts to step up economic recovery. The financing will be met mainly from domestic sources and complemented by bilateral loans. Nonetheless, the Government will continue to exercise prudence in its recourse to external borrowing so as to maintain public debt at a manageable level.

2.35 The main concern with respect to the current account of the balance of payments is the large and increasing deficit in the services account, particularly with respect to the repatriation of profits as well as freight and insurance. The merchandise account, however, has continued to strengthen. Although Malaysia has been able to finance this current account deficit through the inflow of long-term capital without having to rely on short-term capital flows, concerted efforts will be taken to achieve a positive balance in the current account. Exports will be strengthened by diversifying the export base, improving competitiveness and venturing into new markets as well as increasing market share in existing markets. In addition, measures will also be put in place to enhance production of selected intermediate and capital goods to reduce imports as well as for exports. The strengthening of the services sector, particularly tourism, education, insurance and reinsurance, and shipping subsectors will continue to be emphasized during the remaining Plan period.

2.36 Structural adjustment measures will continue to be undertaken to strengthen the resilience of the banking sector. The setting up of *Pengurusan Danaharta Nasional Berhad* (Danaharta), *Danamodal Nasional Berhad* (Danamodal) and the Corporate Debt Restructuring Committee (CDRC) to expedite and coordinate corporate and bank rehabilitation as well as provide capital injection will strengthen both the financial and corporate sectors. Recapitalization of banks will involve operational rehabilitation to build not only balance sheet and solvency strength but also managerial competence. A comprehensive early warning system will also be put in place to enhance economic vigilance. The restructuring process will be complemented by measures to strengthen corporate governance, improve minority shareholder rights and ease restrictions on foreign investment.

2.37 Efforts to further increase the level of domestic savings, particularly that of the private sector will continue. This is to ensure that there is adequate investible domestic funds and the reliance on foreign funds is minimized. The increase in savings and a sustainable level of investment during the remaining Plan period will contribute towards achieving a positive resource position. This will in turn increase the international reserve position and strengthen the resilience of the economy to external shocks.

2.38 The development of the bond market will be accelerated since the absence of a developed bond market has resulted in the concentration of credit risk in the banking system. The predominantly bank-based process of credit risk assessment and pricing has increased private sector vulnerability to short-term credit and liquidity squeeze. The specific weaknesses that have led to the slow development of the bond market will be addressed with greater urgency. A benchmark yield curve will be established with the issuance of *Khazanah* bonds on a regular and substantial basis over the entire maturity spectrum and by promoting a more liquid secondary market for Malaysian Government Securities (MGS) and *Khazanah* bonds. In order to develop a diverse group of active institutional investors to stimulate secondary market trading, the Government will encourage the setting up of bond funds. The approval process for the issuance of bonds will be streamlined to shorten the time taken for approval, thereby encouraging the private sector to finance their investments through the bond market.

2.39 In order to further develop the capital market, efforts will be taken to encourage the growth of Islamic capital markets, in particular, those in Islamic equities, private debt securities, and collective investment and fund management activities. In this regard, Islamic accounting principles and standards will be formulated to facilitate the development of the Islamic securities market. In order to add depth and breadth to the Islamic capital market, studies will be conducted on the compliance of conventional capital market activities with *Syariah* principles as well as increase the variety and availability of Islamic capital market instruments through the innovative use of *fiqh*. With a well-functioning Islamic banking sector, Malaysia is poised to exploit this niche and position itself as the region's Islamic financial centre.

2.40 TFP will be improved by enhancing efficiency in the utilization of capital and labour. The direction of capital or credit to productive and export-oriented sectors will be intensified. On-going efforts to strengthen the skill base of the workforce will be accelerated to develop manpower for the capital-intensive and high value-added activities. Emphasis will also be placed on the implementation of productivity and quality management systems such as the ISO 9000 Series, Total Productive Maintenance, Total Quality Management and Benchmarking Best Practices as well as the application of information technology (IT) and multimedia.

2.41 New sources of growth will be identified to support economic recovery and generate economic activity. In addition to manufacturing activities, subsectors within agriculture and services that have potential will be promoted. Food production that will take advantage of land availability at the state level will be promoted to increase production and stabilize prices. In the case of services, the accelerated development of tourism, education and IT will be aggressively pursued.

2.42 Export promotion will be intensified during the remaining years of the Plan period. Export credit will be made available to export-oriented industries. In order to increase the export of intermediate goods, the development of small- and medium-scale industries (SMIs) will be accelerated, among others, by joint ventures with foreign partners. Aggressive and innovative promotional efforts to expand market share in existing markets as well as gain access to new markets will also be undertaken. The export base will be further diversified through the introduction of new products.

World Economy

2.43 The prospects for the world economy is expected to be more favourable in 1999-2000 compared with 1998. World output growth will average 2.3 per cent in 1999-2000, higher than 1998 but still lower than 1997, as shown in *Table 2-8*. The Organization of Economic Cooperation and Development (OECD)

Table 2-8

WORLD ECONOMIC OUTLOOK, 1997-2000

(annual % change)

	1997	*1998*	*1999*	*2000*
WORLD OUTPUT	***3.2***	***1.8***	***1.8***	***2.7***
High-income countries	***2.8***	***1.7***	***1.6***	***2.3***
OECD countries	*2.7*	*1.9*	*1.8*	*2.2*
Non-OECD countries	*5.3*	*-1.8*	*2.0*	*3.9*
Developing countries	***4.8***	***2.0***	***2.7***	***4.3***
ASEAN-4[a]	*3.8*	*-9.2*	*-0.3*	*3.0*
Sub-Saharan Africa	*3.5*	*2.4*	*3.2*	*3.8*
South Asia	*5.0*	*4.6*	*4.8*	*5.6*
Europe and Central Asia	*2.6*	*0.5*	*0.1*	*3.4*
Latin America and the Caribbean	*5.2*	*2.3*	*0.8*	*3.1*
Transition countries of Europe and Central Asia	***1.7***	***-0.4***	***-0.6***	***3.0***
WORLD MERCHANDISE TRADE VOLUME	***9.5***	***5.3***	***5.7***	***6.2***
Imports				
High-income countries	*8.8*	*5.6*	*6.4*	*5.9*
Developing countries	*9.8*	*2.8*	*4.4*	*8.2*
Exports				
High-income countries	*10.1*	*5.3*	*5.3*	*6.3*
Developing countries	*9.8*	*5.4*	*6.3*	*7.0*
CONSUMER PRICES				
Advanced economies	*2.1*	*2.2*	*2.2*	
Developing countries	*9.1*	*10.3*	*8.3*	
Countries in transition	*27.8*	*29.5*	*34.6*	

Note:

[a] Indonesia, Malaysia, Philippines and Thailand.

economies are forecasted to grow at 1.6 per cent in 1999 and 2.2 per cent in 2000, lower than in 1997. The growth rate of the European Union (EU) is also envisaged to strengthen in 1999-2000 despite the effect of the Asian crisis on its exports due to the continued buoyancy in intra-Europe trade. In Japan, recovery in growth will be sluggish mainly due to the continued lack of business confidence and concerns about the health of its financial sector.

2.44 The crisis-affected East Asian countries are expected to witness a slow recovery. They will experience a slower rate of contraction in 1999 but turn around to register a positive growth in 2000. The high level of indebtedness, and currency and maturity mismatches between assets and liabilities in some of the crisis-affected countries will stand in the way of a rapid recovery. Prospects of a strong recovery will also be constrained by the continued sluggish growth in Japan and the slowdown in the growth of Asian Newly Industrializing Countries (NICs), which are important export markets as well as the decline in export prices in terms of foreign currency. Indonesia is expected to register a negative GDP growth rate of 2.8 per cent in 1999 and positive 2.3 per cent in 2000. Thailand will grow at 0.3 per cent in 1999 and 2.6 per cent in 2000, while Philippines at 2.5 and 4.4 per cent for the same years.

2.45 In Latin America and the Caribbean, growth will decelerate to 0.6 per cent in 1999, largely because of the Brazilian crisis and the adjustment measures underway in these countries, but will recover to grow at 3.3 per cent in 2000. The developing economies of Europe and Central Asia will also witness a similar trend with growth slowing down in 1999 before posting a recovery in 2000, largely because of the spillover effects of the Russian economic and financial crisis. In Sub-Saharan Africa, prospects of economic growth are more positive with GDP growth strengthening in 1999 and 2000. This is mainly due to the implementation of appropriate macroeconomic policies, structural reforms and restoration of political stability in some countries which have improved the investment climate. The South Asian countries are also expected to register stronger growth in 1999-2000.

2.46 The growth in world output is expected to be achieved in an environment of steadily declining prices. *Inflation rate* will stabilize at about 2.0 per cent among the advanced economies and 8.0 per cent among the developing economies, while increasing steadily in the transition economies. However, overall inflation has been on the downward trend, as most governments have pursued low inflation policy as an important goal. The Asian financial crisis is also expected to ease global inflationary pressures through the weakening of aggregate demand and lower primary commodity prices.

2.47 The volume of *world merchandise trade* is expected to improve modestly in 1999 and 2000, in line with the gradual recovery in world output. For developing countries, exports are forecasted to increase more rapidly than imports in 1999-2000. Imports by developing countries will witness some improvement, mainly arising from the recovery of the crisis-affected East Asian countries.

2.48 During the remaining Plan period, the Malaysian economy is expected to rely on both domestic demand and the external sector for its economic recovery. Dependence on the external sector alone to generate growth will not be feasible due to the uncertainties in the international environment and in particular, the regional economies. Real GDP growth is expected to revert to a positive growth during the remaining Plan period, with 1.0 per cent growth in 1999 and a much stronger growth of 5.0 per cent in the year 2000. However, the recovery of the economy will also depend on the international economy and financial environment, particularly the performance of regional economies.

2.49 The revised growth rate for the whole Plan period is expected to be 3.0 per cent compared with the Plan target of 8.0 per cent. This growth rate will be the lowest for any Plan period. Per capita GNP is projected to increase correspondingly to RM12,421 in the year 2000, which is lower than the Plan target of RM14,788, as shown in *Table 2-1*. Measured in terms of Purchasing Power Parity (PPP), per capita income is also expected to improve from US$6,460 in 1998 to US$6,837 in 2000.

Aggregate Demand

2.50 Real *private sector demand* is expected to recover in 1999 and strengthen in the year 2000. For the period 1999-2000, real private investment is expected to increase by 7.4 per cent annually. The focus will be on increasing domestic investment. In this respect, the local capital market, in particular the bond market, will be strengthened in order to broaden the sources of financing. The setting up of Danamodal and Danaharta to assist in the taking over of NPLs and the recapitalization of banks are expected to generate more liquidity and credit in the banking system. In line with the gradual recovery that is anticipated during 1999 and 2000, real *private consumption* is expected to turn around and grow at an average 3.4 per cent during these two years, thereby contributing further to the growth of aggregate demand.

2.51 Real *public investment* is projected to grow by 13.1 per cent during the 1999-2000 period compared with the target of 0.6 per cent for the Plan period. This is due to the fiscal stimulus introduced by the Government in late 1998 to offset the lacklustre performance of the private sector. In line with this, *public consumption* is expected to increase by 7.2 per cent during the period.

2.52 During the remaining Plan period, real *exports* are expected to grow by 2.8 per cent per annum, and *imports* by 5.7 per cent. However, a faster than expected recovery in the Asian economies which accounts for about 50 per cent of Malaysia's exports could result in a stronger contribution from the external sector.

Sectoral Output

2.53 The *agriculture sector* is expected to grow at a faster pace of 5.2 per cent per annum during 1999-2000, as shown in *Table 2-3*. This stronger growth is expected to materialize due to a strong recovery in palm oil production after experiencing tree stress in 1998. In addition, fisheries and miscellaneous crops are expected to benefit from current efforts by the Federal and state governments to provide incentives and leases of land for their development. The Third National Agriculture Policy (NAP3) will be implemented vigorously to strengthen the agriculture sector's contribution to growth through the agro-forestry and product approaches.

2.54 The *mining sector* will experience an improvement in growth during the remaining Plan period. The production of key commodities, particularly oil and gas are expected to be rationalized in view of falling prices and in line with efforts to prolong the productive life of these resources. Quarrying output is expected to recover due to the gradual commencement of construction activities.

2.55 The *manufacturing sector* will continue to be the leading sector in the expansion of the economy during the period 1999-2000. The expected rate of growth of 3.4 per cent is, however, lower than that experienced during the review period. Domestic-oriented industries, particularly construction-related materials, crude oil refinery and chemical industry are expected to recover strongly due to derived demand from related sectors. Export-oriented industries, mainly electrical and electronics, will recover more gradually in tandem with the recovery in global demand.

2.56 After experiencing a high negative growth in 1998, the *construction sector* is expected to register a smaller decline of 1.7 per cent per annum during 1999-2000. The resumption of selected infrastructure projects and the concerted efforts in implementing low-cost housing programmes will contribute to the growth of this sector. The House Ownership Campaign launched at the end of 1998 and the Government's decision in early 1999 disallowing banks to finance the development of residential property and shophouses, costing more than RM250,000 per unit, hotels, resorts, office buildings and shopping complexes will help to clear the back-log in such property, and contribute to the recovery of this sector.

2.57 The *services sector* is expected to expand at 3.4 per cent per annum during the period. The sector's growth will come from the continued expansion of the finance, insurance, real estate and business services subsector by 5.8 per cent; electricity, gas and water subsector by 5.5 per cent; and transport, storage and communications subsector by 3.6 per cent. The opening of the KL International Airport (KLIA) as a regional aviation hub, intensification of efforts to make Malaysia a regional centre of educational excellence, promotion of tourism, development of the Multimedia Super Corridor (MSC) and efforts to promote the use of local ports are expected to result in the increased growth of the services sector. Measures will be taken to develop tradeable services as part of the efforts to reduce the deficit in the services account of the balance of payments.

Price Developments

2.58 With greater focus given to ensuring price stability, the inflation rate is expected to moderate during the remaining Plan period. Supply-side measures being implemented include the provision of land leases to the private sector for food production by state governments to ensure the supply of food will meet demand. This measure will also contribute towards reducing the demand for imports and, hence, imported inflation. The stable ringgit will also reduce the impact of imported inflation. In addition, the Government will continue to adopt an accommodative monetary policy, where monetary aggregates will be closely monitored to ensure that growth of money supply will not be a source of inflation. Prudent fiscal policies will continue to be in place with stricter controls on expenditure and selective implementation of development projects.

2.59 The Government will remain vigilant against inflationary pressures. The anti-inflation strategy will continue to include various administrative measures such as the enforcement of price tagging and prevention of restrictive trade practices. More comprehensive information on prices will be provided in order to increase consumer awareness and educate the public on their role to help contain inflation.

Balance of Payments

2.60 The *current account* is expected to continue to register a surplus during the remaining Plan period, as shown in *Table 2-4*. The surplus is estimated to be about RM22,311 million in 2000, equivalent to 7.7 per cent of GNP. Although the surplus position in the merchandise account is expected to be strong at 18.3 per cent of GNP, this will partly be offset by the services deficit at 8.2 per cent of GNP due to continued net outflows, mainly repatriation of profits and dividends as well as freight and insurance.

2.61 Measures that will continue to be taken to address the deficit in the services account of the balance of payments, include the promotion of tourism and education as well as the expansion of the local shipping fleet and insurance industry. Vigorous promotion of in-bound tourism through the offer of more lucrative packages by the hotel industry, and the development of new tourism products to encourage longer periods of stay will be pursued. With respect to education, Malaysia will be developed as a regional centre for educational excellence providing another avenue to earn foreign exchange. The net outflows for professional fees will be reduced through the utilization of more local consultants in domestic projects as well as the export of Malaysian consultancy services. In this context, efforts to further strengthen the internal resilience and competitiveness of the economy are important in view of the uncertainties in the global economy. Policies to achieve macroeconomic stability will further encourage investments, improve productivity and enhance technological development.

Resource Balance

2.62 During the remaining years of the Plan, the growth rate of national savings is expected to moderate to 3.1 per cent per annum compared with 13.7 per cent during the review period due to income deceleration. As a percentage of GNP, it is expected to remain at 40 per cent, as shown in *Table 2-6*. However, the aggregate savings will be sufficient to meet investment requirements. The growth in overall savings is expected to come from private savings as public sector savings will decelerate following a declining revenue.

Regional Balance

2.63 In 1999-2000, all states are expected to turn around to register a positive growth rate, the highest being for Sabah at 7.7 per cent. The states of Kedah, Perlis, Perak and Pahang will continue to benefit from the spillover effects of development from neighbouring states and are expected to grow at a rate higher than the national average. In terms of per capita GDP in 2000, Pulau Pinang, Selangor, Terengganu and Wilayah Persekutuan Kuala Lumpur are expected to be above the national average, while Kelantan and Sabah are expected to be below two-thirds of the national average income. In terms of sectoral growth, generally manufacturing and agriculture are expected to remain the main contributors to growth.

IV. CONCLUSION

2.64 Between 1996 and mid-1997, the economy registered high economic growth, followed by a period of adjustment necessitated by the economic crisis that began in mid-1997. The overall performance for the review period was one of under achievement of macroeconomic targets, primarily because of negative economic growth in 1998. The current account of the balance of payments, however, improved considerably, with the deficit turning into a substantial surplus.

2.65 The remaining Plan period will be challenging as the Malaysian economy strives to come out of the recession. Emphasis will be placed on reactivating the economy and bringing it back to a sustainable growth path. On the demand side, the performance of the economy will be supported by domestic demand as well as the external sector. The Government will address concerns such as falling productivity and low capital efficiency, while identifying new sources of growth. Measures to contain inflation will continue to be in place to ensure that growth is accompanied by price stability, and incomes are not eroded by price escalations.

Chapter 3

Poverty Redressal, Income Distribution and Restructuring of Society

3 POVERTY REDRESSAL, INCOME DISTRIBUTION AND RESTRUCTURING OF SOCIETY

I. INTRODUCTION

3.01 The focus of distributional programmes during the review period was directed at achieving further progress in poverty redressal and a more balanced ethnic composition of employment, including creating a bigger pool of resilient and competitive Bumiputera entrepreneurs. At the same time, efforts were also undertaken to improve the ethnic balance in the ownership and control of the corporate sector. However, the financial crisis in mid-1997 and the subsequent slowdown in economic activities affected the performance of some programmes.

3.02 During 1996-1997, progress was made in reducing the incidence of poverty and in improving the structure of ethnic employment in various economic sectors and occupations, in tandem with the rapid growth of the economy. However, by the end of 1998, the incidence of poverty increased slightly compared with the 1997 incidence, while Bumiputera ownership of corporate shares declined below the 1995 percentage. In addition, overall income inequality recorded a slight increase, thus continuing the widening trend that began during the Sixth Plan period.

3.03 Efforts during the remaining Seventh Plan period will be focused on correcting the setbacks encountered during the review period in meeting the targets and objectives of distributional programmes. Additional resources will be provided and adjustments introduced to the programmes to ensure that continued progress be made. Primary attention will be paid to extending social programmes, particularly the provision of basic services and amenities to reduce the possible negative effects of the economic slowdown on the poor and low-income group.

II. PROGRESS, 1996-1998

Poverty Redressal

3.04 The implementation of the poverty reduction programmes was directed towards reducing poverty and eradicating hardcore poverty in the poorest states and districts as well as among the *Orang Asli* community and the urban poor. By 1997, steady progress had been made in further reducing both the incidence of poverty and hardcore poverty. However, the economic slowdown which began in mid-1997 reversed the positive trend.

3.05 *Poverty.* The incidence of poverty among Malaysians was further reduced from 8.9 per cent in 1995 to 6.1 per cent in 1997, as shown in *Table 3-1*, and the number of poor households declined by 20 per cent from 370,200 in 1995 to 294,400 in 1997. Similarly, the poverty incidence among all Malaysian residents, including non-citizens, also decreased from 9.6 per cent to 6.8 per cent during the same period. Non-citizens comprised about 15 per cent of the total poor in 1997 compared with 11 per cent in 1995.

3.06 Both urban and rural households recorded significant reductions in poverty during 1996-1997. The incidence of urban poverty decreased from 3.7 per cent to 2.1 per cent, while the number of poor households declined by about 34 per cent from 84,600 to 55,400. In the rural areas, the incidence of poverty among Malaysians was reduced from 15.3 per cent in 1995 to 10.9 per cent in 1997, while the number of poor households declined by about 16 per cent from 285,600 to 239,000. About 81 per cent of the total poor in 1997 resided in the rural areas compared with 77 per cent in 1995.

3.07 All states experienced a reduction of poverty during the same period, as shown in *Table 3-2*, with Pahang and Perak joining Johor, Melaka, Negeri Sembilan, Pulau Pinang, Selangor and Wilayah Persekutuan Kuala Lumpur which had succeeded earlier in meeting the 5.5 per cent poverty incidence target for the year 2000. However, in spite of commendable rates of reduction, the incidence of poverty in the less developed states of Kelantan, Terengganu, Sabah, Kedah and Perlis remained in double-digit figures.

3.08 Efforts to further reduce the poverty incidence was negatively affected in 1998 due to the economic slowdown which resulted in fewer income-earning opportunities, increased unemployment and inflation. Consequently, there was an increase in the number of poor households. The overall incidence of poverty

TABLE 3-1

INCIDENCE OF POVERTY AND NUMBER OF POOR HOUSEHOLDS, 1995, 1997 AND 2000

		1995			1997[1]			2000		
		Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Malaysian Citizens										
Incidence of Poverty	(%)	8.9	3.7	15.3	6.1	2.1	10.9	5.5	1.9	10.0
Number of Poor Households	('000)	370.2	84.6	285.6	254.4	55.4	199.0	276.0	53.2	222.8
Incidence of Hardcore Poverty[2]	(%)	2.1	0.9	3.7	1.4	0.4	2.5	0.5	0.1	1.0
Number of Hardcore Poor Households	('000)	88.4	19.2	69.2	67.3	11.6	55.7	25.4	2.8	22.6
Total Households	('000)	4,140.6	2,270.3	1,870.3	4,829.5	2,636.4	2,193.1	5,017.3	2,759.3	2,258.0
Overall										
Incidence of Poverty	(%)	9.6	4.1	16.1	6.8	2.4	11.8	6.0	2.2	10.7
Number of Poor Households	('000)	417.2	95.9	321.3	346.0	67.4	278.6	323.7	64.3	259.4
Incidence of Hardcore Poverty[2]	(%)	2.2	0.9	3.7	1.4	0.5	2.4	0.5	0.1	1.0
Number of Hardcore Poor Households	('000)	93.5	20.5	73.0	70.3	13.8	56.5	27.3	3.0	24.3
Total Households	('000)	4,347.8	2,357.0	1,990.8	5,117.1	2,764.5	2,352.6	5,395.4	2,967.5	2,427.9

Notes:

[1] Poverty estimation in 1997 is based on the following poverty line incomes: RM460 per month for a household size of 4.6 in Peninsular Malaysia, RM633 for a household size of 4.9 in Sabah and RM543 for a household size of 4.8 in Sarawak.

[2] Hardcore poverty is estimated using half the poverty line income.

TABLE 3-2

INCIDENCE OF POVERTY BY STATE, 1995 AND 1997
(%)

State	Malaysian Citizens		Overall	
	1995	*1997*	*1995*	*1997*
Johor	*3.1*	*1.6*	*3.2*	*1.6*
Kedah	*12.2*	*11.5*	*12.1*	*11.5*
Kelantan	*22.9*	*19.2*	*23.4*	*19.5*
Melaka	*5.3*	*3.5*	*5.2*	*3.6*
Negeri Sembilan	*4.9*	*4.7*	*4.8*	*4.5*
Pahang	*6.8*	*4.4*	*6.8*	*4.1*
Perak	*9.1*	*4.5*	*9.1*	*4.5*
Perlis	*11.8*	*10.7*	*12.7*	*10.6*
Pulau Pinang	*4.0*	*1.7*	*4.1*	*1.6*
Sabah[1]	*22.6*	*16.5*	*26.2*	*22.1*
Sarawak	*10.0*	*7.3*	*10.0*	*7.5*
Selangor	*2.2*	*1.3*	*2.5*	*1.3*
Terengganu	*23.4*	*17.3*	*23.4*	*17.3*
Wilayah Persekutuan Kuala Lumpur	*0.5*	*0.1*	*0.7*	*0.1*
Malaysia	***8.9***	***6.1***	***9.6***	***6.8***

Note: [1] Includes Wilayah Persekutuan Labuan.

among Malaysians increased to 7.0 per cent[1], while the number of poor households grew to 342,500. With the inclusion of non-citizens, the incidence of poverty increased to 7.6 per cent and the number of poor households to 393,900. The majority of the new poor households were from urban areas where the effects of retrenchment, unemployment and inflation were greater.

[1] This estimation is based on a 5.3 per cent increase in the consumer price index in 1998.

3.09 The success achieved in reducing poverty during 1996-1997 can be attributed to the expansion of the economy, which grew at a rate of 8.2 per cent annually and created 781,200 new jobs as well as a broad range of business opportunities. In addition, specific programmes to generate growth, increase productivity and accessibility of basic amenities, particularly in the rural areas where the poverty incidence was relatively higher, also contributed to the reduction of poverty and improvement in living standards. Programmes that were implemented included modernization and commercialization of the smallholder subsector, consolidation and rehabilitation of land, replanting, expansion of rural-based industries and provision of basic services such as education, health, water and electricity. These programmes contributed to an increase in the mean monthly household income of agricultural workers from RM1,048 in 1995 to RM1,233 in 1997.

3.10 *Hardcore Poverty.* Rapid economic growth during 1996-1997, coupled with the implementation of the *Program Pembangunan Rakyat Termiskin* (PPRT), contributed towards a further reduction in the incidence of hardcore poverty. The implementation of the PPRT during the review period was directed at states with high incidences of hardcore poverty. The PPRT continued to emphasize income-generating projects including cash crop cultivation, livestock rearing, and participation in aquaculture, petty trading and cottage industries. The Programme also provided direct welfare assistance, training and improved basic amenities for the hardcore poor.

3.11 The incidence of hardcore poverty among Malaysians was reduced from 2.1 per cent in 1995 to 1.4 per cent in 1997, while the number of hardcore-poor households declined by about 24 per cent from 88,400 to 67,300. The number of hardcore-poor households with the inclusion of non-citizens was also reduced to 70,300 in 1997, down from 93,500 in 1995. Non-citizens made up of only about 4 per cent of the total hardcore poor in 1997 compared with about 6 per cent in 1995.

3.12 Although both urban and rural households recorded a decline in the incidence of hardcore poverty during the review period, the reduction was more rapid in the urban areas. The incidence in urban areas continued to decline from 0.8 per cent in 1995 to 0.4 per cent in 1997 and the number of urban hardcore-poor households decreased by 40 per cent from 19,200 to 11,600. In the rural areas, the incidence was reduced from 3.7 per cent in 1995 to 2.5 per cent in 1997, while the number of hardcore-poor households fell by 20 per cent from 69,200 to 55,700 during the same period.

3.13 The recessionary effects of the economic slowdown in 1998 also negatively affected the progress made in eradicating hardcore poverty. As a result, there was an increase in the overall incidence of hardcore poverty among Malaysians to 1.6 per cent and the number of hardcore-poor households to 78,100. Similarly, with the inclusion of non-citizens, the incidence of hardcore poverty in 1998 increased to 1.5 per cent and the number of hardcore-poor households to 79,600.

3.14 As part of the efforts to improve the living standards of the hardcore poor, the allocation for providing new houses was increased twice during the review period to reach RM6,000 per house in Peninsular Malaysia and RM6,900 in Sabah and Sarawak. Under the same programme, the allocation for house upgrading was increased to RM3,000 per house in Peninsular Malaysia and RM3,450 in Sabah and Sarawak. A total of 10,208 houses was either built or upgraded under this programme during the review period.

3.15 In order to further increase the household income of the hardcore poor, the repayment schedule of the *Amanah Saham Bumiputera* (ASB)-PPRT loan scheme was reviewed and a four-year grace period for loan repayment was introduced. During this grace period, 1996-1999, the hardcore poor, who each obtained a RM5,000 interest-free loan to participate in the ASB scheme, will receive the full amount of annual dividends and bonuses. During the review period, the scheme was provided with an additional allocation of RM100 million specifically for the *Orang Asli* and about RM79 million was disbursed, benefiting 15,824 *Orang Asli* households. By the end of 1998, a total of RM257 million in dividends and bonuses was paid to the hardcore poor who participated in the scheme.

3.16 In addition to the PPRT, the programmes of non-governmental organizations (NGOs), in particular *Amanah Ikhtiar Malaysia* (AIM) and the various state-based poverty eradication foundations, also contributed towards increasing the income of hardcore-poor households, thereby reducing the incidence of hardcore poverty. Recognizing the effectiveness of AIM in providing loans to the hardcore poor and lifting them out of poverty, the Government provided it with an interest-free loan of RM200 million for disbursement during the Plan period. The loan enabled AIM to expand its activities to Sabah and Sarawak and provide loans to more of the hardcore poor. During the review period, a total of 67,140 hardcore poor received interest-free loans worth RM114.5 million to enable them to venture into agricultural activities and small businesses.

Income Distribution

3.17 The overall income distribution among households in Malaysia showed an improvement during the 1996-1997 period. Consistent with the increase in the national income per capita, the mean monthly gross household income increased from RM2,008 in 1995 to RM2,607 in 1997, registering an average growth rate of 13.9 per cent per annum, as shown in *Table 3-3*. This was accompanied by an increase in the median income from RM1,346 in 1995 to RM1,682 in 1997 with an average growth rate of 11.8 per cent per annum. In real terms, the mean monthly gross household income grew by 10.5 per cent per annum to RM2,453 in 1997. There was a marked decline in the proportion of lower income households, those earning less than RM1,500 per month, from 55.4 per cent in 1995 to 44.5 per cent in 1997. For the middle-income group[1], households earning between RM1,500 to RM3,500 per month, the percentage of households increased from 31.5 to 35.1 per cent, while the proportion of households earning RM3,500 and above increased from 13.1 per cent in 1995 to 20.4 per cent in 1997.

3.18 All ethnic groups recorded an increase in household income during the 1996-1997 period. The Bumiputera mean household income increased from RM1,604 in 1995 to RM2,038 in 1997. During the same period, the mean income among Chinese households increased from RM2,890 to RM3,737, while the Indian mean income increased from RM2,140 to RM2,896. The Bumiputera household income grew at an average rate of 12.7 per cent per annum, considerably higher than the growth rate recorded during the Sixth Plan period of 9.3 per cent per annum. However, it was not sufficient to reduce the income inequality between Bumiputera and non-Bumiputera. This was due to the higher growth rates recorded by the Chinese and Indians at 13.7 and 16.3 per cent, respectively. The slower growth of the Bumiputera household income led to a widened income imbalance between the Bumiputera and Chinese, as indicated by a slight increase in the Bumiputera–Chinese income disparity ratio from 1:1.80 in 1995 to 1:1.83 in 1997. The Bumiputera–Indian income disparity ratio also increased from 1:1.33 to 1:1.42. However, the income imbalance between the Chinese and Indians improved during the same period.

---

[1] In the Seventh Plan, the middle-income group was defined as those with a household income between RM1,000 to RM3,000 per month. Based on this definition, the size of the middle-income group increased from 47.1 per cent in 1995 to [illegible] per cent in 1997, while the proportion of households earning below RM1,000 per month declined from [illegible] per cent to [illegible] per cent over the same period.

TABLE 3-3

MEAN MONTHLY GROSS HOUSEHOLD INCOME BY ETHNIC GROUP, 1995 AND 1997

Ethnic Group	*In Current Prices (RM)*		*Average Annual Growth Rate (%)*	*In Constant 1995 Prices (RM)*		*Average Annual Growth Rate (%)*
	1995	*1997*	*1995-1997*	*1995*	*1997*	*1995-1997*
Malaysia	**2,008**	**2,607**	**13.9**	**2,008**	**2,453**	**10.5**
Citizens	2,020	2,606	13.6	2,020	2,452	10.2
Bumiputera	1,604	2,038	12.7	1,604	1,917	9.3
Chinese	2,890	3,737	13.7	2,890	3,518	10.3
Indians	2,140	2,896	16.3	2,140	2,725	12.8
Others	1,284	1,680	14.4	1,284	1,591	11.3
Non-citizens	1,744	2,625	22.7	1,744	2,470	19.0
Urban	**2,593**	**3,406**	**14.6**	**2,593**	**3,205**	**11.2**
Citizens	2,589	3,357	13.9	2,589	3,158	10.4
Bumiputera	2,199	2,769	12.2	2,199	2,605	8.8
Chinese	3,147	4,071	13.7	3,147	3,839	10.5
Indians	2,429	3,289	16.4	2,429	3,066	12.4
Others	1,615	2,225	17.4	1,615	2,093	13.9
Non-citizens	2,711	4,403	27.4	2,711	4,143	23.6
Rural	**1,307**	**1,669**	**13.0**	**1,307**	**1,570**	**9.6**
Citizens	1,326	1,704	13.4	1,326	1,603	10.0
Bumiputera	1,189	1,490	12.2	1,189	1,409	8.9
Chinese	2,018	2,660	13.0	2,018	2,510	11.5
Indians	1,488	2,019	16.5	1,488	1,900	13.0
Others	1,066	1,261	8.8	1,066	1,186	5.5
Non-citizens	995	1,195	9.6	995	1,134	6.7

3.19 Both urban and rural households registered an increase in their monthly household income. Household income in the rural areas, 72 per cent of whom were Bumiputera households, grew by 13 per cent per annum from RM1,307 in 1995 to RM1,669 in 1997. The growth rate was more than double the rate of 5.4 per cent registered during the Sixth Plan period. However, it was slower than the 14.6 per cent growth rate of urban income. The rapid expansion of the urban economy led to an increase in the mean monthly income of urban households from RM2,593 in 1995 to RM3,406 in 1997. All modern and urban-based sectors of the economy registered rapid growth with manufacturing and services growing at 12.4 and 8.8 per cent per annum, respectively, and generating about 83 per cent of the net employment creation. In contrast, the agriculture sector, which was largely rural-based, grew at only 1.7 per cent per annum although some subsectors such as oil palm and livestock registered annual growth rates of 7.7 per cent and 4.4 per cent, respectively. The slower growth of rural household income resulted in an increase in the rural–urban income disparity ratio from 1:1.98 in 1995 to 1:2.0 in 1997.

3.20 All income groups recorded an increase in household income during the 1996-1997 period. The mean income of the bottom 40 per cent of households, which represented 70 per cent of Bumiputera or 65 per cent of rural households, increased from RM673 in 1995 to RM834 in 1997, registering a growth rate of 11.3 per cent per annum. Although this was higher than the rate of 8.1 per cent attained during the *Sixth Plan* period, it was still lower compared with income of the top 20 per cent and middle 40 per cent of households, which grew at 15.7 and 12.3 per cent per annum, respectively. In line with this, the income share of both the bottom 40 per cent and middle 40 per cent of households decreased from 13.4 to 12.8 per cent and from 34.7 to 33.7 per cent, respectively, while the income share of the top 20 per cent of households, 82 per cent of which were urban households, increased from 51.9 to 53.5 per cent. Consequently, the Gini coefficient increased from 0.462 in 1995 to 0.470 in 1997, indicating a slight increase in the overall income inequality in the country.

3.21 All states recorded an increase in household income among Malaysians during the 1995-1997 period and registered double-digit annual growth, except Pahang, Kelantan and Sarawak. Household income grew between 6.6 and 18.9 per cent per annum, as shown in *Table 3-4*, higher than the rates recorded during the Sixth Plan period of 4.5 and 11.4 per cent per annum. The higher growth rates were the result of the continuous shift towards the secondary and tertiary sectors experienced by all states. Developed states generally registered higher growth rates compared with the less developed states and this contributed to the widening of the income gap.

TABLE 3-4

MEAN MONTHLY GROSS HOUSEHOLD INCOME[1] BY STATE, 1995 AND 1997
(RM)

State	*1995*	*1997*	*Average Annual Growth Rate (%), 1995-1997*
Johor	2,138	2,772	*13.9*
Kedah	1,295	1,590	*10.8*
Kelantan	1,091	1,249	*7.0*
Melaka	1,843	2,276	*11.1*
Negeri Sembilan	1,767	2,378	*16.0*
Pahang	1,436	1,632	*6.6*
Perak	1,436	1,940	*16.2*
Perlis	1,158	1,507	*14.1*
Pulau Pinang	2,225	3,130	*18.6*
Sabah[2]	1,647	2,057	*11.8*
Sarawak	1,886	2,242	*9.0*
Selangor	3,162	4,006	*12.6*
Terengganu	1,117	1,497	*15.8*
Wilayah Persekutuan Kuala Lumpur	3,371	4,768	*18.9*
Malaysia	**2,020**	**2,606**	***13.6***

Notes:

[1] Refers to Malaysian citizens only.
[2] Includes Wilayah Persekutuan Labuan.

3.22 Income growth slowed down in 1998 as the full impact of the economic downturn spread to the real economy and led to a constriction in business activities and the loss of jobs. As a result, the mean income of the urban and top 20 per cent of households fell slightly in 1998. However, income derived from the agriculture sector grew at a slightly faster rate than 1997 owing to higher prices for palm oil and increased production of food crops in response to the higher costs of imports. The mean income of the bottom 40 per cent of households, especially in the rural areas remained stable owing to their ability to diversify their sources of income which helped to cushion the full impact of the economic slowdown. Consequently, the urban-rural income imbalance and the overall income inequality improved slightly in 1998, thereby lessening the extent of the widening gap during 1996-1997.

Bumiputera Commercial and Industrial Community (BCIC)

3.23 Further progress was made in creating the BCIC by the selection of more small- and medium-scale Bumiputera entrepreneurs to participate in the modern manufacturing and services sectors during the review period. A major contributory factor to this was the broad range of assistance provided by the Government and the private sector. However, greater progress was hindered by the financial crisis which began in July 1997. The resultant restrictions on credit until the middle of 1998, higher input costs and reduced demand for their products and services, among other factors, badly affected many of the programme participants, being relatively new or inexperienced in the business world. At the same time, the depressed and uncertain market conditions for most of 1997 and 1998 also made it more difficult to recruit new participants.

3.24 During the review period, the *vendor development programme* made steady progress in meeting the Plan target of creating 250 new vendors involved in modern and strategic industries. A total of 133 Bumiputera companies was selected to be vendors for privately-owned companies, including multinationals, while another 140 were selected to provide parts, supplies and services to several large government-owned companies, including *Petroliam Nasional Berhad*, *Tenaga Nasional Berhad* and *Telekom Malaysia Berhad*. A strict set of criteria was applied to ensure that those selected had the potential to succeed and careful steps were taken to nurture and guide their growth. Despite these efforts, however, many of the new entrepreneurs faced severe challenges arising from the slowdown in the economy.

3.25 The *franchise development programme* selected a total of 416 new franchisees from among Bumiputera entrepreneurs, the majority of whom were franchisees of local franchisors, during the review period. The franchisees were provided with the necessary training and guidance by their respective franchisors and given the opportunity to be involved in 54 types of products and services. They include cosmetics, furniture, fast food and pharmaceuticals as well as motorcar servicing, building maintenance and courier services. In spite of the steps taken, however, the number of franchisees selected by the end of 1998 was still below the mid-term target of 720.

3.26 During the same period, the *venture capital scheme* of *Perbadanan Usahawan Nasional Berhad* (PUNB) enlarged its focus to include more medium- and even large-scale Bumiputera companies as its investment and business partners. At the same time, as the negative effects of the economic slowdown began to spread among companies participating in the scheme, most of which were small-scale enterprises, PUNB focused greater attention on assisting them to cope with the slowdown rather than selecting additional small-scale Bumiputera companies to be its investment partners. As a result, PUNB only selected 111 new Bumiputera entrepreneurs for the scheme, most of whom were involved in the manufacturing of electrical and electronics, metal-based and plastic-based products. This achievement was considerably less than the target of 264 companies for 1996-1998.

3.27 The other BCIC packaged programmes also achieved some success in creating more Bumiputera entrepreneurs in industries and sectors of the economy in which Bumiputera participation was low or limited. Although no specific targets were set, the number of participants in the *Program Kontraktor Binaan Bumiputera Berwibawa* was increased by another 54 during the review period. Similarly, whilst the *umbrella concept production-marketing arrangement* focused attention on strengthening and expanding the operations of its 28 Bumiputera food producers using the Besta label and 131 furniture makers for Guthrie, it also accepted another three Besta and five Guthrie participants.

3.28 The *Skim Kilang Bimbingan* succeeded in assisting 102 Bumiputera entrepreneurs to utilize factory premises, whilst the *rural entrepreneur development programme*, after being reviewed, refocused its attention on assisting rural small-scale entrepreneurs in the acquisition of more modern and appropriate production equipment. In this regard, the programme succeeded in assisting 78 rural entrepreneurs. The newer packaged programmes also achieved some success with the *mentor programme* which created 232 link-ups between experienced companies, known as mentors, and newly-established Bumiputera companies and the *genuine joint-venture scheme* which created 53 such ventures between Bumiputera and non-Bumiputera partners.

3.29 Supplementing the progress made by the packaged programmes were the achievements of the various types of unpackaged or singular assistance provided by government agencies and the private sector during the review period. More than 14,000 new business premises were constructed by *Majlis Amanah Rakyat* (MARA), UDA Holdings Sendirian Berhad (UHSB) and State Economic Development Corporations (SEDCs) of which about 67 per cent were taken up by Bumiputera businessmen. In spite of this, however, the occupancy rate for Bumiputera entrepreneurs in prime business premises in the Klang Valley was only 5 per cent. This was mostly due to the high rental rates for such premises which were beyond the means of most Bumiputera entrepreneurs.

3.30 With regard to business financing, apart from having access to private financial institutions, Bumiputera entrepreneurs were also given the opportunity to borrow from no less than 31 business assistance funds, almost all of which were also available or accessible to non-Bumiputera businessmen. During the review period, more than 27,500 Bumiputera entrepreneurs obtained loans worth RM1,300 million from the funds. In terms of entrepreneurial education or exposure to the business world and entrepreneurial training, schools, universities and government agencies conducted courses that benefited almost 36,000 participants, including school children, teachers, undergraduates, government employees going into business and Bumiputera businessmen. In addition, steps were taken to enable small- and medium-scale businesses, including those owned by Bumiputera, to benefit from the results of public sector research and development (R&D) activities or to participate in public-funded R&D with a view towards improving the quality of their products.

3.31 Higher costs of borrowing, restrictions on credit, increased input costs and falling demand which accompanied the economic slowdown, forced some Bumiputera companies to reduce the scale and scope of their businesses and others to cease operations altogether. Participants of BCIC programmes were especially hard hit since they were inexperienced, had very little lead time to establish themselves and were highly dependent on the Government, anchor companies, franchisors, mentors and others for their continued operations. As such, they were less capable of surviving the adverse effects of the slowdown, including the initial cutback in government projects and spending in 1998. The various funds created or enlarged to assist the business community as well as Bumiputera entrepreneurs were well conceived but they had still to generate their planned impact.

Employment Restructuring

3.32 The primary strategy for employment restructuring during the review period was increasing the number of Bumiputera professionals and managers as well as technical and supervisory personnel through the provision of wider opportunities for the Bumiputera including those from low-income households, to acquire the necessary qualifications from tertiary and training institutions, both at home and abroad. Complementing the primary strategy were broad-based strategies aimed at ensuring that the structural shift in Bumiputera employment from the agriculture to the manufacturing sector was sustained and further strengthened. In addition, the more liberal policy of allowing the establishment of private tertiary educational institutions in the country was continued to enable qualified Malaysians of all ethnic groups to acquire a degree or diploma at reasonable costs.

3.33 Bumiputera employment by major sectors of the economy by the end of the review period retained its basic features as at the beginning of the period. In 1998, a greater percentage was employed in the manufacturing and other services sectors at 25.4 and 24.7 per cent, respectively, compared with the agriculture sector at 19.9 per cent, as shown in *Table 3-5*. A similar structure of employment was also sustained by the Chinese and Indians. However, unlike the Bumiputera, Chinese employment in the manufacturing sector was at 28.8 per cent and only at 6.6 per cent in the agriculture sector. For the Indians, the contrast was even higher with 38.5 per cent in manufacturing against only 12.0 per cent in agriculture.

3.34 Within each major economic sector, the structure of employment by ethnic group was maintained in 1998, with only minor shifts. Thus, in the agriculture sector, Bumiputera employment at 59.9 per cent, although slightly lower than in 1995, still exceeded Chinese and Indian employment. Similarly, in the manufacturing sector, Bumiputera employment at 47.6 per cent remained higher than Chinese or Indian employment. However, the percentage was lower than the 49.8 per cent in 1995, largely because the employment of Others including foreign workers in the sector, increased from 8.6 to 11.6 per cent during the same period.

3.35 The structure of employment by broad occupational categories within each of the major ethnic groups in 1998 indicated that there was a strengthening of the 1995 structure, albeit only slightly. Among the Bumiputera employed, production workers maintained their position as the largest group at 28.2 per cent, lower than the 29.1 per cent in 1995 but with a small increase in the absolute number, as shown in *Table 3-6*. However, the percentage of agriculture workers decreased as expected from 23.9 to 22.9 per cent in line with the reduction in the contribution of the sector to Gross Domestic Product (GDP). At the same time, the percentage of professional and technical workers improved from 12.4 to 13.3 per cent, indicating the continuing effectiveness of programmes to assist the Bumiputera in acquiring tertiary and technical qualifications. With regard to Chinese employment, a similar pattern of change was recorded during the same period but in the case of Indian employment, although its 1998 structure was retained, the increases in the professional and technical category from 8.8 to 10.9 per cent and in the category of clerical workers from 10.2 to 12.4 per cent, were more rapid.

3.36 Within each occupational category, the structure of employment by ethnic group also remained essentially the same as in 1995. The Bumiputera consolidated their position as the majority or major group in all but two categories, the exceptions being in the administrative and managerial category wherein their percentage of 36.0 per cent was lower than the 51.6 per cent of the Chinese and in the sale workers category in which their percentage of 36.8 per cent was superseded by the 49.7 per cent of the Chinese. Apart from that, although the Bumiputera retained their top positions and also increased their numbers in the professional and technical category as well as six other categories, their overall percentages decreased during the review period. Similar decreases were also recorded by the Chinese, indicating the gains achieved by the Indians and Others, including foreign workers. Both groups increased their percentage share in all occupational categories except for Indians in agriculture.

3.37 The ethnic composition of registered professionals in each of the eight selected professions was largely maintained but there were at the same time, some significant developments. As shown in *Table 3-7*, the number of Bumiputera professionals recorded noticeable increases, particularly the number of doctors, lawyers and accountants which grew at average rates of 18.5, 16.4 and 11.4 per cent, respectively, during 1995-1997. However, the rates were generally lower than those of other ethnic groups, resulting in reduced Bumiputera percentages among accountants, doctors, engineers and surveyors. This development reversed the trend of recent years and indicated that while there had been considerable achievement in increasing the number of Bumiputera professionals, much more needs to be done so that their proportion is representative of the size of the Bumiputera population.

3.38 A similar pattern of change was recorded by Chinese professionals during 1995-1997 with their numbers increasing in all eight professions but percentages falling in some. The Chinese registered the fastest growth in the medical profession increasing their number to 4,494 in 1997 from 3,086 in 1995, thereby almost overtaking the number of Bumiputera doctors. During the same period, the Indian component of the professions also recorded increases in numbers, particularly among engineers[1], doctors and lawyers, which registered double-digit annual growth rates of 23.4, 12.1 and 11.1 per cent, respectively.

[1] The increase in the number of Indian engineers was partly due to the reclassification of some engineers as Indians in 1997 who had previously been classified as Others in 1995.

3.26 During the same period, the *venture capital scheme* of *Perbadanan Usahawan Nasional Berhad* (PUNB) enlarged its focus to include more medium- and even large-scale Bumiputera companies as its investment and business partners. At the same time, as the negative effects of the economic slowdown began to spread among companies participating in the scheme, most of which were small-scale enterprises, PUNB focused greater attention on assisting them to cope with the slowdown rather than selecting additional small-scale Bumiputera companies to be its investment partners. As a result, PUNB only selected 111 new Bumiputera entrepreneurs for the scheme, most of whom were involved in the manufacturing of electrical and electronics, metal-based and plastic-based products. This achievement was considerably less than the target of 264 companies for 1996-1998.

3.27 The other BCIC packaged programmes also achieved some success in creating more Bumiputera entrepreneurs in industries and sectors of the economy in which Bumiputera participation was low or limited. Although no specific targets were set, the number of participants in the *Program Kontraktor Binaan Bumiputera Berwibawa* was increased by another 54 during the review period. Similarly, whilst the umbrella *concept production-marketing arrangement* focused attention on strengthening and expanding the operations of its 28 Bumiputera food producers using the Besta label and 131 furniture makers for Guthrie, it also accepted another three Besta and five Guthrie participants.

3.28 The *Skim Kilang Bimbingan* succeeded in assisting 102 Bumiputera entrepreneurs to utilize factory premises, whilst the *rural entrepreneur development programme*, after being reviewed, refocused its attention on assisting rural small-scale entrepreneurs in the acquisition of more modern and appropriate production equipment. In this regard, the programme succeeded in assisting 78 rural entrepreneurs. The newer packaged programmes also achieved some success with the *mentor programme* which created 232 link-ups between experienced companies, known as mentors, and newly-established Bumiputera companies and the *genuine joint-venture scheme* which created 53 such ventures between Bumiputera and non-Bumiputera partners.

3.29 Supplementing the progress made by the packaged programmes were the achievements of the various types of unpackaged or singular assistance provided by government agencies and the private sector during the review period. More than 14,000 new business premises were constructed by *Majlis Amanah Rakyat* (MARA), UDA Holdings Sendirian Berhad (UHSB) and State Economic Development Corporations (SEDCs) of which about 67 per cent were taken up by Bumiputera businessmen. In spite of this, however, the occupancy rate for Bumiputera entrepreneurs in prime business premises in the Klang Valley was only 5 per cent. This was mostly due to the high rental rates for such premises which were beyond the means of most Bumiputera entrepreneurs.

3.30 With regard to business financing, apart from having access to private financial institutions, Bumiputera entrepreneurs were also given the opportunity to borrow from no less than 31 business assistance funds, almost all of which were also available or accessible to non-Bumiputera businessmen. During the review period, more than 27,500 Bumiputera entrepreneurs obtained loans worth RM1,300 million from the funds. In terms of entrepreneurial education or exposure to the business world and entrepreneurial training, schools, universities and government agencies conducted courses that benefited almost 56,000 participants, including school children, teachers, undergraduates, government employees going into business and Bumiputera businessmen. In addition, steps were taken to enable small- and medium-scale businesses, including those owned by Bumiputera, to benefit from the results of public sector research and development (R&D) activities or to participate in public-funded R&D with a view towards improving the quality of their products.

3.31 Higher costs of borrowing, restrictions on credit, increased input costs and falling demand which accompanied the economic slowdown, forced some Bumiputera companies to reduce the scale and scope of their businesses and others to cease operations altogether. Participants of BCIC programmes were especially hard hit since they were inexperienced, had very little lead time to establish themselves and were highly dependent on the Government, anchor companies, franchisors, mentors and others for their continued operations. As such, they were less capable of surviving the adverse effects of the slowdown, including the initial cutback in government projects and spending in 1998. The various funds created or enlarged to assist the business community as well as Bumiputera entrepreneurs were well conceived but they had still to generate their planned impact.

Employment Restructuring

3.32 The primary strategy for employment restructuring during the review period was increasing the number of Bumiputera professionals and managers as well as technical and supervisory personnel through the provision of wider opportunities for the Bumiputera including those from low-income households, to acquire the necessary qualifications from tertiary and training institutions, both at home and abroad. Complementing the primary strategy were broad-based strategies aimed at ensuring that the structural shift in Bumiputera employment from the agriculture to the manufacturing sector was sustained and further strengthened. In addition, the more liberal policy of allowing the establishment of private tertiary educational institutions in the country was continued to enable qualified Malaysians of all ethnic groups to acquire a degree or diploma at reasonable costs.

3.33 Bumiputera employment by major sectors of the economy by the end of the review period retained its basic features as at the beginning of the period. In 1998, a greater percentage was employed in the manufacturing and other services sectors at 25.4 and 24.7 per cent, respectively, compared with the agriculture sector at 19.9 per cent, as shown in *Table 3-5*. A similar structure of employment was also sustained by the Chinese and Indians. However, unlike the Bumiputera, Chinese employment in the manufacturing sector was at 26.8 per cent and only at 6.6 per cent in the agriculture sector. For the Indians, the contrast was even higher with 38.5 per cent in manufacturing against only 12.0 per cent in agriculture.

3.34 Within each major economic sector, the structure of employment by ethnic group was maintained in 1998, with only minor shifts. Thus, in the agriculture sector, Bumiputera employment at 59.9 per cent, although slightly lower than in 1995, still exceeded Chinese and Indian employment. Similarly, in the manufacturing sector, Bumiputera employment at 47.6 per cent remained higher than Chinese or Indian employment. However, the percentage was lower than the 49.8 per cent in 1995, largely because the employment of Others including foreign workers in the sector, increased from 8.6 to 11.6 per cent during the same period.

3.35 The structure of employment by broad occupational categories within each of the major ethnic groups in 1998 indicated that there was a strengthening of the 1995 structure, albeit only slightly. Among the Bumiputera employed, production workers maintained their position as the largest group at 28.2 per cent, lower than the 29.1 per cent in 1995 but with a small increase in the absolute number, as shown in *Table 3-6*. However, the percentage of agriculture workers decreased as expected from 23.9 to 22.9 per cent in line with the reduction in the contribution of the sector to Gross Domestic Product (GDP). At the same time, the percentage of professional and technical workers improved from 12.4 to 13.3 per cent, indicating the continuing effectiveness of programmes to assist the Bumiputera in acquiring tertiary and technical qualifications. With regard to Chinese employment, a similar pattern of change was recorded during the same period but in the case of Indian employment, although its 1995 structure was retained, the increases in the professional and technical category from 8.8 to 10.9 per cent and in the category of clerical workers from 10.2 to 12.4 per cent. were more rapid.

3.36 Within each occupational category, the structure of employment by ethnic group also remained essentially the same as in 1995. The Bumiputera consolidated their position as the majority or major group in all but two categories, the exceptions being in the administrative and managerial category wherein their percentage of 36.0 per cent was lower than the 51.6 per cent of the Chinese and in the sale workers category in which their percentage of 36.8 per cent was superseded by the 49.7 per cent of the Chinese. Apart from that, although the Bumiputera retained their top positions and also increased their numbers in the professional and technical category as well as six other categories, their overall percentages decreased during the review period. Similar decreases were also recorded by the Chinese, indicating the gains achieved by the Indians and Others, including foreign workers. Both groups increased their percentage share in all occupational categories except for Indians in agriculture.

3.37 The ethnic composition of registered professionals in each of the eight selected professions was largely maintained but there were at the same time, some significant developments. As shown in *Table 3-7*, the number of Bumiputera professionals recorded noticeable increases, particularly the number of doctors, lawyers and accountants which grew at average rates of 18.5, 16.4 and 11.4 per cent, respectively, during 1995-1997. However, the rates were generally lower than those of other ethnic groups, resulting in reduced Bumiputera percentages among accountants, doctors, engineers and surveyors. This development reversed the trend of recent years and indicated that while there had been considerable achievement in increasing the number of Bumiputera professionals, much more needs to be done so that their proportion is representative of the size of the Bumiputera population.

3.38 A similar pattern of change was recorded by Chinese professionals during 1995-1997 with their numbers increasing in all eight professions but percentages falling in some. The Chinese registered the fastest growth in the medical profession increasing their number to 4,494 in 1997 from 3,086 in 1995, thereby almost overtaking the number of Bumiputera doctors. During the same period, the Indian component of the professions also recorded increases in numbers, particularly among engineers[1], doctors and lawyers, which registered double-digit annual growth rates of 23.4, 12.1 and 11.1 per cent, respectively.

[1] The increase in the number of Indian engineers was partly due to the reclassification of some engineers as Indians in 1997 who had previously been classified as Others in 1995.

Table

EMPLOYMENT BY SECTOR AND

('0

	[illegible]													
Sector	Bumiputera	%	Chinese	%	Indians	%	Others	%	Total	%	Bumiputera	%	Chinese	%
Agriculture, Forestry, Livestock & Fishing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Mining & Quarrying	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Manufacturing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Construction	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Electricity, Gas & Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Transport, Storage & Communications	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Wholesale & Retail Trade, Hotels & Restaurants	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Finance, Insurance, Real Estate & Business Services	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Other Services[2]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Total Employed	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**
%	**[illegible]**		**[illegible]**		**[illegible]**		**[illegible]**		**[illegible]**		**[illegible]**		**[illegible]**	
Labour Force	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Unemployment	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
%	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
Unemployment Rate (%)	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	

Notes:

[1] Includes non-citizens.

[2] Includes public, private and community services.

3.5

ETHNIC GROUP, 1995, 1998 AND 2000

('000)

1998						2000									
Indians	%	Others	%	Total	%	Bumiputera	%	Chinese	%	Indians	%	Others	%	Total	%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**
[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	
[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	

Table

EMPLOYMENT BY OCCUPATION AND

(['000)

Occupational Group	[illegible]													
	Bumiputera	%	Chinese	%	Indians	%	Others	%	Total	%	Bumiputera	%	Chinese	%
Professional & Technical[2]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		100.0		[illegible]		[illegible]	
Teachers & Nurses	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		100.0		[illegible]		[illegible]	
Administrative & Managerial	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		100.0		[illegible]		[illegible]	
Clerical Workers	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		100.0		[illegible]		[illegible]	
Sales Workers	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		100.0		[illegible]		[illegible]	
Service Workers	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		100.0		[illegible]		[illegible]	
Agricultural Workers	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		100.0		[illegible]		[illegible]	
Production Workers	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]		[illegible]		[illegible]		[illegible]		100.0		[illegible]		[illegible]	
Total	**[illegible]**	**100.0**	**[illegible]**	**100.0**	**[illegible]**	**100.0**	**[illegible]**	**100.0**	**[illegible]**	**100.0**	**[illegible]**	**100.0**	**[illegible]**	**100.0**
%	**[illegible]**		**[illegible]**		**[illegible]**		**[illegible]**		**100.0**		**[illegible]**		**[illegible]**	

Notes:

[1] [illegible]

[2] [illegible]

3-6

ETHNIC GROUP, 1995, 1998 AND 2000
('00)

1998						2000									
Indians	%	Others	%	Total	%	Bumiputera	%	Chinese	%	Indians	%	Others	%	Total	%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TABLE 3-7

REGISTERED PROFESSIONALS[1] BY ETHNIC GROUP, 1980 AND 1997

Profession	1980					1997					Average Annual Growth Rate (%), 1980–1997				
	Bumiputera	Chinese	Indians	Others	Total	Bumiputera	Chinese	Indians	Others	Total	Bumiputera	Chinese	Indians	Others	Total
Accountants	1,422	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	100.0					
Architects	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	100.0					
Doctors[2]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	100.0					
Dentists	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	100.0					
Veterinary Surgeons	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	100.0					
Engineers[3]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	100.0					
Surveyors	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	100.0					
Lawyers	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	100.0					
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
%	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	100.0					

Source: Professional associations covering both public and private sectors.

Notes:

[1] Figures in the table cover eight selected professional occupations.

[2] The increase in the number of Others doctors in 1997 was due to the inclusion of foreign doctors.

[3] The decrease in the number of Indian engineers was partly due to the reclassification of some engineers, who had been classified as [illegible] in 1980, as [illegible] in 1997.

However, like the Bumiputera and Chinese, the Indian percentages in several professions also registered some reduction, primarily as a result of the increased number of Others, a considerable proportion of whom were foreigners. This was particularly evident in the case of doctors, wherein the number of foreigners who had been recruited by the Government to serve temporarily in Malaysia registered an increase of almost 153 per cent from a mere 241 in 1995 to 1,537 in 1997.

3.39 The review period recorded a fairly well-balanced structure of ethnic group participation in the increasingly important group of information technology (IT)-related occupations, with the Bumiputera forming the largest single group. In 1998, available data indicated that more than 47 per cent of IT personnel were Bumiputera, while about 38 per cent were Chinese, as shown in Table 3-8. Bumiputera formed the majority or largest group among systems analysts, computer engineers, technicians and sub-professionals, administrative and managerial and other support personnel in IT establishments. Chinese constituted the majority or major group among programmers, IT consultants, and graphic or creative designers. Indians made up about 12 per cent of the total IT employment whilst the foreign component was slightly above 3 per cent.

3.40 The slowdown in the economy in the latter half of the review period did not significantly change the basic ethnic structure of employment either by major economic sectors or occupational categories. The main reasons for this were the number of retrenched employees was not large enough and had not affected just one particular ethnic group to bring about structural changes. Although there had been reductions in the percentage share among ethnic groups in various sectors and occupations, these were largely attributable to the increased number of foreigners.

Ownership and Control of the Corporate Sector

3.41 The major strategy for restructuring corporate ownership and control during the review period was to achieve a more equitable sharing of corporate equity among the major ethnic groups as well as foreign investors by giving special attention to the position of the Bumiputera. The primary instrument was the requirement that at least 30 per cent of initial public offerings (IPOs) of companies being listed on the Kuala Lumpur Stock Exchange (KLSE) be allocated to Bumiputera investors. Another requirement was that implementors

Table 3-8

EMPLOYMENT BY OCCUPATION AND ETHNIC GROUP IN SELECTED IT COMPANIES, 1998

Occupation	Bumiputera	%	Chinese	%	Indians	%	Others	%	Foreigners	%	Total	%
Programmer	246	41.5	276	45.8	59	9.9	1	0.2	14	2.4	598	100.0
Systems Analyst	177	38.5	155	33.8	[illegible]	[illegible]	3	[illegible]	[illegible]	[illegible]	[illegible]	100.0
Engineer												
Engineer	[illegible]	22.7	[illegible]	[illegible]	[illegible]	[illegible]	11	1.6	14	2.0	[illegible]	100.0
CAD/CAM[1]	6	85.7	1	14.3	—	—	—	—	—	—	7	100.0
Computer	20	22.0	58	63.7	6	6.6	4	4.4	3	3.3	91	100.0
Electronic	5	26.3	11	57.9	3	15.8	—	—	—	—	19	100.0
Material	2	25.0	4	50.0	—	—	—	—	2	25.0	8	100.0
Multimedia	[illegible]	[illegible]	1	[illegible]	—	—	—	—	—	—	[illegible]	100.0
Network	36	43.4	38	45.8	7	8.4	—	—	2	2.4	83	100.0
R&D[2]	93	86.1	11	10.2	4	3.7	—	—	—	—	108	100.0
Radio Frequency/Audio Video	8	21.1	20	52.6	4	10.5	2	5.3	4	10.5	38	100.0
Systems	16	34.8	20	43.5	6	13.0	1	2.2	3	6.5	46	100.0
Software	7	17.1	27	65.9	2	4.9	2	4.9	3	7.3	41	100.0
Consultant	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1	[illegible]	[illegible]	[illegible]	[illegible]	100.0
Graphic/Creative Designer	14	13.9	76	75.2	4	4.0	1	1.0	6	5.9	101	100.0
Technician & Sub-Professional	405	51.1	[illegible]	[illegible]	64	[illegible]	12	1.5	8	1.0	[illegible]	100.0
Administrative & Managerial[3]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	100.0
Other Professional[4]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	100.0
Marketing Officer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	100.0
Support & Clerical Worker	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	100.0
Total	**4,436**	**47.2**	**3,340**	**35.6**	**1,102**	**11.7**	**224**	**2.4**	**288**	**3.1**	**9,390**	**100.0**

Notes:
1 Computer-Aided Design & Computer-Aided Manufacturing.
2 Research & development.
3 Includes general managers, business managers, administration managers, human resource managers and finance managers.
4 Includes accountants, lawyers and auditors.

or concessionaires of the Government's privatization projects should also include qualified Bumiputera entrepreneurs and investors. In addition, newly established manufacturing companies producing for the domestic market were required to have at least 30 per cent Bumiputera ownership. In the first two years of the Plan period, the Bumiputera share of corporate equity increased in line with the rapid expansion of the economy and the considerable number of IPOs, privatization projects and new manufacturing companies. However, this progress was affected by the economic downturn that slowed down the performance of the corporate sector, including companies owned and controlled by the Bumiputera.

3.42 The Bumiputera ownership of share capital increased at a rate of 13.6 per cent per annum during the review period, with ownership of the sub-category of Bumiputera individuals and institutions growing at 16.0 per cent and trust agencies at 12.7 per cent, as shown in *Table 3-9*. This double-digit growth was less than the national rate and considerably lower than those achieved by the Indians and foreigners. As a result, Bumiputera ownership of share capital fell from 20.6 per cent in 1995 to an estimated 19.4 per cent in 1998. Reflecting the broad-based effects of the slowdown in business activities on all Malaysians, Chinese ownership fell in tandem from 40.9 to 38.5 per cent while Indians only managed to maintain their share of 1.5 per cent. In contrast, foreign investors made significant inroads in the ownership of Malaysian corporate equity growing from 27.7 per cent in 1995 to an estimated 31.8 per cent in 1998. This was largely the result of foreign investors retaining a bigger portion of new shares issued in conjunction with the establishment of new manufacturing companies, due to their inability to find suitable Bumiputera or Malaysian partners.

3.43 Bumiputera control of the corporate sector, indicated by the percentage of companies with Bumiputera-majority ownership registered with the Registrar of Companies, increased slightly from 19 per cent in 1995 to 20 per cent in 1997. Companies with non-Bumiputera-majority ownership also made similar gains, increasing from 55 to 56 per cent during the same period whilst those under the control of foreigners remained at 5 per cent. Most of the Bumiputera-controlled companies were in the services sector, particularly in the finance, insurance and property subsectors as well as the wholesale and retail trade. Non-Bumiputera and foreign-controlled companies were also concentrated in similar sectors although in the case of the latter, a larger percentage was in the manufacturing sector.

TABLE 3-6

OWNERSHIP OF SHARE CAPITAL (AT PAR VALUE) OF LIMITED COMPANIES[1], 1995 AND 1997
(RM million)

Ownership Group	*1995*	*%*	*1997*	*%*	*Average Annual Growth Rate (%) 1996–1997*
Bumiputera	36,981.2	20.6	57,240.6	19.4	23.6
Bumiputera Individuals & Institutions	33,353.2	18.6	52,064.9	17.7	24.9
Trust Agencies[2]	3,628.0	2.0	5,176.8	1.7	22.7
Non-Bumiputera	78,026.9	43.4	128,773.4	43.7	27.7
Chinese	73,552.7	40.9	113,542.9	38.5	24.2
Indians	2,723.1	1.5	4,389.5	1.5	26.1
Others	1,751.1	1.0	2,443.2	1.0	27.5
Foreigners	49,792.7	27.7	93,087.1	31.6	31.4
Nominee Companies	14,991.4	8.3	22,462.5	7.7	22.4
Total	**179,792.2**	**100.0**	**294,675.7**	**100.0**	**28.0**

Source: Registrar of Companies and EPU estimates.

Notes:

[1] Excludes shares held by Federal, State and Local Governments.

[2] Refers to shares held through trust agencies, such as *Permodalan Nasional Berhad* (PNB) and State Economic Development Corporations (SEDCs).

3.44 Bumiputera control of the corporate sector, indicated by the number of Bumiputera-owned companies on the KLSE, improved during the first two years of the Plan period. In 1997, a total of 274 or 39 per cent of the companies listed on the KLSE was Bumiputera companies[4], an improvement from the 26 per cent in 1995. Most of them were involved in trading and services, finance, industrial products, property, construction and plantation. Among the 274 companies, 147 had Bumiputera majority ownership compared with only 86 companies in 1995.

[4] KLSE-listed companies with at least 35 per cent of their shares held by the Bumiputera are defined as Bumiputera companies.

3.45 The slowdown in economic growth led to the relaxation of rules on foreign equity ownership of manufacturing and selected companies in other sectors. In areas where local companies have inadequate or no capabilities, the new rules even allow foreigners to own 100 percent of all manufacturing projects approved and implemented between July 1998 and December 2000. This relaxation was clearly necessary in view of the need to attract more foreign direct investment as part of the strategy to revitalize the economy, even though it may result in foreigners acquiring corporate equity exceeding the 30 per cent originally allocated to them under the New Economic Policy.

III. PROSPECTS, 1999-2000

3.46 The remaining years of the Plan period will focus on achieving the targets that have been set for poverty redressal and restructuring of society. This is crucial, particularly taking into account the reversals that have taken place due to the economic downturn, in both the poverty and restructuring objectives, which are fundamental elements of Malaysian socio-economic development goals.

Poverty Redressal

3.47 In the remaining years of the Plan, the thrust of poverty alleviation will be directed towards realizing the Plan target of reducing the incidence of poverty among Malaysians to 5.5 per cent by the year 2000. At the same time, greater attention will be given towards achieving the target of practically eradicating hardcore poverty by reducing its incidence to 0.5 per cent. Since the economy is expected to recover and record positive growth during the remaining Plan period, both targets of reducing overall poverty and hardcore poverty are expected to be within reach. The growth especially in the manufacturing and services sectors, is expected to provide employment and income-earning opportunities for the poor to further increase their income and move out of poverty.

3.48 The implementation of the PPRT and other poverty reduction programmes will continue to give priority to areas and groups with high incidences of poverty and place primary emphasis on income-generating projects. These projects will focus on the commercial production of food crops, livestock and fish rearing, some of which will be carried out in cooperation with the private sector. In addition, the programme to provide new houses or rehabilitate houses of the hardcore poor will continue to be implemented and, in line with the objective of further improving their quality of life, a review will be made of the design, size and features of such houses.

3.49 In response to the economic slowdown and an increased incidence of poverty in 1998, the Government will continue to undertake measures to extend the social programmes, particularly the provision of basic services and amenities as well as reduce the full negative impact of the slowdown on low-income and poor households. The major measures include, *firstly*, retaining the original development allocation for the PPRT and programmes aimed at improving the quality of life; *secondly*, providing an additional RM100 million for AIM; *thirdly*, allocating RM200 million for a micro-credit programme to provide assistance to petty traders and hawkers in urban areas; and *finally*, allocating RM200 million to provide rural infrastructure facilities such as schools, clinics, water supply and electricity.

3.50 For the urban poor, more micro-credit facilities will be made available to enable them to venture into trading and business activities. For this purpose, a significant portion of the RM200 million for the micro-credit programme will be channelled to Koperasi *Tabung Ekonomi Kumpulan Usaha Niaga* which will manage the fund and provide loans to petty traders and hawkers, particularly in urban areas. In addition, steps will be taken to coordinate and streamline the various public programmes involving the poor such as low-cost housing, micro-business premises and educational support programmes. The implementation mechanism for urban poverty redressal will be strengthened so as to ensure that related programmes by various local authorities, state religious councils and non-governmental organizations are properly coordinated to ensure greater impact.

3.51 Poverty eradication efforts directed at the *Orang Asli* community will be intensified through an integrated and multi-sectoral development of the local community, known as *Program Pembangunan Masyarakat Setempat*, which will initially involve 11 villages in 10 districts in Peninsular Malaysia. Under this Programme, all categories of PPRT projects involving income-generating projects, attitudinal change programme, direct welfare assistance and provision of basic amenities will be carried out to benefit the whole community. At the same time, more new houses under the PPRT will be built for the *Orang Asli*. In order to provide a steady and continuous source of income for the *Orang Asli*, the Government will continue to encourage them to participate in commercial agriculture, particularly in oil palm cultivation.

3.52 In Sabah and Sarawak, due to the availability of land and other natural resources, the major poverty eradication strategy will focus on providing employment or equity in new land development projects which will be undertaken jointly by the public and private sectors. The programme will be complemented by other activities such as income-generating projects on a commercial scale, provision of basic amenities, skills training and attitudinal change.

3.53 In addition, development agencies, such as the Federal Land Development Authority and Rubber Industry Smallholder Development Authority, will be expected to intensify their efforts towards eradicating hardcore poverty. They will be required to increase the effectiveness of the programmes aimed at increasing the income and quality of life of hardcore poor households, particularly amongst states with high incidences of hardcore poverty.

Income Distribution

3.54 In view of the widening income inequality, a more conscious effort will be taken by the Government to address the issue in the remaining Plan period and beyond. In this regard, a major long-term objective will be the creation of a bigger and more prosperous middle-income group coexisting with very small numbers of the high income and low-income groups. In line with the basic principles of the National Development Policy, the Bumiputera must also be a proportionate part of this group. Towards this end, steps will be taken to increase the effectiveness of existing efforts that contribute to the expansion of the middle-income group. They include broadening the focus of BCIC programmes to include the creation of more medium-sized entrepreneurships. In this regard, the *Perbadanan Nasional Berhad* will be expected to introduce a programme to assist selected Bumiputera professionals to acquire significant portions of the shares of established non-Bumiputera companies and to participate actively in their management. In addition, efforts to create a bigger middle-income group will also include the whole range of tertiary-level educational and training programmes.

3.55 Efforts to reduce income imbalances between the urban and rural areas and between the less developed and more developed states will be given greater attention. Rural development will be intensified through the modernisation and commercialization of agricultural activities as well as diversification of the rural economy. To generate more rapid growth in the less developed states, steps will be taken to increase their rate of industrialization and to broaden their manufacturing base. Towards this end, special efforts will be undertaken to improve the accessibility and quality of infrastructural facilities and related amenities in the Eastern Corridor, complementing fiscal incentives offered by the Government since 1995 to attract and persuade investors to locate their operations in the Corridor. In this way, easier and greater access to employment opportunities will be provided for the local populace, most of whom are in the low-income group. The less developed states are thus, expected to register higher growth in household income which will lead to a narrowing of overall income inequality.

Bumiputera Commercial and Industrial Community

3.56 In the remaining Plan period, concerted efforts will be undertaken by the Government to ensure that the targets and objectives of the BCIC programmes are achieved, notwithstanding the possibility that some of the current economic problems may persist despite the adjustment measures that have been put in place. Programmes that depend on the active participation of private corporations for their success, such as the vendor and franchise development programmes, will be accorded special attention to ensure their continued full participation. If necessary, more corporations will be appointed as anchor companies and franchisors of these programmes.

3.57 Steps will be taken to expand the various BCIC programmes to areas outside the Klang Valley to enable the participation of a bigger number of small- and medium-scale Bumiputera entrepreneurs. Towards this end, SEDCs will be expected to increase their involvement in the creation of the BCIC by introducing or expanding their own versions of the national BCIC programmes, while multinational and other large companies operating in other states will be encouraged to participate as anchor companies, mentors, joint-venture partners or take on other leading roles in assisting the development of Bumiputera enterprises. At the same time, new franchisors as well as those currently participating in the franchise development programme will be expected to appoint more Bumiputera franchisees in other states.

3.58 To alleviate the financial problems faced by Bumiputera companies, agencies and financial institutions assigned to manage the various funds to assist the business sector will streamline and shorten the loan approval and disbursement process. Steps will also be taken to help troubled small- and medium-scale Bumiputera companies by providing them with financial and other assistance needed to help them to continue their businesses. In addition, the newly-formed asset management company, *Pengurusan Danaharta*

Nasional Berhad and special purpose vehicle, *Danamodal Nasional Berhad* are both expected to also assist Bumiputera companies and financial institutions to overcome the problems and constraints facing them arising from the financial crisis.

3.59 The *vendor development programme*, particularly the sub-programme involving large government-owned corporations as anchors, is expected to appoint more Bumiputera vendors. They will be selected to provide the anchors with a wider range of components including those related to higher technology products and services. The *franchise development programme* will focus on increasing the number of local franchised products and services as well as meeting the target of 1,200 new franchisees during the Plan period. The Franchise Financing Scheme, which provides subsidized loans to franchisors and franchisees, and the Franchise Development Grant Scheme, which provides grants for the development of franchised products or services, will be fully utilized to ensure the target of the franchise development programme will be achieved.

3.60 To enable further progress to be achieved in the *venture capital scheme*, PUNB will seek a proper balance between assisting the development of small- and medium-scale Bumiputera companies, taking into full consideration the limited funds available to PUNB, and the greater need for assistance of small-scale companies. More efforts will also be directed at increasing the number of participants of the revamped rural entrepreneur development programme. Another 250 rural entrepreneurs will be selected to participate in the newly-introduced easy payment scheme to purchase the necessary machinery for their businesses.

3.61 To achieve a more meaningful Bumiputera participation in strategic industries such as aerospace, automotive, machinery and engineering, and petrochemicals, greater attention will be paid to the creation of a bigger number of joint ventures or smart partnerships between qualified Bumiputera and non-Bumiputera or foreigners. The Government will provide the necessary assistance, through existing BCIC programmes, to the selected Bumiputera entrepreneurs to supplement the more substantive role of non-Bumiputera or foreign partners. The joint-venture partners will be encouraged to share their knowledge with, and undertake the transfer of technology to their Bumiputera partners.

3.62 Steps will also be taken to ensure that agencies such as MARA, UDA Holdings Berhad (UHSB) and SEDCs construct or purchase more business premises in strategic locations for Bumiputera entrepreneurs to enable their businesses to benefit from those locations. The premises are to be leased to suitable Bumiputera entrepreneurs, if necessary at subsidized rates, in view of their inability to pay market rates. In the event that there are Bumiputera entrepreneurs who are able to purchase the premises in subsequent years, then the premises will be sold to them at reasonable prices. In line with this, a study will be undertaken in the remaining Plan period to ascertain the progress made by the Bumiputera in the retail trade.

Employment Restructuring

3.63 Efforts during the remaining Plan period will be focused on lessening the potential negative impact of the economic downturn on the gains achieved earlier in employment restructuring. At the same time, the Government will continue with programmes aimed at reducing employment imbalances among ethnic groups in various sectors and occupations.

3.64 To reduce the negative impact of the slowdown, steps will be taken to better manage the problem of retrenched workers so as not to reverse the progress in employment restructuring. Employers will be encouraged to refrain from retrenching Malaysian employees, but if unavoidable, then they will be encouraged to provide them with the necessary support for new employment opportunities. In line with this, efforts will be intensified to broaden the coverage and increase the effectiveness of the newly-introduced training scheme for retrenched workers. At the same time, relevant agencies will ensure that more comprehensive and current information on the labour market, particularly information on job vacancies, is made available through the upgrading of the labour market information system.

3.65 During the remaining Plan period, steps will be taken to provide unemployed Bumiputera graduates with appropriate training and assistance to enable them to be gainfully employed. Towards this end, they will be encouraged to participate in the Graduate Entrepreneurship Scheme to provide them with the necessary exposure to the business world before starting up their own businesses or finding employment in the private sector. To further facilitate their entry into business, participants of the Scheme will be given assistance in obtaining business loans, premises and other forms of support.

3.66 With regard to employment restructuring, efforts will be continued to achieve a structure of employment in major economic sectors and occupations, particularly in key professions and at higher levels of occupations, that reflects the ethnic composition of the population. In this regard, the focus will continue to be on the provision of appropriate opportunities and financial assistance for the Bumiputera to acquire professional and sub-professional or tertiary level educational qualifications so as to increase their proportion in these categories of occupations. At the same time, other Malaysians will be provided with more opportunities to acquire tertiary and professional qualifications by encouraging the expansion of private institutions of higher learning and increasing the number of places in public universities.

Ownership and Control of the Corporate Sector

3.67 During the remaining Plan period, efforts will be directed at further balancing the ethnic structure of ownership and control of the corporate sector. Special attention will continue to be given to improve the Bumiputera position, particularly in view of the reduction of their ownership of corporate equity during the review period. However, this will be balanced against the urgent need to increase foreign direct investment and allow greater foreign equity ownership of selected sectors and industries as part of the effort to revive the economy. As in earlier Plans, this will be conducted mainly through purchases of the special Bumiputera allocation of at least 30 per cent of IPOs as well as investments and participation in privatization projects.

3.68 Particular attention will be paid to the review and consolidation of Bumiputera ownership of corporate shares. In view of the economic slowdown and the limited resources of the Bumiputera community, steps will be taken to encourage Bumiputera trust agencies and institutions to develop and maintain a more selective portfolio of investments. These investments will give priority to blue-chip or large and profitable KLSE companies as well as companies involved in cutting-edge technologies and emerging industries. As an interim measure, a part of the portfolio, however, can also include less strategic and smaller companies but with a proven record of making profits. This portfolio is expected not only to provide higher returns but in the long term, emplace the Bumiputera as major shareholders or be in control of leading industries and sectors of the economy.

3.69 In pursuit of the above objective, Bumiputera trust agencies and institutions will be encouraged to dispose their shareholdings in non-strategic industries, in appropriate tranches, to suitable Bumiputera investors or in the open market and to reinvest in blue-chip and strategic companies. In the event that individual Bumiputera owners or shareholders of strategic companies are compelled by any reason to sell their shares, Bumiputera agencies such as the *Permodalan Nasional Berhad* and *Lembaga Tabung Haji* will be given the first option to purchase them.

3.70 To ensure that the Bumiputera also benefit from the recent decision to relax foreign equity ownership rules, Bumiputera entrepreneurs will be expected to invest in the companies being established under the new rules, particularly since they will be engaged in industries in which Bumiputera and other Malaysians lack expertise. The foreign investors on their part will be encouraged to accept Bumiputera partners and to transfer knowledge and technology to them.

IV. CONCLUSION

3.71 Further progress was made in poverty redressal, improving the ethnic composition of employment as well as control and ownership of the corporate sector, and increasing the size of the BCIC during 1996-1997. Progress was also made in increasing household income at double-digit rates for all major groups although the differential growth rates of each group led to a widening of income disparities between groups and in the overall income inequality. More rapid progress was hindered, however, by the restraining effects of the economic downturn on the real economy which began to be felt in the latter half of 1997. Effective steps will be taken in the remaining Plan period to reverse the setbacks on the poverty and restructuring programmes.

Chapter 4

Population, Employment and Human Resource Development

4 POPULATION, EMPLOYMENT AND HUMAN RESOURCE DEVELOPMENT

I. INTRODUCTION

4.01 The challenge for human resource development during the Seventh Plan is to increase the productivity and efficiency in the use of labour, in line with the growth strategy to shift towards a productivity-driven economy. During the first two years of the Plan period, the rapid economic growth enabled a high rate of employment generation and the attainment of full employment in the economy. The labour market remained tight with shortages of workers being reported in the agriculture, manufacturing and services sectors despite the employment of foreign workers. However, with a slowdown in the overall growth of the economy which resulted from the regional financial crisis beginning in mid-1997, unemployment increased slightly in 1998. Although there was an increase in the number of workers retrenched, these retrenched workers were reported to be easily absorbed by sectors facing labour shortages, thus moderating the unemployment situation.

4.02 The pace of employment creation is expected to improve slightly with the anticipated modest recovery of the economy during the remaining Plan period. Human resource development will continue to be a critical factor in acting as a catalyst to increase competitiveness and growth. Technical education and skill training, including upgrading and retraining, will play a vital role in enhancing productivity performance. In this regard, the education and skill delivery system will be strengthened in order to create a pool of trained and highly skilled manpower in line with industry requirements.

II. PROGRESS, 1996-1998

4.03 The rapid economic growth during the first two years of the Plan period led to an expansion of employment opportunities. With labour demand increasing at a faster rate than labour supply, unemployment reached 2.6 per cent in 1996. The slowdown in economic growth brought about by the regional economic crisis resulted in a deceleration in labour demand in 1998. Labour market tightness experienced during 1996-1997 generally eased with the unemployment rate increasing to 3.9 per cent in 1998. There was an increase in the retrenchment of workers as firms restructured or downsized their operations as part of the adjustment to the prevailing economic situation. Nevertheless, as evidenced by the number of vacancies reported to public employment offices which increased by 29.7 per cent from 57,540 in 1996 to 74,610 in 1998, many industries were facing labour shortages, partly due to constraints in the labour market clearing mechanism. The labour shortage problem was to some extent overcome by the employment of foreign workers. As such, efforts aimed at improving labour mobility and increasing productivity, particularly through education and training, continued to be given emphasis.

Population

4.04 The population of Malaysia, comprising citizens and non-citizens, was estimated to increase from 20.95 million in 1995 to 22.23 million in 1998, at an average rate of 2.0 per cent per annum, as shown in *Table 4-1*. The growth rate of Malaysian citizens was 2.1 per cent per annum while the increase in the non-citizen population which averaged 0.6 per cent per annum during the period was mainly due to the continued inflows of foreign workers into the country.

4.05 In terms of age structure, 62.1 per cent of the population in 1998 were in the working age group of 15-64. Approximately 34.2 per cent were below the age of 15 while 3.7 per cent were in the age group 65 and above. The overall dependency ratio, which is the ratio of dependants to every 100 persons of working age, declined to 61 per cent in 1998 from 63.2 per cent in 1995, thereby enhancing the potential for overall savings in the economy. The median age of the population was 23.1 years, reflecting a continuing young population.

4.06 The rates of growth of the population by ethnic group varied substantially due to the different trends in fertility. While all ethnic groups in Malaysia experienced fertility declines, the Bumiputera registered the highest total fertility rate of 3.68 compared with 2.48 for the Chinese and 2.60 for the Indians. The higher fertility of the Bumiputera had raised their proportion from 61.5 per cent

TABLE 4-1

POPULATION SIZE AND AGE-STRUCTURE, 1995-2000

(million persons)

	1995	1998	2000	Average Annual Growth Rate (%)			
				Seventh Plan Target		1996-1998	1999-2000
				Original	*Revised*		
Total Population	**20.69**	**22.33**	**22.89**	***2.3***	***3.8***	**2.8**	***1.3***
Malaysian Citizens	18.57	20.42	21.52	*2.3*	3.1	2.5	*1.5*
Bumiputera	11.95	12.84	13.52	2.6	2.6	2.5	2.6
Chinese	5.36	5.52	5.65	[illegible]	[illegible]	[illegible]	[illegible]
Indians	1.50	1.56	1.60	[illegible]	[illegible]	[illegible]	[illegible]
Others	0.55	0.50	0.76	[illegible]	[illegible]	[illegible]	[illegible]
Non-citizens	1.68	0.88	1.37	[illegible]	2.6	[illegible]	[illegible]
Age-Structure							
0-14	7.25	7.59	7.75	[illegible]	[illegible]	[illegible]	[illegible]
15-64	12.64	13.83	14.24	[illegible]	[illegible]	[illegible]	[illegible]
65 and above	0.76	0.83	0.89	[illegible]	[illegible]	[illegible]	[illegible]
Dependency Ratio (%)	63.7	61.6	60.7				
Median Age (years)	22.7	23.1	23.5				

Note: [1] Includes expatriates and foreign workers.

of Malaysian citizens in 1995 to 62.3 per cent in 1998. Correspondingly, the proportion for the Chinese fell from 27.4 per cent to 26.8 per cent and for the Indians from 7.7 per cent to 7.6 per cent during the same period, in line with their falling fertility rates.

4.07 In terms of spatial distribution, the proportion of the population living in urban areas increased from 56.5 per cent in 1995 to 59.1 per cent in 1998, growing at an average annual rate of 3.8 per cent. This increase was mainly due to rural-urban migration, growth of new urban areas and the extension of administrative urban boundaries.

Labour Force

4.08 Labour force increased at an average annual rate of 2.5 per cent during the review period from 8.3 million in 1995 to 8.9 million in 1998. There were on average about 208,000 new entrants into the labour market every year, comprising both local and foreign. The overall labour force participation rate (LFPR) dropped slightly from 64.5 per cent in 1995 to 64.3 per cent in 1998 with the LFPR for males declining from 83.8 per cent to 83.4 per cent while that for females from 44.3 per cent to 44.2 per cent. The lower participation rate in 1998 was partly attributed to the increase in the length of the schooling period which also resulted in a decline in the proportion of the labour force in the age group 15-24.

4.09 The educational profile of the labour force showed that there was an increase in the proportion that pursued tertiary education, from 11.1 per cent in 1995 to 13.2 per cent in 1998 due to better performance in the secondary school examination and greater access to tertiary education. This increase resulted in a drop in the share of the labour force with secondary education, from 52.7 per cent in 1995 to 52.4 per cent in 1998.

4.10 The labour shortage situation in the country was partly overcome by the employment of foreign labour, comprising expatriates and migrant workers, which accounted for 9.6 per cent of the labour force in 1998. The number of registered migrant workers was 806,700 in 1998 and were mainly in the manufacturing, plantation and construction sectors, a majority of whom were unskilled and took up employment in occupations normally not preferred by the locals. In addition, expatriates totalling about 45,730 in 1998, were mainly employed as managers, engineers and trainers.

Employment by Sector

4.11 During the review period, total employment grew at an average rate of 2.1 per cent per annum compared with a faster labour force growth of 2.5 per cent, as shown in *Table 4-2*. The lower demand for labour was a result of the financial and economic crisis experienced by the country and the East Asian region. In 1998, total employment contracted by 3.0 per cent, arising from recessionary conditions in the economy. Consequently, unemployment increased from 2.6 per cent in 1996 to 3.9 per cent in 1998. A profile of the unemployed revealed that unemployment was concentrated among the young, especially those with secondary education. The findings of the 1998 Labour Force Survey

TABLE 4-2

EMPLOYMENT BY SECTOR, 1995-2000
('000 persons)

Sector	1995	1998	2000	Average Annual Growth Rate (%)				Net Job Creation	
				7MP Target					
				Original	Revised	1996-1998	1999-2000	1996-1998	1996-2000
Agriculture, Forestry, Livestock & Fishing	1,528.9	1,423.4	1,425.3	-2.0	-1.1	-2.4	0.1	-96.8	1.9
Mining & Quarrying	37.4	39.0	39.4	1.8	0.8	1.1	0.7	1.2	0.4
Manufacturing	2,081.4	2,265.3	2,410.3	3.0	3.4	2.8	2.9	161.9	128.9
Construction	711.3	726.7	755.6	3.2	3.3	0.7	2.0	15.6	58.3
Electricity, Gas & Water	69.5	77.3	82.2	4.8	4.6	3.7	3.2	11.8	4.9
Transport, Storage & Communications	398.2	430.6	450.2	3.1	2.8	3.2	2.2	39.2	19.6
Wholesale & Retail Trade, Hotels & Restaurants	1,314.2	1,436.4	1,491.8	2.7	2.6	3.1	1.8	124.2	55.4
Finance, Insurance, Real Estate & Business Services	376.5	416.4	449.1	4.5	3.7	2.6	3.9	40.9	32.7
Government Services	869.5	873.0	879.0	0.1	0.2	0.2	0.2	4.1	3.0
Other Services	490.7	587.8	611.2	4.7	1.2	3.7	4.1	121.1	44.4
Total	**8,023.9**	**8,433.3**	**8,476.6**	**2.8**	**2.0**	**2.3**	**1.8**	**413.8**	**352.9**
Labour Force	8,256.8	8,800.9	9,144.0	2.8	2.2	2.3	1.7		
Local	7,404.1	8,028.3	8,444.8	2.7	2.7	2.7	2.6		
Foreign	852.7	832.6	746.2	3.7	-2.6	5.0	-4.3		
Unemployment	232.9	365.2	323.5						
Unemployment Rate (%)	2.8	3.9	3.5						

showed that 64.6 per cent of the unemployed were below 25 years old while 67.9 per cent had secondary education. An increasing number of the unemployed had also completed tertiary education, with the share rising from 9.8 per cent in 1996 to 12.7 per cent in 1998.

4.12 The contraction in employment was also evidenced by the rising retrenchment of workers. The number of workers retrenched more than doubled from almost 8,000 workers in 1996 to about 19,000 in 1997 as a result of the restructuring and downsizing of firms, drop in demand, bankruptcy and total closure as well as relocation of businesses. By the end of 1998, the total number of workers retrenched was 83,865, as shown in *Table 4-3*. About 54 per cent of the retrenched workers were from the manufacturing sector while

TABLE 4-3

RETRENCHMENT OF WORKERS BY SECTOR, 1996-1998

Year	*Total*	*% Change*
1996	7,771	
1997	18,961	[illegible]
1998	83,865	[illegible]
		% of Total
1998		
Agriculture	[illegible]	[illegible]
Mining	[illegible]	[illegible]
Manufacturing	45,151	53.8
Construction	[illegible]	[illegible]
Electricity, Gas & Water	1	0.0
Transport, Storage & Communications	2,007	2.4
Wholesale & Retail Trade, Hotels & Restaurants	[illegible]	12.4
Finance, Insurance, Real Estate & Business Services	6,390	7.6
Social Services	4,262	5.1
Others[1]	115	0.1
Total	**83,865**	100.0

Note: [1] Includes sectors that cannot be classified elsewhere.

another 11.1 per cent from the construction sector. Beginning February 1998, it was made compulsory for employers to report all retrenchment exercises to the Department of Labour at least one month before implementation in view of the need to monitor the rising retrenchment as well as workers' welfare. Employers intending to cut wages or lay off workers temporarily were also required to give one month's notice to the Department of Labour. Despite the rising retrenchment, the country continued to face labour shortages in certain sectors of the economy due to the lack of mobility of workers among sectors and a strong preference of local labour for less menial work.

4.13 The effectiveness of the existing labour market information network was constrained by the lack of relevant and timely information on job vacancies and sources of labour supply as well as other related labour market indicators. The activities of the employment offices are neither fully computerized nor linked electronically to effectively provide information on job-seekers, including retrenched workers, and employers. This hampered the proper matching of job-seekers with vacancies registered by employers, thereby affecting labour mobility.

4.14 Employment in the *agriculture sector* declined by negative 2.0 per cent per annum as a result of adjustments to more mechanized production processes and the adoption of intensive farm management practices. Although the demand for labour declined, the sector continued to face shortages as a result of the reluctance of local labour to be employed in agricultural activities and the movement of labour into other sectors. Hence, foreign labour continued to be employed to address this shortage. Despite the employment of foreign workers, there was still a shortage of almost 50,000 workers in the sector in 1998, as reported by the United Planting Association of Malaysia (UPAM).

4.15 During 1996-1998, employment in the *manufacturing sector* grew at an average rate of 3.8 per cent per annum, generating about 243,900 new jobs. While employment grew rapidly at 7.7 per cent during the first two years of the Plan period, there was an absolute decline in employment from 2.4 million jobs in 1997 to 2.3 million jobs in 1998, as a result of the contraction in the manufacturing sector. However, the sector continued to face labour shortages based on requests from firms to recruit 73,770 foreign workers in 1998.

4.16 The *construction sector's* performance in terms of job creation was impressive during 1996-1997 at an average rate of 10.9 per cent per annum, reflecting the continued strong growth in construction activities. However, in 1998, employment in the sector registered a negative growth of 16.9 per cent with a loss of 147,500 jobs. This was due to the economic downturn, which led to the deferment of residential, commercial and some infrastructure projects affected by the excess of supply and lack of financing facilities as well as the rising cost of construction materials.

4.17 In the *services sector*, an additional 343,700 jobs were created during 1996-1998, of which 36.1 per cent was accounted for by the wholesale and retail trade, hotels and restaurants subsector. The other major subsectors contributing to employment creation were other services subsector as well as finance, insurance, real estate and business services. While all subsectors experienced high rates of employment growth during 1996-1997, the economic recession in 1998 resulted in a dampening of labour demand, particularly in the wholesale and retail trade, hotels and restaurants subsector which registered a negative employment growth of 0.6 per cent.

Employment by Occupation

4.18 All major occupational groups experienced high rates of employment growth during the first two years of the Plan period, except agricultural workers. The rapid expansion of employment opportunities was, to a certain extent, offset by employment contraction in certain occupational groups in 1998 as a result of the economic downturn, thus moderating employment growth during the review period. Despite the less favourable employment situation, the overall employment pattern did not change significantly.

4.19 The demand for *professional and technical* manpower grew at 4.8 per cent per annum during 1996-1998, accounting for 23.2 per cent of total jobs created, as shown in *Table 4-4*. Consequently, its share to total employment increased from 9.9 per cent in 1995 to 10.7 per cent in 1998. The demand was mainly for engineers, consultants, architects and technicians, particularly in the years prior to the recession. The demand for medical professionals such as physicians, pharmacists and allied health personnel continued to remain high due to the increasing number of private hospitals and medical centres.

4.20 The *administrative and managerial* category registered the highest rate of growth of 10 per cent per annum during the review period. About 84,700 jobs were generated, mainly as managers and administrators in specialized fields such as finance, information technology (IT) and communications. Its share to total employment also increased from 3.2 per cent in 1995 to 4.0 per cent in 1998.

TABLE 4-4

EMPLOYMENT BY MAJOR OCCUPATIONAL GROUP, 1995-2000

('000 persons)

Occupational Group	1995	%	1998	%	2000	%	Average Annual Growth Rate (%): 7MP Target: Original	Average Annual Growth Rate (%): 7MP Target: Revised	Average Annual Growth Rate (%): 1996-1998	Average Annual Growth Rate (%): 1999-2000	Net Job Creation: 1996-1998: Total	Net Job Creation: 1996-1998: %	Net Job Creation: 1999-2000: Total	Net Job Creation: 1999-2000: %
Professional & Technical Workers	784.6	9.8	903.8	10.7	975.6	11.0	4.1	4.2	4.8	2.4	119.2	22.2	62.3	19.7
Administrative & Managerial Workers	256.8	3.2	341.5	4.0	372.6	4.2	6.3	7.7	10.0	4.3	84.7	15.9	31.1	9.3
Clerical Workers	874.6	10.9	939.2	11.0	984.6	11.2	3.1	3.4	2.4	2.4	64.6	12.6	45.4	13.6
Sales Workers	874.6	10.9	930.6	10.9	975.8	11.0	3.1	3.2	2.1	2.4	56.0	10.9	45.2	13.6
Services Workers	898.6	11.2	998.9	11.7	1,046.7	11.8	3.6	3.3	2.9	2.4	100.3	21.2	47.8	14.4
Agricultural Workers	1,812.6	24.1	1,822.2	19.0	1,695.6	19.1	-2.2	-0.3	0.2	-0.5	9.6	1.8	-16.6	-5.0
Production Workers	2,730.1	33.6	2,791.6	32.7	2,909.3	32.8	3.6	1.4	0.9	2.1	71.5	14.0	117.7	35.4
Total	**8,023.9**	**100.0**	**8,537.7**	**100.0**	**8,876.6**	**100.0**	**2.8**	**2.8**	**2.1**	**2.9**	**513.8**	**100.0**	**332.9**	**100.0**

4.21 The *clerical, sales and services workers* categories recorded employment growth rates ranging from 2.1 per cent to 3.9 per cent per annum during the review period. Workers with computer literacy were in great demand in view of the increased use of IT, especially in office administration and management, marketing, and hospitality services. About 228,900 jobs were created in these categories, accounting for 44.4 per cent of total jobs created.

4.22 *Production and related workers* still formed the largest group among the major occupational categories, accounting for 32.7 per cent of total employment in 1998. The demand for production workers, both skilled and unskilled, grew at 0.9 per cent per annum during the review period. The low growth recorded was due to the impact of the economic downturn in 1998 which resulted in an absolute decline in employment in this category. Available data also showed that more than one-half of the retrenched workers were in the production workers category.

Wages and Productivity

4.23 The tight labour market situation since 1995 exerted pressure on wages and led to a trend where wage increases exceeded productivity growth, which will erode competitiveness in the long run. Nominal wage rates grew by 5.7 per cent in 1996 and 6.1 per cent in 1997 but increased at a slower rate of 4.0 per cent in 1998. Similarly, labour productivity, as measured by Gross Domestic Product per worker in constant 1978 prices, continued to grow albeit at a slower rate during the review period. Labour productivity grew by 3.5 per cent in 1996 and 3.0 per cent in 1997. However, as a result of the economic slowdown in 1998, productivity growth registered a negative 3.8 per cent due to capacity underutilization.

4.24 In the manufacturing sector, data from the Monthly Surveys of Manufacturing Industries showed that average nominal wages increased by 10 per cent per annum during the review period. Productivity, on the other hand, grew at a slower rate of 1.0 per cent per annum. With productivity growth lagging behind wage growth in the sector, there was pressure on unit labour cost which resulted in its increase, especially in 1996 and 1997 at 4.8 per cent and 2.0 per cent, respectively. Unit labour cost, however, declined by 4.5 per cent in 1998 as the labour market adjusted to the economic slowdown.

4.25 Overall, wage rates in the other sectors of the economy also registered a declining growth trend during the review period except for the electricity, gas and water as well as the finance, insurance, real estate and business services subsectors of the services sector. Nevertheless, growth in wages continued to outstrip growth in productivity. Labour productivity in the agriculture sector declined from 3.5 per cent in 1996 to 0.1 per cent in 1998 while all the services subsectors recorded positive growth. On average, almost all the sectors recorded a positive productivity growth, except the construction sector which recorded a negative growth of 2.6 per cent.

4.26 In line with the efforts to ensure that wage increases reflect productivity gains, the Government adopted the Guidelines for a Productivity-Linked Wage Reform System in August 1996 with a view to enhancing competitiveness and promoting employment stability. However, the implementation of the guidelines has so far been limited by firms adopting a wait-and-see attitude as well as due to a lack of practical models for firms to follow.

Human Resource Development

4.27 During the review period, priority was given to education and training programmes, as educated and trainable human resources are essential for the achievement of higher productivity and improved competitiveness of the economy. Therefore, education and training programmes were directed at expanding capacity, improving quality as well as increasing accessibility at all levels.

Education

4.28 At the *pre-school education* level, the curriculum, facilities and teacher training in the public and private sectors were required to conform with the standards stipulated in the Education Act 1996. The number of children enrolled in pre-school centres increased from 253,675 in 1995 to 281,397 in 1998, as shown in *Table 4-5*. With regard to *primary education*, the number of students enrolled at the primary level increased from 2.80 million in 1995 to 2.89 million in 1998. Emphasis was also placed on capacity expansion and improvements in teaching and learning facilities. By the end of 1998, a total of 2,455 classrooms was built or 27 per cent of the 9,140 classrooms targeted in the Plan period. With the additional classrooms, the class-classrooms ratio improved from 1:0.86 in 1995 to 1:0.87 in 1998.

4.29 At the *secondary education* level, enrolment in Government and Government-aided schools increased from 1.63 million in 1995 to 1.74 million in 1998. The total enrolment in the science stream increased from 19.8 per cent

TABLE 4-5

STUDENT ENROLMENT IN LOCAL PUBLIC INSTITUTIONS, 1995-2000

Level of Education	Enrolment						Increase (%)	
	[illegible]	%	[illegible]	%	[illegible]	%	[illegible]	[illegible]
Pre-school	**253,675**	*5.1*	**281,397**	*5.3*	**399,068**	*7.1*	**10.9**	*42.1*
Primary[1]	**2,790,309**	*56.4*	**2,894,137**	*55.0*	**2,941,103**	*52.5*	*3.4*	*1.6*
Lower Secondary	**1,124,918**	*22.8*	**1,166,794**	*22.2*	**1,217,063**	*21.7*	*3.7*	*4.3*
Government & Government-aided Schools[2]	1,122,160		1,163,360		1,211,423			
MARA Junior Science Colleges	2,758		3,434		5,960			
Upper Secondary	**502,964**	*10.2*	**571,811**	*10.9*	**648,639**	*11.5*	*13.7*	*13.7*
Government & Government-aided Schools	459,450		523,809		554,919			
MARA Junior Science Colleges	6,720		7,417		15,370			
Technical & Vocational Schools	36,794		40,585		78,230			
Post-Secondary	**80,090**	*1.6*	**82,108**	*1.6*	**86,995**	*1.6*	*2.5*	*4.8*
Government & Government-aided Schools	64,612		59,857		60,066			
Pre-diploma & Pre-university Courses[3]	15,478		22,251		26,329			
Teacher Education (Non-graduates)	**35,028**	*0.7*	**20,768**	*0.4*	**14,468**	*0.3*	*-41.4*	*-30.3*
Certificate	**13,556**	*0.3*	**15,498**	*0.3*	**18,767**	*0.3*	*13.6*	*21.9*
Diploma	**46,408**	*0.9*	**68,437**	*1.3*	**81,291**	*1.4*	*47.2*	*18.9*
Degree[4]	**87,891**	*1.8*	**155,272**	*3.0*	**199,681**	*3.6*	*76.7*	*28.5*
Total	**4,944,323**	*100.0*	**5,256,316**	*100.0*	**5,604,190**	*100.0*		

Notes:

[1] Enrolment refers to total student population in that particular year at the particular level of education.

[2] Includes Government and Government-aided schools. Government schools include fully assisted schools in Peninsular Malaysia, while Government-aided schools include partially assisted schools in Peninsular Malaysia.

[3] Includes preparatory courses conducted at the Institut Teknologi MARA (ITM) and all universities excluding Universiti Teknologi Malaysia and enrolment of foreign students at the Universiti Islam Antarabangsa (UIA).

[4] Includes enrolment in post graduate courses in institutions of higher learning and enrolment in advanced diploma courses at the ITM, Kolej Tunku Abdul Rahman and off-campus courses at the Universiti Sains Malaysia and the ITM. Enrolment of foreign students in the UIA is excluded.

in 1995 to 25.7 per cent in 1998. In order to improve the achievement of students in core subjects, particularly Science and Mathematics, teaching methods were geared towards enhancing thinking ability so as to improve problem-solving capability. The number of science laboratories provided increased from 7,112 in 1995 to 7,894 in 1998 while trained science and mathematics teachers increased from 22,710 in 1995 to 25,710 in 1998.

4.30 Secondary vocational schools (SVS) were converted into secondary technical schools (STS) in order to increase the number of students in technical education. The conversion, which would phase out the vocational and skill streams, was gradually implemented, as there was still a demand for these streams to accommodate the low achievers in the *Penilaian Menengah Rendah* (PMR) examination. During the review period, 65 out of a total of 69 SVS were converted into STS. The total enrolment of students in the technical and vocational streams increased from 36,790 in 1995 to 40,585 in 1998. To improve the understanding of Science and Mathematics subjects, the contextual learning approach that relates theoretical knowledge with practical applications was introduced in 1997 in selected SVS and STS. The school-based assessment showed that the performance of students in Science and Mathematics improved by 20 per cent and 22 per cent, respectively.

4.31 Pre-service and in-service training of teachers were undertaken to meet increasing demand for experienced and qualified teachers at the primary and secondary school levels. During the review period, 36,590 teachers were trained at the certificate level and placed in primary schools in line with the objective of increasing the supply of qualified teachers. Of the total, 29.2 per cent were mathematics teachers, 19 per cent science teachers and 11.4 per cent English language teachers. At the secondary school level, 7,983 graduate teachers were trained under the *Kursus Perguruan Lepasan Ijazah* (KPLI), a post-graduate teacher training programme. In addition, 8,423 serving non-graduate teachers were given opportunities to pursue degree courses on a full-time basis. Of this total, 4,768 teachers entered universities directly while the remaining 3,655 were selected teachers who enrolled under the accelerated-degree programmes after completing the *Kursus Diploma Perguruan Khas* (KDPK) for academic and professional advancement. Accordingly, the number of graduate teachers in secondary schools increased to 61.5 per cent in 1998 compared with 58 per cent in 1995.

4.32 As part of the effort to improve the delivery system, the curriculum for teacher training was reviewed to incorporate the usage of computers and multimedia, especially in subjects such as Science, Mathematics, the English language and *Bahasa Melayu*. To improve the quality as well as creativity of teachers, critical and creative thinking and IT were made compulsory subjects in all teacher training programmes. A variety of learning strategies was employed such as experimential learning, collaborative learning and self-directed learning to foster higher order thinking skills and encouraged trainees to be independent learners. The training of STS teachers was reviewed, and subjects such as Engineering Technology and Engineering Drawing were introduced under the KPLI programme.

4.33 The capacity of local *tertiary education* institutions was expanded to meet the increases in demand as well as to promote education as an export industry. During the review period, the student enrolment at the first degree level in public institutions increased from 79,014 in 1995 to 136,689 in 1998, as shown in *Table 4-6* and from 60,036 to 83,837, respectively, at the certificate and diploma levels, as shown in *Table 4-7*. The increase was due to the expansion programmes undertaken by various institutions, particularly *Institut Teknologi MARA* (ITM) and polytechnics. In this regard, enrolment increases in the polytechnics were achieved with the completion of two new polytechnics in Shah Alam and Johor Bahru, and the establishment of a city polytechnic in Kota Kinabalu.

4.34 The Government had set the enrolment target of 20,000 first-degree students for seven established universities by the year 2000. By the end of the review period, two universities, namely *Universiti Sains Malaysia* and *Universiti Putra Malaysia* attained the targeted enrolment of 20,000 students. A teacher training college located in Tanjung Malim was upgraded to a university, known as *Universiti Pendidikan Sultan Idris*, with an enrolment of 885 students. ITM, which was conferred a university status in 1997, had an enrolment of about 60,890 students with 25.7 per cent at degree level.

4.35 Since March 1998, all public universities were corporatized with the objective of providing these institutions with greater autonomy to manage and operate as well as greater flexibility in the recruitment and remuneration of teaching staff. With corporatization, the governance of these institutions was restructured to include representation from the private sector. Corporatized institutions were also allowed to generate funding from external sources based on business plans agreed to by the Government.

multimedia, especially in subjects such as Science, Mathematics, the English language and *Bahasa Melayu*. To improve the quality as well as creativity of teachers, critical and creative thinking and IT were made compulsory subjects in all teacher training programmes. A variety of learning strategies was employed such as experiential learning, collaborative learning and self-directed learning to foster higher order thinking skills and encouraged trainees to be independent learners. The training of STS teachers was reviewed, and subjects such as Engineering Technology and Engineering Drawing were introduced under the KPLI programme.

4.33 The capacity of local *tertiary education* institutions was expanded to meet the increases in demand as well as to promote education as an export industry. During the review period, the student enrolment at the first degree level in public institutions increased from 79,014 in 1995 to 136,689 in 1998, as shown in *Table 4-6* and from 60,036 to 83,837, respectively, at the certificate and diploma levels, as shown in *Table 4-7*. The increase was due to the expansion programmes undertaken by various institutions, particularly *Institut Teknologi MARA* (ITM) and polytechnics. In this regard, enrolment increases in the polytechnics were achieved with the completion of two new polytechnics in Shah Alam and Johor Bahru, and the establishment of a city polytechnic in Kota Kinabalu.

4.34 The Government had set the enrolment target of 20,000 first-degree students for seven established universities by the year 2000. By the end of the review period, two universities, namely *Universiti Sains Malaysia* and *Universiti Putra Malaysia* attained the targeted enrolment of 20,000 students. A teacher training college located in Tanjung Malim was upgraded to a university, known as *Universiti Pendidikan Sultan Idris*, with an enrolment of 685 students. ITM, which was conferred a university status in 1997, had an enrolment of about 60,890 students with 25.7 per cent at degree level.

4.35 Since March 1998, all public universities were corporatized with the objective of providing these institutions with greater autonomy to manage and operate as well as greater flexibility in the recruitment and remuneration of teaching staff. With corporatization, the governance of these institutions was restructured to include representation from the private sector. Corporatized institutions were also allowed to generate funding from external sources based on business plans agreed to by the Government.

Table 4-6

ENROLMENT AND OUTPUT FOR FIRST DEGREE COURSES FROM LOCAL PUBLIC EDUCATIONAL INSTITUTIONS, 1995-2000

Course	Enrolment						Increase (%)		Output			
	1990	%	1995	%	2000	%	1990-1995	1995-2000	1991-1995	%	1996-2000	%
Arts	**47,630**	*60*	**74,964**	*55*	**91,988**	*53*	*57*	*23*	**35,004**	*60*	**30,817**	*54*
Arts & Humanities[1]	25,006		39,083		47,805		56	22	17,257		14,816	
Economics & Business[2]	20,071		32,388		40,375		61	25	15,062		13,511	
Law	2,552		3,493		3,605		37	9	2,685		2,490	
Science	**18,698**	*24*	**36,481**	*27*	**46,750**	*27*	*95*	*27*	**15,691**	*27*	**16,227**	*29*
Medicine & Dentistry	3,738		5,999		7,731		60	29	2,100		2,170	
Agriculture & Related Sciences[3]	2,471		3,654		4,201		47	16	2,285		1,808	
Pure Sciences[4]	4,521		6,846		7,699		51	70	3,451		3,899	
Others[5]	7,967		20,002		26,763		151	34	7,855		8,370	
Technical	**12,686**	*16*	**25,244**	*19*	**35,142**	*20*	*99*	*39*	**7,298**	*13*	**9,876**	*17*
Engineering	8,790		18,761		23,279		113	24	4,963		7,051	
Architecture & Town Planning	1,851		2,149		3,748		194	74	1,009		1,289	
Survey	345		1,149		1,567		213	37	381		441	
Others[6]	1,497		2,115		2,536		41	27	950		996	
Total	**78,014**	*100*	**136,689**	*100*	**173,526**	*100*	*73*	*27*	**58,073**	*100*	**55,918**	*100*

Notes:

[1] Includes art and design, Islamic studies, languages, library science, literature, Malay studies, social science, education, arts and communications.

[2] Includes accountancy, agri-business, business management, resource economics and mass communication.

[3] Includes home science and human development.

[4] Refers to biology, chemistry, mathematics and physics.

[5] Includes applied science, environmental studies, food technology, pharmacy and science with education.

[6] Includes property management.

TABLE 4-7

ENROLMENT AND OUTPUT FOR DIPLOMA AND CERTIFICATE COURSES FROM LOCAL PUBLIC HIGHER EDUCATIONAL INSTITUTIONS, 1995-2000

Course	Enrolment						[illegible] (%)		Output			
	1995	%	2000	%	2005	%	1996-2000	2001-2005	1996-2000	%	2001-2005	%
DIPLOMA												
Arts	**25,234**	54	**36,873**	61	**45,079**	56	47	24	**24,867**	53	**18,339**	44
Arts & Humanities[1]	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Economics & Business[2]	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Science	**6,006**	13	**9,807**	14	**10,144**	12	61	4	**4,341**	10	**5,123**	13
Agriculture & Related Sciences	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Others[3]	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Technical	**15,160**	33	**22,519**	33	**25,038**	33	49	13	**17,667**	37	**27,457**	61
Engineering	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Architecture & Town Planning	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Survey	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Others[4]	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Total	**46,400**	100	**68,477**	100	**81,291**	100	47	19	**47,225**	100	**40,917**	100
CERTIFICATE												
Arts	**2,237**	17	**3,336**	22	**4,406**	23	49	32	**4,064**	29	**4,200**	36
Arts & Humanities	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Economics & Business[2]	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Science[5]	**592**	4	**670**	4	**700**	4	13	4	**816**	6	**520**	4
Technical	**10,727**	79	**11,394**	74	**13,661**	73	6	20	**9,635**	65	**7,054**	60
Engineering	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Architecture & Town Planning	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Survey	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	
Total	**13,556**	100	**15,400**	100	**18,767**	100	14	22	**14,712**	100	**11,838**	100

Notes:
1. [illegible]
2. [illegible]
3. [illegible]
4. [illegible]
5. [illegible]

4.36 The corporatization of public institutions of higher learning was also undertaken to increase efficiency, accountability and awareness among staff on the need to provide quality education as well as to instil the right attitude among students to excel in the academic fields. Corporatization would also contribute towards realizing the objective of making education a component of the export industry. The National Higher Education Fund was, therefore, established in 1997 to provide financial assistance to the low-income group and thus, facilitate their accessibility to higher education in the public and private institutions. Since its implementation, a total of RM191 million was disbursed, benefiting 16,900 students.

4.37 *Private sector participation* in the provision of tertiary education increased with the implementation of the Private Higher Educational Institutions Act 1996. In addition to three private institutions offering degree level courses, 10 other private institutions were given approval to conduct and confer foreign degrees locally through the full twinning programme. Thus, the combined enrolment at the certificate, diploma and degree level courses in private institutions increased from 127,600 in 1995 to 150,900 students in 1998.

4.38 The Department of Private Education under the Ministry of Education established rules and regulations which covered areas such as the establishment, advertisement and quality control standards of private institutions. The National Accreditation Board Act 1996 provided a legal basis for the establishment of the National Accreditation Board (LAN). LAN is a quality control body for accrediting courses and programmes offered by the private higher educational institutions so as to ensure these courses and programmes were of high quality. During the review period, LAN and the Department of Higher Education conducted seminars and dialogues with higher educational institutions to foster cooperation and understanding on quality requirements as well as evaluation processes. Workshops were also conducted to train a panel of 300 assessors, mainly from public universities as well as professional and voluntary bodies, to assist LAN in assessing the courses conducted by private higher educational institutions.

4.39 The teaching and research and development (R&D) capabilities of tertiary institutions were strengthened during the review period with the establishment of the Science and Technology Human Resources Fund of RM300 million. The objective of this Fund was to upgrade the skills and capabilities of professionals and other research personnel in various science and technology disciplines. By the end of 1998, RM17.6 million were disbursed as scholarships to 185 post-graduate and 13 post-doctoral students. In addition, 26 persons benefited from short-term training in new emerging technologies such as advanced materials, IT and advanced manufacturing.

Training

4.40 The quality of the workforce can be strengthened through training and retraining to support the recovery of the economy. During the review period, public training institutions increased their intake to meet the demand for skilled and trained manpower to keep pace with technological development arising from the transformation of the economy towards a capital-intensive production structure. In addition, greater private sector participation in skill training was given emphasis to supplement and complement Government efforts in increasing the number of skilled and trained manpower.

4.41 The intake by public training institutions increased from 15,428 in 1995 to 22,630 in 1998, as shown in *Table 4-8*. To meet the demand for highly skilled manpower in specialized trades, especially in advanced technology, the Government established two new advanced skill training institutes during the review period. The British-Malaysian Institute, which took over the Tuan Polytechnic in November 1997, offered courses in electrical and electronic engineering, medical electronic engineering, communication engineering, computer system engineering and IT. Meanwhile, the Japan-Malaysia Technical Institute became operational in July 1998 at its temporary campus at the Centre for Instructor and Advanced Skills Training (CIAST) with its first intake of 53 students in computer engineering technology and industrial electronic technology. The output of public training institutions increased from 15,844 in 1995 to 20,898 in 1998 while that of private training institutions increased from 8,302 to 10,827, respectively, as shown in *Table 4-9*.

4.42 Skill training programmes were, however, affected by a shortage of instructors. The National Instructor Training Programme was introduced at CIAST in 1996 to increase the number of instructors for public training institutes. A total of 186 trainee instructors was trained in courses such as electronics, electrical mechatronics and machining. In addition, trainee instructors were trained overseas while serving instructors were sent to countries such as Germany, Japan and United Kingdom to acquire skills in new emerging technologies.

TABLE 4-8

INTAKE OF SKILLED AND SEMI-SKILLED MANPOWER IN PUBLIC TRAINING INSTITUTIONS BY COURSE, 1995-2000

[illegible]	[illegible]		[illegible]		[illegible]		[illegible]	
	[illegible]	%	[illegible]	%	[illegible]	%	[illegible]	[illegible]
Engineering Trades	10,574	53.3	14,351	62.8	16,505	58.3	10.8	7.5
Mechanical[1]	5,991	30.2	8,508	37.6	9,760	34.4	12.1	7.5
Electrical[2]	4,323	21.8	5,406	23.6	6,306	22.2	7.7	5.0
Civil[3]	260	1.3	519	2.3	530	1.9	25.9	1.3
Building Trades[4]	1,860	9.4	2,317	10.2	3,061	10.8	11.7	15.1
Printing Trades[5]	156	0.8	244	1.1	210	0.7	16.6	-2.2
Others[6]	2,657	13.4	3,541	15.6	6,338	22.3	13.0	12.4
Skill Upgrading	563	2.8	2,100	9.2	2,166	7.6	33.3	1.6
Total	**19,828**	**100.0**	**22,838**	**100.0**	**28,382**	**100.0**	**15.5**	**12.4**

Notes:

[1] Includes general machinist, general machining, tool & die making, motor vehicle mechanics, welding, sheet metal works and fabrication.

[2] Includes electrical installation & maintenance, radio & television servicing, refrigeration & air conditioning, electrical fitting & armature winding, and electronics engineering.

[3] Includes construction.

[4] Includes carpentry & joinery, woodwork machining, bricklaying and plumbing.

[5] Includes hand composing, machine composing, offset printing and bookbinding & letterpress.

[6] Includes surveying, architectural draftsmanship, photography, laboratory science, dispensing optics, computer programming, information processing, heavy plant operation, technicians, quantity surveying, hotel and catering, and home economics.

4.43 In meeting industry needs, public training institutions have shifted its training approach from the conventional method to a competency-based education and training approach. Under the latter, the levels of competency to be achieved in training were specified in the National Occupational Skills Standards (NOSS), which were developed by the National Vocational Training Council (NVTC) in collaboration with experienced workers and practitioners from industries, and instructors from training institutions. During the review period, the NVTC focused on the adoption of a new 5-level Skills Qualification Framework to replace the 3-tiered skill certification system. The accreditation

TABLE 6-9

OUTPUT OF SKILLED AND SEMI-SKILLED MANPOWER BY COURSE[1], 1995-2000

Course	1995			1999			2000			Average Annual Growth Rate (%)			
										1995-1999		1999-2000	
	Public	*Private*	*Total*	*Public*	*Private*	*Total*	*Public*	*Private*	*Total*	*Public*	*Private*	*Public*	*Private*
Engineering Trades	10,758	7,496	18,254	12,857	9,823	22,680	15,014	11,615	26,629	4.3	6.4	5.5	8.7
Mechanical	6,804	1,679	8,483	7,958	2,100	10,058	8,932	2,416	11,348	3.4	7.7	3.8	7.3
Electrical	3,734	5,343	9,077	4,471	7,628	12,099	5,616	9,087	14,703	6.2	9.4	7.9	6.1
Civil	220	74	294	428	95	523	466	112	578	24.8	8.7	2.9	6.6
Building Trades	1,702	285	1,987	2,122	255	2,377	2,780	290	3,070	5.8	7.3	9.4	6.6
Printing Trades	108	25	133	213	31	244	210	37	247	21.4	7.4	-0.3	9.2
Others	2,623	576	3,199	3,636	758	4,394	3,780	628	4,408	11.9	7.6	0.9	7.4
Skill Upgrading	563	n.a.	563	2,030	n.a.	2,030	2,116	n.a.	2,116	33.1	n.a.	1.8	n.a.
Total[2]	**15,844**	**8,302**	**24,146**	**20,898**	**10,827**	**31,725**	**23,900**	**12,770**	**36,670**	**9.7**	**8.3**	**4.4**	**8.4**

Notes:

[1] Includes local public and private training institutions.

[2] Does not include output from courses such as commerce, agriculture, home science and other soft skills.

n.a. not available

system, based on a continuous assessment of the trainees, was fully implemented by all public training institutions for courses where NOSS were available. The development of NOSS at levels 4 and 5 and the implementation of the accreditation system were essential not only to produce highly skilled manpower but also in developing a career path for skilled workers, parallel to the existing academic-based career development. During the review period, 12 NOSS were developed for level 4 and another 12 for level 5 in areas such as welding technology and metal fabrication, machinery and land transportation, hotels and IT.

4.44 To encourage employers to train their workers, the Human Resources Development Council (HRDC) expanded the scope of the Human Resources Development Fund (HRDF) to include training programmes such as distance learning, joint training scheme and cluster training scheme. The HRDF allocated RM15 million to implement the apprenticeship scheme as a measure to increase the supply of skilled and trained manpower. Four apprenticeship programmes in the areas of machining, mechatronics, tool and die, and hotels were developed for both on-the-job and off-the-job training. By the end of 1998, a total of 694 trainees was trained under the apprenticeship programmes.

4.45 During 1996-1998, a total levy of RM304.8 million was collected by the HRDF, of which 87.9 per cent were disbursed for post-employment training programmes approved by the HRDC. However, as a measure to help reduce financial difficulties due to the economic slowdown, employers were exempted from the training levy for six months beginning February 1998. A further six-month exemption was given to companies in industries which experienced negative performance while other companies were required to resume the levy contribution. Realizing the importance of skill upgrading and retraining, the HRDC recredited unclaimed levy payments amounting to RM86 million to the accounts of contributing firms. A fund amounting to RM40 million was also created to provide initial funding to firms which have exhausted their contributions in order to enable them to continue training their workers. The objective of this measure was not only to assist firms in increasing their labour productivity through training but also as an alternative to retrenchment as it would increase occupational mobility and allow firms greater flexibility to restructure their workforce.

4.46 The HRDC also started a retraining scheme at certificate and diploma levels for retrenched workers from industries covered by the HRDF in May 1998 with an allocation of RM5 million. The retraining of workers in new skills would increase their employability in other industries. By the end of 1998, a total of 572 workers benefited from this scheme involving about RM2.5 million.

4.47 As part of the efforts to encourage greater private sector participation in industrial and skill training, the Government revised the industrial building allowance from the annual rate of 2 per cent to 10 per cent to enable the cost of building used for the purpose of education and training be written off within 10 years instead of 45 years. During the review period, the Government also continued its support to skill development centres which were managed by the private sector through the provision of financial assistance amounting to RM35.7 million, mainly for the purchase of equipment.

III. PROSPECTS, 1999-2000

4.48 The employment outlook during the remaining Plan period is expected to improve based on the economic growth forecast for 1999 and 2000. In line with the anticipated recovery of the economy, particularly in the year 2000, there will be a strengthening in labour demand and a reduction in unemployment in the country. Efforts will continue to be made to increase the productivity and efficiency in the utilization of labour in order to remain competitive and be able to face the challenges associated with a rapidly changing global environment.

Human Resource Policy Thrusts

4.49 The efficient utilization and continuous development of human resources will remain a major policy objective during the remaining Plan period. In this regard, efficient adjustments in the labour market and greater investments in human capital will be required to enhance the productivity and quality of the workforce. To support this policy objective, the strategic thrusts for human resource development will be as follows:

- ❑ *increasing the supply of skilled manpower to support the needs of knowledge-based and capital-intensive industries;*
- ❑ *improving accessibility to education and training to enhance income and quality of life;*
- ❑ *reducing dependence on foreign workers as industries shift towards greater automation and labour-saving technologies in production processes;*

- *encouraging self-employment through the provision of training in entrepreneurship, management and finance;*
- *strengthening the labour market mechanisms to facilitate labour mobility; and*
- *promoting the implementation of wage schemes linked to productivity and work performance.*

4.50 The restructuring of the economy towards capital-intensive and high value-added activities will require an increasing supply of knowledge and skilled manpower. In this regard, efforts will focus on improving the quality of the workforce through retraining and skill upgrading. Greater private sector participation in the provision of skill training will be encouraged to supplement public sector initiatives. Training programmes that will be emphasized include IT and IT-related courses as well as engineering and technical fields such as programmable logic control, computer-aided design (CAD), computer-aided manufacturing (CAM) and computer-aided engineering (CAE).

4.51 High priority will continue to be placed on increasing the accessibility to education and training to enhance income generation capabilities as well as improve the quality of life of Malaysians. Apart from expanding education and training facilities, financial assistance will also be provided to enable the low-income group to have greater access to education and training. The expansion of education and training opportunities will also make Malaysia a regional educational hub. This will not only help to prevent the outflow of foreign exchange arising from Malaysians studying overseas but education can become an important foreign revenue earner for Malaysia. In line with this, the education and training system will continue to be restructured, especially with greater private sector involvement, to meet the changing skill needs of local industries and increasing demand for education. More foreign tertiary institutions will be allowed to set up branch campuses while the capacity of public institutions will be expanded.

4.52 A tightening of the policy on the employment of foreign workers will be pursued as a long-term dependence on them is likely to impede restructuring efforts towards achieving higher technology, skills and productivity as well as greater automation in production processes. While there are economic benefits associated with the use of migrant labour, especially during the high economic growth period, there are economic and social costs that have to be borne by Malaysians. Apart from continuing with the freeze in the recruitment of foreign workers, excess foreign workers and those who cannot be redeployed will be repatriated. In addition, negotiations on Government-to-Government basis will be intensified to prevent an influx of migrant workers and to ensure the non-return of repatriated workers to Malaysia. Employers will have to give priority to the hiring of local labour to enable all Malaysians to be gainfully employed. Nevertheless, the employment of expatriates will continue to be undertaken to meet the current shortages of highly skilled manpower.

4.53 In the effort to increase the utilization of local labour, thus reducing unemployment among Malaysians, the Employment Act 1955 was amended effective from 1 August 1998. The amendments, which include the introduction of flexible working hours and the formalization of part-time work, are expected to encourage more women and those in the rural areas to join the labour market, thus reducing the dependence on foreign workers. As part of the effort to further increase female participation in the labour force, the Government is considering the introduction of career breaks which will allow women to be reemployed without losing their statutory benefits.

4.54 Efforts will also be made to encourage self-employment, particularly among the unemployed and new job-seekers, including graduates. A Graduate Entrepreneur Training Scheme was set up in 1998 to provide training in basic entrepreneurial skills, communication skills and personal development. Loans ranging from RM20,000 to RM100,000 will also be provided to those graduates interested in setting up their own businesses. For public sector employees, a training programme in entrepreneurship will also be provided to enable them to set up and manage their own businesses. These schemes are aimed at increasing not only the employment opportunities but also the number of Bumiputera and non-Bumiputera entrepreneurs in the country.

4.55 Labour market information mechanisms will help to facilitate greater mobility of labour between declining and expanding sectors as well as across occupations and skills. This will also help in matching demand with supply and act as an intermediary between job-seekers and employers with respect to job search and placement activities. Therefore, employment offices throughout the country will be strengthened with the setting up of an electronic labour exchange for the registration, monitoring and placement of workers. Similarly, the mass media and employment offices will assist in the dissemination of labour market information on vacancies, thus matching skills with requirements of industries. Having a systematic placement and redeployment of workers and proper matching of new labour market entrants with employers will also help in moderating the unemployment level. The completion and publication of the Malaysian Standard Classification of Occupations (MASCO) will improve the dissemination of labour market information on new job opportunities, thereby improving occupational mobility.

4.56 The Government is also taking concrete steps to upgrade the overall labour market information system with a view to effectively meeting the growing needs for such information. Improvements will be made in respect of institutional coordination, streamlining of data production and continuous stocktaking of user needs. In addition, the proposed corporatization of the Department of Statistics will further improve the effectiveness of the labour market information system through the provision of timely, accurate and quality data for policy formulation.

4.57 Efforts will need to be intensified to improve labour productivity to maintain competitiveness in the economy. Towards this end, training and retraining as well as the restructuring of work organization and practices will be stepped up. A flexible wage system pegged to productivity will also be promoted to enable business enterprises to adjust the wage level based on the overall financial performance. At the same time, employers will be encouraged to reward their employees proportionate to their level of performance.

Population

4.58 The total population in Malaysia is expected to reach 22.89 million in the year 2000, with an average growth rate of 1.5 per cent per annum, as shown in *Table 4-1*. The proportion of non-citizen population is expected to decline from 7.2 per cent in 1998 to 6 per cent in 2000 due to concerted efforts taken to reduce the dependence on foreign workers in the country. The different rates of growth of the various age groups are expected to continue, resulting in the proportion of the population under 15 declining to 33.9 per cent by the year 2000 while increasing the proportion in the working age group 15-64 to 62.2 per cent. The number of persons aged 65 and above will increase from about 830,000 in 1998 to 900,000 in 2000, reflecting the need for improved health services for the elderly to ensure their quality of life is maintained. Arising from these changes, the dependency ratio is expected to decrease slightly to 60.7 per cent by the year 2000.

4.59 The current differentials in the ethnic population growth rates are projected to continue during the remaining Plan period. Consequently, Bumiputera population is expected to increase from 12.84 million in 1998 to 13.52 million in 2000 or 62.8 per cent of Malaysian citizens. The Chinese population is also estimated to increase to 5.65 million while the Indian population to 1.60 million in the year 2000.

Labour Force

4.60 The labour force is expected to increase by 1.7 per cent per annum during 1999-2000, much lower than that registered during the review period at 2.5 per cent per annum. The labour force will reach 9.2 million in the year 2000 with an additional 156,550 new labour market entrants during the remaining Plan period. While the local labour force will continue to grow at 2.6 per cent per annum, there will be a net reduction of foreign labour supply due to the repatriation of an estimated 105,000 legal foreign workers by the end of the year 2000. The repatriation exercise is in line with efforts to reduce the dependence on these workers as well as strategic adjustments made by industries towards labour-saving production technology.

4.61 The overall LFPR is anticipated to improve slightly from 64.3 per cent in 1998 to 64.6 per cent by the year 2000 in line with higher expectations for employment opportunities as a result of the turnaround in the economy after 1998. The male LFPR will increase to 83.8 per cent while that for female to 44.4 per cent in the year 2000. About 33.5 per cent of the labour force will be accounted for by females.

Employment by Sector

4.62 The prospect for employment growth during the remaining Plan period is expected to be moderate, consequent to the anticipated slower growth of output in the economy. Total employment is estimated to register an average annual growth of 1.9 per cent with the creation of about 332,900 new jobs, as shown in *Table 4-2*. The unemployment rate is expected to be 3.5 per cent in the year 2000.

4.63 With the anticipated modest recovery in manufacturing output during 1999-2000, employment in the sector is estimated to increase slightly by 2.8 per cent per annum. The *manufacturing sector* will continue to play an important role in employment generation, adding about 129,900 jobs or 39.0 per cent of the total number of new jobs created. The demand for labour in the sector will be mainly for skilled and semi-skilled in view of the increasing utilization of high technology and capital-intensive types of operation.

4.64 Construction activities are also expected to recover and contribute to employment growth. Demand for labour in the sector will grow at an average rate of 2.1 per cent per annum during 1999-2000, generating about 30,300 new jobs compared with a loss of 147,500 jobs in 1998.

4.65 The *services sector* is expected to register an employment growth of 2.2 per cent per annum during the remaining Plan period. About 180,200 jobs will be generated mainly in the wholesale and retail trade, hotels and restaurants as well as other services subsectors. The wholesale and retail trade, hotels and restaurants subsector which experienced a contraction in employment in 1998 will record an increase in employment by 1.8 per cent per annum during 1999-2000 due to a strengthening of consumer demand with the expected turnaround in economic activities.

4.66 As a result of the expected strong output growth of the *agriculture sector* during 1999-2000, the absolute decline in employment opportunities is expected to moderate from negative 2.0 per cent during 1996-1998 to negative 0.3 per cent. This sector will continue to encounter labour shortages of about 58,600 workers due to the preference of workers to work in other sectors. In the light of the limited supply of local labour, efforts at increasing labour productivity will need to be emphasized. Greater use of labour-saving technology and mechanization will lead to productivity improvements and also reduce the sector's dependence on foreign workers.

Employment by Occupation

4.67 With the anticipated turnaround in the economy during the remaining Plan period, most of the major occupational groups are expected to experience some growth in employment, though lower than that achieved during the review period, as shown in *Table 4-4*. With the exception of the agricultural workers category, all the other occupational groups will register positive employment growth. There will continue to be a demand for workers with a high skill content and for specific skills and expertise, especially in IT.

4.68 The *professional and technical* occupational category will account for 11 per cent of total employment by the year 2000, comparable with newly industrialized economies such as Hong Kong Special Administrative Region of China, the Republic of Korea and Taiwan. Engineers, engineering assistants and IT professionals as well as highly skilled workers will continue to be in demand with the shift towards capital-intensive and high technology industries. The demand for physicians, surgeons, pharmacists and allied health personnel will increase with the greater demand for improved health services.

4.69 The *administrative and managerial* category is expected to register a slower growth rate of 4.5 per cent per annum during the remaining Plan period, accounting for 9.3 per cent of jobs created. Within this category, the demand will be for managers and supervisors who are computer literate and have a wide range of technical expertise. Similarly, the demand for workers in the *clerical and related workers* category is expected to grow at a slower rate of 2.4 per cent per annum with the creation of about 45,400 new jobs. With the widespread use of IT in office management and administration, workers in this category are expected to be highly computer literate and have the ability to perform multiple tasks.

4.70 Demand for *services workers* will remain high, especially in the hospitality, social and personal services. About 47,800 new jobs will be created, accounting for 14.4 per cent of total jobs created. However, there will be a slower growth in the demand for workers in the finance, insurance, real estate and business services subsector due to the consolidation and restructuring of banks and financial institutions as well as the increasing use of automation in banking and financial services to increase efficiency and productivity.

4.71 During the remaining Plan period, the demand for *production workers* is expected to increase moderately as firms automate and shift towards high technology production. The estimated demand for production workers will account for 35.4 per cent of the total jobs created. The bulk of the demand for production workers will be in the export-oriented industries. Workers with computer literacy and ability to operate automated production processes will be required.

4.72 The demand for *agricultural workers* is expected to decline at a rate of negative 0.5 per cent per annum with a net reduction of about 16,600 jobs. As a result, its share to total employment will decline slightly from 19 per cent in 1998 to 18.1 per cent in 2000. Nevertheless, there will still be an increase in the demand for agricultural workers trained in high technology agricultural production processes such as biotechnology and computerized farming.

4.73 The convergence of information and communication technologies will have an impact on the nature as well as the quality of work across all occupational groups, especially with the establishment of the Multimedia Super Corridor. A study on the manpower requirements for key IT occupations such as systems engineers, software developers, systems analysts and computer programmers conducted in 1998 indicated that 28,350 additional IT workers will be required during 1999-2000 compared with the expected supply of 28,200 IT graduates. Another recent study on the prevalence of teleworking in Malaysia showed that there is a great potential for teleworking in the country, given the appropriate policy environment and improved infrastructure. Greater efforts will, therefore, be made on increasing the supply of knowledge and IT workers who will be the catalyst in the development of IT and multimedia.

Wages and Productivity

4.74 Wage rates are expected to moderate as the economic slowdown leads to surplus labour in some sectors of the economy. However, the three-year collective agreements concluded in 1996-1997, representing 2 per cent of the labour force in the country, contained wage increases of between 5 per cent to 18 per cent. During the remaining years of the Plan period, the slight upturn of the economy is expected to lead to productivity gains in most sectors. The export-oriented manufacturing industries in particular are expected to further improve their productivity levels to remain competitive.

4.75 The need for the country to rationalize costs and improve productivity and quality in order to be more competitive becomes more apparent in the remaining years of the Plan period. It is, therefore, imperative to take measures to track wage movements and productivity to ensure that the future competitiveness of the economy is further enhanced. Efforts will be intensified to ensure that wage increases commensurate with productivity increases through the implementation of productivity and quality management systems, improvements through benchmarking activities, intensification of the application of IT, development of highly trained and skilled manpower, and the introduction of quality products through R&D.

Human Resource Development

4.76 In the remaining Plan period, education and training programmes will continue to be given priority. Additional facilities will be provided while existing facilities will be upgraded to meet the demand for places at all levels as well as to provide quality education. At the tertiary level, public and private institutions will play greater roles to increase the absorptive capacity of local institutions as Malaysians are encouraged to study locally. Efforts to expand the capacity of public and private institutions are also in line with the objective of reducing substantially the number of students studying overseas as well as expanding tertiary education in Malaysia.

4.77 Facilities for *pre-school education* will be expanded to cover at least 65 per cent of children in the 5-6 age group by the year 2000, as targeted in the Plan. The quality of pre-school education will also be further enhanced with the implementation of the guidelines on pre-school curriculum issued by the Ministry of Education and the increase in the number of trained teachers from 12,140 in 1998 to 15,340 at the end of the Plan period.

4.78 Enrolment in *primary education* is expected to increase from about 2.89 million in 1998 to 2.94 million students by the year 2000. In order to accommodate this increase, 6,685 new classrooms will be built, improving the class-classrooms ratio from 1:0.87 in 1998 to 1:0.90 in the year 2000. Measures will be taken to reduce the attrition rate, especially among students in rural areas. Towards this end, 59 new hostels will be provided in small schools in the rural areas to accommodate 11,120 students. With regard to the teaching of Science and Mathematics, computer-aided teaching and learning will be further developed.

4.79 At the *secondary education* level, there will be an increase in enrolment from 1.74 million in 1998 to 1.86 million students in the year 2000. In order to improve the quality of education in rural areas, the integrated school concept will be implemented, starting with Baling, Kedah and extended later to other schools nationwide. Under this concept, pupils in Standard 4 to Form 5 will be placed in the same school with boarding facilities.

4.80 In order to increase interest and improve performance of students in Science and Mathematics, the teaching of these subjects will be strengthened with improved teaching and learning materials and methods. In addition, about 2,250 science laboratories will be built while 3,750 trained science and mathematics teachers will be recruited. To reduce the performance gap between students in rural and urban areas as well as to enable rural schools to take advantage of computer-aided learning and teaching method, more schools especially in rural areas will be provided with basic amenities as well as science laboratories and computers.

4.81 The conversion of SVS into STS will be continued to increase the number of students in *technical education*. Apart from the technical stream, the STS will also offer the vocational and skills streams to accommodate the less academically inclined students. To improve the teaching and learning of Science and Mathematics in STS, the contextual learning method will be expanded to include technical subjects.

4.82 *Teacher training* will be streamlined and strengthened to ensure that the additional requirements for teachers are met while avoiding an excess of trained teachers for specific subjects. To improve teacher quality, in-service training programmes will be intensified. Opportunities for teachers to pursue further studies at the diploma and degree levels will also be expanded. The relaxation of the conditions of service such as study leave will allow teachers seeking higher qualifications to study on a full- or part-time basis. The number of graduate teachers will increase from 61,390 in 1998 to 68,150 in the year 2000, thus increasing the proportion of graduate teachers at the secondary level from 61.5 per cent in 1998 to 65.5 per cent in the year 2000.

4.83 In order to attract qualified teachers to serve in the rural areas, special allowances and additional housing facilities will continue to be provided. By the year 2000, a total of 28,720 new teachers quarters will be built, of which 20,000 units will be implemented under the privatization programme.

4.84 The development of *tertiary education* will be intensified to meet the growing local demand as well as to develop higher education as an export industry. In this regard, the teaching of English as a second language will be strengthened. This includes the establishment of English language centres in public and private institutions so as to enable foreign students to pursue language proficiency courses in the country. It is expected that by the year 2000, the demand for places at the local institutions of higher learning will increase as a result of the higher cost of education abroad and the increase in the number of qualified candidates. To meet this demand, universities and polytechnics will continue to embark on expansion programmes, including provision of student accommodation. With this expansion in capacity, total enrolment of these institutions will increase from 239,110 in 1998 to 290,860 in the year 2000. The greater involvement of private institutions as well as the encouragement from the Government to study locally will further increase the participation rate at the tertiary level of those in the 19-23 age group from 17.1 per cent in 1998 to 19.6 per cent in the year 2000.

4.85 Apart from public universities, the demand for places will be accommodated through the completion of new polytechnics in Seberang Perai, Pulau Pinang and city polytechnics in Melaka and Kuala Terengganu. In addition, existing polytechnics will be expanded to accommodate 5,000 students while more city polytechnics will be established in major towns.

4.86 The increase in demand for tertiary level education will also be accommodated through *franchising arrangements* between public and private institutions of higher learning and expanding the distance learning programme provided by public universities. These measures will be undertaken to accommodate 40,000 students by the year 2000, an increase of 50 per cent compared with 26,630 students in 1998.

4.87 In order to increase accessibility to the National Higher Education Fund, the eligibility criteria will be reviewed to enhance its effectiveness. Among others, only students from the low-income group will be eligible for the maximum loan that covers tuition fees, books, subsistence and other allowances. Parents who can afford will be required to start repayments when the loan is disbursed and the balance will be transferred to the students when they are employed. As provided in the *Akta Perbadanan Tabung Pendidikan Tinggi Nasional 1997*, students who pursue diploma courses in the public and private institutions will also have access to loan facilities. In this regard, the amount provided to the Fund will be increased from RM605 million to RM1.5 billion.

4.88 *Private sector participation* in the provision of education, especially at the tertiary level, will be further encouraged to complement Government efforts. Towards this end, the Government will invite more degree granting institutions to be set up in the country and more full twinning programmes established while steps will be taken to expedite the evaluation and approval processes. The private higher educational institutions are expected to play a bigger role in providing quality education besides having world-class educational facilities to cater to the needs of the nation and to attract foreign students, particularly from the Asian region. During the remaining Plan period, a total of 120,000 places will be offered at the diploma and degree levels, of which 17,000 places are expected to be taken up by foreign students.

4.89 In line with the objective to promote *information technology in education*, a total of 222 primary schools and 110 secondary schools will be equipped with computers to enable them to conduct computer literacy programmes. To enhance the teaching and learning process in these schools, a total of 1,120 teachers will be trained at the respective state resource centres. In addition, under the computer-networking programme, more schools in each state will be linked to each other. Similar networking will also be provided to 31 teacher training colleges throughout the country.

4.90 The application of IT in education will be enhanced with the implementation of the smart school concept. Under this concept, teaching and learning activities will be conducted using computer-based resources and video conferencing. Due to the flexibility of the technology, students will be able to improve their performance despite differences in learning abilities and learning approaches.

Training

4.91 During the remaining Plan period, increasing the training opportunities, especially for school leavers, will continue to be given priority in order to increase the supply of skilled and trained manpower. Even though various incentives have been put in place to encourage private sector participation and involvement in skill training, public training institutions are expected to be the main supplier of skilled manpower. The expected total output of the public training institutions in the year 2000 is 23,900. The output of private training institutions is expected to increase from 10,830 in 1998 to 12,770 in the year 2000, reflecting the increasing role of private training institutions in skill training and the transformation process towards a private sector-led approach in training.

4.92 The economic slowdown experienced in 1998 has emphasized the importance of skills development to generate a positive impact on productivity growth. Towards this end, efforts to increase the supply of skilled manpower will continue to be made through increased intake in existing public training institutions and greater private sector involvement. The Skill Training Loan Fund with an allocation of RM500 million will be set up to improve the accessibility, especially of the low-income group, to training opportunities at all levels. Increasing demand for skill training will accelerate the development and expansion of private training institutions, not only in offering soft-skill courses but also in engineering and technical courses such as computer hardware and software engineering, mechatronics and laser technology. The private sector will be increasingly relied upon for the further strengthening of the vocational and skill training delivery system towards a demand-driven approach in line with industry needs.

4.93 To ensure that available resources are optimally and efficiently utilized, training institutions will be allowed some degree of specialization such as in hospitality and tourism-related trades, automotive engineering and printing. This will also enable them to become centres of excellence in the respective fields. However, all institutions will be required to conduct core courses such as electrical, electronic and mechanical engineering. They will also be allowed to introduce and conduct IT and other related courses. In addition, public training institutions will also emphasize the provision of short-term training programmes for skill upgrading and retraining through consultation with the industries.

4.94 In order to ensure the effectiveness of training institutions in producing skilled manpower required by industry, the quality of instructors will be enhanced. In this regard, the instructor training programme will be continuously reviewed in line with the requirements of the competency-based training and the implementation of the accreditation system. The review is necessary to ensure that the instructors will have the capabilities in developing curriculum, learning and teaching materials as well as conducting job evaluation.

4.95 In view of the expected increase in the demand for advanced and highly specialized manpower, the development of NOSS, especially for levels 4 and 5 as well as in the new emerging areas, will be intensified. During the remaining Plan period, about 40 NOSS will be developed at these levels in areas such as petrochemical, aviation and electronics. In ensuring the effective and efficient development of NOSS, the NVTC will be further strengthened with additional professional manpower. The NVTC will also be supported by a proposed act, which will provide the necessary mandate to perform its role as the sole coordinating and monitoring agency for skill training, both in the public and private sectors. This proposed legislation will cover, among others, the registration of skill training institutions and trainers, certification under the Malaysian Skill Certification System and the provision of consultancy services to enhance the effectiveness of the NVTC in ensuring that the quality of training provided by all training providers is uniform and standardized.

4.96 The HRDC will undertake further measures to promote skill upgrading and retraining by industry. The apprenticeship programme will be expanded to other areas such as plastics, IT and freight forwarding. The HRDF will also widen its coverage to include other sectors such as education and energy. To assist and encourage the small- and medium-scale industries (SMIs) in providing training to their employees, the HRDC through the Training Needs Analysis Fund will intensify its efforts in assessing the SMIs' training requirements. Steps will also be taken by the HRDC to provide credit facilities to training providers in the private sector in order to encourage further involvement in skill training. In addition, a special fund will be established for the retraining of retrenched workers in sectors not covered under the existing scheme. The HRDC will be corporatized to improve its effectiveness and flexibility in administering the HRDF in line with employers' needs.

IV. ALLOCATION

4.97 The revised Seventh Plan development allocation for education and training is RM15,810.9 million, as shown in *Table 4-10*. Of the total allocation, 84 per cent is provided for education while 16 per cent for training programmes. The revised allocation which constitutes 17.6 per cent of the total public development budget reflects the priority given to the development of human resources.

TABLE 4-10

DEVELOPMENT ALLOCATION AND EXPENDITURE FOR EDUCATION AND TRAINING, 1996-2000

(RM million)

Sector	*7MP Allocation*		*Estimated Expenditure 1996-1998*	*Balance 1999-2000*
	Original	*Revised*		
Education	**8,471.5**	**13,288.1**	**7,237.2**	**6,050.9**
Pre-school	133.1	111.6	43.5	68.1
Primary Education	1,348.6	2,300.3	867.9	1,432.4
Secondary Education	3,842.2	5,546.5	2,067.5	3,479.1
Government and Government-aided Schools	3,002.9	2,434.2	1,372.9	1,061.2
MARA Junior Science Colleges	376.6	450.3	285.6	164.7
Technical and Vocational Schools	462.7	662.0	478.6	183.4
Tertiary Education	2,629.6	5,226.7	3,196.6	2,030.1
Teacher Education	454.6	345.2	144.5	200.7
Other Educational Support Programmes	1,063.0	1,755.6	877.6	878.2
Training	**1,532.5**	**2,522.8**	**646.2**	**1,876.7**
Industrial Training	1,181.3	2,245.2	538.3	1,707.9
Commercial Training	66.3	66.9	46.8	20.1
Management Training	284.9	212.7	64.1	148.7
Total	**10,004.0**	**15,810.9**	**7,883.4**	**7,927.5**

V. CONCLUSION

4.98 The favourable employment situation during the first two years of the Plan period was affected by the economic slowdown, leading to an increase in the retrenchment of workers in 1998. However, these workers were reported to be easily absorbed by sectors facing labour shortages. During the remaining Plan period, focus will be made on increasing the supply of highly skilled and trained manpower to meet the changing requirements of the economy through continuous investments in human resource development. At the same time, an efficient labour market mechanism will be put in place to facilitate the matching of the demand and supply of manpower, thus assisting in the country's development process.

Chapter 5

Public Sector Programme and Privatization

5 PUBLIC SECTOR PROGRAMME AND PRIVATIZATION

I. INTRODUCTION

5.01 The focus of the public sector programme during the first two years of the Plan period was directed towards capacity expansion to support a dynamic private sector and to meet the needs of a modern economy including higher expectations from an increasingly affluent society. Due to measures taken to improve the implementation capability of agencies, the progress achieved during this period exceeded the Plan target. To enhance public sector efforts in providing public infrastructural facilities and modern services, privatization programmes were implemented at a rapid pace. However, with the onset of the economic slowdown, the public sector responded by rationalizing its expenditure and reviewing the implementation of the privatization programme.

5.02 For the remainder of the Plan period, the public sector is expected to play a stimulative role while maintaining fiscal prudence in order to offset the lacklustre performance of the private sector and avert a severe contraction of the economy. In this regard, construction and infrastructure projects which have strong linkages with other economic activities will be promoted in order to revitalize the economy. Emphasis will also be given to socioeconomic programmes targeted at the low-income and poor households in order to minimize the impact of the economic slowdown.

II. PROGRESS, 1996-1998

5.03 During the first two years of the Plan period, the consolidated public sector account recorded an overall surplus equivalent to 5.5 per cent of Gross National Product (GNP). The Federal Government's financial position also remained strong and registered a surplus equivalent to 1.7 per cent of GNP, reflecting its commitment to a policy of fiscal consolidation as part of the macroeconomic strategy to maintain the private sector as the engine of growth.

5.04 In 1998, however, both the overall consolidated public sector and the Federal Government accounts registered a deficit, after having been in surplus for four consecutive years for the former and five for the latter. As the economic contraction turned out to be worse than expected, the Government adopted counter-cyclical measures and increased development expenditure.

5.05 The development expenditure of the public sector as a whole, for the period 1996-1998, was RM118,029 million or 72.6 per cent of the original target. Of this amount, development expenditure of the Non-Financial Public Enterprises (NFPEs) amounted to 53.1 per cent, followed by the Federal Government 29.3 per cent and state governments, local governments and statutory authorities 17.6 per cent. The development expenditure for 1998 included an additional RM7 billion by the Federal Government which was channelled to projects in the agriculture, infrastructure, public utilities and education subsectors as well as poverty eradication and rural development programmes. In addition, allocation was also given to the National Higher Education Fund in order to increase accessibility to tertiary education, especially for those in the lower income group. Additional allocations were also provided to the *Amanah Ikhtiar Malaysia* (AIM), the Fund for Food and the Micro-Credit Programme.

Federal Development Expenditure

5.06 During the review period, economic and social programmes accounted for a major part of development expenditure. The total development expenditure was RM48,481 million of which RM25,899 million was for the economic sector, while RM13,473 million was for the social sector. The development allocation and estimated expenditure of the Federal Government by sector are shown in *Table 5-1*.

5.07 In the *economic sector*, agriculture and rural development expenditure was RM4,479 million or 9.2 per cent of total development expenditure. This expenditure was to support the broad policy objectives, among others, to transform the sector to be more productive through the promotion of commercialization and greater private sector participation. *In-situ* development programmes, comprising integrated agricultural development, drainage and irrigation, replanting as well as land consolidation and rehabilitation, accounted

TABLE 5-1

FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION AND EXPENDITURE BY SECTOR, 1996-2000
(RM million)

Sector	*7MP Allocation*				*Estimated Expenditure 1996-2000*	*Balance [illegible]*
	Original	*%*	*Revised*	*%*		
Economic	**35,655.8**	**52.9**	**60,138.8**	**60.2**	**25,898.8**	**17,240.0**
Agriculture & Rural Development	9,899.1	14.7	8,500.7	9.5	4,678.8	3,821.8
Mineral Resources Development	49.9	0.1	49.4	0.1	15.6	34.8
Commerce & Industry	5,866.1	8.8	8,583.1	9.6	4,417.8	4,165.4
Transport	13,990.1	20.7	19,883.7	22.0	13,483.0	6,396.7
Communications	39.4	0.1	79.2	0.1	9.9	69.3
Energy	438.5	0.6	1,112.5	1.2	558.0	554.2
Water Resources	1,601.9	2.3	3,859.0	4.3	2,294.7	1,564.3
Feasibility Study	280.1	0.1	329.0	0.3	99.7	229.3
Research & Development	989.4	1.5	1,144.4	1.3	561.2	583.2
Social	**18,798.1**	**27.9**	**27,629.7**	**30.9**	**13,472.5**	**14,157.2**
Education & Training	10,982.9	16.3	15,023.6	17.0	7,861.9	7,361.7
Health & Population	2,659.1	3.9	3,428.1	3.8	1,615.0	1,813.1
Information & Broadcasting	276.3	0.4	235.6	0.3	101.5	134.1
Housing	2,781.4	4.1	3,503.6	3.9	1,454.7	2,049.1
Culture, Youth & Sports	1,056.5	1.6	1,453.8	1.6	964.5	489.4
Local Authorities & Welfare Services	1,707.8	2.5	1,794.6	2.0	735.9	1,058.7
Village & Community Development	309.1	0.5	1,249.1	1.4	420.5	828.6
Purchase of Land	48.0	0.1	71.6	0.1	58.5	13.1
Security	**9,135.5**	**13.5**	**10,476.2**	**11.6**	**6,080.1**	**5,394.1**
Defence Services	7,000.0	10.4	8,000.0	10.0	4,093.5	4,306.5
Internal Security	2,135.5	3.1	2,476.2	2.8	1,102.6	1,273.6
General Administration	**4,556.8**	**6.7**	**7,261.3**	**8.1**	**3,023.6**	**4,237.7**
General Services	4,371.8	6.5	7,053.0	7.9	2,947.1	4,105.9
Upgrading & Renovation	185.0	0.2	208.3	0.2	76.5	131.8
Total	**67,500.0**	**100.0**	**89,500.0**	**100.0**	**48,685.0**	**40,815.0**

TABLE 5-1

FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION AND EXPENDITURE BY SECTOR, 1996-2000
(RM million)

Sector	7MP Allocation				Estimated Expenditure 1996-1998	Balance 1999-2000
	Original	%	Revised	%		
Economic	**35,033.8**	**51.9**	**43,138.8**	**49.2**	**25,890.4**	**17,248.4**
Agriculture & Rural Development	6,899.2	10.2	8,300.7	9.5	4,478.9	3,821.8
Mineral Resources Development	48.9	0.1	48.4	0.1	23.6	24.8
Commerce & Industry	4,006.2	5.9	8,501.2	9.6	4,417.8	4,083.4
Transport	15,990.2	23.7	19,683.7	22.4	13,485.0	6,198.7
Communications	58.4	0.1	79.2	0.1	9.9	69.3
Energy	638.5	0.9	1,112.2	1.2	578.0	534.2
Water Resources	3,081.9	5.5	3,899.0	4.5	2,294.7	1,504.3
Feasibility Study	288.3	0.5	328.6	0.4	69.2	259.4
Research & Development	999.4	1.5	1,345.8	1.5	584.3	761.5
Social	**18,790.1**	**27.9**	**27,629.7**	**30.8**	**13,472.0**	**14,157.2**
Education & Training	9,982.4	14.8	15,923.6	17.9	7,961.9	7,961.7
Health & Population	2,050.1	2.9	3,458.1	3.8	1,633.0	1,815.1
Information & Broadcasting	236.3	0.4	335.6	0.3	181.5	154.1
Housing	2,761.4	4.2	3,903.8	3.9	1,454.7	2,449.1
Culture, Youth & Sports	1,054.5	1.6	1,473.9	1.8	864.5	609.4
Local Authorities & Welfare Services	1,357.6	2.5	2,764.6	2.6	733.9	1,668.7
Village & Community Development	989.1	0.7	1,109.1	3.4	630.5	928.6
Purchase of Land	88.0	0.1	71.0	0.1	38.5	32.5
Security	**9,135.3**	**13.5**	**11,479.2**	**12.8**	**6,096.1**	**5,384.1**
Defence Services	7,000.0	10.4	9,000.0	10.0	4,893.5	4,106.5
Internal Security	2,135.3	3.2	2,479.2	2.8	1,192.6	1,277.6
General Administration	**4,514.8**	**6.7**	**7,261.3**	**8.2**	**3,023.6**	**4,237.7**
General Services	4,371.8	6.5	7,053.0	7.8	2,947.1	4,105.9
Upgrading & Renovation	143.0	0.2	208.3	0.2	76.5	131.8
Total	**67,500.0**	**100.0**	**89,500.0**	**100.0**	**48,481.0**	**41,019.0**

Water Supply, Melaka Water Supply and Sungai Selangor Water Supply Phase II Stage 1 as well as the Submarine Pipe Line from Kedah to Langkawi and Wangsa Maju Treatment Plant projects increased the production capacity by 952 million litres per day (mld).

5.11 In the *social sector*, RM13,473 million or 27.8 per cent of the total development expenditure was spent for education and training, health, housing and other social services during the review period. To cater for the increasing number of students, a major portion of the expenditure was spent on education and training including the construction of the permanent campus for University of Malaysia Sabah, a total of 2,455 additional classrooms at primary and secondary schools as well as the expansion of existing education and training facilities. Due to increased demand for tertiary level education and the need to accommodate students who would have normally been sent abroad, the capacity of local tertiary education institutions was expanded. In this regard, public institutions established franchising arrangements with private tertiary institutions. In the health subsector, construction of four new hospitals and 38 new health clinics as well as upgrading and expansion of three existing hospitals were undertaken. Measures were also taken to increase the supply of low-medium and low-cost houses to cater for the housing needs of public services personnel and the low-income group as well as the hardcore poor.

5.12 The expenditure for the *security sector* accounted for RM6,096 million or 12.6 per cent of the total development expenditure. A major portion of the expenditure was for the purchase of military hardware, replacement of outmoded equipment and provision of better training facilities for both the armed forces and police personnel as well as construction of related infrastructure. This was in line with the modernization programme of the armed forces and the police, aimed at strengthening and enhancing their capabilities to safeguard the security of the nation.

5.13 During the review period, the *general administration sector* expenditure accounted for RM3,024 million consisting 6.2 per cent of the total. Further progress was made in streamlining the public sector through the wider use of office automation and IT. The computerization of various government agencies is a prerequisite to the success of the Electronic Government initiative which will be modelled after the new Federal Government Administrative Centre in Putrajaya. The Government continued to provide expenditure to upgrade offices as well as to improve working environment in order to increase efficiency and productivity. Common user buildings were also constructed with a total area of

42,000 square metres to house various government departments under one roof such as in Besut, Kemaman, Maran, Raub, Sri Manjung and Perlis.

5.14 The development allocation and expenditure by state are shown in *Table 5-2*. Johor, Melaka, Negeri Sembilan, Perak, Pulau Pinang, Selangor and Wilayah Persekutuan spent a total of RM17,275 million or 35.6 per cent of the total development expenditure of the Federal Government. The expenditure of Kedah, Kelantan, Pahang, Perlis, Sabah, Sarawak, and Terengganu amounted to RM11,658 million or 24.1 per cent of the total development expenditure. The remaining RM19,548 million or 40.3 per cent were for multi-state projects.

Current Expenditure

5.15 The current expenditure of the Federal Government increased at a rate of 10.5 per cent per annum during the first two years of the Plan period, surpassing the Plan target of 9.8 per cent. During the same period, expenditure on wages and salaries expanded by 8.3 per cent per annum, amounting to 35.7 per cent of total current expenditure. The share of debt service payments to total current expenditure declined from 17.8 per cent in 1995 to 15.2 per cent in 1997 due to the rapid growth of total current expenditure. However, expenditure on supplies and services, comprising mainly the purchase of supplies and equipment as well as payment on other items such as travelling, utilities, maintenance and repairs, increased moderately by 3.4 per cent per annum during this period.

5.16 In 1998, the Federal Government current expenditure declined slightly by 0.2 per cent mainly due to the reduction in expenditure on supplies and services. The expenditure on supplies and services which accounted for about 13 per cent of total Federal Government current expenditure during the review period, declined by 18.1 per cent in 1998. However, debt service payments registered a slight increase of 0.2 per cent, reflecting the higher outstanding debt of the Government.

Sources of Revenue

5.17 During the first two years of the Plan period, the Federal Government revenue grew at the rate of 13.6 per cent per annum, amounting to RM65,736 million in 1997. Its share as a percentage of GNP was maintained at around

TABLE 5-2

FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION AND EXPENDITURE BY STATE, 1996-2000
(RM million)

State	7MP Allocation				Estimated Expenditure, 1996-1999	Balance, 1999-2000
	Original	%	Revised	%		
Johor	2,614.2	3.8	5,012.0	5.6	2,571.8	2,440.1
Kedah	3,206.8	4.8	4,395.5	4.9	2,001.8	2,378.5
Kelantan	1,800.5	2.6	3,506.0	3.8	1,999.1	1,412.8
Melaka	1,144.2	1.7	1,521.4	1.7	522.3	999.0
Negeri Sembilan	2,171.3	3.2	2,864.0	3.2	1,238.9	1,625.1
Pahang	3,000.0	4.4	4,127.0	4.6	1,419.9	2,997.1
Perak	3,107.9	4.6	4,117.0	4.6	1,751.6	2,365.4
Perlis	803.1	1.2	1,432.0	1.6	345.6	1,087.0
Pulau Pinang	1,516.2	2.4	2,416.5	2.7	937.6	1,478.9
Sabah	4,235.4	6.3	6,552.8	7.3	2,966.6	3,586.5
Sarawak	4,714.8	7.0	6,444.0	7.2	3,466.6	2,978.0
Selangor	6,389.8	9.5	7,428.5	8.3	5,558.0	1,870.5
Terengganu	2,433.8	3.6	3,490.5	3.9	1,360.0	2,130.5
Wilayah Persekutuan	6,262.4	9.3	7,339.9	8.2	4,713.9	2,627.1
Multi-state[1]	21,887.8	32.4	28,485.0	31.8	19,144.1	10,340.9
Malaysia	**67,500.0**	**100.0**	**89,500.0**	**100.0**	**48,481.0**	**41,019.0**

Note: [1] Multi-state projects are those whose beneficiaries are nationwide.

25 per cent, as shown in *Table 5-3*. Collection from *direct taxes*, mainly income taxes and stamp duties, increased by 15.8 per cent per annum to an amount of RM30,432 million in 1997. Corporate tax revenue increased strongly by 19.4 per cent to RM16,688 million, reflecting increased profitability of the private sector. Despite the reduction in individual income tax rate by 1 to 2 percentage points in the 1996 Budget, revenue from individual income tax expanded by 1.8

TABLE 5-3

FEDERAL GOVERNMENT EXPENDITURE AND FINANCING, 1995-2000

(RM million)

Item	1995	1998	2000	1996-2000	Share of GNP (%)				
					7MP Target				
					Original	Revised	1996-1997	1998	1999-2000
Total Revenue	50,954	56,710	62,906	293,964	22.8	22.1	24.9	21.6	20.3
Direct Taxes	22,609	30,016	21,962	126,723	9.6	9.8	11.3	11.4	7.6
Indirect Taxes	18,977	15,120	20,296	97,058	8.2	7.4	8.9	5.8	6.7
Non-Tax Revenue	8,468	10,833	20,119	65,288	3.3	3.0	4.4	4.3	5.9
Non-Revenue Receipts	818	491	539	2,895	0.4	0.3	0.3	0.2	0.2
Operating Expenditure[1]	36,573	44,584	48,976	229,330	17.9	17.4	17.7	17.0	17.3
Current Surplus	14,381	12,126	13,930	64,634	4.7	4.9	7.1	4.6	3.1
Development Expenditure[2]	14,051	18,105	20,817	89,500	4.8	6.5	6.1	6.9	7.4
Repayment	1,233	975	1,000	6,508					
Overall Surplus/Deficit	1,863	-5,002	-5,887	-18,538	-0.8	-1.4	1.7	-1.9	-2.0
(% of GNP)	*0.9*	*-1.9*	*-2.0*	*-1.4*					
Sources of Financing									
Net Foreign Borrowing[3]	-1,635	1,819	2,355	4,237	-0.1	0.3	-0.8	0.7	1.1
Net Domestic Borrowing	9	11,040	3,532	18,583	-0.3	1.4	-0.2	4.2	2.5
Change in Assets & Special Receipts[4]	-226	7,859	0	-4,286	0.0	-0.1	-0.8	-3.0	1.1

Notes:

[1] Excludes transfers to Development Fund.

[2] Includes transfers to Development Fund.

[3] (-) Indicates net repayment.

[4] (-) Indicates build-up in assets; (+) indicates drawdown in assets.

per cent per annum to RM6,429 million in 1997. Increased production and higher prices of crude oil and natural gas during 1996 and the first half of 1997 contributed to a higher revenue collection from petroleum income tax by 32.9 per cent per annum. Other direct taxes, comprising largely stamp duties, receipts from estate duty and property gains tax, increased by 15.2 per cent.

5.18 Direct taxes which recorded double-digit growth rate in the first two years of the Plan period, registered negative growth in 1998 as a result of the economic crisis. Direct taxes remained an important contributor to overall Federal Government revenue where its share to GNP increased to 11.4 per cent in 1998 compared with 11.3 per cent during 1996-1997. Of the RM30,016 million direct taxes collected in 1998, 57.6 per cent was from corporate income tax and the balance mainly from individual and petroleum income taxes.

5.19 *Indirect tax revenue* increased by 10.6 per cent per annum during the first two years of the Plan, slightly higher than the Plan target of 9.8 per cent. This was largely attributed to an improvement in contribution from customs duties. Receipts from export duties increased by 11.1 per cent per annum after experiencing negative growth during the previous Plan period. In spite of the reduction or abolition of import duties on certain raw materials, components and equipment in the 1997 Budget, import duties increased by 7.7 per cent per annum to RM6,524 million in 1997. Indirect tax revenue derived from the domestic economy, namely excise duties, sales tax and service tax, increased by 10.8 per cent per annum as a result of the strong economic growth and domestic demand during the period 1996-1997.

5.20 Indirect taxes were, however, severely affected by the economic crisis and contracted by 34 per cent in 1998. All components of indirect taxes, particularly excise duties, import duties, sales tax and export duties, registered poor performance. Excise duties declined by 40.8 per cent, import duties by 40.7 per cent while sales tax and export duties fell by 37.7 per cent and 40.9 per cent, respectively.

5.21 *Non-tax revenue* registered a strong performance during 1996-1997, especially receipts from licenses and permits including road tax, royalties on oil and gas as well as dividends from *Petroliam Nasional Berhad* (PETRONAS), reflecting a strong economic growth. It increased by 16.1 per cent per annum to RM11,421 million in 1997 from RM8,468 million in 1995. However, due to the economic slowdown, non-tax revenue subsequently declined by 4.7 per cent in 1998.

Consolidated Public Sector Financing

5.22 During the first two years of the Plan period, the overall balance of the public sector account recorded a high surplus amounting to RM9,979 million in 1996 and RM17,332 million in 1997. However, this position was reversed in 1998 with a deficit of RM4,677 million or 1.8 per cent of GNP, as shown in *Table 5-4*. This deficit was due to the decline in revenue for all components of the public sector except statutory authorities as a result of the economic crisis. The current surplus of the Government sector comprising Federal Government, state governments, local authorities and statutory bodies, fell from RM29,644 million in 1997 to RM19,496 million in 1998.

5.23 The overall balance of the Federal Government account registered a deficit of RM5,002 million or 1.9 per cent of GNP in 1998, as a result of poor revenue performance and an increase in the development expenditure. This deficit was financed by non-inflationary domestic borrowing and loans from bilateral lenders and multilateral institutions.

5.24 During the review period, the current balance of NFPEs as a group grew at 13 per cent per annum, registering an average surplus of RM23.7 billion annually. Development expenditure of NFPEs grew at the rate of 23.7 per cent per annum, amounting to RM62,630 million. Several NFPEs, especially PETRONAS, *Tenaga Nasional Berhad* (TNB) and *Telekom Malaysia Berhad* (Telekom) continued to undertake expansion and modernization programmes during the period. PETRONAS increased both its upstream and downstream investments including the expansion of the gas processing plant and completion of a refinery project in Melaka. It entered into several joint-venture agreements with multinational companies to develop large-scale petrochemical projects with a total investment of US$2.9 billion in Gebeng, Pahang and Kerteh, Terengganu. At the same time, TNB increased its power generating capacity and began to reinforce the national grid by upgrading the transmission lines from 275 kilovolts (kV) to 500 kV, to cater to the growing demand of industrial, commercial and domestic customers. Telekom expanded its international and local networks and built the telecommunications infrastructure for the Multimedia Super Corridor (MSC).

PRIVATIZATION PROGRAMME

5.25 The privatization programme during the review period continued to be guided by the Privatization Master Plan. The implementation of the programme was accelerated during 1996-1997 in tandem with the rapid growth in economic

TABLE 5-4

CONSOLIDATED PUBLIC SECTOR EXPENDITURE AND FINANCING, 1995-2000
(RM million)

Item	1995	1998	2000	1996-2000	Share of GNP (%) 7MP Target Original	Revised	1996-1997	1998	1999-2000
General Government[1]									
Revenue	62,271	71,392	77,440	365,933	26.8	27.5	30.6	27.2	25.3
Operating Expenditure	41,389	51,896	57,736	266,830	20.5	20.2	20.5	19.8	20.2
Current Surplus/Deficit	20,839	19,496	19,704	99,023	6.3	7.5	10.0	7.4	5.3
NFPEs Current Surplus	15,993	23,046	26,042	121,087	3.4	9.2	9.5	8.8	9.0
Public Sector Current Surplus	36,869	42,542	45,746	220,110	11.7	16.7	19.7	16.2	14.3
Development Expenditure	29,801	47,219	48,640	215,229	11.5	16.1	14.2	18.0	17.4
General Government	14,171	21,442	24,774	103,941	6.2	7.9	6.8	8.2	8.7
NFPEs[2]	15,630	25,777	23,866	111,288	5.3	8.4	7.4	9.8	8.7
Public Sector Overall Surplus/Deficit	7,068	-4,677	-2,894	4,881	0.2	-0.4	5.5	-1.8	-3.2
(% of GNP)	3.4	-1.8	-1.0	0.4					
Sources of Financing									
Net Foreign Borrowing[3]	4,529	2,380	3,513	17,733	0.5	1.3	2.2	0.9	1.6
Net Domestic Borrowing	10,780	11,540	1,269	-4,775	-0.5	-0.6	-8.4	4.4	-1.2
Change in Assets & Special Receipts[4]	-2,853	-9,063	-5,888	16,828	0.0	-1.1	-0.5	3.4	-0.8

Notes:

[1] General Government comprises Federal Government, state governments, local governments and statutory authorities.

[2] Includes estimated capital transfers and net borrowing from Federal Government during the Plan period.

[3] (-) Indicates net repayment.

[4] (-) Indicates build-up in assets; (+) Indicates drawdown in assets.

activities and greater interest of the private sector to participate in the programme. The pooling of resources from both the private and public sectors increased the resource capacity of the economy. However, the economic slowdown in the second half of 1997 affected the implementation of the privatization programme. Efforts were then undertaken to assist the affected companies which faced financial constraints.

Programme Achievement

5.26 Since the implementation of the privatization programme in 1983, a total of 434 projects had been privatized, of which 68 were privatized during the review period with a total cost of RM66,699 million. These included both Federal Government and state government projects. During the review period, a total of RM5,900 million which constituted Government support in the form of advances for land and loans was provided especially for major infrastructure projects.

5.27 Out of the 68 projects privatized during the review period, 47 have started implementation, while 21 have yet to commence. In addition, several major privatized projects approved during the previous Plans were completed during the review period, such as the Second Link to Singapore, the National Sports Complex, the upgrading of the KL-Karak Highway and the Light Rail Transit (LRT) System I and System II projects. In terms of sectoral distribution, infrastructure including the utilities sector accounted for 54.4 per cent, followed by Government services sector at 19.1 per cent, while finance, real estate and business services sector accounted for 10.3 per cent of the total, as shown in *Table 5-5*.

5.28 Most of the new and major projects privatized since implementation of the programme was through the build-operate-transfer (BOT) method. This method of privatization involves the private sector constructing, operating and maintaining the facility using its own funds as well as collecting revenue from the assets during the concession period. The facilities will be transferred at no cost to the Government at the end of the period. Some major projects privatized through this mode were the North-South Highway, Second Link to Singapore and the various Independent Power Producers (IPPs). Major projects privatized through other modes of privatization, such as the sale and lease of assets, include the Johor Port, Government Security Printing and Medical Stores while the Light Rail Transit Systems were privatized by the build-operate-own (BOO) method.

TABLE 5-5

NUMBER OF PRIVATIZED PROJECTS BY SECTOR AND MODE, 1996-1998

Sector	*Mode of Privatization*									*Total Projects*	*(%)*	*Savings in Capital Expenditure (RM mil.)*
	SOE	BOT	SOA	BOO	COR	BT	MBO	LOA	MC			
Agriculture & Forestry	1	0	0	0	2	0	0	0	0	3	4.4	0
Mining & Quarrying	0	0	0	0	0	0	0	0	0	0	0	0
Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0
Construction/ Infrastructure	0	13	13	0	0	4	0	0	0	30	44.1	18,827.7
Electricity, Gas & Water	0	0	0	7	0	0	0	0	0	7	10.3	28,131.0
Transport, Storage & Communications	3	2	0	0	0	0	0	1	0	6	8.8	5,440.0
Wholesale & Retail Trade, Hotels & Restaurants	1	0	1	0	0	0	0	0	0	2	2.9	0
Finance, Real Estate & Business Services	4	0	0	0	3	0	0	0	0	7	10.3	838.6
Government Services	0	0	2	0	1	1	0	1	8	13	19.1	108.1
Other Services	0	0	0	0	2	0	0	0	0	2	2.9	0
Total	**9**	**15**	**16**	**7**	**6**	**5**	**0**	**2**	**8**	**68**	**100**	**53,345.4**

Notes:

SOE = Sale of Equity
BOT = Build-Operate-Transfer
SOA = Sale of Asset
BOO = Build-Operate-Own
COR = Corporatization
BT = Build-Transfer
MBO = Management-Buy-Out
LOA = Lease of Asset
MC = Management Contract

5.29 During the review period, projects privatized under the BOT method constituted 22 per cent of the total, while 23.5 per cent was through the sale of assets. Major projects privatized through the sale of asset included the Kuala Lumpur Sentral and Kuantan Port, while the BOT method was undertaken in the privatization of the Express Rail Link (ERL), KL Monorail (PRT) and the Damansara-Puchong Highway. Government agencies that were corporatized included the Urban Development Authority (UDA), Standards and Industrial Research Institute of Malaysia (SIRIM), Malaysian Institute of Microelectronics System (MIMOS) and the Federal Land Consolidation and Rehabilitation Authority (FELCRA).

5.30 During 1996-1998, a number of measures were adopted to further enhance the implementation of the privatization programme, including the standardization of the terms and conditions of privatization relating to termination, project maintenance and involvement of Bumiputera contractors. Both the Government and private sector continued to identify projects for privatization, resulting in many new projects being implemented. To enable infrastructure project companies (IPCs) to raise capital from the market for their projects, they were allowed to be listed on the Kuala Lumpur Stock Exchange (KLSE). During 1996-1997, of the 14 privatized public-listed projects, five were IPCs, namely Lingkaran Transkota Holdings Berhad, *Mattaru Swisscom Berhad, Puncak Niaga Berhad*, YTL Power International Berhad and Powertek Berhad. In 1998, however, due to the adverse impact of the economic slowdown on the implementation of the privatization programme, there were no further listings of IPCs. Moreover, the poor performance of the KLSE undermined the ability of companies to obtain equity financing through public listing.

Gains From Privatization

5.31 The privatization programme demonstrated that the transfer of activities and functions that were traditionally with the Government to the private sector had brought about positive changes to the organization, management and performance of the entities. Since its implementation, it had achieved the objectives of relieving the financial and administrative burden of the Government; improved efficiency and productivity; facilitated economic growth; reduced the size and presence of the public sector in the economy; and helped meet the National Development Policy (NDP) targets.

5.32 *Growth and Efficiency*. Privatization continued to provide opportunities for the private sector to conceptualize and develop new projects as well as expand existing projects, thus enhancing economic growth. Since the implementation of the programme, major privatized projects such as the 847 kilometer North-South Expressway not only reduced travelling time from 15 to 7.5 hours, but also the number of accidents and loss of lives. Even though users of privatized highways had to pay toll, they benefited from the comfort of travelling due to the high standard of services provided as well as savings in the vehicle operating cost as a result of better road design and maintenance. Likewise, privatized highways within the urban and sub-urban areas improved traffic dispersal and reduced bottlenecks on existing roads.

5.33 During the review period, the completion of the LRT System I Phase II provided direct rail service between Kuala Lumpur city centre to the National Sports Complex at Bukit Jalil, the venue of the Kuala Lumpur 98 - XVI Commonwealth Games. At the same time, the Second Link to Singapore project reduced travel time and traffic congestion at the causeway, thus benefiting commuters. Growth was also generated from privatized projects through efficiency gains with better utilization of assets and the generation of multiplier effects to the economy. The resultant savings and proceeds enabled the Government to channel these funds for the growth of other critical sectors.

5.34 There were marked improvements in the management of several privatized entities leading to increased efficiency and productivity, as shown in *Table 5-6*. This was achieved through improvements in the quality of service and management systems, changes in work culture, expansion of capacity and service networks as well as acquisition of modern equipment and technology. Various privatized entities embarked on expansion programmes such as the expansion of generation systems by the IPPs and extension of rail services by *Sistem Transit Aliran Ringan Sendirian Berhad* (STAR). Privatization led to faster project implementation especially in the construction of highways, as evidenced by the KL-Karak Highway, that was completed eight months ahead of schedule. The construction of highways through privatization also led to the development of new growth centres along highways, such as Bukit Beruntung and Sungai Buaya in Selangor and Bukit Merah Laketown in Perak.

5.35 Various new services were introduced by *Pos Malaysia Berhad*, such as the Express Post, Pilgrim Baggage Service and Post 2020. The performance of *Pos Malaysia Berhad* improved, as reflected by an increase in its revenue from RM300 million in 1992 when it was corporatized, to RM497 million in 1996 and RM544 million in 1997. Improvements were also carried out in the provision of services and distribution by Telekom. As they became self-financing entities, the management of privatized entities also improved in terms of administrative flexibility.

TABLE 5-6

EFFICIENCY AND PRODUCTIVITY INDICATOR OF SELECTED PRIVATIZED ENTITIES

Indicators	*Before Corporatization/ Privatization*	*After Corporatization/ Privatization (1997)*
Johor Port Berhad[a]		
Return on Assets (%)	-4.6	5.5
Operation Cost Per Tonne-Freight Weight (RM)	6.3	7.1
Gross Profit Yearly (RM million)	29.1	65.8
Operating Revenue Per Employee (RM)	110,000	260,000[h]
Average Container Throughput (TEUs)	128,358	429,448
Average Number of TEUs Per Vessel	140	176
Average handling Rate Per Ship Hour	28	32
Crane Handling Rate Per Hour (TEUs)	28	26[e]
Telekom Malaysia Berhad[b]		
Return on Assets (%)	4.0	7.6
Revenue Per Subscriber (RM)	1227	1,609
Production Per Employee (RM)	34,372	219,643
Direct Exchange Lines Per Employee	56	154
Response to Complaints within 24 Hours (%)	80	91.5
Tenaga Nasional Berhad[c]		
Revenue Generated (RM billion)	3.3	10.3
Cost Per Unit Per Output (cent/KWh)	16.8	23.1[f]
Access to The Public (number of service centres)	100	142
Cost to Public Per Unit Per Output (cent/KWh)	18	32.3[g]
Penang Port Sdn. Bhd[d]		
Return on Assets (%)	11	12
Operation Cost Per Tonne-Freight Weight (RM)	8.9	7.0
Gross Profit Yearly (RM million)	30.7	45.3
Operating Revenue Per Employee (RM)	78,253	83,500[h]
Average Container Throughput (TEUs)	130,922	308,883
Average Number of TEUs Per Vessel	271	360
Average Handling Rate Per Ship Hour	23.8	29.6
Crane Handling Rate Per Hour (TEUs)	21.5	34.6

Notes:

[a] Privatized in 1995.
[b] Privatized in 1990.
[c] Privatized in 1992.
[d] Corporatized in 1994.
[e] Reduction due to changes in criteria used as denominator for calculation of average crane handling rate per hour.
[f] Due to energy purchase from Independent Power Producers (IPPs).
[g] Due to increases in operation and management costs.
[h] Total operating revenue divided by total number of staff.

5.36 *Savings and Reduction in Administrative Burden.* The privatization programme implemented during the review period relieved the financial and administrative burden of the Government, as shown in *Table 5-7*. Savings in capital expenditure from privatized projects amounted to RM53,130 million, representing 41.1 per cent of the total savings of RM129,130 million since 1983. This capital expenditure, however, would extend throughout the construction period of the privatized projects. In addition, privatization also led to savings on operating expenditure amounting to RM663 million annually. The sale of assets and equity under the privatization programme generated proceeds of RM2,510 million to the Government. The financial performance of privatized entities was enhanced, benefiting the country through increased revenue from corporate taxes. Major entities such as Telekom and TNB contributed a total of RM4,737 million in the form of corporate taxes, since their privatization.

5.37 The administrative burden of the Government in terms of recruitment, promotion and training of personnel was further reduced as a result of the privatization programme. During the review period, a total of 9,781 employees was transferred to the private sector, representing 9.2 per cent of the total

TABLE 5-7

PROCEEDS, SAVINGS AND REDUCTION IN PUBLIC SECTOR EMPLOYEES

Item	1996-1998	1983-1998
Proceeds (RM million)	2,510	21,520
Sale of Equity	660	19,130
Sale of Assets	1,850	2,390
Savings (RM million)		
Capital Expenditure[1]	53,130	129,130
Number of Public Sector Employees Transferred	9,781	105,825

Note: [1] Based on project cost spent during construction period which may exceed the Plan period.

105,825 employees transferred since 1983. This number, however, excluded personnel of Government-owned companies that were privatized. Examples of privatized projects which resulted in the transfer of employees to the private sector were the privatization of hospital services and port services.

Bumiputera Participation

5.38 *Equity Ownership*. During the review period, privatization continued to be an effective mechanism in meeting the objectives of the NDP, especially in pursuing growth with equity. It continued to be one of the major vehicles to enhance Bumiputera participation in the corporate sector. Although the privatization policy stipulated that at least 30 per cent equity should be taken up by Bumiputera, of the 68 projects privatized during the review period, a significant number had majority Bumiputera ownership. The overall equity structure of 230 selected entities privatized since 1983 is shown in *Table 5-8*. At the point of privatization of these entities, Government equity was 58.3 per cent due to its holding in major entities such as Telekom, TNB and Heavy Industries Corporation of Malaysia. Subsequently, the Government divested some of its holdings in these companies.

5.39 *Wider Distribution of Benefits*. Greater efforts were undertaken to ensure that privatization benefited more Bumiputera entrepreneurs. However, due to the size and nature of privatized projects which required substantial capital investment, the companies selected to undertake the projects should

TABLE 5-8

EQUITY OWNERSHIP OF SELECTED PRIVATIZED ENTITIES
(%)

Equity Ownership	*Upon Privatization*	*December 1998*
Government	*58.3*	*41.3*
Bumiputera	*24.3*	*28.5*
Non-Bumiputera	*11.4*	*17.2*
Foreign	*5.1*	*12.0*

possess not only sufficient technical expertise but also financial capabilities. Some privatized companies were required to shoulder administrative and financial burden, especially those involving the transfer of public sector personnel. As a matter of policy, the employees who opted to join the privatized entity were offered terms and conditions of service which were no less favourable than those received previously.

5.40 The existing policy of reserving 30 per cent of contract works to Bumiputera continued to be enforced. To enable wider distribution of benefits to Bumiputera contractors, one of the conditions imposed on concession companies was that they should not award contract to contractors which were directly or indirectly owned by them or their shareholders. These contractors were also required to be registered with the Centre for Contractor Services, Ministry of Finance and the Construction Industry Development Board (CIDB). Apart from being a vehicle to enhance Bumiputera participation, privatization also benefited other Malaysians, especially through joint-venture projects between Bumiputera and non-Bumiputera as well as contracting and sub-contracting to non-Bumiputera. The listing of privatized entities at the KLSE likewise, provided an avenue for all Malaysians to become shareholders.

5.41 *Vendor Development Programme.* During the review period, major privatized entities were required to undertake vendor development programmes in line with efforts to develop small- and medium-scale industries (SMIs). In this regard, specific provisions were incorporated in concession agreements to ensure the implementation of the vendor development programme. Some of the vendor programmes undertaken by major privatized companies are listed in *Table 5-9*. *Perusahaan Otomobil Nasional Berhad* (PROTON) continued to undertake a Component Scheme Programme to source automobile parts from SMI vendors. Similarly, *Indah Water Konsortium Sendirian Berhad* contracted out development and maintenance of sewerage systems to 157 companies, while *Puncak Niaga Holdings Berhad* which undertook the privatization of water supply in Selangor, sourced services from 46 companies to undertake various civil, electrical and mechanical works.

Market Capitalization

5.42 During the review period, 14 more privatized projects were listed on the KLSE, bringing the total to 38. The listing contributed to the increase in market capitalization of the KLSE and provided a wider choice of investment alternatives for investors. The market capitalization of the 38 listed companies

Table 5-5

VENDOR PROGRAMMES UNDERTAKEN BY SELECTED PRIVATIZED COMPANIES, 1996-1998

Company	*Contract Value (RM million)*	*Programme*
Perusahaan Otomobil Nasional Berhad	619.1	Component scheme programme Proton mentor-mentee
Telekom Malaysia Berhad	516.7	Entrepreneur development programme Manufacturing products for telecommunications Credible supplier
Tenaga Nasional Berhad	570.2	Entrepreneur development programme Umbrella scheme Credible contractor Strategic joint venture
Indah Water Konsortium Sendirian Berhad	102.1	Main sewerage system and pumping station network Rehabilitation works on sewerage pipes Operations and maintenance works
Puncak Niaga Holdings Berhad	137.1	Civil, electrical and mechanical works involving water treatment plants

as at 31 December 1996, amounted to RM166.3 billion or 20.6 per cent of total market capitalization of RM806.8 billion. However, the financial crisis which led to a reduction in the total value of market capitalization on the KLSE, resulted in a drop in the value of market capitalization of these companies to RM110.7 billion, constituting 29.5 per cent of total market capitalization of RM375.8 billion, as at 31 December 1997. Although the market value of these companies was eroded to RM109.6 billion, as at 31 December 1998, nevertheless, it still constituted 29.3 per cent of total market capitalization which was at RM374.1 billion. On average, the percentage of market capitalization of these privatized listed companies remained in the region of 25 per cent during the period.

Technology Transfer and Training

5.43 Privatization continued to provide greater opportunities for Malaysians to gain experience and exposure to new technologies, skills and expertise, especially in the field of engineering, procurement, operations and maintenance. The privatization of various infrastructure projects, such as the railway systems and services introduced new fully automated systems for the railway sector. The LRT System II using the linear induction motor based on a fully automated, driverless system enabled Malaysians to acquire new technology and expertise in railway operations. Privatization of the construction of the National Sports Complex also enabled the adoption of new technology in the provision of sports facilities. In addition, the privatization of projects in the energy sector contributed to the transfer of technology and technical expertise to local companies in terms of design technology for fabricating related equipment such as boilers, balance of plants and transmission towers.

5.44 Malaysians were able to benefit from training under the privatization programme which was made compulsory for some of the privatized entities through the stipulation of such terms and conditions in their concession agreements. Allocation for training programmes of selected privatized companies during the review period is shown in *Table 5-10.* Companies were required to conduct training programmes tailored to the needs of the sectors as well as

TABLE 5-10

ALLOCATION FOR TRAINING UNDERTAKEN BY SELECTED PRIVATIZED COMPANIES, 1996-1998
(RM million)

Company	*1996*	*1997*	*1998*
Tenaga Nasional Berhad	35.9	23.6	24.5
Telekom Malaysia Berhad	60.3	62.4	72.3
Pos Malaysia Berhad	2.1	1.9	1.5
Johor Port Berhad	0.3	0.2	0.5
Indah Water Konsortium Sendirian Berhad	1.4	1.1	0.2
Pemcak Niaga Holdings Berhad	0.1	0.2	0.5

provide practical training to new entrants to the labour market. In response to these requirements, TNB and Telekom allocated RM279.4 million during the review period for training including the upgrading of their training institutes to university level and R&D activities.

III. PROGRAMMES AND FINANCING, 1999-2000

5.45 During the remaining Plan period, the public sector will play a stimulative role while continuing to maintain fiscal prudence. This is to prevent a further contraction of the economy and to ensure an expeditious economic recovery. The public sector will reorientate itself to take on a more active and direct role in the economy where necessary, as the private sector has limited ability to respond positively in the immediate term. The privatization programme will complement public sector efforts to reactivate the economy while continuing to safeguard the interests of consumers and industries.

5.46 To ensure that the counter-cyclical measures have maximum impact on reactivating growth, public sector expenditure will be allocated for projects which can contribute towards revitalizing domestic demand, reducing leakages from the economic system, increasing exports and enhancing competitiveness. Public sector expenditure will also ensure that adequate programmes are provided to those who are severely affected by the crisis, particularly the lower income group and the poor. The original Plan ceiling for the Federal Government development allocation will be increased by an additional RM22 billion, from RM67.5 billion to RM89.5 billion. Overall, the development allocation recommended is sustainable at 16.3 per cent of GNP in current terms and 17.6 per cent in real terms, which is lower than in some of the earlier Plans, as shown in *Table 5-11*. With the increased expenditure and reduction in revenue, both the Federal Government and the overall public sector accounts will continue to be in deficit during the remaining Plan period.

Federal Development Expenditure

5.47 During the period 1999-2000, economic and social programmes will continue to receive the bulk of the revised allocation, as shown in *Table 5-1*. Allocation in the economic sector will be mainly channelled for infrastructure and utility development, while the social programmes will focus on human resource development and improvement of social amenities. In this regard, emphasis will be given to programmes which improve socioeconomic conditions, especially of the poor who are most affected by the economic slowdown. In the

Table 5-11

DEVELOPMENT EXPENDITURE OF PUBLIC SECTOR BY FIVE-YEAR PLAN PERIOD
(RM million)

Plan	*Current Prices*		
	Actual Expenditure	*% of GDP*	*GDP Growth Rate*
2MP, 1971-1975	9,901	11.1	12.7
3MP, 1976-1980	27,884	14.6	16.1
4MP, 1981-1985	78,643	24.8	7.2
5MP, 1986-1990	55,978	12.8	8.4
6MP, 1991-1995	161,391	17.4	11.6
7MP, 1996-2000	215,226	16.1	6.5

Plan	*Constant 1978 Prices*		
	Actual Expenditure	*% of GDP*	*GDP Growth Rate*
2MP, 1971-1975	14,351	10.8	6.8
3MP, 1976-1980	21,051	14.8	8.5
4MP, 1981-1985	61,425	24.3	5.1
5MP, 1986-1990	40,823	12.8	6.8
6MP, 1991-1995	89,046	18.3	8.7
7MP, 1996-2000*	112,319	17.6	3.9

Note: * Revised Allocation.

general administration sector, focus will be on improving public sector efficiency and productivity.

5.48 In the *economic sector*, agriculture and rural development expenditure will continue to focus on revitalizing the subsector to contribute towards economic recovery and growth. Allocation for agriculture and rural development for the remaining Plan period is RM3,822 million, in support of *in-situ* development, new land schemes and extension services. The implementation of fisheries, livestock and horticulture projects will be intensified in line with the third National Agriculture Policy (NAP3).

5.49 During the remaining Plan period, allocation for the commerce and industry subsector will focus on programmes which will assist the recovery of the private sector. In this regard, a total of RM4,165 million will be provided to enable a speedier implementation of the various support programmes and projects. These programmes include enhancement of export credit refinancing facilities, acceleration of development of IT and provision of financing support for small- and medium-scale enterprises.

5.50 The transport and communications subsector will focus on ensuring the completion of critical projects and improvement in the quality of services. During the remaining Plan period, an additional 48 road projects will be undertaken which include the upgrading of Betong-Kaya Malam Road in Sarawak, Benong Road in Pahang, Pasir Mas Bridge in Kelantan as well as Phases 3, 4 and 7 of the Simpang Pulai-Lojing-Gua Musang-Kuala Berang Road. To further improve railway services, the Rawang-Ipoh double tracking project will be undertaken. A total allocation of RM6,268 million will be provided for this subsector. In addition, selected privatized infrastructure projects will be funded through public sector financing and *Bank Pembangunan dan Infrastruktur* to ensure their completion and continued operation. These projects include the PRT, ERL, Tanjung Pelepas Port and New North Klang Straits Bypass.

5.51 For the energy and water resources subsectors, RM2,119 million will be provided during the remaining Plan period. Of this, RM469 million will be allocated for rural electrification, particularly in Sabah and Sarawak. Interstate and interbasin water transfers programmes such as from Pahang to Selangor will be implemented in order to overcome the problem of uneven distribution of water resources. In addition, emphasis will also be given to water supply development to meet domestic and industrial water demand from expanding growth centres. Besides completing on-going projects such as the Gemencheh and Kelinchi dams as well as Kemaman Water Supply Phase II, Pelabang and Temerloh-Mentakab Phase III water supply projects, new schemes such as Sungai Selangor Dam and Sungai Selangor Treatment Plant Phase III will be implemented.

5.52 In the *social sector*, emphasis will be given to further expand public educational and training institutions to cater for increased student enrolment. To meet the demand for low-cost houses, a total of 103,996 units will be built. In this regard, the new four-tier pricing scheme will provide incentives for developers to build more low-cost units to benefit the lower income group. In addition, the *Syarikat Perumahan Negara Berhad* will provide bridging finance amounting to RM2 billion for developers through the Special Scheme for Low and Medium-Cost Houses. During the remaining Plan period, RM2,049 million has been allocated for housing development.

5.53 Emphasis on the health subsector will continue to be given on prevention, promotion and curative as well as rehabilitative programmes. Additional referral hospitals will be established by upgrading existing hospitals and building new facilities while the scope of outpatient services will be expanded and decentralized to overcome the problem of overcrowding. Programmes and projects such as skill training and family development targeted for the poor, elderly, women and children as well as those in the rural areas, will continue to be given priority. To finance these programmes, an allocation of RM1,813 million is provided.

5.54 The *security sector* will be provided with a sum of RM5,384 million during the remaining Plan period. Of this, RM4,107 million will be allocated for defence and RM1,278 million for internal security. In the defence subsector, the need to safeguard the nation will impose a greater responsibility on the armed forces. Accordingly, armed forces will be progressively equipped with modern equipment and other related supporting facilities to enable them to perform their task effectively. In addition, to improve their performance, emphasis will be given to various training programmes and joint exercises aimed at improving competency and discipline among the soldiers. With regard to the internal security subsector, increases in crime rate and drug abuse as well as threats from other unlawful activities imposed a greater responsibility especially on the police force, in maintaining law and order. In this respect, the capability of the police will be upgraded through training programmes and at the same time, more police stations will be established to improve their effectiveness.

5.55 An allocation of RM4,236 million will be provided for the general *administration sector* in the remaining Plan period. The Electronic Government project and new Federal Government Administrative Centre at Putrajaya will be given the biggest share of the allocation. These projects will provide the state-of-the art office infrastructure and communications facilities in order to create an innovative working environment and pleasant accommodation facilities for government employees. Meanwhile, the construction of the Phase IA of Putrajaya is expected to be completed in mid-1999. In addition, common user office buildings will be built in Batu Pahat, Grik, Ipoh, and Kluang to accommodate Federal Government employees at both the state and district levels.

5.56 The implementation of the Electronic Government project aims to provide more efficient service delivery through the use of IT and multimedia. The project will be implemented in stages with five pilot projects beginning 1998 and is expected to be completed in the year 2002. These pilot projects are the Driver and Vehicle Registration, Licensing and Summons Services, Utility Bill Payments and Ministry of Health On-Line Information; Electronic Procurement; Prime Minister's Generic Office Environment; Human Resource Management Information System, and Project Monitoring System. A total of RM394 million is allocated for this purpose under the Plan.

Current Expenditure

5.57 The current expenditure of the Federal Government is expected to increase by 4.8 per cent per annum during the remaining Plan period. Emoluments will continue to account for the largest portion of the current expenditure and are projected to increase by 1.7 per cent per annum compared with an increase of 5.4 per cent per annum during the review period. Expenditure on supplies and services is expected to rise by 9.8 per cent per annum, largely for maintenance and enhancing the quality and efficiency of the public service as well as to finance the first phase of the relocation of the Federal Government administration to Putrajaya. Debt service charges are projected to increase markedly due to the expected higher borrowing commitments of the Federal Government. However, the current expenditure for the entire Plan period is expected to grow at a slower rate of 6.0 per cent per annum compared with 7.9 per cent during the previous Plan.

Sources of Revenue

5.58 As shown in *Table 5-3*, total Federal Government revenue is expected to increase moderately by 4.3 per cent per annum to RM62,906 million in the year 2000 due to improvement in the collection of indirect taxes and non-tax revenue. However, contribution from *direct taxes* is expected to decline by 14.5 per cent per annum during the remaining Plan period, as a result of the poor performance of companies, particularly in 1998 and increase in unemployment level. The total collection of income taxes is expected to decline by 16.0 per cent per annum compared with an increase of 15.9 per cent during 1996-1997. Receipts from corporate tax are expected to register a negative annual growth of 17.2 per cent compared with an increase of 19.4 per cent during 1996-1997 while revenue from individual income tax is expected to fall by 11.8 per cent per annum.

5.59 *Indirect taxes*, however, are expected to increase at a faster rate of 15.1 per cent per annum during the remaining Plan period compared with a reduction of 6.9 per cent during the review period. The major contribution is expected to come from import duties, sales tax and excise duties due to the anticipated improvement in domestic demand. The share of indirect taxes to total revenue is expected to increase from 27.0 per cent in 1998 to 32.2 per cent at the end of the Plan period.

Consolidated Public Sector Financing

5.60 During the remaining Plan period, the revenue of the Government sector comprising Federal Government, state governments, local authorities and statutory bodies is expected to increase by 4.1 per cent per annum to an amount of RM77,440 million in the year 2000, as shown in *Table 5-4*. The current surplus of the Government sector excluding NFPEs, is expected to increase slightly from RM19,496 million in 1998 to RM19,704 million in the year 2000. Although some of the NFPEs were affected by the economic slowdown, as a group, they are expected to register an increase in current surplus from RM23,046 million in 1998 to RM26,042 million in 2000. With the additional development expenditure by the Federal Government which is required to stimulate economic growth and the lower growth in revenue collection, the overall public sector account is expected to record a deficit amounting to RM2,894 million or one per cent of GNP by the end of the Plan period. The Government will place greater emphasis on utilizing bilateral and multilateral sources in complementing domestic funding to finance the overall deficit.

5.61 The development expenditure of NFPEs as a whole is expected to decline from RM25,777 million in 1998 to RM23,866 million in the year 2000. However, several of the NFPEs, particularly PETRONAS, TNB and Telekom are expected to continue to undertake expansion and modernization programmes during the remaining Plan period. PETRONAS will further enhance its efforts to achieve self-sufficiency in petrochemicals with the coming on-stream of several projects including a fertilizer plant in Gurun, ammonia and aromatic plants in Kerteh and a chemical plant in Gebeng. Telekom is also expected to increase its investment in telecommunications infrastructure to support the MSC.

PRIVATIZATION PROGRAMME

5.62 Privatization will continue to play an important role in facilitating the economic recovery and contributing towards further growth of the economy during the remaining Plan period. In this regard, private sector initiatives will be further encouraged. To ensure that such projects are implemented speedily and provide the necessary spin-offs for economic recovery, steps will be taken to streamline procedures, provide for more effective coordination between relevant parties as well as closer monitoring. Priority will be given to projects that have greater multiplier effects, such as those in the infrastructure, utilities and transport sectors. In addition, the regulatory aspects of privatization will be strengthened to ensure the interest of the consumers and industries are safeguarded.

Strengthening the Implementation Process

5.63 Measures will continue to be taken to identify suitable projects for privatization in addition to those listed in the Privatization Master Plan. In line with current practice, the private sector will be encouraged to submit new proposals for privatization. In strengthening the implementation process, public opinion where relevant, will be sought before certain projects are privatized, as in the privatization of highways. This is to enable the Government to gauge public views on the project and to determine appropriate charges that will be imposed for the facilities or services provided. Apart from new projects, the Government will also consider the possibility of privatizing or divesting companies still owned by the Government. This include companies owned by the Minister of Finance Incorporated and other Government-owned agencies. The guidelines stipulated in the Master Plan will be further reviewed to facilitate implementation. Closer monitoring will be undertaken to ensure privatized companies comply with their concession agreements. Efforts will continue to be made to standardize the terms and conditions of privatization.

5.64 *Legislation.* In order to accelerate privatization, existing legislation will be reviewed and appropriate amendments made to facilitate the privatization process. In this regard, the review will continue to be undertaken to formulate a single legislation to govern the privatization of all statutory bodies, government departments and activities including those under the purview of state governments. Further efforts will be made to resolve land issues in privatization involving the provision of development rights over river reserves, air and subterranean space to concession companies.

5.65 *Federal-State Relationship.* Close relationship between the Federal, State and local governments is vital to ensure uniformity and coordination in undertaking privatization. In this regard, various levels of government involved in project implementation will be consulted based on standard procedures and guidelines. Valuation of Government land for privatization projects involving the provision of public utilities and services, such as water supply, sewerage and solid waste disposal, will be at nominal rates in order to reduce cost, thereby enabling charges or tariffs to be imposed at reasonable rates.

5.66 *Regulatory Authority.* Regulatory authorities will continue to play a major role in regulating the privatized entities, particularly with respect to pricing, standards and quality of service as well as to ensure adherence to terms and conditions stipulated in the privatization agreements. To overcome existing weaknesses and shortcomings of regulatory authorities and increase their effectiveness, the recommendations of a recent study to strengthen the role and streamline the regulatory system will be considered for implementation. One of the major recommendations is the integration of regulatory authorities on a sector-basis, initially to cover energy and gas; transportation including roads, highways and ports; communications including multimedia, post and broadcasting; and water, sewerage and solid waste. The recommendations of the study will be further evaluated before decision is made on their implementation.

5.67 Suitable measures will be introduced to strengthen the regulatory system, including the formulation of the legal framework to establish the various regulatory authorities for more effective regulation of the privatized entities. The authorities are expected to develop appropriate mechanisms for effective monitoring and evaluating economic and safety performance of privatized entities as well as revision of implementation procedures. Regulations and procedures will be instituted to ensure strict compliance of privatized entities towards their contractual obligations including matters pertaining to safety, charges, vendor development, technology transfer and other social obligations. Emphasis will be given to issues relating to penalties on privatized companies for non-compliance with the terms and conditions in the privatization agreements.

Technology Transfer and R&D

5.68 Acquisition and development of new technology will be further enhanced through privatization as major companies are expected to undertake and provide comprehensive programmes for technology transfer. Relevant regulatory authorities will ensure privatized entities undertake R&D to upgrade their performance and keep pace with new technology as well as transfer technology to local companies. The monitoring process on technology transfer and R&D will be further enhanced in order to increase technological capacity. The application of IT in project implementation will be encouraged.

5.69 Privatization programme will continue to emphasize the sourcing of local materials in its projects. This will not only reduce dependence on imports, but also increase their local content and enhance the growth of SMIs. R&D and product development, especially involving local materials will form part of the criteria to be used in considering projects for privatization.

Bumiputera Participation

5.70 In line with the NDP, privatization programme will continue to be a vehicle to help increase Bumiputera participation in the corporate sector. During the remaining Plan period, Bumiputera participation in privatization projects will be further enhanced in order to ensure wider participation and thus, promote a competitive, resilient and viable Bumiputera Commercial and Industrial Community (BCIC). To ensure small Bumiputera companies also benefit from the programme, privatized companies are required to offer sub-contracts to Bumiputera professionals and entrepreneurs lacking adequate resources to participate directly in the exercise. Other approaches such as management-buy-out and employee share ownership plans will be further promoted. The relevant ministry will establish a mechanism to coordinate and promote effective Bumiputera participation.

5.71 To safeguard Bumiputera interests in companies after privatization, equity divestment of these companies will continue to be monitored. Subsequent sale of Bumiputera equity should first be offered to other Bumiputera or trust agencies. In addition, to enable Bumiputera entrepreneurs to own and manage these entities, they will be encouraged to collaborate with institutional investors such as *Koperasi Polis DiRaja Malaysia*, *Lembaga Tabung Angkatan Tentera*, *Lembaga Tabung Haji* and state trust agencies. In the privatization of trust agencies and their subsidiaries, Bumiputera interests will be protected. With respect to the privatization of companies involved in certain strategic activities, the Government will continue to hold equity in order to protect public interest.

Vendor Development Programme

5.72 Privatization will continue to boost the vendor development programme by providing opportunities to small companies to participate in big privatization projects through the formation of strong management consortia. These consortia would lead to optimization of resources as well as increases in capital investments and linkages which contribute towards the viability and efficiency of participating companies. Small companies are thus able to play an effective role in vendor development programmes. In line with the objective to enhance the development of SMIs, greater efforts will be made to promote collaboration between large privatized companies and medium and small companies as well as individual entrepreneurs. The privatized companies will be encouraged to increase their vendor development programmes by enhancing their capability in technology development, thus providing more opportunities for SMIs to produce additional products. To ensure the success of this programme, the terms and conditions of privatization agreements for selected privatized projects will continue to include provisions for vendor development programmes and their effective implementation.

IV. CONCLUSION

5.73 With the slowing down of economic activities, the Government will undertake counter-cyclical measures to facilitate economic recovery. The Government, however, will remain committed to maintaining fiscal discipline and will keep the budget deficit at a level that will not jeopardize long-term development. Emphasis will be given to infrastructure projects that have strong linkages with other industries as well as human resource and skills development programmes and projects that will mitigate the negative social consequences of the crisis, particularly on the lower income group. The privatization programme will continue to be implemented to complement the Government's effort in providing quality public goods while supporting greater private sector participation in economic development.

Chapter 6

Agricultural Development

6 AGRICULTURAL DEVELOPMENT

I. INTRODUCTION

6.01 The modernization of the agriculture sector to become a high value-added producer of food and industrial raw materials remained the main thrust for agricultural development during the review period. In meeting this challenge, agricultural development strategies continued to be directed at improving productivity and enhancing competitiveness by encouraging greater private sector involvement in large-scale commercial agriculture. Under this broad policy framework, the role of the public sector was focused more on supporting the private sector, particularly the smallholders, through extension services and research and development (R&D). In addition, specific measures identified under the National Economic Recovery Plan (NERP) to increase domestic food production in order to reduce imports also formed an integral part of the agricultural development effort.

6.02 During the remaining Plan period, agricultural development will be guided by the third National Agriculture Policy (NAP3) which seeks to address the various challenges and constraints faced by the sector and stresses on the adoption of agro-forestry and product-based approaches. Development efforts will continue to focus on expanding and modernizing domestic food production. In this regard, the emphasis will be on promoting the use of modern technology and management, encouraging large-scale and organized agriculture and shifting agricultural production from mono-cropping to mixed farming as well as from monoculture to polyculture to intensify land use and increase productivity.

II. PROGRESS, 1996-1998

6.03 The review period was extremely challenging for agricultural development. Besides having to deal with constraints of labour shortage and reduced availability of suitable land for agriculture, the sector also faced temporary adverse circumstances such as the *El Nino* and problems caused by the haze. In addition, the sector was also burdened with higher imported input prices following the currency depreciation. During the review period, prices of many of the industrial commodities were also depressed in the world markets. Although the currency depreciation increased the value of agricultural exports in terms of domestic currency, structural problems continued to hold down production. In view of these unfavourable conditions, the agriculture sector recorded a slight decline in value-added over the period.

Growth

6.04 During the review period, agricultural output declined by 0.2 per cent per annum compared with the Plan target of 2.4 per cent growth, as shown in *Table 6-1*. With the decrease in value-added, the contribution of the agriculture sector to Gross Domestic Product (GDP) declined from 13.5 per cent in 1995 to 12.3 per cent in 1998. In spite of that, agricultural export earnings in current value increased substantially by 11.7 per cent per annum from RM21,600 million to RM30,200 million during the same period. However, in terms of its relative contribution, the proportion of agricultural export to total exports declined from 11.7 per cent to 10.5 per cent.

6.05 The review period witnessed the strengthening of the agricultural production structure in favour of the food and miscellaneous subsectors. The contribution of industrial commodities to total agricultural output declined from 71.6 per cent in 1995 to 67.2 per cent in 1998. The food crop group was able to maintain its output growth, resulting in an increase in its relative contribution to the total agricultural output from 20.7 to 22.8 per cent. The relative contribution of miscellaneous crop group, consisting of horticulture and other minor crops, also increased from 7.6 to 10.0 per cent during the period.

Employment

6.06 Employment in agriculture declined further during the review period from 1.5 million in 1995 to 1.4 million in 1998, a decrease of 2.0 per cent per annum, as shown in *Table 6-2*. Agricultural output, however, recorded a slower decline at a rate of 0.2 per cent per annum. As such, the sector gained an increase in value-added per worker of 1.9 per cent per annum. The increase in labour productivity was made possible by the adoption of various labour-saving technologies. In the padi subsector, labour-saving was achieved through the

TABLE 5-1

AGRICULTURAL VALUE-ADDED, 1995-2000

(RM million in 1978 prices)

Commodity	1995	%	1998	%	2000	%	Average Annual Growth Rate (%) 7MP Target	Revised	1996-1998	1999-2000
Industrial Commodities	**11,629**	**71.6**	**10,838**	**67.2**	**11,991**	**67.2**	**3.2**	**0.6**	**-2.3**	**3.2**
Rubber	1,692	10.4	1,394	8.6	1,371	7.7	-3.7	-4.1	-6.1	-0.9
Oil Palm	6,942	42.7	7,366	45.6	8,412	47.1	3.2	4.2	2.5	6.9
Sawlogs	2,255	13.9	1,506	9.3	1,444	8.1	-3.5	-8.5	-12.6	-2.0
Cocoa	840	5.2	574	3.6	764	4.3	0.5	-1.9	-17.9	15.4
Food Commodities	**3,361**	**20.7**	**3,682**	**22.8**	**4,035**	**22.6**	**2.7**	**3.7**	**3.4**	**4.7**
Padi	672	4.1	671	4.2	702	3.9	-2.1	0.9	0.1	2.1
Livestock	866	5.3	1,053	6.5	1,112	6.2	3.8	5.1	3.3	4.8
Fisheries	1,823	11.2	1,958	12.1	2,221	12.4	3.7	4.0	3.1	3.4
Miscellaneous	**1,241**	**7.6**	**1,613**	**10.0**	**1,813**	**10.2**	**8.5**	**7.9**	**9.2**	**6.0**
Total	**16,231**	**100.0**	**16,135**	**100.0**	**17,840**	**100.0**	**2.4**	**1.9**	**-0.2**	**5.2**

Table 6-2

AGRICULTURAL EMPLOYMENT AND VALUE-ADDED PER WORKER, 1995-2000

						Average Annual Growth Rate (%)			
						7MP			
	1995	*1996*	*1997*	*1998*	*2000*	*Target*	*Revised*	*1996-1998*	*1999-2000*
Agricultural Employment ('000)	1,524.0	1,504.5	1,494.5	1,433.4	1,425.5	–1.6	–1.3	–2.0	–0.3
Percentage to Total Employment	*19.0*	*17.9*	*17.0*	*16.8*	*16.1*				
Value-Added per Worker *(RM in 1978 prices)*	10,650	11,023	11,244	11,235	12,515	*6.2*	*3.3*	*1.9*	*5.4*

wider adoption of mechanized padi planting techniques, which reduced labour requirement from 600 to 200 man-hours per hectare per season. In the rubber subsector, labour reduction was attained through the adoption of various low intensity tapping systems (LITS), such as the REACTORRIM, RRIMFLOW and LIT d/6 system, particularly in the estate sector.

6.07 Labour shortage continued to be one of the main factors constraining agricultural growth. In 1998, the plantation sector reported a shortage of 30,000 workers, particularly tappers, harvesters and weeders. In view of this, the agriculture sector continued to exert a strong demand for foreign labour. In the same year, total registered foreign labour in the agriculture sector was 217,205 workers, accounting for 15.2 per cent of the total agricultural employment.

Income and Poverty Alleviation

6.08 During the review period, significant progress was made in raising agricultural income and standard of living of the rural sector. The monthly mean income of padi farmers improved from RM801 in 1995 to RM975 in 1997, while that of rubber smallholders increased from RM950 to RM1,103 over the same period. The improvement in mean household income was even larger among fishermen, increasing from RM1,081 in 1995 to RM1,318 in 1997. Rural households as a whole registered an improvement in monthly income from RM1,307 in 1995 to RM1,669 in 1997, while the incidence of poverty among them declined from 15.3 per cent to 10.9 per cent during the period. The number of poor households in the rural sector declined by 8.4 per cent per annum from 285,000 to 239,000, while the number of hardcore poor households was reduced by 9.9 per cent per annum from 69,000 to 56,000 households over the same period. However, the ratio of rural against urban poverty incidence, as a measure of poverty gap between the rural and urban areas, increased from 4.1:1 to 5.2:1 during the period.

Agricultural Production

6.09 During the review period, the agricultural subsectors registered a mixed performance, as shown in *Table 6-3*. In the industrial commodity group, palm oil recorded growth while rubber, sawlogs and cocoa showed a decline. Commodities in the food group including padi, fruits, vegetables, fisheries and livestock, showed an output growth. Most minor crops, including pepper, tobacco and flowers, also recorded a growth in output.

TABLE 8-3

PRODUCTION OF AGRICULTURAL COMMODITIES, 1995-2000

('000 tonnes)

Commodity	1995	1998	2000	Average Annual Growth Rate (%)			
				7MP			
				Target	Revised	1996-1998	1999-2000
Industrial Commodities							
Rubber	1,074.6	885.0	870.0	-1.7	-4.1	-6.3	-0.9
Crude Palm Oil	7,726.0	8,315.0	9,496.0	3.2	4.2	2.5	6.9
Palm Kernel	2,395.6	2,656.0	2,838.5	3.2	4.2	3.5	3.2
Sawlogs[1]	34,891.0	23,303.6	21,805.0	-0.5	-8.5	-12.6	-2.0
Cocoa	132.0	98.2	120.0	0.5	-1.9	-11.9	10.5
Food Commodities							
Padi	2,127.5	2,128.0	2,219.5	-2.1	3.8	0.1	2.3
Fisheries	1,261.1	1,380.1	1,511.0	3.7	4.0	3.1	5.4
Marine	1,108.4	1,203.9	1,255.6	1.2	3.5	2.8	2.2
Aquaculture	132.7	156.2	255.2	20.1	14.0	5.6	27.8
Livestocks							
Beef	16.9	21.8	25.5	5.0	8.5	8.5	8.7
Mutton	0.7	0.8	0.9	4.2	4.9	4.9	4.9
Poultry	687.6	820.8	986.1	5.6	7.3	6.2	9.6
Pork	283.4	295.0	203.9	3.0	-6.4	1.7	-28.6
Eggs[3]	6,617.0	7,315.5	8,058.0	5.4	3.3	3.3	3.3
Milk[4]	36.8	44.0	48.3	3.1	6.2	6.2	6.1
Miscellaneous							
Pepper	15.3	20.0	24.0	-3.1	12.5	14.8	9.7
Pineapple	140.8	148.0	145.0	7.4	0.6	-10.7	20.4
Tobacco	11.5	12.9	11.7	5.6	3.2	3.3	3.1
Flowers[2]	415,960.0	581,454.1	677,890.0	16.2	20.3	17.8	8.0
Fruits[5]	1,039.6	1,135.3	1,234.2	8.5	3.9	5.6	4.3
Vegetables	714.1	820.6	907.4	5.6	4.8	4.6	5.1
Coconut	1,388.9	1,069.2	1,026.0	-2.0	-5.9	-8.4	-2.0

Notes:

[1] Measured in thousand cubic metres.
[2] Measured in million stalks.
[3] Measured in million eggs.
[4] Measured in thousand litres.
[5] Includes pineapples.

Agricultural Industrial Commodities

6.10 The *oil palm* subsector recorded a growth in output, *albeit* at a lower rate than the Plan target, in view of cyclical stress experienced by the crop in 1998. Crude palm oil and palm kernel oil production increased by 2.5 and 3.5 per cent per annum, from 7.7 million tonnes in 1995 to 8.3 million tonnes in 1998 and from 2.4 million tonnes in 1995 to 2.7 million tonnes in 1998, respectively. A favourable international oil and fats market was an important factor supporting the expansion of the oil palm subsector. The average price of crude palm oil more than doubled from RM1,191 per tonne in 1995 to RM2,361 in 1998, mainly as a result of the ringgit depreciation against the US dollar. The growth in palm oil production was largely attributed to the expansion in productive hectarage. Planted hectarage of oil palm increased by 4.4 per cent, from 2.5 million hectares to 2.9 million hectares during the period, as shown in *Table 6-4*. The increase in the oil palm hectarage was largely contributed by the conversion of other crops to oil palm, particularly rubber and cocoa with only about 25 per cent of the increase contributed by new land development.

6.11 *Rubber* continued to decline in production and hectarage due to low prices and other structural constraints, particularly labour shortage. During the review period, RSS1 rubber prices declined from 390 sen per kilogramme in 1995 to 280 sen per kilogramme in 1998. Labour shortage continued to remain serious in view of the slow rate in the adoption of LITS by the smallholders. The currency depreciation, however, had little impact on the price of rubber which was quoted in *ringgit*. In view of the unfavourable factors, rubber production declined by 6.3 per cent per annum from 1.1 million tonnes in 1995 to 0.9 million tonnes in 1998, while the hectarage under rubber declined by 2.4 per cent per annum, from 1.7 million hectares to 1.6 million hectares during the same period. With the decline in rubber production, Malaysia's global market share was reduced from about 18 per cent in 1995 to 15 per cent in 1998. However, Malaysia remained the third largest producer of natural rubber in the world.

6.12 Cocoa also faced the problems of low economic return and prices, resulting in the decline of its production and hectarage. Production declined by 11.9 per cent per annum from 132,000 tonnes in 1995 to 90,200 tonnes in 1998, while planted hectarage decreased by 7.6 per cent per annum from 190,000 to 150,000 hectares during the same period. However, cocoa productivity continued to improve due to the adoption of high-yielding clones over a larger area. Cocoa exports, not including cocoa-based products, decreased in terms of nominal value by 20.7 per cent over the previous year to RM80.3 million in 1998. Despite this, cocoa exports, including cocoa-based products, increased from RM669.1 million in 1997 to RM700 million in 1998.

TABLE 6-4

AGRICULTURAL LAND USE, 1995-2000

('000 hectares)

				Average Annual Growth Rate (%)			
				7MP			
Commodities	*1995*	*1998*	*2000*	*Target*	*Revised*	*1996-1998*	*1996-2000*
Oil Palm	2,540	2,800	3,123	2.8	4.2	4.4	4.0
Rubber[1]	1,690	1,570	1,490	1.3	-2.3	-2.4	-2.8
Padi[1]	670	666	660	3.6	-0.3	-0.2	-0.2
Fruits[2]	280	303	296	-0.7	2.1	3.5	1.8
Coconut	250	200	180	-5.0	-6.4	-7.2	-5.1
Cocoa	190	150	130	3.2	-7.3	-7.6	-8.9
Vegetables[1]	42	44	46	2.1	2.7	1.6	8.4
Tobacco	11	10	11	1.6	0.9	3.1	7.2
Pepper	10	11	11	-1.2	1.9	3.2	0.0
Others[3]	55	54	52	-0.3	-2.8	-1.8	-1.9
Total	**5,769**	**5,632**	**5,978**	**-1.4**	**0.7**	**0.4**	**2.2**

Notes:

[1] Based on harvested area.

[2] Includes about 15,000 hectares of pineapple area.

[3] Includes tea, coffee, sugar cane and other miscellaneous crops.

6.13 During the review period, the production of *sawlogs* was influenced by two major factors, namely the policy of maintaining a lower annual cut and the softening of demand. Production was affected by the Government's decision to maintain a lower annual cut, in line with sustainable forest management objectives and the policy to reduce export of unprocessed products by increasing domestic processing and value-added. In the latter part of the review period, the industry was further constrained by the downturn in the domestic construction sector and a contraction of external demand for tropical timber due to the economic recession in importing countries such as Japan, while markets in Europe and the People's Republic of China remained almost stagnant. The price of tropical timber dropped by about 40 per cent from US$210 per cubic metre in March 1997 to US$120 in February 1998. In view of these factors, the production of sawlogs declined by 12.6 per cent per annum from 34.0 million cubic metres in 1995 to 22.7 million cubic metres in 1998.

Food Commodities

6.14 Efforts to modernize the food subsector met with moderate success in the review period. The major food categories comprising livestock, fisheries, fruits and vegetables recorded an increase in output, resulting in a marginal increase in the self-sufficiency levels (SSL) of several food items, as shown in *Table 6-5*.

TABLE 6-5

SELF-SUFFICIENCY LEVELS IN FOOD COMMODITIES, 1995-2000

(%)

Commodity	*1995*	*1998*	*2000*
Rice	*76*	*73*	*71*
Fruits	*99*	*98*	*99*
Vegetables	*71*	*73*	*73*
Fisheries	*85*	*89*	*89*
Beef	*19*	*20*	*21*
Mutton	*6*	*8*	*8*
Poultry	*111*	*116*	*128*
Eggs	*110*	*112*	*113*
Pork	*104*	*105*	*82*
Milk	*4*	*4*	*4*

6.15 During the review period, the trade balance in the food subsector, which is defined broadly to include animal feeds, continued to widen in favour of imports. Food exports increased by 7.8 per cent per annum from RM4,514 million in 1995 to RM5,662 million in 1998, while imports increased by 8.0 per cent per annum from RM7,885 million to RM9,938 million during the same period, as shown in *Table 6-6*. The widening gap in trade balance was caused by domestic demand expansion and more expensive imports following the depreciation of the ringgit. Major food imports include essential food items such as wheat, dairy products, potatoes, onions and fruits not grown locally. Imports of fruits increased substantially during the early part of the review period, following the reduction of import duties but subsequently decreased after the currency depreciation which led to greater substitution for imports with locally grown fruits.

TABLE 6-6

EXPORTS AND IMPORTS OF FOOD, 1995-2000

(RM million)

Commodity	1995	%	1998	%	2000	%	Average Annual Growth Rate (%) 1995-1998	1999-2000	1995-2000
Exports	**4,510.0**	**100.0**	**5,661.9**	**100.0**	**6,650.3**	**100.0**	**7.8**	**8.4**	**8.1**
Live Animals	552.5	12.2	661.6	11.7	654.9	9.8	6.2	−0.5	3.5
Meat*	71.0	1.6	90.4	1.6	98.4	1.4	8.4	7.2	5.9
Dairy Products	245.8	5.4	375.6	6.6	367.3	5.5	15.2	1.1	8.4
Fruits and Vegetables	496.0	11.0	618.0	10.9	656.5	9.9	7.6	3.1	5.8
Rice	0.2	0.0	2.5	0.0	3.8	0.1	137.4	23.3	81.8
Fish, Crustaceans, Molluscs	824.6	18.3	1,172.6	20.7	1,204.4	18.1	12.5	1.3	7.9
Animal Feeds	326.1	7.2	442.2	7.8	469.5	7.1	9.6	3.4	7.5
Others	1,997.8	44.3	2,319.0	41.0	3,199.7	48.1	3.8	17.5	9.9
Imports	**7,884.7**	**100.0**	**9,937.8**	**100.0**	**11,300.8**	**100.0**	**8.0**	**6.6**	**6.4**
Live Animals	140.2	1.7	150.9	1.5	184.8	1.6	2.5	10.7	5.7
Meat*	361.3	4.6	345.5	3.5	568.4	5.0	12.5	2.3	8.3
Dairy Products	951.9	11.5	949.0	9.5	1,144.8	10.1	-0.1	9.8	3.6
Fruits and Vegetables	1,127.8	13.6	1,445.0	14.6	1,773.8	15.7	8.7	10.8	9.5
Rice	356.1	4.3	1,006.9	10.1	1,465.6	13.0	41.1	21.0	32.7
Fish, Crustaceans, Molluscs	773.1	9.3	872.5	8.8	894.5	7.9	4.1	1.3	3.0
Animal Feeds	582.3	7.0	840.8	8.5	1,000.0	8.8	13.0	9.0	11.4
Others	3,572.1	43.0	4,128.9	41.5	4,270.0	37.8	4.9	1.7	3.6

Note: * Includes preparations.

6.16 *Padi* production increased marginally by 0.1 per cent per annum during the period. Its SSL was slightly reduced from 76 per cent in 1995 to 73 per cent in 1998. However, it was still above the 65 per cent level set by the Government in line with the policy to concentrate production in the eight major granary areas. Progress was made in increasing productivity through various measures to enhance commercialization which include estatization to reap economies of scale and wider adoption of labour-saving technologies to address the problem of labour shortage. In 1997, following the increase in input costs, the Government reviewed the guaranteed minimum price of padi from RM49.60 to RM55 per hundred kilogrammes and from RM46.30 to RM51.69 per hundred kilogrammes for long grains and short grains, respectively, while maintaining the price of controlled rice grades at the same levels.

6.17 The slow growth in the deep-sea fishery subsector caused by the lack of skilled workers and capital and the slow progress made in the development of marine cage-rearing industry caused the fishery sector to grow only moderately during the review period. *Fish* production increased by 3.1 per cent per annum compared with the Plan target of 3.7 per cent per annum, from 1.2 million tonnes in 1995 to 1.4 million in 1998. Malaysia had traditionally been a net exporter of fish in terms of value and a net importer in terms of physical volume. In 1996, this position was changed when the country became a net importer both in terms of value and physical volume. The aquaculture industry faced a set-back in 1997 when prawn farms were affected by the outbreak of white spot disease.

6.18 The strategic focus in the livestock development during the review period continued to be enhancing the commercialization of various livestock subsectors. With the successful integration and commercialization of the poultry subsector, priority was directed at the development of other subsectors, particularly *beef, mutton* and *milk*. Beef production continued to be promoted through integrated farming in oil palm plantations, particularly by the Rubber Industry Smallholder Development Authority (RISDA) and the Federal Land Development Authority (FELDA). The call made by the Government to develop cattle ranching in private plantations did not meet with an encouraging response. However, there had been some renewed private sector interest in the production of chevon (goat meat) through the propagation of superior breeds developed through embryo transfer of imported genetic sources.

6.19 In the review period, the livestock subsector grew at 5.3 per cent per annum, surpassing the Plan target of 3.8 per cent. The integrated poultry subsector expanded its output by 6.1 per cent per annum and continued to maintain its position as a net exporter in spite of the impact of higher cost of imported animal feeds since 1997. The strongest growth was recorded by beef production which grew by 8.5 per cent per annum, mainly due to the expansion in integrated ranching. Other subsectors, including milk and eggs, also showed strong growth during the review period.

6.20 Strategies to develop the *fruit* and *vegetable* subsectors continued to focus on encouraging large-scale commercial farming by the private sector. However, the growth of fruit and vegetable production was not strong because of the various problems encountered, particularly the lack of response by the private sector to undertake large-scale fruit plantations and the lack of suitable land faced by commercial vegetable growers. To counter the problem of shortage of suitable land, the various State Governments undertook steps to allocate and zone land for this purpose.

Revamping of Agricultural Agencies

6.21 During the review period, action was taken to implement the decision to revamp several agricultural agencies with the aim to improve efficiency and effectiveness. The Project Management Units (PMU) of five Integrated Agricultural Development Projects (IADP) outside the main granary areas were closed down, in line with the policy of supporting PMUs only in the major granary areas. Steps to streamline land development agencies included the corporatization of the Federal Land Consolidation and Rehabilitation Authority (FELCRA) and the privatization of the Sarawak Land Development Board (SLDB). In addition, the commercialization of the various corporations under FELDA was completed, while the problem of multiplicity of agencies in the rubber industry was resolved with the amalgamation of the Malaysian Rubber Exchange and Licensing Board (MRELB), the Malaysian Rubber Research and Development Board (MRRDB) and the Rubber Research Institute of Malaysia (RRIM) under a single body, the Malaysian Rubber Board (MRB), in 1998.

Agricultural Programmes

6.22 Agricultural development programmes during the review period continued to support agricultural modernization to bring about productivity improvement, particularly through commercialization and large-scale agriculture. In line with this policy framework, the private sector assumed the major role in new land development programmes, which in the past were implemented by the public sector. With the shift in policy, public sector programmes were mainly focused on supporting the private sector through various measures, including *in-situ* land development, institutional support and infrastructure development, including those implemented by the regional development authorities.

In-situ and New Land Development

6.23 *In-situ* development during the review period continued to be directed at the advancement of smallholders. A total of 156,000 hectares was developed under this programme, as shown in *Table 6-7*. An important part of this effort was to consolidate smallholders into larger production units to reap economies of scale and maximize value-added from downstream processing and other related activities. Guided by this policy framework, replanting activities organized by RISDA emphasized group replanting and mini-estates. In 1998, organized replanting accounted for more than half of the total replanted area. The total area of smallholdings managed as mini-estates under RISDA, FELCRA and FELDA amounted to 250,000 hectares.

6.24 The organization of smallholders into larger organized units of production facilitated the adoption of labour-saving technologies, such as LITS by rubber smallholders and mechanization by rice farmers. The area under RISDA which adopted LITS totalled 11,000 hectares in 1998. The success achieved in the use of LITS, however, remained limited, underscoring the need to accord a high priority to efforts that will spread the use of these technologies on a larger scale, particularly among the smallholders, in order to increase productivity and overcome labour shortage.

6.25 *New land development* during the review period continued to be undertaken mainly by the private sector in line with the policy of limiting the role of the public sector in this area. The importance of new land development in overall agricultural development, nevertheless, continued to decrease as new areas available for agriculture became more limited. During the review period, a total of 65,000 hectares of new land was developed for agriculture, of which nearly 50,000 hectares were developed by the private sector, as shown in *Table 6-8*.

Agricultural Support Services

6.26 During the review period, the agricultural support services continued to focus on supporting the private sector, especially smallholders, to spearhead the growth of the sector. The range of agricultural support services extended

TABLE 6-7

REPLANTING, LAND CONSOLIDATION AND REHABILITATION PROGRAMMES BY AGENCY, 1996-2000

(hectares)

Programme/Agency	*7MP Target*	*7MP Revised*	*1996-1998*	*% of Target*	*1999-2000*
Replanting	**231,200**	**224,500**	**126,100**	**54.5**	**98,400**
Rubber Industry Smallholder Development Authority	60,000	139,000	79,000	131.7	60,000
Federal Land Development Authority	97,100	43,000	19,800	20.4	23,200
Sarawak Land Development Board	8,300	11,400	7,300	88.0	4,100
Sabah Land Development Board	12,400	9,200	5,500	44.4	3,700
Sabah Rubber Fund Board	6,000	9,100	5,500	91.7	3,600
Department of Agriculture, Sarawak	40,000	8,100	6,600	16.5	1,500
Malaysian Pineapple Industry Board	4,900	4,100	2,100	42.9	2,000
Department of Agriculture, Sabah	2,500	600	300	12.0	300
Land Consolidation & Rehabilitation	**29,500**	**52,300**	**30,300**	**102.7**	**22,000**
Federal Land Consolidation & Rehabilitation Authority	15,000	24,000	14,000	93.3	10,000
Sarawak Land Consolidation & Rehabilitation Authority	9,000	16,400	6,900	76.7	9,500
Rural Development Corporation, Sabah[1]	2,500	11,000	8,900	356.0	2,100
Department of Agriculture, Sabah	3,000	900	500	16.7	400
Total	**260,700**	**276,800**	**156,400**	**60.0**	**120,400**

Note: [1] Includes joint ventures with the private sector.

TABLE 6-8

NEW LAND DEVELOPMENT, 1996-2000

(hectares)

Agency	7MP				
	Target	*Revised*	*1996-1998*	*% of Target*	*1999-2000*
Private Companies	89,900	83,800	45,500	53.3	46,500
State Agriculture Development Corporations	49,200	39,700	12,800	27.4	13,100
Sabah Land Development Agencies	23,600	15,000	400	1.7	8,400
Sarawak Land Development Agencies	19,500	3,900	500	2.7	1,600
Federal Land Development Board	—	3,700	1,700	—	1,000
Regional Development Authorities	8,500	2,500	900	10.6	1,400
Total	**190,700**	**157,400**	**61,400**	**36.2**	**72,000**

Note: [1] Includes joint ventures with the private sector.

continued to be broad-based to include R&D, training and extension services. These support services formed an important part of the agricultural modernization efforts aimed at increasing productivity and income.

6.27 *R&D* activities continued to be directed at the development of new technologies including labour-saving techniques, new product development and yield improvement. Public sector spending for R&D in the agriculture sector totalled RM160 million, mainly for the development of research facilities. R&D achievements during the review period included the findings by Palm Oil Research Institute of Malaysia (PORIM) in yield improvement, expansion of mechanization and increasing utilization of materials towards zero waste level. In addition, research was continued on the commercial use of palm fronds in animal feed. For the rubber industry, R&D activities included the development of latex-timber clones capable of producing a higher volume of latex as well as bigger-sized timber and genetic engineering technologies in new products for specific uses, such as Deproteinized Natural Rubber (DPNR), Liquid Natural

Rubber (LNR) and Liquid Epoxidized Natural Rubber (LENR). Activities for the development of the cocoa subsector included biological pest control and the commercialization of more pest-resistant planting materials as well as the production of new chocolate products and cocoa-based beverages.

6.28 R&D in the food subsector undertaken by the Malaysia Agricultural Research and Development Institute (MARDI) achieved, among others, yield improvement, better planting techniques, labour-saving technologies and improved pest control. The development of new varieties of pineapples and durian, extraction technology for roselle drinks, pesticide to control fruit flies and more efficient post-harvest fruit handling techniques represented some of the important breakthroughs in the fruit subsector. R&D achievements in the forestry subsector undertaken by the Forest Research Institute of Malaysia (FRIM) include improved forest resource management for both natural and plantation forestry subsectors, the multiplication of acacia hybrid using tissue culture and the development of fast-growing local species to produce quality timber.

6.29 During the review period, agricultural credit, training and extension services continued to focus on modernizing smallholdings. *Agricultural credit* extended by *Bank Pertanian Malaysia* (BPM) and commercial banks include financing for mechanization, automation and agri-businesses. Besides this, the Fund For Food (3F) was increased to RM1 billion with a total of RM438 million loans approved as at the end of October 1998. *Training and extension services* provided by the various public agencies continued to promote commercialization and more efficient farming among the smallholders, as shown in *Table 6-9*. These activities covered the broad areas of agricultural management such as agronomic practices, farm management, marketing, post-harvest handling and processing as well as the diffusion of new agricultural technologies. Institutional development programme continued to be aimed at encouraging private enterprise development encompassing the promotion of farmers' and fishermen's organizations, including cooperatives.

Rural Development

6.30 During the review period, rural development continued to be emphasized as a means to uplift the living standard of the rural sector. Towards this goal, the rural development philosophy was reviewed to ensure its strategies remained relevant in spearheading development of the rural community in line with the nation's quest for progress as laid down in Vision 2020. This philosophy, known as the New Rural Development Philosophy, emphasized the paramount

TABLE 6-9

AGRICULTURAL TRAINING AND EXTENSION SERVICES PROGRAMMES, 1996-2000
(number of participants[1])

Agency	7MP Target	1996-1998	1999-2000
FELDA	n.a.	230,300	n.a.
Department of Agriculture	76,800	55,700	15,300
Malaysia Rubber Board	59,400	33,600	25,700
Farmers Organisation Authority	57,000	28,600	22,500
FAMA	43,100	26,000	17,000
DARA	n.a.	19,500	n.a.
Pepper Marketing Authority	24,000	17,100	6,900
PORIM	12,100	7,500	4,900
Department of Veterinary Services	7,100	6,000	1,000
KADA	8,800	3,400	5,400
MPIB	10,100	5,000	5,200
Sabah Rubber Fund Board	3,600	2,500	1,800
KESEDAR	4,800	2,000	2,800
RISDA	n.a.	1,900	n.a.
PERDA	2,400	1,700	700
KETENGAH	n.a.	1,500	—
Malaysia Cocoa Board	2,500	1,200	1,300
KEJORA	500	400	—
TOTAL	**312,200**	**443,900**	**110,500**

Note: [1] Refers to attendance.

importance of empowerment of the rural community enabling it to be sustainable and dynamic, capable of meeting future challenges and attaining an economic stature on par with the national level. The new philosophy represented a shift in orientation from physical development to one which gave equal emphasis to both human and physical development. The new direction provided a stronger framework for rural development with its seven initiatives which emphasized the development of the individual, family, community, infrastructure, economic base, delivery system and institutions related to the sector.

6.31 Rural development activities undertaken during the review period encompassed a broad range of all the important aspects, including training. Towards this end, training capability in rural development was further strengthened with the establishment of the Institute for Rural Advancement (INFRA). Beneficiaries from its training programme included 135,000 participants on effective parenting skills, 337,000 participants on empowerment and value development, and 1.5 million participants on various non-formal training.

6.32 In the area of village development, a total of 1,164 villages was included under the Rural Vision Movement Programme aimed at accelerating the development of dynamic rural centres. At the same time, programmes to strengthen the rural economic base continued to focus on the promotion of organized farming activities to reap economies of scale and increase value-added. In addition, further steps were taken to promote integrated rural development, particularly under the One-Village-One-Product approach. Other measures undertaken to strengthen the economic base included the promotion of rural industries, entrepreneurial and infrastructure development. During the review period, about 3,000 rural water supply projects benefiting 262,000 households, 270 road projects totalling 1,600 kilometres of rural roads and the upgrading of 4,100 kilometres of village roads were implemented. In the area of poverty redressal, programmes that were undertaken included 10,000 projects under the Home Rehabilitation Programme, 6,000 projects under the Uplifting Village Economy Programme which provided investment aid for the promotion of economic self-reliance and food supplements to 130,000 families belonging to the hardcore poor.

III. PROSPECTS, 1999-2000

6.33 In contrast to the difficult times experienced during the review period, prospects for the agriculture sector in the remaining Plan period are expected to be significantly better. The expected improvement is attributed to several factors including better prices, recovery of the oil palm subsector from tree stress, expansion of productive areas under oil palm, strengthening of the food subsector as a result of the several measures implemented under the NERP and wider adoption of labour-saving technologies. In view of these developments, agricultural output during the remaining Plan period is expected to grow by 5.2 per cent per annum compared with the Plan target of 2.4 per cent per annum, as shown in *Table 6-1*.

Third National Agriculture Policy

6.34 During the review period, the NAP was reviewed to take into account the various changes affecting the sector. The review was necessary to ensure that strategies and policies with regard to agricultural development are relevant and effective for the promotion of agricultural development in line with national priorities. The NAP3 incorporating an Action Plan will be implemented over the 1998-2010 period.

6.35 The NAP3 sets the maximization of income as the underlying objective of agricultural development. This objective is to be realized through two major approaches, namely a broader agricultural base under an agro-forestry approach and a more focused development under a product-based approach. The agro-forestry approach emphasizes the integration of agriculture with forestry to enable wider crop-mix possibilities in order to increase the value of agricultural resources and income. The product-based approach allows the development of agricultural activities that are consistent with the strategic clusters identified under the Second Industrial Master Plan. The development of the agriculture sector under this approach is to strengthen the critical linkages and clustering to support agro-based industries and meet specific niche markets.

6.36 The NAP3 emphasizes the following policy measures for the development of the sector:

- *to increase food availability through expansion in domestic production, strategic sourcing and market efficiency;*
- *to improve productivity and income through new product development, labour-saving techniques and more intensive use of land;*
- *to promote private sector participation in agriculture through the establishment of agro-technology parks, incubation centres, land banks and further deregulation of rules restricting production;*
- *to enhance agricultural exports by improving market access, developing direct marketing and a regional distribution centre for tropical floriculture products and aquarium fish as well as promoting Malaysia's own-brand products internationally;*
- *to promote Malaysia as an international halal food hub; and*

- *to enhance human resource development, knowledge and skills, particularly in respect of new technologies including bio-technology, mechanization and sustainable agriculture.*

6.37 In line with the strategies of the NAP3, agricultural development efforts for the remaining Plan period will continue to focus on modernizing the sector into a high value-added food and raw material producer, generating higher income. At the same time, priority will also be given to the implementation of the various measures identified under the NERP to strengthen agricultural production in order to revive the economy. The main focus of the policy directions for agricultural development in the remaining Plan period are as follows:

- *spearheading agricultural development based on the agro-forestry and product-based approaches to increase productivity and enhance competitiveness;*
- *encouraging private sector involvement in large-scale commercial agriculture with the aim to modernize the sector and expand into high value-added subsectors;*
- *strengthening domestic food production to reduce reliance on imports through the zoning of agricultural land to be made available to the private sector at nominal rates, encouraging large-scale modern vegetable farming, and promoting the integration of livestock rearing in plantations;*
- *continuing the development of essential infrastructure required for agricultural development;*
- *intensifying R&D efforts to improve productivity through the promotion of agro-technology parks;*
- *maintaining the extension and training services of small farmers to modernize and improve productivity; and*
- *continuing the revamp of agricultural agencies for the purpose of streamlining functions to increase efficiency and effectiveness.*

Agricultural Production

6.38 During the remaining Plan period, the agricultural industrial commodity group is expected to grow by 5.2 per cent per annum compared with the Plan

- *to enhance human resource development, knowledge and skills particularly in respect of new technologies including bio-technology, mechanization and sustainable agriculture.*

6.37 In line with the strategies of the NAP3, agricultural development efforts for the remaining Plan period will continue to focus on modernizing the sector into a high value-added food and raw material producer, generating higher income. At the same time, priority will also be given to the implementation of the various measures identified under the NERP to strengthen agricultural production in order to revive the economy. The main focus of the policy directions for agricultural development in the remaining Plan period are as follows:

- *spearheading agricultural development based on the agro-forestry and product-based approaches to increase productivity and enhance competitiveness;*
- *encouraging private sector involvement in large-scale commercial agriculture with the aim to modernize the sector and expand into high value-added subsectors;*
- *strengthening domestic food production to reduce reliance on imports through the zoning of agricultural land to be made available to the private sector at nominal rates, encouraging large-scale modern vegetable farming, and promoting the integration of livestock rearing in plantations;*
- *continuing the development of essential infrastructure required for agricultural development;*
- *intensifying R&D efforts to improve productivity through the promotion of agro-technology parks;*
- *maintaining the extension and training services of small farmers to modernize and improve productivity; and*
- *continuing the revamp of agricultural agencies for the purpose of streamlining functions to increase efficiency and effectiveness.*

Agricultural Production

6.38 During the remaining Plan period, the agricultural industrial commodity group is expected to grow by 5.2 per cent per annum compared with the Plan target of only 1.2 per cent per annum. The stronger performance forecasted is mainly due to the higher than expected growth of palm oil and cocoa by 6.9 per cent and 15.4 per cent per annum, respectively. This is despite the projected decline in sawlog and rubber production by 2.0 per cent and 0.9 per cent per annum, respectively, as shown in *Table 6-1*.

6.39 *Palm oil* production is expected to grow in anticipation of higher prices, yield improvement and expansion in the productive areas as well as the recovery from tree stress. Similarly, the expected increase in *cocoa* production is due to the anticipated higher prices and yield improvement. On the other hand, *rubber* production is expected to decline due to low prices and acute labour shortages, although its decline is expected to be somewhat mitigated by a wider adoption of LITS. Production of *sawlogs* is also expected to decline as a result of adverse external demand.

6.40 The food group is expected to grow by 4.7 per cent per annum, higher than the Plan target of 2.7 per cent. The better than expected growth is due to the higher performance of major food commodities as a result of the implementation of the various NERP measures to strengthen domestic food production. *Padi* production is expected to grow by 2.1 per cent per annum due to productivity improvements while livestock is projected to grow by 4.8 per cent per annum as a result of increased production from integrated cattle farming and the *poultry* subsector. As the inshore *fisheries* resources have reached a maximum sustainable yield, emphasis will continue to focus on the development of large-scale aquaculture and integration of the deep sea fishing industry. In this regard, the private sector will be encouraged to venture into large-scale polycultural fresh- water fish farming as well as capital-intensive marine fish cage-rearing. The deep sea fishing industry will be further enhanced by the development of integrated infrastructure and supporting industries including landing and processing facilities. With these developments, fish production is anticipated to increase by 5.4 per cent per annum.

Employment

6.41 With the on-going modernization of the agriculture sector, agricultural employment is expected to decline further, albeit marginally, by 0.3 per cent per annum during the remaining Plan period. As agricultural output is anticipated to increase by 5.2 per cent per annum, value-added per worker is thus, expected to increase by 5.4 per cent per annum. The positive impact of the reduction in agricultural employment on productivity indicates, in part, the effect of a wider adoption of labour-saving technologies.

Land for Agriculture

6.42 With the increasing scarcity of agricultural land, development efforts will be directed at maximizing land use to its full potential. As such, future agricultural development will be focused in states where there is relatively abundant new land areas suitable for agriculture, such as in Pahang, Sabah and Sarawak. In addition, idle land will be put to economic use, particularly to support efforts to increase domestic food production. The State Governments will also provide agricultural land required by the private sector at nominal rates. A total of 191,000 hectares of land has been identified by State Governments to be gazetted as vegetable-growing zones, while another 3,000 hectares are to be developed as agro-technology parks both for the purpose of R&D as well as commercial food production. The NERP has also stipulated the tightening of conditions to convert land from agriculture to non-agricultural use.

6.43 As part of the strategy to maximize the use of agricultural land, emphasis will continue to be given to increasing productivity by promoting greater intensity through intercropping and integrated farming. These will include integrated cattle-ranching in oil palm plantations, hedge planting in rubber estates and modern large-scale farming of annual crops grown in rotation. The emphasis of these measures is to increase value-added through more intensive use of agricultural land.

Revamping of Agricultural Agencies

6.44 During the remaining Plan period, the review of agricultural agencies will continue to improve their efficiency and effectiveness. Action to implement the decision to transfer all R&D functions related to cocoa to the Malaysian Cocoa Board (MCB) will be continued, while steps will be taken to corporatize FELDA and other land development agencies including SALCRA. Two agencies that support palm oil industry, namely PORLA and PORIM, will be amalgamated into a single body, the Malaysian Palm Oil Board, while action will be taken to review the position of *Lembaga Kemajuan Ikan Malaysia* (LKIM) in order to strengthen the fisheries industry. The Malaysian Industry Pineapple Board (MPIB) will be dissolved and its functions absorbed by existing agencies while the Federal Agricultural Marketing Authority (FAMA) and BPM will be privatized.

Agricultural Programmes

In-situ and New Land Development

6.45 In the remaining Plan period, *in-situ* land development will be extended to cover 120,000 hectares, of which 98,000 hectares will be developed under the replanting programme while the remaining 22,000 hectares under the land consolidation and rehabilitation programme, as shown in *Table 6-7*. Replanting programme will mainly be undertaken by RISDA, FELDA and the various state land development agencies such as the Sarawak Land Development Board, Sabah Land Development Board, and Sabah Rubber Fund, while land consolidation and rehabilitation will mainly be done by FELCRA and SALCRA. The replanting programme will focus on improving productivity through the use of better clones and conversion of land to higher-income crops, such as oil palm. The rubber replanting programme will continue to promote the use of high-yielding latex-timber clones in line with the objective of promoting the dual roles of the subsector as a supplier of natural rubber as well as timber for the furniture industry. The Government will identify the areas to be planted with rubber in order to ensure sufficient raw materials to support the growth of the domestic furniture and other wood-based industries as well as the manufacture of downstream rubber-based products. In line with the objective of promoting consolidation among smallholders to gain economies of scale, replanting activities under RISDA will continue to be promoted under group replanting schemes and mini-estates.

6.46 Reflecting the scarcity of new land available for agriculture, the target for new land development during the remaining Plan period will be modest. A high proportion of this land development will be undertaken by the private sector in line with current Government's policy to reduce public sector involvement in this programme. The total new land area to be developed during the remaining Plan period is 72,000 hectares, of which 55.5 per cent are to be developed by the private sector, as shown in *Table 6-8*.

Agricultural Support Services

6.47 During the remaining Plan period, *R&D* activities will be further enhanced to include the commercialization of research findings through the promotion of collaborative research and the establishment of agro-technology parks. PORIM will continue its research on downstream activities, including improving product quality and developing new products as well as on upstream activities, which include improving yield, shortening maturity periods and dwarfing. R&D on rubber by MRB will concentrate on further enhancement of latex-timber clones and LITS as well as new product development and applications of new rubber technology. To overcome the problems of diffusion and acceptance, research on clone development, LITS and other labour-saving techniques will be undertaken under the Monitored Development Programme where farmers are involved in technological development from an early stage of research activities.

6.48 FRIM will continue to give priority to sustainable utilization of forestry resources and agro-forestry development including pharmaceutical and nutraceutical herbs in its R&D efforts. Complementing these efforts, the Forestry Department will continue to undertake various projects on sustainable forest management. A total of RM1.7 billion will be spent on these projects during the 1998-2002 period, to be financed directly from levies on timber exports.

6.49 In the food subsector, MARDI will continue to intensify R&D in food crops, particularly in biotechnology and genetic engineering. In addition, MARDI will also concentrate on technological development to increase value-added across the value chain which includes research on increasing operational efficiency and reducing post-harvest losses. In the fisheries sector, emphasis will be given to the development of knowledge relating to large-scale marine fish-rearing as well as fresh- and brackish water polyculture technologies besides the traditional fisheries subsector.

6.50 As part of overall measures to overcome the labour shortage faced by the rubber industry, the use of LITS will be promoted aggressively to ensure a wider coverage through various measures, including the provision of credit and commercial support. The various land agencies such as RISDA, FELCRA and FELDA will play the catalytic role in further promoting the use of the technology among smallholders.

6.51 During the remaining Plan period, *agricultural extension services* will continue to support the modernization of the sector, including training on the various aspects of agricultural production and agri-business management. A total of 110,000 farmers and smallholders are targeted to be covered under the training programme, as shown in *Table 6-9*. Training and extension services by the Department of Agriculture will include the inculcation of good work ethics and commercialization, while training and extension programmes undertaken by the Department of Fisheries will focus on aquaculture and marine fish-rearing technologies. In the livestock subsector, training and extension by the Department of Veterinary Services will focus on modern management of poultry, beef, chevon and mutton production.

6.52 To provide support to the sector, BPM will continue to provide credit facilities required for production, expansion and modernization. The agency will continue to extend loans to encourage food production in line with the priority given under the NERP. BPM will also continue to expand its lending to promote agricultural mechanization and automation as well as encourage the commercialization of R&D findings and development of new ventures.

Rural Development

6.53 During the remaining Plan period, rural development will continue to be extended as part of overall measures to uplift the living standard of the rural sector in line with the New *Rural* Development Philosophy. A total of 1,800 villages will be developed under the Rural Vision Movement Programme with the aim of accelerating their transformation into modern dynamic rural centres. In addition, 1,400 villages are targeted to be developed under the community-enhancement programme. Training during the remaining Plan period will include developing empowerment capability and values targeted to benefit 400,000 participants, while entrepreneurial development programme is expected to benefit 9,000 participants. Programmes to strengthen the economic base will continue to focus on infrastructure development and the promotion of organized farming activities to reap economies of scale as well as increase value-added. In addition, efforts will be made to enhance the promotion of rural centres based on the One-Village-One-Product approach and establishment of rural industries as well as agro-tourism and eco-tourism ventures.

IV. ALLOCATION

6.54 During the review period, expenditure of the various public agencies involved in agriculture and rural development totalled RM6,030.7 million, as shown in *Table 6-10*. This expenditure comprised 52.8 per cent of the total revised Plan allocation of RM11,422.4 million. The largest expenditure item was rural development, followed by in-situ development and irrigation and flood mitigation. The emphasis of expenditure on *in-situ* development reflects current Government's policy of public sector withdrawal from new land development.

TABLE 6-10

DEVELOPMENT ALLOCATION FOR AGRICULTURAL AND RURAL DEVELOPMENT, 1996-2000

(RM million)[1]

Programme	*7MP*		*Estimated Expenditure 1996-1998*	*Balance 1999-2000*
	Original	*Revised*		
New Land Development	580.6	479.6	270.4	209.1
Regional Development	1,054.5	952.6	506.8	475.8
In-situ Land Development	1,730.0	2,592.1	1,764.5	827.6
Forestry	171.8	144.7	66.0	78.7
Fishery	609.7	609.5	244.0	365.5
Livestock	243.6	223.6	96.1	127.6
Support Services	1,225.3	393.7	211.9	181.8
Irrigation and Flood Mitigation	1,508.0	1,753.9	720.1	1,033.8
Rural Development	3,655.6	3,356.0	1,807.6	1,548.3
Other Programmes	441.3	934.8	343.4	591.4
Total	**11,225.7**	**11,432.4**	**5,840.7**	**5,591.7**

Note: [1] Includes allocation for economic, social and infrastructural programmes for the rural sector.

V. CONCLUSION

6.55 During the review period, the agriculture sector recorded a slight decline in value-added. Despite the decline, progress was made in the modernization of the sector, particularly among the smallholders, through the adoption of labour-saving technologies which resulted in an increase in productivity and income. Agricultural development during the remaining Plan period will continue to be guided by the thrusts and strategies of the NERP and NAP3. In this regard, modernization measures will continue to be implemented to increase productivity and income, especially in the smallholders sector as well as contribute to the development of the rural sector. These measures are expected to generate a positive growth in the agriculture sector during the remaining Plan period.

Chapter 7
Industrial Development

7 INDUSTRIAL DEVELOPMENT

I. INTRODUCTION

7.01 The manufacturing sector remained the key sector in Malaysia in terms of its contribution to Gross Domestic Product (GDP), exports and employment during the review period. Although the sector expanded at a more rapid pace than the overall economy, its performance was affected by the economic slowdown and the increasingly competitive global environment. To sustain the long-term competitiveness of the sector, various policy measures and initiatives were taken aimed at minimizing the impact of the financial crisis, promoting the expansion of the manufacturing sector and boosting exports.

7.02 During the remaining Plan Period, the focus will be to continue introducing and implementing measures that will accelerate the growth of the manufacturing sector and contribute to the economic recovery process. In the context of an increasingly competitive global environment, the key factors that need to be addressed are enhancing productivity and competitiveness. The strategic shift towards high-technology and knowledge-based industries will continue to be promoted with emphasis on the production of high value-added products with export potential. At the same time, special focus will be given to new sources of growth for the sector. In this regard, greater importance will be accorded to the promotion of resource-based export-oriented industries that will generate greater domestic value-added activities. To complement this initiative, innovative efforts will be taken to increase the share of Malaysian exports, particularly resource-based products in new and established markets.

II. PROGRESS, 1996-1998

7.03 During the review period, the sector grew at 4.3 per cent per annum, lower than the Seventh Plan target of 10.7 per cent, as shown in *Table 7-1*.

Table 7-1

MANUFACTURING SECTOR: MAJOR INDICATORS, 1995-2000

Indicator	1995	1996	1997	1998	IMP Target		1991-1995	1996-2000
					Original	Revised		
Manufacturing Value Added (RM million in 1978 prices)	39,799	44,684	50,270	45,155	77,616	53,449	140,309	93,749
Annual Growth Rate (%)	14.2	12.3	12.5	-10.2	20.7	3.9	4.1	3.4
Share in GDP (%)	33.1	34.5	35.7	34.4	38.3	34.5	30.8	34.7
Share in Total Exports (%)	79.6	80.5	81.0	82.9	88.6	82.7	81.3	84.3
Share in Total Employment (%)	25.7	26.4	27.1	27.0	25.9	27.0	26.8	27.3
Employment Growth (%)	8.5	5.5	7.6	-1.6	3.0	2.4	2.8	2.9

Note: [1] Five-year cumulative figure.

Notwithstanding the above, the manufacturing sector continued to be the leading sector in the economy, contributing 34.4 per cent to GDP, 82.9 per cent to total exports and 27.0 per cent to total employment in 1998. While the Government provided a conducive pro-business environment, the private sector continued its role in enhancing the competitiveness of the sector.

Planning Framework

7.04 With the adoption of the 10-year Second Industrial Master Plan (IMP2) in 1996, the Manufacturing ++ orientation and cluster-based[1] development concepts provided the guiding principles for the development of the sector. The Manufacturing ++ concept emphasized that industries undertake higher value-added activities while the cluster-based development approach stressed the critical role of a high quality economic foundation[2] in the promotion of the growth of industrial clusters. In terms of implementation, companies were

[1] A cluster is an agglomeration of inter-linked or related activities comprising industries, suppliers, critical business services, requisite infrastructure and institutions.

[2] The five critical elements of economic foundation are human resource development, technology infrastructure and utilities, business support services and financing, and incentives.

encouraged to venture into downstream activities along the value chain and become more technology- and research and development (R&D)-oriented as well as improve marketing-related activities such as promotion, transportation and distribution. With emphasis placed on productivity-driven growth, the entire manufacturing value chain is expected to shift upwards with higher value-added per employee for all activities along the manufacturing value chain.

7.05 In order to ensure the effective implementation of the IMP2, the Industrial Coordination Council, chaired by the Minister of International Trade and Industry, was launched in March 1997. Besides providing the overall policy directions and guidance, the Council ensures a conducive environment to facilitate the rapid development of the industrial sector. The active collaboration and involvement of the private sector is crucial in ensuring the successful implementation of the IMP2. Accordingly, 19 public-private Cluster Working Groups were established to identify emerging issues and needs of the clusters in terms of R&D, technology, human resource development and supporting infrastructure as well as opportunities for the further development of the specific cluster group. Regular consultations and discussions were held at the national, regional and state levels to provide the necessary feedback for the successful implementation of the IMP2.

Growth Performance by Industry

7.06 The manufacturing sector grew at an average annual rate of 12.4 per cent during the 1996-1997 period but declined to negative 10.2 per cent in 1998. Contributory factors that led to the decline included weak demand in the domestic market and in the East Asian economies, currency depreciation resulting in higher cost of imported inputs as well as tighter credit and higher cost of funds. The industries most affected by the downturn were transport equipment, manufacture of machinery and construction-related industries such as iron and steel, wood and wood products, and cement.

7.07 During the review period, the resource-based industries grew at an average annual rate of 6.1 per cent compared with non-resource-based industries, which grew at 2.6 per cent, as shown in *Table 7-2*. The main contributor to the growth of the resource-based industries was the chemical and chemical products industry, including plastic products, with a share of 16.8 per cent of total manufacturing value-added in 1998. In respect of non-resource-based industries, electrical and electronic products continued to be the leading subsector with a share of 30.8 per cent of total manufacturing value-added in 1998.

TABLE 7-2

GROWTH OF MANUFACTURING INDUSTRIES, 1995-2000

Industry	Value Added (RM million in 1978 prices)								Average Annual Growth Rate (%)	
	1995	%	1996	%	1997	%	1998	%	[illegible]	[illegible]
Resource-Based	**19,168**	**48.2**	**21,753**	**48.7**	**24,151**	**48.0**	**22,906**	**50.7**	**6.7**	**4.6**
Food Manufacturing	3,400	8.5	3,605	8.1	3,903	7.8	3,842	8.5	6.2	5.6
Beverages Industries	488	1.2	505	1.1	505	1.1	497	1.1	0.6	1.1
Tobacco Manufacturing	467	1.2	480	1.1	575	1.1	529	1.2	5.8	1.2
Wood & Wood Products	2,206	5.5	2,480	5.6	2,455	4.9	2,216	4.9	0.1	1.7
Chemical & Other Chemicals	5,664	14.2	6,406	14.3	7,822	15.5	7,591	16.8	10.1	5.5
- Industrial Chemicals	3,405	8.7	4,016	9.0	4,705	9.4	4,618	10.2	9.8	4.7
- Other Chemical Products	1,259	3.2	1,412	3.2	1,539	3.1	1,400	3.0	2.1	3.3
- Plastic Products	927	2.3	1,058	2.3	1,578	3.1	1,641	3.5	21.0	10.0
Petroleum Refineries	597	1.5	673	1.5	700	1.3	675	1.5	4.1	3.4
Rubber Products	3,192	8.0	3,546	7.9	3,723	7.4	4,021	8.9	8.0	8.2
Non-Metallic Mineral Products	2,911	7.3	3,615	8.1	3,976	7.9	3,176	7.0	2.6	10.6
- Glass & Glass Products	311	0.8	336	0.8	363	0.7	290	0.6	2.3	1.7
- Non-Metallic Products	2,600	6.5	3,279	7.3	3,607	7.2	2,886	6.4	1.5	1.1
Non-Ferrous Metal	267	0.7	303	0.7	348	0.8	367	0.8	11.2	2.6
Non-Resource-Based	**20,622**	**51.8**	**22,931**	**51.3**	**26,119**	**52.0**	**22,249**	**49.3**	**2.6**	**2.1**
Textiles & Clothing	2,557	6.4	2,577	5.8	2,744	5.5	2,639	5.8	1.1	1.5
- Manufacturing of Textiles	1,751	4.4	1,795	4.0	1,939	3.9	1,822	4.0	1.7	0.8
- Wearing Apparel	806	2.0	782	1.8	805	1.6	817	1.8	0.3	3.1
Iron & Steel Basic Industries	1,377	3.5	1,617	3.6	1,831	3.6	1,156	2.6	-3.5	-3.0
Fabricated Metal Products	2,865	7.2	3,525	7.9	3,968	7.9	3,219	7.1	4.6	2.9
Electrical & Electronic Products	11,992	30.1	13,001	29.1	15,041	29.9	13,889	30.8	3.0	3.2
- Manufacture of Machinery	1,076	2.7	1,029	2.3	1,063	2.1	689	1.5	-13.8	-4.1
- Electrical Machinery	10,916	27.4	11,972	26.8	13,978	27.8	13,200	29.2	6.5	2.3
Transport Equipment	1,674	4.2	2,047	4.6	2,365	4.7	1,130	2.5	-12.3	3.4
Others	159	0.4	188	0.4	170	0.3	170	0.4	2.2	1.7
Total	**39,790**	**100.0**	**44,684**	**100.0**	**50,270**	**100.0**	**45,155**	**100.0**	**4.3**	**3.4**

7.08 In the *electrical and electronics* industry, output of electronics such as semiconductors and electronic equipment and parts grew moderately due to sustained world demand while output of electrical goods, particularly consumer electrical products showed a downward trend due to weak demand. While the country had developed significant capacity and skills in the assembly and testing of electronic components, semiconductors, consumer and industrial electronics, concentration of activities remained at the lower-end assembly operations and with high import content of inputs. Recognizing this, the Government encouraged the development of upstream higher value-added activities such as wafer fabrication through the provision of special incentive packages for such strategic investments.

7.09 During the review period, *chemical and other chemical products*, including petrochemicals, contributed 15.6 per cent to total manufacturing value-added. Although the industry developed rapidly, the range of products remained relatively small. Production of related products such as polyethylene, propylene, polypropylene and polyvinyl chloride (PVC) continued to be insufficient to meet local demand. Plants for intermediate products such as ethylbenzene, aromatics and ethylene oxide were in the initial stages of production.

7.10 The *transport equipment* industry, led by *Perusahaan Otomobil Nasional Berhad* (PROTON) and *Perusahaan Otomobil Kedua Berhad* (PERODUA), grew at 19.4 per cent *per annum* during the first two years of the Plan period. Demand for passenger and commercial vehicles increased from an average monthly sales of 30,400 units in 1996 to 33,740 units in 1997. However, the economic slowdown, which resulted in a credit squeeze and declining wealth, dampened domestic demand. Accordingly, only 10,200 units per month on average were sold in the first half of 1998. Taking into cognizance the strategic importance of the sector, the Government undertook various measures to stimulate demand such as relaxation of hire-purchase guidelines for cars as well as raising and extending exemption of excise duty for locally manufactured cars. At the same time, the industry took the initiative to make adjustments such as eliminating optional accessories to lower the price of cars. Consumers responded positively to these measures with average monthly sales increasing to 17,100 units during the second half of 1998.

7.11 The robust expansion of the construction sector in 1996-1997 translated into high growth rates for *construction-related industries* such as iron and steel, wood and wood products, cement, and fabricated metal products. Sustained investment in manufacturing which led to plant construction and expansion also supported the growth of these industries. However, the contraction of the construction sector in 1998 affected these industries adversely and led to a situation of underutilized capacity. Efforts were taken by industries to export some of the excess output such as in the case of cement.

Exports of Manufactured Goods

7.12 During the review period, the manufacturing sector continued to be the leading source of export earnings contributing 81.4 per cent of total exports. Exports of manufactures grew by 17.3 per cent[1] per annum, as shown in *Table 7-3*, higher than the Plan target of 16.9 per cent. The export value of manufactured goods grew by 10.2 per cent per annum from RM147,250 million in 1995 to RM178,950 million in 1997. However, in late 1997 and early 1998, the performance of the export-oriented industries was affected by the slow growth in the East Asian economies, which accounted for one-third of Malaysia's exports of manufactured products. At the same time, while the depreciation of the ringgit resulted in more competitive prices for Malaysia's manufactured products, the full benefit was not realized as currencies of competitors also depreciated. Notwithstanding this, exports of manufactured goods grew by 32.8 per cent in 1998 amounting to RM237,660 million and contributed to 82.9 per cent of gross exports. However, in terms of US dollar, exports of manufactured goods declined by 4.7 per cent from US$63,610 million in 1997 to US$60,610 million in 1998.

7.13 Exports of resource-based industries grew at an average annual rate of 13.1 per cent compared with non-resource-based industries which grew at 18.3 per cent during the review period. In terms of value, exports of resource-based manufactured products constituted 15.1 per cent of total manufactured exports. The chemical and chemical products industry was the major contributor representing 29.5 per cent of total resource-based exports. Exports of chemical and chemical products, rubber gloves and condoms remained strong during the review period.

7.14 For the non-resource-based industries, electrical and electronic products registered an average annual growth rate of 18.7 per cent in the review period, despite experiencing weak demand as a result of the regional financial crisis and excess global supply. This strong growth was due to sustained demand for electronic components and higher-end consumer electrical products, particularly from the United States of America (USA) and Europe. Other non-resource-based products which posted healthy growth rates were manufactures of metal and transport equipment which grew at 21.0 and 15.4 per cent, respectively.

---

[1] In terms of US dollar, exports of manufactures increased by 3.3 per cent during the review period.

TABLE 7-3

EXPORTS OF MANUFACTURED GOODS[1], 1995-1998
(RM million)

Industry	1995	1996	1997	1998	Average Annual Growth Rate, 1996-1998 (%)
Resource-Based	**22,896**	**25,176**	**28,239**	**35,153**	**15.2**
Food	3,218	3,797	3,720	4,967	15.4
Beverages & Tobacco	367	376	746	825	12.8
Petroleum Products	3,126	3,381	3,972	5,119	6.1
Chemical & Chemical Products	6,256	6,739	8,311	10,630	19.7
Rubber Products	3,268	3,595	3,859	4,418	11.2
Wood & Wood Products	4,654	5,066	6,492	5,962	8.5
Non-Metallic Mineral Products	1,677	1,641	1,751	2,096	7.7
Non-Resource-Based	**113,173**	**120,893**	**137,233**	**187,422**	**18.3**
Textiles, Clothing & Footwear	6,509	6,961	7,636	9,361	12.9
Manufactures of Metal	4,696	4,908	5,667	8,254	11.9
Electrical & Electronic Products	96,767	104,272	119,050	161,546	18.7
Transport Equipment	5,201	4,659	4,908	8,061	15.4
Other Manufactures	**11,184**	**13,472**	**13,477**	**17,102**	**15.2**
Total	**147,253**	**159,540**	**178,945**	**237,677**	**17.3**
Total (US$)[2]	**58,711**	**63,768**	**63,609**	**60,606**	**3.3**
% of Total Gross Exports	79.8	80.7	81.6	82.6	

Notes:

[1] Exclude exports of processed palm oil and other edible oil products.

[2] Based on the following exchange rates: RM/US$: 1995 = RM2.5081; 1996 = RM2.5159; 1997 = RM2.8132; 1998 = RM3.9211

7.15 In terms of market for manufactured exports, Singapore, USA and Japan were the principal markets. Malaysian exports made inroads into the South countries such as Brazil, Egypt, Mexico and Nigeria indicating the success of Malaysia's trade policy of gaining access to non-traditional markets. In this regard, the Malaysia External Trade Development Corporation (MATRADE) played a major role in terms of providing market intelligence information and other supporting services to Malaysian exporters through its worldwide network of offices.

Investment in the Manufacturing Sector

7.16 During the 1996-1997 period, investment in the manufacturing sector continued to be on a positive trend, reflecting the confidence of both the local and foreign investors in the Malaysian economy. However, investment declined in 1998 due to the cautious attitude of both foreign and local investors following the regional crisis. During the review period, total actual investment was RM53,460 million or an average of RM17,820 million per annum which is less than the targeted annual investment of RM22,000 million[1]. Total approved investment, however, was RM86,484 million which represented 78.6 per cent of total targeted investment for the Plan period, as shown in *Table 7-4*. Of this amount, RM26,917 million or 31.1 per cent represented reinvestment for expansion and diversification. The highest level of investment was recorded in the electrical and electronic products followed by petroleum refineries, chemical and chemical products and basic metal products industries. In terms of capital investment per employee (CIPE), there was almost a two-fold increase from RM177,448 in 1995 to RM315,641 in 1998, as shown in *Table 7-5*. This upward trend indicated that industries responded positively to the Government's call to shift from labour-intensive projects to more capital-intensive projects.

7.17 Domestic investment, which totalled RM44,870 million, represented 51.9 per cent of total investment approved in the review period indicating the success of the Domestic Investment Initiative[2] launched in 1993. With respect to the type of industries, the major approved investments were in the electrical and electronic products and petroleum refineries constituting 17.1 per cent and 16.9 per cent, respectively, of total domestic investment. On the other hand, foreign direct investment (FDI), amounting to RM41,610 million, accounted for 48.1 per cent of total investment during the review period. These comprised mainly high technology, capital-intensive and information technology (IT)-related investment. The main sources of FDI were from Japan, USA, Singapore, Taiwan and Switzerland.

7.18 In terms of the proposed locations of manufacturing projects, Selangor, Johor and Pulau Pinang received the largest number of projects. During the review period, a total of 1,435 projects, representing 60.2 per cent of total approved projects, was located in these states, as shown in *Table 7-6*. Based on proposed capital investment in approved projects, Johor, Selangor, Terengganu

---

[1] The investment target for the Seventh Plan period is RM110,000 million based on a 60:40 ratio comprising RM66,000 million from domestic sources and RM44,000 million from FDI.

[2] The Government had set a target of 60 per cent of total investment as the share of domestic investment and the balance from FDI.

TABLE 7-4

INVESTMENT IN APPROVED PROJECTS BY INDUSTRY, 1996-1998

Industry	Number of Approvals				Domestic Investment (RM million)				Foreign Investment[1] (RM million)				Proposed Total Capital Investment (RM million)			
	1996	1997	1998	Total	1996	1997	1998	Total	1996	1997	1998	Total	1996	1997	1998	Total
Resource-Based	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Food Manufacturing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Beverages & Tobacco	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wood &Wood Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Furniture & Fixtures	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paper, Printing & Publishing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Chemical & Chemical Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Petroleum Refineries	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Natural Gas	[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	[illegible]			[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
Rubber Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Plastic Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Non-Metallic Mineral Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Non-Resource-Based	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Textiles & Textile Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Leather & Leather Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Basic Metal Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fabricated Metal Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Machinery Manufacturing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Electrical & Electronic Products	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Transport Equipment	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Scientific & Measuring Equipment	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Miscellaneous	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Note: [1] Foreign Investment = Foreign Equity + Loan [illegible]

TABLE 7-5

CAPITAL INVESTMENT PER EMPLOYEE IN APPROVED MANUFACTURING PROJECTS, 1995-1998

Year	*Number of Projects*	*Potential Employment*	*Capital Investment (RM millions)*	*Capital Investment Per Employee (RM)*
1995	899	117,807	20,000.1	177,448
1996	782	91,891	34,237.6	372,807
1997	759	71,421	25,828.4	361,679
1998	844	83,857	26,485.6	315,441

TABLE 7-6

APPROVED MANUFACTURING PROJECTS BY STATE, 1996-1998

State	*Number of Projects*				*Proposed Capital Investment (RM millions)*			
	1996	*1997*	*1998*	*Total*	*1996*	*1997*	*1998*	*Total*
Johor	171	171	159	501	5,985.9	4,540.6	4,513.5	15,040.0
Kedah	43	59	46	148	5,290.1	4,049.7	747.1	10,086.9
Kelantan	8	13	12	34	65.6	364.9	54.2	484.7
Melaka	35	20	36	92	1,603.9	972.5	901.1	3,477.5
Negeri Sembilan	44	26	36	106	1,740.2	991.8	434.7	3,166.7
Pahang	18	23	33	78	1,718.3	3,066.2	2,472.8	7,257.3
Perak	41	74	32	148	795.1	625.7	510.9	1,931.7
Perlis	5	4	3	12	1,472.4	102.5	20.1	1,595.0
Pulau Pinang	97	90	104	291	3,185.4	1,449.1	2,666.5	7,301.0
Sabah	30	31	43	104	611.3	1,817.9	926.0	3,355.2
Sarawak	30	13	81	124	4,851.1	561.0	1,549.5	6,961.6
Selangor	214	206	221	641	4,716.4	4,941.4	3,432.5	13,090.3
Terengganu	12	16	28	56	2,356.8	2,296.6	7,145.3	11,798.7
Wilayah Persekutuan Kuala Lumpur	17	17	16	50	100.6	244.2	74.2	419.0
Wilayah Persekutuan Labuan	1	1	1	3	4.5	0.6	0.0	5.1
Total	**782**	**759**	**844**	**2,385**	**34,237.6**	**25,828.4**	**26,485.6**	**86,551.6**

and Kedah accounted for RM50,610 million or 58.5 per cent of total investment during the review period. The contributory factors that led to higher investment in these states were the existence of well-developed infrastructure and amenities as well as the large-scale technology-intensive nature of the approved projects.

7.19 Commercial banks remained an important source of finance for the growth of the manufacturing sector. Loans and advances to the manufacturing sector by commercial banks represented one-fifth of total disbursements to all sectors, with the major portion channelled to the wood and wood products, electrical machinery and appliances, iron and steel, and textile and apparel subsectors. Total outstanding loans to the manufacturing sector, as at 31 December 1998, stood at RM57,134 million compared with RM54,952 million as at 31 December 1997, as shown in *Table 7-7*. Among the measures taken by the Government to promote lending included reducing the interest rates and the imposition of a minimum requirement of 8.0 per cent credit growth.

Employment in the Manufacturing Sector

7.20 The rapid expansion of the manufacturing sector in 1996-1997 enabled the employment rate in the sector to grow at 7.7 per cent per annum but subsequently declined to negative 3.6 per cent in 1998 due to the economic slowdown. In the review period, total employment grew at 3.8 per cent per annum from 2.1 million in 1995 to 2.3 million in 1998. About 291,470 or 12.6 per cent of the total employed in the manufacturing sector were foreigners, excluding expatriates.

7.21 The manufacturing sector was the largest contributor in terms of job creation. A total of 243,900 jobs was created in the review period, representing 47.4 per cent of total net job creation. The subsectors which contributed significantly to employment creation were electrical and electronic products, wood and wood products, and transport equipment which registered annual growth rates of between 5 to 15 per cent. However, due to the contraction of the manufacturing sector, a total of 45,150 workers was retrenched representing 53.8 per cent of the total retrenched in the country in 1998. It was reported that these retrenched workers were quickly absorbed into other industries and sectors.

7.22 Productivity in the manufacturing sector, measured in terms of manufacturing output per employee, increased by 4.5 per cent in 1997 compared with 4.2 per cent in 1996 but subsequently declined to negative 6.9 per cent in 1998. The decline in productivity was attributed to the slowdown in the

TABLE 7-7

LENDING BY COMMERCIAL BANKS TO THE MANUFACTURING SECTOR BY INDUSTRY, 1995-1998

(RM million)

Industry	1995	%	1996	%	1997	%	1998	%	Average Annual Growth Rate 1995-1998 (%)
Rubber Processing & Rubber Products	1,949.6	4.7	1,659.0	3.1	1,538.9	2.8	1,641.5	2.9	2.9
Tin	83.1	0.2	45.5	0.1	65.6	0.1	242.5	0.4	-42.8
Palm Oil Processing	1,456.6	3.4	1,370.8	2.9	1,736.0	3.2	2,432.2	4.3	38.6
Food, Beverages & Tobacco	2,271.6	5.4	2,562.7	5.4	3,382.6	6.2	3,872.9	6.8	39.5
Textile & Wearing Apparel	2,803.6	6.6	4,087.4	8.6	5,409.7	9.8	4,996.6	8.7	21.2
Wood & Wood Products	4,342.1	10.2	5,084.9	10.8	5,681.6	10.3	6,192.2	10.8	12.8
Paper & Paper Products	1,236.1	3.0	2,481.9	5.3	1,413.9	2.6	1,393.3	2.4	3.6
Printing & Publishing, etc	1,105.5	2.6	1,297.6	2.7	1,366.9	2.5	2,088.9	3.7	23.6
Industrial Chemicals	1,033.7	2.4	774.1	1.6	1,751.5	3.2	1,803.2	3.2	20.1
Petroleum Products	321.5	0.8	445.5	0.9	1,288.0	2.3	–	–	98.6
Plastic Products	2,120.6	5.0	2,196.1	4.6	2,068.1	3.8	2,291.6	4.0	2.5
Building Materials	2,018.3	4.8	1,658.2	3.5	1,875.1	3.6	2,828.2	5.0	11.9
Iron & Steel Products	5,596.9	13.2	6,055.9	12.8	4,808.2	8.8	5,436.5	9.6	-0.8
Metal Products	1,794.0	4.2	2,178.4	4.6	2,571.9	4.7	2,760.0	4.8	15.5
Machinery (Non-Electrical)	944.1	2.2	841.4	1.8	936.2	1.7	1,768.7	3.1	49.1
Electrical Machinery & Appliances	5,160.5	12.2	5,287.1	11.2	6,334.7	11.5	5,240.5	9.2	0.5
Transport Equipment	1,407.9	3.3	1,585.1	3.4	2,142.5	3.9	2,185.6	3.8	17.4
Non-Metallic Mineral Products	–	–	2,502.0	5.3	3,441.6	6.3	4,772.2	8.4	38.1
Others	7,516.7	17.7	5,271.4	11.2	7,059.9	12.8	5,195.6	9.1	-11.8
Total	**42,426.1**	**100.0**	**47,099.1**	**100.0**	**54,952.0**	**100.0**	**57,133.8**	**100.0**	**10.4**

economy resulting in the workforce not being fully utilized and, hence, affecting overall productivity growth. The main subsectors that contributed to the decline in productivity in 1998 were transport equipment, iron and steel, non-metallic mineral products, and wood and wood products. On the other hand, the main subsectors that experienced an increase in productivity in 1998 were machinery, industrial chemicals and textiles. Various activities to enhance productivity and quality were undertaken by National Productivity Corporation (NPC) through its efforts to upgrade local expertise, promote greater awareness in quality practices, and develop databases on productivity indicators and benchmarks.

7.23 The manufacturing sector continued to face a tight labour market, particularly for skilled and semi-skilled occupational categories due to the progression of industries towards technology- and capital-intensive production. Shortages were particularly apparent in the electronic and IT-related industries. Although the total number of workers in the skilled and semi-skilled categories increased from 535,903 and 359,900 in 1995 to 608,599 and 435,702 in 1998, respectively, as shown in *Table 7-8*, the increase was insufficient to meet rising demand for these categories of workers.

TABLE 7-8

EMPLOYMENT IN THE MANUFACTURING SECTOR BY CATEGORY OF WORKERS, 1995-1998

Category	1995	%	1998	%	Average Annual Growth Rate, 1996-1998 (%)
Managerial & Professional	[illegible]	4.2	[illegible]	[illegible]	[illegible]
Technical & Supervisory	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Clerical	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
General Workers	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Skilled	535,903	[illegible]	608,599	[illegible]	[illegible]
Semi-skilled	359,900	[illegible]	435,702	[illegible]	[illegible]
Unskilled	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	**100.0**	[illegible]	**100.0**	[illegible]

7.24 Steps were taken to upgrade the skill delivery system at the various training institutes to enable them to be more responsive to market needs. In this regard, a total of RM41 million was allocated to upgrade the facilities of the 11 Skill Development Centres (SDCs) during the review period. The courses offered by the SDC's include industrial automation, plastic mould design, precision machining and computer-aided design which benefited 55,100 participants. In addition, the Government, through *Majlis Amanah Rakyat* (MARA)'s higher training institutes such as the German-Malaysian Institute (GMI), Malaysia-French Institute (MFI) and British-Malaysian Institute (BMI), conducted specialized courses to meet the needs of advanced high-technology industries.

7.25 In order to complement the Government's efforts, the private sector was encouraged to establish specialized skill centres to meet the demand for skilled workers. As part of this promotion initiative, the Government provided launching grants to various specialized private sector-initiated skill centres such as the Malaysian Textile and Apparel Centre and the Malaysian Plastics Design Centre. At the same time, efforts were taken to maximize the utilization of the Human Resources Development Fund (HRDF) through the introduction of new training programmes such as mechatronics, industrial machining and hotel industry apprenticeship schemes as well as a special programme to train retrenched workers at certificate and diploma levels. The HRDF covers the manufacturing sector and nine industries in the services sector. Of the RM233.4 million levy collected from the manufacturing sector during the review period, 87.1 per cent or RM203.4 million were channelled for training and retraining in the sector.

Development of Small- and Medium-Scale Industries

7.26 The Seventh Plan emphasized the importance of the small- and medium-scale industries (SMIs) in supporting and sustaining the country's industrialization agenda. Accordingly, the focus of SMIs' development in the review period was to strengthen the development of SMIs by forging stronger linkages with large-scale industries and among the SMIs along the value chain, in order to increase the depth of the industrial base as well as further enhance their overall efficiency and competitiveness. To achieve this, the Government undertook various measures such as providing institutional support and technical assistance for technological advancement, implementing productivity and quality enhancement schemes, redefining SMIs, and launching of new programmes.

7.27 In terms of institutional support, the Small and Medium Industries Development Corporation (SMIDEC) was established in May 1996 to provide effective leadership through the formulation and implementation of focused strategies and programmes for the long-term development of SMIs. The definition of SMIs was expanded to include companies with 150 full-time employees or less and an annual sales turnover not exceeding RM25 million. The rationale for the new definition was to include larger firms with the capacity to undertake the enhanced role of forging stronger linkages with large-scale establishments and penetrating export markets. In addition, administratively, a demarcation between small- and medium-scale companies was introduced to ensure that government-support programmes are tailored to meet the needs of different size SMIs which are at various stages of development. Small-scale companies are classified as having employees not exceeding 50 and annual sales turnover not exceeding RM10 million, while medium-scale companies have 51 to 150 employees and annual sales turnover of between RM10 million and RM25 million.

7.28 New programmes for SMI development were put in place to enhance their role in supporting the national industrialization efforts. During the review period, SMIDEC implemented eight development programmes, namely Industrial Linkage Programme, Technology Development, Technology Acquisition, Market Development, Enterprise Development, Financial Support, Skill Development and Upgrading, and Infrastructure Development. Under the Industrial Linkage Programme, SMIs were matched with larger scale companies to provide market opportunities as well as strengthen their competitiveness as reliable and cost-effective manufacturers and global suppliers of parts and components. For the technology-related programmes, the focus was to develop and strengthen the technological capabilities of SMIs to adopt best manufacturing practices in order to improve production efficiency and product quality as well as promote adherence to international standards and product requirements. During the review period, matching grants amounting to RM25.1 million were given to more than 400 SMIs. Under the marketing development programme, SMIs were encouraged to expand and diversify their market locally and subsequently at regional and international levels. In addition, promotional assistance was also provided for SMIs to market their products locally and abroad including the development of domestically owned brands and the undertaking of market and technology feasibility studies. In this regard, matching grants valued at RM5.0 million were disbursed to 527 enterprises during the review period.

7.29 Existing programmes such as the Vendor Development Programme, Industrial Technical Assistance Fund (ITAF) and Infrastructure Development were strengthened in terms of their delivery system. Other support programmes such as the provision of training facilities, credit and supporting infrastructure were continued with the aim of helping SMIs integrate into the mainstream of the manufacturing sector. In addition, the Government established SMI Industrial Parks to provide affordable industrial sites as well as assist SMIs acquire proper operating premises.

7.30 The Government continued to promote and upgrade Bumiputera SMIs. In this regard, the Vendor Development Programme under the Ministry of Entrepreneur Development continued to expand and succeeded in creating 201 vendors in 14 industries mainly in the electrical, telecommunications and automotive sectors during the review period. A total of 78 anchor companies was involved in the programme together with the support of 20 banks which provided financial facilities. A similar programme was implemented by the Ministry of Finance focusing on enhancing linkages between small contractors and Government-owned companies. During the review period, eight such companies participated in the programme which involved 184 vendors. Through the Genuine Joint-Venture Programme between Bumiputera and non-Bumiputera, 52 joint venture companies were established of which 70 per cent were in the manufacturing sector. Efforts were also intensified to assist Bumiputera furniture manufacturers to participate actively in the domestic as well as overseas markets under the Furniture Park Programme, which included an Integrated Furniture Manufacturing and Marketing Programme. In terms of the development of rural industries, the Government continued to provide machinery, training and consultancy services. In addition, the Government facilitated the entry of rural industries into simple component manufacturing providing the rural Bumiputera community greater opportunity to interface with the modern manufacturing sector.

7.31 The implementation of these initiatives resulted in generating greater interest among entrepreneurs to be involved in the SMI sector in 1996-1997. However, the development of SMIs suffered a setback during the economic downturn due to declining demand, increasing production costs and credit squeeze. In response to this, the SMI Fund, launched in January 1998 to assist SMIs meet their financial needs, was increased from RM1.0 billion to RM1.5 billion in May 1998 and certain conditions were relaxed to make it more accessible to SMIs. The revised conditions include reducing the minimum loan from RM250,000 to RM50,000 while raising the maximum amount from RM2 million to RM5 million and abolishing the 20 per cent limit on working capital. As at the end of 1998, loans totalling RM882 million were approved for 873 SMIs nationwide. Of this number, 531 applications worth RM596 million or 68 per cent were for the manufacturing sector. In addition, the Government also launched the RM750 million Rehabilitation Fund for SMIs in November 1998 to meet the financing needs of capable SMIs with strong business foundation but unable to get further financial assistance due to their inability to service existing loan commitments.

Measures to Sustain Industrial Growth

7.32 In view of the economic slowdown and the impact on the manufacturing sector, various measures and incentives were introduced to improve the competitiveness of the manufacturing sector. The pro-business policies of the Government continued to facilitate and support the efforts of the business community. These policies and measures enhanced the business and investment environment as well as reduced the cost of doing business.

7.33 In an effort to further enhance the investment climate, the Government granted full exemption on equity and export conditions for foreign and local manufacturers involved in new projects[1]. This flexibility applies to all applications received from 31 July 1998 to 31 December 2000 as well as those received prior to 31 July 1998 but for which decisions are still pending. Existing companies that undertake reinvestments during the period will also be given the new equity flexibility for the portion of their additional investments. All projects approved under this new guideline will not be required to restructure their equity after this period. The Government also adopted a liberal policy in terms of a relaxation of export conditions of existing manufacturing enterprises allowing them to sell up to 50 per cent of their total output to the domestic market. This relaxation, effective for three years beginning 1 January 1998, is aimed at promoting local sourcing and encouraging industrial linkages.

7.34 The Government also introduced various tax exemptions and allowances to boost exports. These included tax incentives based on increases in export value and a special building allowance of 10 per cent for warehouses used for the purposes of export and re-export. At the same time, corporate tax was reduced from 30 per cent to 28 per cent in 1998. The Government also provided R&D incentives for design and prototyping activities. These included

---

[1] With the exception of activities in a specific exclusion list where Malaysian companies already have the capabilities and experience. The exclusion list covers paper packaging; plastic packaging (bottles, films, sheets and bags); plastic injection moulding components; metal stamping, metal fabrication and electroplating; wire harness; printing and steel service centres.

pioneer status, investment tax allowance and double tax deduction on R&D expenditure. In addition, advertising expenditure incurred for promoting Malaysian brand names of industrial and consumer goods and services locally and abroad was eligible for double tax deduction. Various incentives were also introduced to encourage the participation of both anchor and vendor companies in the Vendor Development Programme.

7.35 The introduction of selective exchange control measures on 1 September 1998 as well as the lowering of inter-bank rates helped in stabilizing the economy and brought greater certainty to the business environment. The fixed exchange rate reduced the risks of conducting business and enabled the corporate sector to plan ahead while the lowering of inter-bank rates decreased the cost of doing business and encouraged investment. Selective exchange control measures, aimed at eliminating speculative short-term capital flows, were not intended to affect FDI which continued to be actively promoted with the repatriation of profits, dividends, interest and capital gains freely permitted.

Industrial Infrastructure

7.36 In terms of infrastructure support, the Government continued to finance the construction of industrial estates and other supporting facilities and amenities, particularly in the less developed states such as Kedah, Kelantan and Perlis. During the review period, a total of 15 industrial estates, covering an area of 2,530 hectares, was developed by State Economic Development Corporations (SEDCs).

7.37 To promote strategic and technology-intensive industries, two specialized industrial estates, namely Kulim Hi-Tech Park (KHTP) Phase II in Kedah and Composite Technology City (CTC) in Batu Berendam, Melaka were developed in addition to the existing 25. While KHTP specialized in wafer fabrication, memory chips, hard-disk drives and related products, CTC concentrated on composite-based products such as components for light aircraft. In addition, the specific industries that were promoted in the existing 25 industrial estates included ceramic, wood-based industries, pharmaceutical products, petroleum and gas, and steel. The Government provided a total of RM462 million to develop these two specialized industrial estates and the Technology Park at Bukit Jalil, Wilayah Persekutuan Kuala Lumpur as well as the furniture parks under the Bumiputera Commercial and Industrial Community (BCIC) programme. To complement the Government's efforts, the private sector constructed 77 new industrial estates with an area of 7,000 hectares.

R&D and Technology Development

7.38 Despite the impact of the economic slowdown, high priority continued to be accorded to the promotion of science and technology (S&T), R&D and technological innovation as an essential part of the Government's overall strategy of sustainable development. The core strategies of R&D in particular were refocused towards promoting value-added research activities that contributed to increasing competitiveness, strengthening linkages and enhancing productivity of manufacturing in line with the requirements under the IMP2. In view of this, the existing Intensification of Research in Priority Areas (IRPA) programme was further improved, innovative research programmes were formulated and new R&D funding schemes introduced.

7.39 The management of the IRPA mechanism, at the institutional and implementation level, was revamped to ensure that scarce research funds were channelled to more applied and industry-relevant projects. Research agencies and universities have to competitively bid for funds to undertake contract research for specific clients, whether Government or industry. This process is essentially aimed at allocating funds to the best proposals while reducing excessive overlaps and duplication of research activities. Of the total IRPA allocation of RM1.0 billion, about RM400 million or 40 per cent was spent during the review period. Another RM250 million was allocated for the operationalization of R&D assistance schemes to promote collaboration and joint ventures among the public research agencies and industry. Of the total expenditure for IRPA projects, 37.7 per cent was for agro-industry, 15.6 per cent for science and engineering, 15 per cent for health and medical sciences, while 13 per cent and 9.0 per cent for manufacturing and environment, respectively. The balance of 9.7 per cent was for R&D in the energy, services, IT, construction and social services areas. The expenditure pattern continued to be similar to that in previous Plans, largely due to the fact that R&D capacity in agriculture remained high, while R&D capacity in manufacturing, IT and services has yet to increase significantly. The extent of commercialization of R&D findings remained low across all sectors since there were few takers of potential technologies and products that remained untested and untried in the market place.

7.40 In the early part of the review period, the private sector contributed significantly to R&D investment, reporting a total expenditure of RM385 million. This represented an increase of 28.3 per cent over 1994, when the last survey on R&D expenditure was carried out. The major share was for capital expenditure as well as technical and consultancy services, indicating an expansion of future R&D activities. In 1998, however, this momentum of relatively significant R&D expenditure was not sustained due to the impact of the economic slowdown when other priorities took over.

7.41 During the period under review, the Government's efforts to enhance private sector R&D were further intensified. This included the provision of incentives, infrastructure and other forms of assistance. The main thrust was to promote market-oriented R&D and technology development projects with potential spin-off activities for new growth and employment opportunities. One such assistance programme is the Industry Research and Development Grant Scheme (IGS) with an initial allocation of RM100 million. Its key feature was the fostering of collaboration among private sector companies, universities and research institutes applying for the assistance. Since its launch in March 1997, there were 60 applications, with 16 projects amounting to RM30 million approved for immediate implementation.

7.42 A special scheme, the Multimedia Research and Development Grant Scheme (MGS) was launched in October 1997 to provide assistance to Malaysian-owned companies with Multimedia Super Corridor (MSC) status. This formed part of the development of the R&D cluster flagship to provide a conducive climate for joint and collaborative research activities for the spawning of new IT technologies and services. A sum of RM100 million was allocated to the Multimedia Development Corporation (MDC) to implement the MGS. At the end of 1998, a sum of RM5.5 million was approved for four projects.

7.43 In order to further accelerate and upgrade the development of indigenous technological capabilities, the Commercialization of Research and Development Fund (CRDF) and Technology Acquisition Fund (TAF) were launched in September 1997. The Funds, managed by the Malaysian Technology Development Corporation (MTDC), were allocated RM100 million and RM61 million, respectively. The main objective of the CRDF was to accelerate the commercialization of R&D findings undertaken by local universities and research institutions as well as companies and individual researchers and inventors. The objective of the TAF, on the other hand, was to promote technology upgrading through the introduction and acquisition of modern and more efficient technology in manufacturing with a view to improving and developing new products and processes. As at December 1998, a total of 28 projects amounting to RM28.8 million was approved under the CRDF and TAF.

7.44 Programmes that emphasized applied and developmental research and innovation in areas that contribute significantly to industrial development received higher priority. Greater attention was accorded to identifying commercial opportunities in biotechnology by developing cooperative R&D activities among government agencies, industry and universities as well as forming strategic alliances with foreign entities. The Malaysian Institute of Microelectronics System (MIMOS) expanded the development of essential infrastructure to build indigenous capability in the electronics industry, while the Standards and Industrial Research Institute of Malaysia (SIRIM) undertook measures to enhance national R&D capabilities in automated manufacturing technology and advanced materials. Technology Park Malaysia (TPM) expanded the incubator and enterprise development facilities as well as extended venture capital to new technology-based firms. These agencies collaborated with industry in more than 50 commercial ventures with the aim of diffusing new and improved technologies. Other major players involved in charting the science, research and innovation agenda included the Academy of Sciences Malaysia, the Malaysian Industry Government Group for High-Technology (MIGHT) and the KHTP as well as the MDC.

III. PROSPECTS, 1999-2000

7.45 The manufacturing sector will continue to be the prime mover of the economy. The main focus will be on reviving the robust growth of the sector, assisting in the recovery of the economy and implementing measures to achieve the objectives of the IMP2. With the continued implementation of the liberalized trade and investment environment and accommodative monetary and fiscal policies, the sector is expected to attract new investments. During the remaining Plan period, the manufacturing sector is expected to grow by 3.4 per cent and contribute 34.5 per cent to GDP and 27.2 per cent to total employment.

7.46 The success of Malaysia's industrialization programme hinges greatly on the ability to improve productivity and maintain long-term competitiveness globally. To further strengthen the manufacturing sector's resilience, the following measures will be emphasized:

- *promote investment vigorously, particularly in industries that will provide maximum benefits to the nation and sustain the growth of the manufacturing sector;*

- *intensify the strategic shift to high technology-intensive and knowledge-driven industries and promote greater use of automation and robotics;*

- *strengthen further the export sector and nurture home-grown trading companies with aggressive global marketing capabilities;*
- *enhance local production of investment and intermediate goods and expedite investment activities and programmes that will reduce the use of imported parts and components in production;*
- *accelerate the growth and development of SMIs, particularly export-oriented SMIs;*
- *expand the existing R&D system into a comprehensive national innovation system;*
- *create a more conducive environment for the private sector to undertake industrial R&D, technology acquisition and related technology development activities; and*
- *promote greater investment in the less developed states.*

Promoting Investment

7.47 The manufacturing and business environment has become more challenging with the onset of the financial crisis in July 1997 and the ensuing economic slow-down which was further aggravated by uncertainties in the external environment. Thus, a more conducive environment will be created to provide businesses with opportunities for growth and profit. Towards this end, measures in the National Economic Recovery Plan (NERP), the introduction of selective exchange control measures as well as the additional stimulus under the 1999 Budget will make significant contributions.

7.48 Given the intense competition for FDI and the need to promote both foreign and domestic investment, efforts will be intensified to ensure that Malaysia continues to remain attractive to investors. Efforts to further enhance the investment environment include the review of incentives, formulation of a more competitive package for promoted and strategic areas, and reduction of administrative rules and regulations. Local investors will be encouraged to utilize the increased liquidity in the banking system brought about by more accommodative monetary measures to expand their production facilities as well as undertake new ventures. To enable the country to remain as a global player, strategic alliances will be promoted to encourage Malaysian companies undertake reverse investment selectively in the context of South-South Cooperation. Such alliances will enable Malaysia to share its managerial and technical expertise as will as provide linkages and spin-offs to the domestic economy. At the same time, the host country will provide land and labour with funding for the projects raised through offshore investment sources. Overseas ventures will also be encouraged to source their raw materials, parts and components from Malaysia, where possible, in order to maximize the synergy with domestic production.

7.49 In undertaking the investment drive, the Government will accord priority to the development and growth of industries that will provide maximum spin-offs to the national economy. These include agro- and resource-based industries as well as industries that produce intermediate products that will foster industrial linkages and reduce the import bill of the country. In this regard, a comprehensive study will be undertaken to identify export-oriented products in which the country has competitive advantage with a view to further diversifying the manufacturing base. Support programmes will be put in place to enhance production capabilities in terms of R&D, skills, human resource development and cluster development. Existing incentives will be reviewed to encourage the private sector to undertake investments in these priority sectors. At the same time, the incentives regime will be appraised to ensure that in the long term the nation benefits from the granting of these incentives.

Improving the Structure and Competitiveness of Industry

7.50 Measures will continue to be taken to ensure that industries move beyond assembly-type manufacturing operations and basic processes to higher value-added activities such as R&D, designing, development of integrated supporting industries, packaging, distribution and marketing activities. Emphasis will also be shifted towards full-scale manufacturing operations with its own design and prototype development. For the electronics industry, the strategic shift will be to move up the production capability ladder into high value-added and front-end activities such as opto-electronics, fibre optics, laser and IT. The future thrust of the electronics subsector is to upgrade technology, enhance automation as well as acquire technology through strategic alliances with technology-intensive firms. At the same time, greater efforts will be taken to promote more local sourcing of high quality parts and equipment such as high precision plastics, fabricated metal and automation equipment, composites, and biotechnology products and processes through the industrial linkage programme.

7.51 In the automotive industry, the SMI vendor development programme will be rationalized to encourage small component suppliers to merge in order to share production facilities and reap economies of scale while the medium-scale enterprises will be encouraged to undertake R&D activities to enable them to become first tier suppliers of parts and components which can meet global market requirements. At the same time, foreign participation in the production of key automotive parts and components, largely for exports, will be encouraged to expand the domestic base for components and sub-components, including child parts. These measures will be taken to aggressively promote the automotive subsector as a leading industry which produces not only passenger and commercial vehicles but also parts and components for both the domestic and foreign markets.

7.52 In order to promote the aerospace industry as a new growth and strategic subsector, the Government launched the National Aerospace Blueprint in December 1997. The Blueprint consists of 45 key recommendations aimed at identifying programmes to develop the aerospace industry into a significant international player. To provide a sound institutional framework, the Government approved the establishment of the Malaysian Aviation Council (MAC), Malaysian Aviation Authority (MAA) and the National Aerospace Coordinating Body (NACB). While the MAC will function as the national steering committee responsible for making key policy decisions on the development of the sector, the MAA will replace the Department of Civil Aviation as the regulatory authority. The NACB will act as an intermediary for local and foreign interests in the aerospace industry, serve as a reference point for the management of offset programmes and establish a detailed inventory of local aerospace players. The focus of this subsector will be on the manufacture of light aircraft and components as well as promotion of Malaysia as a regional centre for overhaul maintenance, and modification and refurbishment activities. In this regard, the National Multi-Discipline Design Centre and the National Aircraft Design Centre will be upgraded to benefit from the different aerospace technology niches.

7.53 In view of the huge potential market for *halal* food overseas, efforts will be focused on the establishment of an internationally recognized *halal* certification process in Malaysia. In this regard, measures that will be taken include establishing a Halal Food Processing Park and expediting the process of obtaining the *halal* certificate by food manufacturers. At the same time, MATRADE will undertake aggressive marketing efforts to promote Malaysian *halal* food in major markets, particularly in the Middle East and the emerging markets in China, European Union and USA.

7.54 The IMP2 emphasizes the need for the development of large-scale production with efficient support activities such as marketing, transportation and distribution. In this regard, the Government will intensify efforts to promote Malaysia as a regional hub for multinational operations and manufacturing-related services including the establishment of operational headquarters (OHQs) and regional offices. In addition, the setting-up of international procurement centres (IPCs) will be promoted to encourage multinational corporations (MNCs) to locate their marketing and distribution centres in Malaysia. The existence of IPCs will help expand the market of local SMIs as the IPCs are expected to source parts and components from some of them.

7.55 In order to address environmental concerns, industries will be encouraged to adopt and develop environmentally sound technologies and practices in line with the objectives of sustainable development. In this regard, the Government will promote the use of clean technology, pollution control equipment, recovery and reutilization of waste, proper siting of industries and the setting up of central disposal facilities for industrial wastes. Assistance and incentives will be provided, particularly to SMIs to enable them to develop and adopt appropriate and affordable technologies in compliance with required environmental standards.

Increasing Exports

7.56 For the remaining Plan period, exports of manufactured products are expected to increase further and remain the leading source of export earnings. Taking cognizance that 56 per cent of the country's exports in 1997 were with countries of North East and South East Asia and that the regional slowdown is likely to undermine export growth potential, new approaches and strategies will be undertaken in order to help sustain long-term export competitiveness. In this regard, the role of the relevant government agencies will be reviewed, streamlined and consolidated to ensure their effectiveness in linking Malaysian manufacturers with overseas markets and in the promotion of Malaysian products. Efforts will also be taken to promote Malaysian brand names through aggressive marketing and intensive promotion.

7.57 The Government will assist the private sector in promoting demand for products which have excess plant capacity such as holding regular trade fairs and expositions. At the same time, the Government will encourage the private sector to widen and diversify their export base by undertaking a range of support services which will enable local manufacturers to adapt to the changing needs of a highly competitive export market. These support services are in the areas of R&D, automation, technology upgrading, product diversification, market development, efficient transportation, financing facilities and industrial linkage development. In order to optimize the potential of IT, efforts will be made to further facilitate local companies in the effective utilization of e-commerce in business and trading activities.

7.58 To enable Malaysian exports to be aggressively promoted in the international market, trading companies will assume an increasingly important role. Towards this end, a core of home-grown Malaysian International Trading Companies (MITCs) will be nurtured to develop world-class marketing capabilities to explore trade and investment opportunities including in countries of the South. Assistance will also be given to Malaysian companies to set up specialized trading houses overseas which will promote Malaysian products aggressively as well as source for cheaper imports. These trading houses, with their flexibility and extensive networks, will be able to diversify exports as well as accumulate, consolidate and distribute cargo efficiently to overseas buyers. The incentives provided in the 1999 Budget[1] will expedite the establishment of new MITCs as well as strengthen existing ones. Consideration will also be given to extend a package of incentives, similar to those given to the manufacturing sector, to these Malaysian-owned trading houses.

7.59 Due to the dynamic nature of the international market environment, Malaysian manufacturers are encouraged to seize opportunities in new and existing markets. They have to constantly keep in touch with the changing international trading regime and practices. In addition, they are expected to adopt a global perspective in their production and marketing operations as well as take initiatives to strengthen their marketing capabilities. Diversifying and broadening their product base with higher value-added products and increasing their overall competitiveness will have to be an ongoing exercise.

7.60 With the establishment of the EXIM Bank in 1995, manufacturers have access to medium- and long-term credit to assist them in the export and import of goods and services with higher risks which the commercial banks are less willing to accept. With the increase in available funding to EXIM Bank from RM1.5 billion to RM4.0 billion, the Bank is poised to play an important role as a source of trade financing for the manufacturing sector. With the transfer of the Export Credit Refinancing (ECR) scheme from *Bank Negara Malaysia* to EXIM Bank in January 1998 and the increase in the maximum limit for pre- and post-shipment facilities from RM30 million to RM50 million, the Bank is expected to play a key role in providing enhanced trade financing facilities to Malaysian exporters, particularly SMIs and trading companies.

---

[1] Companies that have been granted the status of "international trading company" will be given tax exemption on 70 per cent of their statutory income derived from increased value of export sales. To qualify for this incentive, among others, the company should be owned at least 70 per cent by Malaysians and use local facilities such as insurance, shipping and ports, as well as be registered with MATRADE.

Enhancing Local Production of Capital and Intermediate Goods

7.61 The country's accelerated industrialization programme has resulted in the rapid growth of capital and intermediate goods which constitute about 85 per cent of the country's total imports. In order to reduce dependence on the import of capital and intermediate goods, the Government will play a proactive role in assisting local manufacturers undertake local production of these goods and encourage more diverse manufacturing activities. The Government will also ensure the necessary supporting services and incentives are in place as well as address the shortage of skilled and knowledge workers in these subsectors. Specific subsectors in the machinery and equipment as well as the electronics industries will be identified to promote the development of indigenous capability, particularly in technology absorption capacity. In this regard, a study will be conducted to prepare an inventory of local capability to manufacture various types of potential products. Efforts will also be stepped up to encourage indigenous firms to have strategic alliances with internationally reputed companies to upgrade their technological capability as well as strengthen industry linkages and market opportunities abroad.

7.62 The Government will undertake investment activities and programmes that will complement plans to increase local sourcing of imported parts, sub-components and components including child parts, used in the manufacturing process. In the automotive industry, PROTON and PERODUA have set up engine manufacturing facilities including casting and machining and will produce more critical components in future. The Government will assist in the establishment of a centre for automotive components to provide R&D, design and testing facilities aimed at strengthening the domestic automotive industry. In the electronics industry, the Government will intensify the Vendor Development Programme and Industrial Linkage Programme with MNCs to facilitate local production of parts and components by providing technological, marketing and financial support services.

7.63 The ability to successfully enter export markets will depend largely on the production of cost-competitive and high quality parts and components. In this regard, the Government will coordinate with the industry associations to review existing production standards as well as establish new standards in line with international practices. To ensure the production of quality parts and components, industries, particularly SMIs, will be encouraged to obtain the appropriate MS ISO 9000 standards. In addition, industries will be encouraged to adopt and develop environmentally sound technologies and practices in line with MS ISO 14001.

Strengthening the SMIs

7.64 The development of a modern, competitive and technologically innovative SMI sector continues to be one of the main thrusts of the industrialization policy. SMIs can be classified into three categories, namely licensed enterprises that conduct manufacturing and related activities, entities that are involved in non-manufacturing related activities and cottage industries. During the remaining Plan period, the Government will continue to accelerate the development of SMIs as ancillary industries to complement the activities of large-scale industries. Efforts will be intensified to assist SMIs become more efficient and export-oriented through the provision of various programmes. With the completion of the review on existing ITAF schemes, the scope and delivery system will be further improved to ensure efficient implementation of these schemes.

7.65 The programmes and activities which have been identified to facilitate the penetration of SMIs into the export markets include strengthening their international marketing and distribution capabilities. In this regard, the Export Development Programme will be revamped to provide more effective assistance in market development and export-related activities such as advertising, promotion, repackaging, branding and market intelligence studies. To remain competitive, small component suppliers will be encouraged to merge and form bigger entities to reap the benefits of economies of scale. Accordingly, a comprehensive financial package in terms of project financing, working capital and export financing will be provided. At the same time, SMIs will be encouraged to form joint ventures and smart partnerships with foreign firms to facilitate the acquisition of the related technology and R&D know-how. The active role of the Ministry of International Trade and Industry, Ministry of Entrepreneur Development and Ministry of Rural Development as well as MARA will be central to the success of these efforts.

7.66 Efforts will be intensified to extend the outreach of existing programmes to benefit a larger group of SMIs, particularly those with export potential. In this regard, to ensure the greater utilization of the RM1.5 billion SMI Fund, the Government will further review existing conditions to expedite the disbursement of the Fund as well as increase the number of participating financial institutions to provide greater accessibility. With the launching of the RM750 million SMI Rehabilitation Fund in November 1998 to assist competitive SMIs tide over their cash flow problems, the financial position of SMIs will be further strengthened. The funding mechanism and disbursement rate will be fine-tuned to ensure fuller utilization of both Funds. With regard to rural industries, efforts will be intensified to assist Bumiputera entrepreneurs improve their productivity and competitiveness through various programmes such as management training, consultancy, technical, R&D and marketing support programmes. The special financial assistance for the purchase of equipment by rural SMIs will be continued. Efforts will also be taken to relocate SMIs into designated zones within each state to ensure their orderly development.

7.67 SMIs are encouraged to take initiatives to upgrade themselves as well as be more self-reliant. In this regard, they will need to develop their ability to identify, acquire and invest in the right type of technology and processes, and undertake new product development, resulting in new and improved products. In addition, global trade liberalization requires SMIs to emphasize quality improvements and competitiveness as well as undertake aggressive marketing to gain increased global market shares.

Enhancing Science and Technology and R&D Development

7.68 The economy will continue to support S&T development that promote growth, enhance industrial productivity and competitiveness and generate home-grown technology with own brands of products and services. In this regard, more effective developments will depend upon strong collaboration between the public and private sectors. The Government will facilitate joint ventures and smart partnerships between industry, universities and research institutions with a view to increasing technological capability, particularly in the industrial sector.

7.69 During the remaining Plan period, R&D efforts will continue to be redirected and realigned to meet new industrial and export demands as the country prepares itself for the knowledge era. The strategic focus will be on joint market-oriented public-private sector research activities that will contribute to the diversification of exports, increasing local content in industry as well as

---

The participating institutions include [illegible] commercial banks, [illegible] finance companies as well as Bank Islam, *Bank Pertanian Malaysia*, *Bank Industri Malaysia Berhad*, *Bank Pembangunan Malaysia Berhad* and Malaysian Industrial Development Finance Berhad.

The minimum amount that can be borrowed is RM[illegible] while the maximum is RM[illegible] million with a maximum repayment period of seven years. The interest rate charged will not exceed [illegible] per cent. SMIs could utilise [illegible] per cent of the loan to refinance their problem loans. The participating financial institutions would be similar to those disbursing the SMI Fund. At least [illegible] per cent of the loans approved by each financial institution must be channelled to Bumiputera-owned SMIs.

to the development of innovative products, processes and services for use, particularly in an information economy. Greater attention will also be given to enhancing the current R&D activities into a comprehensive national innovation system. In this regard, efforts will be undertaken to restructure R&D institutions towards demand-oriented activities, provide new and improved infrastructure and incentives for R&D, strengthen research manpower and the mechanism for the commercialization of research results.

7.70 Increased emphasis will be placed on ensuring active participation of the private sector in developmental research as well as commercialization of R&D findings of public research institutions. There is a need to strengthen commercially-oriented follow-up activities to ensure that on-going as well as new research and innovation activities make a more positive contribution to industrial expansion and competitiveness. In addition, current efforts at promoting the acquisition and utilization of strategic technologies by industries will be further enhanced. Towards this end, MIGHT together with industry will be finalizing a technology mapping study which will chart out in greater detail the specific technologies that need to be acquired and developed in order to expand the industrial capacity of the nation. The study will recommend investments in R&D and technology areas for a selected number of industries that will lead to highest returns in terms of growth and business opportunities, wealth creation and employment. Attention will also be given towards creating new knowledge-based technology-oriented companies with a view to strengthening the backbone of the Malaysian SMIs.

7.71 Efforts to enhance the effectiveness and efficiency of public sector research organizations will be intensified with the objective of generating economically relevant R&D and technologies having the potential to create near market products and processes. For this purpose, at the policy level, IRPA will be reviewed, particularly to strengthen the industrial technology component. In addition, the assessment and selection mechanism of IRPA projects will be further strengthened. The establishment of an effective mechanism to monitor the performance of on-going research projects as well as appraise and formulate future projects will be accelerated. Greater efforts will also be taken to build a critical mass of R&D manpower to support and promote R&D activities and technology management under IRPA.

7.72 At the institutional level, research agencies will focus on intensifying R&D capacity and promoting technology applications in industry. Institutes such as SIRIM, MIMOS and the universities will strengthen established mechanisms as well as design new ones for contract and joint research which will provide

R&D and related services to companies. In addition, MIGHT will continue efforts towards increasing the awareness and capacity of industry to take up new and improved technologies while MTDC and TPM will provide support to nurture new start-up technology-based companies. As part of this strategy, existing incubator centres will be further expanded. Such cooperative and collaborative activities will translate the technical capabilities of these institutions into problem-solving efforts for the benefit of industry.

7.73 Apart from providing the physical S&T infrastructure, technological capabilities will be enhanced through extensive human resource development programmes to ensure meaningful application and utilization of technological advances. To further develop innovative capability, the Government will increase investment in scientific and technological education as well as in the development of technical and research manpower. In addition, joint efforts by the public and private sectors will continue to be promoted to improve existing and establish new skills acquisition programmes with a view to increasing high level S&T manpower that can manage, in particular, new and emerging technologies in the industrial sector.

Development of the Eastern Corridor

7.74 The Government initiated an action plan for the development of the Eastern Corridor to expedite industrial development in the less developed states. This effort represents an integrated approach in the development of new growth areas. The comprehensive action plan, which covers the period until 2005, serves as a road map for the rapid and orderly development of industries in Kelantan, Pahang, Terengganu and the district of Mersing, Johor in Peninsular Malaysia and Sabah and Sarawak. Specific growth areas have been identified within the Corridor such as the development of petrochemical industries in Gebeng, Pahang and Kerteh, Terengganu. The proposed development of the Kitas Peninsula in Sabah will further accelerate the growth of the State, particularly the west coast and the surrounding region. The Government will provide the necessary industrial infrastructural facilities and amenities such as roads, electricity supply, telecommunications and ports, as shown in *Maps 1* and *2*. To further boost investment, current incentives extended to industries located in these five states will be continued. While the promotion of heavy industries will be continued in selected areas, consideration will also be given to establish appropriate industries in other areas.

7.75 The Government will ensure the availability of adequate trained and skilled manpower through the establishment and upgrading of various training institutes to encourage industries to locate in the Corridor. In addition, social

MAP 1: EAST COAST INDUSTRIAL CORRIDOR, 1996 - 2005

MAP 2: NEW INDUSTRIAL CORRIDOR, SABAH AND SARAWAK

infrastructure such as schools, housing, health and recreational facilities will be provided to make the Corridor attractive to potential investors.

IV. ALLOCATION

7.76 The revised allocation to support industrial development in the Seventh Plan is RM2,523 million and the estimated expenditure for the review period is RM1,025.2 million, as shown in *Table 7-9*. The Government will continue to provide a facilitating role in industrial development by ensuring the availability of adequate industrial infrastructure in terms of industrial estates, roads and other amenities as well as requisite training and skills development. Other priority areas include the development of SMIs and rural industries as well as the development of industrial technology.

TABLE 7-9

DEVELOPMENT ALLOCATION FOR INDUSTRIAL DEVELOPMENT, 1996-2000

(RM million)

Programme	*7MP Allocation*		*Estimated Expenditure, 1996-1998*	*Balance, 1999-2000*
	Original	*Revised*		
Industrial Estates Development	551.0	551.0	248.0	303.0
Development of Industrial Infrastructure	165.5	163.5	42.7	120.8
SMI Development	311.0	312.0	78.0	236.0
Domestic Investment Fund	695.0	695.0	563.1	131.9
Rural Industries	256.6	258.6	75.2	183.4
Training & Consultancy Services	161.5	161.5	54.5	107.0
Investment in Heavy Industries	286.9	354.0	157.2	197.8
Implementation of Action Plan for Industrial Technology Development	110.0	110.0	41.3	68.8
Wafer Fabrication Project Fund	20.0	20.0		20.0
Total	**2,467.5**	**2,523.0**	**1,025.2**	**1,497.8**

V. CONCLUSION

7.77 The manufacturing sector continued to be the leading sector in terms of generating overall economic growth. During the remaining Plan period, the thrusts of the sector will be towards increased productivity and international competitiveness entailing the shift towards technology-intensive industries, production of higher-end products and development of new sources of growth capable of maximizing returns to the economy. Efforts to attract more investments, both from domestic and foreign sources, will be intensified. In addition, emphasis will continue to be given to R&D and technological innovation as well as strengthening SMIs to be competitive and become more export-oriented. Appropriate measures will be introduced and existing strategies fine-tuned to provide a conducive and nurturing environment for the private sector.

Chapter 8

Tourism

8 TOURISM

I. INTRODUCTION

8.01 Tourism continued to remain as an important subsector in the services sector in generating foreign exchange earnings for the nation. During the review period, the growth of the tourism subsector was hampered by various factors such as the haze and economic slowdown in the region. Recognizing the potential of the subsector which has yet to be fully maximized, tourism development was further emphasized as one of the strategies of the National Economic Recovery Plan (NERP) to increase foreign exchange earnings of the nation.

8.02 In the remaining Plan period, a more holistic and coordinated approach will be taken in tourism development. Efforts will be made to shift the focus of tourism promotion towards the marketing of tourism products in new strategic markets and creative packages will be launched to spur the growth of domestic tourism.

II. PROGRESS, 1996-1998

8.03 The review period proved to be challenging for the tourism industry. Besides the economic crisis in the region, various factors such as the incidence of haze, the spread of the Coxsackie virus and negative coverage by foreign media on Malaysia as well as the ASEAN region, adversely affected the tourism industry. Tourism receipts which contributed about RM11.3 billion in terms of foreign exchange earnings in 1996 dropped to RM9.3 billion in 1998 due to a decline in the number of tourist arrivals. Besides the downturn in business for tour agents, Malaysian airlines and the hotel industry, the drop in tourist arrivals had also affected retail trade, restaurants as well as other transport operators which have strong linkages with this subsector.

Tourist Arrivals, Receipts and Expenditure

8.04 The number of *tourist arrivals* in 1998 was 5.5 million compared with 6.2 million in 1997, a decrease of 10.6 per cent, as shown in *Table 8-1*. In terms of the Plan target, the shortfall in tourist arrivals resulted in a decline of *tourism receipts* of about 30 per cent. However, a positive development was the increase in the average per capita expenditure of tourists by 7.0 per cent from RM1,444 in 1996 to RM1,546 in 1998. During the same period, average per diem expenditure of tourists registered an increase of 4.0 per cent from RM269 in 1996 to RM280 in 1998, in line with the strategy of encouraging higher per diem tourist expenditure in the country. The net contribution made by tourism to the services account of the balance of payments remained positive during the review period.

TABLE 8-1

SELECTED TOURISM INDICATORS

Indicator	1995	1996	1997	1998	2000
Number of Tourist Arrivals ('000)	7,469	7,138	6,211	5,551	6,545
By Country of Origin (%)					
ASEAN	74.2	72.4	72.5	[illegible]	[illegible]
Japan	4.6	4.9	5.0	4.5	4.9
Australia	1.8	2.1	2.1	2.6	2.6
United Kingdom	2.2	2.1	2.6	2.4	2.6
Others	17.4	17.8	18.8	[illegible]	20.2
Total Tourism Receipts (RM million)	[illegible]	10,354	[illegible]	[illegible]	12,790
Total Investment (RM million)	5,117	9,275	5,295	4,100	5,000
Number of Hotels	1,220	1,269	1,365	1,400	1,482
Number of Hotel Rooms	76,373	85,016	98,440	106,452	110,000
Average Length of Stay (nights)	4.8	5.8	5.9	5.5	5.6
Average Occupancy Rate of Hotels (%)	65.5	62.5	58.0	50.0	60.0
Employment	121,359	134,990	137,889	135,564	142,077

8.05 The profile of tourist arrivals was similar to that of the Sixth Plan period. During the review period, there was a dominance of short-haul tourists with about 70 per cent from the ASEAN countries. Singapore maintained its position as the largest source of foreign tourists accounting for 54 per cent of total arrivals in 1998, followed by Thailand with 8 per cent. With regard to non-ASEAN countries, Japan remained the single largest contributor accounting for 4.5 per cent of tourist arrivals. However, the number of tourists from Japan declined by 18.3 per cent in 1998 mainly due to the economic slowdown in Japan. Other important tourist generating markets were the United Kingdom, Australia, Hong Kong Special Administrative Region of China (Hong Kong) and the People's Republic of China. While tourist arrivals from traditional markets registered a decline, the number of tourists from Western Asia registered an increase of 18 per cent in 1998. The average length of stay of tourists increased from 5.4 nights in 1996 to 5.5 nights in 1998, indicating a favourable response to the strategy of encouraging tourists to stay longer. Tourists staying more than 10 days in Malaysia were mostly from Thailand, India, Philippines, Indonesia and the Netherlands.

8.06 The breakdown of *tourist expenditure* by type is shown in *Table 8-2*. About 75 per cent of tourist expenditure was for accommodation, shopping as well as food and beverages while the remaining 25 per cent was for organized sightseeing, local transport, domestic airfares, entertainment and other expenditure items. The top 10 sources of tourism receipts were Singapore, Japan, Taiwan, Brunei Darussalam, People's Republic of China, United Kingdom, Thailand, Australia, Indonesia and Hong Kong. The main sources of tourism receipts during the review period are shown in *Table 8-3*.

Domestic Tourism

8.07 During the review period, domestic tourism grew in importance compared with outbound travel for leisure. This was largely due to the impact of the depreciation of the ringgit that made travel overseas more expensive. The change in demand for more local holidays together with the decline in outbound travel resulted in tour operators readjusting their marketing strategies to organize and promote local tours. The strategy of encouraging domestic tourism was also in line with Government's efforts to reduce the outflow of currency. During the review period, hotels in the country received 28 million domestic guests. Measures to further promote domestic tourism under the 1999 Budget included the granting of tax exemption for profits earned to tour operators and agencies which can sell their domestic tour packages to at least

TABLE 8-2

TOURIST EXPENDITURE BY TYPE, 1996-1998
(RM million)

Type of Expenditure	*1996*	*%*	*1997*	*%*	*1998*	*%*
Accommodation	4,005.4	*35.6*	3,365.8	*32.0*	2,968.8	*31.8*
Shopping	2,182.8	*19.4*	2,689.0	*25.5*	2,497.3	*26.8*
Food & Beverages	2,070.3	*18.4*	1,901.3	*18.1*	1,771.8	*19.0*
Local Transportation	855.1	*7.6*	859.5	*8.2*	602.2	*6.5*
Organised Sightseeing	832.6	*7.4*	470.6	*4.5*	286.8	*3.1*
Domestic Airfares	528.8	*4.7*	426.8	*4.1*	489.1	*5.2*
Entertainment	483.8	*4.3*	358.9	*3.4*	507.2	*5.4*
Others	292.6	*2.6*	438.2	*4.2*	410.9	*4.4*
Total	**11,251.4**	**100.0**	**10,509.7**	**100.0**	**9,334.2**	**100.0**

TABLE 8-3

TOURISM RECEIPTS BY COUNTRY, 1996-1998
(RM million)

Country	*1996*	*1997*	*1998*	*Total*
ASEAN	6,878.3	6,659.6	5,455.0	18,992.9
Japan	1,049.6	675.8	526.0	2,251.4
Taiwan	465.5	439.2	333.0	1,237.7
United Kingdom	346.5	416.8	400.5	1,163.8
People's Republic of China	305.0	294.1	363.8	962.9
Australia	316.0	257.3	287.6	860.9
Hong Kong	223.6	179.6	173.4	576.6
Others	1,668.9	1,587.3	1,794.9	5,051.1
Total	**11,251.4**	**10,509.7**	**9,334.2**	**31,095.3**

1,200 locals annually as well as the declaration of the first Saturday of each month as a holiday for public sector employees.

Investment

8.08 During 1996-1998, investments in approved hotel and tourism-related projects totalled RM18.6 billion. The hotel industry expanded rapidly during the first two years of the review period. By the end of 1998, the number of hotels increased to 1,400 exceeding the Plan target of 1,340 for the year 2000. Consequently, during the review period, there was an increase of 39 per cent in the supply of hotel rooms to a total of 106,452. The average occupancy rate of hotels in 1998 was 50 per cent compared with 58 per cent in the previous year. This was largely due to an oversupply of hotel rooms which was further aggravated by the downturn in tourist arrivals. To attract both domestic and foreign tourists, room rates were competitively priced and attractive packages with airlines were promoted.

8.09 In complementing private sector efforts, the Government implemented various development programmes involving an expenditure of RM309.7 million. These programmes included the restoration and conservation of historical sites, beautification of tourism sites, development of budget hotels as well as the upgrading of tourism facilities. Among the projects completed during the review period were the restoration of historical sites in Johor and Melaka, upgrading of rest houses in Pahang, Sabah and Selangor as well as provision of facilities such as pedestrian walkways, bicycle tracks, public toilets, jetties and landscaping of tourist spots.

Employment and Training

8.10 During the review period, employment in the tourism industry grew at an average annual rate of 3.1 per cent to reach 135,761 in 1998. Human resource development and the provision of quality services in the tourism industry continued to be given priority. The National Tourism Human Resource Development Council (NTHRDC) supervised and coordinated training development activities for the hotel industry, tour services, tourist guides, small- and medium-scale industries as well as for others involved in the tourism industry. The National Occupational Skills Standards (NOSS) were developed in order to upgrade standards and improve quality of services within the tourism industry. In line with this effort, nine private training institutions, four hotels and 15 public training institutions had been recognized by the National Vocational Training Council (NVTC) to undertake training and organize tourism-related courses. At the same time, the NVTC together with NTHRDC developed six additional NOSS for conventions, housekeeping, front-office, sales, food and beverages, and chef. At the end of the review period, a total of 48 NOSS was developed, 23 in travel trade and the remaining 25 in the hotel industry.

Tourism Products

8.11 During the review period, among the tourism products promoted were shopping, eco- and agro- tourism, cultural attractions, leisure and sports-related activities as well as new resorts at scenic lakes and dams, islands, beaches and hot springs. In addition, 1998 was promoted as the *Year of Sports and Recreation* (TSR '98) as a strategy for Malaysia to diversify its tourism products into sports and recreational events. TSR '98 included more than 240 sports and recreational events culminating in the Kuala Lumpur '98 - XVI Commonwealth Games. The hosting of the Games attracted 4,208 athletes and 2,460 officials as well as the media and visitors from overseas. Other events under TSR '98 included *Le Tour de Langkawi*, International Penang Bridge Run and World Motorcycle Grand Prix. In addition, special events were promoted such as the Langkawi International Maritime and Aerospace (LIMA) exhibition and the Commonwealth Cultural Festival.

8.12 *Education and Health Tourism.* The expansion of the education and health services also provided spin-offs for the tourism industry. Parents of foreign students studying in institutions of higher learning in Malaysia took the opportunity to spend their holidays at tourist attractions when visiting their children. During the review period, a total of 15,800 foreign students registered for studies in educational institutions in the country. With regard to health tourism, the growth of private hospitals contributed to the promotion of health tourism as a new tourism product, attracting foreigners to seek treatment and recuperate in Malaysia.

8.13 *Cruise Tourism.* The cruise ship travel market gained popularity with the development of numerous short and long cruise excursions. Among the popular destinations were cruises from Port Klang to Pulau Pinang, and Langkawi. During the review period, the total number of passengers on cruises was 520,000. In addition, Malaysia also benefited from the growth in the international cruise market with Port Klang as a port of call for major cruise liners. In an effort to further promote cruise tourism, collaboration between tour and cruise operators included organizing on-shore optional tours and extended stay at holiday resorts.

8.14 *Home-stay Programmes.* In line with the effort to provide more affordable accommodation, the home-stay programme was successfully implemented in Johor, Kedah, Melaka, Pahang, Perak, and Selangor. The home-stay concept is similar to the *Bed and Breakfast* concept where locals opened up their homes to travellers at a reasonable price. Such programmes were conducive for both foreign and local tourists, particularly children and city folks, who were given a taste of life in a fishing village or farm. This concept also helped to supplement the income of rural residents. Recognizing this, the Government through *Majlis Amanah Rakyat* (MARA) provided loans to land owners in rural areas to renovate their houses to accommodate tourists.

8.15 *Meetings, Incentives, Conventions and Exhibitions.* During the review period, the Government worked closely with the private sector to promote Malaysia as a venue for meetings, incentives, conventions and exhibitions (MICE). In this regard, a total of 2,379 events was held in the country and attended by 907,440 participants. The estimated receipts from participants increased from RM826.4 million in 1995 to RM1,081.1 million in 1998, as shown in *Table 8-4*. Among the world class events that were held in Malaysia included the Asia Pacific Economic Cooperation (APEC) Summit, Third Meeting of the International Steering Committee on the Economic Advancement of Rural Women and the Biennial Commonwealth Press Union Conference.

TABLE 8-4

MEETINGS, INCENTIVES, CONVENTIONS AND EXHIBITIONS, 1995-1998

	1995	1996	1997	1998
Number of Events				
International	144	294	158	180
National	519	428	605	716
Total	**663**	**722**	**763**	**896**
Number of Participants				
Foreign	121,780	100,432	115,764	138,826
Local	136,474	159,591	179,232	194,720
Total	**258,254**	**279,003**	**294,696**	**333,546**
Revenue (RM million)				
Foreign	386.7	386.8	382.0	459.0
Local	439.7	545.9	573.2	622.1
Total	**826.4**	**931.8**	**955.2**	**1,081.1**

Marketing Strategies and Promotion

8.16 During the review period, promotional efforts were aimed at identifying and matching specific destinations with niche products and strategic overseas markets. Emphasis was given to strategic markets such as Brunei Darussalam, Europe, India, People's Republic of China, Taiwan and the United States of America. In addition to the eight destinations identified in 1995, four new destinations were introduced namely, Lembah Danum, Sabah; Johor Bahru, Johor; Tasik Bera, Pahang and Tasik Kenyir, Terengganu. The twelve destinations with their niche products are shown in *Table 8-5*. In view of the strong potential markets in India and the People's Republic of China, the Government reviewed the visa application processes to facilitate the entry of tourists from these markets.

8.17 The usage of *information technology* in the tourism industry continued to be encouraged, particularly for information sharing, marketing, networking as well as administrative and financial management. These included the promotion of destinations and marketing through the Internet as well as the use of computer reservation systems. The Tourism Malaysia Homepage was launched on 20 September 1996 to provide corporate profiles as well as information on tourist destinations in Malaysia. Since its launch, a total of 185,000 users accessed the Homepage.

TABLE 8-5

TOURIST DESTINATIONS AND NICHE PRODUCTS

Destination	*Niche Product*
Johor Bahru	Recreation and Shopping
Kinabalu	Nature
Kuala Lumpur	Shopping
Lembah Danum, Sabah	Nature
Melaka	History
Pulau Langkawi	Resort and Shopping
Pulau Pangkor	Beaches
Pulau Pinang	Food
Sarawak	Culture
Taman Negara	Nature
Tasik Bera	Wetland
Tasik Kenyir	Recreation

8.18 *Tourism in the ASEAN Sub-Regional Growth Areas.* Malaysia participated actively in joint-venture tourism projects to contribute to the development of the tourism industry in the ASEAN sub-regional growth areas. Besides upgrading tourism products and infrastructure development, joint educational and training programmes were also undertaken. Efforts were also directed towards the harmonization of policies such as immigration clearance procedures to further encourage intra-regional tourism.

III. PROSPECTS, 1999-2000

8.19 The international tourism industry has favourable growth prospects in the medium- and long-term. In this regard, the World Tourism Organization has forecasted an increase of 5.0 per cent a year in tourist arrivals into the Asia-Pacific region. For the remaining Plan period, it is projected that 90 million people will travel into the region. Many countries are recognizing the potential of the tourism industry and are implementing strategies to reap its benefits.

8.20 Malaysia is also poised to maximize the potential of the tourism industry taking into account the following factors:

- *with the prevailing value of the ringgit, the country is more attractive as a value-for-money destination for long-haul tourists and domestic tourism is becoming more attractive;*
- *development and completion of major infrastructure projects such as the Second Link to Singapore and the KL International Airport in Sepang will further enhance accessibility into the country;*
- *completed sports and recreation facilities such as the National Sports Complex in Bukit Jalil, Formula One Circuit, Petronas Philharmonic Hall, National Theatre and Suria Kuala Lumpur City Centre will promote international sporting and cultural events, thus making Malaysia a special interest destination;*
- *the hosting of the Kuala Lumpur 98 - XVI Commonwealth Games and other international sporting events organized during TSR '98, provided extensive publicity and increased international awareness of Malaysia, which will lead to spillover benefits to the tourism industry well into the next millennium;*
- *foreign tourists are attracted to product diversity, especially Malaysia's natural and cultural heritage; and*

- *preparations for the hosting of the 50th Pacific Asia Travel Association (PATA) annual conference in the year 2001 will provide another opportunity to showcase Malaysia as an attractive convention centre in the region.*

8.21 On the downside, the effects of the current economic slowdown may impact on the tourism sector in terms of lower figures on tourist arrivals and a reduction in expenditure by locals on leisure-related activities. Feedback from tourism agencies indicated that there is a negative perception on Malaysia as a holiday destination because of negative media reports. In this regard, concerted marketing efforts will be taken to rebuild the image of the country. At the same time, there is increasing competition among countries in the region for a larger share of the international tourism market. Taking into account the stiff competition in the tourism industry, the target for tourist arrivals is revised downwards to 6.5 million by the year 2000. However, efforts will be intensified to increase tourism receipts to reach the target of RM12.2 billion in the year 2000.

Tourism Development Thrusts

8.22 The continuous promotion and development of competitive tourism products will remain a major policy objective during the remaining Plan period. In this regard, the private sector is expected to take the lead in promotions as well as in the provision of tourism products and services while the Government will continue to provide and upgrade various infrastructural facilities. The development of tourism-related infrastructure such as roads to tourist attractions as well as docking facilities for cruise ships will be emphasized. A study indicated that a vital factor in tourism development is increasing air links to tourist destinations to spur additional tourist arrivals. In this regard, increased landings by more airlines at KLIA and other international airports in the country will be encouraged and facilitated. In addition, to further enhance Malaysia as a major tourist destination in the Asia-Pacific region, the following measures will be undertaken:

- *focusing on product development and promotions to match the demand and interests of international and domestic tourists;*

- *encouraging private sector investment in niche tourism products; and*

- *emphasizing an integrated approach in tourism development, promotion and marketing.*

8.23 During the remaining Plan period, the measures in the NERP to facilitate the recovery of the tourism sector will be implemented. The recommended action plan, among others, include a more innovative approach in promotions, new fiscal measures and a review of Government regulations and procedures. In this regard, the implementation of applicant-friendly visa procedures will facilitate tourist arrivals from overseas.

Product Development

8.24 Besides the need to increase tourist arrivals, further efforts will be required to organize more event-related activities as well as provide quality tourism products and services, in order to encourage tourists to stay longer, spend more and make repeat visits to the country. Tourism product development will need to be based on the strengths and uniqueness of niche products such as eco- and agro-tourism, adventure tourism, education tourism, health tourism, historical sites as well as socio-cultural heritage. The expected increase in demand for environmental-based tourism indicates a need to implement and enforce strategies for sustainable development including measures to protect the environment. Marketing and promotional efforts will be concentrated on potential markets such as the People's Republic of China, United States of America, Middle East, India, Australia, Europe and the Scandinavian countries.

8.25 In view of the success of the Visit Malaysia campaign, the Government will launch a campaign, *Welcoming the New Millennium* to usher in the unique event of welcoming the millennium in the year 2000. In this regard, the private sector and overseas tour operators will be encouraged to promote millennium packages to attract more people to travel to Malaysia. A variety of programmes will also be developed throughout the country to celebrate the ushering in of the new century.

8.26 *MICE* will continue to be aggressively promoted as Malaysia's metropolitan cities as well as beaches, hill and island resorts offer the ideal venue for conventions, seminars and exhibitions. Besides, a conducive environment and support facilities such as renowned international hotels, transportation, financial and banking system, the country also offers many fascinating activities for pre- and post-conference tours. Among the MICE functions to be held in Malaysia during the remaining Plan period include the 21st World Ports Conference and Exhibition of the International Association of Ports and Harbors, 3rd World Conference on Rural Health, Malaysian International Furniture Fair 1999, Malaysian International Retailers Conference and Exhibition, Malaysia International Golf Show and Malaysia World Grandprix Formula One. The Government will set up a Conference, Convention and Exhibition Booking Centre, to be managed by Malaysia External Trade Development Corporation (MATRADE), to promote, receive enquiries and accept bookings of all convention and exhibition facilities in the country.

8.27 To further promote *cultural and natural heritage* sites in Malaysia, the Government will be recommending seven sites to be listed in the World Heritage List. The four sites that are being nominated for cultural heritage sites are the Bujang Valley, Kedah; the Niah Caves, Sarawak; the inner city of Melaka; and the Lebuh Acheh-Lebuh Armenian-Lebuh Mesjid Kapitan Kling historic enclave of Georgetown. The remaining three sites to be proposed as natural heritage sites are Taman Negara, Pahang; the Mulu Caves, Sarawak; and the Kota Kinabalu National Park, Sabah. In line with the effort to develop, market and promote the country's cultural and natural heritage sites, the formation of a heritage management corporation is being considered by the Government. To facilitate the display and sale of local handicrafts and products, the Government will promote the establishment of a tourist village, with factory outlets, at a strategic location near KLIA which is the major gateway to Malaysia. In addition, cultural events and activities will be organized in the tourist village.

8.28 The promotion of *domestic tourism* will be intensified through activities to increase awareness of local attractions. Tourism activities based on ecology, sports and recreation, shopping and related festivities will be diversified to cater to domestic tastes and demand. The Shopping Carnival concept will be modified to include consumer products in order to encourage domestic and foreign tourism and promote all local products. In addition, the development of domestic tourism through product development, image-building, promotion and competitive prices, especially for lodging and consumer products, will be a catalyst to the overall development of the country and help to reduce the outflow of foreign exchange for travel.

Investment

8.29 The Government will continue to grant various incentives to promote investment in the tourism industry, particularly in new tourism products. Taking cognizance of the excess capacity in the hotel industry, the emphasis for the remaining Plan period will be towards the construction of more budget accommodation. Besides the existing incentives such as pioneer status, investment tax allowance and income tax exemption for tour operators, the Government will consider reinstating the RM200 million Special Fund for Tourism to provide soft loans to small- and medium-sized tourism-related projects. In addition, to promote Langkawi as a centre for the maintenance and repair of leisure boats and yachts in ASEAN, the establishment of these activities in Langkawi will be granted income tax exemption. The development and operation of the Seri Malaysia Hotel chain using the franchise concept will be further expanded and modified to enable operators to jointly develop and own the respective hotels. As part of the strategy to increase the number of tourists making repeat visits to the country, the Government will allow foreign ownership of holiday apartments and resorts.

Integrated Efforts in the Tourism Industry

8.30 In these challenging times, a holistic approach is necessary to boost the tourism industry. Through integrated efforts from every segment of the industry including the airlines, national and state tourism authorities, and ground operators, the growth of the sector can be sustained into the next millennium. Taking cognizance of this potential, the Malaysian Tourism Promotion Action Council recently established under the Ministry of Culture, Arts and Tourism, will chart new directions for tourism promotion and development as well as improve linkages among the various members of the industry. Similarly, at the state level, such coordination is of utmost importance. In this regard, states which do not have a tourism body will be encouraged to establish a mechanism to plan and coordinate tourism activities as well as formulate a tourism masterplan. Besides coordination of tourism activities, human resource development will continue to be accorded priority, especially the training of front desk operators in hotels and other services.

IV. ALLOCATION

8.31 The Plan allocation for tourism development is RM683.0 million, as shown in *Table 8-6*. The funds are mainly allocated for upgrading and expansion of facilities and infrastructure in the tourism industry.

TABLE 8-6

DEVELOPMENT ALLOCATION FOR TOURISM, 1996-2000
(RM million)

Programme	*7MP Allocation*		*Estimated Expenditure 1996-1998*	*Balance, 1999-2000*
	Original	*Revised*		
Preservation of National/ Historical Heritage	50.5	50.5	20.9	29.6
Accommodation	63.3	63.3	26.3	37.0
Beautification/Cleanliness & Environmental Protection	53.0	53.0	18.8	38.2
Cultural Product	205.4	205.4	161.7	43.7
Facilities & Infrastructure	250.9	250.9	86.7	164.2
Others	59.9	59.9	17.3	42.6
Total	**683.0**	**683.0**	**309.7**	**373.3**

V. CONCLUSION

8.32 The implementation of strategies and programmes for tourism development during the review period supported the continued growth of the subsector, *albeit* at a slower rate of growth. In the remaining Plan period, the focus will be on expanding the range of activities, products and markets, thereby contributing further to foreign exchange earnings and savings. Increasing efforts will be made to promote and develop innovative tourism products to attract more tourists to stay longer as well as make repeat visits to Malaysia.