

SPEECH BY DEPUTY PRIME MINISTER
AT THE CONFERENCE ON "CAN WE IMPROVE UPON
THE FIRST MALAYSIAN DEVELOPMENT PLAN"
ON 2ND OCTOBER 1967

Mr. Chairman - Ladies and Gentlemen:

Introduction

May I say, first of all, how honoured I am to be invited to participate in this Conference. An economic and social development plan is so peculiarly and intimately related to the people of the nation concerned that an outsider is well advised to comment with caution. I would also like to congratulate you on organizing a major Conference on this subject. The very fact that you are holding these sessions partially answers the question to which we are addressing ourselves tonight. A Plan can only remain vital if it evokes deep and continuous interest among large segments of the people of the nation.

There must be clear rules of the game when an advisor to a Government agency is asked to participate in a Conference such as this. He must be free to say what he himself really thinks - without fear that the views so expressed will be falsely attributed to the agency and the Government which he serves. The text of my talk has, of course, been read and criticized by officers of the Economic Planning Unit. However, the views contained herein, and the responsibility for them, are very much my own.

When I speak of the Plan, I mean the First Malaysia Five-Year Plan and the Perspective Plan to 1985. My answer to your question is: "Yes, of course we can improve upon the Plan, drafted some two years ago". But the question itself reflects a misunderstanding as to the nature of planning. A Plan is a living, growing organism - the reflection of a process in which a nation consistently reappraises its situation, its objectives, and the policies and tactics by which that situation and those objectives can be drawn closer and closer together over time. Thus, if it does not change and improve with circumstance and experience, the Plan is not a good Plan.

Now, in thinking about the question which is before us, "Can we Improve Upon the First Malaysian Development Plan", I would like to make my approach from four different points of view. These are:

- A. The aims of the Plan as it seeks to express the values and hopes of the people of the nation. Does it effectively embody those hopes and aspirations?
- B. The basic economic context in which the Plan functions. Does the Plan face the realities of present circumstances? Are there signs that changes in those circumstances were not adequately foreseen and, in consequence, require changes so drastic that Plan objectives cannot be attained, or alternatively, that those objectives should be raised significantly?

- C. The methodology of the Plan. Were are planning methods used appropriate for the country and its problems? Is there evidence that those methods are evolving in such fashion as to meet future planning needs of the nation?
- D. Finally, are the particular policies and tactics which are embodied in the Plan appropriate for a moulding of circumstance, in such fashion that the course of economic and social events will draw nearer and nearer to the nation's aims?

It seems to me that only by facing the above questions can this Conference feel its way toward an answer to the issue which has been put before us.

The Aims of the Plan

As I read it, the basic aim of the Plan is to create in Malaysia a social and economic environment in which all men of all races and creeds can grow as individuals in freedom and dignity. Further, the Plan recognizes that these individuals must be drawn together by common interests and integrated into a strong national community.

The Plan goes on to say that, to accomplish these ends, there must be substantial economic growth - simply redistributing a stagnant national income will make possible neither a much more meaningful life for those at the bottom of the economic ladder nor the opportunity for continued human growth for the more fortunate at the top. Between 1965 and 1985 income per capita is to rise at 2.7% per annum and, much more important than that, the way of life and opportunities of the great mass of people at the bottom of the economic ladder are to be revolutionized.

I cannot imagine a more appropriate set of aims for a social and economic development Plan for Malaysia, or for that matter, most developing countries. Note two things: first, economic growth is not considered as an end in itself, but rather as a means to attain certain basic human values, including social harmony in a multi-racial society. Second, in marked contrast with most development plans, the growth target envisaged is a realistic one. In fact, the income objective set for the first five years of the 20 year period (a 1.1% per annum increase in real per capita income) is a conservative one.

Thus I find little to criticize, and have few suggestions to make for improvement, in terms of the aims of the Plan. I wish that I could say the same for the Plans of even half the countries in which I have worked.

The Basic Economic Context in which the Plan Functions

The next question seems to me to be somewhat more complex, i.e. "Did the Plan face the realities of present circumstance and adequately provide for future events - in such fashion that it continued to be realistic?" Of course, we are today in only the second year of the First Malaysia Plan, but the question is a relevant one and must be faced again and again as the years go by.

I believe that this a serious question today and one which calls for an immediate and clear answer. There is a great deal of talk of the difficulties which have emerged in the short two years since the Plan was written. All of you are

aware of this talk. In fact, it will be my contention that you may be overly concerned. What are these difficulties? They are so well known that I need do nothing more than list them:

- A. a rapid fall in the price of rubber that was only partially foreseen in the Plan projections;
- B. initial difficulties in obtaining foreign assistance in a world in which major foreign donors have been faced by increasingly difficult balance of payments problems;
- C. severe economic difficulties in Great Britain which have obliged that nation to curtail defence support programs in this area of the world; and
- D. intensification of the long drawn-out and painful war in Vietnam which cannot help but dim the prospects for really substantial private foreign investment in Southeast Asia.

In all fairness one must ask whether these major external developments have made your Plan obsolete. Must we trim our sails - lower our Plan objectives?

As I observe public and private discussions of these matters in Malaysia, it seems clear to me that certain positive factors are not being adequately stressed. These positive factors are not Government secrets. They are available to the public - in trade statistics, reports of the Central Bank, Budget Messages, and other readily obtainable public source of information. Yet, they are not being weighed properly in the balance.

The first of these factors which I would like to bring to your attention is the fact that, despite falling rubber prices, receipts from exports are currently running well above those projected in the Plan. Further, to a not insignificant extent, lower rubber earnings are offset in the balance of payments by reduced profit remittance abroad. Finally and even more important, there is every reason to expect that receipts from exports in the next few years will grow substantially, whereas the Plan was based on an assumption of their near stagnation. The explanation is quite simple. In 1965 when Plan documentation was prepared, no one realized the full magnitude of the timber, palm oil, and minor export boom which was just getting underway.

The second factor, documentation for which is available for all to see, is the courage and determination with which your Government has pushed taxation in order to reach Plan objectives. The Budgets for 1966 and 1967 called for a level of tax revenues substantially above those thought possible when the Plan was written.

Even more basic than the above, there is always the danger of forgetting the underlying factors which make your country one of the most promising developmental cases in the world. Like most other developing countries, Malaysia has a large reservoir of unemployed and underemployed labour. Unlike most of them, however, it also possesses a substantial amount of virgin land of potentially high productivity and a large and underutilized capacity to obtain external finance to expand its capital stock and accelerate economic growth. Besides exceptionally large foreign exchange reserves, its high credit standing enables it to borrow substantially abroad at relatively favourable interest rates.

In addition to these impressive elements of strength, Malaysia possesses an efficient and well-developed economic infrastructure in transportation, communications and power; a demonstrated capacity in the public sector to carry out development projects with effectiveness; and an abundance of entrepreneurial capacity in its private sector. It has maintained a good record of political stability in the context of a multi-racial society. And, finally, your Government has wisely followed the policy of relying primarily on methods to promote new industries, other than high tariffs and import restrictions - thus avoiding the ever-present dangers of channeling new investment away from efficient to inefficient lines and creating artificial balance of payments difficulties.

In sum, my reading of the record is that, on balance, there has been no change in basic economic circumstances which would warrant the conclusion that the Plan is becoming outmoded. Quite the contrary - it seems to me that there is a real danger of losing sight of a continued favourable basic position in the heat of discussion of current unfavourable external development. Unfavourable external developments are unfortunate, but very largely beyond our powers to control. Fortunately, we have a real margin of choice as to whether to push ahead with expansionary policies which will help to offset, or even reverse, declining incomes in the export sector - or restrictionist policies which may well spread contraction throughout the economy.

Planning Methodology

Now what about planning techniques? Fundamentally, the First Malaysia Plan is a macro plan. That is, it paints a picture, with broad strokes of the brush, and with a minimum of detailed planning for any particular sector - with the exception of the Government investment program.

Sectoral projections were made (and carefully reconciled with each other) which called for substantial structural change in the economy. These in turn were linked to appropriate policy measures and supporting public investment programs. In this, and other respects, the planning techniques used were far more sophisticated than those used in the two preceding plans for Malaya. But still the overall Plan is basically macro in character.

On the whole, I would consider this an appropriate approach for Malaysia, in light of the nature of its economy and the evolution of its planning history. We must not forget that this is an open economy, in which the private sector is expected to shoulder the major part of the development burden. Thus, much of our planning must be of an indirect nature - setting the context in which millions of individuals are energized into a flexible, common effort. In addition to providing this context of law and order and private incentives, the Government is expected: to plan carefully and boldly for basic general infrastructure programs in such fields as transportation and electric power; to push hard in the provision of even higher levels of education, health and research, without which the private sector cannot function effectively; and to mold the framework of incentives, infrastructure and special Government programs in such fashion that desirable structural change is accelerated.

Having said the above, however, I am not implying that we should rest

content with the planning techniques reflected in the details of the First Malaysia Plan. Nor do I think we are doing so. In my judgement we should push ahead as rapidly as possible in the following areas:

- A. The Annual Budget exercise should gradually take on the character of an Annual Development Plan, in which fiscal and monetary policies and particular Government recurrent and development expenditure programs are carefully weighed in light of current developments in the national accounts and the balance of payments. This is not something which can be done overnight. Data requirements (and their rapid availability) and skilled personnel are severe bottlenecks. In my judgment, responsible people in Government are aware of the needs, and the right kinds of initial steps are being taken to meet them.
- B. Despite the open nature of this economy and reliance upon a market system of economic incentives, we do need better insights into the various sectors of the economy, and planning documents which more effectively reflect the use of such insights. In the past year, the Economic Planning Unit has begun to undertake such work. In addition a major transportation study has just been initiated to cover the whole nation and a detailed forestry survey will soon be launched. It is to be hoped that, by the mid-Plan review in 1968, more effective sectoral thinking will result in a significant improvement of the planning exercise.
- C. There is also a growing need for regional planning thinking. Most of you are aware of the developments which have taken place in the last year or so to improve this part of planning work. In Terengganu a major regional study is underway of the entire State. The Jengka Triangle report represents the first of what should be a series of major regional land development studies. Finally, similar work was initiated in East Malaysia by the Labuk Valley study. We are just beginning. There is much to be learned, but the direction is right.

Thus, by the mid-Plan review in 1968 and the period of preparation of the Second Malaysia Five-Year Plan, which should begin in 1969, real progress should be made in developing more effective and sophisticated planning techniques and a much richer body of knowledge to which they can be applied.

Plan Tactics and Policies

The final question concerns the appropriateness of Plan tactics and policies to accomplish the purposes envisaged. There is a whole range of policies and strategies outlined in your Plan. I am sure that other speakers will discuss many, or even most, of them in this and succeeding sessions of the Conference. For my part, I would like to confine my remarks to one strategy issue which I consider to be the most difficult, and perhaps most critical, of the Malaysia 20-Year Perspective Development Plan. This is the question as to whether or not it is feasible, within a brief period of two decades, not only to, first, increase per capita income by more than two-thirds but, second, to do so in such fashion that the third of Malaysia's families at the lowest rung of the income and opportunity

ladder share fully and directly in that accomplishment. I have no real doubt as to your ability to reach the per capita income objective. As to the second question, careful study is underway at the Economic Planning Unit of its realism. On the basis of results obtained so far, I am increasingly convinced that the second objective (revolutionizing the lives of the lowest third) is also feasible. I am not certain that most people realize just how exciting and unusual such a possibility is. In fact I am not even certain that, off hand, I can think of a single other developing nation which is justified in having such high hopes.

No matter what the country, or the economic system, it is usual to assume that the rural poor must necessarily be the last segment of the population to be equipped with modern tools, organization and knowledge. Usually, there are just too many of them - relative to the supply of land, capital and managerial ability - to make possible their full and rapid incorporation into the modern sector. They must wait for industrialization finally to create a "labour shortage" and exert enough pressure on the labour supply in the countryside to justify introduction of more capital-intensive production methods in agriculture. And this seems to require substantially more than a generation, usually more than two generations. In the meantime, the rural poor must make do with social service gains (primarily in education and health) and some gradual improvements in agricultural productivity through Government extension services, credit schemes, etc. - often offset, unfortunately, by limited markets and declining prices for their food crops. A small minority, of course, may be the beneficiaries of special Government programs, but, to repeat, the great majority must await the emergency of that one true friend of all poor men - a labour shortage.

Now, the fascinating thing about Malaysia is that the very poor may not have to wait for an advanced stage of industrialization for their labour shortage. A rapid growth of industry we must have, to provide jobs for an expanding urban population and for some drift of rural people into cities. But Malaysia has a combination of assets which if used with courage and imagination makes possible a short-cut of the usual development model.

- A. A supply of unused, productive land which, even in West Malaysia, is as large as that now cultivated.
- B. A strong public and private capital position.
- C. An unusually favourable investment climate.
- D. A sizeable entrepreneurial administrative, and managerial class.
- E. And resources and people of tested suitability for a diversity of crops with a broad and growing export market.

Despite the projected rapid growth of the labour force, initial analysis indicates that a rate of industrial growth and land development is feasible which, within twenty years, could bring common labour to such short supply that the whole bottom third of the nation's families would be drawn into remunerative, full-time employment.

Of course, there are some prerequisites. (Unfortunately, nothing really good seems to come easily). The most important prerequisites, it seems to me, are the following:

- A. a much more liberal land alienation policy by the States;

- B. a very substantial Government research program aimed at agricultural diversification, especially for export;
- C. a streamlined industrial incentives system which also puts a premium on exports; and
- D. determination by Government to take full advantage of the credit-worthiness of the nation to maintain the momentum of economic growth, despite temporary, external adverse developments.

I must say that I find a good deal which is encouraging in recent events - bearing on these prerequisites. In the past few months Central Government leaders at the highest level have spoken out forcefully in favour of a more liberal State land alienation policy. A major FAO report on agricultural research in Malaysia is now under study by Government. And the Honourable Minister of Finance has announced that a new Industrial incentives act is forth-coming. If you ask me whether the above steps are sufficient, I simply do not have an answer. Planners are always concerned and forever worrying about problems of implementation.

In Conclusion

Mr. Chairman, Ladies and Gentlemen - "Yes, we can improve upon the First Malaysia Development Plan". We can improve upon it by continuing to adapt to changed circumstances, better knowledge and more experience. We can improve upon it by continuing to innovate in our planning methods. But most important of all - if we are to reach Plan aims, we must continue to press hard against our resource and human capabilities with courage and imagination, often (it is to be regretted) in the face of unfavourable external developments.