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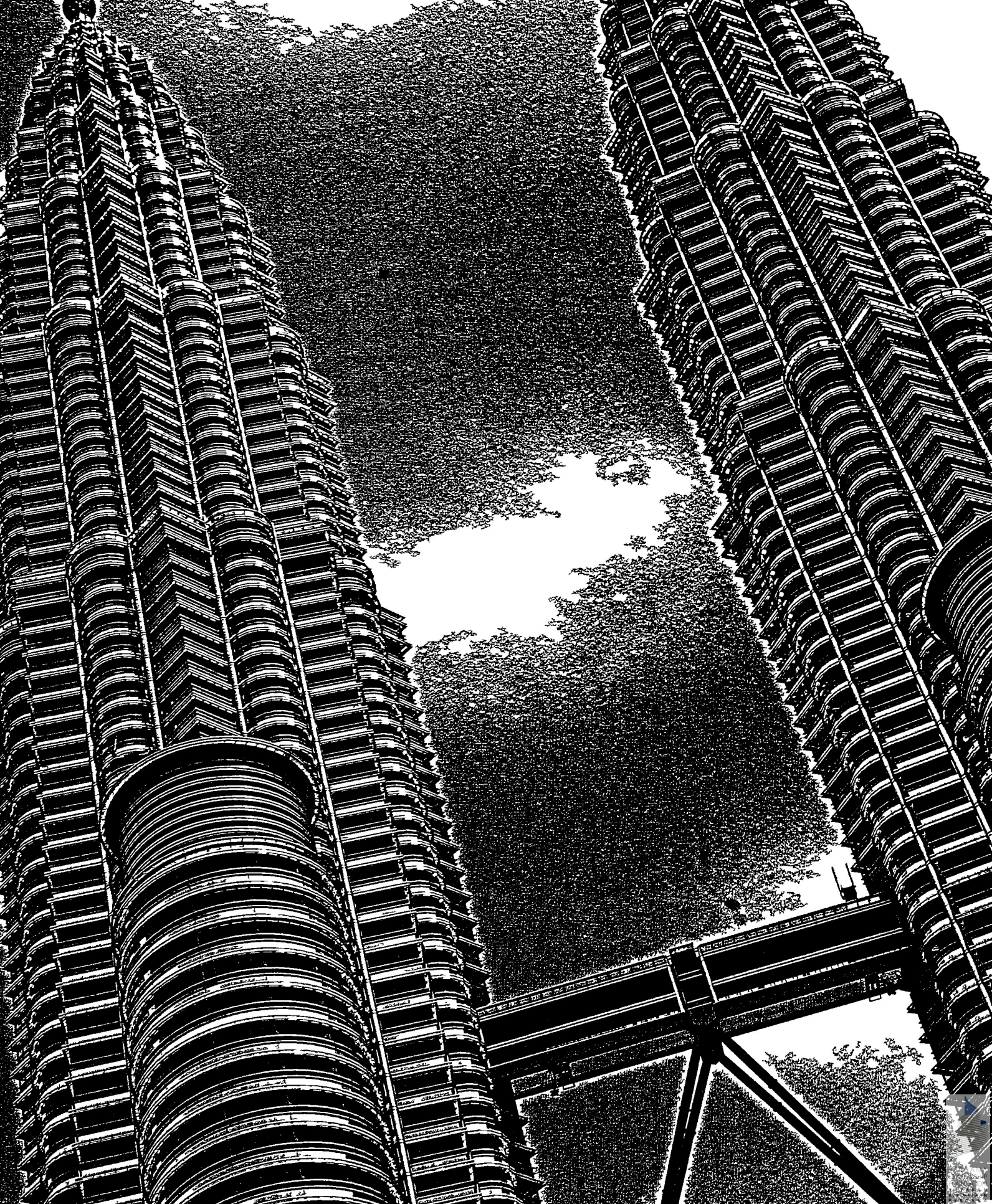
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The picture overleaf was supplied by Kevin Phillips.

*Overleaf: The Petronas Towers,
physical embodiment of
Prime Minister Mahatir's
vision of Malaysia*



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GENERAL INTRODUCTION

Rich in natural resources but no longer dependent on commodities, Malaysia has conducted its drive to industrialise with speed and vigour. Its strong manufacturing sector is a regional leader in high technology production and export. Malaysia, which welcomes foreign direct and indirect investment, has become one of Asia's outstanding success stories.

Malaysia is located at the heart of South-East Asia, one of the fastest-growing regions in the world. It is a federation comprising 13 states and two federal territories – Kuala Lumpur, the capital city, and the island of Labuan, an offshore financial centre. It is a peaceful, multi-ethnic society of close to 21 million people, with almost full employment, little poverty and a growing, well-educated middle class.

About 83 per cent of the population lives on the Malay Peninsula, which is also often referred to as Peninsular Malaysia. This land mass stretches 804km south from the Thai frontier to the state of Johor Bahru, which is joined to Singapore by a bridge. The other 17 per cent lives 660km across the South China Sea in the states of Sabah and Sarawak, which together are 1,200km long. Located on the island of Borneo, they are also known jointly as East Malaysia. The Peninsula emerged from nearly four and a half centuries of Portuguese, Dutch and British colonial rule – and wartime occupation by the Japanese – to gain its independence in 1957, as the Federation of Malaya. In 1963 it merged with Sabah, Sarawak and Singapore, which had also been British colonies, to become Malaysia, although Singapore left the new federation only two years later.

Among the present-day inhabitants of Malaysia the longest established are the Orang Asli of the Peninsula, whose presence can be traced back 5,000 years. Other early arrivals were the Penan of Sarawak and the Rungus of Sabah. The Malays arrived next, in two great waves of migration, bringing agricultural skills and knowledge of metals, spreading out into the islands of the archipelago and giving rise to the complex and varied ethnic mixes of both Malaysia and Indonesia. The descendants of those early settlers constitute the indigenous population of Malaysia and are known as 'the sons of the soil', the *Bumiputras*.

Malaysia is strategically located on two of the world's busiest waterways – the

The country and its
peoples

Melaka Straits to the west and the South China Sea to the east – and traders have been calling there since the beginning of the 14th century. The lush tropical forest, fertile land and richly stocked seas, 110km from the equator, attracted many early travellers to adopt the country as their home. At independence the country was already established as a major trading nation and a producer of tin, timber and rubber, which brought vast numbers of Chinese and Indian workers to the country, further enriching the melting pot of cultures. Today, the *Bumiputras* account for 55 per cent of the total population, the Chinese for 33.9 per cent, the Indians for 10.2 per cent and other minorities for less than 1 per cent.

The religious kaleidoscope reflects the ethnic mix in Malaysia. Although 53 per cent of the population are Muslim and the constitution designates Islam as the official religion, Malaysia is not an Islamic state and upholds freedom of worship. Islam is associated primarily, but not exclusively, with the *Bumiputras*. The ruler of each state is the head of Islam in that state. Buddhists make up 17.2 per cent of the population, Confucians and Taoists 11.6 per cent, Christians 8.6 per cent and Hindus 7 per cent. Some tribal religions are also still practised.

Politics, parties and personalities

The Conference of Rulers and the monarch

The Conference of Rulers (Majlis Raja Raja) meets three or four times a year. It is made up of the hereditary rulers of nine of the Peninsular states, along with the governors of Penang, Melaka, Sabah and Sarawak. Its most important duty is the election, every five years, of the constitutional monarch (Yang di-Pertuan Agong) and his deputy (Timbalan Yang di-Pertuan Agong), from among the nine hereditary rulers. It is also the supreme authority on Islamic religious affairs.

The legislature and the government

The Malaysian parliament consists of two houses. The House of Representatives (Dewan Rakyat) has 192 members, elected every five years on the basis of universal adult suffrage, each constituency returning one member. The last general election was held in 1995 and the present House is the ninth since independence. The Senate (Dewan Negara) has 69 members, 40 appointed by the monarch and 29 representing the state legislatures, all of whom serve for three-year terms. While a simple majority in both houses is sufficient to approve legislation, the Senate can delay monetary legislation for one month and other legislation for up to one year.

The prime minister (Perdanta Menteri) is formally appointed by the monarch and is usually the leader of the majority party in the lower house. Cabinet members are also appointed by the monarch, on the prime minister's advice, and can be from either house.

The states and the federation

The nine hereditary rulers retain considerable prestige on the basis of traditions going back long before independence, but nowadays none of them can act against the advice of the executive council in his state. Each of the other four states is headed by a federally appointed governor (Yang di-Pertua Negeri), who serves for four years. Every state has a unicameral legislature elected every five years.

Under the constitution the federal government is responsible for external affairs, defence, internal security, civil and criminal law, citizenship, finance, commerce and industry, shipping, communications, health and labour, while the states have responsibility for land, agriculture, forestry, fishing and Muslim law. Areas such as education, social welfare and urban planning are shared responsibilities. In any conflict federal law takes precedence.

Apart from the Muslim courts in every state and the native courts in Sabah and Sarawak, all Malaysian courts form a single federal system.

The Supreme Court is the highest judicial authority, with powers to make definitive interpretations of the constitution and to rule on inter-state disputes or disputes between a state and the federal government. It is the final court of appeal. The Lord President of the Supreme Court, the two Chief Justices, and the judges of the higher court are appointed by the king. Below the Supreme Court are the high courts of Peninsular Malaysia, Sabah and Sarawak, with subordinate courts functioning beneath them.

The judicial system

Throughout the independence struggle and up to 1973 Malaysia's main political party was the Alliance, a coalition of the United Malays National Organisation (UMNO), the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC). The Alliance won 80 per cent of the votes cast in the country's first national election and its leader Tunku Abdul Rahman, regarded as the architect of independence, became the first prime minister. The first of the continuing series of five-year development plans was adopted for the period 1956–60.

Politics since independence

The Alliance continued to be dominant until the 1969 election, when its vote dropped by 10 per cent. The New Economic Policy, designed to give greater economic participation to the *Bumiputras* was introduced in 1971. The Alliance then transformed itself into the National Front (Barisan Nasional), an even broader coalition taking in 13 parties, which won more than 70 per cent of the votes cast in 1974. Tun Abdul Razak died in 1976 and was succeeded by his deputy, Data Hussein Onn. The five-year plans continued to emerge in an effort to mitigate the division of wealth along ethnic lines, a problem held responsible for the riots of 1969. Hussein Onn retired in 1981 and his deputy, Datuk Seri Dr Mahathir Mohamad, became leader of UMNO and prime minister. Since then he has been regularly returned unopposed as party leader.

The Communist Party has been illegal since the years of the Emergency (1946–53), when it fought a guerrilla war against the British army, but other opposition parties still flourish as important players in the political system. At present the main national opposition party is the Democratic Action Party (DAP), which draws some support from the Chinese population. There are about 24 listed opposition parties, of which only the DAP and the S46, a grouping of disaffected ex-members of UMNO, have any significance. In 1990 the other 22 shared just 7.2 of the vote, while the National Front's share was 53.4 per cent. The challenge to the National Front is stronger at state level. In 1990 the northern state of Kelantan was won by the Islamic

Parti Islam Malaysia (PAS) and Sabah was won by the Parti Bersatu Sabah.

The national opposition's importance was much reduced in 1995, when the ruling coalition swept back to office in an election landslide, taking 85 per cent of the votes cast. It was a personal triumph for Mahathir, who is now in his 70s, giving him his biggest victory ever and a fourth term of office. The National Front holds 161 of the 192 seats in the lower house. In the state elections for 394 seats, held at the same time, the ruling party retained a firm grip on 12 of the 13 states that went to the polls. Kelantan, however, remained in the grip of the PAS.

Personalities

The Prime Minister, Dr. Mahathir Mohamad has been the driving force behind the last 20 years of dynamic development and is the author of Vision 2020, the plan to ensure that the country reaches fully developed status by the year 2020. He is widely respected in Malaysia and is the most important political personality.

Mahathir's heir apparent is the Minister of Finance, Anwar Ibrahim, a brilliant and influential politician who is popular within UMNO. Daim Zainuddin, the treasurer of UMNO, is seen as having been responsible for Malaysia's sustained high economic growth when he was Minister of Finance (1984–91) and it was he who implemented Mahathir's idea of turning Labuan into an offshore financial centre.

Ismail Mohamed was governor of the country's central bank, Bank Negara Malaysia, for 18 years and is now chairman of Permodalan Nasional (the National Equity Corporation), in addition to chairing at least three top corporations. Rashdan Baba, is leading Telecom Malaysia's push into foreign markets as chairman of the company, was a founding vice chancellor of the National University of Malaysia and the Malaysian University of Agriculture. He is also chairman of one private corporation and sits on the board of another. Ahmad Tajuddin Ali is the executive chairman of Tenaga Nasional, the electric power company which is the country's second largest corporation, charged with making it ready for the 21st century. T. Ananda Krishnan, chairman of Usbaha Tegas, has put two Malaysian satellites into space and built the Petronas Twin Towers, the world's tallest building, in Kuala Lumpur. He is planning to build the country's second telecommunications network by the year 2000.

A vision for the late 1990s

The Seventh Malaysia Plan (1996–2000) covers the second phase of the Second Outline Perspective Plan (1991–2000) and broadly maintains the pattern of federal government spending on development (see Exhibit 1.1). It seeks to build on the successes of the Sixth Plan (1990–95) and thus propel Malaysia into the 21st century. (The Sixth Plan is discussed in detail in Chapter 2.)

Main features

The Seventh Malaysia Plan is a pragmatic blend of proven and new development strategies and programmes. Like its predecessors it is based on the principle of balanced development, combining sustained and rapid economic growth with better distribution of its benefits among all states and all ethnic groups, whether urban or

Exhibit 1.1

Federal government development allocation and expenditure by sector, 1991–2000 (RM million)

Sector	Sixth Plan				Seventh Plan	
	Revised Allocation	(%)	Expenditure	(%)	Allocation	(%)
Economic	29,875	51.0	27,712	50.6	33,706	50.0
Agricultural Development	6,685	11.4	6,344	11.6	5,460	8.1
Mineral Resources Development	55	0.1	50	0.1	47	0.1
Commerce & Industry	5,034	8.6	4,047	7.4	5,864	8.7
Transport	12,749	21.8	12,270	22.4	15,762	23.3
Communications	76	0.1	70	0.1	58	0.1
Energy	872	1.5	829	1.5	1,058	1.6
Water Resources	3,641	6.2	3,433	6.3	4,030	6.0
Feasibility Study	130	0.2	99	0.2	223	0.3
Research & Development	633	1.1	570	1.0	1,204	1.8
Social	14,780	25.3	13,555	24.8	19,803	29.3
Education & Training	7,760	13.3	7,315	13.4	10,210	15.1
Health	2,519	4.3	2,387	4.4	2,658	3.9
Information & Broadcasting	110	0.2	108	0.2	238	0.4
Housing	2,056	3.5	1,825	3.3	2,875	4.3
Culture, Youth & Sports	502	0.9	451	0.8	946	1.4
Local Authorities & Welfare Services	961	1.6	701	1.3	1,550	2.3
Village & Community Development	633	1.1	543	1.0	1,236	1.8
Purchase of Land	239	0.4	225	0.4	90	0.1
Security	11,139	19.0	10,987	20.1	9,188	13.6
Defence	9,258	15.8	9,258	16.9	7,000	10.4
Internal Security	1,881	3.2	1,729	3.2	2,188	3.2
General Administration	2,706	4.7	2,451	4.5	4,803	7.1
General Services	2,605	4.5	2,352	4.3	4,623	6.8
Upgrading & Renovation	101	0.2	99	0.2	180	0.3
Total	58,500	100.0	54,705	100.0	67,500	100.0

Source: Ministry of Finance.

rural. It also seeks to protect the environment. New elements include a shift from the input- or investment-driven strategy which underpinned previous plans to a productivity-driven strategy, as well as a shift to larger-scale production for export by Malaysian industries. This should enable expanding industries to benefit from economies of scale, while the expected increase in global sales should strengthen the country's balance of payments position.

The Plan recognises the importance of human resources in the drive for productivity-led growth. Greater efforts are to be made to strengthen the human resource

base by increased investment in training and education. Labour constraints are also addressed by encouraging firms to move from labour-intensive to capital-intensive production systems. The use of non-traditional labour sources should also assist in easing the tightness of the labour market and reducing dependence upon foreign labour.

There are new strategies to enlarge and enrich the science and technology base in Malaysia. These include increased investment in developing highly qualified manpower as well as qualitative improvements, such as promoting private sector participation in the development of science and technology, nurturing domestic innovations and inventions, and encouraging better collaboration among research agencies, industry and the universities.

The Plan maintains Malaysia's emphasis on securing growth led by the private sector. Accordingly the role of the government and the public service is to provide necessary infrastructure and other support to the private sector to enable it to be more globally competitive. Privatisation, which has already contributed to the growth of the economy, is to be accelerated.

However, there is also a continuing emphasis on distribution of the rewards of growth. While the programme for eradicating poverty remains basically unchanged, its implementation will be stiffened and improved to ensure greater effectiveness through the greater involvement of the state governments, the private sector and non-governmental organisations.

Regional development

Under the Sixth Malaysia Plan the states along the western corridor of Malaysia grew faster than the national average, with strong growth in manufacturing and services, while the other states, which still rely more on primary activities, grew less. Several programmes under the 'Growth Triangle' scheme, run jointly with Indonesia, Singapore and Thailand, are expected to benefit these states, but the Seventh Plan is also intended to help in achieving balanced regional development by sustaining the growth momentum throughout Malaysia.

In particular, there is an emphasis on maximising the use of untapped resources and harnessing the potential of various states and regions. In the less developed states the economic base is to be diversified from agriculture to manufacturing and services. There will be efforts to improve the quality of life of the population by the provision of modern amenities in urban and rural areas.

The government will continue to encourage the private sector to spearhead the growth of manufacturing in the eastern Peninsular states, as well as Sabah and Sarawak. It is developing industrial estates in these areas where, under the Sixth Plan, 41.7 per cent of the total industrial land developed in the country was located. The authorities also aim to set up skill centres for training in every state. Generous government incentives are on offer to promote a more balanced distribution of industries throughout the country, generally in favour of the east coast, Sabah and Sarawak.

These strategies will continue throughout the rest of the 1990s. The government will continue to finance the development of supporting infrastructure for industrial estates in the priority areas, including roads, drainage, cheap energy and water supplies. The development of tourist facilities will also be encouraged. About RM6.79

billion will be spent by the government on roads, piped water and electricity supplies. Highways and link roads will be undertaken to complement those already under way with the help of the private sector. Social facilities, such as for health and education, will be provided or enhanced in the less developed states. There will be new hospitals, health centres and clinics, polytechnics, vocational and industrial training institutes. About RM24.8 billion will be spent on multi-state programmes and projects, and another RM20.8 billion will go to the less developed states.

Education and training were accorded a high priority under the Sixth Plan and that trend continues under the Seventh Plan. The aim has been to expand the capacity of institutions and improve the quality of manpower, while increasing the participation of low-income groups in education and training. During the Seventh Plan period vocational training will be on a larger scale, with the aim of increasing the output of skilled technical manpower from both public and private training institutions. Skill courses will become more advanced, in line with the country's move toward activities involving high technology and higher value added.

Rural educational facilities are also to be improved, mainly by amalgamating small schools – those with fewer than 150 pupils – into new school complexes. Incentives and awards are planned for teachers, with retired teachers being re-employed to meet shortages in certain subjects. While competence in English will be increased, the national language, Bahasa Malaysia, will also be strengthened as a medium of instruction. More private sector investment in education will be encouraged.

There is to be more government investment at all levels of education, with greater participation of *Bumiputras* in tertiary education and the promotion of distance learning. Fewer Malaysian students will be sent overseas to study for first degrees, which should help to reduce the balance of payments deficit, but government-sponsored postgraduate students will still be sent abroad.

The budget for education in the period 1996–2000 will be RM8.437 billion, as compared with RM6.982 billion during the Sixth Plan period. The largest amounts will go to tertiary and secondary education. Spending on skills training will total RM1.661 billion, compared with RM581 million in the period 1990–95, with most being spent on industrial training.

With the economy anticipated to grow at 8 per cent a year under the Seventh Plan, infrastructure development will be further intensified. There will be a supply-driven approach to expansion, taking into consideration the likely long-term demand and related development projects, in order to ensure the availability of supply upon demand. This will apply particularly to large infrastructure projects with long lead times. 'Multi-modalism' in the transport sector is to be pushed further, in order to increase the interlinking of all forms of transport. Rural areas needing social infrastructure will receive particular attention. The public sector has allocated RM15.484 billion for road, rail, port, airport and urban infrastructural projects in the period

Education and training

Infrastructure

GENERAL INTRODUCTION

1996–2000. Another RM3.687 billion will be spent on water supplies and sewage, while the government has earmarked RM58.6 million for the communications sector. Private sector spending on infrastructural projects over the period is estimated at RM68.293 billion. Thus a grand total of RM87.523 billion is to be allocated to creating or upgrading infrastructure.

POLICIES FOR GROWTH

It could be argued that Malaysia has made nonsense of the familiar but simplistic distinction between centrally planned economies and free market economies. Few, if any, governments anywhere else in the world have taken economic planning to such lengths as Malaysia's have, with five-year development plans, 10-year plans and 30-year plans to take the nation well into the next century. These plans are merely the tip of an iceberg made up of the ministries, Bank Negara Malaysia (the central bank) and other government agencies which bear the responsibility for monitoring and planning their own sectors – although there is also a good deal of input from the lively and competitive private sector.

The official plans were initially aimed at plotting the development of the nation's agriculture, by such measures as doubling palm oil cultivation and increasing the replanting of rubber.

Together Malay and Chinese leaders produced the New Economic Policy (NEP), which seeks to eradicate poverty, regardless of ethnic background, and to eliminate the identification of specific ethnic groups with specific occupations. The spirit that animated the NEP lives on in every plan produced since then and has done much to raise the economic level of the *Bumiputra* community.

However, the rapid growth of manufacturing industry has to be seen in the context not only of the NEP but also of the Industrial Master Plan (IMP), designed by the United Nations Industrial Development Organisation and published in 1986. The entire plan was presented to the government, which had been responsible for much of the input into its design, and accepted in principle. The main aim of the IMP was to boost industrial production by 23.9 per cent by 1995. The plan was based on a study of 12 industries, seven resource-based and five in non-resource-based sectors. It consisted of 22 separate reports on rubber products, palm oil, food processing, wood-based products, chemicals, non-ferrous metals, non-metallic minerals, electronics, transport

New directions
since 1969

*The New Economic
Policy*

*The Industrial Master
Plan and the Second
Outline Perspective
Plan*

equipment, machinery, iron and steel, and textiles. The reports highlighted sectoral problems and possible development strategies in each of these areas. Much of the IMP was integrated into the Sixth Malaysia Development Plan, implemented between 1990 and 1995, and is being carried on into the present Seventh Plan, covering the period 1996–2000 (discussed in Chapter 1).

Both the Sixth and Seventh Plans are much more detailed versions of the Second Outline Perspective Plan (1991–2000), which set the broad objectives, strategies and targets that are guiding development efforts in the present decade. The country's annual budgets are carefully tailored to fit the overall planning structure but allow the authorities a good measure of flexibility to adjust strategies and targets. Another outline plan, Vision 2020, drawn up by the Prime Minister, Dr Mahathir Mohamad, covers the first 20 years of the 21st century.

The Sixth Malaysia Plan (1990–95)

The main thrust of the Sixth Plan was to maintain the momentum of growth and achieve a managed, balanced development of the economy. The emphasis on balanced development reflects the recognition that future growth must have a broader base. Under the Plan the industrial base was diversified, human resources were developed, technology was upgraded, and structural imbalances among sectors and regions were reduced.

Basic strategies

The plan had five basic macroeconomic strategies. First, the private sector would have a leading role in economic expansion, and the government would create the conditions necessary for the growth of private investment and the development of private sector initiatives. Fiscal and monetary policies would be directed toward maintaining stable prices, favourable exchange rates, and a healthy balance of payments.

Secondly, the drive to consolidate the public sector and reduce its direct participation in the economy would continue. However, the public sector's financial position had to be healthy if stability and growth were to be maintained, and the plan envisaged steps to strengthen government revenues and cut unproductive expenditures by accelerating privatisation.

Thirdly, the government would cut red tape to improve the investment climate and public administration at all levels would be made more efficient. The existing liberal rules on equity ownership by foreigners in manufacturing and tourism would continue in force. While the authorities would pursue the objective of restructuring equity ownership and employment, in order to promote greater participation by *Bumiputras*, the overriding policy would be to spur private sector growth and foreign investment.

Fourthly, the emphasis on industrial development would continue, but the country would go for the more high-technology, higher-quality products in demand in the developed economies. Policy changes would be made, where appropriate, to encourage technological upgrading, diversify the industrial base, promote industrial restructuring and modernisation (particularly of small and medium-sized industries),

and raise manufacturing standards in terms of expertise, production design and marketing. More resources would go to research and development, education, training, transport and communications.

Finally, financial and capital markets would be strengthened to facilitate efficient mobilisation of domestic savings, channelling them to productive sectors. Reforms would seek to mobilise the funds of the social security organisations for similar ends. The focus from sector to sector would be on economic diversification and promoting the growth of value-added activities. While agriculture would remain important, future growth and structural change would stem from the manufacturing sector.

Nine consecutive years in which GDP growth averaged well over 8 per cent a year culminated in rises of 9.3 per cent in 1995 and 8.2 per cent in 1996. The moderation of growth in 1996 to a level seen as more sustainable was accompanied by improvements in Malaysia's resource position and a narrowing of the current account deficit on external payments. All economic sectors registered growth in both 1995 and 1996: agriculture grew by 1.1 per cent and 1.6 per cent respectively, manufacturing by 14.5 per cent and 12.8 per cent, and construction by 17.3 per cent and 9 per cent (see Exhibit 2.1).

Results

Exhibit 2.1

GDP by sector, 1995 and 1996 (%)

	1995			1996 ^e		
	<i>Growth</i>	<i>Share of GDP</i>	<i>Contribution to growth</i>	<i>Growth</i>	<i>Share of GDP</i>	<i>Contribution to growth</i>
Agriculture, forestry and fishing ¹	1.1	13.5	1.8	1.6	12.7	2.6
Mining (of which: petroleum)	9.0 (6.9)	7.5 (6.0)	7.1 (4.5)	3.1 (0.1)	7.1 (5.6)	2.8 (0.1)
Manufacturing	14.5	33.1	48.5	12.8	34.5	51.6
Construction	17.3	4.5	7.7	9.0	4.5	4.9
Services	9.4	44.3	44.2	8.9	44.6	48.2
Less imputed bank service charges	15.2	7.1	10.8	14.0	7.4	12.0
Plus import duties	3.3	4.2	1.6	3.6	4.1	1.9
GDP	9.5	100.0	100.0	8.2	100.0	100.0

¹ Includes livestock and horticulture

^e Estimate

Source: Bank Negara Malaysia.

A EUROMONEY PUBLICATION