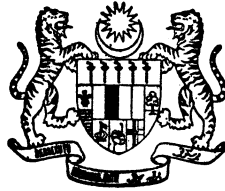


**Jilid II  
Bil. 27**



**Hari Rabu  
6hb Disember, 1972**

**PENYATA RASMI**  
OFFICIAL REPORT

**DEWAN RAKYAT**  
*HOUSE OF REPRESENTATIVES*

**PARLIMEN KETIGA**  
*Third Parliament*

**PENGGAL PARLIMEN KEDUA**  
*Second Session*

**KANDUNGANNYA**

**RANG UNDANG-UNDANG:**

**Rang Undang-undang Perbekalan, 1973 [Ruangan 3543]**

**USUL:**

**Anggaran Pembangunan, 1973 [Ruangan 3577]**

MALAYSIA  
**DEWAN RAKYAT YANG KETIGA**

*Penyata Resmi*

**PENGGAL YANG KEDUA**

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Hari Rabu, 6hb Disember, 1972

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*Mesyuarat dimulakan pada pukul 3.00 petang*

**YANG HADIR :**

- Yang Berhormat Tuan Yang di Pertua, TAN SRI DATUK CHIK MOHAMED YUSUF BIN SHEIKH ABDUL RAHMAN, P.M.N., S.P.M.P., J.P., Datuk Bendahara Perak.
- Yang Amat Berhormat Perdana Menteri, Menteri Luar Negeri dan Menteri Pertahanan, TUN HAJI ABDUL RAZAK BIN DATUK HUSSEIN, S.M.N. (Pekan).
- Yang Amat Berhormat Timbalan Perdana Menteri dan Menteri Hal Ehwal Dalam Negeri, TUN DR ISMAIL AL-HAJ BIN DATUK HAJI ABDUL RAHMAN, S.S.M., P.M.N., S.P.M.J. (Johor Timor).
- Yang Berhormat Menteri Kewangan, TUN TAN SIEW SIN, S.S.M., J.P. (Melaka Tengah).
- „ Menteri Perpaduan Negara, TUN V. T. SAMBANTHAN, S.S.M., P.M.N. (Sungei Siput).
- „ Menteri Perhubungan, TAN SRI HAJI SARDON BIN HAJI JUBIR, P.M.N., S.P.M.K., S.P.M.J. (Pontian Utara).
- „ Menteri Perdagangan dan Perindustrian, TUAN MOHAMED KHIR JOHARI (Kedah Tengah).
- „ Menteri Buruh dan Tenaga Rakyat, TAN SRI V. MANICKAVASAGAM, P.M.N., S.P.M.S., J.M.N., P.J.K. (Klang).
- „ Menteri Pertanian dan Perikanan, TAN SRI HAJI MOHAMED GHAZALI BIN HAJI JAWI, P.M.N., D.P.C.M., P.N.B.S. (Kuala Kangsar).
- „ Menteri Pembangunan Negara dan Luar Bandar, TUAN ABDUL GHAFAR BIN BABA (Melaka Utara).
- „ Menteri Kerja Raya dan Tenaga, DATUK HAJI ABDUL GHANI GILONG, P.D.K., J.P. (Kinabalu).
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- „ Menteri Kebudayaan, Belia dan Sukan, DATUK HAJI HAMZAH BIN DATUK ABU SAMAH, S.M.K., D.S.R., S.I.M.P. (Raub).
- „ Menteri Kebajikan Am, TAN SRI FATIMAH BINTI HAJI HASHIM, P.M.N. (Jitra-Padang Terap).
- „ Menteri Pelajaran, DATUK HUSSEIN BIN DATUK ONN, S.P.M.J., P.I.S., M.B.E. (Johor Bahru Timor).
- „ Menteri Penerangan dan Menteri Tugas-tugas Khas, TAN SRI MUHAMMAD GHAZALI BIN SHAFIE, P.M.N., D.I.M.P., P.D.K. (Lipis).

- Yang Berhormat Menteri Teknologi, Penyelidikan dan Kerajaan Tempatan,  
DATUK ONG KEE HUI, P.N.B.S. (Bandar Kuching).
- „ Menteri Perusahaan Utama, TUAN HAJI ABDUL TAIB BIN MAHMUD,  
P.G.D.K. (Samarahan).
- „ Timbalan Menteri Kewangan, TUAN ALI BIN HAJI AHMAD  
(Pontian Selatan).
- „ Timbalan Menteri Pertanian dan Perikanan, DATUK ABDUL SAMAD  
BIN IDRIS, J.M.N., A.M.N., P.J.K. (Kuala Pilah).
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K.M.N. (Segamat Selatan).
- „ Timbalan Menteri Jabatan Perdana Menteri dan Timbalan Menteri  
Pertahanan, Y.M. TENGKU AHMAD RITHAUDDEEN AL-HAJ BIN  
TENGKU ISMAIL, P.M.K. (Kota Bharu Hilir).
- „ Timbalan Menteri Hal Ehwal Dalam Negeri, TUAN HAJI MOHAMED  
BIN YAACOB, P.M.K., S.M.T. (Tanah Merah).
- „ Setiausaha Parlimen kepada Perdana Menteri, DATUK WAN ABDUL  
KADIR BIN ISMAIL, D.P.M.T., P.P.T. (Kuala Trengganu Utara).
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Tugas-tugas Khas, TUAN SHARIFF BIN AHMAD (Langat).
- „ Setiausaha Parlimen kepada Menteri Pelajaran, TUAN MOHAMED  
BIN UJANG, A.M.N., P.J.K. (Jelebu-Jempol).
- „ Setiausaha Parliament kepada Menteri Pelajaran, TUAN MOHAMED  
BIN RAHMAT, K.M.N. (Johor Bahru Barat).
- „ Setiausaha Parlimen kepada Menteri Buruh dan Tenaga Rakyat,  
TUAN HAJI RAMLI BIN OMAR, K.M.N., P.M.P. (Krian Darat).
- „ Setiausaha Parlimen kepada Menteri Kebudayaan, Belia dan Sukan,  
TUAN MOKHTAR BIN HASHIM (Rembau-Tampin).
- „ NIK ABDUL AZIZ BIN NIK MAT, J.P. (Kelantan Hilir).
- „ DATUK DR HAJI ABDUL AZIZ BIN OMAR, D.J.M.K., J.M.N., J.M.K., S.M.K.  
(Tumpat).
- „ TUAN HAJI ABDUL WAHAB BIN YUNUS (Dungun).
- „ PENGHULU ABIT ANAK ANGKIN, P.P.N. (Kapit).
- „ TUAN ABU BAKAR BIN UMAR (Kubang Pasu Barat).
- „ TUAN HAJI AHMAD BIN ARSHAD, A.M.N. (Muar Utara).
- „ TUAN AHMAD BIN HAJI ITHNIN (Melaka Selatan).
- „ PENGIRAN AHMAD BIN PENGIRAN INDAR (Kinabatangan).
- „ TUAN HAJI AHMAD BIN SAID, J.P. (Seberang Utara).
- „ TUAN HAJI AHMAD DAMANHURI BIN HAJI ABDUL WAHAB, P.M.P., P.J.K.  
(Hilir Perak).
- „ TAN SRI HAJI NIK AHMED KAMIL, D.K., P.M.N., S.P.M.K., S.J.M.K.  
(Ulu Kelantan).
- „ PUAN BIBI AISHAH BINTI HAMID DON, A.M.N., P.J.K. (Kulim Utara).
- „ TUAN AJAD BIN O. T. OYONG (Labuk-Sugut).
- „ DR AWANG BIN HASSAN, S.M.J. (Muar Selatan).

- Yang Berhormat TUAN AZAHARI BIN MD. TAIB, J.S.M., A.M.N., S.M.K., J.P. (Sungei Patani).
- „ DATUK PENGARAH BANYANG ANAK JANTING, Q.M.C., P.N.B.S., P.B.S. (Julau).
- „ CHEGU BAUDI BIN UNGGUT (Bandau).
- „ TUAN BOJENG BIN ANDOT (Simunjan).
- „ TUAN BUJA BIN GUMBILAI (Tuaran).
- „ TUAN AWANG BUNGSU BIN ABDULLAH (Limbang-Lawas).
- „ TUAN HAJI AWANG WAL BIN AWANG ABU (Santubong).
- „ TUAN CHAN FU KING (Telok Anson).
- „ TUAN CHAN SIANG SUN, A.M.N., P.J.K., J.P. (Bentong).
- „ TUAN CHAN YOON ONN (Ulu Kinta).
- „ TUAN CHEN KO MING, A.M.N., P.B.S. (Sarikei).
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- „ TUAN MICHAEL CHEN WING SUM (Ulu Selangor).
- „ DR CHU CHEE PENG (Kluang Selatan).
- „ TUAN VALENTINE COTTER *alias* JOSEPH VALENTINE COTTER (Bau-Lundu).
- „ TUAN PETER PAUL DASON (Pulau Pinang Utara).
- „ TUAN V. DAVID (Dato Kramat).
- „ TUAN EDWIN ANAK TANGKUN, A.B.S. (Batang Lupar).
- „ TUAN FAN YEW TENG (Kampar).
- „ DATIN HAJAH FATIMAH BINTI HAJI ABDUL MAJID, J.M.N., P.I.S. (Batu Pahat Dalam).
- „ TUAN THOMAS SELVARAJ GABRIEL (Pulau Pinang Selatan).
- „ TUAN GOH HOCK GUAN (Bungsar).
- „ TUAN HANAFIAH HUSSAIN, A.M.N. (Jerai).
- „ TUAN HASHIM BIN GERA (Parit).
- „ TUAN RICHARD HO UNG HUN (Sitiawan).
- „ TUAN HOR CHEOK FOON (Damansara).
- „ TUAN HUSSAIN BIN HAJI SULAIMAN (Besut).
- „ TAN SRI SYED JAAFAR BIN HASAN ALBAR, P.M.N. (Johor Tenggara).
- „ DATUK KHOO PENG LOONG, P.N.B.S., O.B.E. (Bandar Sibu).
- „ TUAN LATIP BIN HAJI DRIS (Mukah).
- „ TUAN LEE SECK FUN, K.M.N. (Tanjong Malim).
- „ TUAN LIM CHO HOCK (Batu Gajah).
- „ TUAN LIM KIT SIANG (Bandar Melaka).
- „ TUAN LIM PEE HUNG, P.J.K. (Alor Star).
- „ TUAN LOH JEE MEE (Batang Padang).
- „ TUAN WALTER LOH POH KHAN (Setapak).
- „ DATUK PETER LO SU YIN, P.G.D.K. (Sandakan).
- „ TUAN LUHAT WAN (Baram).
- „ TUAN ANDREW MARA ANAK WALTER UNJAH (Betong).

- Yang Berhormat TUAN HAJI MAWARDI BIN LEBAI TEH (Kota Star Utara).
- „ DR MOHAMED BIN TAIB, P.M.K., P.J.K. (Kuantan).
- „ TUAN MOHD. ARIF BIN SALLEH, A.D.K. (Sabah Dalam).
- „ DATUK HAJI MOHD. ASRI BIN HAJI MUDA, S.P.M.K. (Kota Bharu Hulu).
- „ TUAN MOHD. DAUD BIN ABDUL SAMAD (Kuala Trengganu Selatan).
- „ TUAN MOHD. NOR BIN MD. DAHAN, A.M.N., J.P. (Ulu Perak).
- „ TAN SRI HAJI MOHAMMAD SAID BIN KERUAK, P.M.N., S.P.D.K. (Kota Belud).
- „ TUAN MOHD. SALLEH BIN DATUK PANGLIMA ABDULLAH (Darvel).
- „ TUAN MOHD. TAHIR BIN HAJI ABDUL MAJID, S.M.S., P.J.K. (Kuala Langat).
- „ TUAN MOHD. TAHIR BIN HAJI ABDUL MANAN (Kapar).
- „ TUAN HAJI MOHAMAD YUSOF BIN MAHMUD, A.M.N. (Temerloh).
- „ TUAN HAJI MOHD. ZAIN BIN ABDULLAH (Bachok).
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- „ WAN MOKHTAR BIN AHMAD, P.J.K. (Kemaman).
- „ TUAN HAJI MOKHTAR BIN HAJI ISMAIL, J.S.M. (Perlis Selatan).
- „ TUAN MUSA BIN HITAM (Segamat Utara).
- „ DATUK HAJI MUSTAPHA BIN HAJI ABDUL JABAR, D.P.M.S., J.M.N., J.P. (Sabak Bernam).
- „ TUAN MUSTAPHA BIN HUSSAIN (Seberang Tengah).
- „ TUAN JONATHAN NARWIN ANAK JINGGONG (Lubok Antu).
- „ TAN SRI SYED NASIR BIN ISMAIL, P.M.N., D.P.M.J., J.M.N., P.I.S. (Muar Dalam).
- „ TUAN NG HOE HUN (Larut Selatan).
- „ RAJA NONG CHIK BIN RAJA ISHAK, P.J.K. (Kuala Selangor).
- „ TUAN OTHMAN BIN ABDULLAH, A.M.N. (Perlis Utara).
- „ PENGARAH RAHUN ANAK DEBAK (Serian).
- „ TUAN R. C. M. RAYAN *alias* R. C. MAHADEVA RAYAN (Ipoh).
- „ TUAN SEAH TENG NGIAB, S.M.J., P.I.S. (Muar Pantai).
- „ DR S. SEEVARATNAM, P.J.K. (Seremban Barat).
- „ TUAN HAJI SHAFIE BIN ABDULLAH, A.M.N., B.C.K. (Baling).
- „ TUAN SOH AH TECK, A.M.N. (Batu Pahat).
- „ DR A. SOORIAN (Port Dickson).
- „ TUAN SU LIANG YU (Bruas).
- „ TUAN SULAIMAN BIN BULON, P.J.K. (Bagan Datoh).
- „ WAN SULAIMAN BIN HAJI IBRAHIM, S.M.K. (Pasir Puteh).
- „ TUAN SULAIMAN BIN HAJI TAIB (Krian Laut).
- „ PENGIRAN TAHIR BIN PENGIRAN PATERA (Kinamis).
- „ TUAN TAI KUAN YANG, A.M.N., P.J.K. (Kulim-Bandar Bharu).

- Yang Berhormat DATUK TAJUDDIN BIN ALI, D.P.M.P., P.J.K. (Larut Utara).
- „ DR TAN CHEE KHOON (Batu).
- „ TUAN TAN CHENG BEE, A.M.N., J.P. (Bagan).
- „ TUAN TIAH ENG BEE, P.I.S. (Kluang Utara).
- „ TUAN JAMES STEPHEN TIBOK, A.D.K. (Penampang).
- „ TUAN TIBUOH ANAK RANTAI (Rajang).
- „ TUAN TING MING KIONG (Bintulu).
- „ TUAN JOSEPH UNTING ANAK UMANG (Kanowit).
- „ TUAN V. VEERAPPEN (Seberang Selatan).
- „ TUAN YEH PAO TZU, A.M.N. (Tawau).
- „ TUAN YEOH TECK CHYE (Bukit Bintang).
- „ TUAN HAJI YUSOF BIN HAJI ABDULLAH *alias* HAJI YUSOF RAWA (Kota Star Selatan).
- „ TENGGU ZAID BIN TENGGU AHMAD, D.P.M.K., J.M.K., S.M.K. (Pasir Mas Hulu).

YANG TIADA HADIR :

- Yang Berhormat Menteri Hal Ehwal Sarawak, TAN SRI TEMENGGONG JUGAH ANAK BARIENG, P.M.N., P.D.K., P.N.B.S., O.B.E., Q.M.C. (Ulu Rajang).
- „ Y.A.M. TUNKU ABDULLAH IBNI ALMARHUM TUANKU ABDUL RAHMAN, P.P.T. (Rawang).
- „ Y.T.M. TUNKU ABDUL RAHMAN PUTRA AL-HAJ, D.M.N., K.O.M., C.H. (Kuala Kedah).
- „ DATUK HAJI ABDUL RAHMAN BIN YA'KUB, P.N.B.S. (Payang).
- „ TUAN HAJI ABDUL RASHID BIN HAJI JAIS, A.D.K. (Sabah Selatan).
- „ TUAN EDMUND LANGGU ANAK SAGA, P.B.S. (Saratok).
- „ DR LIM CHONG EU (Tanjong).
- „ TUAN HAJI MOHD. CHIK JOHARI ONDU MAJAKIL (Labuan-Beaufort).
- „ TUAN MUHAMMAD FAKHRUDDIN BIN HAJI ABDULLAH, J.P. (Pasir Mas Hilir).
- „ TUN DATU HAJI MUSTAPHA BIN DATU HARUN, S.M.N., P.D.K., K.V.O., O.B.E. (Marudu).
- „ DATUK PANG TET TSHUNG, P.D.K. (Kota Kinabalu).
- „ DATUK SRI S. P. SEENIVASAGAM, S.P.M.P., D.P.M.P., P.M.P., J.P. (Menglembu).
- „ DATUK JAMES WONG KIM MIN, P.N.B.S. (Miri-Subis).
- „ TUAN STEPHEN YONG KUET TZE (Padawan).

YANG HADIR BERSAMA :

- Yang Berhormat Menteri Tugas-tugas Khas, DR LIM KENG YAIK (Dilantik).

## DOA

(Tuan Yang di Pertua *mempengerusikan Mesyuarat*)

## RANG UNDANG-UNDANG

**RANG UNDANG-UNDANG  
PERBEKALAN, 1973**

**Bacaan Kali Yang Kedua**

**Menteri Kewangan (Tun Tan Siew Sin):** (*Dengan izin*) Mr Speaker, Sir, I beg to move that a Bill intituled "An Act to apply a sum out of the Consolidated Fund to the service of the year 1973 and to appropriate that sum and such other sums as have been authorised to be issued for the service of that year" be read a second time.

For the first time in our history, an Economic Report is being presented to Parliament as an appendix to the Budget speech. I hope that this Report will provide Parliament and the public with a comprehensive survey and analysis of the Malaysian economy. It is intended that this Report will supply readily available information on our increasingly complex economy in an annually updated and compact form. The Report will be distributed to Honourable Members before we adjourn today. As a result of this innovation the Budget speech itself will concentrate on highlighting major developments in the economy, including the public sector and Government finances in addition, of course, to the new revenue proposals.

A second major change is that, with the amalgamation of the operating and development budgets into one volume, one speech would cover both budgets and there would be only one debate for both budgets. I venture to suggest that this is a rational development because it does not make sense to have two speeches and two debates on what is essentially the same subject. Such a procedure will save the time of everybody concerned and I hope the House will endorse this new procedure—in fact, it did so yesterday. In order to ensure, however, that an adequate number of Honourable Members on both sides of the House will have a chance to speak, the time allotted for the general debate will be increased to 8 days instead of the customary 5.

Another change concerns the allocation of expenditure between the operating and the development budgets. Beginning with the 1973 Budget, a significant number of defence items which used to appear in the development account will henceforth be regarded as operating expenditure. These defence items are more in the nature of replacement or recurrent expenditure and hence rightly belong to the operating budget. As a result of the shift of these defence items, the operating budget for 1973 will be increased by \$163 million while the development budget will be reduced correspondingly. With this shift, development expenditure will henceforth be expenditure which actually promotes economic, social or national development.

In my last Budget speech, I indicated that the New Economic Policy had made itself felt in a sizable increase in public demand. In 1972 the implementation of the New Economic Policy is visibly reflected in a new trend in development expenditure. Gross lending to statutory bodies, which include PERNAS, the Urban Development Authority (UDA), State Economic Development Corporations, Lembaga Padi dan Beras Negara, Majlis Amanah Rakyat (MARA) and State Government leapt from \$160 million in 1970 to a record level of \$331 million in 1971. It is expected to increase to \$350 million in 1972 and to \$375 million in 1973. As a result of this greatly increased development lending by the Federal Government there has been a substantial stimulus to involvement by State Governments and public authorities in public investment. This major change in the development process which has been taking place in the last two years represents a significant broadening of the base of the public development effort. Of even greater significance is the fact that this change represents the pervasive contribution of the Federal Budget to the implementation of the New Economic Policy.

As a result of the increasing momentum of development expenditure, the planned targets for development both for 1971 and 1972 have been exceeded. Honourable Members might recall that, as Minister of Finance, I have always maintained that where sound economic projects are concerned, finance is not the main problem. Further, with the sharp rise in the prices of imported goods, in particular machinery and capital equipment, which rose by 9.6% in 1971,

expenditure on development has risen and is likely to keep on rising until the developed countries can curb inflation. Honourable Members will also recall that in the Second Malaysia Plan the public sector's share of the development expenditure target was \$7,250 million with a minimum expenditure target of \$6,000 million. Public sector development expenditure in 1971 and 1972, the first two years of the Plan, has exceeded the estimated annual targets by no less than one-third! Accordingly, the appropriation for public sector development, originally fixed at \$7,250 million, has been raised to \$8,297 million. This figure includes defence expenditure amounting to \$449 million which will henceforth appear in the operating budget. Based on our experience of the first two years of the Plan, public sector expenditure will probably be well above the Plan figure of \$6,000 million.

Let me turn now to major developments in the Malaysian economy. Economic trends in Malaysia during most of 1972 were influenced by stagnant exports and low world market prices for the country's major export commodities. However, the pace of economic growth began to accelerate in the course of the latter half of the year. In 1972 the gross national product or GNP at market prices is estimated at \$12,900 million which is 5.8% higher than the level of \$12,194 million achieved in 1971. Whereas in 1971 the growth in GNP was only 4.8%, the outlook for the immediate future is more reassuring. It is expected that GNP will grow by 8% to 9% in 1973. The increasing ability of the economy to counter external influences has been helped by the anti-cyclical nature of Federal Government spending. During the sixties the economy witnessed wide fluctuations in its annual growth rates; the range was between 0.4% and 9.4%. In 1958 a decrease in exports produced an absolute decrease in GNP. In 1961, it led to stagnation. On the other hand, in 1971 and 1972 when exports declined for two consecutive years, and particularly in 1972, when the price of rubber fell to its lowest level in 25 years, the economy was able to register growth rates of 4.8% and 5.8% respectively. The growing resilience of the economy in the face of sharp fluctuations of primary commodity prices is the direct result of the diversification of the economy which until recently was largely based on the production of a few commodities for export. Between

1960 and 1970 the share of rubber and tin in total exports fell from 69% to 53%, while the share of exports in the GNP went down from 39% to 33%. The share of agriculture in the gross domestic product has shrunk from 37% to 25%, while the share of manufacturing went up from 9% to 15%. The share of agriculture would have shrunk more, but for the impressive strides in modernisation and efficiency made by the rubber industry. At the same time, there has been substantial diversification into palm oil and timber as well as solid progress in industrialisation leading to import substitution, especially in consumer goods.

A second important factor, contributing towards the increasing resilience of the economy, is the more positive role of the public sector. In the late 1950s and early 1960s the operations of the public sector were frequently procyclical. For example, an absolute decrease in G.D.P. in 1958 (-4.5%) was accompanied by a cut in public investment (-17.4%). Similarly, a G.D.P. increase in 1960 of 11% was paralleled by an increase in Government investment of 29.6%. This reflected the policy of balancing the Budget in every single year. Over the years and in particular since 1969, the operations of the public sector have become consciously anti-cyclical. The export-induced economic slowdown in 1970-72 was countered by an increase in public sector investment of no less than 23.5% in 1971 and 40% in 1972. Government consumption was allowed to increase by 18.5% in 1971 and 14% in 1972. This offset to some extent the weakness in the export sector and the resulting weakness in private investment, which has practically stagnated since the record investment boom of 1970. Thus the public sector proved to be the principal stimulus to the economy in the last two years.

The industrial economies of North America, Western Europe and Japan, where almost two-thirds of all Malaysian exports go, show signs of picking up in 1972 though inflation continues to be a problem. The general upswing was led by the United States (U.S.) whose economy is approaching a boom towards the end of 1972. In Western Europe and Japan a recovery is now clearly visible. This trend is strongest in France, Germany and Japan, and somewhat less in the United Kingdom and Italy. As a result, imports by the industrialized countries have begun to rise

sharply leading to a strong recovery in primary commodity prices.

More than one-third of Malaysia's exports go to destinations other than the industrialized economies of North America, Western Europe and Japan. Among these, the centrally controlled economies of the Union of Soviet Socialist Republics (U.S.S.R.), Eastern Europe and the People's Republic of China are important. Their purchases have, however, fluctuated widely in the past. This also holds true in 1972 when China, after trade talks with Malaysia, stepped up its rubber purchases so that Malaysia's exports to China may be twice as much as in 1971. The Government would like to see trade with these centrally controlled economies increasing steadily.

The decline in the value of Malaysia's exports since 1970 is largely the result of the downward trend in the rubber market. The estimated value of Malaysian rubber exports in 1972 is about 35% lower than that in 1969. The impact of this fall on the overall Malaysian economy is decisive, since 30% of export earnings and about 15% of total output are accounted for by rubber and rubber products. During 1972 it is estimated that rubber exports should reach 1,390,000 tons in volume with a value of \$1,330 million compared with 1,390,400 tons and \$1,460 million respectively for 1971 which was by no means a good year in so far as rubber is concerned. (All quantities given are in metric tons unless otherwise stated.) However, there was a rapid and strong recovery in demand and hence prices during the second half of 1972. It is likely that rubber prices will move to more satisfactory levels in 1973. Production costs of synthetic rubber are likely to rise, as its basic raw materials, which are derived from the petro-chemical industry, will cost progressively more as a result of the recent agreement between the Organisation of Petroleum Exporting Countries (O.P.E.C.) and major oil consumers in the developed world. Further, increasing use of synthetic rubber will aggravate the problem of environmental pollution in the developed world, a problem which does not arise if natural rubber is used, and recently voices have been raised in favour of greater use of natural rubber. These two factors should have a favourable impact on prices in the foreseeable future.

Tin exports remained more or less stagnant with some pick up towards the end of the year. Production of tin is likely to reach 76,000 tons in 1972, compared with 75,400 tons in 1971, and estimated exports at 89,000 tons in 1972 should fetch \$915 million compared with 87,100 tons fetching \$905.8 million in 1971. The decline in the tin price which occurred in 1971 and for most of 1972 has since slowed down.

Palm oil and timber are relatively new export items compared to the two traditional commodities of rubber and tin. Since late 1968 Malaysia has experienced a steep rise in palm oil production which compensated somewhat for the poor price performance of rubber. The decline in palm oil prices since 1971 and during most of 1972 may well reflect a process of consolidation and a reaction to the rapid expansion of palm oil production. Palm oil is likely to be a highly profitable crop even at the lower price levels expected in the future.

Since the middle of 1972 timber prices have gone up dramatically, so that the timber industry, especially in Sabah, should recover from its setback in 1971. In 1972, exports of sawn timber estimated at 1,531,000 tons and \$307 million in value will be more than one-third higher than in 1971 which saw a performance of 979,000 tons and \$201 million respectively. Although there has been a marked shift from the export of purely saw and peeler logs to a higher proportion of processed timber products, much more remains to be done. There is no reason why we should not ultimately export our timber largely in the form of sophisticated products like furniture, especially knocked down furniture. We have the skills except that such skills are not widely diffused as, at the moment, they are largely confined to small family enterprises. Experience elsewhere has shown that even small countries without significant forested areas have managed to develop a major furniture export industry. This shows what can be done given the will and the right leadership and guidance. Such a development would increase employment opportunities in a big way apart from giving a considerable boost to the economy. It would certainly increase foreign exchange earnings significantly, among other things. The increase of export duty from 10% to 15% *ad valorem* on log exports from West Malaysia in the 1972 Budget and the recent

temporary ban on the export of certain grades of round timber from West Malaysia should provide a further spur for shifting from largely log exports to timber manufacturing.

Meanwhile, it is expected that exports of manufactured goods will go up by almost 30% in 1972. This would mean that the share of industrial goods in total exports is now approaching 10%. In regard to services which comprise 12% of Malaysia's exports, two promising fields are tourism and shipping. Tourist expenditure has gone up by 30% annually in the past 2 years indicating the great potential that exists for this highly labour intensive industry. The expansion in the operations of the Malaysian International Shipping Corporation (M.I.S.C.) is of increasing help in reducing the traditionally big deficit on freight and shipping charges. This Company hopes to enlarge its fleet to 1 million tons by 1975. To some extent the existence of a national shipping line could persuade the shipping conferences to exercise more restraint when they fix their charges for carrying our goods.

In 1972 public sector demand continued to be the main expansionary force in an otherwise sluggish economy. As a result, Government consumption is expected to go up by 14%. While the increase in public consumption had stabilizing effects on private incomes and consumption, I am concerned that Federal Government ordinary expenditure has gone up by more than 50% over the last 3 years. This is three times the increase in the national product. Such an increase in consumption spending cannot in the long run be maintained without endangering the economy.

Private demand expanded in 1972 as slowly as in 1971. Private investment almost stagnated since the end of the investment boom two years ago. A certain pause in investment was to be expected after the rapid spurt in 1970. While there have been pauses in private investment before, the length of the current stagnation merits a closer look. The rise in import costs may have contributed to investor hesitation particularly at a time of slow expansion in internal demand. While there has been a decline in investment in the perennial crops there are signs that building construction has been expanding. The optimistic judgment of investors as indicated

by the recent Federal Industrial Development Authority (FIDA) industrial trends survey should be reinforced by the upturn in exports expected in 1973. This assessment seems to be backed by the increase in bank credits to private borrowers. The upturn in the economy alone will not ensure the expected increase in private investment. In implementing the Government's development programme, it would be necessary for public officials on the ground to be responsive to the problems and requirements of the private sector. It is essential that the public and private sectors work together to achieve the economic and social objectives of the nation. In regard to private consumption it is estimated to have gone up by 5½% in 1972. Since it is the largest component in the economy and does not fluctuate much, it is an element of considerable stability. Growth seems to have been relatively fast in durable consumer goods such as cars, motorcycles and television sets and relatively slow in textiles and food. The rise in food costs was primarily due to the rise in world prices of sugar and dairy products.

In 1972 consumer prices are likely to rise by about 2½%. Previously the changes in these prices were measured by the official retail price index. However, the latter was based on the consumption patterns of the lower income groups in 1957 and has since become out of date. Hence, the Statistics Department is publishing a new consumer price index which reflects the latest consumer behaviour. The 1972 rise in prices is largely due to imported inflation. The years 1969 to 1972 coincided with a period of worldwide inflation which has finally affected the domestic price level, bearing in mind that the most stable of our trading partners revalued their currencies making it more expensive for Malaysia to buy from them. Until the late sixties, Malaysia had been able to avoid outside inflation by shifting sources of supply from higher priced exporters to cheaper suppliers in East Asia. This helped to keep the import price index stable. However, the pace of outside inflation and the yen and deutsche mark revaluations of December 1971 have limited Malaysia's options for minimizing imported inflation. In 1972 itself, the key industrial countries had to cope with inflation rates of from 3% to 9%. Seen against this background, Malaysia's performance is still remarkable, particularly

since the Malaysian economy is an open one with many direct ties with the industrial countries.

Money supply in 1972 is estimated to have grown by about 10%, compared to 4.2% in 1971. The main factor influencing the growth of money supply in 1972, as in 1971, was the increased spending of the public sector. In view of the slowdown in private investment, internal monetary policy was largely geared to stimulating a recovery in investment and in the economy as a whole. Money was thus more abundant and made cheaper.

### *Production*

I have given you a broad picture of the economy from the demand side, i.e. how and on what we spend our money. I would like now to give you an account of what the economy produced in terms of physical output, i.e. the supply side of the economy. It is estimated that the gross domestic product or G.D.P. in 1972 at \$11,260 million will register a growth rate of about 6½% more than the 1971 figure of \$10,563 million.

Rubber production which is likely to constitute 11.8% of G.D.P. in 1972, accounted for 12.5% in 1971, although production in 1972 estimated at 1,330,000 tons is higher than the 1971 figure of 1,324,500 tons. Apart from the steady changeover to Standard Malaysian Rubber, or S.M.R. for short, and this could mean that one half of total exports would be in the form of S.M.R. by 1975, the Government will have to consider, in conjunction with other major producers and consumers of natural rubber, overhauling its obviously outdated system of grading. This system has not been changed for the last 60 years or so, indeed since rubber began to be marketed in commercial quantities at the beginning of the century, and at the moment it bears no relevance to the existing situation. For example, what is known as Ribbed Smoked Sheet No. 1 (R.S.S. No. 1) is practically meaningless now as tyre manufacture absorbs about two-thirds of total natural rubber consumed. Tyre manufacturers in North America, Western Europe and Japan use mainly R.S.S. No. 3 and lower grades, and yet R.S.S. No. 1 is still the grade by which the whole price structure is determined, although in so far as properties and usage for tyre manufacture are concerned, it is not the preferred grade. The perpetuation of a system whereby R.S.S. No. 1 is the grade of rubber which the trade uses as a yardstick

to determine quality and price, when R.S.S. No. 3 and even lower grades account for the bulk of usage in the manufacture of tyres, is obviously not in the interests of producers, particularly as this is the rubber which is largely produced by our smallholders.

Palm oil production is likely to reach 890,000 tons in 1972, continuing its high rate of growth, an increase of 25% over the 1971 output of 715,200 tons. Malaysia now accounts for more than 50% of world exports, but until recently all our palm oil was exported in crude form, though at present there are 8 factories refining it. There are now also 4 factories extracting oil from palm kernels. It is clear that every effort will have to be made to refine a far greater proportion of the oil produced.

The main worry of the Government, in so far as rice production is concerned, is that we may produce more than we can consume internally. It would be disastrous if this were to happen as domestic rice prices averaging \$430 per ton, are far higher than world prices averaging about \$330 per ton. If we produce more than we can consume, we obviously have to export it at a loss or let it rot in our godowns. Whatever we do, we are in for trouble for reasons which are only too obvious. It is therefore vital to ensure that we do not produce more than 90% of total domestic requirements under any circumstances. This should be our basic stand though there is a temporary rice shortage, and the world price of rice has thus risen considerably during 1972.

Progress has been rapid in a wide variety of minor crops. Pepper output has been stepped up to 29,500 tons in 1972 making Malaysia the largest pepper exporter in the world. So far, tapioca production has not been on a large scale, although yields per acre in Malaysia and the quality of output are equal to if not higher than that in major producing countries. There is a ready market for tapioca, mainly in the European Economic Community (EEC).

The timber industry also continues to grow impressively. After a slowdown in output in 1971, mainly because of the slack in Japanese demand, the production of saw logs in 1972 is likely to increase by 20% from 10.7 million tons in 1971 to 12.8 million tons.

The fishing industry is likely to increase its output by about 1% from 325,000 tons in 1971 to an estimated 335,000 tons in 1972, reflecting a slowdown following the rapid growth of the last 3 to 4 years. This growth is mainly the result of trawler fishing that now accounts for about 35% of total fish landings. Inshore fishing remains a problem industry that suffers from low productivity and hence low incomes, especially on the East Coast where modern equipment and proper marketing facilities are lacking. I am informed that in Trengganu, for example, inshore fishermen's incomes are in the region of only about \$60 per month. We should spare no effort to urge such fishermen to turn to offshore fishing. If this means that additional funds will have to be found over and above that committed in the Second Malaysia Plan, the Treasury should be prepared to consider such a bid sympathetically. Given the vast potential of overseas demand, mainly in Japan and the United States, this industry should find a ready market for its products, and this is one reason why we should develop it as rapidly as possible.

The manufacturing sector has progressively taken on the role of growth leader, a position traditionally held by the rubber and tin industries. In 1972, generally a year of slow growth, manufacturing output is estimated to have grown by 12% from \$1,471 million in 1971 to \$1,650 million in 1972. It also increased its share of the GDP from 11% in 1967 to 15% in 1972. Although the share of manufacturing in the GDP is still low by the standards of the developed world, the steady growth and healthy export performance of the past are encouraging and could well be a pointer to future growth trends. The individual performance of the various industries is shown in the Economic Report, but I might add that wood processing, metal products and textiles have made rapid progress in particular. It is clear that we are approaching the peak of our import substitution effort and future growth in manufacturing will therefore lie in export orientated industries. With the increasing emphasis being placed on labour intensive industries to cope with unemployment, and with the siting of industries in the less developed areas of Malaysia, it is interesting to note that 25% of new industrial projects approved in the first half of 1972 were for the less developed States.

Unemployment is estimated at slightly below 8% of the labour force in 1972. The slight rise in new job creation has not been strong enough to reduce registered unemployment, mainly because Malaysia's labour force is growing at 3.2% a year, one of the highest rates in the world. The Labour Force Sample Survey of April/May 1972 estimates urban unemployment at 10.2% and rural unemployment at about 6%. More than four-fifths of the unemployed are below 30 years of age. The unemployment problem is aggravated by strong preferences among certain first time job seekers for clerical rather than manual jobs, which are more readily available. These school leavers hence find themselves unable to secure the kind of work which they consider suitable for their educational qualifications. Faster economic growth, increasing orientation of educational programmes to meet actual needs, and a universally acceptable family planning programme are among the long term answers to this difficult problem.

This cloud, however, has a silver lining. Not so long ago, Penang faced a serious unemployment problem. Today, I venture to predict that in the foreseeable future it will face the opposite problem, i.e. a labour shortage. This dramatic transformation has occurred because the State Government was not satisfied with waiting for industries to come to it. Instead, its Chief Minister, Dr Lim Chong Eu, went out of his way to persuade industries to come to Penang. This effort has paid off handsomely. Likewise, Johore is surging forward and I hazard to make another guess, and that is that the Johore Bahru area will in the foreseeable future become one of the most important industrial areas of Malaysia. Negri Sembilan and Malacca are making a vigorous effort to bring industries to their respective States, and I have every confidence that they will meet with increasing success. I, of course, accept that some States are more favourably placed than others to attract industries because of their location, their more developed infrastructure and other ancillary facilities, but the very fact that Negri Sembilan and Malacca, which are far less favourably placed for this purpose than either Selangor or Penang, can make headway shows what can be done if State Governments inject more imagination and drive into their development effort. I

have referred to these recent developments on the industrial front in this part of my speech because the greater the number of industries, the greater the number of jobs that would become available.

Malaysia's net external reserves as at the end of October amounted to \$2,837 million and were \$62 million higher than at the end of 1971. Reserves are expected to continue to rise over the remaining 2 months of this year to reach an estimated \$2,864 million at the end of December representing an increase of \$90 million for the year. This level of reserves would be sufficient to finance about 8 months of retained imports at the 1972 level.

#### *Sterling Guarantee Agreement*

Shortly after the Smithsonian Agreement, to which the British Government was a party, was concluded in December 1971, I wrote to the British Chancellor of the Exchequer suggesting to him that the Sterling Guarantee Agreement between Malaysia and Britain should be amended accordingly in view of the fact that one of the effects of the Smithsonian Agreement was that the parity of the United States dollar to the pound sterling was raised from US\$2.40 to US\$2.60. Without an appropriate amendment Malaysian holdings of sterling would not be covered should its parity subsequently fall below US\$2.60 to the pound. After a protracted exchange of correspondence, the Chancellor finally replied in March 1972 to the effect that he was unable to accede to our request. I thereafter informed him that in such circumstances Malaysia would consider itself free to protect its own interests in case the parity of sterling looked like falling below US\$2.60. Early in June this year we in the Treasury felt uneasy and started reducing our sterling holdings below 36%. As events turned out, we were not far wrong. As under the Sterling Agreement, we were obliged to maintain a minimum sterling proportion of 36% in consideration of the guarantee, this action on our part meant that this Agreement was inoperative in so far as we were concerned, even 5 months ago. The net effect of this operation is that we have lost less—in fact, far less—than we would have done had the Agreement been operative, because it should be borne in mind that Britain only takes good the loss in the value of our sterling holdings if it drops below US\$2.38 for a period of at least 30

consecutive days. On the other hand, we converted our sterling reserves into other currencies at a much higher rate. I chose not to announce this development earlier as I believe that Malaysia is the only country so far to have left the Agreement and we did not want to be accused of rocking the boat by making a premature announcement.

#### *Federal Government Accounts*

Let me first refer to the actual outturn for 1971 and the results anticipated in 1972 before dealing with the 1973 Budget itself.

#### *1971 Accounts*

Since the Telecommunications Department began to operate on a commercial accounting system in 1971, I will exclude the revenue and expenditure of this Department from the 1970 accounts of the Federal Government in order to make a meaningful comparison of the two years. The actual financial outturn of the Federal Government in 1971 was more favourable than anticipated in my 1972 Budget speech. Ordinary budget revenue at \$2,417 million exceeded the amount estimated in that address by \$37 million, registering an increase of 5.7% over 1970. Ordinary budget expenditure amounting to \$2,458 million was 0.9% lower than the estimate of \$2,480 million given in the last Budget. After making the usual adjustments to ordinary revenue and expenditure, the current account ended with a surplus of \$20 million instead of the deficit of \$32 million anticipated in the 1972 Budget.

Development expenditure in 1971 for the first time exceeded the \$1 billion mark. Development Fund expenditure which includes gross lending by the Federal Government increased substantially by 58.4%, from \$685 million in 1970 to \$1,085 million in 1971. The latter figure is \$195 million more than that envisaged in my last Budget speech. After deducting principal repayments on existing loans, development expenditure and net lending came to \$1,070 million.

The overall deficit thus amounted to \$1,050 million. This deficit was financed by net domestic borrowing amounting to \$676 million, net foreign borrowing of \$344 million and special receipts of \$39 million, resulting in an increase of \$9 million in our realisable assets.

### *Estimated Financial Outturn for 1972*

Ordinary budget revenue is now estimated to reach \$2,793 million or \$60 million more than envisaged in the original estimate. This represents an increase of 15.6% over 1971 receipts. The favourable outturn stems mainly from various special items credited to the Consolidated Revenue Account and included \$184.8 million of the residual assets of the Currency Board.

The performance of the new taxes introduced in 1972 was much better than anticipated. Sales tax collection, originally estimated at \$84 million in the last Budget, is now expected to reach \$109 million, an increase of 29%. The yield from gaming tax is likely to exceed the Budget estimate by 25%. Royalty on petroleum will probably exceed the Budget estimate of \$8.5 million by \$14.2 million, an increase of 167%. This was due to the steep rise in petroleum production in Sarawak.

Revenue from export duties in 1972 is expected to decline sharply by \$43 million or 15.8% compared with the original estimate. This is not surprising considering the sharp fall in rubber prices.

The yield from import duties and excise also appears to have fallen short of the Budget estimate of \$828 million by about \$22 million. This is the result of the slowdown in the rate of investment and consumption in 1972. The lower yield from import duties has consequently resulted in a decline of 12.9% in the yield from import surtax, compared to the 1972 Budget estimate. Other items of revenue are generally fairly close to the original estimates.

The ordinary budget expenditure appropriation of \$2,735 million for 1972 is expected to increase by \$162 million to reach a total of \$2,897 million after allowance has been made for shortfalls in expenditure by certain Ministries. The revised estimates take into account two supplements of \$103 million passed by this House earlier and further supplements needed to finance salary revisions for the Armed Forces and teachers, among other things. These 2 items alone cost an estimated additional sum of about \$261 million!

Given the estimated outturn of current revenue and expenditure and after making the customary adjustments, a current account

deficit of \$49 million is expected instead of the surplus of \$69 million originally envisaged. This is due to the very high expenditure incurred this year as a result of the continuing institutional growth of the public sector and the lump sum payment of salary arrears.

The development budget provision in 1972 including supplements came to \$1,545.8 million, but actual expenditure is expected to reach \$1,100 million. This represents an increase of 1.4% over actual 1971 expenditure. This increase is largely due to major loan disbursements estimated to reach a level of \$350 million. It includes loans to FELDA, MIDF, PERNAS, UDA, the Telecommunications Department and the various State Economic Development Corporations. Meanwhile Government commercial investment is expected to reach \$40 million. This will provide for investments in the Malaysian Airline System, the Government Officers' Housing Development Sendirian Berhad and the Malaysian Rubber Development Corporation Berhad.

The overall deficit for 1972 is thus estimated at \$1,126 million which is \$307 million more than the figure anticipated in the last Budget. The financing of this deficit is met from domestic and foreign borrowing and foreign grants, resulting in a decrease in our realisable assets of about \$6 million. It is significant to note that out of the net foreign borrowing, estimated at \$305 million in 1972, \$70 million and \$138 million were accounted for by two market loans raised in the German market and through a consortium of international and Malaysian commercial banks respectively. This is the first time that a developing country in Asia has been able to raise a market loan in the German capital market.

### *The 1973 Budget*

The total amount proposed in the Estimates for 1973, tabled as Command Paper No. 58 of 1972, is \$4,642 million, of which \$3,155 million is for operating expenditure and \$1,487 million is for development expenditure. The latter includes \$60 million for the Contingencies Reserve.

### *Current Account*

As I stated earlier, as from 1973, certain defence items which used to appear in the

development account will henceforth be regarded as operating expenditure. In order to make the 1973 Budget comparable with the last one, the 1972 Budget has been amended accordingly for this purpose. Ordinary Budget expenditure for 1973 is estimated at \$3,155 million or 3.9% higher than the revised estimate for 1972. Compared to the last Budget estimate the increase is of the order of 15.4%, bearing in mind that the latter estimate did not take into account special items of expenditure like salary increases for teachers and the Armed Forces.

Comparing the details of the 1973 allocations with those of 1972, it will be found that the largest expenditure increase is in respect of social services. The Ministry of Education requires \$94 million more while the Ministry of Health has been allocated an additional \$34 million.

Other major increases are in respect of expenditure on debt service charges, security, Public Services Department and broadcasting. Debt service charges have been allotted \$50 million more in order to meet the increase in interest payments due to larger borrowings in recent years. Expenditure on security has been increased by \$66 million (with the 1972 defence allocation computed on a comparable basis) in order to expand the size of our Armed Forces and the Police and to step up operations against communist activity in the border areas. The Public Services Department requires an increase of \$12 million, while the Ministry of Information and Broadcasting needs \$13 million more.

Ordinary Budget revenue at current tax rates is estimated at \$2,887 million, which is 3.4% more than the estimated outturn for 1972. If, however, we exclude special receipts in 1972, like the Malaysian share of the residual assets of the Currency Board, ordinary budget revenue in 1973 at current tax rates is expected to be 8.1% more than the estimated outturn for 1972.

Further comparisons of the 1973 estimates and the revised 1972 estimates show that revenue from export duties in 1973 is expected to reach \$250 million, which is \$22.4 million or 9.8% more than the revised

estimate for 1972. The bulk of the increase is expected to come from rubber which is estimated to yield \$63.8 million, an increase of \$13.9 million or 27.9% higher than the revised estimate for 1972. With greater overseas demand for rubber, the 1973 estimate is based on an average price of 50 cents per pound or 110 cents per kilo for R.S.S. No. 1, and a net export volume of 1.4 million tons. Export of palm oil, estimated to reach 900,000 tons, with prices averaging \$500 per ton, is expected to yield \$40.5 million in export duty, which is \$10.5 million or 35% more than in 1972. Export duty on tin is expected to reach \$123.2 million, which is \$2.3 million less than the revised estimate for 1972.

Revenue from import duties and excise is estimated at \$861.3 million, representing an increase of 6.9% over the revised estimate for 1972. Besides the natural growth in consumption, this significant increase is expected because of the anticipated upswing in the overall economic situation.

Sales and gaming taxes which were introduced last year are expected to yield \$148.5 million and \$16.8 million respectively. The Inland Revenue Department is expected to collect \$843.3 million, or an increase of 2.6% over the revised estimate for 1972. Income tax inclusive of development and tin profits tax is expected to yield \$749 million or 5.5% higher than the revised estimate for 1972. A lower rate of increase is envisaged because of the poor average price of rubber in 1972 on which assessments will be based. Revenue from petroleum royalties is anticipated to reach \$24.5 million, a rise of \$1.8 million over the 1972 revised estimate. The levelling of revenue from this source is mainly the result of production reaching a more stable level.

With revenue at current tax rates estimated at \$2,887 million, and an ordinary budget expenditure allocation of \$3,155 million, the Consolidated Revenue Account is expected to result in a sizable deficit of \$268 million. After making the customary adjustments in revenue and expenditure, the current account is estimated to result in a deficit of \$206 million. If the special sum of \$163 million arising from the transfer of defence items from development to ordinary account is excluded, the deficit will be \$43 million.

### *Development Estimates*

Out of the total appropriation of \$1,487 million, a sum of \$1,125 million is expected to be spent resulting in a shortfall of 21%. It is estimated that about 64% of this actual expenditure will be on items of direct economic significance, 19% on education and other social services, 12% on security and the remainder on consumption items such as general administration. Major projects are geared towards regional development. They include the Pahang Tenggara and Johore Tenggara schemes which cover a total area of more than 3.2 million acres and the completion of regional master plan studies for the Miri-Bintulu region in Sarawak, the Klang Valley and Trengganu. While a total of \$366 million has been allotted for agricultural programmes such as land development, rubber replanting, animal husbandry and fisheries, a sum of \$364 million is earmarked for transport and communications. Major highway projects which have been started or are nearing the implementation stage are the East-West highway from Kelantan to Perak, the East-West highway in Sabah, the Kota Kinabalu-Ranau road and the Semporna-Kunah-Lahat Datu road.

After deducting loan repayments, total development expenditure and net lending should reach \$1,101 million. With the current account deficit anticipated at \$206 million, the overall deficit of the 1973 Budget is now estimated at \$1,307 million. As usual, this gap will be narrowed by borrowing from both domestic and foreign sources, though such borrowing will not be sufficient to close it entirely. The remaining gap will have to be closed by a drawdown of the Federal Government's realisable assets and the new revenue proposals which I shall now present.

### *Revenue Measures*

Before outlining the actual proposals, I should make it clear that unless otherwise stated, every revenue yield figure that I give is the estimated additional revenue for a full year. This is to avoid the monotony of repeating the words "per annum" every time I give figures of additional revenue expected. The proposed measures are expected to provide a total of about \$53 million of additional revenue in a full year. I shall deal first with direct taxes.

### *Stamp Duties*

It is proposed to increase the rates of stamp duties on certain instruments relating to the sale of property including shares, stocks and marketable securities.

#### *Charges or Mortgages, Agreements for a Charge or Mortgage, Bonds, Covenants, Debentures, etc.*

At present the amount of stamp duty payable on charges or mortgages, agreements for a charge or mortgage, bonds, covenants and others as specified under item 27 (a) of the First Schedule to the Stamp Duty (Special Provisions) (Malaysia) Act, 1967 depends on the value of the instrument. The rate is now \$1 where the only or principal security for the payment or repayment of money does not exceed \$1,000 and \$2 for each additional \$500. It is now proposed to increase these rates to \$2 and \$2.50 respectively.

#### *Contract Notes*

According to its present rate structure, a contract note for shares, stocks or marketable securities in companies incorporated in Malaysia attracts a flat rate of 50 cents if the value does not exceed \$1,000 and \$1 for others. The corresponding rates for such documents in regard to companies incorporated elsewhere are \$1.50 and \$3 respectively. The following features of the present rate structure may be noted. Firstly, it makes a distinction between shares, stocks or marketable securities in companies incorporated in Malaysia and those in companies incorporated outside Malaysia. Secondly, the rates are specific and not related to value at all. It is considered that the existing rate structure is not realistic and should be replaced by one which is closely related to the values involved. The duty is therefore to be changed to \$1 for every \$1,000 of the value of any shares, stocks or marketable securities in companies, regardless of whether their place of incorporation is in Malaysia or outside it.

#### *Conveyances, Agreements, Transfers of Absolute Bills of Sale*

On a sale of property other than shares, stocks or marketable securities, the existing duty is \$1 for every \$100 of the money value

of the consideration or the market value of the property, whichever is the higher. The duty is now to be revised as follows:

- (a) For the first \$100,000 of the money value of the consideration or the market value of the property, whichever is the greater, the duty will remain unchanged at \$1 for every \$100;
- (b) For any amount in excess of \$100,000, the duty will be \$2 for every \$100.

As Honourable Members will have noted, those who can only afford to buy property with a value of \$100,000 or less need not worry about the proposed change (*Ketawa*), but for those who buy property with a value of, say, \$150,000, the duty will now be slightly more and I think Honourable Members will agree with me that those who can afford to pay that much should also be prepared to pay a little more to the Government.

#### *Share Certificates*

The existing duty is 20 cents for every share certificate irrespective of the value of the shares. This duty is very low and is now to be increased to \$1.

#### *Other Instruments*

The opportunity is also taken to increase the existing rate of duty of 50 cents to \$1 for every fire policy, third party policy or comprehensive policy.

It is estimated that all these stamp duty changes will bring in about \$4.5 million of additional revenue. This additional duty will be borne by those classes of people who, in our opinion, are best able to do so. This is in fact one area where we can justify increasing the duty rates, especially in the light of the considerable rise in the value of properties and the highly speculative dealings which are now taking place in the share market in increasing quantity.

#### *Abatement of Income Tax in East Malaysia*

Honourable Members will recall that when Malaysia was formed, an individual taxpayer in East Malaysia with a chargeable income of not more than \$50,000 per annum would pay 40% less income tax than an individual taxpayer in West Malaysia with the same amount of chargeable income. Today, this

figure stands at 20%, but in 1973, it is proposed to reduce this figure to 10%. This would mean that 10 years after Malaysia, individual taxpayers in East Malaysia would still pay 10% less income tax than residents in West Malaysia in the \$50,000 or less income group. We feel that this is not unreasonable, and is in accord with our undertaking that the level of taxation in East Malaysia would be brought up to West Malaysian levels in graduated stages.

#### *Excise Duties*

It is proposed to levy excise duties on a number of domestically manufactured products which at present have not been touched. Gas operated stoves, cookers and related items will now attract excise duty at the rate of 10%; air-conditioners for use in motor vehicles at 10% or \$65 each, whichever is the higher; batteries for motor vehicles at 10% or \$2 each, whichever is the higher, or 10% or \$3 each, whichever is the higher, depending on size; electric irons at 10% or \$3 each, whichever is the higher, electric rice cookers at 10% or \$4 each, whichever is the higher; electric ovenettes at 10% or \$2.50 each, whichever is the higher; fluorescent lamp tubes at 10% or 25 cents each, whichever is the higher, and gramophone records at 10% or 20 cents each, whichever is the higher. All these new excise duties are expected to generate about \$1.28 million of additional revenue.

It is also proposed to revise the existing excise duty on private motor vehicles which are at present subject to a single rate of 25%. A graduated scale of excise duty is to be introduced to replace the present flat rate, as follows. On an ex-factory value not exceeding \$7,000, the rate will remain at 25%. On every dollar of the next \$3,000, the duty will be 30%; and 35% on every dollar of the next \$3,000; on every dollar thereafter the duty will be 45%. It will be seen that this is a progressive scale which is very much in line with our individual income tax rates which reflect the principle of ability to pay. Those who can afford to buy expensive and luxurious cars should be prepared to contribute proportionately more to the Government's financial needs than those who are in a less favoured position. I should like to make it clear that the duty is based on ex-factory value which is the basis for calculating excise duty. According to our

calculations, only a small range of cars will be affected by this additional duty, and of those affected by this change, about 70% will attract an additional duty of less than \$200. I note that there is a considerable margin between the ex-factory value and the selling price of cars, and I hope that the industry will be able to absorb some of, if not all the increases, in a fair number of cases.

### *Import Duties*

Since the new excise levies will narrow the margin of protection for these products, it is therefore necessary to increase the duties on similar imported items correspondingly. The import duty on gas operated stoves is to be increased from 35% to 45%; air-conditioners for use in road vehicles will now attract import duty at 50% or \$250 each, whichever is the higher; batteries for motor vehicles at 40%, or 70% or 60 cents per pound, whichever is the higher, or 60% or 50 cents per pound, whichever is the higher, depending on size; electric irons, at 45% or \$5 each, whichever is the higher; electric rice cookers, at 55% or \$5 each, whichever is the higher; and electric ovenettes, at 55% or \$5 each, whichever is the higher. Gramophone records will now attract a higher import duty of 35% instead of 25% and fluorescent lamp tubes \$1.65, an increase of 15 cents each. As for motor cars, import duty will be increased from 45% to 60%. Import duty on cameras, their parts and accessories are to be increased from 20% to 25%; gramophones, dictating machines, record players and related items will be liable to 30% import duty, an increase of 5%. In addition, portable transistors fitted with gramophones and car radios are now liable to 30% import duty instead of 25%. At present domestic manufacturers of liquor import concentrates of liquor and bottle and blend them with domestic spirits to make various types of liquor such as whisky, rum, brandy, and so on. An examination of their costs of production and ex-factory prices shows that the duty element per gallon of domestically blended liquor is still small. In view of this, it is proposed that the import duty on concentrates of liquor should be increased from 50% to 100% (*Ketawa*). All the duty increases I have just mentioned will yield approximately \$6.9 million of additional revenue.

We also propose to increase the import duty on fruits. At present imported fresh and dried fruits such as oranges, apples, pears, grapes, figs, peaches, plums and so on that fall under heading Nos. 08.01 to 08.09 and 08.12 in the Customs Tariff Classification attract import duty at the rate of \$448 per ton or 20 cents per pound. The new rate will be \$896 per ton or 40 cents per pound, that is, twice the old rate. Preserved fruits which fall under heading Nos. 08.10 and 08.11 and which are subject to import duty at \$672 per ton and under heading No. 08.13 which attract a duty of \$112 per ton will now be made dutiable at \$1,344 and \$224 per ton respectively. Honourable Members will recall that in my last Budget speech I announced suspended import duties on fruits with a view to encouraging more extensive cultivation of our own fruits which are as good as imported fruits in every sense of the term. This has not produced the desired results and I therefore feel that we should go further. Indeed, our papaya and jambu batu contain as much vitamin C as imported oranges, according to our scientists. Our rambutans, belimbing segi, durians and pineapples, for example, contain more vitamin C than apples, plums, pears or grapes. Our bananas have as much vitamin C as apples (*Ketawa*). I would like to invite Honourable Members' attention to a booklet published by FAMA entitled "Mengenali Buah-buahan Malaysia" which compares the vitamin content of our domestic fruits with foreign fruits, from which it can be seen that we can get vitamin C from our own fruits more cheaply. Under the circumstances, I hope Honourable Members will agree with me that we should do everything to encourage greater consumption of our own fruits, especially when they are equally delicious. The estimated yield of all these increases is \$11.5 million.

One form of evasion of import duty which is known to be commonly practised is declaring an item under a tariff code which attracts a lower or no duty at all. This practice not only gives rise to a considerable number of administrative problems, it also generates undesirable practices. It is therefore proposed to close these loopholes by increasing the relevant duties to the levels of comparable items. Hence, the import duties on lubricating oil preparations under heading No. 34.03 100 are to be increased

we must remember that Singapore is on our doorstep. Indeed, it is less than 2 miles from Johore Bahru. Under such circumstances, it would always appear more attractive, bearing in mind that companies there do not have to pay development tax, while the company rate in Singapore is no higher than that in Malaysia. This is a fact of life with which we have to live.

On balance therefore the Government has decided to abolish the world income scope of charge to tax in the Income Tax Act, 1967 and to replace it by the derivation scope, and this is to be made effective from year of assessment 1974. It is not possible to effect the change in 1973 for administrative reasons.

#### *Tax Incentives*

I now come to the area where the Government will sacrifice revenue in order to provide a greater impetus to economic development.

#### *Development Tax*

The amount of development tax chargeable for a year of assessment on a person having a development source is an amount calculated at the rate of 5% of every dollar of his development income except that in the case of a company, a minimum development tax of \$500 is payable. In the case of companies which do not or are not likely to have a substantial paid up capital and in the event that there is little or no development income for any year of assessment, payment of the minimum development tax of \$500 could be a serious strain on the financial resources of such a company. This is particularly true of many Malay companies. It should also be noted that individuals who are partners in partnership businesses are no longer subject to the minimum development tax of \$100.

With a view to providing some relief for the small Malay companies, and generally to encourage the formation of even small companies, it is now proposed to reduce the existing minimum development tax of \$500.

- (a) to \$100, where the paid up capital as at the end of the basis period of the company liable to the tax was not more than \$50,000; and
- (b) to \$250, where the paid up capital as at the end of the basis period was not more than \$100,000.

The revenue loss is estimated at about \$200,000 for 1973.

#### *Tax on Interest Derived by Non-Residents*

Honourable Members will recall that in my last Budget speech, I announced a reduction in the tax payable on interest paid to a non-resident person from 40% to 15% on the gross amount of the interest, provided that the loan or indebtedness giving rise to the interest is made or incurred for development purposes or for capital equipment required for development projects in Malaysia, and also provided that such loan or indebtedness is approved by the Treasury. As I explained then, this move was designed to make foreign borrowing cheaper. It is now proposed to go a step further in this direction by removing completely this rate of 15%. In respect of other loans, that is, loans which do not qualify for the complete tax exemption, the tax on interest payable to non-resident persons on such loans will be reduced from the present rate of 40% to 15%, but on the basis of the gross amount. These changes will take effect from 1st January, 1973 and will apply to any loan incurred on or after that date.

#### *Tax on Public Entertainers*

Foreign public entertainers such as stage, motion picture, radio or television artistes, musicians and athletes who exercise their employment or profession in Malaysia on short term contracts are subject to tax at the non-resident rate of 40% in respect of their earnings in Malaysia less any expenses wholly and exclusively incurred in the generation of such earnings. The effective rate depending on the amount of gross earnings and expenses claimed and allowed is generally between 10% and 25%. However, the need to agree with the Inland Revenue Department their claims for expenses and therefore their taxable income has given rise to administrative difficulties and inconvenience all round, and not infrequently to charges of discrimination and unfair tax treatment. These difficulties and frustrations could discourage foreign artistes from performing in Malaysia. This is certainly not desirable, particularly in view of present Government efforts to boost tourism and the hotel industry. It is, therefore, proposed to introduce a uniform tax rate for the assessment of foreign public entertainers

and athletes in respect of their income derived from the exercise of their employment or profession in Malaysia. This would simplify the taxation on such persons without any noticeable revenue implications. The rate will be 15% of gross earnings.

#### *Incentives for Exports*

Industrialization in Malaysia has now reached the stage where greater efforts must be made to export our manufactured goods. This is obvious when we have gone as far as we are likely to go in the matter of import substitution. In order to accelerate the development of export-orientated industries the existing export incentives provided in the Investment Incentives Act, 1968 have been reviewed and a more generous and effective scheme of export incentives will be introduced.

#### *Export Allowance*

The present export allowance provided under the Investment Incentives Act is to be made more liberal. The proposed export allowance is by way of a deduction from gross income in arriving at adjusted or taxable income. The amount of the allowance is 5 cents for every dollar of the increase in the export sales of a taxpayer, such increase being the excess of his total export sales of the year in question over his average annual export sales of the 5 immediately preceding years, except that

- (a) where there were export sales in only 4 immediately preceding years, the average annual export sales will be the average of those 4 years; and
- (b) where there were export sales in only 1, 2 or 3 immediately preceding years, the average annual export sales will be one-third of the total export sales of that 1 year or of those 2 or 3 years, as the case may be.

Where there were no export sales in the immediately preceding years (i.e. where the taxpayer first commenced to export only during the year in question), the export allowance will be 5 cents for every dollar of his total export sales for that year. To encourage the greater use of domestic materials or components, it is also proposed to increase the allowance to 8 cents for every dollar in respect of exports of products

incorporating not less than 50% of domestic materials or components.

This concession is to apply to all industrial products, including products which have been processed further than necessary for purposes of transport. The export of primary products will not therefore qualify for the proposed allowance and these include tin in the form of ore, ingots or slabs, natural rubber (crude and processed), crude palm oil, palm kernel oil and palm kernel, crude coconut oil, copra and coconuts, logs, sawn timber and wood chips, mineral ores and refined metal, precious metal and precious stones (unmounted), crude petroleum and petroleum products, marine products not further processed than necessary for transportation, tea leaf and tea dust, spices (raw and unprocessed), raw hides and skins and tapioca roots and chips. A pioneer company, after the expiry of its tax relief period, will also be eligible to qualify for this proposed export allowance. It is intended that this new scheme of export incentives will be reviewed after it has been in operation for 3 years, or earlier if necessary.

#### *Income Tax (Promotion of Export) Rules, 1968*

To achieve our objectives, it will also be necessary to liberalise the Income Tax (Promotion of Export) Rules, 1968 accordingly. The proposed changes will become effective from year of assessment 1973.

#### *Licensed Manufacturing Warehouses*

It is also proposed to offer further customs facilities to promote export-orientated industries. The introduction of the Free Trade Zones Act, 1971 enabled the Government to establish free trade zones. A company setting up a factory in such an area can obtain exemption from customs and excise duties and sales tax on all goods brought into the area except those goods which are specifically and absolutely prohibited by any written law. In addition, the movement of goods is subject to the minimum of customs procedures and supervision. All these facilities are designed to assist exporters of industrial products to be more competitive in the world market. Recently, interest has been shown by a number of companies in establishing factories for the manufacture of

products mainly for export in areas where the setting up of a free trade zone is neither practical nor desirable. To enable such companies to do this, it is now proposed to amend the Customs Act, 1967 to enable the establishment of licensed manufacturing warehouses.

At present, section 65 of the Customs Act already provides for warehousing facilities. All goods imported into such licensed warehouses are not subject to customs duties until they are released from bond. The proposal now is to allow manufacturing activities to be carried on as well. To this extent, customs facilities to be made available in such warehouses will be comparable to those obtainable in a free trade zone. The proposed customs facility will not only provide a further incentive to the growth of export-orientated industries, it will also encourage the dispersal of industries away from the major urban areas, thereby bringing employment opportunities to our people in the smaller towns and the rural areas.

#### *Overall Deficit*

With the net additional revenue of about \$53 million expected from these tax changes, a current account deficit of \$154 million is anticipated. Taking into account total development expenditure and net lending of \$1,101 million, the overall deficit would, therefore, be \$1,255 million.

#### *Conclusion*

It is clear that two areas show the greatest promise in the matter of future growth prospects. Firstly, we must concentrate on building up export orientated industries. Secondly, and this might be easier of fulfilment, we must process a much higher proportion of the primary commodities which we now export overwhelmingly in crude form. Malaysia is the world's largest exporter of rubber, tin, palm oil, tropical hardwoods and pepper, and we are certainly the world's largest producer of rubber and tin as well. It is not too much to expect that we should export a reasonable proportion of such products in a more sophisticated form. In both these areas the Government has offered adequate incentives. If the private sector feels that such incentives are still not enough, we are prepared to think again, as we keep an open mind, but the private sector too must play its full part.

In this connection, I would like to quote the advice given to us by Mr McNamara, the President of the World Bank, when I had a discussion with him in his office in Washington last September. He told me that Trade Commissioners cannot do much in the matter of export promotion apart from providing information to potential buyers. He felt that the main thrust must come from the private sector. He said that all that the entrepreneur needs do is to buy an aeroplane ticket to New York or wherever he wanted to sell his goods, appoint a selling agent and give not only the particulars and prices of the goods themselves but, equally important, the amount available for sale. He quoted instances where this direct approach had produced spectacular results. I feel that this advice is sound and would like to transmit it to the private sector. If I may say so, life in this country is so easy that the private sector has not so far had to bestir itself unduly. A little effort produces results which are more than worthwhile and hence there is no spur to make the little extra effort which spells the difference between modest success and spectacular growth.

To those of the business community who at present are only engaged in buying and selling, I would give one piece of urgent advice and that is to switch to manufacturing as soon as possible. We in Malaysia are determined to industrialize as rapidly as possible and those who insist on remaining as merchants, whether large or small, might one day find that their livelihood is gone. Change your livelihood therefore before it is too late. I would also like to take this opportunity to sound another warning. Industrialization like everything else, has its price and that price could well be a slightly higher cost of living from time to time. Our new industries require adequate protection if they are to survive, particularly bearing in mind that our domestic market, on which they depend for their bread and butter, so to speak, is far too small. Let us remember that even the largest developed countries, like the U.S.A. and Japan, which have enormous domestic markets, still provide their domestic industries with considerable tariff and other forms of protection. It is not surprising then that the much smaller industries in developing countries like Malaysia whose home markets are equally small would require even more protection. I

sound this warning because I see that some Chambers of Commerce have from time to time put up statements asking the Government to reduce levels of protection in order to keep costs down. This is an unrealistic approach and is clearly a non-starter, if I may be permitted to use a colloquial expression.

To sum up, the indispensable element for the success of the New Economic Policy is growth. Growth is necessary to provide us with a bigger national cake with larger slices for all Malaysians, including the have-nots of all races. To achieve this, three economic measures have to be taken. The first is growth, the second is growth and the third is still growth.

The time has, therefore, come for the private sector to reappraise its thinking and dedicate itself anew to the challenges which now confront us. If they can rise to the occasion, I have little doubt that the rewards will be impressive, and in the process they will not only help themselves, they will make a worthy contribution to our national goal of creating a more just society.

Sir, I beg to move. (*Tepuk*)

**Menteri Buruh dan Tenaga Rakyat (Tan Sri V. Manickavasagam):** Tuan Yang di Pertua, saya mohon menyokong.

## USUL

### ANGGARAN PEMBANGUNAN, 1973

**Tun Tan Siew Sin:** Tuan Yang di Pertua, saya mohon mencadangkan bahawa usul yang tersebut dalam Aturan Urusan

Mesyuarat mengenai Anggaran Pembangunan, 1973 diedarkan kepada Jawatankuasa sebuah-buah Majlis yang berbunyi—

Bahawa Dewan ini membuat ketetapan iaitu satu jumlah wang sebanyak tidak lebih daripada \$1,487,522,103 dibelanjakan daripada Kumpulan Wang Pembangunan bagi tahun 1973, dan bagi maksud Kepala dan Pecahan-pecahan Kepala perbelanjaan pembangunan yang dinyatakan di bawah Kepala Pembangunan atau "(P)" dalam senarai Belanjawan Persekutuan bagi tahun 1973 yang dibentangkan sebagai Kertas Perintah No. 58 tahun 1972, adalah diuntukkan di bawah Kepala-kepala yang berkenaan jumlah-jumlah yang bertentang dengan pecahan-pecahan kepala itu di ruangan 6 atau 7 senarai tersebut; dan bahawa Usul yang telah diluluskan oleh Dewan ini pada 23hb Ogos, 1972, mengenai perbelanjaan yang dibelanjakan daripada Kumpulanwang Pembangunan bagi tahun kewangan 1973 adalah dibatalkan.

**Tan Sri V. Manickavasagam:** Tuan Yang di Pertua, saya mohon menyokong.

**Tuan Yang di Pertua:** Mesyuarat ditangguhkan sehingga pukul 2.30 petang esok.

*Dewan ditangguhkan pada pukul 4.45 petang.*