

## **Introducing The Motion To Table The Mid-Term Review Of The Seventh Malaysia Plan In Dewan Rakyat**

Bangunan Parlimen, 22 April 1999

I stand before this House to present the following motion:

"That This House, recognising the creditable growth of the economy and achievement of our socio-economic objectives during the first three years of the implementation of the Seventh Malaysia Plan, in spite of the adverse economic performance in 1998 due to the regional financial crisis; acknowledging and endorsing the continuous efforts of the Government in the implementation of the National Development Policy in order to achieve balanced development based on growth with equity, and the objectives contained in the Second Outline Perspective Plan; approves and endorses the Mid-Term Review of the Seventh Malaysia Plan which seeks to implement strategies and programmes and allocate funds designed to achieve the objectives and commitment of the National Development Policy as set out in Command Paper Number 8 of 1999; That in approving the Mid-Term Review, this House calls upon all Malaysians to strive harder and with stronger determination towards building a united, socially-just, progressive, competitive and resilient nation in line with the nation's aspirations to become a developed nation by the year 2020."

With your permission, Mr. Speaker I now table the Mid- Term Review of the Seventh Malaysia Plan for deliberation by Honourable Members of this House.

2. About three years ago, I stood before this distinguished House to present the Seventh Malaysia Plan (Seventh Plan). The Plan which represents the second phase in the implementation of the Second Outline Perspective Plan (OPP2), (1990-2000) contained the nation's development agenda for the period 1996-2000. As Honourable Members may recall, when the Seventh Plan was launched, the prospects for accelerated growth were bright as the economic position then was already favourable and a strong foundation for a continued and sustained socioeconomic development was already in place. The challenging task then was to build upon and manage this success so as to ensure that Malaysia will continue to enjoy high rates of growth as well as increased prosperity for all Malaysians.

3. Today, as I table the Mid-Term Review of the Seventh Malaysia Plan covering the period 1996-1998, the economic environment has changed. The challenging task, now, is to re-stimulate the economy, which contracted by 6.7 per cent last year. What a difference two years can make. The turnabout from a high growth, flourishing economy with strong fundamentals to one with negative growth has been to say the least, shocking, and devastating to the national confidence.

4. Nevertheless, as in the past, the Review assesses the extent to which we have achieved our objectives and targets and identifies the constraints confronting our efforts as well as evaluates the growth prospects, policies and priorities in the nation's socio-economic development. No crisis can be allowed to

halt Malaysia's progress. If the country must, it will use the crisis to make unconventional economic changes so as to overcome the setback.

#### MACROECONOMIC PERFORMANCE

5. Let me recapitulate for the benefit of Honourable Members, the performance of the Malaysian economy during the last three years. The macroeconomic performance during the first two years of the Plan period was remarkable, with most economic indicators exceeding the Plan target. The average Gross Domestic Product (GDP) growth rate was 8.2 per cent in the 1996- 1997 period, inflation was low at 2.7 per cent and unemployment was at 2.6 per cent. However, in 1998 following the financial crisis, the economy recorded a negative growth rate. The target for real GDP growth was 8.0 per cent per year, but the economy only grew by three per cent per year between 1996-1998, necessitating a readjustment of the targeted growth rate to three per cent for the whole Plan period. In essence, the effect of the crisis was to push us back a few years in terms of development. The key economic indicators clearly illustrate this as the per capita income declined from RM12,051 in 1997 to RM11,835 in 1998 lower than the Plan target of RM14,788; inflation rose from 2.7 per cent in 1997 to 5.3 per cent in 1998; and unemployment increased slightly from 2.6 per cent in 1997 to 3.9 per cent in 1998.

6. Economic growth during the review period was largely external demand-driven. Although domestic demand was the main contributor to growth during 1996 and early 1997, exports picked up towards the middle of 1997 and subsequently strengthened further as a result of the weaker Ringgit. Real exports grew by 5.6 per cent per annum during the period from 1996 to 1998 but this was lower than the Plan target of 10.9 per cent. However, due to the slower export growth and the effects of the depreciation of the Ringgit, real imports declined by 2.1 per cent per annum during the review period.

7. One positive aspect of the economic crisis is that the balance of payments position improved significantly compared with the Plan target. The current account turned into a surplus of 13.7 per cent of Gross National Product (GNP) in 1998 from a deficit of 5.1 per cent in 1996. This positive position was attributed largely to the high growth of merchandise exports at 28.9 per cent in 1998, and slower growth of merchandise imports at 2.6 per cent. However, this improvement in merchandise surplus was offset by the large deficit in the services account and net outflows in the transfers account. In the capital account, short-term capital recorded a large net outflow in the wake of the currency turmoil in the region. Nevertheless, there was a net inflow of long-term capital raised by the Federal Government to finance counter-cyclical spending. As a result, the overall balance improved.

#### ISSUES AND CHALLENGES CONFRONTING THE ECONOMY

8. Although signs of recovery of the economy are becoming evident, there are several issues which need to be addressed in order to ensure a sustained recovery and restore the growth momentum. An important prerequisite will be to continuously boost public and investor confidence. Substantially, the Mid-Term

Review poses six major challenges.

9. The first of such challenges is the need to maintain strong macroeconomic fundamentals. Prior to the financial crisis, the nation had enjoyed rapid growth rates, averaging 8.5 per cent annually since 1990. This high growth rate was accompanied by low inflation and full employment. Private investment and exports played a key role in spearheading the growth while the fiscal position showed considerable strength. External reserves were at respectable levels and on average, sufficient to finance about four months of retained imports, while the country's exposure to external debt was comparatively low with a healthy external debt-service ratio of 6.2 per cent. The national savings rate at 39.4 per cent of GNP was comparable, if not superior, to other countries having high savings rates. In addition, the banking system was sound with non-performing loans (NPLs) at 3.6 per cent and the capital adequacy ratio at about 12 per cent at the end of June 1997, exceeding the Bank for International Settlement (BIS) minimum standard of 8 per cent.

10. As the Honourable Members of this House are aware, with the start of the crisis there was a massive and rapid withdrawal of short-term capital coupled with a sharp fall in the prices of stocks. As the crisis deepened, the real sector of the economy also came under pressure. The decline in output was evident in all major sectors due to weaker demand from the domestic and external markets. Inflation rose to 5.3 per cent mainly as a result of the depreciation of the ringgit as well as higher cost of inputs, while the rate of unemployment increased to 3.9 per cent. As a result, and for the first time since 1993, the account of the Federal Government registered an overall deficit. Thus, very obviously, the macroeconomic fundamentals need to be strengthened not only to facilitate the recovery process but also to sustain the growth momentum and to ensure the successful attainment of our national objectives.

11. The second challenge is improving the level of productivity. An important thrust of the Seventh Plan was to enhance the contribution of total factor productivity (TFP) to GDP. However, during the review period, the economy continued to be input-driven with growth achieved primarily through high rates of capital accumulation. An important thrust of the Seventh Plan was to enhance the contribution of total factor productivity. Productivity, measured in terms of the contribution of TFP to GDP growth, was lower in 1996- 1997 at 19.5 per cent compared with 28.7 per cent during the Sixth Plan period. This downward trend has to be reversed and appropriate measures undertaken, if we want to remain competitive and achieve developed nation status by 2020. This is critical because in the midst of the crisis the global economy is also changing, with increasing emphasis on greater efficiency, effectiveness and productivity in order to sustain growth and development. This cannot be understated or ignored.

12. The third challenge is revitalising the private sector. The performance of the private sector during 1996-1997 was remarkable but with the contraction of the economy in 1998, performance of the private sector was adversely affected. At the same time the crisis accentuated the vulnerabilities of the corporate sector including the banking sector. As the crisis deepened, the corporate sector

adopted a more cautious and conservative attitude towards investment due to increased risks and uncertainty in the economic environment arising from exchange rate instability, rising interest rates, inability to determine the extent and depth of the financial crisis as well as problems affecting the regional economies. The result was a fall in private investment. This is inevitable but the recovery of private investment will be an important determinant of economic turnaround.

13. Our fourth challenge is overcoming the constraints in the productive sectors. Although the economy as a whole and the productive sectors in particular, have undergone structural changes to ensure sustained growth, the pace of structural change in certain sectors needs to be further accelerated. The economic downturn should not deter us from our goal to move up to a higher level of industrial development. Despite a more difficult period ahead, the country must push for higher technology, higher skill, knowledge-intensive and high value-added activities so as to provide the means for higher revenue and wealth generating opportunities.

14. The fifth challenge is ensuring the continued achievement of distributional objectives. We made satisfactory progress with respect to poverty redressal and restructuring of society as a result of the robust growth of the economy, particularly during 1996-1997, and the implementation of various Government programmes and projects for the poor and Bumiputera. However, even though the economic slowdown adversely affected the poor and also restricted the potential for more rapid employment restructuring, existing programmes to benefit the poor and measures to create a competitive and resilient Bumiputera Commercial and Industrial Community will be continued and further strengthened. Thus, the Government will continue to give top priority to its distribution objectives based on new wealth created through well planned economic growth policies.

15. The final challenge is to sustain the quality of life of Malaysians. In the final analysis, development must mean a rise in the standard of living and improvement in the quality of life of the people. The quality of life must improve with growth and a steady increase in income together with the enhancement in the quality of education, health, transportation and communications, employment and family life. However, the economic slowdown impedes these processes and development, and affect the socio-economic well being of the people. Therefore, the challenge is to overcome such impediments so that all Malaysians will be able to enter confidently and proudly into the next millennium.

## DEVELOPMENT THRUSTS

16. We need to expedite the process of economic recovery and set in motion a steady and continuous rate of economic growth. Thus, we need to address those issues and challenges I mentioned earlier. We have always had a very pragmatic attitude towards development. Where necessary we will modify plans, reset priorities and change directions. In this respect, the Government has identified eleven major development thrusts for the remaining period of the Seventh

## Malaysia Plan.

17. Strengthening macroeconomic fundamentals. In terms of macroeconomic management during the remaining Plan period we will focus our efforts to facilitate economic growth, contain inflationary pressures, improve further the external position, eliminate resource gaps, and sustain prudent fiscal balance. In respect of inflation management, monetary and fiscal policies will be tailored to prevent the resurgence of price pressures, while ensuring that growth continues to be promoted. Efforts to strengthen the external position will focus on increasing exports and reducing the deficit in the services account by aggressively promoting the subsectors of tourism, education and port services.

18. During the remaining Plan period, the public sector will take on a stimulative role while continuing to maintain fiscal prudence together with corporate governance. We will continue to undertake deficit budgeting at a manageable level and revert to a surplus position once the economy strengthens. Public sector expenditure will be mainly directed to projects which have a short gestation period, contribute towards increasing exports and reducing imports, generate demand for domestic goods and services as well as encourage and support projects which are targeted at the low-income group and poor households.

19. In this respect, the original Plan ceiling for the Federal Government development allocation will be increased by an additional RM22 billion, from RM67.5 billion to RM89.5 billion. This allocation will be distributed to the respective sectors where the economic sector will receive 48.2 per cent; social sector 30.9 per cent; security 12.8 per cent; and general administration 8.1 per cent. Overall, the development allocation recommended is sustainable at 16.3 per cent of GNP in current terms and 17.6 per cent in real terms, which is lower than that under the Sixth Malaysia Plan reflecting our commitment to further downsize the public sector.

20. An integral component of the continued rationalisation of the public sector is the privatisation programme which was launched in 1983 and intensified during the 1996-1997 period. Despite the initial setbacks in terms of acceptance by affected workers and the general public, privatisation has without doubt enabled Malaysia to sustain high growth while enabling the nation to keep up with demands for infrastructure arising from the rapid industrialisation process and the need to improve the quality of life of the people. Since the implementation of the privatisation programme in 1983, a total of 434 projects had been privatised, of which 68 were privatised during this review period.

21. Our nation has gained tremendously from the privatisation programme. Through privatisation, the Government saved RM129.1 billion in capital expenditure besides gaining proceeds from sale of assets and equity amounting to RM21.5 billion. In addition, more than 105,000 public sector employees were transferred to the private sector. These employees benefited directly through increased wages and incomes. Privatised entities now hold 29.3 per cent of the KLSE market capitalisation indicating a significant contribution to the

enlargement of the capital market. There are various other direct and indirect benefits of privatisation gained by the population through forward and backward linkages in the economy. For instance, since their privatisation, TNB and Telekom together contributed RM4.7 billion in terms of corporate tax enabling the Government to finance other development projects. Privatisation has also enhanced Bumiputera participation, vendor development programme, and technology transfer and R&D. Consumers in general also benefited from the availability of more efficient and quality public amenities with minimal increases in cost.

22. Increasing supply of knowledge and skilled manpower. The strategic thrust for human resource development will focus on increasing the supply of skilled manpower to support restructuring efforts

towards capital-intensive and knowledge-based activities. Emphasis will be placed on increasing access to quality education and training as well as improvements in the delivery system. In this respect, continued investments will be made to expand the capacities of the education and training institutes to meet the changing requirements of the economy. Greater private sector participation in education and skill training will be encouraged. To improve labour market mobility between states, occupations and skills, the labour market information infrastructure will be strengthened through the setting up of an electronic labour exchange which will ensure optimal utilisation of labour and effective matching of labour demand and supply.

23. Reducing poverty and restructuring society. In the social dimension, the Government will continue to eradicate areas and groups with high incidences of poverty. To reduce the full impact of the economic downturn on the poor and low-income groups, the Government will undertake necessary measures to widen and strengthen programmes aimed at providing basic services and amenities to the low-income and poor households. As part of the efforts to improve the living standard of the hardcore poor, the programme to provide new houses or rehabilitate houses will continue to be implemented.

24. With regard to the restructuring of society, efforts will be focused on lessening the impact of the economic downturn on the restructuring objectives. Necessary adjustments will also be made to various programmes, so as to increase their coverage and effectiveness. This will be done through a more rigorous implementation of existing programmes including their expansion to areas outside the Klang Valley. At the same time, the provision of opportunities and assistance will continue to be given to the Bumiputera to enable them to acquire tertiary level educational qualifications in line with our efforts to increase the number of Bumiputera professionals and technical personnel.

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

non-Bumiputera.

26. Consolidating the financial sector. The financial sector has undergone gradual restructuring over the years in response to the changing economic and financial environment. We will continue our efforts in strengthening the regulatory and supervisory framework of the banking system. Bank Negara Malaysia will further strengthen its capacity to better monitor and detect emerging risks in the financial system. In this respect, an early warning system will be developed to provide ample advance warning on the status of individual financial institutions to enable preemptive measures to be taken so as to avert bank failures and contain the associated systemic risks.

27. In order to support economic recovery, banking institutions will have to play their intermediary role more effectively and efficiently. A comprehensive plan for Islamic banking is also being drawn up which includes formulating new strategies for the next millennium. New guidelines and targets for Islamic banking will be introduced, including the further development of Islamic banking units in existing banking institutions.

28. Measures to further broaden and deepen the financial markets will continue so as to maintain monetary and financial stability. Among these measures will be the development of the bond market which will provide an additional source of investment financing, while reducing the concentration of risks in the banking system. Efforts will also be taken to encourage the growth of Islamic capital markets, in particular, those in Islamic equities, private debt securities and fund management activities.

29. In this regard, the Government has established two institutions, that is, the National Asset Management Company, Pengurusan Danaharta Nasional Berhad or in short Danaharta and the special purpose vehicle called Danamodal Nasional Berhad or Danamodal intended to overcome banking problems due to the devaluation and the collapse of share prices. As of 20 April 1999, Danaharta had acquired gross NPLs amounting to RM12.6 billion as well as manage on behalf of Bank Negara gross NPLs including interest-in-suspense of RM11.6 billion. Danamodal had injected a total of RM6.4 billion to recapitalise 10 banking institutions in the form of Exchangeable Subordinated Capital Loans (ESCL).

30. Rehabilitating the corporate sector. A comprehensive framework to address problems of financial distress among corporations has been put in place, including debt restructuring. In this respect, the formation of a joint public and private sector committee known as the Corporate Debt Restructuring Committee (CDRC), will provide a framework for voluntary debt workouts between creditors and debtors so that they could arrive at schemes of compromise and reorganisation without resorting to legal processes.

31. Meanwhile, corporate governance, based on a set of market practices, will be implemented with the objective of realising long-term shareholder value while taking into account the interests of other stakeholders. In this regard, the Securities Commission, for example, will continue its focus on strengthening the

regulatory framework and move towards developing front-line regulation where market institutions will self-regulate. KLSE also introduced measures aimed at restoring market confidence by ensuring an orderly and fair market, and improving transparency in the stock market. The implementation of these measures entailed strengthening of the rules, securities laws and procedures of the KLSE, and the Central Depository System. One of the objectives of the measures was to protect the local stock market from adverse effects of the trading of Malaysian shares on a stock market which is not a recognised stock exchange. All these measures implemented are aimed at ensuring systemic stability, restoring market confidence, improving market transparency and corporate governance, and facilitating the raising of funds.

32. Revitalising the agriculture and rural sectors. In line with the Third National Agriculture Policy, our agricultural development priorities for the remaining Plan period will continue to focus on revitalising the sector. This will include strengthening domestic food production to reduce the dependence on imports, and accelerating modernisation towards making Malaysia a high value-added agricultural producer. We will promote the use of modern technology and management, encourage large-scale and organised agriculture through 'estatisation' of food crops. As for support services, the Government will continue to provide agricultural credit, training and extension services to focus on modernisation, especially for smallholdings. In this regard, the Government has increased the Fund for Food allocation to RM1 billion.

33. As a strategy, the Government will stress on the intensive use of agricultural resources particularly, land and labour, in view of the increasing shortages of land and labour. We will emphasise on strengthening the export sector through the promotion of greater private sector involvement, particularly in large-scale commercial ventures. In addition, greater focus will be directed at promoting the adoption of modern technological innovations in agriculture such as modern marine fish-cage rearing and labour-saving technologies. To realise these objectives, the development allocation for agricultural and rural development is RM8.3 billion.

34. Reviving the growth of the manufacturing sector. Considering that a strong revival of industrial growth is a prerequisite for a more permanent economic recovery, manufacturing will be given greater attention. In order to sustain the level of investment in the manufacturing sector, the Government will introduce measures and incentives that would help to boost investor confidence, further promote reinvestment and encourage export diversification. Greater industrial expansion and diversification will assume a heightened role not only to make up for the negative GDP growth and low domestic capital formation in 1998 but more importantly as a source of new wealth creation, through new growth industries and advanced technologies.

35. An important thrust of the industrialisation policy will be to accord greater importance to resource-based export-oriented industries that display potentials in terms of enlarging domestic value-added activities and increasing trade balance and linkages. Special focus will be given to increasing productivity and

intensifying downstream activities with particular attention given to the production of new and improved products in the resource-based industries. These will be extensively promoted so as to be the new sources of growth for the sector. At the same time, efforts will continue to be made to accelerate the strategic shift towards high technology and knowledge-based industries with emphasis on the production of high value-added products with export potential.

36. Productivity improvements will be the key in increasing the country' s international competitiveness to promote exports. New and existing industries will be encouraged to be more efficient in terms of upgrading their technologies and processes to produce higher-end products, quality parts and components as well as improving their reliability of supply. In this regard, industries are encouraged to adopt the ISO9000 and the Environment Management Standards or the ISO14001 series. The Government will continue to assist the private sector by providing a range of support services to enable local manufacturers to adapt to the changing needs of the highly competitive export market. The EXIM or the Export-Import Bank of Malaysia, with its RM4 billion funding facilities, will be the major vehicle in providing trade financing for the manufacturing sector.

37. Another principal thrust of the industrialisation programme is the development of a modern, competitive and technologically innovative Small and Medium Industry (SMIs) sector. To further strengthen this sector, SMIs will be encouraged t