

CHAPTER III

Economic Balance

I.—INTRODUCTION

114. For economic development to make the maximum contribution to the achievement of national unity in Malaysia, the existing economic imbalances must be corrected. The Second Malaysia Plan is designed to strengthen the process of restructuring society in order to correct the economic imbalances or disparities among the major groups in the Malaysian society, particularly among the races. This process will lead to the creation of a society in which all Malaysians participate and share equitably in economic and social development.

II.—THE EXISTING SITUATION

115. A number of economic imbalances exists in the country. However, the imbalances of pressing concern occur in the pattern of ownership and control of economic activity, in the distribution of income as well as in employment. They are especially significant when the Malays and other indigenous people are compared with the non-Malays.

116. Full quantification of racial economic imbalances is not complete and continuing studies are part of the Plan. The primary responsibility for such studies rests with the central planning agencies, particularly the Department of National Unity. Available information is, however, sufficient to enable the formulation of a strategy to restructure the economy in order to achieve the goal of economic balance.

117. A useful way to show the existing economic imbalances is to look at the economy in terms of the following five sectors:

The Traditional Rural Sector which comprises uneconomic small-holder rubber, single-cropped padi, traditional livestock and other agriculture, gathering of jungle produce, inshore fishing, and dulang washing and small gravel-pump mining for tin.

The Modern Rural Sector which comprises estate agriculture (i.e., rubber, oil palm, coconut, tea and cocoa), FLDA schemes and double-cropped padi, commercial forestry, modern fishing and modern tin mining.

The Traditional Urban Sector which comprises those parts of manufacturing, construction, commerce, transport and services, in which work is done with little benefit from modern equipment or techniques; included are small artisans, petty traders, hawkers, stallholders, household servants, trishaw-riders, and other persons pursuing a multitude of activities requiring little or no initial skill or training.

The Modern Urban Sector which comprises technically advanced manufacturing, construction, commerce, utilities, transport, communications and modern services including the professions and the tourist trade.

The Government Sector which comprises Federal, State and Local Government administration and Public Authorities as well as the Police and Armed Forces.

118. While the above groupings of economic activities may not be precise in many cases, they are sufficient to indicate a picture of the structure of the economy distinguishing the traditional, low-productivity, relatively stagnant and economically backward activities from the modern, organised, relatively capital-using and more highly specialised and productive activities. They also show the location and orientation of the various activities as between rural and urban settings.

119. The classification of the economy into the five sectors shown above enables a general analysis of economic imbalances to be made in terms of income, employment and ownership and control of wealth.

1. INCOME IMBALANCES

120. Available data in West Malaysia indicate that average incomes of workers in the five sectors of the economy outlined above rank as follows:

Modern Urban Sector	...	...	...	High
Modern Rural Sector	...	...	...	Medium
Government Sector	...	...	...	
Traditional Urban Sector	...	...	...	Low
Traditional Rural Sector	...	...	...	

In the above ranking, the high level of income is about one and one-half to two times that of the medium level of income and about three to four times that of the low level of income. About 60% of workers in West Malaysia is found in the Traditional Rural Sector and Traditional Urban Sector which provide a low level of income. Slightly less than one-fifth of workers in West Malaysia is found in the Modern Urban Sector which provides a relatively high level of income, and slightly more than one-fifth in the Modern Rural and Government Sectors which provide a medium level of income.

121. Besides these differences in the levels of income among the sectors, there are also racial income differences. These arise as a result of the identification of race with economic activity. With the major portion of working Malays still in the Traditional Rural Sector and with a good portion of working non-Malays in the Modern Urban Sector and the Modern Rural Sector, Malay incomes are generally lower than non-Malay incomes.

2. EMPLOYMENT IMBALANCES

122. Although available data show that the racial shares in total employment in West Malaysia are fairly representative of the racial composition of the total population, Malay employment is concentrated in traditional rural activities, where underemployment is prevalent. Thus Malay employment in the rural areas contains a significant amount of underemployment. The element of underemployment also exists in the Traditional Urban Sector, where there are more non-Malays than Malays. Malays are also inequitably represented in the higher level jobs.

123. There is at present not only an identification of race with vocation but also an identification of race with location. Malays are largely found in rural areas, employed in low-income activities in padi farming, fishing and rubber tapping. Non-Malays are mainly found in urban areas or estates, employed as shopkeepers, restaurant workers, factory workers, construction workers, hawkers and stallkeepers, petty traders, providers of commercial and household services and workers in organised, modern cash agriculture.

124. Malays now outnumber the non-Malays by a factor of nearly 3 to 1 in the Traditional Rural Sector, but in the Traditional Urban Sector, the position is reversed. In the Modern Rural Sector and in the Modern Urban Sector, the non-Malays outnumber the Malays by a factor of about 5 to 2, while in the Government Sector, Malays outnumber the non-Malays by about 5 to 3.

125. Surveys of the employment situations in 1962 and 1967 in West Malaysia showed that Malay employment* in the different sectors underwent significant changes. The most noticeable change was the decline of the Traditional Rural Sector as an employer of Malay labour and the increase of Malay employment in the Modern Sectors including the Government Sector.

126. The position of Malays in the job hierarchy in the Modern Sectors is on the average below that of non-Malays. In industries, for instance, the bulk of Malay employment is in the lower skilled and unskilled category. Malays are poorly represented in the other categories of workers such as managerial and professional, technical and supervisory, and clerical categories. Pioneer companies show a more balanced employment by race. But at the managerial, professional, technical and supervisory levels, Malays are still inequitably represented. Most of the higher positions are held by non-Malays and foreigners.

127. Progress has also been made in recent years in achieving a better occupational representation. The Socio-Economic Sample Survey of Households in West Malaysia, conducted in 1967/68 and covering some 30,000 households, showed that there were 119,000 persons in the professional, technical and related occupations. Of this, 74,900 persons or 63% were teachers. Malays accounted for nearly 40,000 or 53% of the teachers. In law, engineering, senior medical positions and in many other technical fields, Malay participation remained small. The great majority of educated Malays works in the public sector.

3. IMBALANCES IN OWNERSHIP AND CONTROL OF WEALTH

128. The ownership and control of wealth and the means of production—farms, forest concessions, mines, shops, factories, transport fleets, equipment, machinery, bank accounts—reflects still another aspect of the economic imbalances. However, it should be noted that in the Modern Sectors foreign ownership and control predominate.

129. Padi farms are practically all owned by Malays, but many of these are cultivated by Malay tenant-farmers. Of the total 4.2 million acres of land under rubber in West Malaysia at the end of 1970, 37% were owned by Malays, 42% by non-Malays and 21% by foreigners. About half the acreage of rubber estates in West Malaysia at the end of 1970 belonged

* "Employed" is defined as persons who worked for pay, profit or family gain at any time during the reference week; "employed" thus includes the "underemployed". "Unemployed" is defined as persons who were not employed but were actively seeking work and capable of accepting a job if offered one. Figures include citizens as well as non-citizens.

to Malaysians. The other half was owned by foreigners. Hardly any rubber estates (100 acres and above) were owned by Malays. Malays and non-Malays shared about equally in the ownership of the rubber smallholdings in West Malaysia estimated at slightly over two million acres. Three-quarters of the oil palm and coconut acreages on estates in West Malaysia at the end of 1970 were owned by foreigners; the remainder was practically all owned by non-Malays. About 308,000 acres of FLDA land cultivated with rubber and oil palm and settled predominantly by Malays do not significantly affect the overall disparity in the ownership in the rubber, oil palm and coconut industries.

130. An analysis of share capital of limited companies operating in West Malaysia at the end of 1969 indicates the following:

TABLE 3-1

OWNERSHIP OF SHARE CAPITAL OF LIMITED COMPANIES
IN WEST MALAYSIA, 1969

<i>Companies incorporated in West Malaysia</i>								<i>All Industries</i>	
<i>Residents</i>								<i>(\$000)</i>	<i>(%)</i>
Malays	..	..	..	..	..	..	..	49,294	1.0
Malay interests	..	..	..	..	..	..	..	21,339	0.5
Chinese	..	..	..	..	..	..	..	1,064,795	22.8
Indians	..	..	..	..	..	..	..	40,983	0.9
Federal and State Governments	..	..	..	..	..	..	..	21,430	0.5
Nominee companies	..	..	..	..	..	..	..	98,885	2.1
Other individuals and locally controlled companies	..	..	..	..	..	..	..	470,969	10.1
Foreign controlled companies in Malaysia	..	..	..	..	..	..	..	282,311	6.0*
<i>Non-Residents</i>	..	..	..	..	..	..	..	1,235,927	26.4*
<i>West Malaysian branches of companies incorporated abroad</i>									
Net investment by Head Office	..	..	..	..	..	..	..	1,391,607	29.7*
Total								4,677,540	100.0

131. Table 3-1 shows the predominance of foreign ownership of share capital in limited companies in West Malaysia. Of the total \$4,678 million share capital, 62.1% was accounted for by foreign interests compared with 22.8% by Chinese, 1.5% by Malays and 0.9% by Indians. Foreign interests

* These items show foreign ownership totalling 62.1%.

accounted for one-half to three-quarters of the share capital of limited companies in estate agriculture, mining, manufacturing, wholesale trade, banking and finance. They accounted for more than one-third of the share capital of limited companies in construction, retail trade and other industries.

132. The economic imbalances outlined in this Section, particularly those between the Malays and other indigenous people and the non-Malays, are a heritage of centuries of colonial policies and the result of the pattern of economic development during the colonial era. These economic imbalances can be corrected only over a period of time. Since Independence in 1957, the Government has made progress in correcting the economic imbalances and in building an economic structure which will be a firm foundation for a united and just Malaysia.

III.—GOAL OF ECONOMIC BALANCE

133. The policies and programmes of the Second Malaysia Plan are designed to restructure Malaysian society in order to correct the imbalances in income distribution, employment and ownership and control of wealth outlined above. The Government aims to create in time the kind of economic balance most conducive to the development of a just and harmonious Malaysian nation. The following paragraphs define the specific meanings of this goal.

134. Economic balance, in a growing and dynamic economy, refers to the equitable and legitimate sharing of the rewards and responsibilities of economic development. The principal reward of economic development—the growing income generated by the national economy—must be equitably distributed. Balance here means that those members of the Malaysian society who have benefitted relatively little from past development must now be assured ample opportunities to gain a fairer share of the increased goods and services that development brings. It means that those who now live in poverty, particularly in the Traditional Rural Sector and in the Traditional Urban Sector of the economy, must be equipped with the training and resources needed to improve their economic position.

135. Balance also refers to racial shares in management and ownership and in employment in the various sectors of the economy. At present, non-Malays and foreigners dominate the manufacturing and commercial sectors. As later Chapters of the Plan show, these two sectors, especially the former, will be major growing points over the next decade. The Government has set a target that within a period of 20 years, Malays and other indigenous people will manage and own at least 30% of the total commercial and

industrial activities in all categories and scales of operation. The Government has also stipulated that the employment pattern at all levels and in all sectors, particularly the Modern Rural and Modern Urban Sectors, must reflect the racial composition of the population. The Second Malaysia Plan, therefore, includes policies designed to ensure that rapid strides are made in the inter-sectoral movements of Malays and non-Malays from subsistence activities in low-income sectors to active participation in high-income sectors. It also includes programmes for the modernisation of activities in which Malays and other indigenous people are now predominant, especially padi and rubber farming and fishing.

136. The achievement of balance between the urban and rural sectors is yet another important objective. Rural life is part of Malaysian culture and values. Its continuation and its betterment is an integral part of a development process that puts primary emphasis on the creation of greater social welfare. Despite the progress achieved, development in rural areas still lags significantly behind that in urban areas. Such an imbalance affects income distribution and results in a failure to utilise resources in the most effective way. Malaysia has enormous land resources and vast agricultural potential. Projects for the increased and more effective use of this land form an important part of the Second Malaysia Plan. In addition, the Plan aims to provide schools, libraries, health facilities, housing, electricity, transportation, communications and other amenities of as good a quality in the rural areas as in the urban areas. Such amenities will make life richer and more rewarding for those who live in rural areas.

137. Similar considerations apply to the need to correct economic imbalances among the States. Variation in *per capita* GDP among the States is very high. The highest is estimated to be almost five times that of the lowest. Greater regional equality in terms of GDP *per capita* is another part of the balance goal. As is the case with urban-rural balance, the arguments in favour of regional balance transcend simple *per capita* measures. They rest more fundamentally on the notion that all regions in Malaysia share in the benefits of development.

138. Balance in all the dimensions outlined above includes an appropriate sharing of the responsibilities of development as well as the rewards. Thus the dislocations, sacrifices, hard work, saving and taxes, risk-taking and other costs that are the real sources of development must also be shared equitably. Tax policy, wage policy, employment policy, public financing arrangements and location of public investment projects are to be devised with the recognition that costs, as well as benefits, must be shared.

139. It is crucial that there be widespread recognition and acceptance that the rewards of development must be earned. In the search for balance in the development process, appreciation of this fact will facilitate a larger development effort as well as one which makes the most contribution to increased social welfare.

IV.—STRATEGY FOR ACHIEVING ECONOMIC BALANCE

140. The strategy for restructuring the economy and achieving the kind of economic balance most conducive to the development of a just and harmonious Malaysian nation has been formulated in the light of the existing situation as outlined in Section II of this Chapter. The strategy is founded on the philosophy of active participation, not on disruptive redistribution. It works in an ever expanding economy in which the growing volume of goods and services is enjoyed by all groups in the Malaysian society in such a manner that there is no feeling of deprivation by any group, and also in a manner which contributes to national unity.

141. The following paragraphs outline major elements of the strategy to achieve economic balance. They cover modernisation and the creation of new economic activities in the rural sector, education, urbanisation, regional development, general policies for racial balance and the role of the private sector and the States. Fuller details of these programmes are given in the sectoral Chapters in Part Two.

1. MODERNISATION IN THE RURAL SECTOR

142. The benefits of science and technology will be used increasingly to modernise the rural sector. Policies and programmes will be designed to transform the rural sector into a genuine dynamic force for agricultural and economic development. Agricultural research will be continued and stepped up to make further technical break-throughs and agricultural extension will provide the links between the benefits of science and technology and rising productivity and incomes for persons in the rural sector. Rural institutions, including education, will also contribute significantly in this process.

143. More new land will be brought under cultivation with modern techniques and managed on modern lines. It will be planted with a wider range of crops or utilised for livestock breeding to yield rising incomes. Land presently under cultivation will be improved through drainage and irrigation, application of fertilisers and other production inputs, and more intensive cultivation, e.g., double-cropping of padi, planting of off-season crops and inter-cropping. Institutions for credit and marketing and other

necessary productive facilities will be provided. A major new programme for the East Coast fishing industry will offer new opportunities and new resources to one of the more depressed sectors of the economy.

144. The development of infrastructural facilities such as roads, telecommunications, civil aviation, water supplies, electricity, information and broadcasting, schools and training centres, hospitals and clinics, housing and recreational centres in the rural sector will be aimed at modernising the sector. New transportation, communication and power facilities will provide closer links between the rural and urban areas, thereby bringing new contacts and new knowledge to the less developed regions of the country.

145. Of special importance to rural dwellers are the new secondary schools which will emphasise science and technology. These are to be primarily residential schools located so as to serve the needs of students from a wide area. The objective of these schools is to ensure that more rural students gain access to the kind of training that is required to enter science programmes at higher levels and to hold technical jobs in modern industry. Equally important, these schools will help create a mental outlook which is more conducive to the application of modern productive techniques in all areas of economic activity.

146. The Plan stresses the modernisation of rural areas that have heretofore been lagging behind the more rapidly developing West Coast areas of West Malaysia, and the urban enclaves in East Malaysia. The Plan is designed to benefit those Malaysians whose incomes are below the national average, since average incomes in rural areas are substantially below those in the big towns. Also, as the population of the rural areas is predominantly Malay and indigenous, these development programmes are a most strategic part of the objective of balancing the participation of Malaysia's several races in modern sector activities. Thus the Second Malaysia Plan's emphasis on rural development contributes to balanced development in all its dimensions.

2. EDUCATION

147. Education at all levels is another major component of the search for balance in the development process. Greater attention will be given to ensuring that Malays, other indigenous people and the poor of other races have greater access to higher education in the sciences and other disciplines essential for effective participation in modern activities. More scholarships and bursaries will be made available to these people to pursue courses of study in colleges and universities in Malaysia and abroad. Facilities for

higher education will be expanded so that it will be possible for all Malaysians to have access to the kind of education suited to their talents and interests.

3. URBANISATION

148. The introduction of modern industries in rural areas and the development of new growth centres in new areas and the migration of rural inhabitants to urban areas are essential to economic balance between the urban and rural areas and elimination of the identification of race with vocation as well as location. Policies will be designed and measures undertaken to foster the development of modern commercial and industrial activities in rural areas generally and in selected new growth centres in present rural areas in particular. This will speed up the exposure of rural inhabitants, particularly Malays and other indigenous people, to the influences of an urban environment. Industrialisation in existing areas will be further developed so that migrants, particularly Malays and other indigenous people, as well as persons already living in the areas, will play an increasing role in this development both in terms of ownership and control and in terms of employment at all levels.

149. The Plan includes a number of projects concerned directly with increasing the participation of Malays and other indigenous people in urban-type activities in existing towns and new growth centres. Included are projects that will provide business premises, finance, technical and marketing advice, training and business contacts to aid such persons in starting their own commercial ventures. Present employment requirements in regard to participation by Malays and other indigenous people will also be continued and extended to ensure that the employment pattern in business enterprises reflects the multi-racial nature of the population. Projects will also be included to bring about increased management and ownership by Malays and other indigenous people of modern urban industries. Finally, the Government itself through institutions such as MARA, PERNAS, UDA, MIDF and State Economic Development Corporations will establish new industries that are to be set up primarily to provide more opportunities for participation by Malays and other indigenous people.

150. The Second Malaysia Plan includes projects for the establishment of new manufacturing activities in areas which are now almost exclusively devoted to agriculture or mining. Greater geographic dispersal of industries will relieve dependence of employment on a few activities, in addition to widening contacts with modern and new approaches to economic activity and facilitating the spread of urbanisation.

151. The social and physical hardships of urban poverty are more severe than those of rural poverty. Creation of an urban economic environment in which the demand for labour is growing at a pace sufficient to provide jobs for all urban residents is the first step in reducing and eventually eliminating urban poverty. Thus emphasis is also placed on urban job creation in the Second Malaysia Plan. This emphasis includes training, formal and on-the-job, as well as promoting a high rate of growth of the manufacturing and commercial sectors. Along with this, urban renewal projects, public housing programmes, health and sanitation projects, recreation and youth projects will all be designed to help those in the low-income brackets.

4. REGIONAL BALANCE

152. The general policies for the modernisation of rural areas will make important contributions to regional balance. There are also projects for specific regions which will help to reduce the marked economic disparity among the States and within each State that now exists. Thus projects in the Jengka Triangle and Pahang Tenggara areas in Pahang and the Johore Tengah and Tanjong Penggerang regions in Johore are major efforts to develop natural resources to create new economic opportunities in relatively under-developed regions. These areas have been deliberately selected because of the extent and quality of their agricultural land and opportunities they offer to obtain economies of scale and make efficient use of limited managerial and professional manpower resources. These projects will not only benefit the present residents of the States concerned but, by relieving land pressure elsewhere, will also help to raise incomes in the rural economy generally. Other projects, principally the Muda, Kemubu and Besut irrigation schemes, all of which are regional in scope and sited in States with *per capita* incomes well below the national average, are designed to raise farm incomes.

153. Additional regional planning studies have been completed or are now underway. Studies for Trengganu, Penang and Malacca have been designed to identify opportunities for further development within already settled regions which are beset with fundamental economic problems.

154. Apart from continuing or completing regional projects already underway, a number of new programmes will be initiated which will emphasise regional balance and integration rather than output growth alone. One such project is the East-West Highway which will link Kelantan with the more developed West Coast. A regional study will also be undertaken for Kelantan to identify specific opportunities for development. In Trengganu, several projects based on the recommendations of the Regional Economic

Development Plan for the State are being implemented. Chief among these are the Besut irrigation scheme and the development of the Sungei Tong oil palm estate. Partly to counteract the closing of the Bukit Besi iron mine, a 15,000-acre public sector estate and an integrated timber processing complex will be set up in the Dungun district under the Plan. In Sarawak, in order to relieve the pressure for new agricultural land in the heavily populated First Division, a master plan to guide the development of a large region of unencumbered land within the Fourth Division will be undertaken.

5. OTHER POLICIES FOR RACIAL BALANCE

155. In order to bring about greater participation by Malays and other indigenous people in modern sector activities, the Second Malaysia Plan includes a large number of specific programmes designed for this purpose. Their objective is the creation of economic and social conditions that will foster greater participation by Malays and other indigenous people in an environment of growing opportunities for all Malaysians. The major policy approaches to this objective include:

- (i) An essential part of the racial balance objective is the creation of a Malay entrepreneurial community. The development of that particular kind of motivation, skill and acumen that goes to make up an entrepreneur is a complex process. Formal training and education can help, but practical experience and perseverance are also necessary and these are often costly in terms of financial and other resources. Thus facilities will be established to provide special financial assistance to Malay entrepreneurs. Steps will be taken to identify promising projects and provide advisory as well as technical services. The Government's aim is to foster the emergence of a full-fledged Malay entrepreneurial community within one generation.
- (ii) Special measures will be introduced during the Plan period to provide to Malays and other indigenous people business premises and physical facilities in existing urban centres. At the same time, care will be taken to avoid the creation of racially exclusive business areas. The accomplishment of such measures involves several Government agencies and close co-ordination of these agencies with the private sector. This will be done through UDA. As new towns and urban centres develop in consequence of the rural and land development programmes, similar care will be taken to ensure that Malay and other indigenous traders benefit from the opportunities in commercial activities.

- (iii) Particular arrangements will be made for joint ventures between Malays and non-Malays and others. By these means the expertise, experience, and markets of the established organisations will be made available to the fledgling Malay firms. PERNAS is already active in this area.
- (iv) A new small-scale industries service has been established to help promote the more rapid development of small-scale industrial activity in the country. This service will benefit all Malaysians, but will be especially important for Malays who are entering into the industrial sector for the first time. Small-scale enterprises have many advantages. They can serve a small market and operate in areas with little infrastructure, they can be established quickly, and require modest financing. Most importantly, they provide a good training ground for those with little experience.
- (v) Along with these specific policies, the Plan period will see an intensified programme of research in additional means of increasing the extent of participation by Malays and other indigenous people. In the longer run, it is greater understanding and more knowledge about the modernising process that can provide the basis for new policies and new methods to achieve greater racial balance in the modern sectors of the economy.

6. THE PRIVATE SECTOR AND STATES

156. Evidently, balance in all the dimensions discussed above, cannot be achieved merely through the policies and programmes of the Federal Government. Incentive systems and transfers of funds to the States are vital, but of equal importance are the understanding and co-operation of both the private sector and the State Governments. Such co-operation is expected to occur as the content and rationale of the goal of economic balance becomes generally appreciated. Considerable attention is therefore being given to informing the public as to the nature of the balances sought and to the advantages to all communities that flow from the achievement of such balance. The Government expects that a socially responsible private sector will play a proper role to achieve the kind of economic balance and distribution which will promote a just, harmonious and progressive Malaysian nation.