

Chapter 4

Planning in Consistency Framework: Malaysian Experience

I The Malaysian Economy

Malaysia covers a total land area of 329,758 sq.kms. It is made up of two distinct regions: Peninsular Malaysia (West Malaysia) covering an area of 131,598 sq.kms. and Sabah and Sarawak (East Malaysia) with a total land area of 198,160 sq.kms. These two regions are separated by about 540 kms. of the South China Sea. The Peninsular Malaysia is situated in the tropical region of the South-East Asia between 1°N to 7°N Latitude and 100°E to 104°E Longitude. Map 1 shows the location of Malaysia. Malaysia is a plural society with an estimated population of 17.77 million in 1990, comprising 61% Malays and other people (together, they are referred to as the Bumiputera community), 30% Chinese, 8% Indians and 1% others. The population is growing at 2.40% p.a. The country is well endowed with natural resources. Of the total land area, about 62% is forests, the bulk of which is exploitable timber, while most of the remaining land area is cultivated. Mineral resources are extensive and include both metallic minerals (such as tin, iron ore, bauxite and copper) and non-metallic resources (such as petroleum, natural gas, limestone and marble).

On the eve of Independence, Malaysia inherited from the British all the characteristics of a classical colonial economy. In 1957 Peninsular Malaysia was the world's largest producer of tin and the second largest producer of natural rubber, while Sabah depended largely on its timber and Sarawak on its petroleum, rubber and pepper for their prosperity. The country's commanding position over these commodities was the source of the prosperity which it enjoyed and placed it well to the fore amongst Third World nations; at the same time the nation was dangerously placed at the mercy of the fluctuations of the world market, particularly in tin and rubber. Malaysia has also become a leading producer of Palm oil, tropical hardwoods, cocoa and pepper. Malaysia's exports accounted for about 67% of the world's exports of palm oil and 20% of the global tropical hardwood exports. Table 1 summarizes important information on different aspects of the Malaysian economy for the last three years.

Since 1957 when the country gained Independence, Malaysian economy has been experiencing a sustained high rate of expansion. Over the period 1957-88, the nominal GDP grew at an average annual rate of 9.6%. Table 2 provides some information on the real GDP by expenditure category for selected years over the period 1960-88. As can be readily observed from the table, the economy experienced tremendous acceleration in its growth during the seventies. The growth of real GDP rose from an average of 3.3% during the sixties to 8.5% during the seventies. However, in the wake of the global recession, the growth again slumped to the average of 4.3% over the years 1981-86. However, after 1986, the economy has started recovering again with 6.2% p.a. growth achieved during 1986-88 and about 8.7% p.a. during 1989-91 (Table 1). Similar trends are obtained for consumption (both public and private), for investment (both public and private) and for imports in real terms. However, for exports and net factor payments, the trends were different. Exports in real terms grew at a high rate of 8% p.a. during the sixties but then decelerated during the seventies and mid-eighties. Only after mid-eighties, it has again picked up and started growing at more than 13% p.a. The net factor payment which is negative is on the other hand accelerating throughout the period.

Over the years, there are significant structural changes taking place in the economy. Table 2 reports data of sectoral shares in the real GDP for selected years during the period 1960-88. It is clear that

Table 1
Malaysia-Key Data and Forecasts

	1989		1990 ¹		1991 ²	
	\$ million	% growth	\$ million	% growth	\$ million	% growth
NATIONAL PRODUCT:						
Gross National Product in constant 1978 prices	68,621	9.6	75,049	9.4	81,107	8.1
Consumption expenditure: Public	10,920	7.6	11,559	5.9	13,019	12.6
Private	35,643	14.3	39,373	10.5	41,645	5.8
Gross fixed capital formation: Public	7,782	33.5	8,568	10.1	8,832	3.1
Private	13,430	31.0	16,836	25.4	18,439	9.5
Exports of goods and non-factor services	53,929	18.2	62,236	15.4	69,131	11.1
Imports of goods and non-factor services	49,440	30.2	59,152	19.6	64,698	9.4
Gross National Savings (at current prices)	29,602	4.4	33,794	14.2	36,968	9.4
Per capita GNP (at current prices, M\$)	5,558	9.8	6,147	10.6	6,638	8.0
DOMESTIC PRODUCT:						
Gross Domestic Product in constant 1978 prices	72,134	8.8	78,889	9.4	85,175	8.0
Agriculture, livestock, forestry and fishing	14,736	5.8	15,282	3.7	15,649	2.4
Manufacturing	18,089	12.0	20,947	15.8	23,670	13.0
Mining and quarrying	7,385	6.6	7,739	4.8	7,910	2.2
Construction	2,380	11.6	2,737	15.0	3,120	14.0
Services	30,370	8.6	33,248	9.5	36,269	9.1
FEDERAL GOVERNMENT FINANCE:						
Revenue	25,273		27,219		30,246	
Operating expenditure	24,832		25,993		29,040	
Current account surplus/deficit	+441		+1,226		+1,206	
Development expenditure (net)	5,701		8,023		7,134	
Overall deficit	-5,260		-6,797		-5,928	
Domestic borrowing (net)	2,474		3,793		--	
Foreign borrowing (net)	-1,016		-845		--	
Foreign debt service ratio (per cent)	4.4		3.5		--	
BALANCE OF PAYMENTS:						
Current Account	-473		-3,330		-4,022	
Merchandise balance f.o.b.	10,562		6,670		6,705	
Services balance	-11,243		-10,210		-10,937	
Transfers	208		210		210	
Long-term capital account	2,366		5,919		--	
Basic balance	1,893		2,589		--	
Overall balance	3,332		4,439		--	

	1989		1990		1991	
	\$ million	% growth	\$ million	% growth	\$ million	% growth
EXTERNAL TRADE:						
Total Exports (f.o.b.)	67,825	22.7	79,185	16.7	91,507	15.6
Rubber	3,949	-24.9	3,128	-20.8	3,243	3.7
Crude petroleum	7,883	28.9	10,190	29.3	10,407	2.1
Tin	1,161	27.4	800	-31.1	784	-2.0
Palm oil (crude and processed)	4,681	3.4	4,312	-7.9	4,340	0.6
Sawlogs	4,356	8.6	4,200	-3.6	4,203	0.1
Manufactures	36,592	36.3	46,654	27.5	57,571	23.4
Total Imports (c.i.f.)	60,858	40.6	77,265	27.0	90,912	17.7
Food, beverages and tobacco	4,846	20.1	--	--	--	--
Manufactures (SITC 6)	9,990	39.4	--	--	--	--
Crude petroleum and related products	2,606	22.1	--	--	--	--
Machinery and transport equipment	29,180	49.5	--	--	--	--
Balance of Trade	6,967		1,920		595	

Table 1(contd)

Production and Prices	1989		1990		1991	
	Volume	% growth	Volume	% growth	Volume	% growth
Production-						
Rubber ('000 tonnes)	1,419	-14.5	1,350	-4.9	1,400	3.7
Crude petroleum ('000 barrels per day)	588.9	8.7	626.4	6.4	640.0	2.2
Tin ('000 tonnes)	32.0	10.7	29.0	-9.4	27.0	-6.9
Palm oil ('000 tonnes)	6,057	20.5	6,550	8.1	6,800	3.8
Sawlogs ('000 cu metres)	39,709	5.3	40,000	0.7	38,000	-5.0
Commodity Prices						
	Price	% growth	Price	% growth	Price	% growth
Rubber, RSS 1 (sen per kilogramme)	262	-15.4	230	-12.3	235	2.2
Tin, Kuala Lumpur Tin market (\$ per kilogramme)	23.09	25.1	16.50	-28.6	16.50	0.0
Crude palm oil, Local Delivered (\$ per tonne)	822	-20.1	670	-18.5	680	1.5
Crude petroleum, average weighted price (US\$ per barrel)	18.29	19.5	22.00	20.3	22.00	0.0
	Index	% growth	Index	% growth	Index	% growth
Consumer Price Index (1980=100)	133.7	2.8	138.0	3.2	143.5	4.0
Producer Price Index (1978=100)	139.3	4.0	146.3	5.0	155.1	6.0

	1989 (End December)		1990 (End August)	
	\$ million	% growth	\$ million	% growth ¹
MONEY AND BANKING:				
Money supply (M2)	74,066.6	14.0	80,730.7	19.1
Money supply (M1)	21,248.7	17.6	22,883.4	19.1
Quasi money	52,817.9	12.6	57,847.3	19.1
Commercial Banks-				
Total deposits	74,849.0		79,372.5	
Total loans	67,141.7		73,628.2	
Liquidity ratio (per cent)	19.9		18.2	
Interest Rates (per cent per annum)-				
<i>Commercial Banks:</i>				
3 months fixed deposits	5.00		6.25	
Savings deposits	3.50		3.50	
Base lending rates	7.00		7.00	
Exchange Rates (equivalent in Malaysian Ringgit)				
1 US\$=	End December		End October	
	2.70		2.70	
1 Pound Sterling=	4.34		5.28	
100 Deutschemark=	159.92		178.05	
100 Yen=	1.88		2.09	
100 Singapore \$=	142.47		158.36	

	Thousands	% growth	Thousands	% growth	Thousands	% growth
LABOUR:						
Labour force	6,834.1	3.2	7,046.5	3.1	7,257.9	3.0
Employment-						
Total	6,350.9	4.3	6,603.4	4.0	6,839.8	3.6
Agriculture	1,957.9	2.6	1,975.0	0.9	1,985.7	0.5
Manufacturing	1,079.4	6.6	1,159.3	7.4	1,239.2	0.4
Government	846.6	0.3	850.2	0.4	853.9	0.4
Unemployment rates (percentage of labour force)	7.1		6.3		5.8	

Table 1 (contd)

INDUSTRIAL ECONOMIES	1989	1990	1991
	%growth	%growth	%growth
Real GNP: All Industrial countries	3.4	2.6	1.5
United States of America	2.5	1.3	0.1
Japan	4.9	5.1	3.7
West Germany	3.9	3.9	3.3
United Kingdom	2.2	1.4	0.5
Consumer Prices: All Industrial countries	4.4	4.8	1.5
United States of America	4.8	5.1	5.8
Japan	2.3	2.8	3.7
West Germany	2.8	2.8	3.7
United Kingdom	7.8	9.3	6.6

1: Estimates; 2: Forecasts; 3: Change from August 1989;
Source: Ministry of Finance, Government of Malaysia.

upto 1980, the secondary sector increased in importance considerably at the expense of both the primary and the tertiary sectors. During the eighties, however, the process seems to have slowed down. Moreover, the share of the tertiary sector has increased and remained stable at around 42% of real GDP. If we consider the share of major commodity producing sectors viz. Agriculture and Manufacturing, we find that the former has almost continuously declined and the latter has increased over the period 1960-88. Thus, the Malaysian economy is systematically transforming from the primary production based economy into rapidly industrializing country. Currently, about 17% of the total labour force in Malaysia is engaged in the manufacturing sector and about 31% in the agricultural sector.

	1960	1965	1970	1975	1980	1985	1986	1987	1988a
1. Total consumption	5506	7533	9227	12748	20083	24198	22441	22920	24265
a) Private	4540	5968	7310	9631	15249	18312	16481	16882	18071
b) Public	966	1565	1917	3117	4834	5886	5960	6038	6194
2. Total investment	1903	1510	2196	3936	8690	11180	9126	11407	13485
a) Private	865	836	1490	2454	5443	5254	3696	6763	7965
b) Public	228	674	706	1482	3247	5926	5430	4644	5520
3. Change in stocks	n.a.	n.a.	357	-266	-80	-814	-573	520	1162
4. Exports of goods and non-factor services	3596	7179	14109	20726	22365	19922	23429	25779	29784
5. Imports of goods and non-factor services	691b	198b	4868	6232	14917	18767	18260	19959	24463
6. Gross domestic product at purchasers' value	8889	9241	12308	17365	27885	35719	36162	37968	40771
7. Net factor payments	-236	-62	-355	-449	-974	-2756	-2509	-2469	-2824
8. Gross national product at purchasers' value	8653	9179	11953	16916	26911	32963	33653	35499	37947
9. % Share of GDP :									
a) Primary Sector	(43.7)	(40.4)	(37.2)	(32.2)	(32.8)	(30.4)	(31.6)	(32.5)	(31.6)
b) Secondary Sector	(11.7)	(14.5)	(17.3)	(20.2)	(24.6)	(24.3)	(25.0)	(25.9)	(27.2)
c) Tertiary Sector	(44.6)	(45.1)	(41.9)	(45.0)	(39.9)	(44.0)	(43.2)	(42.5)	(42.2)

Notes: a: Preliminary estimates; b: net export surplus; n.a. - not available
Source: Jomo, K.S. (1990), pp. 43-48.

II Development Issues and Concerns

Malaysia is a multiracial society. It inherited highly skewed distribution of income. While poverty was widespread and affected all ethnic groups, its incidence was disproportionately high among the Bhumiputeras. It was estimated that the per capita average income of Malays was half the income of Chinese community. The New Economic Policy (NEP) declared by the Malaysian government in 1971 which was to be effective till 1990, accorded the highest priority to eradicating poverty and reducing the racial imbalances in income, employment and ownership of assets. The NEP provided basically the perspective plan framework for the Malaysian second, third, fourth and fifth plans. Over these years, there has been considerable progress in reducing the interracial disparities and poverty particularly in the rural areas. However, a new set of economic issues have arisen now.

Rapid growth of manufacturing and consequent rising productivity of labour has surpassed wages. Despite a fall in relative wages and high rates of output growth, employment growth has been limited to around 3.5% over the past couple of years. Population and hence labour force, on the other hand, have been growing rapidly. As a result, the number of unemployed now estimated at around half a million people poses a serious problem for the policy makers. Moreover, the highest incidence of unemployment is found amongst the secondary school leavers and college graduates. The pattern of growth of manufacturing that emerged in Malaysia might be responsible for this. There are clearly two segments in manufacturing sector in Malaysia: a) outward oriented manufacturing and b) inward oriented manufacturing. The former which has replaced import substitution as the cutting edge of industrial growth has been dominated by electronic goods over the last 15 years. It, however, lacks linkages with the rest of the economy and heavily depends on the international environment. The inward oriented manufacturing has also grown rapidly over the past decade. The spectacular growth of this sub-sector was largely due to handsome fiscal incentives, high effective rates of protection and a large public sector participation. After the world wide recession, this segment has started showing its fundamental weaknesses in terms of low productivity growth, declining profits and excess capacity. Programmes of privatization and industrial restructuring have to be continued in order to revitalize the sector.

Malaysian agriculture so far has been a very dynamic sector. The major growth impetus came from palm oil and of late from cocoa and logs. Timber production has been buoyant but its rate of exploitation is much higher than the sustainable yield. Considerable environmental degradation is also becoming evident. In the medium term perspective, therefore, a fall in the logging output is almost inevitable. The rubber production also shows a declining trend of late. Food crops particularly paddy is no longer economic compared to the world prices largely due to higher wages and low productivity. A shift of rural labour force from the farm to the non-farm sector has depleted human capital in the agricultural sector. The need of the hour, therefore, is to increase farm productivity and obtain efficiency gains rather than increase acreage under cultivation.

On account of the recession of early eighties, the growth and employment in the Malaysian economy was artificially sustained through growing public expenditures. The government's share in the economy has almost become 40%. In the light of the increasing openness of the Malaysian economy, high public sector debt and deficits can no longer be sustained particularly when the growth of productivity in the sector has significantly slowed down. The government's role of late is shifting from the direct involvement to the indirect support of the growth in the economy. Public development expenditures have to be sharply curtailed. Domestic savings and borrowings only should finance the total public investment programmes. However, the total investment in the economy - particularly industrial economy - are promoted by encouraging greater participation of private sector, selective privatization, liberalization of licenses and foreign investment, etc.

The basic development strategy has been achieving growth and distributional goals through promotion of export oriented manufacturing and preserving the competitive advantage in the tree crop sectors. The components of such a strategy are diversification and development of internal linkages to

strengthen trickling down and multiplier effects of export growth. The role of private sector in achieving these objectives is pivotal because it can effectively manage technological upgradation and labour market with the help of government's flexible wage and exchange rate policies. The distributional objectives are considered the domain for government's active intervention. These interventions have to be so planned that maximum advantage of the efficiency gains from the liberalized markets and private sector are obtained on the one hand and the society's distributional and restructuring goals are achieved on the other hand.

III Planning Models

The first five year Malaya Plan (1956-60) was basically a rehabilitation plan and hence did not have any formal systematic approach or framework. The second Malaya Plan (1961-65) was, however, a more formal effort at planning with explicit targets for the output and employment growth. It was based on the Harrod-Domor macroplanning framework. The most crucial parameter to be considered was the incremental capital output ratio (ICOR). Given the value of targeted growth rate of income (4.5% p.a.) in the economy, the Harrod's growth equation was used to find the required rate of investment assuming the ICOR of 4:1. The required investment rate was 18% against the existing 12%. It implied nearly 67% increase in the real investment.

In September 1963, West Malaysia, Sabah and Sarawak came together and formed Malaysia. The first Malaysian plan (1966-70) had almost the same approach and methodology as the previous plan (1961-65). The real gross output was projected to grow at 4.9% p.a. With an assumed ICOR of 3.9, the investment rate required to fulfil the growth target was 19% of the GNP. Over the plan period, the employment growth was assumed to be 62.5% of the growth in output. In other words, the (total) income elasticity of employment was assumed to be 0.625. It was projected that employment would increase by 377,000 jobs in West Malaysia and 84,000 jobs in East Malaysia reducing the overall unemployment rate from 6% in 1965 to 5.2% by 1970.

The Second Malaysia five year plan (1971-75) was a major departure from previous plans both in the methodology and priorities. It was the first plan formulated in the overall perspective provided by the New Economic Policy (NEP). Its priority shifted significantly in favour of eradication of poverty by raising both the income levels and employment opportunities for all Malaysians irrespective of race. The aim of the NEP was restructuring of the Malaysian society by correcting the economic imbalances among the races and regions. The target for the real GNP growth was set at 6.8% p.a. with investment rate estimated at only 17.0%. There was no explicit mention of the ICOR approach to planning.⁶ The employment was targeted to increase at the annual rate of 3.2%. However, since the labour force was also expected to grow at the same rate, the unemployment rate was expected to remain unchanged at 7.3%. A macroeconomic model based on essentially Keynesian framework was used for forecasting the total supply and total demand by components. The policy variables were used as arguments in the functional relationships so that various policy options and their implications could be considered. Public consumption, public investment, exports and net factor payments abroad were considered exogenous while the private consumption, private investment, stocks, imports and indirect taxes and subsidies were considered endogenous. The consumption function was based on the Duesenbury's relative income hypothesis; the investment functions were based on the induced investment (for building and construction) and acceleration principle (for machinery and equipments); and the import functions had consumption and investment as determinants.

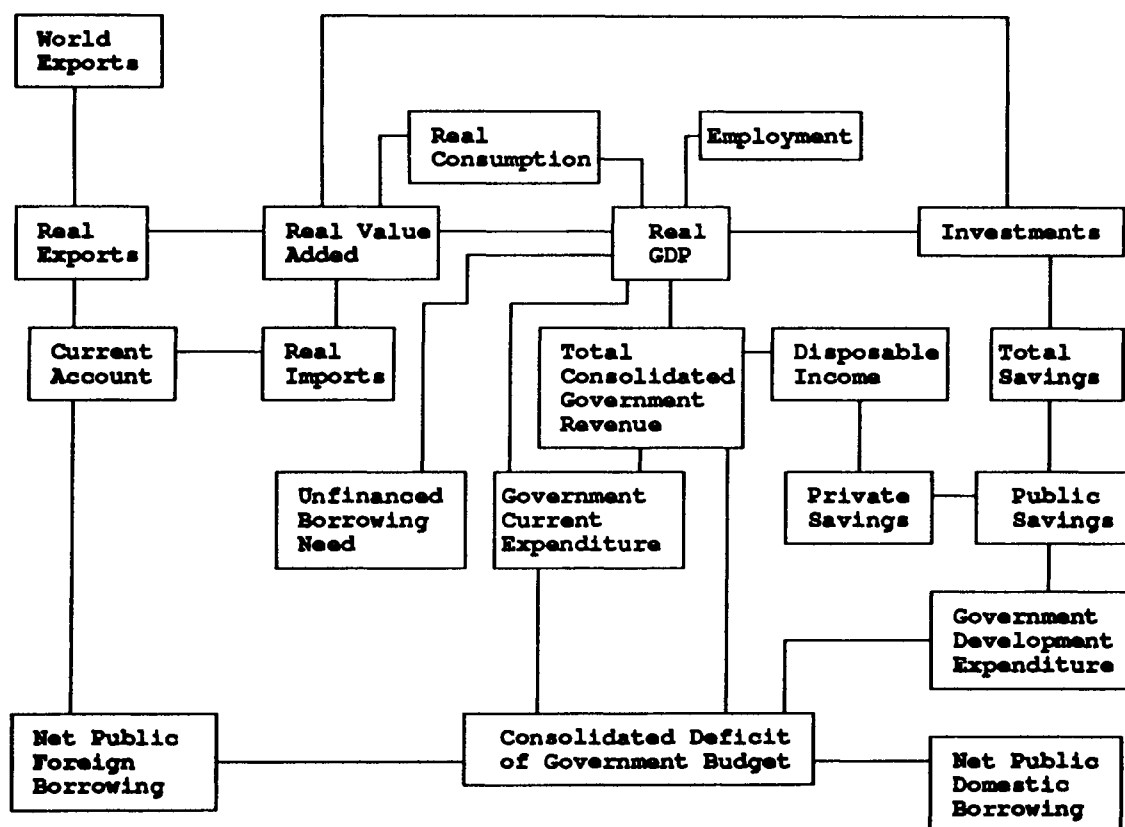
⁶ The implicit ICOR turns out to be 2.5 - so exact a figure that one suspects that it was perhaps implicitly assumed by the planners to calculate the overall national investment targets. The actual ICOR for the previous plan (1966-70) turned out to be 2.6 against the assumed ICOR of 3.9. This is because the actual growth of GNP was 6% p.a. and the investment rate averaged at 15.8%.

In the Third Malaysian Plan (1976-80), the two-gap macroeconomic framework was used for deriving consistent demand- supply projections. It is basically an extension of the simple Harrod-Domor framework to consider the question of consistency between aggregate demand and supply in the light of the external trade balance and internal resource gap. Thus, the two-gap framework explicitly addresses the question of financing the plan in a consistent manner. In order to further test the internal consistency of the estimates, an Input-Output Table for the West Malaysia was used.

The fourth (1981-85) and fifth (1986-90) Malaysian five year plans were based on the general equilibrium model of the economy. An Input-Output framework was used as the fundamental system but the sectoral outputs were constrained by availability of the human and physical capital. The private consumption was linked to the factor incomes generated out of the production process explicitly considering the employment of factors and the rates of factor rewards. Through the demand and supply of factors of production, the income distribution was generated. The detailed model has 259 endogenous variables and 31 exogenous variables. Several of these variables represent sectoral disaggregation.

An overall framework of the basic model indicating the direction of processes and causalities assumed in the model is sketched in Chart-1. From the chart, one can readily see the important place accorded to the volume of world exports in the whole framework. It is seen as the most primary variable affecting almost all important aggregate in the whole Malaysian economy. The quantitative estimate of this model would capture the sensitivity of the economy to changes in the external environment and thereby bring out the issues involved in economic planning in a consistency frame for an open economy like Malaysia.

Chart 1: Framework of the Macro Model



Source: Imakoa H. et al (1990) and Economic Planning Unit, Malaysia

The model is solved through iterative process and as such involves a huge econometric exercise. To begin with, the output prices are determined with the help of given rates of profits and wages. With the output prices available, output levels are solved on the assumption of competition in the markets. Given the level of output and the production technology in form of production functions, demand for the factors of production are determined. However, the implicit rates of factor prices may not be clearing all the markets. The market clearing rates are therefore re-fed into system to repeat the whole exercise. This is an iterative process. The system is further constrained by the output levels representing the sectoral targets which are checked for their internal consistency through the Input-Output table. The level of investment would be varied until the employment targets are fulfilled. The prices - both for product and for factors are assumed to be fully flexible. As a consequence, the model provides an efficient solution where the profit rates, product prices and wage rates ensure full utilization of capital and labour. However, the whole system is highly susceptible to the forecasts of external environmental variables which are obviously not within the control of the planners.

IV Planning Process in Malaysia

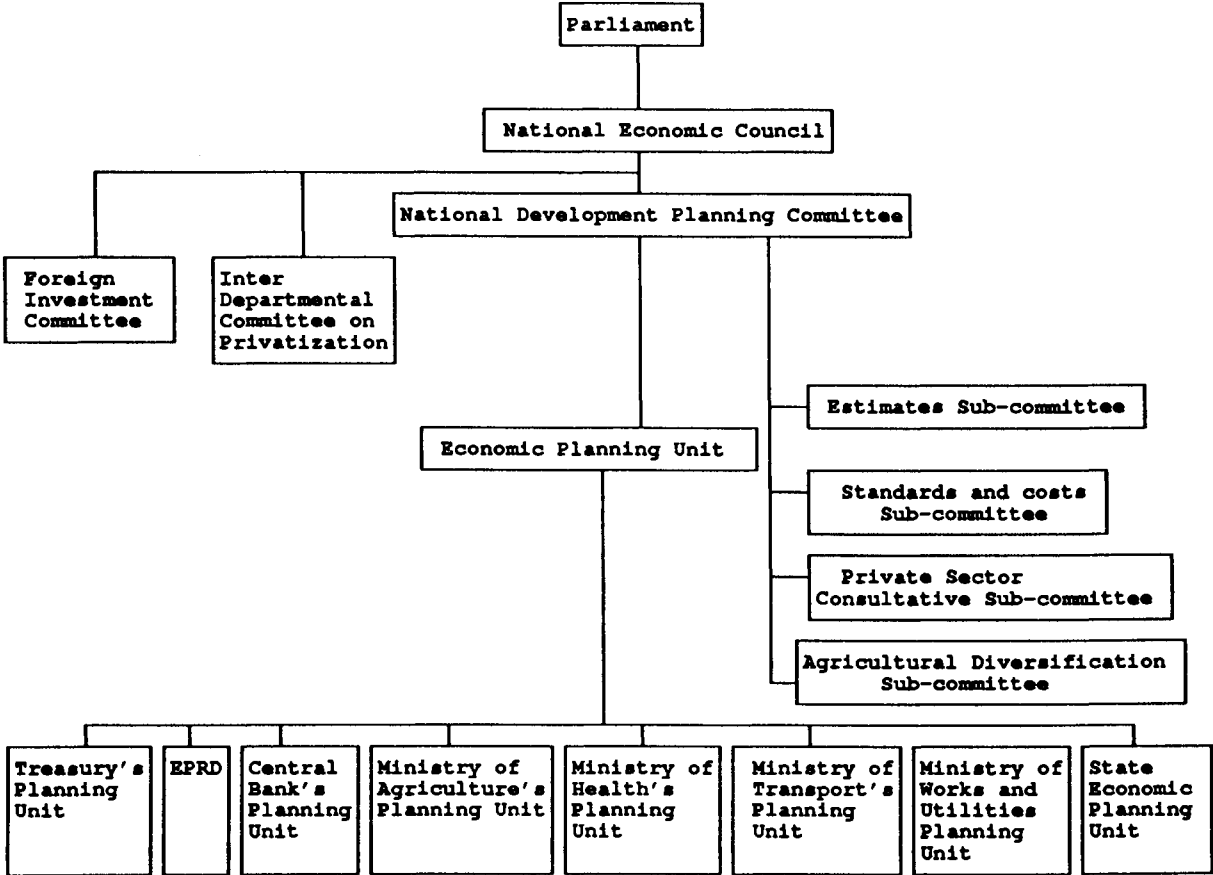
There are three regional levels of economic planning in Malaysia viz. Centre, State and District. Chart 2 presents the organizational set-up of the Malaysian planning machinery at the central level. As can be seen from the chart, the supreme authority is the Parliament. The National Planning Council (NPC) consists of senior ministers from the cabinet. It is responsible for matters pertaining to the major public policy decisions affecting the national economic development. The National Development Planning Committee (NDPC) which consists of senior bureaucrats is responsible for formulation and review of all plans for national development. It also makes recommendations on resource allocations to the sectors and projects. The Foreign Investment Committee (FIC) also made up of senior bureaucrats considers applications from the private sector and foreign investors willing to invest through acquisition of assets, mergers or takeovers of business entities. The members of Inter-Departmental Committee on Privatization (IDCP) are again senior bureaucrats not only from the government secretariats and departments but also from important governmental agencies. The Economic Planning Unit (EPU) is the central staff agency of the government that acts as a secretariat to the NPC, NDPC, FIC and IDCP. Chart-3 outlines the internal organizational structure of EPU and briefly describes the functions of the division and sections.

At the state level, the planning and implementation machinery in Malaysia is briefly outlined in the Chart 4. There is a constitutional distinction between state and federal powers. For revenues, the states typically depend on the centre. The constitution also provides a formula agreed by all states for sharing the revenues. The state governments also have their own sources of revenue like land, estates, entertainment, etc. It is, however, not very substantial since the base is narrow. In terms of sharing responsibilities also the federal government plays a major role, e.g. defence, internal security, health, education, industrial development, other infrastructural development responsibilities, etc. are with the federal government. The tourism, socio-cultural and religious powers and land and natural resources are constitutionally under the jurisdiction of the state governments.

The State Executive Council (SEC) is the final authority at the state level. It is headed by the Mantri Besar (Chief Minister) and has 8 councilor members and 3 members from state level bureaucracy. The planning functions at the state level are carried out by the State Economic Planning Units (SEPU) which is directly responsible to the state government but work very closely with the federal agencies, particularly EPU. The SEPU basically coordinates all the activities related to planning at the state level as shown in the Chart-4 through its linkages with several committees. The SEPU's main task has been to collect, collate and combine proposals from various departments of the government and forward the same to the centre (EPU). At the centre, a detailed scrutiny of the projects takes place with the help of respective ministries. There are well-defined criteria for each sector/programme on which the scrutiny and pruning take place at the centre. For facilitating the formulation of plans at the state level, the centre does provide prior information on financial ceiling to the state

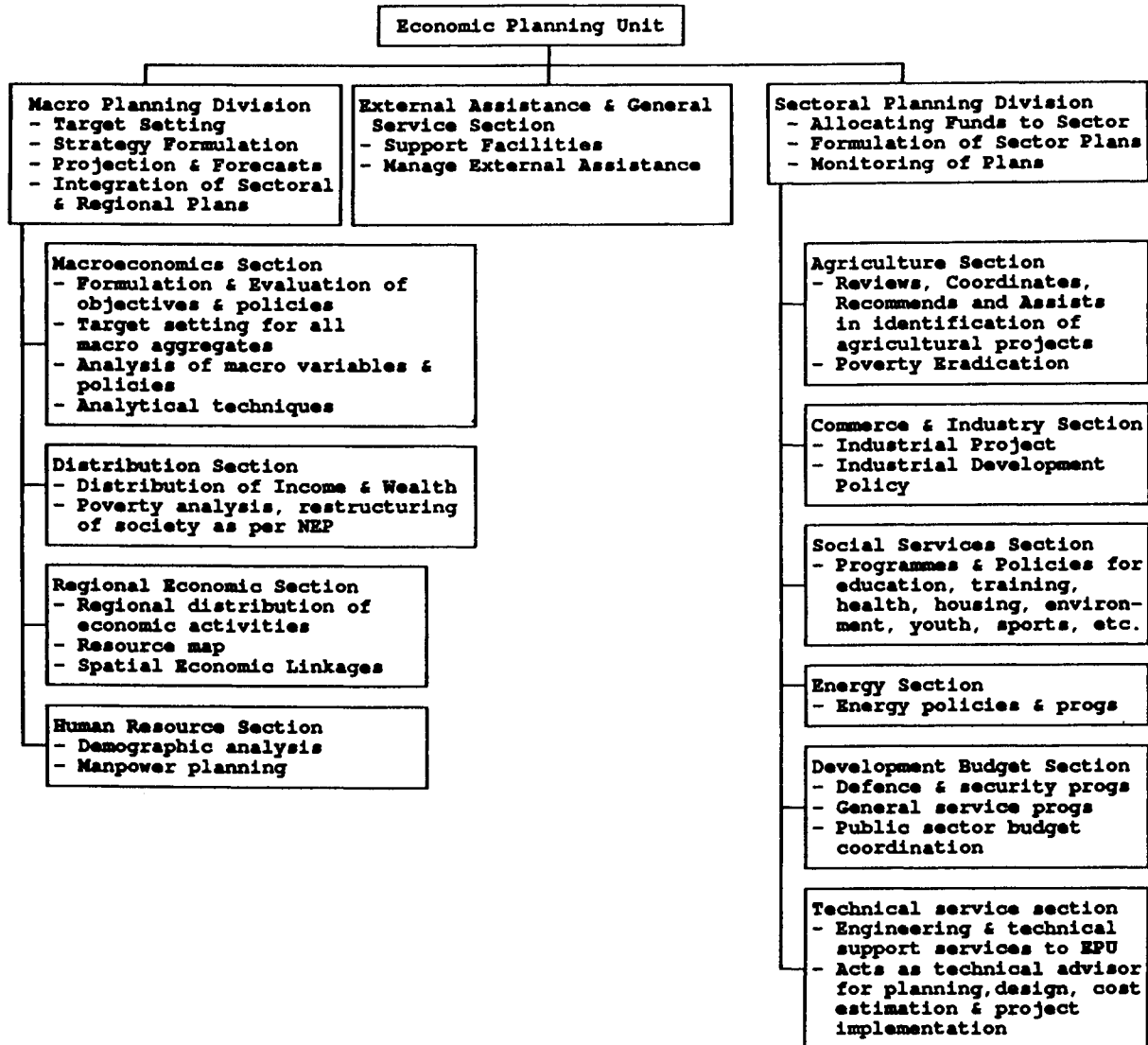
governments. However, the latter do not consider it relevant for their planning exercise. Thus, the top-down financial flows are essentially ignored. The bottom-up physical flows of project/scheme proposals have to be, therefore, dovetailed only at higher levels of planning. Thus, prioritization of projects/schemes takes place first at the state government department level and then at the SEPU level within a sector. In this process, inputs from Ministers and people's representatives are considered through various committees. The intersectoral priorities are, however, decided only at the national level. The entire process has so far been harmonious.

Chart 2: Organizational Set-up of Malaysian Planning Machinery in Phases



At the national level, the EPU is not entirely responsible for the final intersectoral priorities. It is merely a recommendatory body. The NDPC is ultimately responsible to formulate and review all the plans. It is the NDPC which is responsible for the allocation of resources. The targeted goals and objectives and the recommended allocation of resources based on the priority structure emerging at the EPU may substantially change at NDPC. In order to minimize technical complications, the NDPC insists on consensus in order to introduce such changes. It may use its own discretion in this regard and can refer such matters regarding plan proposals directly to the NPC or cabinet for approval.

Chart 3: Internal Organizational Structure of EPU



The lowest planning level in Malaysia is the district as noted earlier. At the district level the main area of concentration is social development. The administration at the district is headed by a District Officer (DO). He is usually drawn from the public service cadre. The qualifications required for DO are 10 years of working experience and graduate degree in any discipline. He is most important functionary in the whole process at the district level. The personnel capabilities impose the major constraint because both in terms of quality i.e. skills and quantity i.e. manpower there is genuine scarcity. The main function of DO is coordination among sectors and departments on all aspects. There are three main areas which a DO has to look after.

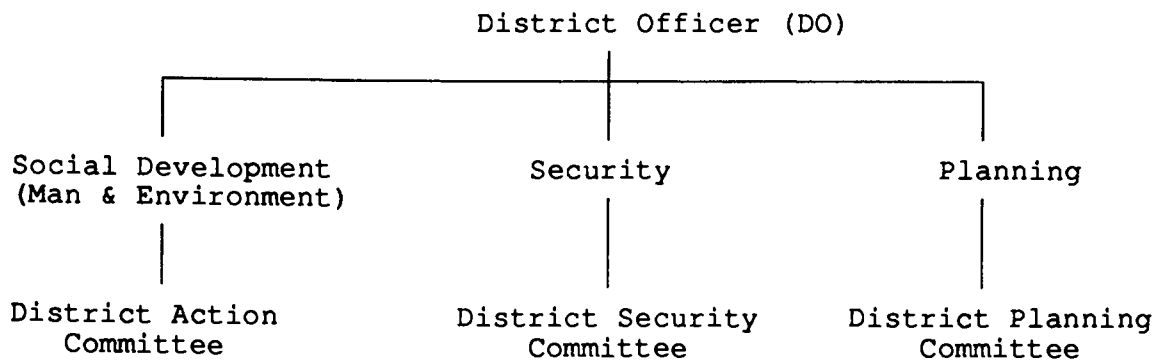
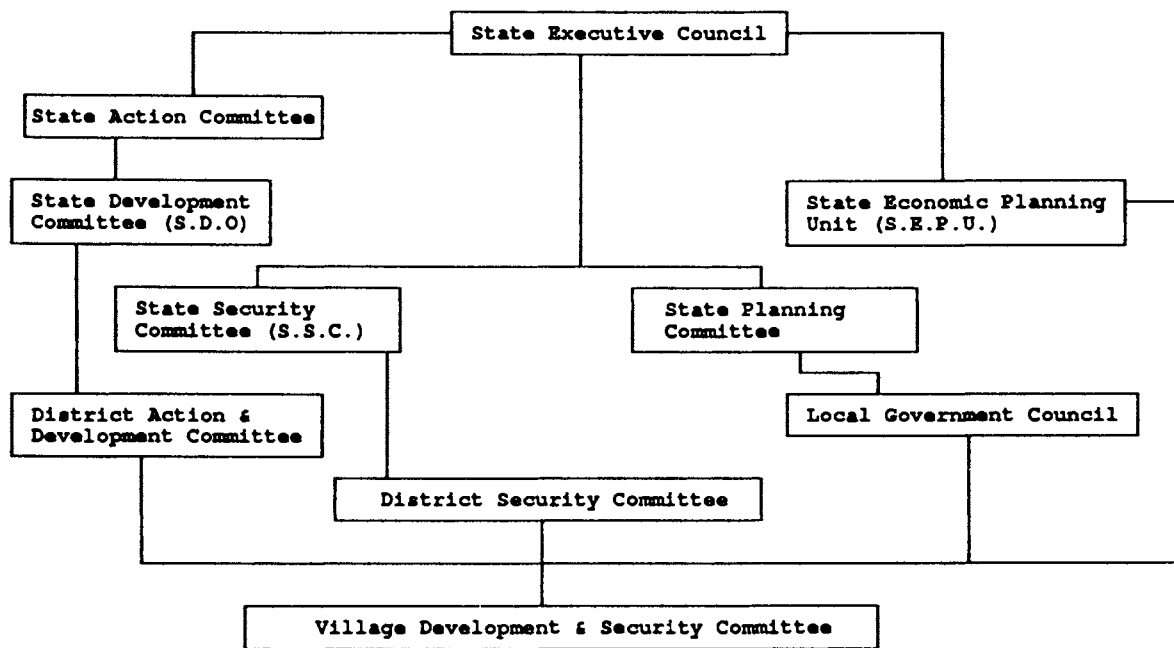


Chart 4: State Level Planning and Implementation Machinery



DO is also responsible for the implementation of some direct plan programmes and projects because some funds flow from the P.M.'s Department through SDO to DO for implementation. In such projects/programmes/schemes, technical sanction is not needed. For the rest of the programmes, the DO has limited powers of technical sanction for minor projects, say not exceeding M\$ 50,000. The DO is in charge of coordinating all agencies and departments at the district level for implementation and formulation of five year plans. The District Planning Committee assists DO in prioritising project proposals received from below. These priorities are, however, within each sector. Intersectoral priorities are left to the state and higher levels of planning.

The levels below the district are Mukim (Block) and Kampung (Village), but planning functions are hardly carried out at that level. The Village Development and Security Committees are proposed and are also functioning in some states. The members in these committees are all appointed and not elected. They are selected from different walks of life so as to adequately represent the people. Ethnic considerations are also taken into account. These committees and the ones at higher levels are currently seen as substituting hard data⁷ required for prioritization. The main argument for the existing arrangement is that the districts are not very big after all and are more or less homogeneous in a given state. Therefore a DO whose term is normally 3 to 4 years and who is invariably a local person, hardly finds any problem of familiarity with local conditions. The prioritization and selection of projects and schemes by DO and DPC is, therefore, considered to serve the same purpose as people's participation.

V Sectoral Allocations

Sectoral priorities in the public development expenditure in different plans in Malaysia are summarized in Table 3. The table shows the sectoral allocations originally planned as well as obtained actually when the plans were implemented. The whole economy is divided into three broad sectors: a) Economic sector which includes agriculture, infrastructure and industry; b) social sector

⁷ The Data Bank project at District level is currently under progress.

which includes education, health, housing and other services; and c) General sector which comprises of administration and security.

	FFYP		SFYP		IMP		2MP		3MP		4MP		5MP	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Original	Revised
Economic sector	69.2	78.9	68.8	66.5	59.0	63.3	71.6	72.3	59.3	64.0	60.6	75.3	76.0	76.2
Agriculture	23.1	23.6	25.5	17.7	23.2	26.3	23.1	21.7	20.8	22.1	16.4	11.8	17.2	16.0
Infra-structure	44.7	54.0	42.1	46.6	33.9	33.7	32.8	34.1	24.8	26.6	29.8	36.2	44.7	43.2
Industry	1.4	1.3	1.2	2.2	1.9	3.3	15.7	16.5	13.7	15.3	14.4	27.3	14.1	17.0
Social sector	18.5	14.4	22.8	15.6	21.4	17.8	14.0	13.7	17.6	17.2	21.7	13.5	13.1	17.2
Education	8.3	6.3	12.1	8.9	10.3	7.8	7.4	6.9	6.9	7.3	9.3	6.3	8.1	12.5
Health	4.3	2.3	6.7	3.8	4.2	3.5	2.2	1.8	1.7	1.5	1.6	1.0	1.0	1.5
Housing	5.9	6.8	3.7	2.6	4.6	4.9	2.3	2.4	5.5	6.1	8.3	5.3	2.9	2.2
Other services	n.a.	n.a.	0.3	0.3	2.3	1.6	2.1	2.7	3.5	2.3	2.5	0.8	1.1	1.0
General	12.3	6.7	8.4	17.9	19.0	18.9	14.4	14.8	23.1	18.8	17.7	11.2	10.8	6.6
Admini- stration		6.7	4.1	6.3	2.8	3.2	3.6	3.6	2.8	2.2	1.8	1.1	4.0	1.6
Security	n.a.		4.3	11.6	16.2	15.7	10.8	10.4	20.3	16.6	15.9	10.1	6.8	5.0
TOTAL	00	100	100	100	100	100	00	100	00	100	00	100	100	100

Notes: n.a. - not available; FFYP: First Five Year Plan; SFYP: Second Five Year Plan
 1MP: First Malaysian Plan; 2MP: Second Malaysian Plan; 3MP: Third Malaysian Plan; 4MP: Fourth Malaysian Plan; 5MP: Fifth Malaysian Plan
 Source: Jomo K.S. (1990); p.108.

From Table 3, it can be readily seen that there have been frequent shifts in the emphasis on different sectors in the planned allocation of resources in Malaysia over the entire plan period. The first Malaysian plan (1966-70) allocated considerably higher proportion of resources to security cutting the allocation drastically to the economic sector. In the second plan (1971-75) a significant shift in allocation of resources occurred in favour of industry from 1.9% in first plan to 15.7% in the second plan. This shift was, however, at the expense of both the social sector and security. In the third plan (1976-80) allocation to the economic sector was significantly reduced to accommodate increases in security and the social sectors - largely housing and other services. The most affected economic sector during the third plan was infrastructure which rose sharply during the fourth plan (1981-85) but only at the expense of agricultural sector. The social sector continued to receive higher and higher priority, but this time, it is in education and housing. The allocation of resources to security fell relatively. In the fifth plan (1986-90), the security allocation fell sharply to only 6.89% and allocation to the economic sector increased sharply to 76% with infrastructure receiving a substantially higher priority (44.7%) as compared to the fourth plan (29.8%). The social sector again sharply declined in the fifth plan allocation with the major reduction falling on the housing sector. This brief description of trends in the resource allocation among sectors in the Malaysian plans clearly suggests that, barring a clear shift in favour of industry in the second plan (1971-75) which was then maintained subsequently, no long term consistent and persistent strategy for planned intervention in

the functioning of the economy is discernible. Planning in Malaysia appears to be more a matter of short term responses of the government bureaucracy to the changing environment and the problems created by it.

This impression is further strengthened when we compare the actual allocations among sectors with the planned allocations in each of the plans. In almost all Malaysian plans, the actual or ex-post priorities turned out to be considerably different from the planned or ex-ante priorities assigned to different sectors. The only exceptions to this are the second Malaysian plan (1971-75) and to some extent the third plan (1976-80). When we consider this question in the light of the discussion on the planning process in Malaysia, the deviations of the ex-post priorities from the ex-ante priorities are hardly surprising. What it suggests is that considerable discretion is used and changes take place at the stage of implementation of the plan. Table 4 presents the percentage plan fulfilment by sectors for each of the Malaysian plans. Except the second Malaya plan (1961-65) and the fourth Malaysian Plan (1981-85) all other plans suffered from partial fulfilment of the overall plan expenditure target. The percentage of the plan expenditure target fulfilment varied considerably from sector to sector not only across the plans but also within a given plan.

Table 4 Public Development expenditure - Performance in Plans (%)							
	Plan Fulfilment: Actuals as % of Targets						
	FFYP (1956-60)	SFYP (1961-65)	IMP (1966-70)	2MP (1971-75)	3MP (1976-80)	4MP (1981-85)	5MP (1986-90)*
Economic sector	97.4	119.3	99.1	96.0	73.4	188.4	71.5
Agriculture	85.6	85.93	102.5	89.9	72.3	109.1	66.7
Infrastructure	101.4	136.5	92.9	99.4	72.8	184.4	68.9
Industry	76.3	218.9	167.2	100.6	76.3	287.0	85.8
Social sector	65.3	84.2	77.1	94.2	66.2	94.0	94.0
Education	63.8	91.0	70.0	88.5	71.9	102.6	110.8
Health	25.4	70.3	77.4	76.7	58.1	97.0	104.2
Housing	96.8	86.8	98.6	97.8	75.7	96.8	53.5
Other services	--	96.7	65.7	76.3	44.2	51.0	63.9
General	--	261.9	93.0	93.1	55.7	96.0	43.3
Administration	46.0	189.7	109.3	94.3	53.9	90.7	28.6
Security	--	330.0	90.2	92.7	55.9	96.8	51.9
State government	--	--	--	--	--	--	--
TOTAL	87.6	123.3	93.2	95.8	68.1	164.4	71.4

* Plan Revisions as % of originals.
 Note: Abbreviations as in Table 3.
 Source: Jomo K.S. (1990); pp.106-107.

VI. Concluding Remarks

The above discussion of the planning experience in Malaysia raises some issues. Planning in a consistency framework does not mean following elegant planning models sophisticated in econometric

estimation with inbuilt checks for testing internal consistency. The planning processes play an equally important, if not more dominant, role in deciding the final structure of the plan. Sophisticated forecasting and planning techniques largely serve as the pre-condition for ensuring consistency. Ultimately, it is the planning process containing a large number of non-quantifiable variables that determine the final shape of the plan. It is perhaps for such reasons that most of the Malaysian plans have preferred not to reveal details of the methodology used for making the forecasts of the macro aggregates as well as for deriving the sectoral allocations of the public development expenditures. Apart from the considerations of the nature of uncertainty and tentativeness attached to such forecasts e.g. forecasts for ICORs or for exports (which represent more the judgements of the planner than any logical derivation), the aspects of flexibility and subjectivity would also have weighed in such decisions. Unless the planning processes are appropriately designed and strengthened, the plan in practice may differ substantially from the plan on paper. Under such circumstances, the issue of whether or not long term or medium term economic planning in an open economy like Malaysia is desirable and advisable, becomes highly relevant.

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