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TRADE AND FINANCING STRATEGIES: A CASE STUDY OF MALAYSIA

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Acknowledgements

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This working paper is one of five country papers prepared as part of a study of the appropriate choice of external strategies for intermediate level developing countries in the difficult trade and investment conditions of the 1980s. An earlier stage of the project analysed the experience of 25 intermediate and more advanced developing countries to determine whether the lessons that have been drawn from the most successful appeared to apply to a larger number, and under differing external conditions. The country studies are intended to examine the same questions at a much more detailed level. It is hoped that a final report drawing conclusions from both parts of the study will be published in 1988. The project is directed at ODI by Sheila Page. We are grateful for financial support from the Overseas Development Administration, the Economic and Social Research Council, and the International Development Research Centre of Canada, but they are not responsible for the views expressed here.

Working Paper No. 20 Colombia
Working Paper No. 21 Malaysia
Working Paper No. 22 Thailand
Working Paper No. 23 Zimbabwe

The fifth study, on Peru, will be published later in 1987.

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1. INTRODUCTION

During the 1970s, the Malaysian economy had the characteristic features of a small open economy exposed to cyclical changes in world economic activity. Given the small domestic market and a comparative advantage only in primary exports, an ability to obtain stable foreign exchange earnings to finance development is still limited. This shows how dependent the Malaysian economy is on the fluctuating fortunes of its trading partners, particularly in the OECD countries.

Chart 1 shows that the 1970s were marked by a high degree of co-ordination between the growth of exports and of gross domestic product (GDP). During this period, on three occasions exports increased significantly, reaching an annual growth in excess of 16 per cent; on the downturn, they fell by about 3 per cent. These ups and downs testify to the fact that the external sector was an important contributing factor to the cyclical economic instability experienced throughout the decade. In the 1980s, counter-cyclical stabilisation policies and export booms and recessions have exerted a lesser influence on growth rates.

Economic planning has been a hazardous exercise in the Malaysian context. The risk of economic plans being derailed by external forces is indeed high. For example, the Fourth Plan (1981-5) had anticipated soaring oil prices and generally high commodity prices in the 1980s, an expectation which has turned out to be totally unrealistic. Consistent with its generally optimistic outlook, the Plan had envisaged an average real GDP growth rate of 8 per cent per annum in the first half of the decade and a faster growth of 8.5 per cent in the second half.

It is common knowledge that the early 1980s did not turn out to be as good as the Fourth Plan had hoped. The economic growth rate has continued to decelerate; in 1985 it fell to -1 per cent. This suggests that the prognosis for the second half of the decade does not appear to be promising either. A preliminary estimate has put the growth rate for 1986 at 0.5 per cent. A major turnaround is not likely to occur until the late 1980s. Commodity prices are also unlikely to pick up significantly in the foreseeable future. The implications for the growth of exports, savings, investments and income are indeed serious.

The Mid-Term Review of the Plan, which was released in 1984, scaled down the planned targets in the light of the ongoing recession.

In the market-oriented economy of Malaysia, where the freedom of the market is respected and the private sector remains dominant, development planning can only play an indicative role. In other words, development plans are meant to be no more than guide posts, indicating the directions in which sectoral developments are expected to proceed. The implementation of any plan, in the final analysis, will be heavily influenced by international and domestic market forces.

No doubt, the Fourth Malaysian Plan, which constituted an important link in the twenty-year Outline Prospective Plan (1971-90), was bold and innovative. Many of its diagnoses were realistic and many of its prescriptions were capable of implementation. The Plan's main weakness lay in its failure to come to grips with the harsh realities and baffling dynamics of the 1980s; its approach was oversimplified and its assumptions too heroic. In fairness to its architects, it must be pointed out that the protracted current economic slowdown has taken all pundits by surprise and no-one could have expected it to last so long.

Even the current Fifth Plan (1986-90) became obsolete before it was launched. Although it seems sober and modest in contrast to the Third and Fourth Plans, its target of 5 per cent average annual growth over the second half of the decade is clearly far-fetched. Much will, of course, depend on how the external sector performs and how the private sector reacts. It is noteworthy that development expenditure in the Fifth Plan is 8 per cent lower than in the Fourth.

Recession alone cannot be blamed for the derailment of the development plans. There are also problems of a structural nature which the plans have not addressed in a down-to-earth and pragmatic manner. The unwillingness or inability of the industrialised countries to bring about structural adjustments in their economies has created problems for countries like Malaysia, and serves to stress the need for them to take a hard look at their economic objectives and strategies. There is no suggestion here that Malaysia should reverse its outward-looking

policy, for such a reversal would not be in its long-term interest, given its factor and resource endowments and the constraints of the domestic market. But there is certainly a need for it to respond positively to the challenges of the 1980s by restructuring its own economy in line with the shifting pattern of comparative advantage and by actively seeking new markets for its products so as to reduce its overdependence on the markets of the industrialised countries.

When the first oil price rise occurred Malaysia was still a net importer of oil. The oil shock certainly had deflationary effects on the Malaysian economy but these were cushioned by the general commodity boom of 1973-4. At the time of the second oil price rise in 1979-80, Malaysia was still experiencing boom conditions largely supported by rising prices for agricultural commodities. In addition, it was also a net exporter of oil. So the country in fact benefitted from the second oil shock. The oil account trade balance steadily increased from M\$607 million in 1976 to M\$3.4 billion ('000 million) in 1980; crude petroleum exports grew by 29.5 per cent and their share in total commodity exports increased to 25 per cent in 1980. The surpluses continued to exist despite the implementation of an oil depletion policy which slowed the rate of domestic extraction during 1979-80.

In the early 1980s, the government pursued countercyclical domestic policies to protect domestic incomes and employment levels from the unstable external conditions. These in part were based on the hypothesis that the recession would be short-lived as in the past. Expectations were that the turn-around would begin by about mid-1982, but the recession continued and, with declining revenues and increased cost of borrowings, there were constraints on the government's financial position which reduced its capacity to continue the countercyclical policies.

The expected turn-around in this economic growth of the industrialised countries, particularly the US, came around mid-1983. Record US trade and budget deficits in 1983-84 spurred a strong capital and consumer demand leading to a growth rate of 4.9 per cent in 1984 from 2.6 per cent in 1983. Restrictive monetary policies were introduced in the

US to contain inflation and this generated new capital inflows and thus strengthened the US dollar against all other currencies. With these developments, world trade began to expand, with exports to the US increasing at a faster pace. Malaysia increased its share of exports to the US by 22.7 per cent between 1983 and 1984.

From 1985, it became clear that US policies were proving detrimental to domestic industries and calls were made for increasing protectionism as exemplified by the Jenkins Bill with respect to textiles. Outright protection was rejected in favour of lowering the value of the US dollar which would increase the competitiveness of the US output and promote growth, rather than stifling the recovery.

Malaysia's budgetary problems continue to persist although strong measures were taken to reduce public expenditures. For the first time in the country's history, it experienced a deficit on the operating account (M\$1.3 billion) resulting in an overall budget deficit of M\$8.8 billion in 1986. Financing a deficit of this magnitude will impose pressures on liquidity and interest rates, if further domestic borrowing is attempted. Monetary management will be tested to the full in 1987 and 1988 when a reduction is made in foreign borrowing. This will reduce the balance of payments surplus given the ever increasing services deficit unless, unusually, the trade account has a surplus sufficient to produce a current account surplus.

Economic restructuring has become necessary to promote growth and the private sector has therefore been given the main role in reactivating the economy. Various incentives have been provided to increase private investment but to date no significant changes in domestic private investment have been undertaken. Economic recession, financial scandals and political uncertainties have not provided the climate for private sector involvement.

The New Economic Policy (NEP) objectives will not be realised by 1990, and a more realistic framework is called for. There are some signs of a decrease in inter-ethnic economic disparities which is the major objective of the NEP. But there is also disturbing evidence that on the contrary intra-ethnic income inequalities are growing and need to

be arrested. It is true that the NEP's stringent requirements have resulted in huge economic rents accruing to the Bumiputra elite, but timescale of 20 years is too short and the benefits of the NEP are not being distributed evenly.

The rest of this paper is divided as follows: In section 2, the external sector is discussed in detail, with emphasis on exports, imports, the direction of trade, investment flows and the services account of the balance of payments (BOP). In section 3, the role of government and its effect on aggregate demand is analysed. In section 4 policy options are reviewed, followed by conclusions in section 5.

2. EXTERNAL SECTOR

As stated in the introduction, it is mainly the external demand for Malaysian products that dictates the pace at which the economy can move. The vulnerability of the Malaysian economy to external influences is also exacerbated by the high degree of concentration in the commodity-mix. Although exports have been diversified to some extent, commodities which have tended to figure more prominently as a result of the diversification drive, e.g. palm oil, are just as prone to price fluctuations as the traditional items like rubber and tin. The economy enjoyed a real export growth of 16-18 per cent during the three boom periods of the 1970s. Related to the imports required, the economy generally performed as a net exporter except for a brief period between 1973 and 1974 when the real export index flattened against that of imports (Chart 2).

In the 1970s, through crop diversification, new primary commodities became the mainstay of exports. The economy was able to maintain its share of world trade by providing a mix of agricultural and energy commodities required by the industrialised countries. Malaysian palm oil, an insignificant export item in the 1960s, accounted for about 45 per cent of world production in 1975. Saw logs and later in the decade petroleum were also produced profitably, sometimes in the face of fluctuating prices.

Complementing efforts in the agricultural sector, stronger non-traditional export bases were established, notably in electronics and textiles. This development insured the Malaysian economy a continued high trade share which was maintained and expanded. Manufactured export earnings, particularly from electronics, rose sharply from M\$200m, in 1973 to M\$2,832m, in 1980. The share of manufactured exports increased from 20 per cent in 1976 to more than 30 per cent in 1980.

In contrast, the 1980s, in the face of recessionary pressures, experienced a fall in real exports while the domestic consumption of imports continued unabated. Real import indices rose a third faster than exports or on average by M\$1.7 billion per annum. The

import/export ratio increased from 0.91 per cent to 1.16 per cent in 1982, largely because of the preponderance of capital imports. The countercyclical policies pursued in or around 1980 stimulated domestic absorption, and a substantial part of the growth generated was translated into imports which external revenues could not sustain. By the beginning of 1986, there was a significant decline in imports, particularly in consumption goods, where the recession and the decline in the value of the ringgit may have had the desired effects.

In the primary sector, expansion in some sub-sectors has been extremely uneven. Over-reaction to commodity price changes is not uncommon. Production is sometimes stepped up in the wake of falling prices to neutralise their effect. Producers also tend to go to extremes in their response to rising commodity prices. To make matters worse, there is increasing competition from other countries. Malaysian policies themselves may have been responsible for this phenomenon to some extent. Malaysia's large-scale acquisition of foreign interests in the plantation sector, for example, may have encouraged foreigners to step up their investment activities elsewhere. Malaysia may also be losing its competitive edge in some of its traditional export items, owing to rising production costs and falling productivity. Lack or inadequacies of R & D activities may also contribute to the erosion of the country's comparative advantage in some areas.

In the manufacturing sector, which was expanding rapidly in the 1970s, bottlenecks tend to thwart further expansion. Industries that cater for the domestic market are already experiencing market saturation, while export-oriented industries are beset by the current global slowdown and protectionist barriers. The ambitious drive towards heavy industrialisation, launched in the early 1980s, has aggravated the situation not only by diverting scarce resources away from other industries but also by imposing additional constraints and costs on the economy.

2.1 Direction of Trade - Exports

General trends in exports can be seen in Tables 1 and 2. With the exception of cocoa and LNG, the performance of the other major commodities reflects a declining trend. Exports of rubber have gradually declined over the period 1970-83. Singapore remained the largest outlet for Malaysian rubber although the volume exported has diminished. During the period 1975-80, there was an upsurge in the exports of petroleum and petroleum products, mainly destined for Japan and Singapore, but in 1983 they fell slightly. Tin has performed particularly badly, declining drastically by about 50 per cent from 23.4 per cent in 1970 to 10.70 per cent in 1980 and to 5.6 per cent in 1983, most of it being exported to the Netherlands and Japan in the form of unalloyed, unwrought tin. Increasing quantities are now being exported to the USSR. In recent years, palm oil exports have witnessed a shift towards developing countries such as Pakistan and India, while exports to Japan and the United Kingdom have decreased. Exports of copper are small and directed mainly to Singapore and Japan. Over the years, there has been a significant drop in pepper exports from 1.2 per cent of total exports in 1975 to 0.4 per cent in 1980 and further to only 0.2 per cent in 1983. Singapore continues to be the main buyer, of both black and white pepper. In contrast, exports of cocoa, raw or roasted, have increased substantially, from 0.10 per cent in 1970 to 0.70 per cent in 1983, the principal markets being Singapore and the Federal Republic of Germany (FRG).

Exports of wood and cork have dropped slightly, mostly taken up by China, (44.7 per cent), Hong Kong (10.5 per cent), the Netherlands (10.4 per cent), Japan (0.5 per cent), and Korea, (6.5 per cent) in 1983.

LNG, natural and manufactured gas, has been exported since 1983 solely to Japan. In the case of manufactured products, textiles, yarns and fabrics have fared unfavourably, with total exports contracting from 1.7 per cent in 1980 to 1.2 per cent in 1983. Exports of articles of apparel fared only slightly better, and are destined mainly for the USA and the EEC. Positive growth has been registered for the export of electrical machinery, with exports moving upwards by over 54 per cent in 1975 and 58.2 per cent in 1983.

2.2 Structure of Imports

The structure of imports during the period 1970-84 (Table 3) can be classified under the following headings:

- a. 1970-75 import substitution
- b. 1976-80 boom conditions and import preference
- c. 1980-84 continued import preference
- d. 1984-86 a general decline.

During 1970-75, imports of investment goods were rising rapidly to meet the high investment demand generated particularly by the public sector through the implementation of the NEP. Intermediate goods also grew at a pace marginally higher than the GNP growth rate. Consumer goods imports, on the other hand, lagged behind. During 1976-80, a period of unprecedented growth, all three categories grew significantly and well ahead of the GNP growth rate and this continued in the 1980s, in the face of international recession, until 1985, when total imports declined by 7.3 per cent, followed by a further decline of 8 per cent in 1986.

Of the three categories, the import of investment goods has been increasing fastest, particularly investment goods for manufacturing. Intermediate goods eventually go into the production of consumption goods. Not only is Malaysia importing more final consumer products, but it is also investing heavily in plant and machinery that rely heavily and increasingly on imported intermediate products.

Therefore, net export receipts from the export of manufactures must have declined implying that net foreign exchange savings diminish as the imports of investment goods rise.

That investment goods imports have risen faster than intermediate goods even in the 1980s is due to the country's desire to industrialise. But the sharp rise in consumer durables relative to all other categories implies that consumers prefer imported consumption goods.

If one estimates import responsiveness to changes in income (income elasticity), consumer durables rank very high. Intermediate goods also have an income elasticity higher than one. This implies that the import share of GNP is rising, resulting in current account deficits. Imports as a percentage of GNP rose to 50.7 per cent in 1982 and since then declined marginally to 47.8 and 44 per cent in 1983 and 1984 respectively.

The clear trend in the increase in the volume of imports suggests that it is largely due to an increase in volume rather than prices (Table 3), whereas export volume increased by only 15 percentage points, implying a stagnant growth in exports in the 1980s. Malaysia's terms of trade in the 1980s stagnated, basically reflecting the rise in import volumes. Imports constituted an extremely high proportion of the domestic market, reflecting the high import content nature of domestic production.

During 1984-85, food and consumer durable imports declined by 2.3 and 6.1 per cent respectively, and are still declining. A significant drop (11.2 per cent) was registered in the imports of investment goods, and they declined further in 1986, largely reflecting cutbacks in government investment and the unfavourable economic climate which made private investment unprofitable.

The growth in manufactured exports, encouraged by the depreciation of the ringgit, is shown in the increasing imports of intermediate goods for manufacturing. Imports of intermediate goods for construction declined by 25.2 per cent during 1984-85, largely indicating the extremely slow growth in the construction industry. In total, imports of intermediate goods dropped by 7.6 per cent during the same period. Further declines in various categories of imports were experienced in 1986, as the economy adjusted itself to the recessionary environment.

2.3 Direction of Trade: Imports

Machinery and transport equipment form the largest share of the total imports, almost 39 per cent in 1980 and rising to 42.8 per cent in 1983. Manufactured goods have consistently accounted for around 16 per cent of total imports over the period 1975-83. There has been a slight drop in the imports of mineral fuels from 15.2 per cent in 1980 to 13.8 per cent in 1983 and these are mainly imported from Singapore.

Food and live animals come mainly from Thailand and Australia and have shown a gradual decline from 16.4 per cent in 1975 to 8.3 per cent in 1983. Chemical imports averaged about 8.3 per cent of total imports during 1975-83; the USA, Japan and the FRG are the major chemical suppliers. Imports of minor items such as beverages and tobacco comprised less than 1 per cent of total imports during 1980-83 and are mostly imported from the US and France.

Japan, the US, Singapore and the FRG continued to be the major suppliers, accounting for 60.4 per cent of total imports in 1983. Among the major trading partners, Japan maintained the leading position, reflecting mainly the increase in imports of machinery and transport equipment. All this can be seen in Table 4, which provides data on imports by source of supply.

2.4 Investment Flows

Foreign investment in Malaysia consists of both direct and portfolio components. External linkages established by direct investment are much stronger and more lasting. Direct foreign investment may be further categorised into:

- (1) joint ventures
- (2) wholly foreign-owned projects
- (3) turnkey operations
- (4) licensing and franchising operations and
- (5) management contracts

Joint ventures account for the bulk of the direct foreign investment. New forms of foreign investment, namely licensing and franchising arrangements and management contracts, are growing in importance.

Table 5 presents foreign investment in companies by country as at the end of 1983. It is evident that Singapore, Japan, and the United Kingdom are the most important sources of foreign investment; jointly they accounted for about 66 per cent of gross foreign capital investment and more than 59 per cent of foreign fixed assets.

Table 6 provides comparative statistics relating to four of the most important sources of foreign investment by industry. The bulk of Singapore's capital has been in food manufacturing, non-metallic mineral products and basic metals. The pattern is very different for British investment: food manufacturing, beverages and tobacco, chemical products and petroleum represent the major industries of importance to British investors. The American investment interests in Malaysia are somewhat similar to the British in terms of industrial coverage, except for the strong American presence in the electrical and electronics industries. Japanese investment has centred on textiles and the electrical and electronics industries; these represent the two most important export-oriented manufacturing activities in Malaysia, which are also labour-intensive. It appears that investments from Singapore and Britain have gone mainly into import-substitution activities. American investment also seems to focus on activities which cater for the Malaysian domestic market, with the notable exception of investment in the electrical and electronics industries in the Free Trade Zones which are completely export-oriented.

On the basis of the above observations alone, one should not jump to the conclusion that Japanese investment has a stronger export orientation than American investment in Malaysia. Not all investment in apparently export-oriented activities (eg. textiles) can be regarded as really 'outward-looking', since a substantial proportion of such industries' output is also marketed locally. In fact, there is some evidence to the contrary: it appears that Japanese affiliates in Malaysia sell the bulk of their output in the local market, while American affiliates export the bulk of their output, and that export

sales to the investors' home country account for a much smaller proportion of total sales for Japanese firms than for American ones. Thus, not only do Japanese firms in Malaysia export a smaller proportion of their output than their American counterparts but they also export much less to Japan than the American firms do to the US.

Some general observations are worth making. First, the proportion of direct investment in total private capital flows seems to be declining, although the share of private flows in total foreign resource flows has been increasing (Table 7). Second, the share of direct foreign investment in gross domestic investment also appears to be declining (Table 7). Third, the number of technology agreements with foreign companies has been increasing (Table 8). In this context, it is of interest to note that technical assistance and know-how agreements account for more than 50 per cent of such agreements during the period 1970-83. Most of these agreements have been made with Japan, the United Kingdom and the United States. All these are indicative of the shift away from the traditional foreign investment package towards 'new' forms of investment involving greater unpackaging of foreign capital and technology. This shift is largely attributable to the New Economic Policy (NEP) guidelines governing equity. The NEP target of no more than 30 per cent foreign equity share by 1990 has obviously rendered the traditional investment package unsuitable for Malaysia, although the government has recently relaxed the equity requirements in the country.

2.5 Services Account of Balance of Payments

The balance of payments (BOP) surpluses, particularly in the late 1970s, were largely supported by large trade balances resulting from high commodity prices. In the 1980s, the surpluses were trimmed owing to the significant drop in commodity prices and the sizeable increases in the services account of the BOP. The current account balance came into deficit for the first time in 1980. The years 1981-3 saw the BOP in the red, although extensive foreign borrowings were undertaken to cushion the substantial negative effects generated by the current account deficits. From 1984 to 1986, the BOP has been in surplus, largely owing to new foreign borrowings by the public sector. Despite the

drop in the oil price in 1986 (from US\$27.60pb to US\$14.76pb) Malaysia continued to register trade surpluses from 1983 onwards, but the deficit on the services account increased markedly as shown in Table 9. Some of the important components of the invisible account are investment income payments, freight and insurance, and travel.

2.5.1 Investment Income Payments

This is one of the largest items of the invisibles account deficit, with its contribution reaching 53.5 per cent of the deficit in 1985. Net investment income payments have been increasing from M\$1.8 billion in 1980 to about M\$5.6 billion in 1985. These payments comprise mainly interest rate payments on foreign loans and income accrued to foreign investments in Malaysia including undistributed profits and dividends. The relative share of investment income began to decline from 51.4 per cent in 1978 to 31.3 per cent in 1980. This was probably because of the restructuring of most of the companies involved in commodities and payment of most of the debt accumulated prior to 1980. Before 1980, investment income payments were mainly retained profits and dividends on foreign investments, but after that date the largest component of this sub-sector was the interest payments on the external borrowings of the public sector. Interest payments will probably increase from M\$4 billion in 1985 to about M\$6 billion in 1987. This trend will continue even in the face of restrained borrowing on the part of the government until the capital sum is paid.

The increase in profit repatriation is offset to some extent by the restructuring of a large number of companies. This obviously led to the reduction of foreign ownership of corporate equity from about 60 per cent in 1970 to about 40 per cent in the early 1980s. Although there was a reduction in foreign equity, the trend in profit repatriation is on the rise, probably owing to Malaysia's dependence on foreign investment in the manufacturing and petroleum sectors.

2.5.2 Freight and Insurance

Freight and insurance together are the second largest source of payments abroad, with freight forming about 90 per cent. Net payments from this sub-sector increased from M\$1.7 billion in 1980 to M\$2.2 billion in 1984, thus accounting for 30.6 per cent and 22.1 per cent of the services deficit respectively. This reflects the inadequate progress made by Malaysian shipping and air cargoes.

Efforts to reduce the size of the services bill have not been very successful, as shown by the experience in shipping. Only 15 per cent of Malaysian exports are transported in Malaysian vessels. It is the overseas importer who dictates which ship is to be used, as goods are exported on an f.o.b. basis. For example, less than 4 per cent of the cargo in the Malaysian-Japan sealane is handled by Malaysian ships, while the Malaysian presence is nil in the trade with the US and West Asia. It is significant only in the Malaysian-Europe shipping route where Malaysian ships account for 18 per cent of the cargo.

Malaysian practice has always been to export f.o.b and import c.i.f. Even if measures are taken to export c.i.f. so as to create a captive market for local export supply, which in some ways could arrest the outflows of freight payments by about M\$1 billion a year, massive investments in the shipping industry would be required. It has also been the practice of importers of Malaysian goods to nominate their own shipping vessels so that the c.i.f. on Malaysian exports accrue to them. To solve this problem large-scale investment in the shipping industry would be needed, not only to purchase new ships but also to reorganise the whole industry so as to reap the possible benefits of expanded shipping within the context of ASEAN.

3. ROLE OF GOVERNMENT AND AGGREGATE DEMAND

The role of fiscal policy in Malaysia needs to be evaluated in the context of the impact of the external sector on the government budget. Malaysia is one of the most trade-dependent economies in the world: exports accounted for nearly 62 per cent of GNP in 1980 and, as mentioned above, the economy is highly vulnerable to export instability. However, there is little evidence of export instability causing damage to the economy. This has been largely minimised through export diversification, structural leakages (imports and profit repatriation) and high internal demand.

The government's commitment to a programme of accelerated development largely stemmed from the commodity boom of the late 1970s, and the substantial growth of oil exports after 1977. During the three years 1979-83, the Federal budget remained highly expansionary; total Federal Government expenditure rose by 96.6 per cent from M\$11.7m. in 1978 to M\$26.8 billion in 1981. This sharp increase in government spending was a major factor boosting the economy in the initial phase of the current recession (Table 10).

In the 1980s the situation took a turn for the worse, particularly after 1985. Revenues rose by well over 29 per cent of GNP during 1981-85, while operating expenditures increased marginally less during the same period, giving an operating surplus of 0.7 per cent of GNP. Development expenditures, on the other hand, reached a maximum of 20.5 per cent of GNP in 1981; they declined considerably by the end of 1985 registering an average of 14.9 per cent of GNP, which resulted in a deficit on the Federal Budget of 14.3 per cent of GNP during 1981-85.

In terms of the consolidated public sector, the overall deficit was 16 per cent of GNP during 1981-85. In value terms, the overall deficit declined from M\$11.3 billion in 1981 to M\$7.5 billion in 1985 (M\$12.5 billion in 1986). Financing of this deficit during the period 1981-85 called for foreign borrowing, largely because of grossly inadequate domestic savings (Table 11). As a result, foreign borrowing was maintained at an average of 5 per cent of GNP during the period. Thus, the period of high overall deficit was also accompanied by a larger

savings-investment gap. In 1978, the savings-investment gap recorded a surplus amounting to 4.7 per cent of GNP. However, from 1980, it went into deficit amounting to 13.4 per cent of GNP in 1983.

3.1 Period of Fiscal Restraint (1985-86)

Malaysia's economic growth rate - averaging 7.3 per cent during 1980-84 - was the envy of many Third World countries. The crunch came in 1985 when the economy rapidly decelerated to register -1 per cent growth in real GDP. The balance of payments began to show signs of strain even earlier. For a country which had become used to substantial trade and overall payments surpluses and rapid economic growth for many years, the current slowdown was difficult to tolerate.

In the past, Malaysian policy makers had responded to downturns by adopting countercyclical monetary and fiscal measures with some degree of success. But, this time round, there seems to be a major policy departure in that there is considerable reluctance on the part of the government to resort to deficit financing, not because it is sceptical of the efficiency of such measures, but because it does not have the resources to spend its way out of the recession. Countercyclical policy will work effectively if reserves built up in boom years are run down in lean years. This obviously has not been the case in Malaysia. Malaysian planners have shown a strong tendency to get carried away in good times, as evidenced by many an ambitious programme mounted in the early 1980s. The heavy industrialisation programme, on which we shall have more to say later, is a classic example of the draining away of scarce resources. The financing of prestigious projects like the Penang Bridge, the activities of Non-Financial Public Enterprises (NFPEs) created under the New Economic Policy, and the outflow of foreign exchange to finance the acquisition of foreign equity interests in plantations are cases in point.

The upshot of all these has been that the government had no means to subdue the current recession. Its impact could have been less severe had the government handled the situation differently. Expansionary fiscal policies were ruled out, as they would have meant increased external borrowing. Expansionary monetary policies were postponed,

because of fear of unleashing inflationary forces. Instead, the government resorted to a belt-tightening exercise. There was a sense of withdrawal and retreat in its responses. Development targets have been pre-adjusted to changing circumstances without new targets being sought. The public sector has been assigned a low profile and the government has left the task of pulling the economy out of the recession to the private sector. The private sector response, however, has not been forthcoming, since the environment is not congenial. Economic recession, financial scandals and political uncertainties hardly constitute the climate in which the private sector can strive or thrive. Budgetary policy is under another constraint, namely political expediency. With a strong possibility of snap elections in 1986, the Budget was not able to address the recession squarely.

With the general elections out of the way, it was thought that the government would bring about significant fiscal changes in the 1987 Budget, but there were again constraints. One of these was the fact that the private sector was in such poor shape that it could not withstand tough fiscal measures. The 1987 Budget therefore contained no major tax increases. Adjustments have been made mostly on the expenditure side to cut corners wherever possible, with a few tax incentives here and there. The 1987 Budget has turned out to be yet another austerity budget, which probably makes sense, especially since government revenue is estimated to have fallen in 1986 by M\$2 billion. Even with operating expenditure slashed by M\$1.4 billion there was an estimated budget deficit of M\$1.3 billion. Total government expenditure for 1987 has been estimated at M\$27.4 billion, which is 11 per cent less than the estimate for the previous year. Operating expenditure is expected to be trimmed down by a further 6 per cent to M\$20.7 billion, and development expenditure by 25 per cent to M\$6.6 billion. Notwithstanding these expenditure cutbacks, the deficit is expected to double itself to M\$2.7 billion. It can be argued that this austerity drive is a good thing, given the severe resource constraints. But, at the same time, it cannot be denied that it has tended to have a deflationary effect, which makes the macroeconomic situation even worse.

The government kept the lid on monetary expansion too. In an attempt to stimulate investment, the Central Bank deliberately suppressed interest rates on loans and deposits. As a consequence, the loan-deposit ratio increased sharply. This has meant that banks are obliged to borrow in the inter-bank money market, with inter-bank interest rates rising to extremely high levels. The Central Bank's policy of keeping interest rates low was in conflict with its interventions in the foreign exchange market to prevent the depreciation of the ringgit, which resulted in the ringgit being mopped up. It appears that there has been too much government interference and that the Central Bank has not been free to follow what it considered to be the best policy. It is this lack of autonomy which seems to have led to much of the confusion which has come to characterise Malaysian monetary policy in recent times.

The latest Central Bank statistics show that in the first half of 1986, money supply M1 (currency and demand deposits of the private sector) declined by 0.4 per cent, while M2 (M1 plus private sector holdings of fixed and savings deposits with commercial banks, negotiable certificates of deposit and central bank certificates) increased by only 5.2 per cent, with M3 (M2 plus private sector deposits with financial institutions other than commercial banks) rising by 7.5 per cent. This compares poorly with the growth of M2 and M3 registered in the corresponding period of 1985.

The country has been denied the reflationary measures that could have provided the tonic which it badly needs. The authorities seem to be worried about the impetus such reflationary policies might give to imports and the consequent strain on the balance of payments. They also appear apprehensive of the possible inflationary consequences. These risks are real but they seem worth taking to counter the recessionary spell. For one thing, a current account deficit could be accommodated without much difficulty now that Malaysia retains a fairly good credit rating. For another, consumer price indices have remained so flat of late that a mild increase might have a stimulating effect on the economy.

The government has acted out of a strong desire to restrain public expenditures, particularly those of the NFPEs whose capital spending

has served to exacerbate the difficult budgetary situation. Since 1984, the NFPEs have come under the scrutiny of the Treasury and have suffered drastic cuts in their expenditures, while some of them are being privatised.

3.2 Aggregate Demand

The Malaysian economy is basically demand-driven. The significant reductions in government development expenditures during 1983-86 had substantial effects on the components of aggregate demand. During the period 1978-82, public aggregate expenditures (public consumption plus investment) as a proportion of GNP increased from 24.6 per cent to 38.2 per cent as a result of the expansionary fiscal policy. From 1983, steps were taken to reduce public investment and consumption so as to diminish the role of government in the economy, and this resulted in the public aggregate expenditures as a proportion of GNP being reduced to 32.7 per cent in 1985. For the period 1980-85, total domestic aggregate expenditures continuously exceeded gross national income. In 1980, domestic aggregate expenditure as a proportion of GNP was 101.2 per cent, and the ratio increased to a maximum of 112.4 per cent in 1983 before it declined to 102.2 per cent in 1985 (Table 12).

The significant increase in public expenditures, prior to 1983, had a multiplier effect on incomes, and this, in turn, raised the level of imports, as the income elasticity of import demand among Malaysians is above unity. In 1980, imports of goods and services amounted to 65.7 per cent of GNP and this increased further to 69.2 per cent and 71.3 per cent of GNP in 1981 and 1982 respectively. Thus, the expansionary fiscal policy led to increased absorption of imports in the face of declining exports. Furthermore, expansion of public expenditures can worsen the balance of payments position and this was the dilemma which confronted the policy makers in mid-1982 and which resulted in the decision to abandon the previous anti-cyclical policy.

It has been recognised even from the earliest days of independence that investment in fixed capital is needed to transform a rural agrarian economy into an industrial one. Investment (private and

public) was therefore accorded high ranking in all Malaysia's development plans. Table 13 shows the effect of these plans on domestic demand components in the 1970s. Investment outpaced total demand and GDP growth in every period. When one looks at aggregate demand between 1970 and 1985, the period of fastest real growth can be identified as 1979-82, when real aggregate domestic demand rose by 11.3 per cent per annum.

The nature of public demand changed significantly from the early 1970s onwards. The NEP introduced specific social and political dimensions to public spending. Besides expanding the productive base from which future growth was to come, it added the responsibility of ensuring greater and more equitable growth.

At the beginning of the 1980s, a further dimension was introduced when slow economic activity threatened to arrest the export-led growth of the 1970s. To stabilise the economy against external influences, countercyclical expansionary domestic policies were employed. Consumption and investment propensities further accelerated as tax incentives and tariff protection were introduced through the budgets to combat recession.

It is true that these expansionary policies, which began in 1979, did support growth rates. But, in other respects, they have tended to be destabilising. Stimulating total demand at a rate which could not be financed by higher levels of savings has meant a further widening of the resource gap. Invariably, other sources of financing have been needed, resulting in higher domestic and external debt.

The financial repercussions of stabilisation were quickly noticed and the fiscal brakes were applied towards the end of 1982. The result was that the public deficit was reduced from 24 per cent in 1982 to 12 per cent in 1985. Public consumption, which averaged 16 per cent growth during 1979-82 fell to roughly 3 per cent in 1982-85, while investment growth sank from 33 per cent to a mere 3 per cent.

With rapid changes in the public sector involvement, private investment became more volatile than consumption and for the first time in recent years, negative growth was recorded in 1981-82. From an

average increase of 8.0 per cent during 1983-84, private investment slumped by about 20 per cent in 1985, and this declining trend continued in 1986 as well.

The boom conditions of 1976-80 were translated into a significant increase in demand for many non-tradeable goods (such as real estate and construction). Prices of non-tradeables rose relative to tradeables, and this initiated massive movements of capital and labour into this sector. A sharp reduction in domestic absorption by means of fiscal restraints brought a reduction in total demand, thus leading to a squeeze on non-tradeables which caused underutilisation of factors of production in the non-tradeable sector.

Government participation in the economy increased rapidly during 1976-80. Public expenditure rose from M\$8 billion in 1978 to almost M\$26 billion by 1985. Inevitably as the public sector share grew, the private sector involvement also increased (Table 14).

Gross investment contributed roughly about one-third of the GDP growth experienced over the decade 1975-85. Between 1975 and 1980, for example, it averaged 12 per cent per annum growth and contributed about 3 per cent of the 9 per cent of GDP growth experienced. In the second half of the decade this figure was reduced to roughly 2 per cent out of 6 per cent growth throughout the economy.

Statistical analysis of the determinants of private investment reveals that the direct impact of an increase in the share of the government has had a moderate effect. According to the estimates, private investment increased by 0.3 per cent for every 1 per cent increase in government investment. The magnitude of the linkage is no doubt compensated by direct leakages in the form of capital and intermediate imports, which the estimate suggests to be quite sizeable (Table 15).

The larger external deficit on the current account reflected the more rapid expansion in domestic demand relative to output, as indicated in Table 12. Domestic demand increased by 7.3 per cent to M\$73.2 billion in 1983 compared to M\$68.0 billion in 1982. As noted earlier, domestic aggregate expenditures as a percentage of GNP stood at 112.4 per cent in 1983. The intended objective of the shift in fiscal policy - to reduce the external deficit - did not fully materialise.

3.3 Revenue Effort

The performance of the public sector in recent years has been weakened, partly because of the decline in tax buoyancy which has affected revenues, and also because of the significant increase in expenditures. Rising employment and wage levels are a major drain on resources, but the governments's concern is the cost of debt servicing.

For many years, public savings have been buttressed by tax revenues from petroleum and this has obscured the underlying deterioration in the balance between current revenues and expenditures. The depletion of petroleum and timber resources by 1990, with the maintenance of petroleum production at 425,000 bpd up to 1985, and 510,000 bpd in 1986 and thereafter, suggests that other measures must be taken to augment revenues in the short term to replace the income from petroleum.

One way of assessing the adequacy of the revenue effort is by a cross-country comparison of revenue shares in total output. By Asian standards, and even those of the industrialised countries, the revenue effort in Malaysia is respectable (Table 16). With taxes constituting nearly 80 per cent of total revenue, it tops the list in terms of tax effort. Nevertheless, it is still insufficient to meet current and future requirements. Furthermore, revenue buoyancies have diminished in recent years with the greatest decline occurring in indirect taxes (Table 17). Several factors are responsible for this trend:

- a. the reduction in export duties collection which is related to the fall in export unit values during the current recession and the switch to the cost-push method in computing the tax burden, so as to relieve the burden on the producer.
- b. changes in the structure of import duties and the extension of liberal exemptions with the consequent loss in tax buoyancies of import duties, although the increase in duties on luxuries in 1984 allowed for some recovery.
- c. the reduction in the number of excises in 1982, resulting in low revenue productivity of excise taxes.

d. liberal exemptions for corporations, leading to reductions in the number of firms subject to corporate tax.

4. POLICY OPTIONS

Short- and medium-term prospects for the Malaysian economy are by no means promising. The current difficulties cannot be legitimately attributed entirely to depressed external demand, since there are also structural problems on the supply side which have contributed to the production glut. Our projection of a positive growth in real GDP in 1986-87 is based on a number of premises. First, demand for primary commodities may respond positively to the fall in their prices, so that increased output may offset, to some extent, the price decline. Second, the fall in the price of oil will stimulate growth in the industrialised and newly industrialising countries, resulting in increased demand for raw materials. Third, expansion in other sectors of the economy may be able to more than compensate for the contraction in the commodity sector. Fourth, government policy to stimulate output and employment may help to alleviate the problem. Finally, there are clear indications that the Consumer Price Index will remain remarkably stable.

Nonetheless, there is little doubt that the Malaysian economy is in for another rough ride in 1987, which may stretch into 1988, although there are signs that the worst is over. This is manifest especially in terms of growing unemployment. According to the latest reliable estimates, the number of unemployed is around 450,000, yielding an unemployment rate of 8.2 per cent. The increase in unemployment was especially pronounced in the last quarter of 1985 and the first quarter of 1986, during which period about 27,000 workers were shed from electronics factories, automobile assembly plants, tin mines and plantations. Unless the primary sector recovers sharply, unemployment will reach very uncomfortable levels in 1987 and 1988.

It also appears that unemployment is concentrated in certain categories of workers, including Malaysians who were previously employed in Singapore and workers affected by retrenchment in the electronics and tin industries. About 60,000 Malaysians returned home in 1986 after losing their jobs in Singapore. About 20,000 tin mine workers have become jobless as more than 100 mines went out of production in 1986. To make matters worse, an additional 200,000 joined the labour force early in 1987, as school leavers entered the labour market.

It is the external sector which is most affected by the current slowdown. Fortunately, the drop in exports as a result of falling commodity prices is more than offset in the balance of payments by a fall in imports due to recessionary influences. Consequently, the country's merchandise trade surplus registered a substantial increase in 1986, although this surplus was not sufficient to wipe out the huge deficit in the services account. The terms of trade declined by 20 per cent in 1986, mainly owing to a sharp deterioration in export prices.

Exports have been falling steeply but imports have been shrinking even more. According to the latest trade statistics, Malaysia's trade surplus increased to M\$16.04 billion during the period January-October 1986 from M\$5.7 billion for the corresponding period in 1985. However, the invisibles deficit has been growing so rapidly that the current account deficit in the balance of payments persists. It has been estimated that the deficit on the services account in 1986 amounted to M\$10.03 billion.

During the first ten months of 1986, exports dropped to M\$29.32 billion from M\$31.73 billion in the corresponding period in 1985, while imports fell to M\$23.28 billion from M\$26.03 billion. The sharp decline in crude oil prices has certainly put a strain on the balance of payments in recent times. In 1986, oil exports fell by 37 per cent, due to lower prices coupled with production cutbacks implemented by the government in sympathy with OPEC efforts. In the last quarter of 1986, Petronas, the national oil corporation, raised crude petroleum prices by 55-60 US cents a barrel, pushing Malaysian crude above US\$14 a barrel. An increase of 55 US cents in oil prices is estimated to have generated US\$76 million per month additional revenue for the government.

The situation is likely to improve gradually from 1987 onwards. Oil prices may rise to a slightly more comfortable level and manufactured exports, notably electronics, textiles and wood products, are likely to rise, albeit slowly, with increased demand in developed countries. Ringgit depreciation is likely to make Malaysian manufactured exports competitive in traditional markets such as the US, Japan and the EEC.

Commodity prices are, however, likely to remain depressed for some time and no major turn-around is expected in the next two years or so. However, much will depend on the economic performance of the US, Japan and the EEC. The sharp decline in oil prices is seen as a powerful catalyst that will stimulate industrial production in these countries. But there are also disturbing signs that economic growth in Japan is decelerating owing to the sharp increase in the external value of the yen.

It is extremely difficult to forecast movements in primary commodities, as there are far too many determinants which are hard to come to grips with. In what follows, an attempt is made to assess the short- and medium-term prospects of Malaysian exports.

Prospects for tin exports still remain bleak. There is no end in sight for the international tin crisis which is hurting Malaysia, the world's largest exporter, very badly, following the suspension of operations by the International Tin Council (ITC) on 24 October 1985. The last-ditch effort to revive ITC buffer stock operations failed as Indonesia and Thailand decided not to provide any more money. Trading in the Kuala Lumpur Tin Market (KLTM) which resumed on 3 February 1986 after more than three months suspension, has remained dull. Tin prices have risen slightly since then, however, and there are signs that they may go up to M\$18 a kg. But the overhang of the world tin surplus, estimated at about 60,000 tons, is expected to continue, and the glut problem will worsen if the creditor banks, to which the ITC owes \$400 million, decide to sell off their tin holdings.

Rubber prices have been in the doldrums since early 1984 with prices plunging to the lowest level for ten years. However, the medium-term outlook for natural rubber is somewhat better than that for tin. For one thing, the International Rubber Organisation (INRO) is less exposed than the ITC, as it does not deal in the highly fluid futures market. For another, the ratio of buffer stocks to commercial stocks is much smaller in the case of rubber, and rubber stocks are also expected to ease slightly as a result of production cutbacks. This does not mean the worst is over. Rubber is not expected to bounce back for some time. World consumption of rubber is forecast to rise

marginally in 1987 by 90,000 tons to 4.45 million tons, while production is expected to increase by 80,000 tons to 4.40 million tons. Thus, the surplus is expected to persist for the time being. Natural rubber exports are expected to register marginal increases owing to a slight firming of prices. Annual domestic production, however, is expected to remain stagnant at around 1.5 million tons in the next few years.

Palm oil, which has been branded as Malaysia's golden crop, is undergoing a depressed spell. With prices hovering around M\$430 a ton in mid-1986 in comparison with an average price of over M\$1000 in 1985, palm oil export receipts are estimated to have declined by about 50 per cent in 1986 despite an increase in volume from 3.2 to 3.9 million tons, while output increased from 4.1 million tons in 1985 to 4.6 million tons in 1986. However, there are already signs in early 1987 that palm oil prices will pick up, and the forecast of M\$800 per ton does not appear unrealistic.

Cocoa prices have been tumbling. The producers' lingering hopes that a new International Cocoa Agreement would arrest and reverse the price trend have been shattered by Ivory Coast, the world's largest producer, opting out. The values of Malaysian cocoa exports are estimated to have fallen from M\$550 million in 1985 to M\$530 million in 1986, despite an 11 per cent increase in production. Malaysian cocoa beans have suffered a discount in international markets, partly due to their inferior quality in comparison with standard Ghana cocoa. Pepper seems to be the only exception to the all-round declines in recent times. There is upward pressure on pepper prices, as there is a worldwide shortfall of 25,000 tons. The uptrend may not last, however, once rehabilitation and replanting programmes in the major producing countries like Brazil, India and Indonesia are completed. Prices are not likely to stay firm at more than M\$1000 per ton in the medium term.

The medium-term prospects for Malaysia's manufactured exports are not bad. With lower interest rates and lower oil prices, consumer demand in industrialised countries is expected to pick up. As mentioned earlier, there are signs of a rebound in the semiconductor and textile

industries. Malaysia is already the world's third largest producer and exporter of semiconductor components. Electronics exports estimated at M\$5 billion in 1985 account for 38 per cent of the country's total manufactured exports. It appears that the worst is over for the electronics industry which was affected by widespread job cutbacks in 1985. The gloom is now lifting; the American semiconductor companies in Malaysia have changed gear and increased their production, and in the process, some of the workers previously laid off have been re-employed. The outlook for textiles and clothing (the second largest manufactured exports after electronics) is also encouraging, judging from export orders received. The upturn is particularly visible in Penang where there are 300 factories employing 22,000 workers.

In what follows, various policy issues are examined in the light of the above medium-term scenario for the Malaysian economy. The analysis takes a hard critical look at some of the major policies pursued by the government, which seem to have become irrelevant or inappropriate in the wake of changes taking place domestically and internationally.

4.1 The New Economic Policy

The New Economic Policy is aimed at eradicating poverty and restructuring society so that the pattern of employment, ownership and control in the economy will reflect the racial composition of the country by 1990. To achieve these objectives, the government introduced legislation and guidelines and established a number of public enterprises which will hold in trust the Bumiputera (indigenous Malay) share of the equity. The impact of the NEP could have been adverse, had the strategy not been accompanied by the provision that its objectives should be achieved through continuous growth rather than the disruptive redistribution of a stagnant economy. Economic growth since 1970 certainly has been impressive, but it is not clear to what extent the NEP has contributed to or benefited from this growth.

Total investment in the Amanah Saham Nasional (ASN) - a unit trust scheme set up to increase the Bumiputera stake in the economy - had

reached M\$2.28 billion by the end of June 1985, while about M\$753.8 million had been redeemed. In the first quarter of 1985, 41,816 new unit holders joined the scheme with an additional investment of about M\$210 million, of which M\$113 million was subsequently redeemed, contributing a net investment of M\$96.7 million. In the second quarter of the year, the number of new unit holders leapt to 232,000, who pumped in a net investment of M\$100.4 million (i.e. M\$227.8 million invested less M\$127.4 million redeemed). The large amounts redeemed early by small investors present problems which could frustrate NEP implementation.

Another problem facing the government is that the 1.73 million ASN investors represent only 35 per cent of eligible Bumiputeras. In addition, nearly 74 per cent of them have only a stake of 500 units or less each, which is far below the 50,000 units targeted. The implication is that the benefits of the NEP are not trickling down fast or far enough.

Meanwhile, many small Bumiputera companies have cried foul over the unfair competition from giant local corporations such as Permodalan Nasional Berhad (PNB), Sime Darby, Guthrie, and Malaysia Mining Corporation (MMC) in their bids for low-value government tenders. The activities of state development corporations (SEDCs) and their numerous subsidiaries have also been criticised for venturing into business where small Bumiputera enterprises are already actively involved.

Bumiputera corporate ownership measured in terms of paid-up capital was estimated to be more than M\$14 billion as at the end of 1985. This, however, falls short of the 2.1 per cent target under the Mid-Term Review of the Fourth Malaysia Plan. Of the 900 trust companies set up by the government to speed up Bumiputera participation in commercial activities, about 600 have suffered losses.

According to the new guidelines introduced in 1986 by the Ministry of Trade and Industry, Bumiputera investors, both companies and individuals, will from now on be allocated 30 per cent of the shares available for public subscription in all future public issues.

Bumiputera joint-venture companies will soon enjoy extra privileges under a new guideline being drawn up by the Trade and Industry Ministry. Such joint ventures are to be accorded 'official recognition' so that they can enjoy similar rights to those of wholly-owned Bumiputera companies.

It is generally accepted that the NEP overall has benefited the Bumiputera middle and upper group rather than the Bumiputera poor. However, as one Malaysian social scientist concluded in his study (1), many poor peasants regard the achievement of a few Bumiputeras with some pride as a symbol of Bumiputera success in the economic field. Even so, for the Bumiputera poor, the rejoicing at some Bumiputera capitalist successes will be short-lived, should there be no concrete and tangible economic gains for themselves as well. This will widen the gap and create dissatisfaction between the 'lower-class' Bumiputeras and their 'upper-class counterparts'.

The NEP objectives are indeed laudable, and it is not our intention here to question them in any way. Nevertheless, while the NEP is thus fully endorsed, its implications and ramifications should not be lost sight of. It cannot be denied that the NEP has imposed additional constraints on business activities. These constraints, especially with respect to employment and ownership, have tended to inhibit economic activities in some sectors. The implications of the NEP were particularly adverse for foreign investors. The foreign share of the corporate wealth of the country has to be reduced from more than 60 per cent to 30 per cent, in spite of absolute increases in the amounts of foreign capital. Foreign investors have found it difficult to comply with the NEP guidelines, especially with regard to Bumiputera equity involvement in their business ventures. Shortage of skilled manpower and the low propensity to save in the Bumiputera community have tended to thwart attempts to achieve the NEP goals.

It is no secret that the NEP's stringent requirements have resulted in huge economic rents accruing to the Bumiputera elite. In retrospect, it is readily obvious that the targets set were too high, considering the short time-frame of 20 years. Worse still, the benefits of the NEP are not equitably distributed within the Bumiputera community.

It can be inferred from the above analysis that the implementation of the NEP leaves much to be desired and is not entirely in keeping with the spirit in which it was designed. One major drawback of the implementing machinery has been inadequate surveillance of the numerous government agencies which were set up to help achieve the NEP objectives. The truth remains that many of them have failed to deliver the goods and have constituted a drain on scarce resources.

It is now evident that the NEP target will not be achieved by 1990 and it is almost certain that the NEP will continue beyond 1990 under a new label. New targets and strategies for implementation in the 1990s are now being studied.

Meanwhile, the government has relaxed the rules governing foreign equity. Any company set up with foreign capital between October 1986 and December 1990 will be permanently exempted from the need to restructure its equity along NEP lines, provided a) it exports or sells to FTZ firms or licensed manufacturing warehouses at least 50 per cent of its output and b) it employs at least 350 full-time Malaysian workers in proportions corresponding to the racial composition of the country. In addition, a company with a paid-up capital of US\$2 million will qualify to employ at least five expatriates. The new concessions are also extended to existing companies which are wholly or partly foreign-owned, if they expand their operations and place the new units under a subsidiary.

There are clear signs that the government wants to be pragmatic about the NEP. It recognises that constraints imposed by the NEP have tended to delay economic recovery. Hence the decision to downplay the NEP. However, this does not mean that it will be suspended in toto. Only those aspects which currently have a dampening influence on the economy, such as the NEP conditions with respect to equity, are to be held in abeyance, while the NEP stipulation with regard to employment will remain.

4.2 Budget Deficit And Financing

Since mid-1982, cutbacks began in government expenditure in an effort to reverse the highly expansionary fiscal policies that had taken place between 1980 and 1982. The new fiscal strategy was effectively laid out in the 1984 Budget in which the government attempted to reduce the budget deficit as a proportion of GNP from 19 per cent in 1982 to about 6 per cent by 1985. Sharp cutbacks in development expenditure had reduced the deficit to 7.9 per cent in 1985, but as we saw in the previous chapter, recessionary conditions and declining tax buoyancy meant an upward surge in the deficit for 1986.

Although the budget deficit was reduced significantly between 1980 and 1985, the monetary stimulus arising from deficit financing was not similarly reduced; purchases of government debt by domestic institutions other than Bank Negara and asset drawdown instead declined in tandem with the deficit. The explanation appears to lie in the sharp decline of government security holdings by commercial banks since 1981, the ratio of government securities as a proportion of total deposits having fallen from 13.6 per cent in 1981 to 9.2 per cent in 1985. A great proportion of the budget deficit has been financed from overseas borrowings (Table 18). Federal government net foreign borrowing declined during 1982-85 but began to show an upward trend thereafter largely because of an increase in foreign borrowing to refinance repayment and interest rate charges on previous debt. Nevertheless, overall, foreign borrowing has been declining since 1983.

The Federal Government's overseas borrowing was the main powerful factor supporting the overall balance of payments and by implication monetary growth. Given that foreign borrowing is expected to decline in the future, the monetary impact of fiscal restraint may well be felt in 1988 or thereafter.

A broader way to look at the total potential monetary impact of the government's external debt position might be to consider the concept of the overall net balance of payments effect of the external borrowings which is defined as new external borrowings minus interest rate payments on existing debt. It can be seen from Table 18 that the

net BOP impact of the Federal Government's overall debt position has contracted from its peak in 1982. In fact, by 1985, interest payments on foreign debt exceeded new borrowings by the Federal Government. To set this against the overall BOP implies that roughly half of the deterioration in non-trade foreign-exchange earnings can be explained by the fall in the Federal Government's borrowings relative to interest rate payments on existing debt.

Clearly, however, the major incremental negative balance of payments impact of the external debt position is yet to come. Pressures on liquidity and interest rates are expected to be significant in 1988 and thereafter, unless and until some re-adjustment in the exchange rate is considered.

4.3 External Debt

External borrowing consists of project loans and market loans. Project loans are obtained from multilateral lending institutions such as the World Bank, the Asian Development Bank and the Islamic Bank and from government-to-government bilateral sources at concessionary rates of interest, whereas market loans are largely syndicated loans obtained in international markets at commercial rates of interest.

Market loans have grown relatively more important over time. Thus, the ratio of market loans to total external debt increased from 50 per cent in the period 1975-79 to 65 per cent in the period 1980-85 (see Table 19). About 75 per cent of market loans are denominated in US dollars while the rest are denominated in other currencies including the yen, pound sterling and Deutschemark.

The country's public sector external debt stood at M\$20.847 billion at the end of 1984. This figure, however, does not include the M\$7.105 billion external loans made to the off-budget agencies which were guaranteed by the government. In addition, the private sector external debt amounted to M\$9.218 billion. All in all, the national external debt totalled some M\$37 billion at the end of 1984. Interest payments on government loans amounted to M\$4.3 billion in 1984, and this figure is estimated to have increased to M\$4.7 in 1985. Government external debt is estimated to have increased to M\$21.813

billion, with debt servicing standing at M\$5.5 billion. Debt servicing (interest and principal payments) in 1984 was estimated to be 22.5 per cent of export earnings. For long-term debts, however, the debt service ratio worked out to be only 12.3 per cent in 1984 and 14 per cent in 1985, a fairly small burden in comparison to that of many other developing countries. With export earnings falling and the ringgit depreciating against the major currencies, the debt servicing ratio had exceeded 20 per cent by the end of 1986.

Malaysia was the fifth largest borrower in the Asia-Pacific region in 1984. It signed 16 deals worth US\$1.163 billion (M\$791 billion) in that year. However, external borrowing was 19 per cent less than in 1983, when Malaysia was ranked fourth in the Asia-Pacific region with loans of US\$1.436 billion. It is of interest to note that government external borrowings in 1984 were just over half the US\$2.619 billion borrowed in 1982.

External debt increased by 7 per cent in 1985 compared to 31 per cent in 1983 and 18.2 per cent in 1984. However, external debts incurred by off-budget agencies, guaranteed by the government, continued to rise sharply by about 21 per cent to total M\$9.1 billion at the end of 1985. Although Malaysia has slowed down its external borrowings, it still owed the rest of the world M\$40.2 billion (both public and private) at the end of 1985. This represented 55.6 per cent of GNP, as against 50.6 per cent in 1984.

A major concern in recent years has been the rising level of debt servicing in the face of weak export earnings. During the period 1981-85, debt servicing increased at a rate of 28.5 per cent per year. Interest payments alone increased at the rate of 30.2 per cent per annum. It is mainly this concern which led the government to seek refinancing in 1984 and 1985, to take advantage of more favourable terms as well as to avoid the potential 'bunching' of loans in the late 1980s. Thus, the government refinanced US\$2.6 billion syndicated loans through four refinancing exercises undertaken in 1984-85, which resulted in savings of M\$217 million. Other debt management measures adopted include diversifying the currencies, instruments, markets and sources of external loans. The government's net external borrowings

in 1986 have been estimated at M\$2.8 billion; of this sum, M\$1.3 billion constituted new loans, with M\$1.5 billion representing borrowings to repay old loans.

Malaysia has been switching from conventional syndicated loans to more diverse instruments like floating rate notes (FRNs). Thus, in November 1984, for example, it secured a US\$600 million FRN, most of which was used to refinance existing US dollar-denominated loans which had shorter maturities and higher margins. In March 1985, it clinched another US\$600 million pegged at a rate never before offered to any developing country. The loan is to be repaid in 15 years - the longest maturity period secured by a developing country from private financial institutions.

Malaysia is turning increasingly to the syndicated loans market, after having some of its loans successfully refinanced by FRN issues. The FRN market is no longer offering similar terms to those of 1984 and 1985, partly because Malaysia's credit rating has been tarnished somewhat in recent times. Moreover, it is not keen on the long-dated issues which Malaysia is seeking. Malaysia therefore re-entered the syndicated loans market in 1986 to raise US\$350 million, which, following heavy over-subscription, was raised to US\$500 million. The over-subscription may be interpreted to mean that Malaysia is still considered a low-risk country. Syndicated loans are, of course, costly compared with FRN substitutes.

To understand the role of external debt in the Malaysian economy, one needs to take a systematic look at the structure and profile of external debt. According to the Treasury records, the earliest foreign loan secured by the Federal Government was US\$4.5 million from the World Bank in 1965 to finance the first phase of the Muda Irrigation Scheme in Kedah and Perlis. Prior to that, Malaysia had relied largely on direct aid from developed nations, especially from Britain. By the end of 1985, the World Bank had given Malaysia 44 loans totalling US\$1.26 billion to finance various development projects. A breakdown of these loans shows that agriculture was the main beneficiary (US\$700 million), followed by education (US\$230 million), transport and communications (US\$206 million), industry (US\$61

million), public utilities (US\$39 million) and health (US\$22 million). The social and economic benefits of these projects have never been suspect and can hardly be denied. The World Bank itself has acknowledged the success of these schemes, as manifested by its continued support for Malaysia's development programmes. Indeed, they provide outstanding examples of how properly managed foreign loans can benefit the recipient country. As a result, Malaysia's reputation for making good use of loans has shot up in international financial circles.

The Asian Development Bank (ADB) has been the second major multilateral source of foreign loans for Malaysia. 49 loans totalling US\$1.174 billion were given for various projects during the period 1968-85. Again, agriculture took the lead by absorbing US\$376 million, followed by transportation (US\$225 million), energy (US\$217) and water supply (US\$90 million).

A third major source of external loans has been the Jeddah-based Islamic Development Bank (IDB) since 1981. As at the end of 1985, the IDB had loaned US\$49 million to Malaysia. The projects supported by the IDB loans include the construction of the Bintulu deep-water port and the establishment of three vocational secondary schools.

Bilateral loans from developed countries have also contributed significantly to the financing of development programmes in Malaysia. Japan tops the list with loans amounting to M\$3.11 billion extended during the period 1968-85. Other countries which have given loans to Malaysia are the USA (M\$408 million), France (M\$356 million), Saudi Arabia (M\$256 million), West Germany (M\$187 million), Kuwait (M\$139 million), Sweden (M\$57 million), Canada (M\$31 million), Australia (M\$4.2 million), Austria (M\$2.1 million) and Holland (M\$1.4 million). The bulk of the Japanese loans has been used to finance transportation, electricity, oil and gas, ports and roads, broadcasting and telecommunications. Most of the Japanese loans were offered under yen credit agreements.

The loans secured from multilateral and official sources have carried concessional interest rates. Rates on World Bank loans have varied

from 5.5 to 11.6 per cent, while those on Japanese yen loans have ranged between 3.25 and 5.75 per cent. IDB which operates on an interest-free basis has imposed a 3 per cent service charge.

Malaysia has now reached a point at which it has become increasingly difficult to obtain loans from international financial institutions and developed countries at concessional rates of interest. The country is no longer regarded as poor; hence the low priority accorded. Meanwhile, its needs have also changed considerably with increased emphasis being placed on industrial projects rather than on basic sectoral developments. As multilateral institutions do not provide loans for such purposes, Malaysia is forced to look elsewhere for loans. The consequence has been the dramatic increase in market loans, which has been associated mainly with greater government involvement in the economy under the New Economic Policy through off-budget agencies (OBAs) some of whose market loans have been guaranteed by the government. Market loans secured directly by the government (outstanding) increased sharply from M\$1.35 billion in 1975 to M\$15.46 billion in 1985. These figures do not include outstanding market loans obtained with government guarantees, which have increased from M\$588 million in 1975 to M\$9.1 billion in 1985. Most of the market loans in 1985 were for the purpose of refinancing old loans with higher interest rates. Thus, out of M\$5.36 billion market loans secured in 1985, M\$5.06 billion was used for repayment.

While such refinancing of foreign loans makes considerable sense, the borrowings of OBAs in the past have been a major source of concern. Much of Malaysia's external debt problem is closely associated with the OBAs. In 1985 alone, about 40 OBAs had borrowed M\$2.015 billion in the foreign market. It is now learnt that many of these OBAs are in such bad shape financially that they can hardly repay the loans guaranteed by the government. In addition, some of the programmes which the government has mounted, especially heavy industrialisation projects including the national car plant and iron and steel complexes which have been financed mainly by borrowed money, have turned out to be extravagant investments that are inefficient and non-viable.

The current abhorrence attached to external debt is thus mainly the result of the ways in which external debts have been abused in recent

times by some OBAs and dissipated in huge projects which are de facto white elephants. The government for its part seems to have grown wiser and is keeping a close watch on the activities of the OBAs. But it also seems to have developed a phobia against external debt, to such an extent that it no longer dares to use external loans to fight economic downswings, although there is no economic rationale for such behaviour. Malaysia enjoys a good credit rating internationally; and, provided that loans are productively used, they can be self-liquidating. Unfortunately, at present, the authorities seem more concerned with what is needed to service the debt rather than with what external loans, if prudently applied, can do to the sagging economy.

4.4 Export Orientation

Malaysia began to adjust its industrialisation policy from import substitution towards export orientation in the early 1970s. Several factors were responsible for this policy reorientation. First and most important was the failure of the earlier policies to generate growth of manufacturing output and employment. Second was the spectacular success of export-led industrialisation in the Asian NICs (Korea, Taiwan, Hong Kong and Singapore). Third, there was a change in the intellectual climate towards greater emphasis on exports and the growing belief associating exports with efficiency and import substitution with inefficiency.

However, export orientation in Malaysia did not mean an abandonment of import substitution. Accordingly, the industrial policy reorientation did not amount to a withdrawal of government support for industries oriented towards the domestic market. Export orientation and import substitution have been pursued in parallel fashion, although stronger accent has apparently been placed on the former. Pains were taken to channel sizeable proportions of the new investments into export-oriented manufacturing activities.

Investment incentives were restructured so as to offer a variety of export incentives including export allowances and accelerated depreciation, in addition to tax holidays and investment tax credit and

other fiscal incentives, which were aimed increasingly at export-oriented industries. Pre-shipment and post-shipment export credit refinancing facilities at concessionary rates of interest were also introduced.

The establishment of free trade zones (FTZs) represented a positive measure taken by Malaysia to promote manufactured exports from 1971 onwards. These FTZs have been operating like foreign 'enclaves' with duty-free access to imported inputs and machinery, while at the same time enjoying a wide range of investment and export incentives. The fragmented statistical evidence suggests that nearly three-fourths of the FTZs in Malaysia are foreign-owned. This actually understates the importance of wholly foreign-owned firms in the Malaysian FTZs, as they account for more than 90 per cent of total direct employment generated within the FTZs.

Notwithstanding the successful initiation of export-oriented industrialisation, there have been mounting criticisms levelled against it and growing scepticism about the future prospects of manufactured exports, which question both the desirability and feasibility of such an industrialisation strategy. To be sure, there is no empirical or theoretical basis which suggests that export-oriented industrialisation is more conducive to economic growth than import substitution. In any case, it would be inappropriate to characterise the Malaysian experience as 'export-led' industrialisation. The growth rates of the Malaysian manufactured exports, although impressive, pale in comparison with the spectacular track record of the Asian NICs.

However, there are suggestions in the current literature which point to the superior performance of the outward-looking strategy². Firstly, the introduction of such a strategy yields once-and-for-all efficiency gains in an economy which had previously been subjected to import substitution. Second, dynamic gains (eg. scale economies) tend to be more significant under the export-oriented strategy than under import substitution. Thirdly, the outward-oriented regime tends to be more flexible and better able to adjust than an inward-looking regime. Fourthly, the outward-looking regime is more conducive to

better economic policy making, as it relies heavily on price rather than quantitative interventions, which characterise inward-looking regimes.

Nevertheless, it is possible to overdo export promotion, and deviations towards 'excessive' export promotion are as undesirable as those in the opposite direction. One aspect of export promotion policies which has been subjected to much criticism is the FTZs. While these criticisms are mainly directed at non-economic issues such as labour conditions and life-styles, an important economic consideration is whether the substantial public investment in FTZs can be justified in conventional cost-benefit terms. Although there is no conclusive empirical evidence on this, FTZs are viewed as constituting one possible example of the government overdoing the export promotion strategy. Nevertheless, it may be argued that such excesses are less likely in an outward-looking regime because the costs are more visible. It may also be argued that the dynamic gains of export promotion tend to exceed the static losses from resources misallocation.

The impact of export-oriented industrialisation on employment, wages and income distribution is hard to assess. Although theory tells us that trade benefits the abundant factor (Stolper-Samuelson theorem), it does not necessarily follow that export-oriented industrialisation in the labour-surplus Malaysian economy will bring about a better income distribution than import substitution does. In practice, the actual relationship is far more complex. Much depends on such factors as the product-mix, technology and intersectoral linkages. Arguably, generous incentives may tend to reduce the share of income arising from manufactured exports accruing to both government and labour, while fiscal incentives may encourage excessive capital intensity. There is some basis to support this, as the incentives are often beyond the reach of the labour-intensive small-scale firms. It may also be contended, along Rybczynski lines, that the inflow of capital will lead to increased production of capital-intensive goods resulting in reduced demand for labour. It is, however, conceivable that, under dynamic conditions, demand for both capital and labour will increase.

In the Malaysian case, there is some evidence which shows favourable effects of export-oriented industrialisation on employment.

Employment coefficients based on input-output tables show that exports from the typical export (E) sector (eg. FTZ) are more labour-intensive than manufactured exports as a whole ³. The coefficients are also higher for total manufactured exports than for total manufactured production in Malaysia. In other words, export-manufacturing is relatively more labour-intensive.

The Industrial Master Plan (IMP) which was released on February 3 1986, places high expectations on the manufacturing sector. The IMP, which consists of 22 reports, envisages a 6.4 per cent annual GDP growth during the period 1986-95, with total investment growing at the rate of 5.7 per cent per annum. The IMP projections have also put the target growth rate of the manufacturing sector at 8.8 per cent per annum in real terms. The IMP expects that 705,400 new jobs will be created, bringing the total number of workers in the manufacturing sector to 1.5 million by 1995.

The IMP singles out several industries for special focus. It aims to make the rubber products industry one of the leading sectors in the expansion of the resource-based industries, by raising the local consumption of rubber from 65,000 to 308,000 tons by 1995, and to develop the industry into an export-oriented one. The tyre industry is to be the priority industry.

The IMP also stresses the development of downstream palm oil and palm kernel oil-based products such as oleochemicals. Food processing has also received attention, the main focus being on the manufacturing of cocoa products and animal feeds. Exports of processed foods are projected to grow at the rate of 6.8 per cent per annum from 1986 to 1990 and at 7.8 per cent per annum between 1990 and 1995. The IMP plans to transform the wood-based industry into a major resource-based activity by concentrating on the production of downstream products mainly for the export market.

In the case of non-ferrous metal products, the strategy is import substitution for aluminium and copper and export orientation for tin. Products with growth potential in the non-metallic minerals industry include cement, glass and ceramics.

The IMP laments the heavy import content of electronics products and the industry's heavy dependence on external resources. None the less, it expects employment in the industry to double and exports to triple by 1995.

As regards automobile manufacturing and assembly, the IMP calls for a rationalisation of the industry so that there will be only three manufacturers in the country by 1995. The rationalisation programme includes the upgrading of plants and their scale.

The overall message of the IMP is loud and clear: Malaysia must resort to large-scale manufactured exports in order to maintain high industrial growth. The IMP strategy which will steer the country towards this goal consists of the following: (a) balanced incentives for import substitution and exports; (b) a free-trade regime applied to all exporters regardless of products; and (c) application of the 'market principle' in the choice of activities to be undertaken by individual firms.

The main drawback of the IMP is that it does not take full cognizance of the fact that the economy is unlikely to register a growth rate of 6.4 per cent on average over the period 1986-95. Even if the economy picks up towards the end of the 1980s and gathers momentum in the early 1990s, the high growth rates in the latter half of the IMP period may not fully make up for what was lost in the first half. It is unlikely that the average growth rate during the IMP period will exceed 4.0 per cent.

We have no quarrel with the IMP objectives. The IMP was probably right about the industries it has selected for special emphasis. The accent on export-oriented resource-based industries, in particular, is well-placed, as they have potential comparative advantage, but the timing seems to be wrong. The problem of market access for these products has not been addressed fully in the IMP. Given the protectionist trends in developed country markets, it will be difficult to export resource-based manufactured products, since the higher the degree of processing and fabrication, the greater are the protectionist barriers.

4.5 Free Trade Zones

In the context of our discussion concerning manufactured exports, it appears that the overall contribution of the FTZs to labour absorption in Malaysia is somewhat limited. Employment in the 11 FTZs amounts to less than 100,000 persons, or only about 11 per cent of the manufacturing workforce or 1.6 per cent of the total labour force.

In addition, FTZs in Malaysia have a very narrow focus in the sense that they concentrate heavily on certain industries only. Thus, electronics and textiles account for more than 70 per cent of FTZ employment and 95 per cent of FTZ exports. It is also noteworthy that over 80 per cent of the country's textiles exports come from the FTZs⁴.

Wages and working conditions in FTZs have attracted much attention, as the zones are an important focus of the export drive. However, no clear evidence emerges from the comparison of wage levels in the zones and those in the rest of the manufacturing sector. No major differences are apparent. Trade unions are virtually excluded and there is some evidence to suggest that labour regulations concerning minimum wages and working hours are violated to some extent.⁵ However, comparison of wages and conditions in the FTZs and elsewhere must be interpreted with great caution. For one thing, not all the variables in the comparison are standardised. It is also important to note that female workers account for 90 per cent of total unskilled employees. Both these factors tend to depress wage levels relative to other activities. For another thing, although labour regulations are often violated, there is no evidence to suggest that this occurs on a wider scale in FTZs than in the rest of the economy. The fundamental question is whether labour would have been better off in the absence of export manufacturing activities. There is no evidence to suggest that this is so.

Another issue is the question of linkages and externalities. There is frequent criticism that export manufacturing activities have very few linkages with the rest of the economy. This is true for FTZs, but it does not apply to all export-oriented industries. There is evidence to suggest that production-spread effects and employment-spread effects are significant for Malaysian export-oriented activities, especially for the natural resource-based industries.⁶

However, high linkages per se are not necessarily desirable. While high externalities in the form of technology and skill diffusion are important, high linkages in the input-output sense may be indicative of a more closed, inward-looking economy.

Net foreign-exchange earnings relative to total exports are low for FTZ industries. This is because about 97 per cent of their raw material inputs and about 80 per cent of their capital goods are imported. However, it should be emphasised that linkages in the sense of local procurement are only a small part of the broader issue of externalities in the form of technology and skill dissemination and other spill-over effects. These wider benefits appear to be minimal in the case of FTZ industries, since their activities consist primarily of labour-intensive assembly operations. Other externalities, such as those resulting from increased knowledge of and contact with international markets and technologies, are likely to be more beneficial.

Having said all this, we must hasten to add that, in our judgement, FTZs have probably made a positive net contribution to the Malaysian economy, especially in terms of employment created. For an economy where there is a glut of labour, employment considerations tend to outweigh all others in evaluating the role of FTZs.

4.6 Heavy Industrialisation

The economic planners were ambitious enough to identify the 1980s and 1990s as the decades of heavy industrialisation for Malaysia. It was felt that Malaysia had achieved a fairly rapid growth in the 1970s and that the time was ripe to take the economy further into an advanced stage of industrialisation. Apparently, the planners were swept off their feet by the Korean experience.

The establishment of the Heavy Industries Corporation of Malaysia (HICOM) by the government marked the launching of the heavy industrialisation programme. This was yet another manifestation of active state participation and intervention in the country's industrial development.

The term 'heavy industry' has been used loosely in Malaysia and is hard to define precisely. It is often associated with high capital intensity, long gestation periods and substantial scale economies. In the Malaysian context, 'heavy industrialisation' has meant the setting up of iron and steel plants, petrochemical manufacturing units and the manufacturing of motor vehicles.

It now appears that the decision in favour of heavy industrialisation has been made too hastily, without regard for market size and scale economies. The fact that some of these industries are based on domestic resources, ie. oil and natural gas, cannot compensate on its own for other shortcomings such as the limited domestic market and inadequate technical skills.

The steel industry is already in deep trouble and is saddled with excess capacity. The problem with Malaysia's fledgling iron and steel industry is that it produces too many bars and wire rods and too few billets for the domestic market. There are six steel mills in operation in the country, with the HICOM-Perwaja steel mill having the largest capacity (615,000 tonnes per year). A glut of steel products has emerged in the domestic market with Hicom's steelworks in Terengganu coming on stream recently.

The current slump in world steel prices has brought ex-Malaysian post-delivery prices to new low levels. HICOM is now lobbying hard for tariff protection for its steel products and for a subsidy to cut down its huge electricity bills which form 22 per cent of its production costs.

Local steel consumption is projected in the Industrial Master Plan to grow at between 7.5 and 10 per cent annually in the next ten years. Given the protracted economic slowdown, a growth rate at the lower end is more likely. Moreover, there seems to be little prospect for steel exports from Malaysian foundries for the next ten years, given current world production and low prices. There is no way that Malaysian steel exports can become competitive in the foreseeable future. Production costs will rise, as local producers increase the domestic content by using domestically produced billets instead of imported ones. There

are plans to raise the tariffs on imported steel billets to protect the hot briquetted iron (HBI) products from the Sabah Gas Industries in Labuan. The country would have been far better off, had it concentrated on expanding and modernising existing iron and steel facilities set up almost two decades previously, instead of establishing new modern ones under the patronage of HICOM.

The production of the national car represents another 'milestone' in the development of heavy industries in Malaysia. 'Proton Saga' hit the road in September 1985. In the first production year, only 7,500 units were produced. Production in 1986 stood at 40,000 units and is expected to increase to 67,000 units in 1987 and 105,100 in 1988. Given the slow growth of domestic demand for passenger cars, the projected expansion in production is unlikely to materialise.

The first batch of cars incorporated 16 types of locally manufactured components, which put the domestic content at 38 per cent. By the end of 1986, the car was fitted with 52 types of locally manufactured components. In the fourth phase which ends in August 1987, another 48 types of local components will be added. The fifth and sixth phases will add 37 and 10 types of local components respectively, giving a grand total of 147 local parts for the national car.

The Ministry of Trade and Industry has produced a list of 102 types of components that can be manufactured locally with various incentives. To date, a total of 282 such components have been identified. How many of these can be produced economically is, of course, a different story. However, more than 50 local firms have already sent their applications to MIDA to take advantage of the tax incentives.

The government had bulldozed the project through, believing that, despite its heavy cost, it was necessary to provide the propulsion to launch Malaysia into the heavy industry orbit. The argument that motor car manufacturing is a must for heavy industrialisation is not at all convincing, however, nor does it make economic sense. The car costs twice as much to produce at home as, say, in Japan. Increased volume of production in the coming years is unlikely to reduce the unit cost substantially, as the domestic market is not large enough to

exploit economies of scale fully. In addition, the programme to increase the domestic content progressively over the years will tend to keep production costs high. Gains from scale economies are likely to be offset to a great extent by higher costs arising from increased local content.

The government has apparently disregarded criticism of the national car project from local car assemblers and economists. It is now claimed that the cars are 'competitively priced'. This certainly does not mean competitiveness in the international sense. It simply means that the government has given the car a market edge by imposing high tariffs on imported cars, exempting Proton from import duty on the CKD pack for the Saga and scrapping excise duties on these cars. In other words, consumers find the car 'competitive' because it is implicitly heavily subsidised.

Meanwhile, the automotive sector is in chaos, with car sales dwindling to 2,000 units per month in early 1987 from 7,000 units a year ago. Of the five assemblers of Japanese vehicles in the country, three have shut down their plants, while the other two have reduced their production drastically. The number of workers in the automobile assembly industry had declined to 1,569 by the end of 1986 from more than 4,500 in the industry's heyday.

4.7 Foreign Investment

Available data give a clear indication of the importance of foreign investment, especially in the industrial sector. These data also reveal the heavy concentration of sources of foreign investment as well as of the allocation of foreign investment in a few industries. There have been shifts in the sectoral allocation pattern in favour of export-oriented industries in recent years, in accordance with the shift in industrial policy with stronger emphasis on export orientation. Although there are signs that new forms of foreign investment are emerging, direct foreign investment still represents by far the most important form of foreign investment in the country.

Malaysia has been actively seeking foreign investment for a number of reasons and through a variety of incentive schemes. Modernisation of

the economy, diversification of the production structure, employment creation, technology transfers, industrial dispersion, and export orientation of the manufacturing sector have been some of the important policy objectives. Investment incentive schemes have been designed to achieve these policy goals. The contribution of foreign investment in these areas has been somewhat limited, presumably because of a built-in bias in favour of large-scale, capital-intensive projects, and also because of policy conflicts. Despite the active encouragement given to foreign investment, the New Economic Policy has imposed limits on its role. As we saw earlier, the NEP would like to see foreign equity share in the corporate sector reduced to not more than 30 per cent by 1990. Although this is not necessarily inconsistent with an absolute increase in foreign investment, provided that domestic investment can grow sufficiently faster, the NEP does act as a constraint.

On the one hand, it calls for reduced foreign equity participation, while, on the other hand, its strategy requires substantial injections of foreign capital and technical and managerial knowhow so that the restructuring of society can take place smoothly through the rapid expansion of national resources rather than through disruptive redistribution of the existing national 'cake'. This contradiction is partly resolved by resorting to new forms of foreign investment, i.e., by unbundling the investment package through licensing and franchising agreements, management contracts and the like.

Much as Malaysia might like to reduce the ownership or equity component of foreign investment, the current trends in the balance of payments may well render such a policy extremely undesirable. As discussed in an earlier section, Malaysia has been running into huge, persistent deficits in the current account in the early 1980s, and a large part of the deficit has been 'financed' by foreign capital flows. In other words, the balance of payments deficit would have been more serious in the absence of foreign capital inflows.

Moreover, the new accent on 'heavy industrialisation' also introduces a new dimension. Such a policy tends to increase the country's dependence on foreign investment significantly, at least in the short and

medium term. Thus, it is extremely difficult to reconcile the NEP equity objective with other national aspirations.

One thing seems clear: Malaysia will have to rely on direct foreign investment, not only to inject greater dynamism into its economy but also to solve its balance of payments problem. Foreign debts cannot provide long-term solutions, as these will need to be serviced regardless of the country's export performance, whereas foreign investments in export-oriented activities will have to generate sufficient foreign-exchange earnings before profits can be repatriated.

However, it is difficult to ascertain whether the various incentives given to foreign investors are really necessary. In any case, it is dangerous to make generalisations in this regard as conditions differ greatly between industrial projects and between industrial locations. That there are enormous social costs involved in these tax concessions and exemptions is readily obvious. Although tax incentives are seldom cited by investors as the main reason for investing in the country, it does appear that they are viewed as compensation for costs or inconvenience associated with politically-engineered regulations. Thus, one might argue that less regulation or deregulation would make a lot more economic sense than increased tax incentives.

4.8 Structure of Protection

There is no doubt that industrialisation in Malaysia was facilitated to a considerable extent by the protective system, although the protective measures were rather mild in nominal terms by modern standards. While nominal rates of protection (NPR) reflect the extent of protection given to the final products which influences consumer decisions, effective rates (EPR) measure protection given to the production process which affect investors' decisions and hence resource allocation.

There is evidence showing that, although NPRs have been rather low, average EPRs have been significantly high. Clearly Malaysia's protection system has undergone substantial changes in both nominal and effective terms. The average nominal rate for manufacturing increased from 13 per cent in 1965 to 18 per cent in 1970, while the average

effective rate increased from 4 per cent in 1965⁷ to 44 per cent in 1970⁸ and subsequently to 55 per cent in 1973.⁹

The NPRs exhibited a general upward trend in the 1970s, the average NPR for all sectors increasing from 16 per cent in 1970 to 22 per cent in 1978. However, the pattern of nominal protection did not change significantly, as shown by the fact that the proportion of industries receiving NPRs of less than 40 per cent declined marginally, from 92 per cent in 1970 to 88 per cent in 1978.¹⁰ The pattern of tariff escalation changed very little over this period. In general, effective protection accorded to the major groups exceeded nominal protection. The average EPR increased from 25 per cent in 1965 to 39 per cent in 1978. However, the figure peaked at 444 per cent in 1970, suggesting that average effective protection in Malaysia declined during the 1970s.

Nevertheless, there have been major changes in the structure of effective protection. In 1965, 39 per cent of manufacturing industries had negative EPRs, while only 8 per cent of them had EPRs of more than 100 per cent. The proportion of industries with negative EPRs was reduced to 31 per cent in 1970 and to 14 per cent in 1978, while the proportion of industries with EPRs exceeding 100 per cent increased to 16 per cent in 1970 but subsequently declined to 10 per cent in 1978. Moreover, both NPRs and EPRs have exhibited wide dispersions, as shown by the coefficients of variation. In the case of NPRs, the latter shows no obvious trend. By contrast, the EPRs show a clear downward trend in dispersion, with the coefficient falling from 102 in 1963 to 60 in 1973, with a marginal increase to 654 in 1978.

Marked changes in EPRs for the major product categories are also apparent. Effective protection for consumer durables increased sharply from 5 per cent in 1965 to 173 per cent in 1978. Non-durable consumer goods ranked second in terms of effective protection received by industry groups in 1978. Intermediate products with a lower level of fabrication have obtained much less protection than those with a higher level. Effective protection granted to beverages and tobacco, despite the high average NPR of 147 in 1978, has been eroded by high tariffs on inputs.

Although the system of protection in Malaysia appears to be less severe than elsewhere in that the tariff rates, both nominal and effective, are relatively moderate, it has tended to pamper some firms and certain sub-sectors with an unmistakable bias in favour of import replacements and to penalise export activities. Such biases, including the anti-export trade bias, are largely attributable to the ad hoc case-by-case approach which has characterised the Malaysian system of tariff administration. It cannot be denied that these biases have caused great distortion in the manufacturing sector.

Several aspects of the structure of protection deserve emphasis. High EPRs are indicative of either high rents in the form of excess profits which lure factors into the industry or high levels of inefficiency. In either case, they systematically penalise efficiency. Also, there is considerable dispersion of EPRs, as manifested by tariff escalation. High EPRs for finished goods have led to weak linkages. On the whole, the structure appears to be biased in favour of consumer goods industries at the expense of producer goods industries. Moreover, it has penalised exports. Several export activities suffer from negative protection. Even for those industries with positive and sizeable EPRs, the anti-export bias tends to be strong since the value added of export sales is often less than that of domestic sales. Domestic sales enjoy the shelter provided by the protective umbrella whereas foreign sales face the highly competitive and restricted international market. The implicit penalty on manufactured exports, built into the structure of protection has also been aggravated, to some degree, by exchange-rate overvaluation.

The incompatibility of the protection structure with the country's strategy of export-oriented industrialisation is readily clear. This anomaly is the result of an industrial policy that pursues import substitution and export orientation simultaneously. Admittedly, the implicit penalty on manufactured exports has been mitigated to some extent by countervailing subsidies in the form of various export incentives, such as export allowances and export credit facilities at concessionary rates of interest. But such subsidies have been inadequate to offset the anti-export bias. Moreover, countervailing subsidies are undesirable as a policy instrument. Distortions created by

the system of protection should be removed at their source and not neutralised by the introduction of compensatory measures.

4.9 Regulation and Intervention

Government intervention in general and regulation in particular is quite pervasive in the Malaysian economy. Much of the regulation and intervention revolves around the NEP. As a result, the extent of direct government involvement in the economy has increased dramatically in the last 17 years. Public sector expenditure, for instance, as a proportion of GNP increased from 28 per cent in 1975 to about 36 per cent at the peak in 1982. It fell slightly, however, to 33 per cent in 1984.

The Industrial Coordination Act (ICA) of 1975 represents the most important piece of regulatory and licensing regulation governing the industrial sector. It requires, among other things, all manufacturing companies with a paid-up capital of M\$250,000 or more to obtain a licence from the Minister of Trade and Industry who is empowered to refuse a licence in the national interest. The Minister may impose any condition (including compliance with the 30 per cent share of Bumiputeras in line with the NEP) before a licence is issued or renewed. Provisions such as this are described by businessmen as 'too restrictive'.

More recently, the government introduced new legislation affecting the business environment. The Companies Act 1965 was tightened by the Companies (Amendment) Bill 1984 containing 73 amendments, one of which calls for the setting-up of a panel to administer, supervise and control takeovers and mergers. Another amendment requires companies to disclose substantial shareholdings of 5 per cent or more so as to improve the relevant authorities' surveillance of predatory moves.

Although the new regulations are designed not to stifle the activities of private enterprises, there are areas of some concern. In particular, the wide-ranging powers of the Registrar of Companies and the functions of the proposed panel on takeovers and mergers - whose decision is final and cannot be challenged in a court of law - has serious implications for the business community.

The spate of legislation may not have created an environment of uncertainty but has certainly caused the business environment to take on a highly regulated look. Government interventions seem to have increased recently, apparently prompted by the economic slowdown, as manifested by the measures taken by the government to prop up the local stock market, which has been wallowing in a deep depression. The Finance Ministry has also been exerting pressure on the commercial banks (through the Central Bank) to channel funds into certain sectors and to adjust their lending and deposit rates. While some of these policy actions are commendable and timely, they nevertheless amount to tampering with market forces.

Public enterprises have been the main instruments of direct government involvement in the economy. That all is not well with these enterprises is readily obvious. Some of them have failed to perform and have incurred huge losses. With the worsening economic conditions and budgetary constraints, the burden imposed by these public enterprises has become too heavy for the government to shoulder. As a consequence, the government plans to privatise many of them. During 1984-85 it was announced that a number of public sector activities were to be privatised, including the following: the Telecommunication Department, the Container Terminal in Port Klang, the Malaysian Airline system, Lady Templer's Hospital, the Malaysian International Shipping Corporation, Aircraft Maintenance and the Malayan Railways. The Telecommunications Department has been privatised, and plans are under way to privatise the postal services.

Privatisation in the Malaysian context means not only the conversion of public enterprises into private ones but also the entry of private enterprises into industries which were hitherto government monopolies. An example of the latter is the private television network, TV3, which competes with the two government-owned networks. Negotiations are under way for the establishment of a number of private radio stations in the country. There is no doubt about the government's seriousness in disposing of its stake in business. It has sold 15 per cent of its shares in the Malaysian Airline System (MAS), reducing its stake in MAS to 55 per cent. MAS was the first government-owned company to go public under the privatisation programme in 1985. The

government plans to divest further to reduce its stake in MAS to 30 per cent. Next in line for government divestment is the Malaysian International Shipping Corporation (MISC) which is expected to go public in 1987.

The role of the state seems to be changing. It is increasingly being seen as one of facilitating and promoting private sector activities. The government philosophy thus seems to favour no more than minimal government participation in business. But there has been very little attempt to deregulate the economy so far, apart from piecemeal privatisation efforts.

Whilst there are sound economic justifications for some of the regulations, and political pressures render some others necessary and inevitable, most of them bear little relation to the realities of the regulatory environment. Some of them are so complex that they cannot be effectively enforced, while others are being implemented on an ad hoc basis. One consequence of the regulatory system is that it creates incentives for corruption, especially where the officials have substantial discretionary authority.

The system of regulation certainly has profound implications for the business environment. Its very complexity causes uncertainty and unpredictability which do not augur well for long-term planning. More often than not, the implementation of regulations is arbitrary. Businessmen often encounter lengthy delays in obtaining approvals. Bureaucratic red tape can be extremely frustrating. Worse still, off-the-cuff press statements by cabinet ministers are often interpreted as policy guidelines by the bureaucrats, causing much confusion. In short, the environment created by regulations and interventions is not conducive to undertaking large-scale ventures with long gestation periods. Under such circumstances, businessmen naturally prefer to invest in short-term, quick-yielding projects.

That the private sector in Malaysia has grown in strength and size is undeniable and government contributions to its development cannot be ignored. In the post-independence era, various measures taken by the government to stimulate trade and investment have provided new oppor-

tunities for the private sector. In addition, the private sector has benefited considerably from the various incentive schemes launched by the government. While we should acknowledge all this, we must not lose sight of the fact that the character of private sector development has been tainted by the very nature of its government support.

There are a number of features of private sector development which ought to be highlighted. First, the private sector has grown so used to governmental support that it finds it difficult to operate independently of it. This tendency is particularly strong in Bumiputera enterprises which have been 'pampered' by the NEP concessions.

Second, under the import-substitution industrial policies, private sector enterprises have become so inward-looking that they tend to shy away from venturing out into international and regional markets. The anti-export bias created by the protection regime is largely responsible for this.

Third, the export-oriented industrialisation strategy of the 1970s stimulated multinational corporations, especially those located in the FTZs, while local private enterprises remained insulated. The enclave nature of FTZ operations meant an absence of domestic linkages which would have provided a fillip to local enterprises and reoriented them towards the global market.

Fourth, it appears that export incentives have failed to entice local private enterprises into exporting. Many Malaysian manufacturers who were eligible for export incentives did not avail themselves of the facility either because of ignorance or owing to the cumbersome procedures.¹¹ Moreover, as was seen earlier, the export subsidies implicit in the export incentives were insufficient to offset the anti-export bias created by the protection regime.

Last but not least, the system of incentives has favoured large-scale industrial units with enormous capital and has sidestepped medium- and small-scale enterprises. Although investment incentives in general, and export incentives in particular, did not openly discriminate against local enterprises, it is foreign investors who have benefited most from them by virtue of the fact that they had more capital to

invest. Medium- and small-scale enterprises were edged out in the process, not only because they had little capital but because they lacked the necessary technological know-how.

To put all this in a nutshell, the system of incentives has rendered the local enterprises essentially inward-looking, catering for the domestic market. This explains, at least in part, why Malaysian private enterprises have not been keen to participate in export-oriented manufacturing activities. However, it must also be pointed out that recent changes in the domestic economy have helped to reorient local manufactures towards export markets. The domestic consumer market, already afflicted by the recession, has been reduced further by the deflationary influences of the government's austerity drive, thus forcing manufacturers to seek export outlets for their products. It is also noteworthy that this process has been facilitated by the depreciation of the ringgit to some extent.

Nonetheless, the system of regulation and intervention has tended to produce impediments to private sector initiatives. The adverse implications referred to earlier need not be repeated here. Suffice it to stress that incentives cannot make up for what disincentives exclude. It is no exaggeration to say that a good deal of the time and resources of private enterprises has been dissipated in circumventing regulations. Nor can it be denied that many of them are technically operating in breach of the law. Under such circumstances, the climate of uncertainty is not conducive to the growth of entrepreneurship.

Local enterprises tend to spread their resources thinly in view of this uncertainty. They are so preoccupied with coming to terms with local regulations that they can hardly afford to venture out into the regional market. In addition, direct involvement in the marketing of their manufactures abroad means encounters with regulations in other countries, with which they are completely, unfamiliar, and for which, unlike the multinationals, they possess neither the resources nor the expertise. It should be noted, however, that the extent of government intervention in the economic affairs of the country has decreased over time. Moreover, although the economy looks overregulated, the degree of overregulation is relatively mild compared with several other countries in the region.

4.10 Exchange-Rate Policy

Since September 1975, the ringgit has been tied to a basket of currencies which have not been specified. Unofficially it has close ties with the Singapore dollar because of the historical links in economics and finance. Up to the end of 1984, strong adherence to the US dollar and the Singapore dollar had been the norm but this was broken when the authorities adopted a more flexible exchange-rate management policy in response to sluggish economic activity and an overvalued exchange rate.¹²

The exchange rate as an instrument of policy can serve as an alternative to tax and tariff policies in support of the process of industrialisation by realigning the relative prices of exports and imports so that the prices of domestically produced goods become more competitive. Estimates show that the exchange rate had been overvalued to the tune of 20 per cent by the end of 1984.¹³ By maintaining a suitably undervalued exchange rate, Malaysia can create relative prices which are able to redirect resources from imports to exports and import-substitution activities. In effect, an exchange rate that is below the equilibrium value reduces domestic labour costs and promotes production of tradeable goods.

The protection offered by an undervalued exchange rate has a cost and this cost is justified if steps are taken to improve profitability in manufacturing through efficient production and marketing of exports. The exchange rate is an important instrument of macro-policy for long-run industrial strategy as long as some target real rate is adhered to for a long period.

Malaysia experienced an appreciating real effective rate during the period 1975-84, as a result of boom conditions in which export earnings increased owing to strong world demand and rising commodity prices. The result was that a large proportion of these earnings was spent in the production of non-tradeable goods (construction, services etc.). As a consequence the relative prices of non-tradeables/tradeables rose, exerting pressure on wages and resulting in real exchange-rate appreciation.

Following the rapid expansion in development expenditures during 1975-80 and coupled with the increase in export earnings, prices in the real estate sector rose significantly. Wages followed with particularly sharp increases in 1981-83. Both the real and the nominal exchange rates appreciated (Table 20).

The depreciation of the ringgit against the dollar since the third quarter of 1984 has brought down the real effective rate. But whether this is the appropriate level from both the short-run and the long-run perspective depends largely on the response of the economy to this rate. Given the present economic circumstances, it is hard to judge the appropriate level; but indications are that the depreciating ringgit has helped the manufacturing sector from 1986 onwards.

The real effective exchange rate appreciated by 10 per cent from the second quarter of 1981 to the fourth quarter of 1984 and began to depreciate marginally in early 1985, finally registering an effective depreciation of almost 9 per cent by the second quarter of 1986.

Exchange-rate policy has to be balanced in terms of several objectives: export growth and the adjustment of the balance of payments, the effect on domestic inflation, and the long-term process of industrial development. Although the real effective rate now appears to have depreciated to the level of 1973 (quarterly average), it does not necessarily indicate that this is the target rate for the future. This target rate largely depends on developments in the domestic and the international economic arenas where the Malaysian manufacturing sector participates and competes.

5. CONCLUSION

The Malaysian economy experienced an average growth rate of 7.2 per cent during the period 1975-80, and this was a period of unprecedented growth in the country's history. The first half of the 1980s, however, witnessed an average growth rate of 5.5 per cent, with the lowest ever recorded growth rate of -1 per cent in 1985. Part of the explanation for the deterioration in growth and therefore in the standard of living is the worldwide recession which led commodity prices to drop to very low levels. Ironically, the government's macroeconomic policies have caused the recession to last longer than it would otherwise have done. The basic structural problems of the economy were not addressed, but attempts were made to spend through the recession to generate growth and demand. Government expenditures rose from M\$11.7 billion in 1978 to M\$26.8 billion in 1981, an increase of 96.6 per cent. This sharp increase in government spending was a major factor boosting the economy in the initial phase of the current recession.

In the 1980s, the whole picture of government finances took a turn for the worse when the overall deficit during 1981-85 reached 16 per cent of GNP. In value terms, it increased from M\$11.3 billion in 1981 to 12.5 billion in 1986. Although development expenditures have been reduced drastically since 1984, the revenue picture looked worse because of the deterioration in commodity prices, thus leading to a deficit for the first time in the operating account in 1986. Financing the deficit called for foreign borrowing to supplement grossly inadequate domestic savings. As a result, foreign borrowing was maintained at 5 per cent of GNP during 1981-85. Thus, the period of high overall deficit was also accompanied by a large savings-investment gap.

Given the world economic environment and the prospects for growth in the industrialised countries, the short- and medium-term prospects for the Malaysian economy do not appear promising. At best, the economy may have bottomed out and the worst may be over. Commodity prices show signs of recovery, but are unlikely to reach the high levels experienced towards the end of the 1970s.

It is expected that the growth rate may climb to 3-4 per cent for the rest of the 1980s. This growth is largely expected to come not only from firmness in commodity prices, but also through the provision of incentives and some changes in the Industrial Co-ordination Act to encourage foreign investment in the manufacturing sector. The lower oil prices and the resultant growth prospects in the industrialised countries are expected to generate demand for commodities. The government, on the other hand, has taken several steps: export incentives, alterations to the NEP with regard to foreign investment, the setting up of a New Investment Fund, and changes to the Industrial Co-ordination Act, in order to stimulate growth through export promotion. But the growth expected in 1987 and beyond may not be sufficient to absorb the number of unemployed estimated to be in the region of 450,000 or 8.2 per cent of the labour force.

The economy appears to be overregulated. Some deregulation is necessary so that the business environment can become more conducive to private sector initiatives. The government should go slow on the NEP, however laudable its objectives are. They can only be achieved through growth in the economy. With a stagnant economy new targets and new timetables must be introduced.

Export promotion has been the government's strategy over the last few years to enhance growth prospects and, towards this end, several incentives have been provided including changes in the NEP and ICA. Export orientation must continue to ensure greater efficiency in resource allocation. Given the small domestic market, import substitution will impose heavy costs under heavy protection.

There is need for tariff reform especially to reduce tariff escalation and to reduce the anti-export bias. Although the system of protection appears to be less severe in Malaysia than in other countries, it has tended to penalise export activities with an unmistakable bias in favour of import replacements. Such biases, including the anti-export trade bias, are largely attributable to the ad hoc case-by-case approach which has characterised the system of tariff administration in Malaysia.

The establishment of the Heavy Industries Corporation of Malaysia (HICOM) marked the launching of a heavy industrialisation programme. The decision to set up such a programme was made in haste without regard to market size and scale economies. Given the present economic environment, a second hard look is needed. Phasing the programme out now may be uneconomical as a lot of capital has already been sunk into these industries (iron and steel, petrochemical, cement and motor vehicle manufacturing). It is important not only to inject no more capital into the unprofitable industries, but also not to start up new ones. Efforts must be made to reorient the heavy industries towards the export market or at least the ASEAN regional market.

Malaysia has been actively seeking foreign investment for a number of reasons and through a variety of incentive schemes. Its emphasis on direct foreign private investment would not only help promote growth but also help alleviate balance of payments problems. Foreign equity investment is superior to foreign loans, as the latter need to be serviced, while the former will service itself.

External borrowing needs to be watched carefully to ensure that the debt burden does not get out of hand. The debt service ratio stood at 12.3 per cent and 14 per cent of export earnings in 1984 and 1985 respectively, and these ratios appear small in comparison with other countries. But in 1986, in the face of falling export earnings, the ratio is estimated to have exceeded 20 per cent. However, there is no logic in turning one's back on external debt if it can be productively used.

The exchange-rate policy prior to 1985 has been very rigid especially in its adherence to the US and Singapore dollars. Effective appreciation of the ringgit from 1978 to 1985 has not helped the manufacturing sector, particularly during the recessionary period of the 1980s. From 1986, the exchange rate has been more flexible in terms of market forces and has begun to depreciate effectively, and this trend has no doubt helped the manufacturing sector. A liberal exchange-rate system is called for with intervention in the market in times of excessive speculation, but maintaining a long-term trend rate that is conducive to the promotion of exports.

Free Trade Zone areas have played a useful role. Some of the criticisms levelled against them seem misplaced. Of their very nature, FTZ industries cannot have extensive linkages or substantial technological transfers. Their main objective was employment creation in which they have succeeded. Nonetheless, there is a need to take another look at them. There is overconcentration in electronic components, ie. semiconductors, and a need for greater diversification. There is also an 'overpresence' of foreign companies which is not a bad thing in itself, but efforts must be made to encourage local companies as well to participate in the FTZ operations.

NOTES

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- (5) Datta-Chaudhuri, M., 'The Role of Free Trade Zones in the Creation or Employment and Industrial Growth In Malaysia', Asian Employment Programme Working Papers ILO-ARTEP, Bangkok, 1982.
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- (8) Ariff, M. 'Protection for Manufactures in Peninsular Malaysia' Hitosubashi Journal of Economics, vol. 15, no. 2, February 1975.
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- (10) Lee Keong Hock, 'Structure and Causes of Malaysian Manufacturing Sector Protection', ASEAN-Australian Joint Research project, Canberra, 1984 (mimeo).
- (11) Ariff, M., P.L. Chee and D. Lee, 'Export Incentives, Manufactured Exports and Employment, Malaysia', Council for Asia Manpower Studies, Manila, 1984 (unpublished).
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- (13) Ibid.

Chart 1. % CHANGES IN GDP & EXPORTS

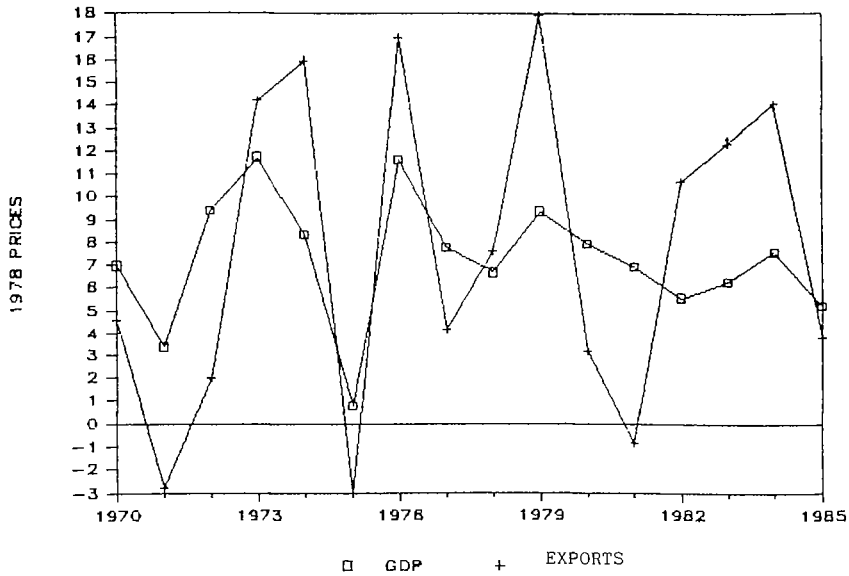


Chart 2 % CHANGES IN REAL EXPORTS & IMPORTS

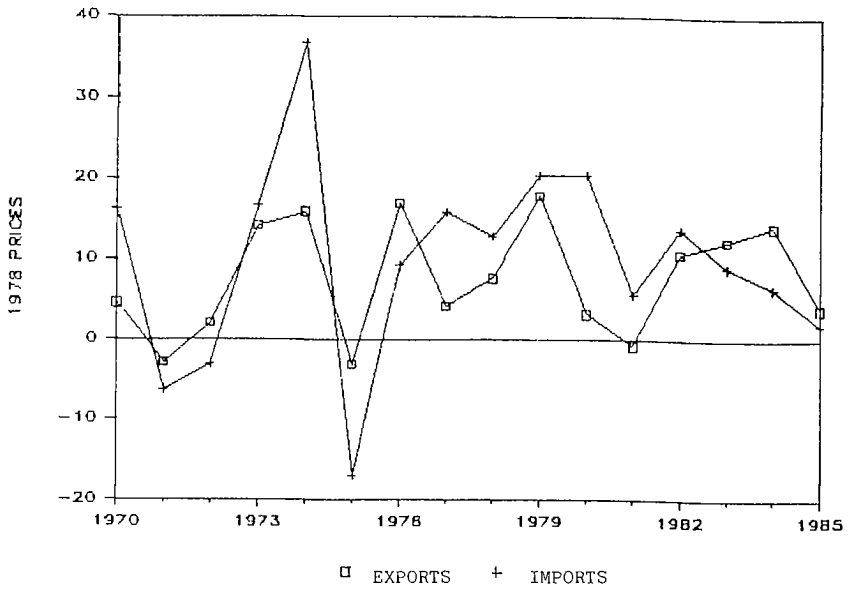


TABLE 1

DIRECTION OF TRADE- EXPORT (%)

YEAR	1970	1975	1980	1983
RUBBER	40.20	23.80	19.70	11.80
CHINA	*	*	5.90	6.30
GERMANY, FED REP	6.20	7.10	6.40	*
KOREA, REP	*	*	*	5.80
SINGAPORE	25.30	25.70	25.90	18.60
USSR	11.10	8.30	6.70	6.80
UNITED KINGDOM	8.90	6.90	*	*
USA	11.60	11.20	7.60	11.10
WOOD & CORK	19.90	13.10	17.00	13.60
AUSTRALIA	4.30	*	*	*
CHINA	45.10	40.90	46.80	44.70
HONG KONG	13.60	10.30	7.90	10.50
JAPAN	*	10.20	7.30	8.50
KOREA, REP	12.80	13.20	7.30	6.50
NETHERLANDS	4.80	3.70	9.30	10.40
PETROLEUM & PRODUCTS	8.50	11.40	29.40	27.50
AUSTRALIA	16.00	*	*	*
JAPAN	*	36.20	41.60	22.30
PHILIPPINES	18.80	12.40	4.10	2.50
SINGAPORE	46.30	29.30	23.30	45.80
THAILAND	7.10	11.10	3.10	13.10
USA	*	*	26.90	*
TIN	23.40	14.20	10.70	5.60
CANADA	3.30	*	*	*
INDIA	*	2.70	*	*
ITALY	6.50	3.00	3.20	*
JAPAN	26.90	13.60	26.20	30.30
NETHERLANDS	8.40	31.00	32.50	43.80
USSR	*	6.20	9.30	10.70
USA	36.80	*	15.20	*
PALM OIL (CRUDE)	6.20	12.90	3.90	4.60
INDIA	*	*	12.40	19.60
IRAQ	17.10	8.00	*	7.10
JAPAN	*	*	12.70	7.40
NETHERLANDS	8.30	17.00	14.90	*
PAKISTAN	*	6.50	13.00	22.00
SINGAPORE	30.60	*	*	*
USSR	*	*	*	12.10
UNITED KINGDOM	22.10	17.00	9.40	*
USA	5.30	26.80	*	*

COPPER	0.04	0.02	0.01	0.02
AUSTRALIA	11.20	*	*	*
GERMANY, FED REP	4.40	*	*	*
INDIA	*	12.60	12.00	*
JAPAN	*	32.20	21.40	13.90
PHILIPPINES	*	*	*	2.50
KOREA, REP	*	*	*	5.90
SINGAPORE	66.20	28.80	54.00	58.80
THAILAND	*	2.70	*	2.80
USA	*	*	*	*
COPPER (BLACK & WHITE)	1.40	1.20	0.40	0.20
GERMANY, FED REP	*	10.10	2.10	5.80
HONG KONG	*	*	0.80	*
JAPAN	*	*	0.70	13.50
SINGAPORE	82.20	73.10	73.10	68.00
UNITED KINGDOM	*	*	1.50	2.60
COCOA (RAW OR ROASTED)	0.10	0.40	0.70	0.70
AUSTRALIA	*	*	7.20	*
GERMANY, FED REP	10.60	42.70	32.30	13.50
NETHERLANDS	26.20	10.80	9.30	*
SINGAPORE	47.70	17.80	35.20	52.60
UNITED KINGDOM	*	4.40	*	7.10
USA	*	5.30	6.20	7.70
LNG				
JAPAN	-	-	-	100.00
MANUFACTURING EXPORT				
CORK & WOOD PRODUCTS	2.00	2.40	2.00	1.60
AUSTRALIA	*	7.00	*	*
HONG KONG	*	*	5.70	4.70
JAPAN	20.00	18.80	7.30	7.30
SINGAPORE	7.50	16.80	33.00	39.10
UNITED KINGDOM	27.30	21.40	13.20	14.90
USA	29.10	14.20	13.20	10.90
TEXTILES, YARN & FABRICS	0.40	0.90	1.70	1.20
AUSTRALIA	*	12.60	8.80	7.50
CANADA	*	*	*	5.50
GERMANY	*	15.50	6.60	*
HONG KONG	*	*	11.60	13.00
JAPAN	*	*	9.40	7.60
NEW ZEALAND	4.00	8.90	*	*
PHILIPPINES	7.70	*	*	*

SINGAPORE	27.40	17.40	7.10	9.20
UNITED KINGDOM	17.10	*	*	*
USA	15.00	11.00	*	*
NON FERROUS METALS	23.50	14.20	10.80	5.80
CANADA	3.30	*	*	*
INDIA	*	*	3.00	*
ITALY	6.40	*	*	*
JAPAN	26.80	13.50	25.90	29.60
NETHERLANDS	8.40	30.80	32.10	42.40
USSR	*	6.10	9.10	10.40
USA	36.70	29.40	15.00	4.00
ELECTRICAL MACHINERY	0.30	3.60	10.90	13.50
GERMANY, FED REP	*	3.50	7.30	6.30
HONG KONG	*	3.50	7.10	5.50
INDONESIA	5.80	*	*	*
IRAQ	11.90	*	*	*
JAPAN	*	6.60	4.80	6.60
SAUDI ARABIA	9.20	*	*	*
SINGAPORE	34.80	18.90	14.50	10.50
THAILAND	9.30	*	*	*
USA	*	54.60	53.20	58.20
ARTICLES OF APPAREL	0.40	1.20	1.40	1.60
AUSTRALIA	*	7.60	*	*
CANADA	8.30	*	*	*
FRANCE	*	17.60	12.60	5.30
GERMANY, FED REP	*	25.10	23.30	15.50
NETHERLANDS	*	9.30	*	*
PHILIPPINES	6.90	*	*	*
SINGAPORE	7.50	*	*	4.30
SWEDEN	*	*	6.40	*
UNITED KINGDOM	*	*	7.00	5.40
USA	64.20	12.70	20.20	45.70

NOTE: Table 1 refers to commodity exports as a percentage of total exports.

Within each commodity category, countries' percentage of imports of that particular commodity are given. This applies to Table 2 where disaggregated commodity exports are given.

Similar interpretation is accorded to Table 3.

Table 2

DIRECTION OF TRADE - EXPORT(%)

Year	1970	1975	1980	1983
RUBBER				
LATEX CONTAINING OVER 1/2% AMMONIA-CENTRIFUGE CONCENTRATED	10.1	10.3	14.2	10.1
Italy	*	6.9	7.9	4.5
Japan	12	*	7.9	*
Korea, Rep	*	*	*	5.3
Singapore	9	8.4	7.4	3.8
Taiwan	*	*	*	4.2
USSR	10.2	21.2	24.8	13.7
United Kingdom	21.8	11.5	*	*
USA	9.8	7.7	5.7	*
RUBBER RIBBED SMOKED SHEET RSS 1				
China	*	7.5	*	14.3
France	5.5	*	13.3	8.6
Germany, Fed Rep	*	*	5.9	8.2
Singapore	24.6	29.2	23.1	19.4
Spain	*	6.3	*	*
USSR	32.2	22.9	15.1	*
United Kingdom	5.2	6.5	*	*
USA	5.1	*	5.1	10.2
RUBBER RIBBED SMOKED SHEET RSS 2				
China	6.6	17.3	10.7	15.3
France	6.3	5.8	11.9	13.7
Germany, Fed Rep	8.3	6.5	*	*
Singapore	42.9	46.8	43.9	20.1
Spain	*	5.8	*	*
USSR	8.4	*	3.7	10.1
USA	*	*	8.5	9.1
RUBBER RIBBED SMOKED SHEET RSS 3				
China	13.8	6.2	19.3	12.5
Germany, Fed Rep	5.3	8.7	4.4	3.6
Japan	*	*	*	10.9
Korea, Rep	*	*	4.1	*
Poland	*	10.9	*	*
Singapore	39.1	50.4	52.9	52.9
USA	7.1	6.7	2.9	*
Yugoslavia	3.3	*	*	*
RUBBER RIBBED SMOKED SHEET RSS 4				
China	*	11.9	8.4	*
Japan	*	4.5	10.1	24.9
Singapore	*	54.6	72.8	58.3
USA	*	15.1	*	8.4
RUBBER SOLE CREPE WHITE				
Eire	*	5.7	*	*
Germany Fed Repub	*	6.9	*	*

Year	1970	1975	1980	1983
Spain	*	6.2	*	*
United Kingdom	*	10.7	*	*
USA	*	42.5	*	*
RUBBER ESTATE BROWN CREPE INCL COMPO	5.9	<2	<1.2	<3.7
Canada	6.8	*	*	*
Italy	6.3	*	*	*
Singapore	12.9	*	*	*
Spain	7.1	*	*	*
USA	40.1	*	*	*
OTHER RUBBER RIBBED SMOKED SHEET	<5.9	<2	1.2	<3.7
Germany, Fed Repub	*	*	10.3	*
Singapore	*	*	57.2	*
Spain	*	*	10.3	*
STD MALAYSIAN RUBBER	12.5	<2	<1.2	<3.7
France	7.4	*	*	*
Germany, Fed Repub	12.7	*	*	*
Italy	10.2*	*	*	*
United Kingdom	21.1	*	*	*
USA	20.6	*	*	*
STD MALAYSIAN RUBBER SCV	<5.9	3.4	5.2	<3.7
Canada	*	6	*	*
France	*	*	10.9	*
Germany, Fed Repub	*	18.7	22.8	*
Italy	*	8.6	10.2	*
United Kingdom	*	10.9	7.4	*
USA	*	30.2	21.2	*
STD MALAYSIAN RUBBER CV	<5.9	<2	<1.2	4.8
Canada	*	*	*	6.9
Germany Fed Repub	*	*	*	7.5
Italy	*	*	*	6.6
Netherlands	*	*	*	6.9
USA	*	*	*	41.8
MALAYSIAN RUBBER 5L	<5.9	4.2	3.2	<3.7
Germany, Fed Repub	*	11.3	*	*
Italy	*	12.6	6.3	*
Japan	*	8.2	9.5	*
Korea, Rep	*	*	14	*
Singapore	*	8.9	6.6	*
USA	*	24	33.6	*
STD MALAYSIAN RUBBER - L	<5.9	<2	<1.2	4.6
Italy	*	*	*	5.6
Japan	*	*	*	7
Korea	*	*	*	21.6
Singapore	*	*	*	3.6
USA	*	*	*	36.3
STD MALAYSIAN RUBBER 10	<5.9	4.5	5.6	8.2

Year	1970	1975	1980	1983
Belgium	*	*	9.8	13.3
France	*	13.1	10.6	*
Germany, Fed Rep	*	18.1	23.2	15.7
Korea, Rep	*	*	*	11.1
Singapore	*	*	*	8.4
United Kingdom	*	15.3	12.5	12.5
USA	*	9.7	*	*
Yugoslavia	*	10.3	*	*
MALAYSIAN RUBBER 20	<5.9	13.4	17.6	21.4
China	*	5.3	5.5	9.9
Italy	*	5.3	11	7.3
Korea, Rep	*	*	8.6	8.5
Singapore	*	13.3	14.4	*
United Kingdom	*	14.2	*	5.6
USA		17.2	6.1	10.2
CENTRIFUGE CONC UNDER 1/25 AMMONIA	<5.9	3.7	<1.2	<3.7
Germany, Fed Rep	*	8	*	*
Japan	*	11.8	*	*
Poland	*	7.8	*	*
USSR	*	19.9	*	*
USA	*	11.2	*	*
<u>TIN</u>				
UNWROUGHT TIN ALLOYED	100	100	100	99.0
Canada	3.3	*	*	*
India	*	2.7	*	*
Italy	6.5	3	3.2	*
Japan	26.9	13.6	26.2	30.3
Netherlands	8.4	31	32.5	43.8
USSR	*	6.2	9.3	10.7
USA	36.8	*	15.2	*
<u>WOOD & CORK</u>				
Netherlands	*	*	15	*
United Kingdom	*	*	11.8	*
WOOD, NON CONIFEROUS excl TEAK PLANED, TEAK, GROOVED, etc NOT FOR PARQUET OR WOOD BLOCK FLOORING	<5.6	<35.2	2.1	<27.1
Australia	*	*	38.4	*
Japan	*	*	15.5	*
Korea Rep	*	*	6.2	*
Netherlands	*	*	7	*
USA	*	*	11.5	*
<u>PALM OIL</u>				
PALM OIL	100	<100	<11.1	<8.8
Netherlands	8.3	*	*	*
Singapore	30.6	*	*	*
Iraq	17.1	*	*	*
United Kingdom	22.1	*	*	*

Year	1970	1975	1980	1983
USA	5.3	*	*	*
PALM OIL CRUDE				
Germany, Fed Rep	*	*	10.8	*
Iraq	*	8	*	*
Netherlands	*	17	39.7	*
Pakistan	*	6.5	*	*
United Kingdom	*	17	37	*
USA	*	26.8	*	*
NEUTRALIZED PALM OIL	<100	<100	11.1	8.8
India	*	*	6.4	65.8
Iraq	*	*	9.9	23.8
Netherlands	*	*	1.1	*
Pakistan	*	*	57	*
USA	*	*	23.3	*
NEUTRALIZED BLEACHED DEODORIZED PALM OIL	<100	<100	12.9	<8.8
India	*	*	12	*
Japan	*	*	25.7	*
Netherlands	*	*	12	*
Pakistan	*	*	13.3	*
USA	*	*	15.8	*
REFINED BLEACHED DEODORIZED PALM OIL	<100	<100	49.4	91.2
India	*	*	20.3	15.1
Japan	*	*	18.4	8.1
Pakistan	*	*	9.7	24.2
USSR	*	*	10.6	13.2
USA	*	*	7.3	7.8
SAWLOGS NON CONIFER MERANTI	8.9	<35.2	<2.1	<27.1
Taiwan	15.4	*	*	*
Japan	53.4	*	*	*
Korea, Rep	21.6	*	*	*
SAWLOGS & VENEER LOGS, NON CONIFER	50	60.2	<2.1	<27.1
Japan	54.9	66.3	*	*
Korea, Rep	18.0	17.1	*	*
Singapore	17.7	*	*	*
SAWN TIMBER NON CONIFER RAMIN	5.6	<35.2	<2.1	<27.1
Australia	9.4	*	*	*
Germany, Fed Repub	20.4	*	*	*
Italy	19.7	*	*	*
United Kingdom	23.7	*	*	*
USA	7.9	*	*	*
SAWN TIMBERS NON CONIFERS	17.6	35.2	<2.1	<27.1
Australia	15.3	8.1	*	*

Year	1970	1975	1980	1983
Belgium	9,6	8,7	*	*
Japan	12,8	*	*	*
Netherlands	12,4	28,8	*	*
Singapore	13,8	22,4	*	*
United Kingdom	*	6,4	*	*
OTHER SAWLOGS & VENEER LOGS, NON CONIFEROUS IN THE ROUGH	<5,6	<35,2	65,5	66,6
Japan	*	3	67,4	63,5
Korea, Rep	*	*	11,6	15,1
Taiwan	*	*	13,2	14,5
WOOD NON CONIFEROUS, SAWN LENGTHWISE, BUT NOT FURTHER PREPARED, OF A THICKNESS EXCEEDING 5mm - OTHER	<5,6	<35,2	26,9	27,1
Australia	*	*	5,2	4,3
Belgium	*	*	*	6,2*
France	*	*	4,7	*
Netherlands	*	*	24,8	30
Singapore	*	*	22,6	20,4
United Kingdom	*	*	*	4,2
Yemen Arab Repub	*	*	5,1	*
WOOD NON CONIFEROUS, SAWN LENGTHWISE, BUT NOT FURTHER PREPARED, OF A THICKNESS EXCEEDING 5mm - RAMIN	<5,6	<35,2	2,6	<27,1
Denmark	*	*	5,8	*
Germany Fed Repub	*	*	5,8	*
Italy	*	*	12,2	*
<u>PETROLEUM AND PETROLEUM PRODUCTS</u>				
PETROLEUM CRUDE	45,2	75,2	<97,2	<14,8
Australia	23,2	*	*	*
Burma	6,2	*	*	*
Japan	6,1	34,7	*	*
Philippines	40,6	16,5	*	*
Singapore	*	21,3	*	*
Thailand	8,6	14,7	*	*
PETROLEUM PARTLY REFINED	10,5	13,9	<97,2	<14,8
Japan	*	68,8	*	*
Singapore	99,1	30,9	*	*
OTHER PETROLEUM SPIRIT MAX 72F FLASHPOINT	12,1	<13,9	<97,2	<14,8
Singapore	99,3	*	*	*
RESIDUAL FUEL OILS	14,4	<13,9	<97,2	<14,8
Singapore	93	*	*	*

Year	1970	1975	1980	1983
PETROLEUM OILS, CRUDE, AND CRUDE OILS OBTAINED FROM BITUMINOUS MATERIALS	<10,5	<13,9	97,2	78,1
Japan	*	*	42,7	21,6
Korea	*	*	*	8,3
Singapore	*	*	21,3	45,6
Thailand	*	*	*	13,4
USA	*	*	27,6	*
PETROLEUM OIL CRUDE	<10,5	<13,9	<97,2	14,8
Japan	*	*	*	28,9
Singapore	*	*	*	44,5
Thailand	*	*	*	13,9
<u>COPPER</u>				
WIRE OF UNALLOYED COPPER	25,1	<16,3	<2,4	25,1
Australia	44,7	*	*	99,6
Germany, Fed Repub	17,6	*	*	*
Singapore	34,6	*	*	*
WROUGHT BARS AND RODS OF UNALLOYED COPPER	<10,3	<16,3	<2,4	12,6
Singapore	*	*	*	77,3
Thailand	*	*	*	22,6
WROUGHT BARS AND RODS OF BRASS	<10,3	<16,3	<2,4	7,1
Japan	*	*	*	22,2
Singapore	*	*	*	77,7
WROUGHT BARS, RODS, ANGLES, SHAPES AND SECTIONS OF OTHER COPPER ALLOYS	<10,3	<16,3	<2,4	11
Singapore	*	*	*	97,5
OTHER WROUGHT BARS, RODS, ANGLES SHAPES AND SECTIONS OF OTHER COPPER ALLOYS	47,3	<16,3	<2,4	<7,1
Singapore	99,7	*	*	*
WIRE OF BRASS	<10,3	16,3	<2,4	<7,1
Japan	*	65,9	*	*
Thailand	*	16,5	*	*
WIRES OF OTHER COPPER ALLOYS	10,3	<16,3	<2,4	<7,1
Singapore	99,8	*	*	*
WROUGHT PLATES, SHEETS & STRIP OF UNALLOYED COPPER	<10,3	<16,3	25,6	<7,1
Singapore	*	*	100	*

Year	1970	1975	1980	1983
WROUGHT PLATES, SHEETS & STRIP OF BRASS	<10.3	66.3	61.6	25
India	¥	19	19.5	¥
Japan	¥	32.3	34.7	49.2
Korea, Rep	¥	¥	¥	23.9
Singapore	¥	43.5	34.9	13.9
WROUGHT PLATES, SHEETS & STRIP OF OTHER COPPER ALLOYS	10.3	<16.3	<2.4	9
Philippines	¥	¥	¥	27.2
Singapore	¥	¥	100	47.7
USA	¥	¥	¥	9.1
TUBES AND PIPE FITTINGS OF BRASS	<10.3	<16.3	2.4	<7.1
Singapore	¥	¥	100	¥
<u>PEPPER</u>				
PEPPER, BLACK UNGROUND	54.7	<38.4	<33.4	<35.2
Singapore	91.1	¥	¥	¥
PEPPER, WHITE GROUND	45.3	<38.4	33.4	<35.2
Germany, Fed Repub	12.8	¥	6.3	¥
Hong Kong	¥	¥	2.5	¥
Japan	¥	¥	17.2	¥
Singapore	70.9	¥	62.2	¥
Sweden	4.7	¥	¥	¥
United Kingdom	¥	¥	4.6	¥
PEPPER WHITE, UNGROUND	<45.3	38.4	<33.4	35.2
Germany, Fed Repub	¥	26.4	¥	16.5
Japan	¥	10.6	¥	17.4
Singapore	¥	52.1	¥	47.6
United Kingdom	¥	¥	¥	7.4
PEPPER BLACK, UNGROUND	<45.3	61.5	66.5	64.7
Japan	¥	¥	9.1	11.4
Singapore	¥	86.3	78.5	79

Year	1970	1975	1980	1983
<u>COCOA</u>				
COCOA BEANS RAW OR ROASTED	99,9	96,1	80,9	80,7
Australia	*	*	7,2	*
Germany, Fed Repub	10,6	42,7	32,3	13,5
Netherlands	26,2	10,8	9,3	*
Singapore	47,7	17,8	35,2	52,6
United Kingdom	*	4,4	*	7,1
USA	*	5,3	6,2	7,7

GAS, NATURAL AND MANUFACTURED

LIQUIFIED GASEOUS HYDROCARBONS, EXCL PROPANE & BUTANE	-	-	-	100
Japan	-	-	-	100
Thailand	*	*	*	3,42
United Kingdom	11,40	11,50	9,10	*
Rest of the World	17,20	12,70	9,10	16,20

CHEMICALS

Germany, Fed Repub	15,00	11,10	14,10	10,60
Japan	19,30	24,20	17,70	17,70
United Kingdom	22,40	14,50	9,10	8,60
USA	10,50	14,60	21,90	23,10
Rest of the World	11,00	14,80	18,50	17,20

MISC TRANS & COMMODITIES

Germany, Fed Repub	*	*	*	17,00
Netherlands	5,00	*	*	*
Singapore	50,00	*	*	*
United Kingdom	15,10	21,10	5,90	5,50
USA	8,90	8,80	28,00	19,40
Rest of the World	4,60	13,90	23,20	14,40

Year	1970	1975	1980	1983
TOTAL				
Australia	\$	*	5.50	\$
Germany, Fed Repub	\$	*	*	5.10
Japan	17.50	20.10	22.90	25.30
Singapore	7.50	8.50	11.70	13.90
United Kingdom	13.50	10.00	\$	\$
USA	8.60	10.70	15.00	16.10
Rest of the World	25.60	21.20	23.00	20.40

Note: Rest of the World excludes Australia, China, France, Germany, Hong Kong, India, Indonesia., Japan, Netherlands, Singapore, Thailand, USSR, UK, USA.

TABLE 3: IMPORT STRUCTURE 1970-1985 (%)

YEAR	RATES OF GROWTH			PROPORTION OF TOTAL IMPORTS				
	1970-1975	1976-1980	1980-1985	1981	1982	1983	1984	1985
CONSUMPTION GOODS	9.1	22.2	8.7	20	19.2	18.9	19.7	21.6
FOOD	7	13.7	9.3	6	5.9	5.6	5.7	6.1
CONSUMER DURABLES	16.4	47.7	8.6	4.1	3.8	3.9	4.9	4.9
OTHER	9.2	20.8	8.4	9.9	9.5	9.3	9.1	10.6
INVESTMENT GOODS	25.1	25.9	6	28.2	31.1	31.8	32.7	31.3
MACHINERY	18.9	33.4	4.6	10.8	10.9	10.7	11	10.2
TRANSPORT EQUIPMENT	2.7	45.1	7.1	3.6	5.5	5.4	4.1	4.3
METAL PRODUCTS	15.4	39.1	-0.4	6.5	7.1	6.7	6.3	5.7
OTHER	60.5	9	13.7	7.3	7.6	9	11.3	10.5
INTERMEDIATE GOODS	22.1	35.2	3.5	50.3	48.1	47.6	46.5	46.3
MANUFACTURING	17	36.8	5.7	27.4	26.8	26.4	30.1	29.4
CONSTRUCTION	33.1	24.2	9.3	3.5	4.4	3.9	3.7	3
AGRICULTURE	17.9	26.8	-2.2	2.8	2.2	1.9	2.3	2.5
CRUDE PETROLEUM	70	34.3	-7	7.7	5	5.3	3.4	3.6
OTHER	20.3	49.2	7.4	8.8	9.7	8.1	6.5	7.8
TOTAL IMPORTS	16.5	28.3	5					
GNP GROWTH RATE	13.7	16.9	6.5					

SOURCE: ECONOMIC REPORTS, MINISTRY OF FINANCE
 QUARTERLY ECONOMIC BULLETIN, BANK NEGARA

TABLE 4

DIRECTION OF TRADE -IMPORT

YEAR	1970	1975	1980	1983	1984	1985
FOOD						
AUSTRALIA	17.70	30.30	27.90	22.20	22.60	21.40
CHINA	14.20	15.20	7.20	8.30	8.40	7.70
SINGAPORE	6.90	4.50	*	*	*	*
THAILAND	14.20	17.80	19.40	22.80	25.20	25.80
USA	*	*	5.50	8.00	6.80	7.20
REST OF THE WORLD	27.60	16.30	22.70	21.70	19.80	21.30
BEVERAGES & TOBACCO						
CHINA	*	*	*	*	3.30	*
FRANCE	19.20	32.60	30.30	32.60	34.40	32.80
HONG KONG	14.90	17.30	8.00	10.40	5.20	5.50
SINGAPORE	*	5.60	5.80	6.00	3.30	*
UNITED KINGDOM	9.60	10.30	6.20	6.50	5.30	5.30
USA	27.80	21.80	39.20	30.20	29.40	28.10
REST OF THE WORLD	7.40	*	*	*	*	6.00
CRUDE MATERIALS INEDIBLE						
AUSTRALIA	*	12.20	25.10	18.40	16.00	18.50
CHINA	6.20	*	*	*	6.30	9.60
INDONESIA	7.90	24.10	7.00	*	*	*
JAPAN	*	*	*	5.40	*	*
SINGAPORE	6.60	*	*	*	*	*
THAILAND	10.90	9.60	9.10	6.60	13.20	7.50
UNITED KINGDOM	*	6.00	*	*	*	*
USA	*	*	10.30	12.00	11.50	6.70
REST OF THE WORLD	58.30	31.10	29.60	40.50	34.20	38.60
MINERAL FUELS, LUBRICANT						
AUSTRALIA	*	0.60	*	1.20	1.10	0.80
INDIA	*	*	*	0.50	*	*
INDONESIA	*	*	*	0.80	2.60	1.40
JAPAN	*	0.60	0.50	*	*	*
KUWAIT	*	*	*	*	5.60	13.40
NETHERLANDS	0.70	*	*	*	*	*
SAUDI ARABIA	*	*	*	*	20.10	16.90
SINGAPORE	15.70	29.10	42.40	57.20	57.30	65.80
UNITED KINGDOM	1.50	0.70	0.50	*	*	*
USA	1.70	*	0.30	*	*	*
REST OF THE WORLD	79.20	68.20	55.80	39.20	*	*
ANIMAL, VEG. OILS & FATS						
AUSTRALIA	13.00	26.50	*	*	*	*
CHINA	12.20	*	*	3.40	*	*
INDIA	*	*	*	*	*	13.20

INDONESIA	*	*	*	9.60	13.30	15.60
JAPAN	*	6.90	7.40	5.90	3.70	6.00
NETHERLANDS	*	*	7.40	*	*	*
SINGAPORE	24.40	15.60	44.40	48.10	35.30	29.20
THAILAND	*	*	*	3.40	4.50	12.40
UNITED KINGDOM	11.40	11.50	9.10	*	*	*
REST OF THE WORLD	17.20	12.70	9.10	16.20	29.60	*

CHEMICALS

GERMANY, FED REP	15.00	11.10	14.10	14.60	11.30	11.10
JAPAN	19.30	24.20	17.70	17.70	15.90	15.60
SINGAPORE	*	*	*	*	9.60	11.30
UNITED KINGDOM	22.40	14.50	9.10	8.60	*	*
USA	10.50	14.60	21.90	23.10	22.30	20.60
REST OF THE WORLD	11.00	14.80	18.50	17.20	17.60	16.30

MANUFACTURED GOODS BY MATERIALS

AUSTRALIA	*	*	5.10	*	3.70	4.30
CHINA	7.40	*	*	*	*	*
GERMANY	*	*	*	4.00	*	*
INDONESIA	39.40	*	*	*	*	*
JAPAN	*	43.30	37.60	29.00	35.40	34.90
SINGAPORE	8.60	7.20	6.60	6.60	7.50	6.90
UNITED KINGDOM	11.40	8.30	*	*	*	*
USA	*	5.80	5.50	4.40	5.50	5.20
REST OF THE WORLD	15.00	17.10	25.80	27.80	28.50	27.10

MACHINERY & TRANSPORT EQUIPMENT

GERMANY	10.40	9.80	8.50	7.50	5.20	5.60
JAPAN	26.20	28.30	35.10	37.00	37.80	33.00
SINGAPORE	*	*	*	7.20	8.60	10.50
UNITED KINGDOM	27.00	17.60	7.60	*	*	*
USA	18.30	18.30	25.60	26.20	24.80	24.00
REST OF THE WORLD	8.50	10.90	10.70	11.00	13.20	16.10

MISC. MANUFACTURED ARTICLES

CHINA	8.70	*	*	*	*	*
HONG KONG	11.10	*	*	8.20	10.30	7.80
JAPAN	20.40	16.50	19.60	27.10	29.40	29.20
SINGAPORE	12.00	12.80	10.80	8.90	8.30	8.70
UNITED KINGDOM	17.40	11.90	11.60	*	*	*
USA	*	24.40	14.40	15.80	14.20	14.50
REST OF THE WORLD	*	9.40	14.60	15.50	15.70	16.30

MISC. TRANS. & COMMODITIES

GERMANY, FED REP	*	*	*	17.00	*	*
JAPAN	*	9.30	5.50	*	4.20	3.90
NETHERLANDS	5.00	*	*	*	*	*
SINGAPORE	50.00	27.20	25.50	33.90	27.40	24.00
UNITED KINGDOM	15.10	21.10	5.90	5.50	38.40	43.50
USA	8.90	8.80	28.00	19.40	15.90	11.50

REST OF THE WORLD	4.60	13.90	23.20	14.40	6.50	9.40
TOTAL						
AUSTRALIA	*	*	5.50	*	*	*
GERMANY, FED REP	*	*	*	5.10	4.10	4.50
JAPAN	17.50	20.10	22.90	25.30	26.50	23.00
SINGAPORE	7.50	8.50	11.70	13.90	12.00	15.90
UNITED KINGDOM	13.50	10.00	*	*	*	*
USA	8.60	10.70	15.00	16.10	16.30	15.20
REST OF THE WORLD	25.60	21.20	23.00	20.40	16.10	17.00

NOTE: REST OF THE WORLD EXCLUDES AUSTRALIA, CHINA, FRANCE, GERMANY
 HONG KONG, INDIA, INDONESIA, JAPAN, NETHERLANDS, SINGAPORE,
 THAILAND, USSR, UK, USA (FROM 1984, IT ALSO EXCLUDES KUWAIT AND SAUDI ARABIA)

TABLE 5
MALAYSIA: FOREIGN INVESTMENT IN COMPANIES IN PRODUCTION
BY COUNTRY
AS AT 31st DECEMBER 1983

	PAID-UP CAPITAL	LOANS	TOTAL CAPITAL INVESTMENT		FIXED ASSETS	
	Mf m.	Mf m.	Mf m.	%	Mf m.	%
SINGAPORE	1053.2	284.4	1336.6	32.9	804.2	23.1
JAPAN	524.5	179.2	703.7	17.3	704	18.4
UNITED KINGDOM	582.3	62.5	644.8	15.9	680	17.8
USA	180.7	46.6	227.3	5.6	306	8
HONG KONG	304.1	68.6	372.7	9.2	357.5	9.4
W. GERMANY	85.8	23.5	109.3	2.7	109.6	2.9
AUSTRALIA	79	7.9	86.9	2.1	44.5	1.2
NETHERLANDS	41.7	10.3	52	1.3	74.5	1.9
INDIA	39.2	18.2	57.4	1.4	52.3	1.4
OTHERS	387.6	82.4	470	11.6	606.8	15.9
TOTAL	3277.1	783.6	4060.7	100	3819.4	100

SOURCE: CALCULATED FROM UNPUBLISHED DATA PROVIDED BY MALAYSIAN INDUSTRIAL DEVELOPMENT AUTHORITY
MIDA

TABLE 6
MALAYSIA: FOREIGN INVESTMENT IN COMPANIES IN PRODUCTION
BY SELECTED COUNTRY AND INDUSTRY
AS AT 31st DECEMBER 1982

	SINGAPORE		JAPAN		U.K.		USA	
	M\$ m.	%	M\$ m.	%	M\$ m.	%	M\$ m.	%
FOOD MANUFACTURING	290	21.7	74.6	10.6	137.4	21.3	11.5	5.1
BEVERAGES & TOBACCO	28.8	5.9	-	-	104.2	16.2	52.3	23
TEXTILE & TEXTILE PRODUCTS	77.2	5.8	224.3	31.9	6.4	1	5.5	2.4
LEATHER & LEATHER PRODUCTS	5.4	0.4	-	-	-	-	-	-
WOOD & WOOD PRODUCTS	60.8	4.5	67	9.5	4.9	0.8	2.8	1.2
FURNITURE & FIXTURES	14.6	1.1	1.4	0.2	-	-	0.5	0.2
PAPER, PUBLISHING & PRINTING	21.7	1.6	0.2	-	2.7	0.4	0.4	0.2
CHEMICAL & CHEMICAL PRODUCTS	63.4	4.7	19.5	2.8	105.6	16.4	87	38.5
PETROLEUM & COAL	-	-	-	-	100.5	15.6	-	-
RUBBER & RUBBER PRODUCTS	25.3	1.9	11.8	1.7	19.3	3	10.3	4.5
PLASTIC PRODUCTS	8.4	0.6	11.9	1.7	0.9	0.1	-	-
NON- METALLIC MINERAL PRODUCTS	190.5	14.3	53.7	7.6	38.8	6	1	0.4
BASIC METAL PRODUCTS	150.3	11.4	48.7	6.9	16.8	2.6	-	-
FABRICATED METAL PRODUCTS	42.9	3.2	19.2	2.7	25.5	4	1.6	0.7
MACHINERY	9	0.7	19.9	2.8	16.7	2.6	6.9	3
ELECTRICAL & ELECTRONICS	80.9	6.1	109.2	15.5	35.3	5.5	35.5	15.6
TRANSPORT EQUIPMENT	61.4	4.6	22.6	3.2	25.2	3.9	5.1	2.2
SCIENTIFIC & MEASURING EQUIPMENT	-	-	2	0.3	-	-	4	1.8
MISC. MANUFACTURES	1.4	0.1	11.3	1.6	3.8	0.6	6.6	2.9
HOTEL & TOURIST COMPLEXES	148.3	11.1	4.9	0.7	0.5	0.1	-	-
TOTAL	1336.6	100	703.7	100	644.8	100	227.3	100

SOURCE: CALCULATED FROM UNPUBLISHED DATA PROVIDED BY MALAYSIAN INDUSTRIAL DEVELOPMENT AUTHORITY
MIDA

TABLE 7

TOTAL NET RESOURCE FLOWS TO MALAYSIA, 1969-1981

PERIOD	AVERAGE ANNUAL NET FLOWS US\$ m.	SHARE OF OFFICIAL FLOWS IN TOTAL (%)	SHARE OF PRIVATE FLOWS IN TOTAL (%)	SHARE OF DIRECT INVESTMENT IN TOTAL (%)	SHARE OF DIRECT FOREIGN INVESTMENT IN GROSS DOMESTIC INVESTMENT (%)
1969-71	80.4	71.3	28.7	31.3	3.40
1972-76	245.5	49.7	50.3	36.7	4.5
1977-81	569.3	36.6	63.4	24.8	2.5

SOURCE: HILL, H., AND B. JOHNS, (1984) TABLE 1 AND 2.

@1971 ONLY

TABLE 8

TYPES OF AGREEMENTS 1970-1980

TYPE OF AGREEMENTS	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	TOTAL (%)
1. TECHNICAL ASSISTANCE & KNOW-HOW	9	15	33	34	28	27	30	21	48	54	57	64	48	61	529 (57.5)
2. MANAGEMENT	-	1	13	5	3	12	7	7	11	13	10	6	10	13	114 (11.5)
3. JOINT VENTURE	-	2	7	6	7	6	6	4	7	8	14	22	14	14	117 (11.8)
4. SERVICE	4	2	9	5	12	5	1	12	3	6	6	7	2	7	85 (8.6)
5. TRADEMARKS/PATENTS	3	2	4	3	6	1	5	-	4	4	4	8	8	7	59 (6.0)
6. BASIC ENGINEERING	-	-	-	-	-	-	-	-	-	-	5	5	4	4	18 (1.8)
7. OTHERS	-	-	-	-	-	-	-	-	-	-	15	19	8	25	67 (6.8)

SOURCE: MINISTRY OF TRADE AND INDUSTRY, MALAYSIA.

TABLE 9

Balance of Payments -Current Account 1978-85 (M\$M) x

	1978	1979	1980	1981	1982	1983	1984	1985
EXPORTS (f.o.b)	16932	24060	28013	26900	27946	31762	38452	37585
IMPORTS (f.o.b)	13242	17152	22775	27143	29704	30760	31466	28709
TRADE BALANCE	3690	6908	5238	-243	-1758	1002	31466	28709
NET NON FACTOR SERVICES	-1621	-2867	-3993	-3475	-3867	-4890	-5558	-4931
FREIGHT & INSURANCE	-1061	-1318	-1781	-2008	-2154	-2132	-2120	-1732
OTHER TRANSPORTATION	143	21	-56	7	154	53	-99	-28
TRAVEL	-324	-553	-885	-672	-775	-1104	-1249	-1392
GOVT-TRANSACTIONS (n.i.e)	5	-13	-7	7	59	35	23	27
OTHER SERVICES	-384	-1004	-1264	-810	-1151	-1742	-2113	-1806
NET FACTOR SERVICES	-1756	-1991	-1820	-1836	-2679	-4208	-5255	-5665
NET INVESTMENT INCOME	-1756	-1991	-1820	-1836	-2679	-4208	-5255	-5665
NET SERVICES - TOTAL	-3377	-4858	-5813	-5312	-6546	-9098	-10813	-10596
NET TRANSFERS	-104	-17	-45	-78	-75	-21	-90	-130
CURRENT ACCOUNT BALANCE	+249	+2033	-620	-5633	-8409	-8117	-3917	-1795
CA as a percentage of GNP	0.69	4.58	1.20	10.13	14.09	12.46	5.28	2.50

As a proportion of Services account balance

FREIGHT & INSURANCE	31.42	27.13	30.64	37.80	32.91	23.43	19.61	16.35
OTHER TRANSPORTATION								
TRAVEL	9.59	11.38	15.22	12.65	11.84	12.13	11.55	13.14
GOVT-TRANSACTIONS (n.i.e)								
OTHER SERVICES	11.37	20.67	21.74	15.25	17.58	19.15	19.54	17.04
INVESTMENT INCOME	52.00	40.98	31.21	34.56	40.93	46.25	48.60	53.46

Sub-sector estimates are preliminary

SOURCE: BANK NEGARA, QUARTERLY ECONOMIC BULLETIN, VARIOUS ISSUES

TABLE 10
SUMMARY OF FEDERAL GOVERNMENT FINANCE, 1976-86

ITEM	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
GOVERNMENT											
REVENUE											
\$ MILLION	6157	7760	8841	10505	13926	15806	16690	18606	20805	21115	19156
GROWTH (%)	20.3	26	13.9	18.8	32.6	13.5	5.6	11.5	11.8	1.5	-9.3
AS A PERCENTAGE OF GNP	22.8	25	24.4	24.4	27.8	29.1	28.5	29	28.0	29.4	29.0
OPERATING EXPENDITURE											
\$ MILLION	5828	7398	8041	10040	13692	15686	16672	18374	19806	20086	20458
GROWTH (%)	18.9	26.9	8.7	24.9	36.4	14.6	6.3	10.2	7.8	1.3	2.2
AS A PERCENTAGE OF GNP	21.6	23.8	22.2	23.3	27.4	28.9	28.5	28.6	26.7	27.9	31.1
SURPLUS @ DEFICIT											
\$ MILLION	329	362	800	465	234	120	18	234	999	1048	-1340
AS A PERCENTAGE OF GNP	1.2	1.2	2.2	1.1	0.5	0.2	0.03	0.4	1.3	1.5	-2.0
DEVELOPMENT EXPENDITURE											
\$ MILLION	2334	3138	3699	4150	7336	11135	11189	9417	8074	6758	7521
GROWTH (%)	10.2	34.4	17.9	12.2	76.8	51.7	0.5	-15.8	-14.3	-16.3	11.3
AS A PERCENTAGE OF GNP	8.6	10.1	10.2	9.6	14.7	20.5	19.1	14.7	10.9	9.4	11.4
TOTAL EXPENDITURE											
\$ MILLION	8162	10536	11740	14190	21028	26821	27861	27791	27880	26822	28019
GROWTH (%)	16.3	29.1	11.4	20.9	48.2	27.5	3.9	-0.3	0.3	-3.8	4.5
AS A PERCENTAGE OF GNP	30.2	33.9	32.5	32.9	42.1	49.5	47.6	43.2	37.6	37.4	42.5
OVERALL SURPLUS @ DEFICIT											
\$ MILLION	-2005	-2776	-2899	-3685	-7104	-11105	-11171	-9183	-7075	-5707	-8561
AS A PERCENTAGE OF GNP	7.4	8.9	8	8.6	14.2	20.5	19.1	14.3	9.5	7.9	13.4
PUBLIC SECTOR											
OVERALL SURPLUS @ DEFICIT											
\$ MILLION						-11359	-11281	-11076	-9791	7512	
AS A PERCENTAGE OF GNP						20.4	18.9	17	13.2	10.5	

SOURCE: BANK NEGARA MALAYSIA, QUARTERLY ECONOMIC BULLETIN

Table 11

Savings-Investment Balance, 1975-1984
(as % of GNP)

Year	Gross National Savings	Gross Domestic Investment	Current Acc. deficit
1975	20.9	24.2	3.3
1976	19.2	22.7	3.5
1977	20.2	24.8	4.6
1978	20.8	27.9	6.9
1979	21.8	28.1	6.2
1980	20.3	29.5	9.2
1981	24.0	34.4	10.4
1982	25.2	37.0	11.8
1983	25.0	36.7	11.7
1984	26.0	37.3	11.3
1985	27.1	39.6	12.5

Source: Department of Statistics.

TABLE 12

AGGREGATE EXPENDITURE AS A PERCENTAGE OF GNP, 1977-85

ITEM	1977	1978	1979	1980	1981	1982	1983	1984	1985
PRIVATE AGGREGATE EXPENDITURE									
M\$m.	21148	26124	30521	37742	42660	44593	48011	52939	51827
%	68.1	72.2	68.8	73.1	75.6	74.7	73.7	71.4	72.3
PUBLIC AGGREGATE EXPENDITURE									
M\$m.	8517	8971	10610	14612	19718	20847	24677	23787	23506
%	27.4	24.7	23.9	28.3	35.5	38.3	37.9	32.1	32.8
AGGREGATE DOMESTIC EXPENDITURE @									
M\$m.	29912	35778	42304	52204	61176	68033	73263	77980	75312
%	96.3	98.9	95.4	101.1	110.0	114.0	112.4	105.2	102.2
IMPORTS OF GOODS AND SERVICES									
M\$m.	15686	19082	25204	32961	37645	41809	45811	48565	45999
%	50.5	52.7	56.8	63.9	67.7	70.0	70.3	65.5	64.2
GROSS NATIONAL PRODUCT									
M\$m.	31064	33186	44354	51620	55602	59690	65154	74158	71703

@ Includes increase in stocks

SOURCE: BANK NEGARA MALAYSIA, QUARTERLY ECONOMIC BULLETIN.

Table 13

Aggregate Demand Indicators (1978 prices)

Share of GDP	1970-75	1976-80	1980-85
Investment	25.7	24.7	24.7
Consumption	65.5	68.0	69.6
Total Demand	91.6	92.7	94.9
Average growth rate			
Investment	12.4	14.0	8.5
Consumption	5.6	7.9	4.7
Total demand	7.5	11.1	5.9
GDP	6.6	8.6	5.0

Source: Economic Report, Treasury, various issues.

TABLE 14

COMPARISON OF PUBLIC & PRIVATE SECTOR INVESTMENT, 1978-85

YEAR	1978	1980	1985	AVERAGE		GROWTH
				1978-80	1980-85	1978-85
PRIVATE	5962	10394	10866	8157	11575.2	10441
% TOTAL	(63.6)	(62.3)	(47.0)	(64.0)	(52.2)	(54.0)
PUBLIC @	3419	6203	12258	4585.6	10616.5	8906.6
% TOTAL	(36.4)	(37.2)	(53.0)	(36.0)	(47.8)	(46.0)
TOTAL	9381	16597	23124	12742.6	22191.7	19347.6
	(100)	(100)	(100)	(100)	(100)	(100)
PRIVATE:PUBLIC	1.74	1.67	0.89	1.78	1.09	1.17

@ Public capital investment includes all Public Enterprises

TABLE 15

THE DETERMINATION OF PRIVATE INVESTMENT GROWTH, 1970-65

OBSERVATIONS	: 16		
ESTIMATING METHOD	: TWO STAGE LEAST SQUARES		
DEPENDENT VARIABLE	: REAL PRIVATE INVESTMENT		
	(All variables are stated in share of GDP and converted to log)		
INSTRUMENTAL VARIABLES:	CONSTANT, TAX REVENUE, EXPORTS/IMPORTS & TIME TREND		
	COEFFICIENT	S.E.	T-STATISTIC
CONSTANT	-0.3715	0.4413	-0.8420 N.S.
PRIVATE CONSUMPTION	0.9915	0.5736	1.7287 ***
GOVERNMENT INVESTMENT	0.313	0.0498	6.2680 *
RELATIVE PRICE DEFLATOR	-0.5894	0.2046	-2.8805 *
ADJUSTED R-SQUARE	: 0.7219	F-STATISTIC	: 13.9761
STD. ERROR OF REGRESSION	: 0.0608	DURBIN-WATSON	: 1.9469
* : SIGNIFICANT @ 1% CONFIDENCE LEVEL			
** : SIGNIFICANT @ 5% CONFIDENCE LEVEL			
*** : SIGNIFICANT @ 10% CONFIDENCE LEVEL			
N.S.: NOT SIGNIFICANT			

Table 16: International Comparison of Revenue Effort
(% of GNP)

COUNTRY	Average		
	1982	1987	1979-1985
India	14.0	10.5	12.9
Sri Lanka	20.6	21.5	22.6
Pakistan	15.2	13.1	15.8
Indonesia	22.2	22.0	22.7
Thailand	14.2	15.9	14.6
Philippines	11.5	11.9	12.3
Malaysia	28.6	29.0	27.7
Torea	19.3	22.0	19.3
New Zealand	35.7	34.9	34.1
United Kingdom	33.9	36.7	36.3
Australia	36.9	26.5	25.8
United States	21.5	18.6	20.5

Source: International Financial Statistics, IMF

Table 17. Tax Revenue Buoyancies 1971-1984

	1971-78	1978-84	1971-84
Total Tax Revenue	1.79	1.15	1.47
Direct Taxes			
Income tax	1.54	1.73	1.45
corporate	1.10	1.17	1.14
Individual	1.55	1.70	1.59
Petroleum Cos	6.16	1.81	5.05
Indirect taxes	1.14	0.97	1.07
Sales Tax (2)	1.70	1.72	1.72
Excise taxes	0.86	0.79	0.86

[1] Estimated as $\log x = a + b \log y$

where x:tax revenue variables

y=GDP

[2] 1972-1984

Table 18.

Budget Deficit And Financing, (1981-7)

(M\$ billion)

	1981	1982	1983	1984	1985	1986	1987

Overall public							
budget deficit	-11.4	-11.7	-11.0	-9.8	-7.9	-12.5	-10.5
as a % of GNP	20.5	18.9	16.8	14.2	10.4	18.9	15.9
Fed.Gov.deficit as							
a % of GNP	19.7	18.9	14.1	9.6	7.9	14.5	12.5
Source of financing							

Net Foreign Borrowing	4.7	6.7	7.3	8.2	3.1	3.3	3.6
- Federal Government	3.4	4.9	4.6	3.1	0.9	1.8	
Interest payments on							
Fed.Gov.'s Foreign borr.	0.7	0.9	1.2	1.7	2.0	2.1	
Net Domestic Borrowing	4.3	6.5	5.2	4.4	5.99	4.8	7.0
- Federal Government	4.1	5.9	4.3	4.0	3.5	4.5	
Change in assets	+2.4	-1.9	-1.4	+0.15	+0.41	-4.4	+0.7

TABLE 19: FEDERAL GOVERNMENT OUTSTANDING FOREIGN DEBT (M\$m).

YEAR	1975	1980	1981	1982	1983	1984	1985
EXTERNAL MARKET LOANS							

USA	982	1409	4023	8126	10332	12008	11234
UK	250	109	109	177	177	243	447
WEST GERMANY	70	131	122	115	201	200	1376
OTHERS	46	525	542	582	1561	2201	3242
SUBTOTAL	1348	2184	4797	9000	12271	14652	16299
EXTERNAL PROJECT LOANS							

US	126	210	54	51	38	45	49
UK	105	173	172	165	165	163	123
JAPAN	341	845	953	1044	1237	1736	2446
WORLD BANK	330	703	900	1088	1230	1316	1381
ASIAN DEVELOPMENT BANK	91	512	620	741	855	925	982
WEST GERMANY	34	129	128	111	91	74	42
WEST ASIA	-	34	5	96	141	166	214
OTHERS	50	57	92	81	118	245	449
SUBTOTAL	1077	2663	2971	3377	3875	4672	5668
SUPPLIERS CREDIT	-	-	-	119	754	820	825

IMF	-	-	510	662	828	707	263

TOTAL	2425	4847	8278	13158	17728	20847	23075

SOURCE: ECONOMIC REPORT, VARIOUS ISSUES

Table 20

continued

Nominal and Real Effective Exchange Rate Indices

(1980=100)

	Nominal effective	Real effective
1980:01	97.05	97.05
02	99.10	99.10
03	99.75	99.36
04	104.73	103.97
1981:01	97.96	94.35
02	97.43	93.07
03	97.12	90.09
04	95.87	90.76
1985:01	98.32	92.83
02	97.87	91.47
03	103.57	93.33
04	106.59	98.43
1986:01	113.40	103.91
02	117.98	109.19

NOTE: The weights used in the calculation of the effective exchange rate are import trade weights of the most important trading partners.