CHAPTER 2 - REVIEW OF THE SECOND OUTLINE PERSPECTIVE PLAN, 1991-2000

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I. INTRODUCTION

2.01 The Second Outline Perspective Plan (OPP2), 1991-2000 provided the platform for the implementation of the National Development Policy (NDP), which was aimed at achieving balanced development. The broad economic development framework set forth in the NDP strengthened Malaysia's position as a modern industrial-based economy and as a result brought significant economic and social progress. In 1998, the economy suffered the worst-ever recession due to the Asian financial crisis. The Government then introduced measures, which succeeded in turning around the economy and setting it on a stronger footing to face future challenges.

II. THRUSTS OF THE NATIONAL DEVELOPMENT POLICY

2.02 The primary thrusts of the NDP entailed striking an optimum balance between the goals of economic growth and equity; ensuring balanced development of the major sectors of the economy; reducing and ultimately eliminating the social, economic and regional inequalities and imbalances; and ensuring material welfare while instilling positive social and spiritual values. The NDP also gave priority to human resource development; making science and technology an integral component of development planning; and ensuring the protection of the environment to maintain the long-term sustainability of the country's development.

2.03 While the NDP maintained the basic strategies of the New Economic Policy, it also introduced several new dimensions. The dimensions included shifting the focus of the anti-poverty strategy to address hardcore poverty; emphasizing on employment and the rapid development of an active Bumiputera Commercial and Industrial Community (BCIC) as a more effective strategy to increase the meaningful participation of Bumiputera in the modern economic sectors; relying more on the private sector to achieve the restructuring objective; and strengthening human resource development.

III. PROGRESS AND ACHIEVEMENTS, 1991-2000

2.04 During the OPP2 period, the Malaysian economy continued to undergo structural transformation. The country witnessed the strengthening of its manufacturing base both in terms of its contribution to growth as well as composition of industries. The services sector expanded in size and improved in qualitative terms. The change in the structure of production was also reflected in the employment pattern and export composition of the economy.

Macroeconomic Performance

2.05 Overall, the economy grew at an average rate of 7.0 per cent per annum and achieved the target for the OPP2 period, despite the economy experiencing the financial crisis in 1997-1998, as discussed in *Box 2-1*. The high growth rate was attained in an environment of low inflation and unemployment. The per capita income increased at an average rate of 7.8 per cent per annum and doubled from RM6,298 to RM13,359 at the end of the OPP2 period. The purchasing power parity (PPP) per capita grew by 5.3 per cent per annum to reach USD8,852 or 2.5 times higher than the per capita income of USD3,516.

2.06 During the OPP2 period, *total factor productivity* (TFP) contributed 25.5 per cent to total growth, while the major sources of growth were labour and capital, as shown in *Table 2-1*. The high contribution of capital was attributed to the rapid growth of investment during the first seven years of the Plan period, which led to an expansion of installed capacity that was not fully translated into output. Some investments had a long gestation period, particularly infrastructure projects, which were built to meet future demand. In the second half of the OPP2 period, the sharp fall in domestic demand following the financial crisis gave rise to excess capacity, resulting in a decline in TFP.

BOX 2-1

FINANCIAL CRISIS AND RESPONSE

In 1997-1998 the Malaysian economy was affected by the contagion effect of the East Asian financial crisis. The full impact was felt in 1998, causing the economy to undergo a severe contraction, due to the significant decline in aggregate demand.

Managing The Crisis

The National Economic Action Council (NEAC) was established on 7 January 1998 as a consultative body to deal with the economic crisis. Under the NEAC, the National Economic Recovery Plan (NERP) was prepared as the blueprint for economic recovery. The Recovery Plan contained over 580 recommendations to stabilize the currency, restore market confidence, maintain financial market stability, as well as address medium-term issues such as improving economic fundamentals and addressing the equity and socio economic agenda. The four components that were central in the recovery measures were:

- fiscal stimulus package directed towards priority sectors to prevent further contraction and jumpstart the economy;
- easing monetary policy to lower interest rates;
- establishing Danaharta to address the rising non-performing loans in the portfolios of the banking sector, Danamodal to recapitalize and consolidate the banking sector, and the Corporate Debt Restructuring Committee to facilitate voluntary debt restructuring of viable companies; and
- introduction of the selective capital control measures as a pre-emptive step on 1 September 1998, which included making the Ringgit non-tradable outside the country and pegging the Ringgit at RM3.80 to USD1.00.

The stability accorded by the pegged Ringgit facilitated business decision-making process and enabled Malaysia to capitalize on the recovery in external demand. This resulted in unprecedented levels of current account surpluses of 13.9 per cent of GNP for 1998 and 17.1 per cent of GNP for 1999. The surpluses contributed to the sharp rise in international reserves, increased the monetary base and provided the liquidity to support economic growth. The collateral values of loans were strengthened with the improving stock market prices, thereby facilitating the resolution of NPLs of the banking system.

Lessons Learnt

The experience gained from the crisis was useful in providing the direction and thrust for the country’s future development. Some of the lessons learnt were:

- efforts to strengthen economic fundamentals must be continuous. Malaysia needs to further intensify the resilience of domestic economy and enhance its competitiveness, not only to mitigate adverse external economic development but also to reap the opportunities available;
- monetary and fiscal policies must be directed towards promoting sustainable growth, while keeping inflation at a low level;
- strong economic fundamentals must be supported by sound financial and corporate sectors;
- develop the capital market to diversify risks and lessen the reliance on bank financing; and
- strong corporate governance to increase resilience and sustain investor confidence in the event of a crisis.

TABLE 2-1

CONTRIBUTION OF FACTORS OF PRODUCTION
(%)

Factor	*1971-1990*		*1991-2000*	
	Contribution	*% of Total*	*Contribution*	*% of Total*
GDP	***6.7***	***100.0***	***7.0***	***100.0***
Labour	*2.4*	*36.1*	*1.7*	*24.3*
Capital	*3.4*	*50.9*	*3.5*	*50.2*
TFP	*0.9*	*13.0*	*1.8*	*25.5*

2.07 The growth of TFP in the manufacturing sector for the period 1990-1999 was estimated to be 5.1 per cent, as shown in *Table 2-2*. The food and beverages, furniture, glass and clay products, general machinery, electrical machinery and other manufacturing industries recorded higher TFP growth during the first half of the OPP2 period, while the general machinery industry as well as resource-based industries such as textile and apparel, wood products and furniture, experienced higher increases in TFP growth during the second half of the OPP2 period.

TABLE 2-2

TFP GROWTH RATES BY MANUFACTURING INDUSTRY, 1985-1999
(%)

Industry	*1985-1990*	*1990-1995*	*1995-1999*[1]	*1990-1999*[1]
Food & Beverages	*5.6*	*9.7*	*2.5*	*6.5*
Textile & Apparel	*10.1*	*2.2*	*8.7*	*5.1*
Wood Products	*8.3*	*-1.5*	*6.3*	*2.0*
Furniture	*-2.6*	*7.3*	*9.8*	*8.4*
Paper & Printing	*2.5*	*2.6*	*1.2*	*2.0*
Chemicals	*-4.1*	*-7.8*	*-4.5*	*-6.3*
Rubber & Plastic Products	*0.3*	*3.7*	*-6.3*	*-0.7*
Glass & Clay Products	*4.4*	*11.1*	*0.4*	*6.3*
Basic Metals	*4.3*	*3.3*	*0.9*	*2.3*
Fabricated Metals	*6.1*	*6.1*	*2.4*	*4.5*
General Machinery	*7.6*	*11.0*	*13.3*	*12.0*
Electrical Machinery	*7.7*	*8.6*	*3.6*	*6.4*
Transport Equipment	*22.3*	*0.7*	*-10.1*	*-4.1*
Other n.e.c.[2]	*12.9*	*-19.2*	*-9.1*	*6.6*
Total Manufacturing	***2.6***	***6.6***	***3.2***	***5.1***

Notes:
[1] *Estimates for 1999 are based on preliminary data*
[2] *n.e.c. Not elsewhere classified*

During the 1990-1999 period, the food and beverages, furniture, glass and clay products, general machinery, electrical machinery and other manufacturing industries recorded faster TFP growth rates compared with the overall TFP growth of the manufacturing sector. The performance of TFP at the firm level is discussed in *Box 2-2*.

BOX 2-2

TOTAL FACTOR PRODUCTIVITY

Total factor productivity (TFP) refers to the additional output that would result from improvements in the methods of production, with the inputs of labour and capital unchanged. They include the improvement of technology and know-how, innovation, superior management techniques, gains from specialization, increased efficiency as well as workers education, skills and experience. The Corporate Sector Survey, which was conducted in 1998/99 to provide the micro perspective on the impact of the financial crisis at the firm level, also shed some light on firm-level TFP. The survey covered six major subsectors within the manufacturing sector, namely, electrical and electronics; textiles, garments and footwear; food and beverages; chemicals, rubber and plastic products; construction-related manufacturing; and auto-parts. The following results were obtained:

Firms that reported a higher TFP

- Export-oriented with FDI and higher capital intensity;
- Little or no foreign control (less than 10 per cent foreign-owned) but with a large share of their output exported (more than 50 per cent);
- Lower inventory in proportion to their sales;
- Utilized new machinery (i.e. less than six years old);
- Predominantly semi-automated;
- More than 30 per cent of its workers had higher education (diploma/degree); and
- Conducted training and R&D.

Firms that reported a lower TFP

- Those that faced a lack of quality local suppliers, shortage of skilled labour, constraint on the availability of credit and had poorer corporate governance; and
- Those with heavy debt burden.

Lessons Learnt

The lessons learnt from the 1997-1998 financial crisis at firm level

- Firms should gear-up their competitiveness to face increasing competition from low cost countries;
- Firms with higher TFP were in a better position to withstand a crisis; and
- Firms must spend more on training and R&D.

2.08 The *incremental capital output ratio* (ICOR) rose from an average of 3.3 in 1990 to 3.5 in 2000 and averaged 6.1 for the whole OPP2 period. The high ICOR indicated a sharp decline in capital efficiency due to low capacity utilization during the economic downturn. Large investments in infrastructure projects and heavy industries with long gestation periods also contributed to high ICOR.

2.09 On the demand side, the major contributors to economic growth were private expenditure and exports of goods and non-factor services, as shown in *Table 2-3*. *Private investment* grew at an average rate of 2.9 per cent per annum, well below the target of 8.0 per cent per annum, on account of the severe economic contraction in 1998, as shown in *Chart 2-1*. During the first seven years of the OPP2 period, private investment was the main catalyst for growth,

TABLE 2-3

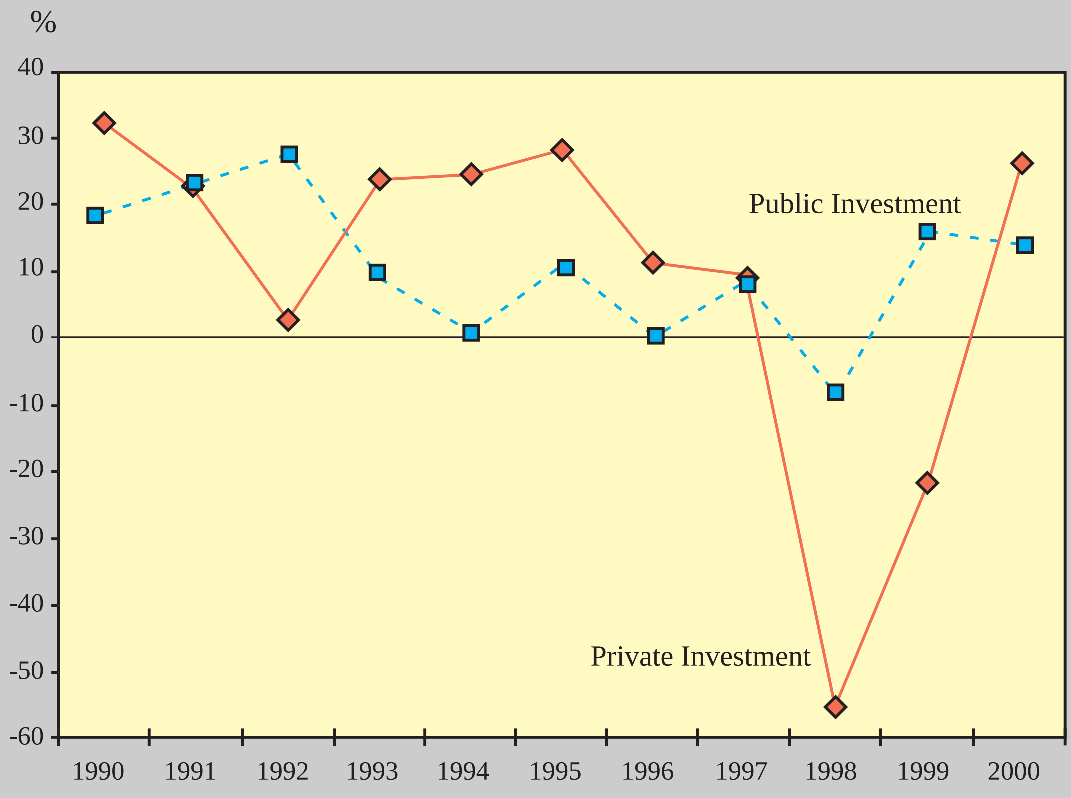
OPP2 MACROECONOMIC TARGETS AND ACHIEVEMENTS
(%)

	Target OPP2	*Achieved OPP2*
Average Annual Growth Rate		
GDP	*7.0*	*7.0*
Private Consumption	*7.2*	*5.5*
Public Consumption	*5.8*	*5.5*
Private Investment	*8.0*	*2.9*
Public Investment	*-0.4*	*10.5*
Export of Goods & Non-factor Services	*6.3*	*12.4*
Import of Goods & Non-factor Services	*5.7*	*11.4*
Employment	*3.1*	*3.3*
Labour Force	*2.9*	*3.1*
	Target 2000	*Achieved 2000*
Share to GNP		
Savings	*36.2*	*39.0*
Investment	*34.5*	*29.0*
Unemployment Rate	*4.0*	*3.1*

expanding rapidly at 17.0 per cent per annum, attributed largely to better economic conditions, lower corporate tax rate and the increase in reinvestment allowance. The accelerated privatization programme generated domestic investment, particularly in the utilities, transportation and social services sectors. In addition, the large inflow of foreign direct investments (FDIs) into the manufacturing sector for building capacity in the export-oriented industries, including the oil and gas sector and investments in capital-intensive and high-technology areas, contributed to the high rate of private investment. The promotion of FDI was reinforced with the adoption of an additional set of incentives in 1996 to attract information and communications technology (ICT) companies to establish their operations in the Multimedia Super Corridor (MSC).

Chart 2-1

REAL INVESTMENT GROWTH, 1990-2000



2.10 *Private consumption* grew at an annual rate of 5.5 per cent, lower than the target of 7.2 per cent per annum, mainly due to prudent consumer spending. Efforts by the Government to encourage domestic savings as well as to control inflation also contributed to lower spending. In addition, the negative wealth effect of the financial crisis affected consumer sentiments, which resulted in the contraction of spending in 1998.

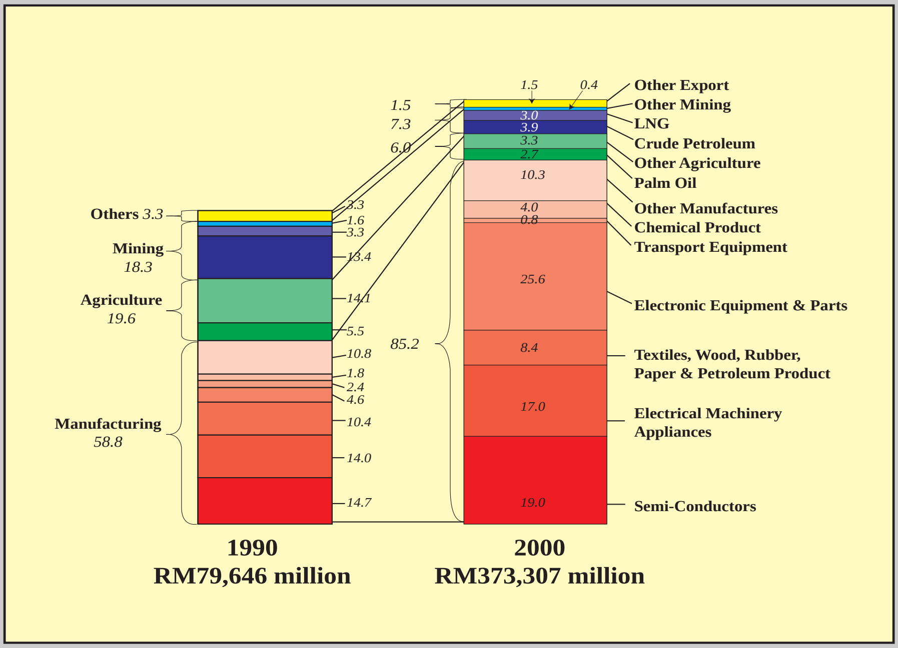
2.11 *Public investment* expanded by 10.5 per cent per annum in contrast with the targeted reduction of 0.4 per cent per annum under the OPP2. The bulk of public investment was by the Non-Financial Public Enterprises (NFPEs), particularly *Petroliam Nasional Berhad* (Petronas), *Tenaga Nasional Berhad* (TNB) and *Telekom Malaysia Berhad*, to finance their expansion and modernization programmes, especially during the first seven years of the OPP2. The increase was also due to the fiscal stimulus package launched by the Government beginning 1998 to initiate economic recovery. The focus of public sector investment was to enhance productivity and efficiency to support private sector initiatives and fulfill the rising demand for better services from an increasingly affluent society. *Public consumption*, which accounted for 20.5 per cent of total consumption spending, grew at a relatively moderate rate of 5.5 per cent per annum, in line with the Government's policy of fiscal prudence.

2.12 *Exports* assumed an increasingly important role in propelling economic growth during the OPP2 period, particularly in leading the economic recovery from the financial crisis. The sector grew at an average rate of 16.7 per cent during the OPP2 period. Electronics and electrical machinery appliance and parts contributed an increasing proportion of exports, accounting for more than 61.6 per cent of total exports in 2000 compared with 33.3 per cent in 1990, as shown in *Chart 2-2*. Strong demand for these products was largely due to concerns about the Year 2000 (Y2K) problem, the rapid growth in the Internet, mobile telephones and telecommunications as well as the need to upgrade technology for competitiveness reasons. *Imports* grew at an average rate of 14.7 per cent per annum during the OPP2 period. As a result of the high import content in the production structure, the boom in the manufacturing sector generated higher imports of capital and intermediate goods, which grew by 12.1 per cent and 16.2 per cent, respectively, as shown in *Chart 2-3*.

2.13 The *balance of payments* position strengthened towards the latter part of the OPP2 period following significant growth in merchandise exports, as shown in *Table 2-4*. The merchandise account was in surplus throughout the whole OPP2 period, with the largest surplus of RM86.5 billion recorded in 1999. The

CHART 2-2

STRUCTURE OF EXPORT, 1990 AND 2000
(%)

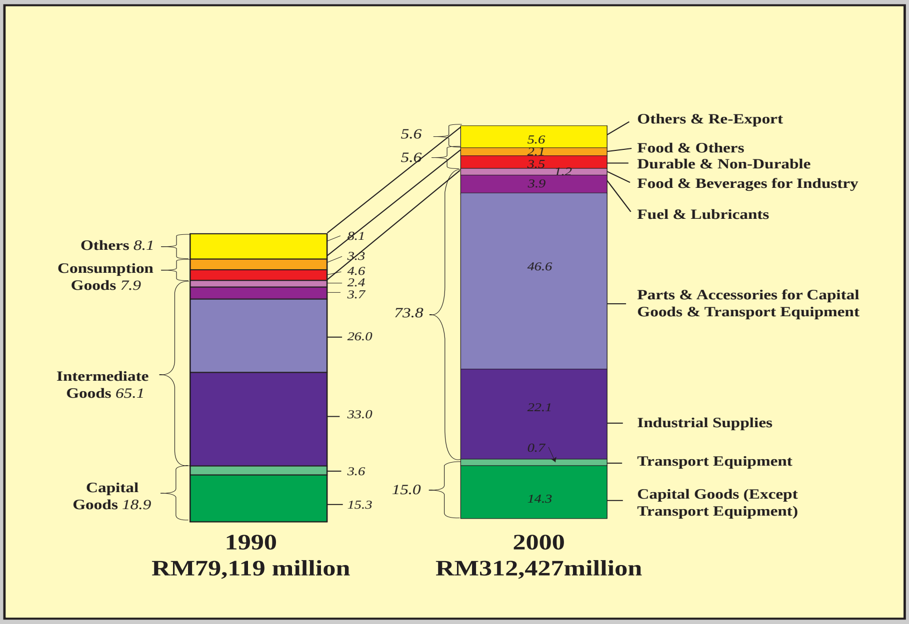


services account was, however, in deficit due mainly to the net outflows of investment income arising largely from the repatriation of profits and dividends by foreign investors. In addition, the higher payments for freight and insurance, contract and professional charges as well as repatriation of income by foreign workers also contributed to the deficit. However, policy measures taken to strengthen the services account led to some favourable structural changes particularly in the travel and education and other transportation subsectors. The other transportation subsector turned around since 1994 to generate surpluses while the net inflows of travel improved significantly. The merchandise surplus, however, was able to offset the services deficit, thereby resulting in a notable improvement in the current account with the shift to a surplus position beginning 1998, as shown in *Chart 2-4*.

2.14 The long-term capital account of the balance of payments registered a net inflow of RM130.1 billion during the OPP2 period. This was attributed to the net inflow of private long-term capital that amounted to RM107.5 billion due to the strong inflow of long-term direct investment. In addition, the official long-

CHART 2-3

STRUCTURE OF IMPORTS, 1990 AND 2000
(%)



term capital amounted to RM22.6 billion, reflecting mainly the large external borrowings by the NFPEs to finance their expansion and modernization programmes. In contrast, the Federal Government recorded net repayments during the OPP2 period. The Federal Government had selectively prepaid its more expensive external loans during the first half of the OPP2 period, reflecting the strong financial position of the Government as well as its commitment to contain the external debt at a manageable level. Accordingly, the external debt of the Federal Government declined from RM24.7 billion at the end of 1990 to RM13 billion at the end of 1997. However, as a result of the financial crisis, the Government raised some external loans amounting to RM3.9 billion during 1999-2000 to finance its fiscal stimulus package. Consequently, the overall balance of the balance of payments, which takes into account the current account as well as the short- and long-term capital flows, recorded a surplus of RM86.5 billion. The Central Bank reserves increased to RM113.5 billion or 4.5 months of retained imports at the end of the Plan period.

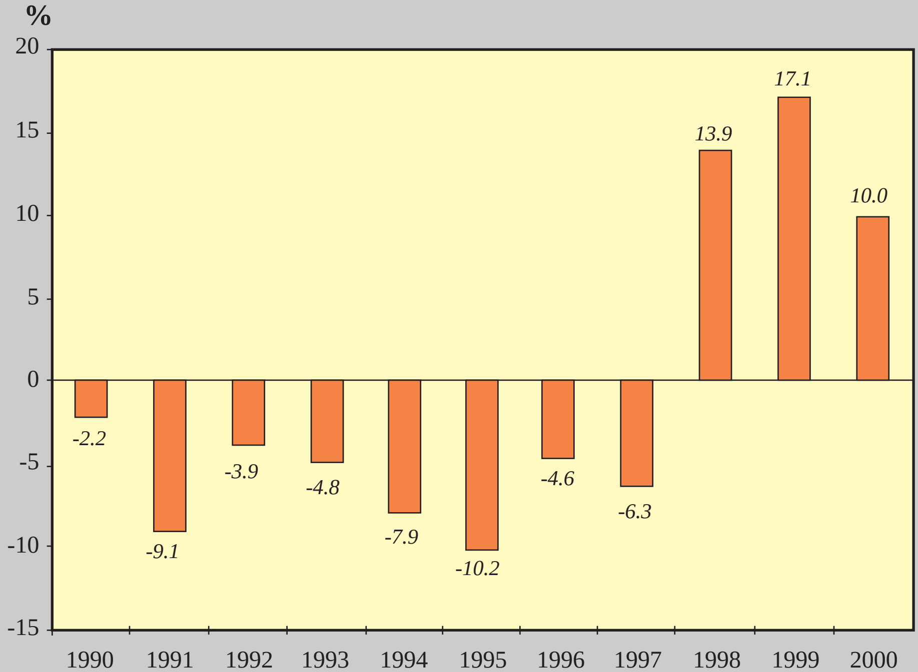
TABLE 2-4

BALANCE OF PAYMENTS, 1990-2000
(RM million)

	1990			*2000*			*% of GNP*					
							1990			*2000*		
Item	*Credit*	*Debit*	*Net*	*Credit*	*Debit*	*Net*	*Credit*	*Debit*	*Net*	*Credit*	*Debit*	*Net*
Mechandise Account	**77,458**	**70,365**	**7,093**	**372,778**	**293,256**	**79,522**	***67.9***	***61.7***	***6.2***	***119.9***	***94.4***	***25.6***
Service Account	**15,897**	**25,620**	**-9,723**	**60,721**	**101,345**	**-40,624**	***13.9***	***22.5***	***-8.5***	***19.5***	***32.6***	***-13.1***
Freight &Insurance	1,523	5,360	-3,837	5,698	18,548	-12,850	*1.3*	*4.7*	*-3.4*	*1.8*	*6.0*	*-4.1*
Other Transportation	2,182	2,207	-25	7,901	5,913	1,988	*1.9*	*1.9*	*0.0*	*2.5*	*1.9*	*0.6*
Travel & Education	4,555	3,923	632	17,716	7,978	9,738	*4.0*	*3.4*	*0.6*	*5.7*	*2.6*	*3.1*
Net Investment Income	4,500	9,572	-5,072	6,907	34,892	-27,985	*3.9*	*8.4*	*-4.4*	*2.2*	*11.2*	*-9.0*
Government Transaction	242	245	-3	363	384	-21	*0.2*	*0.2*	*0.0*	*0.1*	*0.1*	*0.0*
Other Services	2,895	4,313	-1,418	22,136	33,629	-11,493	*2.5*	*3.8*	*-1.2*	*7.1*	*10.8*	*-3.7*
Transfers	**673**	**526**	**147**	**3,229**	**10,964**	**-7,735**	***0.6***	***0.5***	***0.1***	***1.0***	***3.5***	***-2.5***
Current Account	**94,028**	**96,511**	**-2,483**	**436,728**	**405,565**	**31,163**	***82.5***	***84.6***	***-2.2***	***140.5***	***130.5***	***10.0***
Capital Account			**4,829**			**-21,670**			***4.2***			***-7.0***
Official Long-Term Capital			-2,836			3,961			*-2.5*			*1.3*
Corporate Investment			6,309			7,510			*5.5*			*2.4*
Central Bank Reserves			27,025			113,541			*23.7*			*36.5*
Months of Retained Imports			4.3			4.5						

CHART 2-4

CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS, 1990-2000
(% of GNP)



2.15 The *terms of trade* during the OPP2 period improved marginally at an average rate of 0.5 per cent per annum due to higher prices of major export commodities, such as palm oil, saw logs, sawn timber, petroleum and liquefied natural gas. In line with this trend, the Gross Domestic Product (GDP) in terms of real purchasing power grew by 7.8 per cent per annum, higher than the rate of output growth of 7.0 per cent per annum.

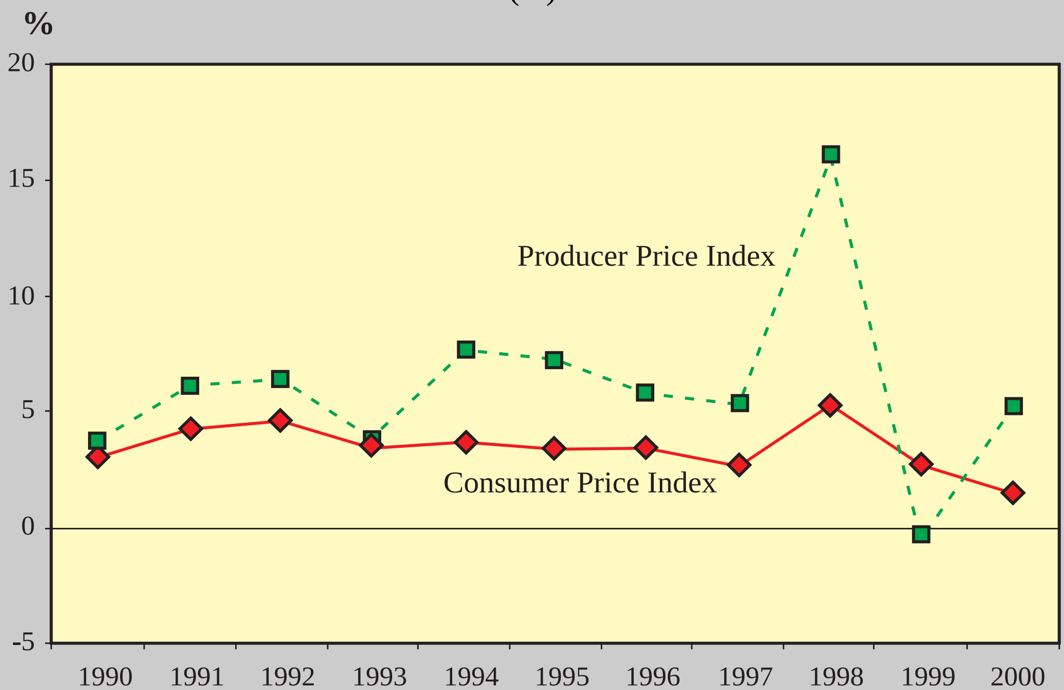
2.16 The consolidation of *public finance* continued into the OPP2 period, resulting in a fiscal surplus between 1993-1997 on account of prudent fiscal management and the privatization programme. The financial crisis made it necessary for the Government to launch a fiscal stimulus package in 1998 to compensate for the sharp contraction in private investment. The public sector account, nevertheless, registered an overall surplus of 1.3 per cent of Gross National Product (GNP). At the same time, the overall deficit of the Federal Government account stood at 1.0 per cent of GNP. Although Federal Government revenue, as a percentage to GNP, declined from 25.9 per cent in 1990 to 19.9 per cent in 2000, it increased at an average rate of 7.7 per cent per annum. This was attributed to the higher revenue collected in the form of company and petroleum income taxes, sales and service taxes as well as non-tax revenue in tandem with the impressive economic performance during the first seven years of the OPP2 period as well as the recovery in aggregate demand and better crude oil prices during 1999-2000. The size of the Federal Government operating expenditure, as a percentage of GNP, also declined from 21.9 per cent in 1990 to 18.2 per cent in 2000. Emoluments, which constitute a large component of the operating expenditure, increased moderately from 8.0 per cent of GNP in 1990 to 8.1 per cent in 2000. In addition, the proportion of public servants, including the Army and Police forces, to the population declined from 4.7 per cent to 4.2 per cent during the same period.

2.17 Economic growth during the OPP2 period was achieved in an environment of low *inflation* and price stability, averaging 3.4 per cent per annum, as shown in *Chart 2-5*. In the first half of the OPP2 period, the Government launched a comprehensive anti-inflationary package to keep prices low and stable. The Government, among others, undertook a prudent fiscal policy by restraining operating expenditure and focusing development expenditures on projects that alleviated infrastructure and supply constraints. Import duties on more than 3,000 items were reduced or abolished to lower the price of goods and reduce the cost of doing business. In addition, an anti-inflation campaign was launched to educate the public on the causes and impact of inflation. The sharp depreciation of the Ringgit during the crisis, however, led to higher producer and consumer prices. To address this, the Government implemented a mix of fiscal, monetary and administrative measures, which successfully contained the inflation rate at 2.2 per cent between 1999-2000.

2.18 During the OPP2 period, the country achieved a high level of *savings*, averaging 38.0 per cent of GNP compared with 36.8 per cent for investment. Savings as a percentage of GNP rose from 31.6 per cent in 1990 to 39.0 per cent in 2000 as a result of the successful campaign to increase domestic savings. Factors contributing to the rise in the savings rate were higher disposable income, increased contributions to the Employees Provident Fund, expansion in unit trust schemes, introduction of new savings instruments and private debt instruments, the increase in deposits in the Islamic banking system and lower dependency ratio. In addition, the public sector surplus also contributed to the increase in domestic savings. This resulted in an overall surplus in the country's resource position.

Chart 2-5

PRICE DEVELOPMENT, 1990-2000
(%)



Employment, Wage and Productivity

2.19 Employment opportunities expanded during the OPP2 period with an average annual growth rate of 3.3 per cent. As the demand for labour grew faster than the growth of the labour force, unemployment rate remained low at 3.1 per cent at the end of the period. The labour market situation was tight, particularly in the construction and manufacturing sectors. Consequently, as a temporary measure, the Government allowed the import of foreign workers on a selective basis.

2.20 The OPP2 period also saw structural changes in employment due to increasing capital intensity and the use of new technology. There was an increase in the demand for workers who were highly skilled and educated. The fastest growing occupations were in the professional and technical as well as managerial and administrative categories, which accounted for 28.8 per cent of the new jobs created during the OPP2 period.

2.21 Labour productivity, as measured by GDP per worker, improved at a rate of 3.6 per cent per annum, especially towards the end of the OPP2 period largely due to the shift towards higher technology production processes and improvement in labour utilization. Wage increase for most of the economic sectors was marginal with the largest increase in the other services subsector, which recorded a growth of 2.7 per cent per annum. However, the overall wage increase of 1.5 per cent per annum was lower than the productivity growth for all sectors, indicating a decline in unit labour cost.

2.22 To ensure a closer link between wage and productivity performance, the Government introduced the Guidelines for a Productivity-Linked Wage Reform System in 1996. A total of 114 companies adopted elements of the productivity-linked wage system (PLWS) in their collective agreements. Seminars, workshop and company visits were conducted to encourage firms to adopt the PLWS. In addition, the National Productivity Corporation provided an online database to benchmark productivity in the manufacturing and agriculture sectors.

Sectoral Growth and Transformation

2.23 During the OPP2 period, the *manufacturing sector* grew at 10.4 per cent per annum and led economic growth, as shown in *Table 2-5*. The sector witnessed improvements in productive efficiency and capability, continued expansion of export-oriented industries as well as greater diversification of its market. There was greater focus on product quality and design, automation and mechanization, competitive pricing and delivery system. Progress was made in promoting the capital-intensive and high-technology industries as reflected by approved manufacturing investments. In line with the policy to promote capital-intensive industries, the ratio of employees to every RM1 million investment declined from 6.03 in 1990 to 2.62 in 2000.

2.24 The electrical and electronics products subsector became more capital-intensive, especially in the manufacture of computer motherboards, hard disk media and silicon wafers. The electrical and electronics subsector diversified into higher value-added products, particularly consumer and industrial electronics, and underwent a change in the structure of exports. The exports of electronics equipment and parts grew by 38.6 per cent per annum between 1991-2000 and overtook the exports of semi-conductors, both in terms of growth rate and size. The share of electronics equipment and parts to total electronics exports increased from 23.9 per cent in 1990 to 57.4 per cent in 2000, while the share of semi-conductors decreased from 76.1 per cent to 42.6 per cent. In addition, the industrial chemical and other chemicals subsector was an important contributor to the output of the manufacturing sector.

2.25 Growth of the *construction sector* was particularly rapid during the 1991-1997 period. The civil engineering subsector was boosted by the privatization of large infrastructure and civil engineering projects, such as roads, highways, airports, power transmission, telecommunications, rail transport and ports. Increased activity in the residential subsector was supported by buoyant demand as a result of higher disposable income. The promotion of the tourism industry contributed to the rapid development of the non-residential subsector, particularly hotels, resorts and golf courses. However, following the financial crisis, the construction sector contracted by 23.0 per cent in 1998 and 5.6 per cent in 1999, before recording a growth of 1.1 per cent in 2000.

2.26 The *agriculture sector* recorded 0.5 per cent growth per annum, mainly contributed by the palm oil and food crop subsectors. During the OPP2 period, there was a shift in land and labour from rubber and cocoa subsectors to oil palm subsectors. In line with the Third National Agriculture Policy, the development of the sector was reoriented towards the optimum utilization of resources in both the industrial commodity and food subsectors through improvements in productivity and competitiveness.

2.27 During the OPP2 period, the *services sector* grew at an average rate of 8.3 per cent per annum and increased its share to GDP to 51.7 per cent. The Government took steps to develop the services sector as a new source of growth as well as improve the competitiveness of the services industries in preparation for an increasingly liberalized environment. The policies included the promotion of export-oriented services in tourism, education, health, consultancy as well as air and maritime transportation. In addition, the development of advanced communications, computer-related and financial services was accelerated.

2.28 Within the services sector, the finance and transportation subsectors grew rapidly in line with the strong expansion in domestic and international trade. The completion of various infrastructure projects, such as highways, electrified commuter train service, light rail transit, KL International Airport (KLIA), and Port Klang and Port of Tanjung Pelepas, as well as the rapid development in telecommunications contributed to the impressive growth of the transportation and communications subsector. Energy and water became an important support service for the rapidly growing industrial sector. In addition, the growth of the wholesale and retail trade, hotels and restaurants subsector was more pronounced, reflecting the increase of tourist arrivals and higher consumer spending on account of improved incomes arising from economic growth.

TABLE 2-5

OPP2 SECTORAL TARGETS AND ACHIEVEMENTS
(%)

	1990	Target 2000	Achieved 2000
Share to GDP			
Agriculture & Forestry	*16.3*	*13.4*	*8.7*
Mining	*9.4*	*5.7*	*6.6*
Manufacturing	*24.6*	*37.2*	*33.4*
Construction	*3.5*	*3.5*	*3.3*
Services	*46.8*	*45.4*	*52.4*
Import Duties Less Bank Service Charges	*0.7*	*-5.2*	*-4.5*
Proportion to Total Employment			
Agriculture & Forestry	*26.0*	*20.0*	*15.2*
Mining	*0.5*	*0.5*	*0.4*
Manufacturing	*19.9*	*23.9*	*27.6*
Construction	*6.3*	*7.4*	*8.1*
Services	*47.3*	*48.2*	*48.7*
		Target OPP2	*Achieved OPP2*
Average Annual Growth Rate			
Agriculture & Forestry		*3.5*	*0.5*
Mining		*1.5*	*3.4*
Manufacturing		*10.5*	*10.4*
Construction		*7.0*	*6.4*
Services		*8.1*	*8.3*

Progress of Distributional Objectives

2.29 There were mixed results with regard to the attainment of the distribution objectives. In terms of poverty eradication and restructuring of employment, the nation achieved significant progress during the OPP2 period. There were also some improvements in the development of the BCIC. However, the corporate equity ownership held by Bumiputera declined below the 1990 level.

2.30 *Poverty Eradication.* The incidence of poverty among Malaysians was reduced from 16.5 per cent in 1990 to 7.5 per cent in 1999, as shown in *Table 2-6*. The number of poor households decreased by about 39 per cent to 351,100 in 1999. The incidence of poverty in rural and urban areas declined by almost half their levels in 1990. The incidence of hardcore poverty among Malaysians decreased from 3.9 per cent or 137,100 households in 1990 to 1.4 per cent or 64,100 households in 1999.

TABLE 2-6

POVERTY ERADICATION ACHIEVEMENTS[1], 1990 AND 1999

		1990			*1999[2]*		
		Total	*Urban*	*Rural*	*Total*	*Urban*	*Rural*
Incidence of Poverty [2]	(%)	*16.5*	*7.1*	*21.1*	*7.5*	*3.4*	*12.4*
Number of Poor Households	('000)	574.5	82.0	492.5	351.1	86.8	264.3
Incidence of Hardcore Poverty [3]	(%)	*3.9*	*1.3*	*5.2*	*1.4*	*0.5*	*2.4*
Number of Hardcore-Poor Households	('000)	137.1	15.5	121.6	64.1	13.5	50.6
Total Households	**('000)**	**3,486.6**	**1,149.3**	**2,337.3**	**4,681.5**	**2,548.0**	**2,133.5**

Notes:

[1] The poverty data refer to Malaysian citizens.

[2] Poverty Line Income (PLI) for 1999 was RM510 per month for a household size of 4.6 in Peninsular Malaysia; RM685 per month for a household size of 4.9 in Sabah; and RM584 per month for a household size of 4.8 in Sarawak.

[3] Hardcore poverty is estimated using half of the PLI.

2.31 *Income Distribution.* The mean monthly gross household income for Malaysians doubled to RM2,472 in 1999. The mean income of the bottom 40 per cent of households grew at 11.7 per cent per annum, lower than the rate registered by the top 20 per cent and middle 40 per cent of households income categories. In 1999, the top 20 per cent of households held 50.5 per cent of income compared with 14.0 per cent held by the households in the bottom 40 per cent. The Gini coefficient, a summary measure of income disparity, increased marginally from 0.4421 in 1990 to 0.4432 in 1999, indicating a slight worsening of income distribution during the OPP2 period.

2.32 *Quality of Life*. There was a steady increase in the overall quality of life for the period under review where the Malaysian Quality of Life Index improved by 12.0 points, as shown in *Table 2-7*. Except for public safety and environment quality, there were substantial improvements in working life, transport and communications, education, housing and culture and leisure due to better access to improved facilities and amenities.

2.33 Significant improvements were achieved in raising the quality of life in all states through the continued provision of adequate social and infrastructure facilities and amenities for the rural as well as the urban population. This was reflected in socioeconomic indicators such as registered cars and motorcycles per 1,000 population, telephones per 1,000 population, infant mortality rates and doctor per 10,000 population. In terms of basic amenities, Kelantan, Sabah, Sarawak and Terengganu are still below the national average of 91.2 per cent for piped water coverage while only Sabah and Sarawak were below national average for electricity provision. Difficult terrain and the remoteness of many settlement areas constrained the supply of piped water and electricity.

2.34 *Equity Restructuring*. Bumiputera ownership of share capital in the corporate sector increased from 19.3 per cent in 1990 to 20.6 per cent in 1995 but declined subsequently to 19.1 per cent in 1999, as shown in *Table 2-8*. In absolute terms, Bumiputera equity ownership increased from RM20.9 billion in 1990 to RM59.4 billion in 1999. At the end of the OPP2 period, a total of 19.6 per cent of companies registered with the Registrar of Companies were controlled by Bumiputera. The proportion of Bumiputera companies in all sectors of the economy remained low, ranging from 8.7 to 32.6 per cent, mainly concentrated in agriculture, construction and transportation.

2.35 During the first half of the OPP2 period, non-Bumiputera equity ownership increased substantially from about RM50.8 billion in 1990 to RM125 billion, although their share of corporate equity decreased from 46.8 per cent in 1990 to 40.3 per cent in 1999. The promotion of foreign investment to stimulate growth and accelerate recovery resulted in the foreign ownership of share capital in the corporate sector increased markedly from 25.4 per cent to 32.7 per cent during the same period. Foreign ownership was the highest in sectors such as manufacturing, utilities as well as wholesale and retail trade.

2.36 The privatization programme continued to be a vehicle to enhance Bumiputera participation in the corporate sector. In this regard, various guidelines were formulated, including the provision of at least 30 per cent equity to Bumiputera

TABLE 2-7

THE MALAYSIAN QUALITY OF LIFE INDEX, 2000

(1990=100)

Area	*Indicator*	*2000*
Income & Distribution		*111.46*
	Real Per Capita GNP	110.28
	Gini Coefficient	93.34
	Incidence of Poverty	130.76
Working Life		*131.80*
	Unemployment Rate	138.79
	Trade Disputes	130.88
	Man Days Lost Due to Industrial Actions	136.89
	Industrial Accident Rate	124.16
Transport & Communications		*121.47*
	Private Motorcars & Motorcycles	117.26
	Commercial Vehicles	118.62
	Road Development Index	122.90
	Telephones	129.04
	Cellular phones	119.51
Health		*110.43*
	Male Life Expectancy at Birth	116.77
	Female Life Expectancy at Birth	118.81
	Infant Mortality Rate	128.10
	Doctor-Population Ratio	124.80
	Hospital Bed-Population Ratio	63.68
Education		*118.83*
	Pre-School Participation Rate	117.96
	Secondary School Participation Rate	116.25
	University Participation Rate	114.28
	Literacy Rate	129.71
	Primary School Teacher-Student Ratio	123.05
	Secondary School Teacher-Student Ratio	111.74
Housing		*120.75*
	Average Housing Price	101.08
	% Low-Cost Housing Units to Total Low-Income Households	123.27
	% Housing Units With Piped Water	127.04
	% Housing Units With Electricity	131.59
Environment		*91.90*
	Air Quality Index	100.98
	% of Clean Rivers	61.48
	% of Forested Land	113.22
Family Life		*110.54*
	% Divorces	121.36
	Crude Birth Rate	121.72
	Household Size	126.39
	% of Juvenile Crimes	72.70
Social Participation		*112.95*
	% of Registered Voters	86.94
	Number of Registered Non-Profit Organizations	126.58
	Number of Registered Residents' Associations	125.32
Public Safety		*82.07*
	Crimes	72.32
	Road Accidents	91.83
Culture & Leisure		*120.10*
	Membership in Public Libraries	130.89
	T.V. Viewers	114.82
	Domestic Hotel Guests	114.59
	MALAYSIAN QUALITY OF LIFE INDEX	**112.03**

TABLE 2-8

ACHIEVEMENTS IN THE RESTRUCTURING OF SOCIETY, 1990-2000

	1990	*2000*
Ownership of Equity in the Corporate Sector (%)[1]		
Bumiputera	*19.3*	*19.1*
Non-Bumiputera	*46.8*	*40.3*
Foreigners	*25.4*	*32.7*
Nominee Company	*8.5*	*7.9*
Bumiputera Employment by Sector		
(% of total employment)		
Agriculture & Forestry, Livestock & Fisheries	*67.9*	*61.6*
Mining & Quarrying	*51.9*	*57.2*
Manufacturing	*46.4*	*49.1*
Construction	*34.9*	*37.4*
Electricity, Gas & Water	*70.2*	*71.2*
Transport, Storage & Communications	*49.0*	*56.0*
Wholesale & Retail Trade, Hotels & Restaurants	*34.5*	*38.3*
Finance, Insurance, Real Estate & Business Services	*41.1*	*45.3*
Other Services	*64.7*	*63.5*
Bumiputera Employment in High Occupational Categories		
(% of total employment)		
Professional & Technical	*60.5*	*63.8*
Administrative & Managerial	*28.7*	*36.9*
Bumiputera Registered Professional[1]		
(% of each profession)		
Accountant	*11.2*	*15.9*
Architect	*27.6*	*28.9*
Doctor	*27.8*	*36.7*
Dentist	*24.3*	*34.8*
Veterinary Surgeon	*35.9*	*42.6*
Engineer	*13.1*	*26.5*
Surveyor	*44.7*	*47.8*
Lawyer	*22.3*	*31.3*

Note: [1] Refers to the year 1999

by companies undertaking privatized projects; provision of at least 30 per cent of contract-works of major privatized projects to Bumiputera contractors; and the requirement for large privatized projects to establish vendor development programmes. As at April 2000, a total of 180 companies were given concessions by the Federal Government of which 61.0 per cent were managed and controlled by Bumiputera. The Bumiputera-controlled privatized projects were mainly in the construction, manufacturing, transportation as well as wholesale and retail sectors.

2.37 *Employment Restructuring.* Efforts by the Government to increase the Bumiputera share of employment in higher occupational levels was complemented by the private sector initiatives in creating more job opportunities for qualified Bumiputera. As a result, the proportion of Bumiputera in the professional and technical category, which includes teachers and nurses, increased from 60.5 per cent in 1990 to 63.8 per cent in 2000. The proportion of Bumiputera in the administrative and managerial category also increased from 28.7 per cent to 36.9 per cent during the same period which was still low compared with other ethnic groups. The proportion of Bumiputera registered in eight professional occupations, namely, accountant, architect, doctor, dentist, engineer, lawyer, surveyor, and veterinary surgeon increased from 20.7 per cent in 1990 to 28.9 per cent in 1999.

2.38 Bumiputera employment in several major sectors continued to increase, reflecting the consolidation and shift in the structure of Bumiputera employment from agriculture to other sectors of the economy, particularly in manufacturing, finance and transportation. The proportion of Bumiputera in the manufacturing sector was at 49.1 per cent, relatively lower than in the agriculture sector, which was 61.6 per cent. In the manufacturing sector, the majority of Bumiputera employed were in industries such as electrical and electronics, textile and textile products, wood and wood products as well as food products.

2.39 *Development of the BCIC.* During the OPP2 period, emphasis was placed on developing a viable, competitive and resilient BCIC through various entrepreneurship development programmes. The private sector contributed to this effort by implementing programmes such as the vendor and franchise development as well as joint-ventures. The implementation of programmes to develop BCIC also contributed to the increase in the number of Bumiputera enterprises in both the corporate and non-corporate sectors. There were about 697,900 Bumiputera enterprises registered with the Registrar of Businesses during the OPP2 period. In addition, a total of about 57,700 Bumiputera companies were also registered with the Registrar of Companies during the same period. Although a number of Bumiputera ventures was developed in the modern and dynamic sectors of the economy, the overall impact remained limited due to the narrow base of Bumiputera enterprises as well as inadequate capital, lack of experience and management skills and over-reliance on Government assistance and contracts. In addition, the economic crisis in 1998 adversely affected the performance of Bumiputera enterprises. Despite the increase in the number of Bumiputera business ventures in the modern and dynamic sectors of the economy, a large proportion of them was concentrated in the construction sector and the lower-end services activities such as gas distribution, petrol kiosk operation and travel agency management.

2.40 The thrust of *regional development* was to reduce the imbalance between states as well as rural and urban areas. During the OPP2 period, states that engaged in modern sector activities were able to achieve faster growth than those dependent on agriculture. This widened the economic gap between the more developed states, namely, Wilayah Persekutuan Kuala Lumpur, Pulau Pinang, Selangor, Melaka, Negeri Sembilan, Johor and Perak, and the less developed states comprising Pahang, Kedah, Perlis, Terengganu, Sarawak, Kelantan and Sabah. In addition, the income disparity ratio between rural and urban households widened from 1:1.7 in 1990 to 1:1.81 in 1999. To enhance the development of states rich in land and natural resources, such as Sabah and Sarawak, investments in agriculture production particularly in estate crops were encouraged. Similarly, land consolidation and commercial production of crops were promoted to upgrade the rural economy. A total of 744,350 hectares of land was consolidated, replanted and rehabilitated during the OPP2 period.

2.41 To intensify rural development, the New Rural Development Philosophy was introduced, where the orientation was shifted from physical development to one giving equal emphasis to both human and physical development. In addition, statutory bodies in the agriculture sector were streamlined and strengthened to enable them to contribute more effectively to rural development. In this regard, several agencies were privatized or revamped. Two regional development authorities, namely Pahang Tenggara Development Authority and Jengka Development Authority were privatized, while five project management units of integrated agriculture development projects outside the granary areas were discontinued.

2.42 The relatively greater economic opportunities available in urban centres continued to attract in-migration, thereby increasing the concentration of the population in these centres. In 1991, urban areas were redefined to include conurbations and built-up areas. Consequently, the size of the urban population increased from 8.9 million in 1991 to 14.4 million in 2000 and the urbanization rate increased from 50.7 per cent in 1991 to 61.8 per cent in 2000. The rapid growth of some cities and large towns placed considerable strain on the local authorities in the provision of good quality infrastructure and social facilities. In response to increased urbanization, efforts were taken to improve urban services and the management capability of local authorities. During the OPP2 period, Kota Kinabalu and Shah Alam were proclaimed as cities, and district councils such as Ampang Jaya, Selayang, Subang Jaya, Temerloh and Kluang were upgraded to municipal councils. In addition, the Government adopted a policy of dispersing development away from present urban centres to their peripheral areas such as Prai, Serdang, Senawang and Pasir Gudang.

2.43 The construction and upgrading of roads and expressways such as the North-South Highway, the North Klang Valley Expressway and the Damansara-Puchong Highway led to the further development of some existing towns such as Nilai, Bandar Baru Kelang and Bandar Bukit Puchong as well as the establishment of new townships such as Kota Kemuning. In addition, the period also witnessed the development of a number of new initiatives, including the development of special feature towns such as the Kulim Hi-Tech Park, Putrajaya, Cyberjaya and Kertih.

2.44 During the OPP2 period, *subregional economic cooperation* with neighbouring countries was further promoted with the formation of three Growth Triangles, namely, the Indonesia-Malaysia-Singapore Growth Triangle, the Indonesia-Malaysia-Thailand Growth Triangle and the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area. The formation of these Triangles opened new opportunities for trade and investment among the participating countries. The private sector was accorded a lead role, while the governments of the participating countries acted as facilitators in the development and implementation of joint-venture projects within the Triangles. A three-tier consultative mechanism involving both public and private sectors was also established to streamline procedures and facilitate trade and business within the Triangles.

IV. CONCLUSION

2.45 The strategies and policies of the OPP2 contributed towards strengthening and modernizing the industrial base of the country. The nation achieved rapid economic growth despite being affected by the 1997-1998 financial crisis. This was accompanied by significant improvements in the level of income and enhancement in the quality of life of all Malaysians with significant progress made in reducing the incidence of poverty.