GDN-17
Planning for Economic Development
in Malaya

12 Road 5/35
Petaling Jaya, Selangor
Malaya
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Mr. Richard H. Nolte
Institute of Current World Affairs
366 Madison Avenue
New York 17, New York

Dear Mr. Nolte,

In the post war years Malaya has had three economic development plans, though only the latest really deserves the name. The first plan was for the period 1950-55, but the second plan, for 1956-60, is officially known as Malaya's First Five-Year Plan. The country is currently under the Second Five-Year Plan, 1961-65.

Development planning received its first impetus in Malaya in 1945 when the United Kingdom passed the Colonial Development and Welfare Act, providing £120 million for development and welfare in the colonies and dependent territories. Malaya began "planning" in response to the anticipation that about £5 million of that money would be hers to spend. It took some years to get started, however, and the draft development plan did not appear until 1950.

This plan was prepared by the Economic Adviser in a new post under the Financial Secretary, which gave some recognition to the importance of development. The plan at first envisioned an expenditure of M$215 million in public investment. No attempt was made to estimate what private investment would be. The plan was actually only a skeleton program of government projects that even omitted some government schemes for which firm cost estimates were not available.

In 1951 a major revision was made quickly to coordinate the plan with the new Colombo Plan Organization. This brought a new target of M$856 million in public investment. The allocation of this amount by sectors is shown in the table.

The original investment of M$215 million was to have been financed by foreign loans and grants to cover about three-fourths of the capital requirements. Only one-fourth would be raised domestically. When the investment target was raised to M$856 million, no systematic plan for financing was published, but it appears that the planners still counted on about the same ratio of domestic to foreign financing.

The plan established no production or employment targets in any sector. Achievements could only be evaluated by measuring actual against planned investment. In fact, no evaluation was made, but it appears that public investment for the period was about M$500 million, about 60% of the target.

The second plan, like the first, was prepared quickly and as a result of an external stimulus in the form of pending talks with the U.K. government on financing development in Malaya. More important, however, was the creation of an Economic Committee of the Executive Council (a sort of pre-independence cabinet), with a Secretariat headed by the Economic Adviser. Responsibility for planning was moving out from under the Financial Secretary into a specialized organization under the new Prime Minister.

The plan's only target was in public investment, set at M$1,149 million, with the sectoral allocation shown in the table. Approximately 80% of the capital requirements were to come from domestic sources: loans and budget surpluses. Of the 20% to come from foreign sources, half was to come from grants and half from loans. About three quarters of the amount from grants was scheduled for military programs, the rest for development and welfare.

Despite the effects of the world-wide recession of 1957-58, actual public investment during the plan period fell short of the target by only about 12%. As might be expected, this was not evenly distributed among all sectors. In the economic sector actual investment reached 90% of the target; agriculture achieved 86% and roads, communications, and utilities achieved 90%. In the social sector actual investment reached only 65% of the target, with education achieving 63% and health only 25%.

Increasing competence in planning allowed for the evaluation of the economy's performance under the plan in terms of production as well as investment. Rough estimates of total output showed an increase of 20%, slightly above the 16% increase in population. The increase was highest in rice production, which rose by 30%. Output figures are not available for manufacturing, but it is estimated that production rose by 20% to 25%. Gross investment during the plan period was about M$3,000 million, or about 12% of total national income. Two thirds of this investment came from the private sector.

The third plan is a full scale attempt at national economic planning, even if this is more true of the form than the content. The plan was prepared by a Central Working Committee that included representatives of the Treasury, Commerce, Rural Development, and the National Bank. Most of the actual work was done by the economic secretariat of the Prime Minister's Department, with supervision provided by two experienced economists from the World Bank.

In the Second Five-Year Plan period, 1961-65, total national output is scheduled to increase 14%. This assumes a fall in the rubber price from the 1960 level of M$1.05 to 85¢ per pound. (The price has been around 75¢ for most of this year.) If the 1960 price had held, the plan's projected increase in total product would have been 22%. This would have been greater than the projected population increase and would have provided an increase in per-capita product, the best single measure of economic growth. With the assumed (now actual) fall in rubber prices, per capita product will actually decline, but the plan does not emphasize this. It is explicit, however, in stating that levels of per capita consumption will be protected from falling by drawing on foreign reserves and by decreasing the rate of saving that obtained in 1960. This is perhaps the only way to make politically palatable some of the cold facts of modern economic life under national income accounting.

Increases are planned for output in all sectors. Agriculture is to increase 15%, mining and manufacturing 36%, construction 76%, transport and utilities 24%, government services 22%, and other services 15%. This will mean an increase of about 340,000 jobs, 15% over the 1960 level.

The target for gross investment is M$5,050 million, more than half of which will be in the private sector. The ratio of total investment to increased national output, the marginal capital output ratio, is thus about 6 to 1. This is very high in comparison with other countries. Although it indicates that the task of raising productivity in Malaya is a staggering one, if not impossible, Planned Allocations of Public Investment in Malaya

Plans	I '50-'55	II '56-'60	III '61-'65
Total Public Investment (M$ millions)	856	1,149	2,150
Economic Sector	89%	82%	74%
Ag., land development	22%	23%	26%
Trans., communications, utilities	67%	45%	43%
Other (industry, etc.)[x]	-	14%	6%
Social Sector	11%	18%	23%
Education	6%	8%	12%
Health and Other	5%	10%	11%
Defense	-	-	3%

(x Most of this is for rubber replanting and new planting grants.)

it also provides a bright side to this otherwise dark picture. For complete planning it is necessary to make an assumption of what the marginal capital output ratio will be, but most often this is a sheer guess. The experience of other countries hardly suggests that the assumption of a 6 to 1 ratio is realistic. Even in Malaya's Frist Plan period, which included the 1957-58 recession, the ratio was only 3.2 to 1. From this alone, it seems likely that if investment targets are met, the increases in total product will be substantially greater than expected by the planners.

Domestic savings will provide about three-quarters of the required capital for total investment. In the private sector it is planned that 83% will come from domestic savings, but in the public sector only 60% will come from domestic sources. Twelve per cent of the public investment capital will come from a reduction of the government balances with which Malaya is blessed.

By the end of the plan period it will probably be possible to evaluate the performance of the economy with national income statistics. For the present, however, progress can only be measured in terms of government spending, more glorioulsy called public investment. By the end of this year half of plan's scheduled public investment will have been made. The plan's road program, with a target of 1,200 miles, will be completed by the end of 1963. Since the physcial and administrative capacity to spend is a more important limiting factor than the availability of capital, it is likely that the rate of spending will increase rather than decrease. Thus the prospects are good for overfulfilling the plan's public investment goals.

Although it is impossible to measure the rate of private investment, it seems that there is at least no slump in this sector. Investment brokers are busy and optimistic men here, and flotations of new stock are generally oversubscribed before they actually come on the market. The high rate of government investment in construction is stimulating private investment in construction equipment, and the rate of private building seems to be increasing, if my own observations are accurate.

There are two important trends to be observed in these three plans. In the first place, the plans reflect the same change in the goals of government that can be observed in the budgets and the budget debates (see GDN-16). This is the change from custodial to developmental goals. The change is especially evident in the increased proportion of government resources that goes to education, an investment that economists still classify as consumption. It is also evident in the changes within the economic sector. The M$133 million (15%) that went into land development in the first plan was primarily for the resettlement of Chinese squatters, who formed an important link in the supply lines of the Communist insurgents. The M$191 million (9%) planned for land development in the third plan is primarily for the opening of new jungle land for agriculture. The same changes from strategic to economic investments can be noted in other sectors as well. It is sometimes argued that these recent investments are more political than economic. However, this only says that the roads will go where the voters are, and I do not see any inherent contradiction between voters and producers.

The second important trend is the growing competence in planning. This is largely the result of an organizational change that takes the responsibility for planning out from under the centers of financial power and places it in a specialized organization under the center of political (voter) power.

Under financial control planning tended to be a fiscal exercise. Estimates were first made of how much money would be available, then departments were asked to put up projects to spend the available money. Plans were mere collections of departmental projects. One can still see this type of planning, in two different stages of development, in North Borneo and Sarawak. Under the Prime Minister, long range goals are set for the nation, then the country looks about for the money necessary to achieving its goals. Only the latter can be called planning, and only the latter is sufficient to accomplish the task of raising the productivity of a low-income economy.

It is argued by advocates of centralized planning that Malaya's modern type of planning gives rise to irrationalities and waste by placing the resources of the nation at the disposal of demagogues and illitarate masses who do not really know what are the needs of the nation. I would argue, however, that this is preferable to the earlier type of planning that placed the resources of the nation at the disposal of a bureaucracy whose traditional task has been to provide stability and peaceful (minimal) tax gathering, and whose ingrown character has become legend. It seems to me that Malaya's planning is developing in the direction that will provide a healthy balance between centralized competence in planning and evaluation, and sensitivity to the demands of the producers outside the center.

Sincerely,

Gayl D. Ness

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(The current exchange rate is approximately M$3 to US$1.)

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