

Malaysia's Development Strategy: the Outline Perspective Plan and a "Look East" Policy

By Swadesh R. De Roy

Malaysia's is one of the most dynamic of all the resource-based economies in developing Asia. It has behind it a political will to design and engineer growth with maximum social contents.

Its development is planned to eliminate, over a period, economic inequity in a multiracial society by bringing up the most handicapped of the communities without jeopardizing overall growth for all. Its leaders have decided it has to be that way since, they believe, continued economic disparities among the racial groups might act fatally against its national existence.

This is a hard task. But Malaysia has done well so far with its 20-year Outline Perspective Plan (OPP) launched in 1971. It does not now want to be unduly daunted by the discouraging world economic conditions existing today.

Its overall development strategy has lately been given a new dimension sloganized as "Look East," a call to pay more attention to self-help and the work ethics of Japan, South Korea, and Taiwan, and also to learn from Japanese experiences. The idea behind this call, given by Malaysian Prime Minister Dr. Mahathir Mohamad himself, is to develop human resources essential to sustain growth.

Last January Dr. Mahathir came on an official visit to Japan. Prior to this visit, Japanese Prime Minister Yasuhiro Nakasone had expressed his interest in the "Look East" policy in a direct New Year telephone call to Dr. Mahathir. The Malaysian leader came prepared to extensively expatiate on his concept, and according to authorized spokesmen from both sides, he returned home leaving his host, Mr. Nakasone, convinced that there were ethics of the East which could profitably be mixed with those of the West. And of course, while explaining his idea, he also told his host that its success depended very much on the kind of cooperation he would get from Japanese government and business.

Prime Minister Nakasone's enthusiastic response no doubt was prompted by his



Dr. Mahathir Mohamad, Prime Minister of Malaysia

Photo: Asahi Shimbun

Difficulties arising from this economic situation were brought to the notice of Mr. Nakasone by Dr. Mahathir when the two leaders talked about economic matters.

What Malaysia Is After

Malaysia finds Japan to be not only a highly developed industrial nation, but one still developing without, for a moment, unlike the industrial powers of the West, resting on its laurels. As Dr. Mahathir said a year ago, the West was "no longer a suitable model. It has lost its drive... If we emulate the West we will land ourselves in the quagmire it is (now) in without (Malaysia) ever passing through the golden period that the West went through. Japan may be classified as developed, but it is still developing. As such Japan is a much better example for developing Malaysia." This in sum is the principal "Look East" *raison d'être*.

Both Dr. Mahathir and Nakasone agreed, however, that the West could not be rejected altogether. Mahathir himself said he would like to have "a more balanced relationship between the West and the East."

Mr. Nakasone in his banquet speech told Dr. Mahathir that he agreed Asian countries, including Japan, "should pay due heed to traditional ethics in Asia in seeking their own development, in addition to learning from the western experiences" and proposed that "mutual understanding be further deepened through promotion of the 'Look East' policy" to which the Japanese government, he said, would extend utmost cooperation. He acknowledged the weight of responsibility the "Look East" philosophy imposed on Japan.

Malaysia wants to send batches of students to Japanese institutions of higher studies and more trainees to be attached to the Japanese industrial and business establishments where they can observe for themselves and draw inspiration from what Dr. Mahathir calls Japanese work ethics and attitudes. What Malaysia is after is not just the Japanese management technique, the fastest growing fad in the

appreciation of the "Look East" concept, an outgrowth of Malaysia's New Economic Policy (NEP) within its Outline Perspective Plan (OPP) for two decades from 1971 to 1990. His enthusiasm led to an agreement while Dr. Mahathir was here in Tokyo that Japan would extend Malaysia a special development credit amounting to ¥50 billion to finance the cost of a port at Klang, west of Kuala Lumpur, and some other projects. This pledge was made in addition to the annual yen credit of 21 billion.

Malaysia is now in its second NEP decade. The 1971-80 achievements have been assessed as a great success. But in its second decade beginning 1981 it has to attain still greater successes to reach all its goals by 1990.

The prolonged recession in the OECD countries, however, affected the Malaysian economy in 1982, according to Malaysia's 1982-83 economic report. As a result, economic activity in Malaysia slowed down as the fall in export incomes affected aggregate domestic demand and the public sector's role in stimulating the economy was restrained. Private sector demand had to provide the main, albeit moderate, thrust to economic growth.

Malaysia's Gross Domestic Product by Demand Category (1980-85) in current and in constant 1970 prices (in parentheses)

	(M\$ million)		
	1980	1985	1981-85
			Average annual growth rate (%)
Private consumption	26,436 (15,317)	50,014 (21,483)	13.6 (7.0)
+ Public consumption	8,611 (5,284)	17,320 (8,200)	15.0 (9.2)
+ Private investment	10,083 (4,635)	18,637 (6,813)	13.1 (8.0)
+ Public investment	4,682 (2,308)	5,728 (2,151)	4.1 (-1.4)
+ Change in stocks	-392 (-180)	358 (95)	— —
+ Exports of goods and non-factor services	30,837 (11,253)	68,888 (17,899)	17.4 (9.7)
- Imports of goods and non-factor services	29,884 (12,429)	63,854 (13,817)	16.4 (8.6)
= Gross domestic product at purchaser's value	50,373 (26,188)	97,091 (37,824)	14.0 (7.6)

West, or even skills which one can acquire from any source. It wants to learn and try to acquire as far as possible what makes a Japanese the man he is with his "correct attitude to work, including the sense of belonging which breeds loyalty." Dr. Mahathir wants Japanese business and industrial establishments to afford some places in their own internal training facilities to the Malaysians to be sent to Japan on scholarships funded by both Malaysia and Japan. The first batch of Malaysia's "Look East" boys came to Japan in September. Another 250 are expected this spring. A committee has been set up to manage the "Look East" scholarship scheme. Dr. Mahathir told Mr. Nakasone that there were today some 49,000 Malaysian students abroad, mostly in the West, against only 200 in Japan.

"Look East" boys and girls coming to Japan will initially be, it seems, Malays, the majority but economically the least developed of the three ethnic communities that make up the Malaysian population, which stands today at 14.5 million. This is because they have been given statutory preferential treatment in Malaysia's New Economic Policy, which has to be understood in the context of the country's socio-economic peculiarities.

Malaysia's NEP: Goals and Achievements

Malaysia, with a land area of 330,000 sq. kms. (against Japan's 377,643sq. kms.), is a federation of 13 states. In its multi-racial population, Malays and other indigenous people form the majority (54%). The Chinese with 35% and Indians 10.5% are the two other major communities. At the time of independence in 1957, when the country was officially known as the Federation of Malaya, the Malays and

Malaysia's Major Commodity Exports (1970-80)

	1970	% of total	1975	% of total	1980	% of total	Average annual growth rate (%)		
							1971-75	1976-80	1971-80
Rubber	1,724	33.4	2,026	21.9	4,860	17.1	3.3	19.1	10.9
Tin	1,013	19.6	1,206	13.1	2,504	8.8	3.5	15.7	9.5
Sawlogs	643	12.5	669	7.2	2,435	8.6	0.8	29.5	14.2
Sawn timber	199	3.9	392	4.2	1,221	4.3	14.5	25.5	19.9
Palm oil	264	5.1	1,320	14.3	2,576	9.1	38.0	14.3	25.6
Crude petroleum	164	3.2	726	7.9	7,200	25.3	34.7	58.2	46.0
Copper	—	—	11	0.1	113	0.4	—	59.3	—
Pepper	59	1.1	106	1.1	136	0.5	12.4	5.1	8.7
Canned pineapple	43	0.8	51	0.6	72	0.2	3.5	7.1	5.3
Cocoa	—	—	35	0.4	189	0.7	—	40.1	—
Manufactures	572	11.1	1,927	20.9	5,865	20.6	27.5	24.9	26.2
Other commodity exports	482	9.3	762	8.3	1,274	4.4	9.6	10.8	10.2
Total gross commodity exports	5,163	100.0	9,231	100.0	28,445	100.0	12.3	25.2	18.6

(M\$ million)

Malaysia's Major Commodity Exports (1980-85)

	1980	% of total	1985	% of total	Average annual growth rate (%)
					1981-85
Rubber	4,860	17.1	8,036	12.7	10.6
Tin	2,504	8.8	3,022	4.8	3.8
Sawlogs	2,435	8.6	3,098	4.9	4.9
Sawn timber	1,225	4.3	2,367	3.7	14.2
Palm oil	2,576	9.1	4,738	7.5	13.0
Crude petroleum	7,200	25.3	17,560	27.8	19.5
Copper	113	0.4	214	0.3	13.6
Pepper	136	0.5	228	0.4	10.9
Canned pineapple	72	0.2	86	0.1	3.6
Cocoa	189	0.7	631	1.1	27.3
LNG	—	—	3,284	5.2	—
Manufactures	5,865	20.6	17,370	27.5	24.2
Other commodity exports	1,274	4.4	2,496	4.0	14.4
Total gross commodity exports	28,445	100.0	63,130	100.0	17.3

(M\$ million)

other indigenous people lagged far behind the Chinese and the Indians in terms of economic development. Therefore, when in 1971 the Outline Perspective Plan (OPP) and its New Economic Policy (NEP) were formulated, it was recognized that the gap between the Malays and others must progressively be narrowed and ultimately closed over a period of 20 years, during which preferences in all areas would go to the Bumiputeras (sons of the soil), the term the new policy uses to identify the Malays.

The NEP seeks to eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians irrespective of race, and also to restructure the society so as to reduce the existing economic disparities among the races, and to eventually establish a society where a race shall not be identified by its economic position and functions.

The long-term NEP targets are:

1. A GDP growth rate of 8% a year, the manufacturing sector growing annually at 12%.
2. Full employment, creating 1.9 million new jobs by 1990.
3. Reduction in the incidence of poverty to 15% of the total households by 1990 from 49.3% in 1970.
4. A pattern of ownership of share-capital in the corporate sector by 1990 wherein Malaysians of all races will own and manage 70%, with Malays and other indigenous people accounting for at least 30%.
5. An employment structure at all levels that shall reflect the ethnic composition of the population.

In the first 10 years of the NEP the Malay-indigenous share in equity ownership increased from 4.3% in 1971 to 12.4% in 1980, while that of other Malaysians (Chinese and Indians) grew from 34% to over 40%. Foreign ownership, al-

Kuala Lumpur, Malaysia's Capital City.



lowed up to 30% under the current policy, declined during this period from 61.7% to 47.5%. In absolute terms, however, foreign holdings tripled from M\$4,051.3 million to M\$12,505.2 million.

The latest government report on the first decade of the NEP claims substantial progress on all fronts. During the period GDP grew at 7.8% annually in real terms. There was rapid expansion of the economy, per capita income in real terms growing annually by 4.9% from M\$1,142 to M\$1,836 in 1980 and unemployment declining from 7.8% to 5.3%.

Both domestic and external demand provided the needed thrust for expansion until 1980. Private and public investment in real terms grew at 12% and 12.6% respectively. Exports expanded annually by 7.6%, also in real terms. There was price stability, which contributed to this overall progress, the rate of inflation as measured by the CPI averaging 5.9% per annum.

Relatively higher rates of growth in the nonagricultural sectors were responsible for a substantial fall in the share of agriculture in the total GDP from 30.8% in 1970 to 22.2% in 1980. Growth of the manufacturing sector increased sharply from 13.4% to 20.5%. The services sector's share in the GDP also increased from 41.9% to 45.1%.

The Manufacturing sector, which averaged an annual growth rate of 12.5% during the 1971-80 decade, underwent considerable changes in the composition of its output. Labor-intensive industries such as textiles and electronics as well as resource-based industries like wood and rubber products expanded rapidly. In addition, a number of intermediate goods industries such as oils and fats, construction materials, petroleum and chemical products also recorded fast growth. This industrial expansion accounted for nearly 25% of the new jobs.

Structural changes in production are also being reflected in the pattern of exports. Of particular significance is the increase in the value of exports of 25.6% per annum for palm oil and 46% for crude petroleum, of which Japan has been the single largest user.

Export of manufactured goods also rose by 26.2% annually, boosting their share in total exports from 11.1% in 1970 to 20.6% in 1980.

The balance of payments remained favorable throughout the decade, the merchandise account recording a substantial surplus of M\$26,042 million. But this growth was unfortunately offset by the deficit in the invisibles account, such as repatriation of investment incomes, increasing freight and insurance charges because of increasing trade, and rising freight rates. The overall balance stood at M\$8,343 million.

With these achievements Malaysia

entered the second decade of its OPP, launching in 1981 its fourth five-year plan which calls for a total investment of M\$102,639 million. The fourth plan, like the previous ones, has to depend largely on private sources for about three-quarters or M\$74,111 million of the total. If all goes well, the plan, now in its third year, will help the economy expand by 45% in real terms by the end of 1985. In other words, the GDP is to grow in real terms by 7.6% annually from M\$50,375 million at current prices in 1980 or M\$26,188 million at the base 1970 price to M\$97,091 million in 1985 at current prices or M\$37,824 million at the base 1970 price.

Sector-wise the projected growth rates during 1981-85 are as follows:

Agriculture: 3% p.a. from M\$5,809m in 1980 to M\$6,720m in 1985 compared with 4.3% growth during the last decade.

Manufacturing: 11% p.a. from M\$5,374m in 1980 to M\$9,040m in 1985. The manufacturing sector is thus projected to overtake agriculture as the largest contributor to the GDP. Obviously, import substitution and export-oriented industries, an area where Japanese investors are active, are to lead the way.

Mining: 5.8% p.a. from M\$1,214m in 1980 to M\$1,607m in 1985.

Construction: 9% p.a. from M\$1,186m in 1980 to M\$1,824m in 1985.

The Timely Emergence of LNG

With the OPEC price structure collapsing, LNG has come to be added to the items of energy export. The first LNG shipment to Japan was an occasion for celebration at the banquet Prime Minister Nakasone hosted in honor of Prime Minister Mahathir. Malaysia is to export on an average 6 million tons of LNG to Japan for 20 years. This amount accounts for 90% of the currently projected production. At the time of writing, a price formula was still under negotiation. Malaysia's LNG project was funded by Japan.

Malaysia is also asking Japan to take an additional 20,000 barrels a day of crude oil. But in view of conservation and other measures to reduce consumption, one does not know how much of this request Japan will entertain.

Public investment during this plan period is to grow at an annual rate of only 4.1%. Major sources of growth for the economy will have to be exports, private investment, and borrowing.

Exports are to grow at a rate of 9.7% per annum in real terms from M\$11,253m in 1980 to M\$17,889m in 1985. Much of this growth has to be accounted for by manufactured goods, crude oil, and LNG.

According to Malaysian computation, the Malaysia-Japan trade balance has been against Malaysia since 1981 when it

Japan-Malaysia Trade

Unit: US\$ million

Year	Imports from Malaysia	Exports to Malaysia	Balance of Trade
1977	1,560.5	863.4	-697.1
1978	1,900.0	1,157.1	-742.9
1979	3,257.1	1,507.0	-1,750.1
1980	3,470.9	2,060.9	-1,410.0
1981	2,926.9	2,425.4	-501.3
1982 (Jan.-June)	2,757.5	2,250.6	-506.9
1982 (estimate)	3,008.2	2,455.2	-553.0

(Source) Japanese statistics

Malaysia-Japan Trade

Unit: M\$ million (US\$ million in brackets)

Year	Exports to Japan	Imports from Japan	Balance of Trade
1977	3,061.0 (1331)	2,615.9 (1137)	+ 445.0 (+ 194)
1978	3,703.0 (1610)	3,169.0 (1377)	+ 534.0 (+ 473)
1979	5,668.2 (2464)	3,840.3 (1670)	+ 1,827.9 (+ 794)
1980	6,447.7 (2803)	5,375.1 (2337)	+ 1,072.6 (+ 466)
1981	5,889.9 (2560)	6,513.4 (2832)	-623.5 (- 272)
1982 (Jan.-Nov.)	2,717.6 (1182)	3,302.3 (1436)	-584.7 (- 254)
1982 (estimate)	5,618 (2443)	6,871 (2987)	-1,253 (- 544)

(Source) Malaysian statistics

(Note) US\$ million in brackets are estimates.

showed a deficit of US\$272m. The Malaysian estimate for 1982 is an adverse balance of US\$544m.

But the Malaysian figures do not tally with those available in Japan according to which Japan in 1981 had a trade deficit of US\$501m. The estimated 1982 balance is US\$553m in the red. This discrepancy is perhaps explainable. There is always a substantial difference between FOB and CIF computations. Besides, Japan buys a lot of Malaysian goods from Singapore which are shown as imports from Malaysia.

Yet, the fact is that the gap is narrowing. Both sides believe that with the timely emergence of LNG this year the trend might very well be arrested or even reversed in favor of Malaysia.

Despite the difficulties recognized in light of world economic conditions, Malaysia plans to attain a trade surplus of M\$35,241m during the current plan period and hopes its external reserves will grow by M\$9,600m, taking the cumulative reserves to the M\$20,000m level in 1985.

Sogo Shosha Malaysian-style

In the face of anticipated slow growth in world trade for manufactured goods and the fall in prices of its raw materials like tin, rubber, palm oil, and oil as well as wood and pepper, Malaysia faces a herculean task of boosting its exports. It is said to be formulating policies to increase the competitiveness of its products and cultivate new markets. It is actively

Investment Balance & Share of Japanese Companies by Industry

(End of 1980)

Industrial classification	Investment balance (M\$ thousand)	Ratio (%)
Food	35,390.0	7.1
Textiles	179,930.9	35.9
Wooden products	28,829.2	5.8
Furniture	3,706.2	0.7
Paper, Print	466.1	0.1
Chemical	10,062.6	2.0
Rubber products	4,574.9	0.9
Non-ferrous metals	23,976.6	4.8
Plastic	8,990.4	1.8
Basic metals	26,618.8	5.3
Metal process	1,696.8	0.3
Machinery	22,515.3	4.5
Electric, Electronics	120,317.9	24.0
Transportation equipments	13,924.8	2.8
Precision instruments	2,661.0	0.5
Hotel, Tourism	2,542.4	0.5
Others	14,907.7	3.0
Total	501,111.6	100.0

encouraging its businessmen to learn from the Japanese trading houses and set up their own "sogo shosha."

Several Japanese style sogo shosha are already in their embryonic stages in Kuala Lumpur, a few getting advice from some of the Japanese trading houses. Besides conducting trade, they will be encouraged to enter into joint ventures with transnational corporations such as those of Japan in order to benefit from the extensive Japanese marketing network and managerial expertise.

Prime Minister Mahathir acknowledges the fact that the Japanese sogo shosha are unique and impossible to copy wholesale. But he expects the Malaysians to "form a vital link between production and investment in Malaysia on the one hand and the world markets as well as international capital and know-how on the other." He wants Malaysian businessmen to go international and venture to where the markets are, like the Japanese sogo shosha do. He sees "a vast potential for close cooperation... between these emerging international trading companies (of Malaysia) and the Japanese sogo shosha, a majority of which already have business dealings in Malaysia. There is much our businessmen have to learn about... international trade and marketing... The Japanese sogo shosha can assist their Malaysian counterparts by smoothening their lengthy period of learning, especially in avoiding the 'childhood diseases'."

This then is another aspect of the "Look East" policy. Dr. Mahathir says: "I am hopeful that there will emerge for us, in time, characteristically Malaysian trading institutions that we can proudly style as truly Malaysian sogo shosha, just as the Japanese sogo shosha—no matter how they are imitated around

the world—remain uniquely Japanese in style and character."

No Socio-Economic Development Without Trade

Malaysia's whole socio-economic development depends on trade. Japan is its biggest trading partner. Its trade with Japan in 1981 was by Malaysian accounting more than US\$5,351m and was steadily rising. Malaysia says 60% of its imports from Japan are plants and machinery, while 90% of exports to Japan are primary goods that involve very little processing or value adding on Malaysian part. During his visit to Tokyo Dr. Mahathir told Keidanren leadership by way of explaining the present pattern of Japan-Malaysia trade: "Malaysia's export of sawn timber (major item of export) to Japan accounted for less than 2.5% of our saw-log exports to Japan, which amounted to US\$630m in 1981 alone. In the first eight months of 1982 the value of our major exports of rubber, tin, and crude oil to Japan is expected to decline in absolute terms by 46%, 34%, and 20% respectively."

The best part of Malaysia's export drive is directed toward Japan. It wants to sell its materials more in processed form and hopes to benefit from Japan's industrial restructuring. Dr. Mahathir says: "I do see that in your efforts to restructure your older industries such as steel, petrochemicals, pulp and paper, timber and rubber processing, cement and textiles, there will be opportunities to relocate some of them into Malaysia as a complement to your own industrial structure."

Malaysians also seem to realize that the more Japan can export to third countries, the more materials it will import from Malaysia. They therefore agree with Japan that world trade must expand rather than contract, and are opposed to export restrictions and protectionism.

Apart from being Malaysia's leading trading partner, accounting for about one quarter of its foreign trade in recent years, Japan is also the biggest foreign investor in Malaysia. In Malaysia's manufacturing sector, Japan's private direct investment ranks second among foreign investors. Most of Japan's major industrial houses are involved in Malaysia's development. At last count, quoted by Dr. Mahathir himself, over 600 Japanese companies had invested in Malaysia, and a total of US\$650m or two-thirds of the Japanese investment there is in the manufacturing field. According to a recent survey of these companies, nearly three quarters of the Japanese investment in Malaysia is in labor-intensive industries. Malaysia wants more investment, and more of it in high technology industries. It

also expects foreign investment to be accompanied by technology transfer without which Malaysia's socio-economic development envisaged in its OPP "will not be meaningful."

Emphasis on Development to Continue

Malaysia hopes to spend in the public sector M\$42,829.5m on development during the 1981-85 plan years. About two-thirds of this amount is to be raised through domestic and foreign borrowing. It does not, however, expect more than M\$4,000m to come from external market and project borrowing.

The private sector has been given the task of raising about three quarters of the total plan outlay of M\$102,639m. The official development policy seeks what is called a "responsible and effective partnership with the private sector." The government has set up a wholly-owned "Heavy Industries Corporation" under the Companies Act. The corporation is supposed to have the flexibility of the private sector and the ability to quickly respond to economic conditions.

But all these may not be quite adequate to meet the immediate short-term exigencies.

Malaysia's economic growth in 1982 fell far short of the plan. Throughout last year prices of Malaysia's major export commodities remained depressed, causing a serious revenue shortfall which, it appears, forced the government to impose a M\$3,489m cut on expenditures. However, care was taken to ensure that the priority sectors, especially those related to OPP-NEP objectives, did not suffer badly. The government said this "preemptive action" was taken to protect the Malaysian economy against a worsening international recession.

The 1983 budget is partly based on optimism that the world economic conditions will begin to improve in the latter part of this year. But the government says the economy "depends on what the industrialized countries do." However, the government is resolved not to cut back too heavily on socio-economic development. This decision is fully reflected in the 1983 national budget of M\$29 billion, more than 40% of the estimate going to development.

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