

LANGKAWI

The Hub of the
Indonesia, Malaysia, Thailand
Growth Triangle

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Tenku Idris Tenku Hadi



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*For my wife, Kim Idris, and my daughter,
Jacqueline 'Ai-syah Idris, with love.*

FOREWORD

Tun Daim Zainuddin

*Economic Adviser to the Government of Malaysia
Co-Chairman, Langkawi Development Authority*

THIS is a timely publication. This book reviews the general pattern of economic development in Malaysia from 1950 to 1995 as a backdrop to the overall study. Regional disparities and income inequalities have been identified as the fundamental issues necessitating a more intense pace of development in Malaysia. National economic development as reflected in the various government programmes and strategies in Malaysia has been designed to achieve national unity and balanced economic growth.

The Malaysian Government, through the Langkawi Development Authority, has invested and will continue to invest in developing the rural economy of Langkawi and its surrounding environs into a major international destination for tourism and related services while broadening and diversifying its economic infrastructure.

This book outlines and explains the efforts of the Malaysian Government, and offers an analysis of various measures employed to attain national unity, economic growth and increased prosperity in the context of policies which encourage the economic development of Langkawi.

By improving Langkawi's infrastructure and enhancing economic and political co-operation among neighbouring countries, Langkawi can be a growth model for other developing regions. Langkawi is thus poised to become a catalyst for economic development in the northern growth triangle. This has become more evident since 1990 with the accelerated industrialization drive of the Mahathir Administration.

This informative book is relevant for decision-makers and policy analysts from the public and private sectors, academicians, political leaders and others interested in the development process.

THE AUTHOR

TENKU IDRIS Tenku Hadi was born on October 1, 1950 in Kangar, Perlis. He first joined the government service in the Malay Administrative Service and was appointed Assistant State Secretary of Melaka. His career in land administration began when he was posted to the District Office Melaka Tengah as Assistant District Officer in 1978. He served his home state as Registrar of Land Titles from 1982 to 1988. Thereafter, he was transferred to the Federal Territory of Lands and Mines Office in Kuala Lumpur.

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Finally, I would like to acknowledge the support and forbearance of my wife, Kim Idris, and my daughter, Jacqueline 'Ai-syah Idris, without whom this book would not see the light of day.

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Chapter 1

INTRODUCTION

MALAYSIA is one of the fastest growing economies in the world: its economy has expanded tremendously during the last two decades with every sector of the economy recording strong growth. Malaysia is renowned as the world's largest producer and exporter of its natural resources, namely, tin, gas, natural rubber, palm oil, tropical timber, cocoa, pepper, pineapple, and other agricultural commodities. The Malaysian economy has historically been an exporter of primary commodities.

Tin and rubber have been the basis for past economic development of the country, but to sustain a healthy economic development, the country had to expand its exportable base and stop from relying on just these two primary commodities. Although Malaysia is still rich in natural resources which should provide a reliable economic base for continued expansion, the growth rates for commodities such as timber is likely to diminish over the next thirty years, while deposits of tin and gas are subject to depletion in the future.

The colonial era in Malaysia (the Malay States in Peninsular Malaysia) began in 1874 with the transfer of power from the Malay rulers to the British. The date marks what is widely considered a turning point in the constitutional development of Peninsular Malaysia.

The presence of the British resulted in the transformation of the political and economic systems of the Malay States. Although religious affairs and those pertaining to Malay custom remained the prerogative of the local rulers, Western concepts of modern administration were introduced (Bunge, 1984: 31).

During the British colonial rule, economic development was limited to the tin and rubber producing areas of the coastal ports. Therefore, the development and distribution of natural resources and the political, social and economic life was concentrated on the west coast of Peninsular Malaysia. The states of Penang, Perak, Selangor, Negeri Sembilan, Melaka and their urban centres of multi-racial communities along the west coast were highly developed. However, the states of Pahang, Kelantan and Terengganu on the east coast, and the states of Kedah and Perlis in the north part were largely neglected and therefore ended up less developed. Furthermore, these states were predominantly Malay-populated with a much more rural culture.

A five-year regional economic development plan for Malaysia was first introduced in 1950 by the Draft Development Plan of Malaya. The aim of the plan was to correct the economic depression which existed after the Second World War. The plan deduced that Malaysia's past reliance on the production of tin and rubber would have to accommodate the production of other goods to broaden its export base. The plan determined that Malaysia must concentrate on producing those products for which it possessed comparative advantages in terms of climate, soil, geographical location and labour. The goal of this approach was to reduce dependency on rubber and tin which accounted for almost 30 per cent of its Gross Domestic Product and 75 per cent of its exports around 1960 (Spinanger, 1986: 12).

The object of the plan was to depart from an economic base dependent upon tin and rubber and to shift towards the development of Malaysia heretofore unused resources, particularly land. This plan contained investment programmes which encouraged industrialisation of its lands. Under this plan the government assumed responsibility for public investment in the economic development of the

country. Rural development programmes were initiated under this plan to stimulate the economy of rural Malays. It was during the plan of 1950 to 1955 that the Rural and Industrial Development Authority (RIDA) was first established.

The extension of the rural development projects was carried out during both the first and second Development Plans (1956 to 1965). It was the intention of the government to alleviate poverty, reduce unemployment and provide social amenities, especially in education and health, to the rural areas. During this period, these efforts were popularly referred to as the "rural reformation". In 1956, the Federal Land Development Authority (FELDA) was formed to implement land development and resettlement.

During the first Development Plan (1956-1960) although rural development was a specific goal of the programme, emphasis was on urban infrastructural development. In this plan 52 per cent of the budget was allocated to Public Development Spending. The obvious attention on urban infrastructure reflected the attitude of the government during British rule. The economic model was simply viewed as the dynamic urban sector eventually inducing rural development. It was believed that a trickle-down process would evolve whereby urban growth would gradually generate demand for rural products.

The second Development Plan (1961-1965) marked the emergence of a new direction in public spending which was a direct result of the country's independence. During this period almost half of public investment went to the agricultural sector and rural development. The approach had now switched to raising rural incomes so that the domestic market could be enlarged and thus contribute to development. The notable features of this period in the area of social and economic policy were the continued stress on rural development, the rapid expansion of the educational system and the heavy emphasis on public infrastructural investments (Snodgrass, 1980: 48).

The First Malaysia Plan (1966-1970) was merely a continuation of the two preceding development plans. Essentially, this plan was a

macroeconomic approach which determined the investment requirements necessary for meeting the desired targeted rates of growth for national income and allocating investment budget among effected and contributing sectors of society. The emphasis of the plan was to open up more land for resettlement in the rural and underdeveloped areas and to increase total investments for structural changes through aggressive national development.

Since its independence in 1957, the Malaysian Government's concern with regional development as an integral part of nation-building encountered various difficult economic and social problems. Economic factors have played a major role in weakening the socio-economic framework. Manufacturing employment and land development did not keep pace with the growth in the labour force, hence, unemployment increased during the 1960s. Malays were poorly represented in most sectors of the modern economy, from executive positions to urban workers. The racial imbalance, particularly in the educational and economic fields, contributed to a growing sense of insecurity felt by the Malays. Under British rule the Chinese had prospered commercially. The Chinese, instead of being content to dominate the economy of the country after independence, became more aggressive in their political efforts. The Malay political leaders recognised a potentially politically threatening situation. And, indeed, such factors served to kindle the racial riots in Malaysia on May 13, 1969. The memory of those riots is an ugly reminder of what can happen if "imbalanced" activities are ignored.

Although the riots were restricted to the capital city of Kuala Lumpur, a state of emergency was imposed throughout the country and the Malaysian Parliament was suspended. In its stead, a National Operations Council (NOC) was formed as a caretaker government. Malaysia's political leaders wanted to change not only the employment pattern of their society but the entire ownership structure of its economy and establish appropriate ground rules for governance.

First, public discussion of sensitive constitutional issues was barred. In February 1971, the parliamentary government was restored and, simultaneously, the constitution was amended to make

sedition the public discussion of constitutional provisions regarding language, citizenship, special rights for the Malays, and status of the Malay rulers.

Second, a new economic strategy which was to pave the way for a vastly expanded economic role in the country was officially promulgated and economic planning was to be explicitly based on specific social criteria.

Third, the government began to pursue with greater resolve policies supporting, protecting and promoting the Malay language and national education. In late 1969, the Malay language became the language of instruction in the first grade in all elementary schools in Peninsular Malaysia. The policy change in education eventually paved the way for a national educational policy whereby the Malay language has become the sole medium of instruction in government schools.

The most important feature was, of course, the new era of economic development policy formulated by the government under the New Economic Policy (NEP). The New Economic Policy was incorporated in the Second Malaysia Plan (1971 to 1975). The policy platform was to promote national unity by pursuing a two-pronged economic objective:

1. To reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race; and
2. To accelerate the process of restructuring the Malaysian society to correct economic imbalances, so as to reduce and eventually eliminate the identification of race with economic function.

The policy encompasses a wider scope, envisioning a multiracial society where harmonious relationship is the foundation, especially since most Malays are located in rural areas, and the aim of the government is to eradicate poverty on the assumption that race is associated with economic function. The government determined that the

difference between urban and rural household incomes was attributable to the fact that rural areas have been left underdeveloped and neglected and that such areas are in need of government attention. In that effort, the government's objective has been to promote and strengthen national integration by reducing wide disparities between urban and rural areas and to encourage economic development among the states of Malaysia.

During the last 38 years, since independence in 1957, the government of Malaysia, through a series of five-year development plans, has implemented various policies and programmes aimed at alleviating regional disparities and underdevelopment. The government has allocated and continues to allocate more money for economic development than for any other single public expenditure. In addition, both public enterprises and private sectors are encouraged to participate in the Regional Development Authority's (RDA) land development plans to improve the living standard of the Malay and other indigenous people. By creating economic opportunities with physical and social infrastructure and co-ordinating support services employing and benefiting the Malays the government's political stature will be enhanced.

Previously, regional economic development policy in Malaysia was concentrated in three main areas:

1. Agricultural content and *in-situ* approach;
2. Land development and resettlement; and
3. Industrial dispersal and rural development.

The purpose of this book is to:

1. Summarise regional development trends in Malaysia;
2. Describe issues of ethnicity and regional development in Malaysia;
3. Discuss regional development strategies and evaluate the effectiveness of these in Malaysia;

4. Describe a new regional development policy for tourism in Malaysia;
5. Summarise regional development trends in Malaysia outlining the most successful policies and strategies; and
6. Comment on the future of regional development in Malaysia.

Langkawi has been specifically chosen as a case study because its economy was dominated by agriculture and fisheries prior to the establishment of its free port status in 1987 and the fact that Langkawi is now experiencing enormous economic growth in tourism. This is a direct result of the policy of the Federal Government of Malaysia to promote, stimulate, facilitate and undertake economic and social development on the island of Langkawi. The policy of the government concerning Langkawi is to develop its natural resources, make the most of Langkawi's assets in that process, enhance the economic growth of the land and promote a balanced development of the region. The questions which need to be answered are:

1. How far has the government succeeded in transforming the economic development of Langkawi as a major tourist development while accelerating the growth and improving the socio-economic status of the resident populace with emphasis on the preservation of the natural environment?
2. Has the policy resulted in economic diversification and strongly influenced the Malay population to assume the challenge of participating in their own economic involvements?

This book will answer these questions through exploratory study, field research, and review of literature regarding the regional economic development in Langkawi. It is organised into three main sections:

LANGKAWI

1. A brief examination of the economic and political history of Malaysia to help the reader understand some of the causes of the current social and economic conditions.
2. A review of the regional developmental policies employed after Malaysia achieved its independence.
3. A view of Langkawi island in the context of its regional development as a policy introduced by the Federal Government of Malaysia in its effort to alleviate disparities and underdevelopment on the island, and as a model growth centre for the northern region of Peninsular Malaysia.

Finally, we will offer a preliminary regional economic development evaluation comparing the past record of regional development in Malaysia with the current Langkawi development policy.

Chapter 2

POLITICAL AND ECONOMIC HISTORY OF MALAYSIA

GEOGRAPHY

LOCATED in the tropics, Malaysia sprawls across the South China Sea on the principal international trading routes of Europe and the Far East. Malaysia has been at the crossroads of Asian and European civilisations. The Peninsular Malaysia covers an area of 131,598 square kilometres, while the states of Sabah and Sarawak take up 73,711 square kilometres and 124,449 square kilometres respectively. The total land area for the whole country is 329,758 square kilometres or 128,308 square miles. The total area of Malaysia is slightly larger than that of the state of New Mexico in the United States.

More than half the country is mountainous and covered by tropical rain forests. Peninsular Malaysia occupies the peak of the Kra Peninsula, the southern tip of the Asian mainland, and is bounded by Thailand to the north, Singapore to the South, the Philippines to the East, and Indonesia to the southwest. The states of Sabah and Sarawak—collectively known as East Malaysia—are separated from Peninsular Malaysia by the South China Sea with an average distance of 1,000 kilometres. The entire country has a warm,

humid tropical climate the whole year round. Abundant rainfall occurs throughout the country. The east coast of the peninsula receives the major impact of the Northeast Monsoon which occurs between October and March.

POPULATION

The Malaysian population comprises many ethnic groups, which can be divided into two distinct categories. The Bumiputera refers to the Malays, Kadazans, Ibans, Orang Asli and other indigenous races, while the non-Bumiputera denotes Malaysians descended from Chinese, Indian, European, Eurasian and various other non-indigenous races.

The projected population of Malaysia for 1995 was estimated to be a little more than 19 million. Approximately 85 per cent of the nation's population reside in Peninsular Malaysia. Of this, Malays account for 54 per cent, Chinese 35 per cent, Indians 10 per cent and others 1 per cent.

Speaking both historically and socially, various ethnic groups in Peninsular Malaysia have been easily identified by their economic function and their geographic habitat: The Malays are concentrated in the agricultural sector, particularly in low-income agricultural activities, while the non-Malays are predominantly in non-agricultural activities, particularly in commerce and industry (Government of Malaysia, *Mid-Term Review of the Second Malaysia Plan*, 1973: 9).

ECONOMY

The economy of Peninsular Malaysia can be divided into four geographic regions. The northern region is comprised of the states of Kedah and Perlis, and is popularly referred to as the "Rice Bowl of Malaysia"—this title is especially applicable to the state of Kedah. This area is the country's major producer of padi, rubber and sugarcane. Agriculture is the main economic activity of the people here, the majority of whom are Malays.

The eastern region includes the states of Kelantan, Pahang and Terengganu. This area is sparsely populated predominantly by Ma-

lays and is a largely underdeveloped region of the peninsula. It is a coastal area battered by high winds and heavy seas and subject to the Northeast Monsoon. However, the central part of the eastern coast is sandy and is the site of the country's major beach resorts. The southern part of this region is primarily swamp land.

The western region is defined by the states of Penang, Perak, Selangor, Negeri Sembilan and Melaka. The primary commercial centres of Peninsular Malaysia and the bulk of her population are located on the west coast. The major towns in this area are Kuala Lumpur, Ipoh, George Town and Melaka. Kuala Lumpur and Ipoh were founded on the tin mining industry. Agriculture is highly developed along the west coastal plain which has a rich alluvial soil. The land is planted mainly with rubber, coconut and palm oil trees.

The sole state of Johor makes up the southern region. This land is generally flat, with swamps and mud-flats throughout. It is an area of large rubber plantations, palm oil, and pineapple farms.

GOVERNMENT

Malaysia is a federation of 13 states—11 in the peninsula and two in the northern part of the Borneo island. "The federation shall be known, in Malay and English, by the name Malaysia" (Government of Malaysia: Federal Constitution, 1987: 13). Malaysia's system of government is based on a framework of constitutional monarchy modelled on the British parliamentary system.

The Federation of Malaya gained its independence from Britain on August 31, 1957. The states of Sabah and Sarawak (on the island of Borneo) and Singapore joined the Federation to form Malaysia on September 16, 1963. In 1965, Singapore left Malaysia to form its own independent republic.

The capital of Malaysia is the Federal Territory of Kuala Lumpur. There is another Federal Territory called Labuan, an island formerly under the jurisdiction of the state of Sabah. Today nine states on Peninsular Malaysia are governed by hereditary rulers descended from the original Malay sultanates who serve as constitutional heads of state. The remaining four states are each headed by a Yang di Per-

tua Negeri or Governor appointed for fixed terms of office to serve as constitutional head of state.

The Federal Constitution provides for a parliamentary system of government with a strong federal government with a measure of autonomy for the 13 constituent states. The head of state is the Yang di-Pertuan Agong, the Paramount Ruler or King. He is elected by the nine Malay hereditary rulers, from among their membership in the Council of Rulers, to serve for a term of five years. The Paramount Ruler serves as constitutional monarch acting on the advice of a Cabinet of Ministers headed by the Prime Minister.

POLITICAL HISTORY

The early development of Malaysia can be credited to the natural resources and strategic location of Peninsular Malaysia. This land mass is located alongside the Straits of Melaka, one of the world's busiest trade routes.

The state of Melaka was the centre of the spice trade that thrived during the 15th century. It attracted traders from as far away as Portugal, the Netherlands and England to the west and as far as China to the east. During this period, Malaysia consisted of a number of territories, each governed by a Malay ruler. The economy of Melaka flourished during the 15th century as an entrepôt.

In 1511, the Portuguese invaded and occupied Melaka, thus gaining control of the trading centre. Because of European rivalries, the Dutch captured Melaka from the Portuguese in 1641 but surrendered her to the British in 1824. Although Britain had established her rule in Melaka, she did not expand her sphere of influence over the Malay states in the peninsula until 50 years later in 1874.

In search of a commercial and strategic location to establish a port, the British chose the island of Penang across the Malay state of Kedah back in 1786. From 1800 Penang included a strip of coastal land opposite the mainland which was called Province Wellesley. In 1819, Singapore was established as the second port across the Malay state of Johor. Both ports were established by the British as a result of direct negotiation with the appropriate Malay rulers. In 1867, the

three territories of Penang, Singapore and Melaka were transferred to the British Colonial Office to constitute the Straits Settlements. Since their founding, Penang and Singapore have existed with free port status to generate full development for the Straits Settlements. Immediately after their establishment, Penang and Singapore became well known to international traders as ports of call for ships making long voyages between China and Europe. The remarkable growth of trade as a result of the Straits Settlements from 1825 until 1864 is illustrated in Table 2.1.

Table 2.1
Growth of Trade in the Straits Settlements, 1825-1864

	Penang	Singapore	Melaka	Total
Year	£	£	£	£
1825	1,114,614	2,610,440	318,426	4,043,480
1830	708,559	3,948,784	141,205	4,798,548
1840	1,475,759	5,851,924	n.a.	7,327,688
1850	1,644,931	5,637,287	439,175	7,721,393
1859	3,530,000	10,371,300	920,000	14,821,300
1864	4,496,205	13,252,175	821,698	18,570,080

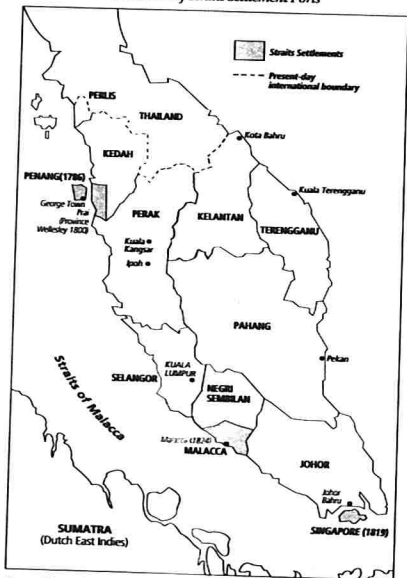
n.a. Data not available.

Source: Bastin, J. and Winks, R.W., *Malaysia: Selected Historical Readings*, Kuala Lumpur: Oxford University Press, 1966: 157.

The strategic position of the Straits Settlements clearly indicates that the British had intended to concentrate her influence on the sea-routes through the Straits of Melaka by holding Penang to the north, Melaka in the centre, and Singapore to the south of the Straits. British control of the Straits of Melaka, through which ships carrying goods from the countries on the Indian Ocean littoral to China had to pass, made it possible for her to establish prosperous entrepôt states. This chain of Straits Settlements ports had an even greater impact in accelerating the economic development of the states on the west coast of Peninsular Malaysia, as can be seen from Figure 2.1.

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Figure 2.1
The Chain of Straits Settlement Ports



Source: Bunge, F.M., *Malaysia: A Country Study*, Washington, D.C.: American University, Foreign Area Studies, 1985: 34.

Initially, Britain's decision to become involved in the internal affairs of the Malay states in the peninsula and extend her sphere of influence was based on an economic rather than a political interest. Britain's justification for direct interference was based on two main factors:

1. The tremendous growth of commercial interests in Singapore and Penang due to the demand of their products, particularly that of tin, as a result of the Industrial Revolution in Europe and the United States.
2. The chaotic situation which existed as a result of the rapid expansion and profits of the tin-mining states of Perak and Selangor, which suffered constant disruptions due to clashes amongst the Chinese secret societies and rivalries amongst the Malay rulers.

The extension of British influence inland from the Straits Settlements can be traced to the Treaty of Pangkor signed on January 20, 1874 by Sir Andrew Clarke and Sultan Abdullah of Perak. At this point, a pattern of indirect rule was established in exchange for British protection. A British Resident was assigned responsibility for public administration, law and taxation. The sultan continued to be responsible for matters pertaining to Malay custom, Islam and land administration. Within 40 years, by 1914, when Johor requested a British adviser, Britain had extended her influence and protection over the whole of Peninsular Malaysia. British commercial interests followed on the heels of British colonial administration and Peninsular Malaysia quickly became the main supplier of tin and rubber to the world market.

From 1874, under British colonial rule in Peninsular Malaysia until immediately following the Second World War in 1946, three distinct legislative and administrative entities can be identified. The first was the Straits Settlements known as Crown Colony. The second was that of the states of Perak, Pahang, Selangor and Negeri Sembilan. This was known as the Federated Malay States. And the

third was that of Johor and the four Malay states of Kedah, Perlis, Kelantan and Terengganu which were the former suzerainty of Siam and known as the Unfederated Malay States.

The pattern of government and administration of the Federated Malay States followed the structure of the Straits Settlements, during which there was a vast British influence but with the participation and sharing of power with the various ethnic groups, especially immigrant Chinese and the Malay aristocracy. However, during the rule of the Unfederated Malay States, British control became much more lax. Many executive posts in the top levels of government, including Chief Minister (Menteri Besar), State Secretary, State Financial Officer, Commissioner of Lands and District Officers were held by Malay officials. Thus, the government of the Unfederated Malay States retained much of its Malay character while subject to considerable British influence. The main functions of the District Officer were to act as Collector of Land Revenue, as Magistrate, and as general administrator with special responsibility for the Malay population of the district (Gullick, 1981: 27).

During the Second World War, between February 1942 and August 1945, Malaya was occupied by the Japanese. Immediately after the war, the British returned to Malaya with a bold plan to reorganise governance and re-establish the aborted Malayan Union of 1946. The Malayan Union was a constitutional amalgamation of the Federated and Unfederated Malay States, including Penang and Melaka, united under a single crown colony. The British did not include Singapore in the Malayan Union for strategic and economic reasons. The Malayan Union represented a British attempt to break away from the tradition of indirect rule in Malaya. The intent of the plan was to exert more direct control over the Unfederated Malay States. The establishment of the Union would certainly have destroyed the foundations of the privilege of the Malays because of three very crucial issues that would have been introduced to jeopardise their political dominance, namely:

1. All residents of the Malay states would have been declared Malayan citizens, regardless of their ethnicity;
2. English would have become the national language; and
3. The Malay sultans would have had to relinquish their sovereignty and transfer power to the British Crown.

The threat of such a union provoked several local Malay associations to form the United Malay National Organisation (UMNO)¹ in 1946. Malaysia's first postwar political party acted to defend the sovereignty of the sultans and protect Malay rights by condemning the Malayan Union Plan. UMNO argued for an independent Federation of Malaya that would supplant the Malayan Union and enable the Malays to retain effective political control to shape their own destiny. As a result of UMNO's persistent and vigorous opposition, the British Labour Government finally agreed to negotiate a more acceptable constitution. After much discussion, a new plan for a Federation of Malaya emerged. This plan restored state sovereignty to the sultans. It provided for a strong central government. The Council of Rulers was established among the sultans with whom the British High Commissioner was to consult on policy matters. Special provisions were included to protect "the special position of the Malays". Citizenship provisions were restricted in concession to Malay fears of Chinese dominance. The Federation of Malaya was inaugurated on February 1, 1948.

After the war, the new government was forced to deal with an armed communist bid for power. During the Japanese occupation of World War II (1942-1945), the Chinese populace of Malaya in particular received harsh treatment from the Japanese. This persecution was because the Malayan Chinese, due to their loyalty and patriotism, had supported China's war resistance against Japan. Because of this resistance they faced constant harassment from Japanese forces. Thousands of Chinese were jailed and executed. Many of them fled

¹ UMNO is the dominant ruling party in Malaysia since the country's independence in 1957.

to the jungle. As in Europe, those who became adept at underground organisation were communist-trained. By the end of the war, communist influence among some Chinese had been much enhanced by the years spent in the jungle fighting the Japanese.

On the other hand, Japanese policy towards the Malays was more compassionate. They appointed Malays to privileged administrative positions vacated by the departing British. The Chinese in retaliation to their ill-treatment by the Japanese formed resistance groups to fight the Japanese. The core of these groups became known as the Communist Party of Malaya (CPM), which based its activities in the densely forested sections of peninsula. When the Japanese ordered Malayan police hereditary Malays to attack the Chinese insurgents, the Chinese retaliated by assassinating Malays as pro-Japanese collaborators. The Malays then escalated such violence by killing Chinese civilians. The fragile relationship between the Malays and the Chinese serves as a harbinger of the ethnic hatred which would eventually come to characterise independent Malaysia.

In 1948, the Chinese guerrilla forces under the leadership of the CPM began a campaign of terrorism by harassing plantation workers, owners, and managers. Their intention was to cripple the country's economy by attacking the rubber plantations and the tin mines, disrupting rail transportation, instigating labour strikes, and burning and destroying property. Travel along the rural roads became extremely hazardous; many Malays and British, including the then High Commissioner of Malaya, Sir Henry Gurney, were gunned down in ambush. Although this revolt failed, it cost the government millions of dollars and the loss of many thousands of lives.

In June 1948, a state of emergency was declared in the whole of Peninsular Malaysia. During this time, the economy of the country was depressed and the government had to intensify its efforts to maintain internal defenses against the insurgents. The first five years of this era of terrorism were the most difficult, impacting the lives of most people. Curfews, roadblocks, barbed wire villages, food-rationing and emergency laws were the weapons imposed against the CPM and its tactics of ambush, intimidation, assassination, and sabotage.

During the late 1950s, however, the Malayan government succeeded in isolating the CPM from the people, both physically and psychologically. The CPM were pushed into the northern part of the peninsula, particularly into the states bordering Thailand where it took advantage of the difficult terrain and poor communications. The emergency period in Peninsular Malaysia lasted nearly a dozen years until it was officially lifted on July 31, 1960. It took this long to finally subdue the insurgent and bring them under control.

Political developments in the Malay peninsula continued throughout this period, particularly in the mid-1950s when the security situation had, for the most part, been brought under control. In the Federation of Malaya Agreement of 1948, the British had promised that Malaya would eventually be granted self-rule. Two obstacles to this eventuality were the security situation and the continued suspicions and animosities of the different ethnic communities. Under colonial rule, the British had orchestrated a smoothly functioning political and economic entity under which each ethnic group was allotted a specific role. The British had created a multi-ethnic society and had successfully maintained the individual groups within a colonial framework (Andaya and Andaya, 1982: 264).

To achieve independence for Malaya, British policy encouraged communication and dialogue among the various ethnic groups to allay communal strife. In 1949, the Communities Liaison Committee was established and became an important forum through which compromises on citizenship and other matters pertaining to constitutional issues could be reached. Gradually, a consensus emerged: the Malays would share political power with the non-Malays if the non-Malays would assist them in elevating their economic position to that of the flourishing post-independence period.

A document which was a masterpiece of compromise was created. A constitution was drawn up which provided for the retention of special position² for Malays in the civil service, including scholar-

² The special position of Malays is provided for in the Federal Constitution of Malaysia, Article 153.

ships, business enterprises, license, and reservation of land for their exclusive use, while ensuring that the rights of non-Malays would be safeguarded. The first was to have Malays, who saw the country as being essentially Malay, participate more widely in the economy without depriving the non-Malays of their property or unduly restricting their opportunities (Young, Bussink and Hasan, 1980: 16). Islam was declared the official religion of the Federation but other religions were allowed to be practiced in peace and harmony in any part of the Federation. On August 15, 1957 this document was ratified by the Federal Legislature; and on August 31, 1957 the Federation of Malaya secured its independence from Britain.

Soon after Malaya gained its independence, a formal initiative to consolidate the Federation of Malaya and Singapore was made by the then Chief Minister of Singapore, Lee Kuan Yew. Again, in this attempt at integration, the Federation was plagued by the political factionalism of communal loyalties. Malay leaders in the Federation were reluctant to agree, given their uneasiness towards Singapore; the merger would result in a Chinese majority and one in which Singapore's economic interests would clash with those of Malaya. Furthermore, there was belief that Malayan politics might become radicalised by contact with Singapore's strong left-wing groups.

It was not until September 9, 1963 that the Federation of Malaysia was created. The Federation was made up of Malaya, Singapore, and two states on the island of Borneo, Sabah and Sarawak; this contingency was to serve as an ethnic balance against the power of the Chinese in Singapore. The heavily Chinese composition of this new political union made the struggle appear increasingly as one between Malays and non-Malays. Later, Lee Kuan Yew launched a slogan campaign, "Malaysian for Malaysia," in which "the nation and the state is not identified with the supremacy, well-being, and interests of any one community or race." This was interpreted as a direct attack on Malay special rights. In the Dewan Rakyat (House of Representatives) debates on these issues were acrimonious. It was the threat of communal violence which appears to have been the crucial factor in the expelling of Singapore from the Federation on Septem-

ber 16, 1965). Tunku Abdul Rahman, the then Prime Minister of Malaysia, explained that the communal issue concerned him most "because the peace and happiness of the people in this country depend on goodwill and understanding of the various races for one another. Without it, this nation will break up with consequential disaster" (Andaya and Andaya, 1982: 276).

The Federation of Malaya and its successor, Malaysia, had survived a communist insurgency, the Confrontation (launched by Indonesia to protest the formation of Malaysia), a Philippine claim to Sabah, and the separation of Singapore from the federation. However, in the wake of the general election in May 1969, the fragile communal stability was broken. Highly emotional issues on education, language, special rights for the Malays, and the position of the Malay rulers were disputed.

On May 13, just one day after the elections, the jubilant opposition parties championing the interests of the non-Malays took to the streets of Kuala Lumpur in a victory celebration which challenged and offended the Malay community at large. A counter-rally sponsored by the supporters of UMNO triggered racial riots; retaliations racked the federal capital, leaving hundreds of Malaysians dead. The Federal Constitution was suspended and a state of emergency was declared. All the executive and legislative powers were transferred to the National Operations Council (NOC), headed by the then Deputy Prime Minister Tun Abdul Razak. The caretaker government took immediate steps to eliminate those conditions which might incite communal riots. Ruling by decree, the Seditious Act of 1948 was amended and the NOC decided that several of the ground rules for governance had to be changed to prohibit further public challenges against the special rights of the Malays, the status of Bahasa Melayu (Malay language) as the national language, the status of the Malay rulers, and criteria for citizenship for the non-Malays. When the parliamentary government was restored on February 20, 1971, the Constitution had been amended to incorporate prohibitions against public discussion of these sensitive issues.

The government realised that economic expansion, progress and future stability of the country depended upon national unity and an equitable distribution of the country's wealth among its own people. On August 31, 1970, Malaysia's Independence Day, the Rukunegara ("Article of the Faith of the Country") formally proclaimed the new ideology: "Our nation, Malaysia, being dedicated to achieving a greater unity of all her peoples; to maintaining a democratic way of life; to creating a just society in which the wealth of the nation shall be equitably shared; to ensuring a liberal approach to her rich and diverse cultural traditions; to building a progressive society which shall be oriented to modern science and technology;

"We, her people, pledge our united efforts to attain those ends guided by these principles: Belief in God; Loyalty to King and Country; Upholding the Constitution; Rule of Law; Good Behaviour and Morality."³

In mid-1970, the most important decision by the government was to formulate the New Economic Policy and incorporate it into the Second Malaysia Plan. The overriding aim of that policy was to promote national unity by pursuing two objectives:

1. The eradication of poverty; and
2. The restructuring of society so as to eliminate the identification of race with economic function.

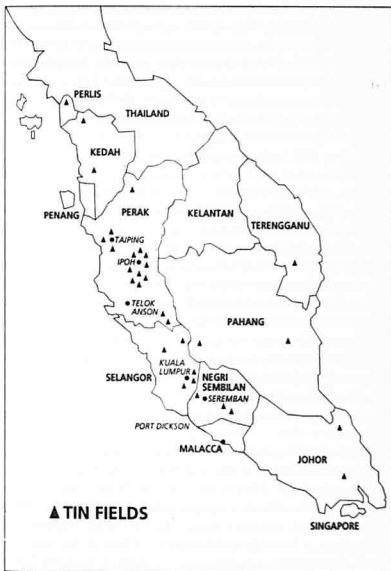
To accomplish the first objective, the government set some ambitious long-term goals to reduce poverty among the entire population. In pursuit of the second objective, policy-makers established long-term targets for ownership by Malays to share capital in limited companies and to increase the proportion of Malays employed in the manufacturing sector, enrolled in institutions of higher learning, and installed in managerial positions.

³ Oo, 1990: 15-16.

LANGKAWI

Figure 2.2

Former Tin Mining Areas in Peninsular Malaysia



Source: Yah, L.M., *Economic Development of Malaysia*, Kuala Lumpur: Oxford University Press, 1967.

ECONOMIC HISTORY

Tin Industry

The economic and social structure of Malaysia was inextricably altered with the arrival of the British and colonial rule. During the 19th and 20th centuries, economic development due to tin-rich deposits and rubber plantations took place primarily along the west coast of Peninsular Malaysia. The east coast states of Pahang, Terengganu and Kelantan, and the northern states of Kedah and Perlis were less affected by the acceleration of economic expansion. The discovery of rich deposits of tin ore in Perak in the districts of Larut in 1848 and Kinta in 1880 began the transformation of the economy of Peninsular Malaysia. It was tin that propelled a revolution in both the economy and the demographics of the west coast of the peninsula. The discovery of such ore deposits coupled with increased demand for tin by the Western industrialised nations in the late 19th century compelled the British to encourage large-scale immigration of Chinese labourers to work in the tin mines. In Larut Valley alone, the Chinese population rose from nearly zero in 1850 to 40,000 in 1870. That number had increased to 80,000 people by 1890. The influx of Chinese to the Malay states was via the Straits Settlements.

The establishment of British rule in the Malay states was a direct result of Britain's colonial economic interest. The British expanded and consolidated activity in the promotion of the tin mining industry. An infrastructure was developed around the mining centres. The scattered former tin mining areas on the west coast of Peninsular Malaysia are clearly shown in Figure 2.2. In 1885 the first railroad was built, connecting the tin mines to the west coast port, from Taiping to Port Weld (renamed Kuala Sepetang). In 1893 the second railroad, from Ipoh and Teluk Anson (renamed Teluk Intan) was constructed. By 1910 railroads joined Johor Baru to Province Wellesley on the mainland, opposite Penang, and in 1918 they extended to Padang Besar in Perlis through Bangkok in Thailand. By this time, too, all the important mining towns—Taiping, Ipoh, Kuala Lumpur and Seremban—were linked to their respective ports by a railway line. The rapid growth of the infrastructure again provided an-

other important stimulus to the growth of tin mining (Yah, 1967: 48).

Under the expansion of economic and administrative activities during British rule, existing towns grew larger and new ones emerged. It was in these communities where the population was concentrated and where the revenue was largest, that social amenities were introduced. The first government hospital was established in Taiping in 1878. Other facilities like asphalt roads, street lighting, sanitation, education and piping of clean drinking water improved the quality of life. Thus the disparity between the urban environment and that of the rural became exaggerated.

Rubber

By the late 19th century, British planters had tried various strains of rubber trees in the peninsula without much success. But, with the appointment of H.N. Ridley as the director of the Singapore Botanical Gardens in 1888, the situation changed. Ridley was principally responsible for promoting cultivation of rubber. He developed methods for extracting latex from the trees of the *Hevea brasiliensis* variety, which had originally grown wild in Brazil. His cause was helped by the existing poor markets for Malayan coffee. European planters were abandoning the coffee market in favor of rubber. With the invention of the automobile a vast market opened up. As the demand for rubber from the expanding automobile industry in the United States grew, the production of rubber became enormously profitable (Butcher, 1979: 13).

Most of the rubber planting took place in Perak, Selangor, Negeri Sembilan, Melaka and Johor, where a pattern of communications already existed. The cultivation of rubber utilised vast areas of land and eventually provided a means of livelihood for a large portion of Malaya's workers. It also provided a very valuable addition to the income of the small landowners. Because of the great demand, acreage planted with rubber trees in Malaya—mainly in the Federated Malay States—increased dramatically; 6,000 acres by 1900, 541,000 acres by 1910 and over one million acres by 1913. Three-

fifths of this acreage was owned by Europeans. Nearly all of this area was in large estates, while most of the remaining area held by Malays was made up of smallholdings. This pattern of ownership continued throughout the First and Second World War. Of the over 1.1 million acres planted with rubber trees in the Federated Malay States in 1924, 55 per cent were on European-owned estates of 100 or more acres, 9 per cent were on Asian-owned estates and 9 per cent were on holdings owned by planters of various nationalities having less than 100 but more than 25 acres, and 27 per cent were on smallholdings, principally Malay, of 25 acres or less. A survey conducted in 1932 showed that Europeans owned 296 of the 308 estates having 1,000 or more acres each, while the remaining 12 estates were owned by Chinese. This pattern of rubber estates and smallholdings ownership continued until 1953. It is illustrated in Table 2.2.

Table 2.2
Ethnic Ownership of Rubber Lands, 1953
(Percentage Distribution)

Race	Estate	Smallholding	Estate and Smallholding	
			All Races	Asian Only
European	69.6	-	41.6	-
Chinese	22.8	40.1	29.7	50.9
Malay	0.6	47.3	19.4	33.3
Indian	5.6	8.7	6.8	11.7
Others	1.4	5.0	2.4	4.1
Total (%)	100.0	100.0	100.0	100.0
Total ('000 acres)	2,029.7	1,369.8	3,399.5	1,987.1

Source: Yah, L.C., *Economic Development of Modern Malaya*, Kuala Lumpur: Oxford University Press, 1976: 117.

The effect of the growth of large-scale rubber cultivation in Malaya required a tremendous labour force. The shortage of labour on rubber plantations encouraged the British to recruit Indian nationals from India as rubber tappers for the rubber plantations. Most of these migrants came from the Tamil areas of South India. Recruited

from the lowest levels of society, these Indian nationals were considered to be more accustomed to British rule, more amenable to discipline, and more willing to work for low wages. During this time too, the government needed a constant supply of workers for public works, municipal services, and road and rail construction.

PLURAL SOCIETY

The British colonial policy encouraged mass migration of Chinese and Indians to work in tin mines and rubber plantations. Thus, the early decades of the 19th century fostered the emergence of a plural society in Malaya. The immigrant population continued to grow rapidly until the 1930s when colonial authorities recognised the potential ethnic problems associated with a large immigrant population. Although initially most Chinese and Indians came with the intention to earn a living and return to their homeland, it was becoming apparent—when they got deeply involved in domestic politics and business enterprises making a comfortable living—that many of them would decide to stay permanently as citizens. The evolution of the population make-up from 1911 to 1940 in terms of ethnic groups is shown in Table 2.3. The Malays had long feared that they would someday be outnumbered by immigrant groups. In 1911, the Malays constituted 53 per cent of the population of what is now Peninsular Malaysia. The massive Chinese and Indian labour immigration between 1911 and 1931, which had taken place reduced the percentage of the Malay population, and by 1931, the Malays had lost their majority, and dipped to 44 per cent.

Colonial rule in the 20th century witnessed the domination of European, principally British, interests in nearly every facet of the export economy in Peninsular Malaysia. Among the giant European companies in tin mining were Anglo-Oriental, Osborne and Chapel, and Neil and Bell. These companies controlled the dredging activities. And of the plantation magnates, big names such as Harrisons and Crossfield, Boustead-Buttery, Guthrie, and Sime Darby managed rubber lands of 226,000 acres, 170,000 acres, 156,000 acres and 110,000 acres respectively. By 1920, British Malaya had become the

dominant producer of rubber in the world. European involvement, particularly that of the British, in the economy of Peninsular Malaysia was restricted to limited companies or corporations whereas participation by an individual, even on a small scale, was virtually non-existent. Most of the British individuals were either in the upper echelons of public service or a part of the executive branch of the private sectors.

Table 2.3
Population of Malaya by Ethnic Group, 1911-1940
(Thousands)

Race	1911	1921	1931	1940
Malays	1,416,796	1,651,051	1,962,021	2,286,459
Chinese	915,883	1,174,777	1,709,392	2,358,335
Indians	267,159	471,666	624,009	748,829
Others	72,916	60,560	89,924	112,471
Total	2,673,754	3,358,054	4,385,346	5,550,4095

Source: Rimmer, P.J. and Allen, L.M., *The Underside of Malaysian History: Pullers, Prostitutes, Plantation Workers*, Singapore: Singapore University Press, 1990: 8.

With the development of the export industry, European banks entered Malaya to capture trade financing activities. Chartered Bank pioneered the establishment of bank branches in the Malayan hinterland from the Straits Settlements. As the rubber industry expanded, the Hongkong and Shanghai Bank and the Mercantile Bank also opened up branches.

The Malays

The Malays in the colonial economy made insignificant contributions to the development of the tin and rubber industries and the commercial activities in urban areas. The British despaired of the Malay attitude, for it was said that Malays could not be persuaded to take an interest in the development of their own country. But, it was

obvious that if the Malays were made to advance their own economic interests they would eventually challenge British political power. Most Malays lived in rural areas and had very little contact with urban life. During this period, for the most part, the Malays kept to their traditional agricultural activities of rice cultivation, fishing, village handicrafts and coconut growing. Increasingly, their interest grew as they became smallholders in the cultivation of rubber.

Although the upper class and aristocratic Malays were given positions in the senior executive branch of the government under the British, the largest number of assignments were to Malays recruited as office boys, postmen, policemen and lower-ranking troops of the military. British policy of encouraging Malays to participate in the public services stemmed primarily from Britain's recognition of its moral obligation towards the Malays than any thing else. While the Malays were admitted to administrative positions, the Chinese, Indians, and other ethnics were excluded on the basis that because of their status as "aliens" or "foreigners" they were not entitled to administrative power.

The Chinese

It developed, however, that the Chinese were virtually given a free hand in the economy and were encouraged to enter the Malay States in large numbers to assist in the economic expansion of the country. Chinese businessmen, already prominent early in the colonial era, were usually involved in tin mining and plantation agriculture. Many Chinese owners of large plantation companies began as rubber dealers, millers and exporters of smallholder produce.

In commerce, especially in the rapidly growing urban centres, most shops and small enterprises were Chinese-owned. Chinese businesses were most conspicuous by their presence in the distributive and service trades. Additionally, the Chinese traders also moved into rural areas to serve the smaller communities. Later these traders became middlemen who bought rural produces and sold them in towns. These traders constituted a vital link in the long chain connecting the village economy with that of the local towns, the larger

urban communities and the international market. It was probably the ubiquitous presence of Chinese traders and shopkeepers in nearly every village that was to make the Chinese economic role seem more threatening and exploitative to the Malays than the European role, although the Europeans were far more dominant economically (Jesudason, 1989: 32).

Essentially, the Chinese presence in economic activity permeated the order of the country. Large numbers of Chinese businessmen also diversified their holdings by having stakes in banks, for this served as a useful platform to obtain more funds and broaden existing businesses. These Chinese banks played an important role in strengthening the position of Chinese traders. Among them, Chinese Commercial Bank (established in 1912), Kwong Yik Bank (established in 1913), Ho Hong Bank (established in 1917) and Lee Wah Bank (established in 1920), were some of the earliest banks established.

The dominant economic position of the Chinese has influenced their attitudes towards political development in Malaysia; most Chinese recognise that their fortunes are dependent upon their strong participation in politics. Strong political clout will guarantee and safeguard their economic interest, language, culture and identity in the future.

The Indians

Around the mid-19th century Indian workers were brought to the peninsula for the development of the sugar-cane and coffee plantation industries. Large numbers of Indian labourers especially from Southern India were recruited to work in rubber plantations as the demand for such workers was great. Another group of Indians, the Sikhs, from northern India, also came, but most of them joined the police forces, while some became security guards. Indian chettiers were a leading commercial group specialising in money lending. Much of the capital which they introduced into Malaya was loaned against land as security and many of the borrowers were Malay farmers. However, due to the increasing adverse outcomes of this prac-

tice, it became necessary to introduce the Malay Reservations Enactment of 1933. This law prohibited the charging or transferring of land in Malay Reservations to non-Malays. It was immediately before this Enactment was passed that a chettiar had offered to purchase the state of Perlis.

Employment opportunities for Indians outside the estate were essentially limited to the railway services, public works and municipal sanitation departments. However, after 1920, and as a result of the expanded economy and the need for various professionals, such as doctors, lawyers, teachers and technical staff, many Indians with the relevant qualifications came to Malaya to take advantage of such opportunities.

Although some Indians came to Malaysia with business skills and some capital, they did not develop into a powerful commercial group. Indian immigrants found a fairly small number of economic pursuits open to them in Malaya. They failed to gain grip on the wholesale and retail trade which they achieved in places such as Burma and East Africa—surely because of the presence of the competent and competitive Chinese (Snodgrass, 1980: 39).

CONCLUSION

The British ruled Malaya for 83 years without a specific master plan. Their sole motive was to turn the country into a thriving export economy which would provide the finances necessary for running the colony while enriching their own motherland. The development of infrastructure was for the sole purpose of exploiting the mining industry and converting jungles into profitable plantations. The basic structure of Malay society was preserved by the British to ensure political order and stability during this process.

The establishment of the Straits Settlements, particularly as it refers to Penang and Singapore (once belonging to the Malay States), transformed the islands into cosmopolitan societies. By the latter part of the 19th century, this social structure had spilled over to the Malay states, particularly those of the west coast of Peninsular Ma-

laysia. Whether by design or default, the British transformed the "Malay world" of Singapore and Penang into "Little Chinas".

The Malays are Muslim by faith, while the Chinese believe in Confucianism, Taoism, or Buddhism. Because of the differences in religion, culture and language, these societies failed to integrate socially and politically. This social gap between the two ethnic groups was widened when the Chinese, as immigrants, gained control of the country's economy. The ghosts of racial hatred between the Malays and the Chinese persisted throughout their commingled history and climaxed in the racial riots of 1969.

Malaysian leaders should be praised for their past and present efforts and for policies aimed at bringing together all Malaysian ethnic groups, encouraging these diverse societies to strive, live and work together in peace and harmony. The foundations of national unity for economic development are based on mutual understanding, respect for each others' religion and culture, and one common national language, Bahasa Melayu.

Chapter 3

DEVELOPMENT POLICIES AND PROGRAMMES IN PENINSULAR MALAYSIA IN 1950-1995

REGIONAL PLANNING

Achieving a rapid rate of economic development in any country requires astute government policy. Economic development can occur within a wide range of political systems and with direct government intervention to solve a variety of social and economic problems of a country. Harmoniously integrated political, social and economic institutions can automatically guarantee optimal economic opportunities and a maximum rate of growth. Highly centralised decision-making within a parliamentary democracy in combination with a variety of public and private enterprises as practiced in Malaysia has proven effective in producing a high rate of economic growth.

A region, for planning purposes, is defined as a geographical area of which all parts are influenced by, or in some tangible way related to, each other. Regional planning is the devising of rational ways of using or preserving the natural or human resources available within the region to obtain the maximum amount of social and economic benefit from the region. The specific objectives of planning include

the goal of raising per capita income by creating employment opportunities.

Regional development planning programmes are normally designed by the government to encourage the industrial and economic development of regions that are stagnant or in which a large portion of the population is experiencing extended unemployment, low productivity and (or) lower income compared to other regions. Regional planning is of two principal types, which need not be mutually exclusive: plans for resource areas and plans for metropolitan regions. A resource area contains a substantial amount of some important natural resources, and these regions are defined by natural features such as river valley, agricultural zones, forest districts and depressed area, whose balanced development and conservation can be formulated more effectively on a regional than a local basis. A metropolitan region consists of a city with the surrounding urban or urbanising area, of which the city is the economic and cultural centre.

Traditionally, the intent of planning a resource area has been almost entirely economic. That is, the intent has been to increase the use of available resources as much as possible so that a larger number of people within that area can enjoy a higher standard of living. Increased awareness of the possibility of causing irreversible environmental damage triggered by development programmes has led to a demand for planning wherein economic growth and environmental preservation are balanced. Metropolitan regional planning attempts to encourage the use of available land area to produce the best possible environment for the people living and working in the region, at a minimum cost and with the least amount of social disruption.

The effective development of a region requires a considerable amount of investment and decision-making effort from both the government and the private enterprise with respect to resource allocation. Measures utilised by the government may include special loans, grants, tax policies and tax incentives granted to private industries relocating to such areas. Furthermore, assistance in developing power, light, transportation, and sanitation facilities with varying degrees of central control over locations of plant sites, construction,

and expansion can be provided by the government. Regional planning, in this sense, implies that there is some authority that has regulatory and fiscal powers for the geographic unit in question.

There are several theories of regional development: one of these explain how a region evolves and develops. Regional development theory, especially that of the economic variety, views regional growth from two perspectives, namely, from without and from within.

The former stresses the mechanisms underlying the phenomenon of the transmission of spatial economic growth, that is, how growth passes from one region to another. The latter devotes special attention to development within an individual region (Hilhorst, 1967: 12). This theory corresponds to the development of modern Malaysia in an area which began as the mining town of Kuala Lumpur, spread towards Petaling Jaya and eventually sprawled over the whole of the Klang Valley. This same phenomenon occurred over a greater distance beginning with the earliest development of the central region of the west coast in Peninsular Malaysia and spreading outside of the region until it covers the whole west coast.

The most obvious reason for the transmission of spatial growth seems to be interregional trade. During the early stages of regional development in Peninsular Malaysia, there was a scant system of communication and transportation between the developed and the underdeveloped regions. Trade between the central west coast and other regions was possible only on the basis of comparative advantage. As long as such infrastructural conditions prevailed, migration and capital flow between the two regions were negligible.

Another theory which stresses the motive forces of the development process within a region is found in urban economics, where one considers the economic base of a city. By "economic base" we mean those activities occurring within a city which allow it to pay for its imports and encourage its growth. Such activities may range from agricultural production to the tourist industry to transport services and may even include governmental services. A particular notion may be inflated to serve a specific region, but then will sup-

port one or two activities in that region which will virtually determine all other economic activity. Under such circumstances, these activities will normally have to do with the existing favourable natural resources and their exploitation. For example, the existence of natural harbours and flourishing tourist industry because of a good climate. Another example would be the exploitation of minerals deposits such as iron or oil (Hilhorst, 1967: 17).

There are various reasons why a region may not develop or might cease to develop. The most obvious ones would be the exhaustion of the natural resources, a distinctive fluctuation in demand for a regions resources and a deficient sociopolitical structure. One may thus conclude that two conditions need to be present for regional growth to occur successfully. On the one hand, there must be economic possibilities for diversification and on the other, a sociopolitical structure must exist which will allow and encourage such development.

SUMMARY DESCRIPTIONS OF REGIONAL PROBLEMS IN MALAYSIA

Regional Disparities

There are regional problems in Malaysia which are the legacy of a colonial era. All regions in Malaysia have not shared equally in the economic development of the nation. A pattern of development which continues to exist two decades after Malaysia's independence has been greatly influenced by the colonial attitude of favoured region. For example, the west coast states of Peninsular Malaysia; especially Selangor, Perak, Penang, Melaka, Negeri Sembilan and Johor, have been the focus of government attention and are much more advanced in terms of infrastructure and economic development. The excessive concentration of wealth and development in these states has caused rural migration and created the densely populated towns of Kuala Lumpur, Petaling Jaya, Ipoh, George Town, Melaka and Johor Baru. The states of Kedah and Perlis on the northern Peninsula, in conjunction with the states of Pahang, Kelantan, and Terengganu on the east coast, experience slow growth and lower income

levels. These states need to accelerate their rate of growth in order to achieve balance and to reduce existing disparities between the social and economic standards of living in their regions and that of the richer states.

Income Inequalities

There is a close correlation between regional disparities and ethnic inequalities in income, especially when comparing the Malays with non-Malays. Malays predominantly inhabit rural areas in the north and east coast states and comprise the majority of the poor. Non-Malays predominantly reside in urban areas, in the rich and industrialised west coast states. With the urban economy dominating the national economy, the ethnic disparity between the Malays and the non-Malays will undoubtedly widen if one element is not participating proportionately in the system. The disparity illustrates a basic fact in Malaysia; the village is Malay, but the city belongs to "immigrants" (Schlosstein, 1991: 221).

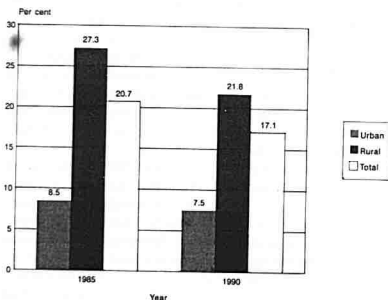
The per capita Gross Domestic Product (GDP) for the states of Kedah, Perlis and Kelantan is well below that of the national average. Income imbalances amongst different the races of Peninsular Malaysia in 1990 clearly indicate the disparity between Bumiputera³ (Malays and other native people) and the Chinese and Indian populace. The average household income for Bumiputera was RM931; Chinese, RM1,582; and Indian, RM1,201. While the incidence of poverty in rural Peninsular Malaysia in 1990 was 19.3 per cent, in urban areas it was only 7.3 per cent. The overall incidence of poverty for the whole of Malaysia declined from 20.7 per cent in 1985 to 17.1 per cent in 1990. This is illustrated in Figure 3.1.

The government determined that the difference between urban and rural household incomes is attributable to the fact that rural areas have been underdeveloped and neglected in the past and that such

³ The word "Bumiputera" can be translated literally as "sons of the soil". It includes the Malays, the Orang Asli, and the natives of Sabah and Sarawak. But if the word "Malay" is used alone, it stands by itself.

areas are in need of its attention. To this end, the government's objective has been to promote and strengthen national integration by reducing the wide disparities which exist between urban and rural areas and to encourage economic development among the states of Malaysia.

Figure 3.1
Incidence of Poverty in Malaysia, 1985-1990



Source: Government of Malaysia, *Sixth Malaysia Plan*, Kuala Lumpur: Government Printer, 1991a: 13.

AN OVERVIEW OF SUCCESSFUL ECONOMIC DEVELOPMENT IN MALAYSIA

Economic Growth

In the 38 years since independence, Malaysia has achieved tremendous economic success. Development plans in Malaysia have accounted for the changes in the direction and content of its overall development policies. Such changes are the result of having to satisfy

the needs of political reality and the challenges which have arisen in the social, political and economic environment. The high rate of economic growth in addition to a significant reduction in the incidence of poverty and improvements resulting from the restructuring of society have strengthened the foundations of the nation and created a basis for sustained growth and national unity. As a result of this progress, the problems of poverty, unemployment and economic imbalances are less serious than they were years ago and in fact are now much more manageable.

The incidence of poverty throughout Peninsular Malaysia has declined from 49.3 per cent in 1970 to 15 per cent by the end of 1990. Reflecting this substantial progress, the mean monthly household income in Peninsular Malaysia has increased significantly from RM264 in 1970 to RM1,163 in 1990. The inequalities of income have been gradually reduced by rising levels of rural incomes and the expanding opportunities for the rural population. This transition is the result of a shift from traditional activities to employment in the modern sectors of agriculture, manufacturing and government services. Furthermore, improvements in the quality of services provided to rural areas has also contributed to an increased capacity for earning a higher income.

The high growth trend of the economy in the 1970s continued into the early 1980s. Since the recession of the mid-1980s, the country has experienced a strong recovery. The main impetus was supplied by the strong manufacture of exports and a brisk expansion of the industrial sector. Private investments in the industrial sector have rapidly expanded manufacturing and construction, petroleum exploration, and increased export by industries located in the Free Trade Zones.

It is anticipated that this growth momentum will continue through the 1990s as the economy is fuelled by private investments, and exports remain buoyant. The Malaysian economy is expected to grow by an average of 8 per cent per annum in the coming decade as compared with the average growth rate of 5.1 per cent in the 1960s and 6.7 per cent achieved between 1971 and 1990. An increase in

manufacture of the Gross Domestic Product (GDP) is projected to be up from 27 per cent in 1990 to approximately 37 per cent by the year 2000. This increased is based upon Malaysia's efforts to become an industrial-oriented economy, increasing the manufacture of exports as a basis for the growth of incomes and employment in the country. Manufacturing exports are projected to account for approximately 81 per cent of total exports by the year 2000. Agricultural exports are expected to decline to 6 per cent during this same period.

The amazing success of the Malaysian economy can be attributed to the active participation of its people in response to the economic policies and development programmes introduced by the government and the aspirations and needs of a multiracial society. The dynamic leadership and vision of Malaysian leaders and policy-makers have exhibited profound understanding and insight of the political, economic and social realities of Malaysian and its future.

Political and Economic Pressures

The economic history of Malaysia has endured a wide variety of economic and political pressures. Its economy was hit hard during the Japanese occupation of the Second World War (1942-1945). This era was followed by a period of communist insurgency (1948-1960). Those were years of economic and social instability in the country. Following the formation of Malaysia in 1963, Indonesia launched an invasive stance which culminated in the Confrontation of 1965. It was during the same time that the Philippines made territorial claims over Sabah. The separation of Singapore from Malaysia in 1965 was the result of political pressure from leaders in Singapore. And the mounting and spreading war in Indochina, coupled with the speculation of the Domino Theory, impacted foreign investments in Malaysia during the 1960s and early 1970s.

The racial riots of May 13, 1969 presented the greatest challenge for the political and economic survival of the Malaysian people. It was immediately after the riots that the NEP was introduced and incorporated into the Second Malaysia Plan, 1971-1975. This was an ef-

fort by the government to restructure the entire economic system by involving itself directly in business enterprises. Also, during this period, a slow shift by British private investment from plantations and mines may also have contributed to capital outflow.

In the 1980s, the country encountered a series of economic and political pressure and recession. The Bumiputra Malaysia Finance (BMF) scandal of 1983 was caused by the collapse of the Hong Kong-based Carrian group, a borrower who invested in the real property market. This failure was hotly debated by the economic and political forums of the country. This crisis was followed by a number of fraudulent deposit-taking co-operatives led by the Co-operative Central Bank.

The first constitutional crisis of 1983 was precipitated by an attempt of the executive branch of the government to modify some of the firmly entrenched provisions of the Federal Constitution which relate to the right of the monarchy to royal assent before any bill was to become law.

In 1986, the divisiveness in the leadership of the UMNO, the dominant ruling party, caused uncertainty and created a stalemate for a short while in the political environment of the country. The most recent politically sensitive situation occurred in 1993. This second constitutional crisis was averted when the government tabled a motion before Parliament calling for an amendment to the Constitution which would remove the legal immunity of the Malay rulers. The proposed amendment's intention was also to curb interference by royalty in the government administration. Such constriction of power as has happened in several states in Malaysia can hamper development programmes that have been drawn up by the state government.

Despite the tumultuous pressure of both internal and external economic and political circumstances, Malaysia has managed to overcome such disruptions and proven itself to be extremely resilient to those pressures. The political, economic and social stability of the country and the direction being pursued by the government

have played a key supporting role in the rapid recovery of the economy and, indeed, in the healthy economic growth of Malaysia.

Little Dragon

In the early 1960s, Malaysia was categorised as a developing nation or a less developed country (LDC). However, by the mid-1980s, as its economies began accelerating, such terminology was no longer necessarily applicable. Malaysia was becoming known as a new newly industrialising country (NIC) and distinguished from the Little Dragons—South Korea, Taiwan, Hong Kong and Singapore, countries which are now referred to as the old NICs. Hence, a new designation was clearly needed. Since Malaysia's economy was now rapidly developing together with those of Indonesia and Thailand, these three ASEAN⁴ countries were referred to as the newly industrialising economies (NIEs). Among these three NIEs, only Malaysia was truly qualified as a Little Dragon.

Malaysia, however, is not excited by this prospect as it is not anxious to be "stigmatised" as an NIE for fear of attracting protectionist measures from the developed country markets and losing special privileges which it now enjoys. Nevertheless, the fact remains that the movement towards attaining NIE status has begun and is gathering momentum (Ariff, 1991: 4). The strong foundation of its economic quest will qualify Malaysia as a developing nation by the year 2020, and by then it will join the Big Dragons, China and Japan.

ROAD TO MAKING MALAYSIA

A FULLY DEVELOPED NATION BY 2020

Dynamic Leadership and New Vision

Malaysia is determined to become an industrialised country and expects by the year 2020 to fully transform itself into a developed na-

⁴ ASEAN, the Association of Southeast Asian Nations, was formed in 1967 as an economic union. Members include Malaysia, Singapore, Brunei, Thailand, Indonesia and the Philippines. Vietnam was recently admitted as a new member of the association.

tion. The vision is to achieve not only its economic goals but to become a developed nation. In this context, a developed nation fulfills the connotation of every aspect of its economic, political, social, spiritual, psychologically and cultural attributives and objectives. Malaysia's economic development policies are developed and designed to bring about greater national unity and social cohesion. To this end, every Malaysian will strive to build a united, just and caring society as well as a stable, progressive and prosperous nation.

Since coming into office on July 16, 1981 as Malaysia's fourth Prime Minister, Dato' Seri Dr Mahathir Mohamad, has concentrated on improving the efficiency of the bureaucracy and government-controlled economic ventures, and consolidating their administration. As a dynamic and industrious individual, Dr Mahathir Mohamad continues to be an inspirational leader who encourages higher goals for the economic productivity of the country. His vision in conjunction with brilliant strategy will transform Malaysia into a developed nation by the year 2020. This change of direction in leadership is very clear. Dr Mahathir Mohamad is a medical doctor of commoner status, and distinguishes himself from all the past prime ministers who had royalty or Malay aristocratic background. Under this new leadership, the system is moving from a feudal domination of politics to one with a much broader political base with a vision and a goal seriously dedicated to making Malaysia a developed nation by the year 2020.

Heavy Industrialisation Programme

In the early 1980s, the government set a policy to shift its economic attention from agricultural commodities to manufacturing industries. This decision was followed by the establishment of the Heavy Industries Corporation of Malaysia (HICOM), a venture for the realisation of an ambitious heavy industrialisation programme. Industrial policy, for example, has been revised to include an increasing commitment to capital-intensive heavy industry rather than to light industry such as textiles, electrical and electronic equipment (Cho, 1990: 247). In this context, heavy industrialisation has meant the es-

establishment of iron and steel mills, petrochemical plants and the manufacturing of automobiles. Perwaja Steel Sdn. Bhd.⁵ is the largest steel plant in Malaysia, located in Kemaman, Terengganu, and the producer of steel billets and blooms. Perwaja Steel is owned by the Federal Government which holds an equity of 81 per cent, while the rest of the equity is owned by the Terengganu State Government. Steel mills play an important role in developing and supporting engineering industries by assisting them in the fabrication of spare parts and factory components. In February 1993, Perwaja Steel opened another rolling mill for producing steel wire rod in Gurun, Kedah. The growth of the steel industry is to benefit the country in the development of its heavy industry in Malaysia (*New Straits Times*, February 19, 1993: 4).

HICOM is also involved in cement production in Langkawi through a company known as Kedah Cement. In 1983, HICOM entered into a joint venture with Mitsubishi Motors and Mitsubishi Corporation and formed the Perusahaan Otomobil Nasional, popularly known as Proton. This company is an involved automaker for Malaysia's national car, the Proton Saga. Proton has entered the overseas market by penetrating 24 countries and is negotiating new markets in Hong Kong, China and Taiwan. As of December 1994, 95,442 Proton Sagas have been exported. See Table 3.1 and Figure 3.2. HICOM's involvement in heavy industries will embark on a new dimension with the appointment of the former chief minister of Perlis, Tan Sri Dr Abdul Hamid Pawanteh, as the new chairman which was announced by Deputy Prime Minister, Dato' Seri Anwar Ibrahim, in early June 1995. Six Malaysian and Japanese partners signed an agreement on February 2, 1993 creating another company known as Perodua, an estimated RM400 million project. This consortium comprises UMW, which holds 38 per cent; PNB Equity Resource Corporation, 10 per cent; Med-Bumikar Mara, 20 per cent; Daihatsu Malaysia, 5 per cent; Daihatsu Co. Ltd. of Japan, 20 per

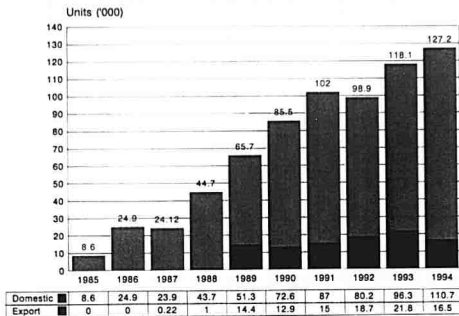
⁵ "Sdn. Bhd." or "Sendirian Berhad" means "Private Limited" and is Malay for "Ltd. Co." or "Inc.".

Table 3.1
Export of Proton Sagas by Countries, 1986-1994

Country	1986	1987	1988	1989	1990	1991	1992	1993	1994	Total
1. Bangladesh	25	73	40	37	1	0	0	5	46	227
2. Sri Lanka	-	43	47	0	0	0	0	0	49	139
3. Brunei	-	80	40	20	20	69	147	272	265	913
4. New Zealand	-	167	91	210	59	320	210	2	0	1,059
5. Malta	-	80	30	0	0	0	0	0	10	120
6. Jamaica	-	-	73	112	15	96	0	95	12	403
7. Singapore	-	-	-	793	1,208	1,848	1,824	2,239	2,167	10,079
8. Niue	-	-	-	12	12	0	0	0	0	24
9. Mauritius	-	-	-	-	150	90	158	124	100	622
10. Botswana	-	-	-	-	-	-	12	0	41	53
11. Malawi	-	-	-	-	-	20	0	30	20	70
12. Fiji	-	-	-	-	-	-	13	7	20	40
13. Bermuda	-	-	-	-	-	-	1	0	49	50
14. Trinidad and Tobago	-	-	-	-	-	-	-	52	14	66
15. Myanmar	-	-	-	-	-	-	-	3	10	13
16. Cyprus	-	-	-	-	-	-	-	-	117	117
17. United Kingdom, Eire	-	-	540	10,670	11,666	12,667	16,423	17,440	10,169	70,535
18. Kenya	-	-	-	-	-	-	-	-	30	30
19. Argentina	-	-	-	-	-	-	-	-	80	80
20. Chile	-	-	-	-	-	-	-	-	117	117
21. France	-	-	-	-	-	-	-	-	819	819
22. Dominican Republic	-	-	-	-	-	-	-	-	28	28
23. Belgium	-	-	-	-	-	-	-	-	520	520
24. Tanzania	-	-	-	-	-	-	-	-	28	28
Total	25	443	861	11,854	13,131	15,110	18,288	20,269	14,964	95,442

Source: Edaran Otomobil Nasional Berhad, Marketing Services,

Figure 3.2
Production Volume of Proton Sagas, 1986-1994



Source: Edaran Otomobil Nasional Berhad, Marketing Services.

cent; and Mitsui and Co. Ltd. of Japan holds 7 per cent. Perodua targeted to produce 35,000 units yearly and their assembly plant is capable of producing 45,000 units yearly at the moment. Malaysia's second national car was first rolled off the assembly line on July 1, 1994. Until December 1994, a total of 10,165 units of the 660c.c. model was produced during the first five months of operation. Still another automaker is the result of a joint venture of three partners—Sarawak State Economic Development Corporation, a Sarawak private firm, and the Sydney-based Bufen Motor Car Co. Pte. Ltd. This joint venture company to be called Bufen Malaysia Sdn. Bhd. will venture into the production of a sports car (*New Straits Times*, February 11, 1993).

Industrial Master Plan

The Industrial Master Plan (IMP) anticipates that the manufacturing sector will have grown at a rate of 8.9 per cent per annum in real terms during the period between 1986 and 1995. The IMP also envisages the creation of 705,400 new jobs, thus bringing the total number of workers in the manufacturing sector to 1.5 million by 1995. The IMP has highlighted several industries to focus on. Resource-based industries have received considerable attention, including tire manufacturing, downstream palm-oil and palm-kernel oil-based oleochemicals, food processing and wood-based industries.

A new master plan will soon be developed to ensure an industrial sector which is competitive, proficient, productive, self-reliant, and able to respond to the quest for excellence. The 10-year IMP launched in 1985 provided a framework and an indicative plan for the realisation of an export-oriented private sector-led industrialisation drive. Most of the production and export targets of the IMP have already been achieved, ahead of schedule. The new master plan will be developed before the end of 1995 for Malaysia to look beyond the IMP within the context of Vision 2020. The long-term industrial strategy towards 2020 must attempt to develop subsectors of industries which are strategic to Malaysia's future (*New Straits Times*,

February 26, 1993). The parameters that will guide Malaysia to the realisation of Vision 2020 are:

1. An industrial sector that is technologically competent, proficient and fully able to adapt, innovate and invent;
2. An economy that is subjected to the full discipline and rigour of market forces; and
3. An industrial sector driven by brain power, skills, and diligence in possessing a wealth of information.

Look East Policy

The move towards industrialisation based on heavy industries was to transform Malaysia along the lines of the newly industrialised countries (NICs) of Hong Kong, Taiwan and South Korea. Lessons from Japan and South Korea of their successful policies in industrialisation programmes influenced the Malaysian Government to establish the Look East Policy. This policy is attempts to borrow from the Japanese and South Korean development experiences. In it, the government will inculcate Malaysians to change their traditional views of Western countries as being role-models and to look instead to the methods of Japan and South Korea as being part of the Asian blueprint for economic success.

For the country to achieve its industrialisation programme, the government recognised that there would have to be radical transformations within the workforce. These include diligence and discipline in work, loyalty to the nation and to the enterprise or business where the worker is employed, a priority of group over individual interests, emphasis on productivity and high quality, and upgrading efficiency. Under the Look East Policy, greater technical assistance from Japan and South Korea is being sought. The government has also drawn up plans for students to be sent to Japan and South Korea for training. Malaysians are being asked to emulate the Japanese work ethics.

ECONOMIC DEVELOPMENT PLANS IN MALAYSIA, 1950-1995

The Malaysian economy is one of the most stable and fastest growing in Southeast Asia. It is highly diversified with abundant natural resources and a rapidly expanding manufacturing base. Economic growth has been stimulated by the country's petroleum reserves, a low inflation rate, and a productive workforce. Economic development planning has played a major part in the rapid progress of Malaysia's economy. Development plans in Malaysia have marked the changes in the direction and content of Malaysia's overall development policies. Such changes have resulted from having to satisfy the needs of political reality and meeting new challenges that have arisen in the social, political and economic spheres.

The British colonial government displayed an ambivalent attitude towards education, health and welfare. On the one hand these services had some intrinsic value, and on the other hand, such social services were largely considered a drain on the economy, since they produced no direct returns as did mines and plantations. When economic development became a major public goal in the post-war period, social services were accorded a low priority. Economic development required investment, whereas social services—health and education—were defined as items of "consumption". Malaya's federal accounts were, in addition, divided into broad categories of the economy, including agriculture, public works, and the like, and "social", including education, health and welfare.

National economic development planning in the aftermath of May 13, 1969 racial riots can be distinguished by an awareness of the need to protect the rights and interests of the Malay community in a highly competitive and predominantly non-Malay economic society. At the same time, it was also necessary to preserve the rights and interests of the non-Malays in their economic, social and cultural life. With the move of Malays into towns and into industrial professions and with the conscious effort of the government to end racial compartmentalisation of the economy, much of the old policy framework has begun to be replaced (Kasper, 1974: 49). Changes to the ba-

sic economic policy are made in hope of obtaining social benefits in the form of more economic equality among the ethnic groups and to encourage a geographic dispersal of enterprise. Since 1950, nine development plans have been implemented in Malaysia. To follow closely the various development plans, a tabulation of all plans as well as mid-term reviews is presented in Table 3.2.

Table 3.2
*Malaya and Malaysia:
Development Plans and Reviews, 1950-1995*

Year of Publication	Plan	Acronym
1950	Draft Development Plan 1950-1955 (Also known as the "Yellow Book")	DDP
1953	Progress Report on the DDP	-
1956	First Malaya Plan, 1956-1960 (First Five-Year Plan; also known as "A Plan of Development for Malaya")	FFYP
1961	Second Malaya Plan, 1961-1965 (Second Five-Year Plan; also known as the "Red Book")	SFYP
1963	Interim Review of Development in Malaya under the SFYP	IR-SFYP
1965	First Malaysia Plan, 1966-1970	IMP
1969	Mid-term Review of Economic Development in Malaysia under the First Malaysia Plan	MTR-IMP
1971	Second Malaysia Plan, 1971-1975	2MP
1973	Mid-term Review of Second Malaysia Plan	MTR-2MP
1976	Third Malaysia Plan, 1976-1980	3MP
1979	Mid-term Review of the Third Malaysia Plan	MTR-3MP
1981	Fourth Malaysia Plan, 1981-1985	4MP
1984	Mid-term Review of the Fourth Malaysia Plan	MTR-4MP
1986	Fifth Malaysia Plan, 1986-1990	5MP
1989	Mid-term Review of the Fifth Malaysia Plan	MTR-5MP
1991	Sixth Malaysia Plan, 1991-1995	6MP

Source: Cho, G., *The Malaysian Economy Spatial Perspectives*, London: Routledge, 1990: 47.

Economic development planning in Malaysia can be divided into four stages:

1. Prior to Independence, 1950-1955;
2. Post-Independence until 1970;
3. New Economic Policy (NEP), 1971-1990; and
4. National Development Policy (NDP), 1991-2000.

Development Planning Prior to Independence, 1950-1955

The planning machinery during this time was under a direct control of the Federal Treasury. The external stimulus for planning during this early phase is clear in the financing procedures as well as in the formal instructions. The 1950 Draft Plan envisaged that about 75 per cent of capital would be derived from abroad, leaving only 25 per cent for domestic financing. This Draft was only a summary of departmental plans for capital expenditure. In 1950 the colonial government created an Office of the Economic Adviser to the High Commissioner. For the first time a position of professional economist as a policy adviser was created. This office was actually subordinated to the Financial Secretary. Its primary concern was for trade; economic development was added almost as an afterthought. Trade, with its well-organised reporting services and good statistics, would certainly have been the dominant concern of the Office but for the necessity of creating a development plan in response to information that Malaya could receive approximately £5 million for economic development through the United Kingdom Colonial Development and Welfare Act.

There were also energetic efforts on the part of the government aimed at economic improvement to win approval of the populace as a result of guerrilla warfare by the Chinese-dominated CPM in June 1948. During the Second World War, financial and human resources had been fully committed to it and little or no attempts had been made to improve the economy. Colonial government policy had been compartmentalised and uncoordinated and macro-level poli-

cies were non-existent. What little economic growth that did occur was the result of unplanned and erratic development.

Development Planning from Post-Independence to 1970

Since 1957, Malaysia's economic policy has involved minimum government interference. Political management has remained, at least outwardly, a Malay prerogative. In exchange, the Malay rulers and the Malays in general did not normally interfere with, nor even participate in, the modern economy, whose basis consisted of British business enterprises in tin mining and rubber plantations accompanied by Chinese entrepreneurship in tin mining, commerce and petty manufacturing. Although it is an oversimplification, it can be maintained that the economy of Malaysia was dominated by British and Chinese interests subject to only minimum interference or influence from the government.

Malaysia's inherent focus on basic economic philosophy can best be illustrated by what the new independent government did not do. The independence was not accompanied by unrealistic declarations about quick economic improvement policies. There was no immediate thrust to stimulate growth through government enterprises. The consecutive Malaya and Malaysia plans were only guidelines, establishing a framework for the public sector and indicating a suggested framework for the private sector. There has never been anything like sectoral planning. The private sector indeed was never really involved in the planning process and seems to have had little concern for its outcome. Objectives of planning were mainly to foster the improvement in rural living standards, encourage greater employment, increase per capita output, diversify production and enhance social development. Quantitative targets were set up by broad sectors for employment and production with regard to crops, land development, transportation, utilities and social services. A variety of physical goals were established.

New Economic Policy, 1971-1990

The objectives of the NEP were to achieve national integration and unity. These goals were formulated within the context of a two-pronged strategy to:

1. Reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race; and
2. Accelerate the process of restructuring Malaysian society to correct economic imbalances so as to reduce and eventually eliminate the identification of race with economic function.

This process of restructuring the society involves the modernisation of rural life, a rapid and balanced growth of urban activities and the creation of a viable Bumiputera Commercial and Industrial Community (BCIC) in all categories of enterprise and at all levels of operation so that individuals will become real and effective partners in all aspects of the economic life of the nation.

During this period, the role and size of the public sector of the economy increased rapidly. A major factor accounting for their rapid increase was the result of spending during the 1970s and early 1980s to create a number of statutory bodies and non-financial public enterprises. This was the result of a basic rethinking of the economic policy after the shock of the racial riots of May 1969. This upheaval produced a new element in Malaysia's industrialisation policy; active participation of public enterprise in economic development and industrialisation. In pursuit of this policy, a large number of public corporations were formed (Kasper, 1974: 86).

National Development Policy, 1991-2000

Under the National Development Policy (NDP), the government will continue to be flexible and pragmatic in the implementation of its policies and programmes to create a favourable climate for private investment and for exports to expand. This is considered a fundamental requirement in order for the economy to achieve higher lev-

els of industrialisation. The NDP will rely more on the private sector to be responsive and proactive in the attainment of the nation's socioeconomic objectives. In this respect, the government expects to reduce its active role in economic venture and enterprises. The government will not, however, totally withdraw from participation in economic activities. The public sector will support these efforts by focusing on further improving the environment for growth and the provision of adequate social physical infrastructures (Government of Malaysia, *Sixth Malaysia Plan*, 1991a: 5).

The NDP maintains the basic strategies of the NEP, defining its new dimensions as follows:

1. Shift the focus of the anti-poverty strategy towards eradication of hardcore poverty while at the same time reducing relative poverty;
2. Focus on employment and the rapid development of an active BCIC as a more effective strategy to increase the meaningful participation of Bumiputera in the modern sectors of the economy;
3. Rely more on the private sector to be involved in restructuring objective by creating greater opportunities for its growth; and
4. Focus on human resource development as a fundamental requirement for achieving the objectives of growth and distribution.

DRAFT DEVELOPMENT PLAN, 1950-1955

The origins of Malaysian regional economic development plans can be traced back to the Draft Development Plan (DDP) of 1950. Attempts to prepare a development plan for West Malaysia began in early post-war years in response to the United Kingdom Colonial Development and Welfare Act of 1945. Under this Act, a sum of £120 million would be provided for development assistance and welfare in Colonial and Dependent territories. These funds would be available for a 10-year period or until March 31, 1956. Under this

Act, a six-year development plan spanning the period from 1950-1955 for Peninsular Malaysia (then Federation of Malaya) was established. In its original form, the plan consisted of 543 development schemes of which most were confined to socioeconomic development plans and rural development projects.

Table 3.3
Draft Development Plan Expenditure, 1950-1955

Sector	Plan	Revised Plan	Actual
Total public investment (RM'000)	214.7	855.9	730
		%	
Economic Sector	73	89	n.a.
Agriculture	7	2	n.a.
Drainage & Irrigation	13	5	n.a.
Land Development	1	15	n.a.
Transportation, Public Works and Communications	35	36	n.a.
Utilities	n.a.	26	n.a.
Industry	1	0.2	n.a.
General Government	n.a.	n.a.	n.a.
Social Sector	27	10	n.a.
Health	8	2	n.a.
Education	16	6	n.a.
Social Welfare	1	1	n.a.
Labour	0.5	0.1	n.a.
Housing	1	1	n.a.
Defence	n/a	n/a	n.a.

n.a. data not available.

Source: Ness, G.D., *Bureaucracy and Rural Development in Malaysia: A Study of Complex Organisations in Stimulating Economic Development in New States*, Berkeley: University of California Press, 1977: 109.

Total expenditures under the plan were originally RM215 million increasing to RM856 million by 1952. Details of expenditures in terms of percentages for various sectors of the Draft Development Plan is shown in Table 3.3. It was during this time that the Rural and Industrial Development Authority (RIDA) was established in Au-

gust 1950 under the chairmanship of Dato' Onn bin Jaafar. RIDA's primary objectives were the economic development and improvement of social services in the rural areas predominantly populated by Malays. The DDP was the first planned economic effort by the government whose primary purpose was to improve the economic conditions of the Malays. Since then a number of government programmes have been initiated to give the Malays a greater share in the wealth of the country through business training, loans and grants for both commercial and village-improvement schemes. Rural credit and consumers co-operatives have been sponsored by the government to provide improved credit and marketing facilities for the peasant (Means, 1970: 16).

The main obstacle to the smooth implementation of this plan was the communist insurgency between 1948 and 1960. The plan recognised that, to be successful the country could no longer remain dependent on the production of tin and rubber. The DDP demonstrated that a more decisive role could be played by the government in a hitherto neglected sector of the national economy. This was a great step forward from the haphazard *laissez-faire* attitude characteristic of a colonial economy. A new direction towards the future growth of the rural areas began to be shaped and guided by some degree of conscious planning.

FIRST FIVE-YEAR MALAYA PLAN, 1956-1960

The First Five-Year Plan (FFYP) was formulated immediately before Britain granted independence to Malaya in 1957. The plan envisaged a total capital expenditure of RM1,000 million from 1956 to 1960. This plan took into account the capital expenditure programme suggested by the World Bank and the proposals of various government departments and other public authorities. The principal means of financing the plan was to be loans, aid and, if required, withdrawals from external reserves (Rao, 1980: 142). Capital expenditure targets and actual expenditure estimates by sectors for the FFYP are given in Table 3.4. In terms of actual expenditure, the first priority was infrastructural development, that is, transportation,

communications, utilities and industrial sites. Agriculture was the second priority, while social services and the government sectors received the status of residual claimants.

Table 3.4
*Gross Public Investment: Targeted and Actual for
First Five-Year Plan of Malaya, 1956-1960*

Sector	Targeted Expenditure		Actual Expenditure	
	(RM mil.)	(%)	(RM mil.)	(%)
Agriculture	265.6	23.1	227.5	23.4
Rubber Trees Replanting	160.0	13.9	153.4	15.8
Drainage and Irrigation	60.0	5.2	38.3	3.9
Land Development	15.0	1.3	16.7	1.7
Others	30.6	2.7	19.1	2.0
Transport	235.5	20.5	230.1	23.7
Communications	63.3	5.5	51.6	5.3
Utilities	214.5	18.7	238.6	24.6
Industry	15.8	1.4	12.1	1.2
Site Development	14.0	1.2	11.1	1.1
Mining Survey	1.8	0.2	1.0	0.1
Social Services	212.7	18.5	138.8	14.3
Education	95.4	8.3	60.9	6.3
Health	50.0	4.4	12.7	1.3
Housing	67.3	5.8	65.2	6.7
Government Building, Police, etc.*	141.3	12.3	73.0	7.5
Total	1,148.7	100.0	971.7	100.0

* Defense excluded (actual expenditure amounted to RM35 million).

Source: Rao, V.V.B., *Malaysia: Development Pattern and Policy 1947-1971*, Singapore: Singapore University Press, 1980: 143.

During this period, the satellite town of Petaling Jaya was developed as an industrial centre in 1958. This marked the beginning of the government fostering industrial growth in Peninsular Malaysia. About 300 acres of former rubber plantation was cleared to accommodate 150 factories. The move towards an industrialisation policy was implemented as a result of the *Report of the Working Party on the Encouragement of Industrial Development in the Federation of Malaya*,

published in 1957. Another new policy development programme was the establishment of the Federal Land Development Authority (FELDA) on July 1, 1956. FELDA was given the task of opening up new land and accommodating resettlement in an effort to eradicate rural poverty. Settlers were to be assisted with capital and technical advice until sales of their crops enabled them to pay off their obligations. FELDA land development included the planting of rubber trees and oil-palms and crops in addition to the development of infrastructure of rural roads, water systems, housing, schools, health centres, processing plants and new townships.

SECOND FIVE-YEAR MALAYA PLAN, 1961-1965

The Second Five-Year Plan (SFYP) was more formal than the FFYP in so far as there were specific goals for production and employment growth rates. The objectives of the plan consisted of extensive improvement in rural living standards, full employment, increase per capita output, diversification of production and greater social development. Quantitative targets were set up by broad sectors for employment and growth of output. With regard to crops, land development, transportation, utilities and social services, a variety of physical targets were set (Rao, 1980: 145). The broad pattern of expenditure did not differ between the FFYP and SFYP. There continued to be a strong political emphasis on rural development. Table 3.5 demonstrates that of a total planned public expenditure of RM2,652 million, nearly one-half of that expenditure was allocated for infrastructure while over one-fifth (RM468 million) went for agricultural development.

The government commitment to further extend rural development was realised by the formulation of a National Rural Development Plan incorporated in the SFYP. The administrative structure, set up to accompany the National Rural Development Plan, was designed to render an agricultural policy which would be more responsive to rural needs. The National Rural Development Council and the Rural Development Executive Committee were established specifically to frame rural development policy and supervise its imple-

mentation. This council comprised cabinet ministers and senior officials. Political control over planning was reinforced by the creation of the Ministry of Rural Development, under Deputy Prime Minister Tun Abdul Razak (Lim, 1975: 81). The implementation of the programme led to the creation of the Rural Economic Development Plan or the "Red Book". This was a standardised master plan which recorded objectives and achievements at the state and district levels. The present State Action Committee and District Action Committee are both modelled after the "Red Book", for monitoring development at their respective levels.

Table 3.5
*Gross Public Investment:
 Targeted and Actual for Second Malaya Plan, 1961-1965*

Sector	Targeted Expenditure		Actual Expenditure	
	(RM mil.)	(%)	(RM mil.)	(%)
Agriculture	549.8	21.1	467.9	19.4
Rubber Trees Replanting	140.8	5.4	130.9	5.4
Drainage and Irrigation	124.3	4.8	108.5	4.5
Land Development	156.9	6.0	129.8	5.4
Others	127.8	4.9	98.7	4.1
Transport	573.9	22.0	588.5	24.5
Communications	129.2	5.0	112.8	4.7
Utilities	545.7	20.9	535.4	22.2
Industry	59.6	2.3	59.1	2.5
Social Services	442.2	17.0	413.6	17.2
Education	231.4	9.0	236.5	9.8
Health	139.4	5.3	101.9	4.3
Housing, etc.	71.4	2.7	75.2	3.1
Government Building, Police, etc.*	305.9	11.7	229.7	9.5
Total	2,606.3	100.0	2,407.0	100.0

* Defense excluded (actual expenditure amounted to RM245 million).

Source: Rao, V.V.B. (1980), *Malaysia: Development Pattern and Policy 1947-1971*, Singapore: Singapore University Press, p. 144.

FIRST MALAYSIA PLAN, 1966-1970

The First Malaysia Plan (1MP, 1966-1970) was the extension of the previous plans with even greater emphasis on rural and agricultural development. The Jengka Triangle regional development scheme in Pahang was launched during the life of the 1MP. This giant land development scheme consisted of 61,000 hectares and was designed to resettle approximately 21,000 families (Government of Malaysia, 1965: 118). Industrial development and manufacturing activities were monitored with regard to decreasing future dependence on tin and rubber. Apart from the qualitative objective of integration of peoples and states by promoting the welfare of all, the measurable and quantitative objectives of the 1MP may be summarised as follow:

1. Steady increases in per capita income and consumption;
2. Generation of employment opportunities at a rate sufficient to provide productive work for new entrants into the labour force thereby lowering the rate of unemployment;
3. Stimulating new kinds of economic activity to reduce the nation's dependence on rubber and tin;
4. Laying the groundwork for a decreased population growth rate by instituting an effective programme of family planning;
5. Making land accessible and available to keep pace with the formation of new farming families; and
6. Providing electric power, transportation facilities and communication services for anticipated demand.

In the SFYP, the major component of the development programmes was minor rural development projects, that is, those which were small in size with minimum financial investment. These were often referred to as "quick result projects" such as mosques, *surau* (small prayer house), markets and small bridges. These projects had high political value but were not necessarily costly. More attention was paid to larger and more expensive projects such as physical and

social infrastructure, for example, road networks, electricity supply, telephone and postal services, piped drinking water, and state-provided low-cost housing (Nash, 1988: 85). These were the essence of the 1MP in terms of extended rural development projects.

SECOND MALAYSIA PLAN, 1971-1975

The Second Malaysia Plan (2MP) was the watershed of the economic and political development in Malaysia after independence in 1957. The New Economic Policy (NEP), an integral part of the 2MP was formulated as a result of the May 13, 1969 riots; its overriding objective was economic development and national unity. The broad policy framework of the 2MP has been described that, the plan incorporates a two-pronged New Economic Policy for development. The first prong was to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysian, irrespective of race. The second prong aimed at accelerating the process of restructuring Malaysian society to correct economic imbalance, to reduce and eventually eliminate the identification of race with economic function (Government of Malaysia, 1973: 1). The 2MP witnessed the government relinquishing its passive role in economic development and pursuing towards a direct involvement with business enterprises. In this plan there was a considerable departure from earlier plans in that, in the 2MP, considerations of equity, racial economic balance and regional economic balance were given a high priority.

The following targets of the 2MP to eradicate poverty and restructuring society were closely related to the long-term objectives of the plan:

1. a growth rate of the GNP at current rates of 6.5 per cent; and
2. a growth rate in employment of at least 3.2 per cent so that the rate of unemployment in 1975 would remain at the 7.3 per cent level of 1970.

Investment targets, programmes and policies were closely related to these two objectives. With regard to the achievement of racial economic balance, there were two significant targets. The first was to achieve a minimum of 30 per cent ownership by Malays and other indigenous people of the total commercial and industrial activities by 1990. This would be accomplished over a 20-year period under the First Outline Perspective Plan. The second target stipulated that the employment pattern at all levels and in all sectors must reflect the racial composition of the population. Regional balance is to be achieved through better distribution of infrastructure, industry and other development strategies.

Actual public development expenditure for the 2MP period was targeted to be a minimum of RM6,000 million. The plan envisaged that concerted efforts would be made to improve the implementation capacity of the public sector, so as to achieve a higher level of development expenditure. The plan intended to achieve a better rural standard of living, greater employment opportunities, faster rate of growth, diversification of exports and improved infrastructure facilities. The public sector was assigned a more important role than previously, with as much as 42.6 per cent of the planned expenditure of RM5.05 billion accruing to the public sector (Ariff, 1991: 24).

The National Action Council (NAC) was established in 1971 to oversee the entire national development and security effort. The Prime Minister was the chairman of this Council. An important development during this period was that the State level planning capability was upgraded by the establishment of State Planning Units. The main objective in establishing these units was to enable the individual states to identify and formulate projects and to co-ordinate development activities at their State level. Additionally, a long-term objective, was to enable the States to prepare development plans consistent with the priorities of the national development plan.

THIRD MALAYSIA PLAN, 1976-1980

Goals of the Third Malaysia Plan (3MP) were formulated based on the performance report of the Mid-term Review of the Second Ma-

laysia Plan. This Third Plan was marked further significant efforts to achieve policies set by the 2MP to achieve the NEP goals. The Mid-term Review explicitly defined the obvious correlation between disadvantaged ethnic groups and regional disparities. The glaring discrepancies between the richest regions of the south and central west coast and the poorest regions of the east coast of Peninsular Malaysia were obvious. The south and central west coast had the smallest proportion of Malays and the east coast, the largest. Reducing disparities between ethnic groups became largely a matter of reducing these regional gaps.

The 3MP set a target for total investment of RM44,000 million between 1976 and 1980. Of this amount, RM17,000 million was to come from the public sector and RM27,000 million from the private sector. A particularly significant feature of this planned investment was that of utilising public funds to create private assets which were owned and managed by the private sector. The trust agencies such as Majlis Amanah Rakyat (MARA), Malaysia Industrial Development Finance (MIDF), Urban Development Authority (UDA), Perbadanan Nasional Bhd. (PERNAS, National Corp. Ltd.) and the state economic development corporations (SEDCs) were entrusted with the management of public funds.

FOURTH MALAYSIA PLAN, 1981-1985

The Fourth Malaysia Plan (4MP) was even more ambitious, for it was more dynamic and aggressive in its effort to accomplish the goals set by the NEP. When this plan was launched, more than half of the objectives of 20 years of the First Outline Perspective Plan had already achieved. The new ingredients which fostered these achievements under the NEP were introduced by Prime Minister Dr Mahathir Mohamad by the Look East Policy, HICOM and privatisation. Privatisation was a new approach by the government to meet policy objectives, which included (Government of Malaysia, 1985):

1. Relief of the financial and administrative burden of the government;

2. Promotion of healthy competition, to improve efficiency and productivity;
3. Acceleration of the economy's growth by increasing the private sector's role;
4. Reduction of the size and presence of the public sector in the economy; and
5. Increased opportunities for meeting the equity-ownership target of the NEP.

The plan demonstrated that the government could adopt previous restraints by slowly reducing its role after having been active in the economic development of the country for a decade. This policy change signified a return to the *laissez-faire* economic philosophy of the 1960s. The 4MP also demonstrated an industrial development strategy shift from import substitution to export promotion. Manufacturing has emerged as the most dynamic sector since the 1985-1986 recession. Between 1980 and 1986, the manufacturing sector's share of the GDP was constant at about 20 per cent. Since 1986, however, its share of the GDP has consistently increased until, by end of 1990, manufacturing accounted for 27 per cent of the GDP. In real terms, the sector's average growth rate between 1986 and 1990 was 14.7 per cent per annum (Asian Development Bank, 1991: 9). Under the objectives of the 4MP, the agricultural sector continued to be a source of export earnings as did raw materials for the manufacturing sector. A top priority has consistently been placed on land development and settlement within the agricultural and rural sectors. Implemented through FELDA, the share of funds allocated to land development and replanting represented about 50 per cent of the total development budget for agriculture and rural development.

FIFTH MALAYSIA PLAN, 1986-1990

The Fifth Malaysia Plan (5MP) represents the final stage of the 20-year First Outline Perspective Plan under the NEP for economic expansion and national unity. The Prime Minister Dr Mahathir Mohamad, in his address to the Dewan Rakyat or House of Repre-

sentative, in late June 1989, summed up the Mid-term Review of the 5MP: "... forecasting that the overall growth in the economy would be 5.8 per cent, an improvement of 0.8 per cent on the original forecast figures. Malaysia had done very well in the previous three years despite the recession, from which it successfully emerged with a more resilient economy which can be attributed to the adoption of appropriate and well structured economic adjustment policies. The main source of recovery had been the strong growth of the export sector." (Adshead, 1989: 158)

Table 3.6
Gross Manufactured Exports, 1985-1990

Industry	(RM mil.)		Average Annual Growth Rate (%)
	1985	1990	5MP
Food	755.5	1,700.1	17.6
Beverages and Tobacco	25.5	95.4	30.2
Petroleum Products	1,041.3	1,286.2	4.3
Chemical and Chemical Products	610.2	1,891.8	25.4
Textiles, Clothing and Footwear	1,288.5	4,754.0	29.8
Rubber Products	113.1	1,356.5	64.4
Cork and Wood Manufacturers (excluding furniture)	365.2	1,346.8	29.8
Paper and Paper Products	71.4	421.5	42.6
Iron and Steel	135.3	613.2	35.3
Manufacturers of Metal	221.3	967.3	34.3
Non-Metallic Mineral Products	150.3	770.9	38.7
Electrical Machinery Appliances and Parts	6,492.9	26,495.5	32.5
Transport and Transport Equipment	566.2	2,233.5	31.6
Optical and Scientific Equipment	226.4	1,056.3	36.1
Other Manufacturers	407.8	3,058.1	49.6
Total	12,470.8	48,047.1	31.0

Source: Government of Malaysia. (1991a), *Sixth Malaysia Plan*, Kuala Lumpur: Government Printer, p. 130.

The performance of exports in the manufacturing sector was impressive, increasing by 31 per cent per annum from RM12,471 million in 1985 to RM48,047 million in 1990. The main contributors to this growth were the two non-resource-based export-oriented industries, namely, the electrical and electronic and the textiles subsectors. This is shown in Table 3.6. Together, these industries accounted for nearly two-thirds of the total manufactured exports of 1990. While the contribution of newly emerging industries to manufactured export earnings was still small, very high rates of growth—between 31 and 64 per cent per annum—were achieved during this period. These industries included transport equipment, non-metallic products, paper and paper products, rubber, optical and scientific equipment and the manufacture of metal products. The export performance of the resource-based industries, namely, wood-based and non-metallic minerals also increased rapidly at approximately 29.8 per cent and 38.7 per cent per annum respectively.

Since the 5MP was to be the final planning stage and only five years away from covering the 20 years of the First Outline Perspective Plan, 1970 until 1990, the government doubled its efforts to achieve all of its projected goals. The government acknowledged that, for the country to achieve its projected aims and continue the dynamic expansion of the economy, the private sector must assume the leading role. It was also anticipated that the government would expand its efforts to decrease participation by the public sector in both commercial and industrial activities.

The privatisation policy's main aim was to encourage the private sector to participate more broadly in the economic life of the country. Privatisation in Malaysia was calculated to contribute considerably to the achievement of the objectives of the NEP. Specifically, targets set for Bumiputera economic participation are a priority. Central to the restructuring thrust of the NEP are efforts sponsored to achieve a more balanced ethnic representation in employment in the modern sector. Such efforts are to ensure that the Bumiputeras would own and control at least 30 per cent of total corporate equity. The creation of a Bumiputera Commercial and Industrial Commu-

nity (BCIC) will contribute to the success of these measures. Given the political imperatives of societal restructuring, privatisation actions will be within the context of the NEP (Faculty of Economic and Administration, University Malaya, 1990: 96).

This plan emphasises the Industrial Master Plan (IMP) which provides measures to stimulate growth from both foreign and domestic investments. The new investment funds have been allocated for ventures in the manufacturing, agriculture and tourism industries. The development of science and technology (S&T) is also essential for Malaysia's overall socioeconomic advancement. The widespread application of S&T will provide more effective and sustainable means towards achieving a competitive, diversified and global-based economy to attain higher standards of living in the future. For the first time, the 5MP provided a comprehensive orientation in terms of size and management of research and development (R&D) allowing for a total expenditure of RM414 million. A broad base of R&D activities was defined which laid a stronger foundation for future S&T management and policy development.

The economic performance during the 5MP period was commendable. Overall, the GDP in real terms grew by 6.7 per cent per annum compared with the 5MP target of 5.0 per cent. This remarkable performance was due to the successful implementation of adjustment measures undertaken since 1983 to consolidate the public sector and reduce budgetary deficits. In addition, the liberal trade and investment policies introduced at the height of the 1985-1986 recession had significantly improved business confidence and increased private investment. These factors, combined with the improvement in the external environment, had brought about a speedy recovery from the recession.

SIXTH MALAYSIA PLAN, 1991-1995

The Sixth Malaysia Plan (6MP) is the first of Malaysia's new strategy development after 20 years of the First Outline Perspective Plan and the NEP. The Sixth Plan places great emphasis on increasing productivity in the agriculture sector, expanding the base of industrialisa-

tion and deepening the structure of production through strengthening linkages and accelerating science and technological development. The emphasis will continue to be on rapid economic growth and modernisation led by export-oriented manufacturing balanced with due consideration to equity and stability. The existing major urban and industrial centres will experience the greatest activity and therefore necessarily receive a larger proportion of both public and private investment (Asian Development Bank, 1991: 84).

In the recent past, the strategy of private sector-led growth had pushed Malaysia to a higher level of economic success. Continuing this approach, the 6MP will entrust a much bigger role to the private sector for the generation of growth. It is also anticipated that the private sector will be an active player in the restructuring of society by contributing to the objective of growth with equity. The private sector must remain strong and dynamic to respond to the increasingly competitive environment. The government will continue its policy of productive partnership with the private sector in alliance with the concept of Malaysia Incorporated. This concept means that Malaysia shall be viewed as a company where the government and the private sector are owners and workers together; a company where owners and workers are expected to co-operate to ensure the company's success since only through the success of the company will both parties' well-being be safeguarded and improved.

The 6MP is a portion of the Second Outline Perspective Plan (OPP2), 1991-2000, and embodies the National Development Policy (NDP). This plan signals the beginning of a new era of effort to transform Malaysia into a fully developed nation by the year 2020. The development programmes in the Sixth Plan are aimed at meeting goals as expeditiously as possible through encouraging higher levels of public sector expenditures in the areas of transportation, communications, energy, education and health services. Although the resource prospects in the future indicate that the country's export earnings and government revenue can sustain the proposed investments, it is essential that these expenditures be kept within prudent limits so as not to allow the external and public sector deficits to go

beyond the levels projected in the plan. Careful management of the budget, both of expenditures and revenues, will be necessary for successful economic management in the 1990s.

The development allocation and estimated expenditure for the 5MP and the 6MP by sector are shown in Table 3.7. Economic and social programmes accounted for a major share of development expenditures followed by security and administrative programmes. Of the total expenditure of RM35,300 million for the 5MP, the economic sector accounted for 64.8 per cent; social sector, 24.8 per cent; security, 7.2 per cent; and general administration, 3.2 per cent. In the 6MP, of the total allocation of RM55,000, the economic sector accounted for 56.8 per cent; social sector, 24.5 per cent; security, 15.3 per cent, and general administration, 3.4 per cent. In the economic sector, agriculture and rural development programmes accounted for RM7,325 million or 20.8 per cent of the total expenditure for 5MP. For the 6MP, the allocation was RM9,019 or 16.4 per cent.

The main thrust of the Sixth Plan will be to sustain the growth momentum and manage it successfully to achieve a more balanced development of the country. The emphasis on "balanced development" is based on the recognition that, while there has been progress in economic growth and distribution, the quality of the growth process needs to be improved to make it more broad-based. The strategy for balanced development will, therefore, encompass policies to diversify the industrial base, enhance human resource development, promote the upgrading of technology and reduce structural imbalances among sectors and regions in the country. These strategies will strengthen the linkages in the economy and bring about a more integrated process of growth and development to enable it to contribute more effectively towards achieving the objectives of the National Development Policy.

The objectives of the NDP is to attain balanced development in order to create a more united and just society. The NDP emphasises 'growth with equity' which will enable all Malaysians to participate in the mainstream of economic activities, thereby ensuring political stability and national unity. Building upon ongoing thrust of the

New Economic Policy in eradicating poverty and restructuring society, the NDP encompasses the following critical aspects (Government of Malaysia, 1991a):

1. Striking an optimum balance between the goals of economic growth and equity.
2. Ensuring a balanced development of the major sectors of the economy to increase their mutual complementarities to optimise growth.
3. Reducing and ultimately eliminating the social and economic inequalities and imbalances in the country to promote a fair and more equitable sharing of the benefits of economic growth by all Malaysians.
4. Promoting and strengthening national integration by reducing the wide disparities in economic development among the different states, and between urban and rural areas in the country.
5. Developing a progressive society in which all citizens enjoy greater material welfare, while simultaneously imbued with positive social and spiritual values, and an increased sense of national pride and consciousness.
6. Promoting human resource development including creating a productive and disciplined labour force and developing the necessary skills to meet the challenges in industrial development through a culture of merit and excellence without jeopardising the restructuring objectives.
7. Making science and technology an integral component of socioeconomic planning and development, which entails building competence in strategic and knowledge-based technologies, and promoting a science and technology culture in the process of building a modern industrial economy.
8. Ensuring that in the pursuit of economic development, adequate attention will be given to the protection of the environment and the ecology to sustain the long-term development of the country's natural environment.

Table 3.7
Federal Government Development Allocation and
Expenditure by Sector, 1986-1995

Sector	5MP			6MP	
	Revised Allocation	Expenditure	(%)	Allocation	(%)
Economic	24,048	22,886	64.8	31,236	56.8
Agriculture and Rural Development	7,427	7,325	20.8	9,019	16.4
Mineral Resources Development	43	43	0.1	53	0.1
Commerce and Industry	3,981	3,981	11.3	5,752	10.5
Transport	7,393	6,823	19.3	10,759	19.6
Communication	815	792	2.2	73	0.1
Energy	947	918	2.6	979	1.8
Water Resources	2,954	2,667	7.6	3,773	6.9
Feasibility Study	74	52	0.1	228	0.4
Research and Development	414	285	0.8	600	1.1
Security	2,955	2,527	7.2	8,408	15.3
Defense Services	1,858	1,497	4.2	6,000	10.9
Internal Security	1,097	1,030	2.9	2,408	4.4

Sector	5MP			6MP	
	Revised Allocation	Expenditure	(%)	Allocation	(%)
Social	9,046	8,764	24.8	13,468	24.5
Education and Training	5,812	5,700	16.1	8,501	15.5
Health and Population	981	931	2.6	2,253	4.1
Information and Broadcasting	33	20	0.1	128	0.2
Housing	1,452	1,452*	4.1	803	1.5
Culture, Youth and Sports	171	131	0.4	341	0.6
Local Town Council and Welfare Services	319	291	0.8	798	1.5
Village and Community Development	275	237	0.7	441	0.8
Purchase of Land	3	2	0.0	203	0.4
Administration	1,241	1,123	3.2	1,888	3.4
General Services	1,045	944	2.7	1,657	3.0
Upgrading and Renovation	196	179	0.5	231	0.4
Total	37,290	35,300	100.0	55,000	100.0

* Includes housing loan programme for the public sector employee.

Source: Government of Malaysia (1991a), *Sixth Malaysia Plan*, Kuala Lumpur: Government Printer, p. 62.

The overall prospect for the 6MP is expected to be favourable, largely due to the increasing internal strength and resilience of the economy as reflected by its high rate of savings, improvement factor for productivity and greater competitiveness. The Malaysian economy is expected to grow at an average rate of 7.5 per cent per annum in real terms over the 6MP, largely as the result of rapid expansion of domestic activities (see Table 3.8). The external contribution to growth will be greater than in preceding periods with exports exceeding imports. The GNP in nominal terms is expected to be about RM205,000 million by the year 1995. This is almost double the current level. Per capita income is expected to reach about RM10,200 per year.

REGIONAL PLANNING FOR NATIONAL UNITY AND ECONOMIC EXPANSION

In the preceding chapters, economic imbalance among the ethnic groups and regional disparities will be discussed in detail. The Malaysian Government has placed considerable emphasis on the NEP. The Second Malaysia Plan was formulated with a long-term perspective. The government regards the plan as the first phase of its efforts to achieve national unity and economic expansion under the NEP. The government, therefore, has to examine the political consequences of ensuring that development expenditure equally distributed, while increasing the total output and income of Malaysia as a whole, attempting to bring about a more equitable distribution of income for people in rural areas and towns and between the Malays and the non-Malays. This is an obvious necessity since the Malays hold a greater share of political power while the non-Malays have a larger share of the nation's economic wealth.

The National Development Policy as an extension of New Economic Policy, is expected to continue its high profile in Malaysia's policy landscape. Since an estimated 65 per cent of Malays and other indigenous people are rural dwellers, rural development in underdeveloped areas will continue to dominate the NDP's agenda. In the Third Malaysia Plan, 1976-1980, the government identified six re-

Table 3.8
Gross National Product by Expenditure Category, 1985-1995

Expenditure Category	RM mil.			Average Annual Growth Rate (%)			Contribution to Growth (%)	
	1985	1990	1995	Target 5MP	Achieved 5MP	Target 6MP	5MP	6MP
Consumption	52,127	76,882	131,420	5.2	8.1	11.3	5.5	7.3
	38,659*	51,392	70,080	3.6	5.9	6.4	3.9	4.1
Private	40,283	61,587	107,210	5.2	8.9	11.7	6.1	-
	29,242	39,923	54,450	3.5	6.4	6.4	3.3	3.2
Public	11,844	15,295	24,210	5.4	5.2	9.6	0.8	1.2
	9,417	11,469	15,630	4.1	4.0	6.4	0.6	0.9
Investment	23,124	38,803	71,400	4.5	10.9	13.0	3.5	4.4
	17,888	25,904	36,200	2.8	7.7	7.0	2.4	2.3
Private	12,270	26,112	51,880	8.6	16.3	14.7	3.1	3.5
	9,492	17,432	26,200	7.0	12.9	8.6	2.4	2.0
Public	10,854	12,691	19,520	-0.4	3.2	9.0	0.4	0.9
	8,396	8,472	9,900	-1.0	0.2	3.0	0.0	0.3
Change in Stocks	-1,757	-288	-90	-	-	-	0.3	0.0
	-1,262	-189	-50	-	-	-	0.3	0.0

Expenditure Category	RM mil			Average Annual Growth Rate (%)			Contribution to Growth (%)	
	1985	1990	1995	Target 5MP	Achieved 5MP	Target 6MP	5MP	6MP
Exports of Goods	42,537	90,149	156,120	3.2	16.2	11.6	10.5	8.9
& Non-factor Services	31,875	62,896	85,840	4.8	14.6	6.4	9.4	5.0
Imports of Goods	38,561	90,863	146,140	3.7	18.7	10.0	11.6	7.7
& Non-factor Services	30,067	60,900	78,450	2.2	15.2	5.2	9.3	3.8
GDP at Purchasers' Value	77,470	114,683	212,710	5.9	8.2	13.2	8.2	13.2
	57,093	79,103	113,620	5.0	6.7	7.5	6.7	7.5
Net Factor Payments	-5,508	-4,831	-7,890	-	-	-	-	-
	-4,255	-3,238	-4,380	-	-	-	-	-
GNP at Purchasers' Value	71,962	109,852	204,820	5.0	8.8	13.3	-	-
	52,838	75,865	109,240	5.1	7.5	7.6	-	-

* 1978 prices are in bold.

Source: Government of Malaysia (1991a), *Sixth Malaysia Plan*, Kuala Lumpur: Government Printer, p. 18.

gions for development strategy. The selected regions transcend state boundaries and are broadly homogeneous in terms of resources and their stage of development. The six regions and their components are defined below (Asian Development Bank, 1991: 13):

1. Northern: Perlis, Kedah, Penang and Perak;
2. Central: Selangor (including the Federal Territory of Kuala Lumpur), Negeri Sembilan and Melaka;
3. Eastern: Kelantan, Terengganu and Pahang;
4. Southern: Johor;
5. Sabah (including the Federal Territory of Labuan); and
6. Sarawak.

The significance of each region lies in the hierarchy of its urban centres and transport infrastructure. And each has become progressively more prominent throughout the planning process with each successive Malaysia Plan.

In 1984 a new approach to rural development called the "Halacara Baru" (New Direction) was adopted. It includes the following elements (Asian Development Bank, 1991: 14):

1. A modernised rural economy with large, professionally managed estates, and small but extensively cultivated farms;
2. Resource-based industries and associated commercial and manufacturing activities, located at rural growth centres; and
3. Settlements which are urban in character and enjoy modern amenities; this is to accommodate extensive movement of people to new or expanded "rural towns" over a long period.

The logic underlying the necessity of "Halacara Baru" is twofold (Asian Development Bank, 1991: 14):

1. Traditional agricultural methods and management could not generate incomes in line with their current and future expectations; for example, it was found in the rubber industry, that rubber tappers' wages could be much higher than those of the typical income of a small landholder.
2. The migration of young and educated people to the major urban centres deprived rural areas of the human resources needed for their revitalisation. Migrants were pursuing more modern stimulating lifestyles in addition to higher incomes; therefore rural areas must offer opportunities for more contemporary lifestyles and enhanced income earning opportunities.

The purpose of regional development in Malaysia was to mainly focus on reducing the large imbalances in social and economic development among states in the country. A more balanced development is essential to facilitate the attainment of the objective of reducing poverty in less developed states and improving income distribution in Malaysia. The Malaysian Government in implementing the prescribed regional development policy, has taken three approaches (Asian Development Bank, 1991: 13):

1. Agricultural content and *in-situ* approach;
2. Land development and resettlement; and
3. Industrial dispersal and rural development.

Agricultural Content and In-situ Approach

Agricultural content is for the development of backward regions, both new and *in-situ*. The *in-situ* is thrust to redevelop the existing villages and farms through the provision of infrastructure, extension services, credit and replanting facilities as well as a greater orientation for commercial crops such as rubber, rice and coconuts. A major *in-situ* component was the Integrated Agricultural Development Programme (IADP) which was designed to provide an integrated package of infrastructural and support facilities. It also includes provi-

sions for drainage and irrigation systems, flood controls, farm roads and agricultural support services to existing areas.

The Muda in Kedah and Kemubu in Kelantan are the two major projects for irrigation in padi planting. Padi constitutes the economic mainstay for the states of Perlis, Kedah, Kelantan and Terengganu. The Muda Irrigation Project covered almost 250,000 acres and the Kemubu Irrigation Project will cover 300,000 acres. Both projects allow for double crops. In the 6MP, irrigation facilities for padi planting will be upgraded in the eight granary areas, covering about 211,400 hectares or 522,000 acres (Government of Malaysia, Sixth Malaysia Plan, 1991a: 115). Since the inception of the Malaysia Plans, the government has committed RM3,496 million for the construction of drainage and irrigation infrastructures. This is shown in Table 3.9.

Table 3.9
*Expenditure for Development of
Drainage and Irrigation, 1956-1995*

Plan Period	Plan Allocation (RM mil.)	Expenditure as % of Total Agricultural Development
1956-1960	96.0	17
1961-1965	100.0	23
1966-1970	319.0	36
1971-1975	314.2	13
1976-1980	575.8	17
1981-1985	1425.0	15
1986-1990	202.3	7
1991-1995	463.3	10

Source: Cho, G., *The Malaysian Economy: Spatial Perspective*, London: Routledge, 1990: 71.

The *in-situ* approach constitutes the thrust of agricultural development strategies under the 6MP for a more cost-effective option and wider distribution of benefits. The construction of infrastructural facilities in the seven ongoing IADPs will be completed under the

6MP. These include the IADPs in Perlis, Penang, Pahang Barat, Johor Barat II, Kalaka Saribas, Samarahan and Semerak, which collectively involves the development of 1.62 million hectares or 4 million acres of agricultural land for the benefit of 135,500 farm families. Three new IADPs (the Terengganu Utara, Pahang Barat II and Tumboh Block) and two mini IADPs (Selama and Hilir Perak), will also be implemented under the 6MP. These five IADPs will benefit 37,000 farm families (Government of Malaysia, 1991a: 115).

The Kedah Regional Development Authority (KEDA) and Penang Regional Development Authority (PERDA) placed emphasis on *in-situ* development. The latter focuses on the development of small-scale industries. PERDA is now embarked on the development of two new townships, Teluk Kumbar and Bandar Perda, located between Seberang Jaya and Bukit Mertajam. The primary objective of Bandar Perda is to create a metropolitan corridor linking Seberang Jaya to Bukit Mertajam. The success of this effort would serve as a catalyst to spur the development of the entire area (*New Straits Times*, February 19, 1993).

PERDA has also ventured into various tourism-related projects in southwest Penang to increase Malay participation in the tourism industry. The areas involved are Teluk Bahang, Teluk Kumbar, Teluk Tempoyok, Titi Serong and Pantai Acheh. Among the projects to be undertaken are chalets, floating restaurants, integrated tourist complexes and commercial centres.

LAND DEVELOPMENT AND RESETTLEMENT

To stimulate rural incomes and increase productivity, the government has made a concerted effort to promote land development by opening up big land schemes for major resettlement. Large-scale resettlement and land development activity is known as resource frontier settlement and colonisation. Major land settlements in the states of Pahang (Pahang Tenggara Regional Development Authority, DARA, and Jengka Regional Development Authority, JENGKA), Kelantan (South Kelantan Regional Development Authority, KESSEDAR), Johor (Johor Tenggara Regional Development Authority,

Table 3.10

Urban and Regional Programmes, Projects and Studies in Peninsular Malaysia

Region	Area ('000 acres)	Year of Study	Type of Development	Name of Regional Development
Muda	259	1961-1963	Irrigation	MADA
Jengka Triangle	299	1965-1966	Land	JENGKA
Terengganu	3,198	1967	Land	-
Johor Tenggara	751	1969-1971	Land	KEJORA
Penang	254	1969-1970	Urban	PERDA
Melaka	410	1970	Urban, Industrial	-
Pahang Tenggara	2,484	1971-1972	Land	DARA
Kemubu	47	1972	Irrigation	KADA
Klang Valley	780	1972-1973	Urban	-
Kelantan	3,716	1973	Agricultural	KESEDAR
West Johor	365	1973	Agricultural	-
South Johor	741	1973-1974	Urban	-
N. Sembilan East	252	1974	Land, Urban	-
Kuantan	156	1974	Urban	-
Terengganu Tengah	1,099	1974	Land	KETENGAH
North Perak	3,119	1974-1975	Land	-
Outer Klang Valley	1,247	1974-1975	Agricultural	-
Trans-Perak	1,180	1975-1976	Land, Irrigation	-
Outer MADA area	-	1981	Land, Agricultural	KEDA

Source: Cho, G. (1990), *The Malaysian Economy: Spatial Perspective*, London: Routledge.

KEJORA) and Terengganu (Terengganu Tengah Regional Development Authority, KETENGAH) have already been successfully implemented. One of the features of such programmes involves collective land tenure and community-based management as an estate company with the beneficiaries contributing labour and owning equity in lieu of land. Future resettlement projects, especially under the 6MP, will be completed under the settlers' landownership system.

Regional development projects undertaken by the government throughout Peninsular Malaysia have been based on various studies and principally for the purposes of rural transformation and the agricultural revolution. The central point of the studies has been to examine the potential for resource frontier development of land as a means of solving long-term social and economic problems of the regions. Table 3.10 shows the various urban and regional programmes, projects, and studies in Peninsular Malaysia. Most studies were conducted on an individual state basis, except for the one on MADA where the study areas and implementation covered the states of Kedah and Perlis. The location of various regional programmes and the implementation of regional development as it reflects individual state boundaries is shown in Figure 3.3.

The Jengka Triangle of Pahang was the first to evolve under the socioeconomic plans for land development and resettlement. Jengka was initiated as a central new township together with 23 other towns. The economic base for the region is palm-oil (85 per cent), rubber (13 per cent) and village settlement (2 per cent). The government hopes to transform the jungle into urban centres which will support the national objective of integrating the Malays to an active commercial life. Another development project on the same order as the Jengka model is DARA in Pahang Tenggara. DARA has developed two major townships, namely, Muadzam Shah and Tun Abdul Razak. The effort involved clearing and settling nearly 0.5 million hectares or 1.2 million acres of land and settling more than 500,000 people in an area presently inhabited by an estimated 55,000. The major concentration of regional development along the east coast of Peninsular Malaysia will certainly provide the needs necessary for

the region to accelerate and raise the standard of living to be at par with the national average. The result is introduced to reduce the gap existing between the rich and the poor regions.

Industrial Dispersal and Rural Development

Fiscal incentives have been introduced which aim to promote the dispersal of industrial development. Various measures have been undertaken to foster industrial development and provide a more conducive environment for investment. Significant legislative changes have been made including the introduction of the Promotion of Investment Act (PIA) in 1986, and amendments to the Income Tax Act in 1967, which provide liberal investment incentives for potential investors. Sixty-one per cent of the total number of approved projects were awarded Pioneer Status and allowed liberal Income Tax Incentives (see Table 3.11).

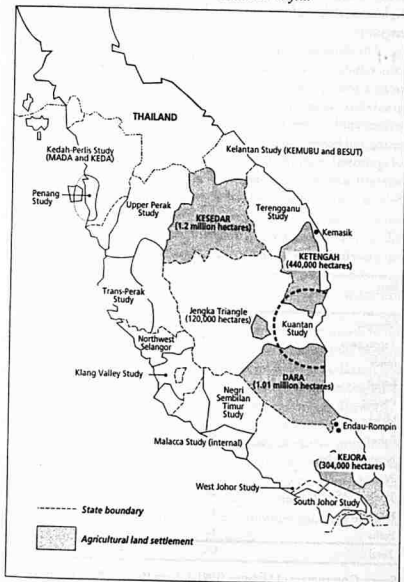
Table 3.11
*Approved Projects Classified
by Type of Incentives, 1985-1990*

Incentive	Number of Approvals		
	1985	1990	5MP
With Incentives	229	524	1,957
Pioneer Status	78	440	1,540
Investment Tax Allowance	143	84	415
Location Incentive	8	0	2
Without Tax Incentives	396	382	1,253
Total	625	906	3,210

Note: The Location Incentive was phased with the promulgation of the PIA 1986.

Source: Government of Malaysia, *Sixth Malaysia Plan*, Kuala Lumpur: Government Printer, 1991a: 134.

Figure 3.3
The Location of Regional Development
Authorities in Peninsular Malaysia



Source: Cho, G., *The Malaysian Economy Spatial Perspective*, Routledge.

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In Peninsular Malaysia six areas have been officially designated as areas in which location incentives are applicable, namely, Johor (only Tenggara area), Kedah (excluding the Kuala Muda district), Kelantan, Pahang (excluding the Kuantan district), Perlis and Terengganu.

The development of rural industries continues to be an important vehicle for increasing the living standards of the rural population. The scope of rural industrialisation programmes extends beyond the cottage and handicraft industries. Programmes include involvement by large- and small-scale industries in the industrial processing and business and commercial services. In terms of the location of approved investment projects areas affected are located along the western corridor of Peninsular Malaysia. Specifically, the states of Selangor, Johor and Penang, as shown in Table 3.12.

Table 3.12
Approved Manufacturing Projects by States, 1985-1990

State	Number of Projects Approved		
	1985	1990	5MP
Selangor	173	237	946
Terengganu	12	5	36
Johor	102	204	760
Kedah	21	65	165
Penang	66	132	432
Melaka	11	29	112
Pahang	19	18	70
Negeri Sembilan	26	36	101
Perak	46	68	192
The F.T. of Kuala Lumpur	48	29	107
Kelantan	15	3	25
Perlis	10	2	10
Total	549	828	2,956

Source: Government of Malaysia (1991a), *Sixth Malaysia Plan*, Kuala Lumpur: Government Printer, p. 137.

The adequate provision of transportation and communications infrastructure has been the key to supporting the growing momentum of the economy. It has also played an important role in promoting rural development and participation in the growth process in industrial, tourism and other economic activities. Major road projects undertaken during the 6MP included the construction and completion of various portions of the North-South Expressway, a major stretch of the New Klang Valley Expressway (NKVE), and a major portion of the Sungai Perak West Coast-Lumut road (Government of Malaysia, 1991a: 278). These major projects were aimed primarily at providing better inter-urban linkages as well as improved access to industrial locations. These projects also contribute to a savings in time and vehicle operating costs as well as improved non-quantifiable safety and comfort benefits.

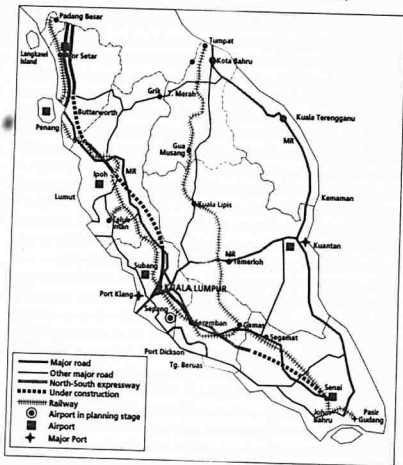
In the previous Malaysian Plans, infrastructural and communications were given greater emphasis on the east coast of Peninsular Malaysia. The improvement of these linkages fostered a closer integration of the west coast and the east coast. It also enhanced the mobility of factors of production, in the areas of machinery, equipment and skilled labour. Elements essential for accelerating agricultural and industrial development in these regions. The construction of the East-West Highway created a closer link with industrialised regions (Penang and Butterworth) and the east coast states of Kelantan and Terengganu. Other major highways include the Kuantan-Segamat, Jerangau-Jabor and Kuala Krai-Gua Musang-Kuala Lipis-Bentong.

The construction, expansion and modernisation of port and airport facilities necessitated upgrading communication for proper and adequate industrial dispersal. The establishment of Pasir Gudang Port in Johor and Kuantan Port respectively have supplemented the development of the regions in terms of agricultural and industrial development. The major infrastructure communication network in Peninsular Malaysia is shown in Figure 3.4.

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Figure 3.4

Major Infrastructural Network in Peninsular Malaysia



Source: Ministry of Finance Malaysia (1992), *Economic Report 1992/93*, Kuala Lumpur: Government Printer, pp. 304-305.

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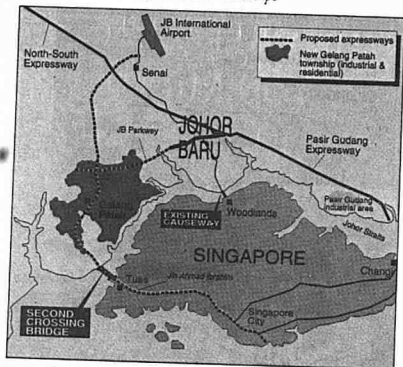
Figure 3.5

The Location of the New Kuala Lumpur International Airport at Sepang



Source: *The Straits Times* dated April 21, 1993, "Construction of new airport will result in some relocation," Singapore: SPH, p. 20.

Figure 3.6
Johor's New Landscape



Source: *New Straits Times*, March 23, 1994.

The relocation of Kuala Lumpur (KL) International Airport at Sepang is another new dimension which fosters the development of regions highly dependent on their agricultural content. The cost to build the airport is estimated between RM8 and RM10 billion and scheduled to be completed in 1997. The site of the new Kuala Lumpur International Airport with its surrounding area is shown in Figure 3.5.

In another development, the Malaysian Government shelved its original plan to extend the congested causeway between Johor and Singapore. Instead, there is a plan to build a second link from Tanjung Kupang in Gelang Patah, southwest of Johor, to Jalan Ahmad

Ibrahim in Tuas, Singapore. The plan would be a phenomenal accomplishment and a significant contribution to rural development. The project involves the construction of a 2.46km. bridge to link both points. A new township on a 10,000 hectares in Gelang Patah will be developed at a cost of RM600 million. When completed it will accommodate a multitude of uses—residential, commercial, administrative, recreational, etc. (*New Straits Times*, December 11, 1992). See Figure 3.6.

In June 1993, the Federal Cabinet made a decision to establish a new administrative centre for the Federal Government. Perang Besar, later renamed Putrajaya, has been chosen as the new administrative centre of the Federal Government. This project is another undertaking to spur growth in the agriculture economic base areas fringing the city. The area to be developed covering 14,780 hectares was reckoned to be the heart of the nation's rubber industry. The core area of 4,400 hectares will be developed into the Federal Government's Administrative Centre: the core area will have five precincts—the government, commercial, mixed civic and cultural, and sports and recreational areas. The total cost estimated for the realisation of this intelligent city would be RM20 billion. Putrajaya, when completed would emerge as a megacity compatible to other megacities such as Tokyo and Yokohoma.

Putrajaya is a mere 8km away from Kuala Lumpur International Airport in Sepang. Planned area will accommodate an estimated 570,000 people, of which 250,000 will live within Putrajaya. Some 76,000 public sectors and 59,000 private sector employees will work within Putrajaya.

Rural development programmes and the creation of growth centres which act as nuclei have been established to accelerate the development of backward regions. Rural regions can grow and progress quickly with the development of educational, recreational, residential and administrative centres. With the availability of urban facilities, these regions will function as any urbanised area to facilitate development.

CONCLUSION

Malaysia's development strategy in the coming years, especially during the Second Outline Perspective Plan, 1991-2000, should be more aggressive and intensive to transform the rural economy. During the past three decades, the ground-based infrastructural networks have been established and developed by the government to transform the rural environments providing facilities similar to those available in urban centres.

Industrialisation and rural development have helped to expand economic and employment opportunities in the rural areas. In the regions where agricultural activities are not viable, reorientation by the public sector of economic activity through regional economic development will provide new economic growth and expanded employment opportunities outside agriculture activities.

The Penang Regional Development Authority (PERDA) was established with the primary objective of helping the farm owners in Province Wellesley to improve their income and thus enhance their economic well-being. This is being accomplished through modernisation of agriculture production and augmenting the economic base. PERDA has now expanded its objectives by embarking on other projects, such as tourism and development of new townships. To this end, the region of concentration has been enlarged from Province Wellesley to Penang island.

It is time to discard the old thinking and traditional belief that only regions that offer a good infrastructure and communication networks could accommodate major investment from public and private sectors. The high concentration of both public and private investment in a certain region has resulted in sustaining regional disparities rather than eliminating the disparities. For example, the attention given the Klang Valley on the west coast of Peninsular Malaysia needs to be given to other areas as well. In the final analysis, the Klang Valley eventually not only became congested but created disparities with other regions in terms of development.

The relocation of Kuala Lumpur International Airport from Klang Valley to Sepang is a most welcome policy of dispersal for eco-

conomic development. Sepang, a small agricultural town, is ready to be transformed into an international airport, and site for the aviation industry in Malaysia.

The regional economic development in Malaysia through its Malaysian Plans and various Regional Development Authorities has successfully bridged the regional disparities and economic imbalances among regions and ethnic groups. The incidence of poverty throughout Peninsular Malaysia in rural areas has declined from 58.7 per cent in 1970 to 19.3 per cent by the end of 1990. During this same period urban areas have also declined from 21.3 to 7.3 per cent respectively. In terms of ethnics, the incidence of poverty among Bumiputera has dropped from 65.0 per cent in 1970 to 20.8 per cent by the end of 1990. The incidence of poverty among the Chinese and Indians during the same period has dropped from 26.0 to 5.7 per cent and 39.0 to 8.0 per cent respectively.

In the future, regional development should not be confined to an individual state boundary. To be more effective in terms of the planning process, regional development should transgress the physical boundary of states if warranted. In this respect, regional co-operation should be promoted. For example, the states of Perlis, Kedah, Penang and Perak, which are classified as the Northern Region, could combine their efforts and resources to develop the region as a whole.

Chapter 4

REGIONAL DEVELOPMENT: A CASE STUDY OF LANGKAWI

IT WAS only in the early 1980s that the Federal Government of Malaysia started to pay serious attention to developing the tourism industry in Malaysia. In the Mid-term Review of the Fourth Malaysia Plan, 1981-1985, an additional allocation was provided for the promotion of the tourism industry. This particular industry had been identified as one of the primary strategies for reducing regional disparities and accelerating growth in underdeveloped regions. It was believed that the tourism industry would create job opportunities and would attract investment from public and private sectors. Thus, this strategy focused on greater diversification of the economic base and the promotion of value-added activities.

The government recognised that the tourism industry had the potential to expand and become one of the main resources for increasing national income. In 1990, the Malaysian Government launched a large-scale promotion in conjunction with the "Visit Malaysia Year" campaign to sell Malaysia as a tourist destination. This campaign was promoted in such countries as those in North America, Europe and East Asia. The second "Visit Malaysia Year" campaign was held in 1994, with similar intention but on a grander scale.

The lures of Langkawi are the natural beauty of a tropical island paradise with stretches of white, sandy beaches, crystal-clear waters, clean streets, unpolluted environment, and warm, sunny days throughout the year. There are many picturesque and isolated beaches which offer significant distance from the hectic modern world. Langkawi offers breathtaking views of timeless fishing villages yet untouched by contemporary pressures.

In 1984, the first announcement was made that Langkawi was to be developed as a major tourist centre of the country. A local conglomerate, Promet Bhd., signed agreements of commitment with ten local and foreign investors to develop seven hotels with an expected total of 2,500 rooms.⁶ The State Government of Kedah leased out 1,000 acres of land in Tanjung Rhu, Langkawi to Promet for the proposed development. That project was shelved in the mid-1980s due to a recession and has since been sold to Idris Hydraulic Bhd. Idris Hydraulic then sold it to TRI, a public-listed company controlled by Tan Sri Tajuddin Ramli. The company has submitted new proposals for the development of the Tanjung Rhu resort and is now awaiting approvals from the relevant authorities.

In relation to the Federal policy to turn Langkawi into a major island resort, the Federal Government proclaimed that, effective January 1, 1987, Langkawi be declared a free port by virtue of the Financial Act (No. 2) of 1986. This decision by the Federal Government was to support efforts to transform Langkawi's economic base from one highly dependent on agriculture and fisheries to one of an expanding international tourist destination. Langkawi, with its free-port status, enjoys freedom from excise duty and service taxes. As a free port, it implies that all goods imported into Langkawi from foreign countries are free from custom duties and sales tax with the exception of petroleum and petroleum products, cement, marble, anchovies and rubber.

The Federal Government's direct involvement in accelerating the growth of the tourism industry and the socioeconomic develop-

⁶ *Malaysian Business*, September 1, 1984.

ment of Langkawi has been demonstrated by the establishment of the Langkawi Development Authority (LADA) under the chairmanship of Tun Daim Zainuddin, the former Finance Minister and Economic Adviser to the Malaysian Government. LADA was incorporated by an Act of Parliament on January 1, 1990. Section 4 of that Act expressly stated that the functions of the Authority shall be:

1. To promote, stimulate, facilitate and undertake economic and social development in the Kawasan Lembaga Pembangunan Langkawi (Area Within Langkawi Development Authority);
2. To promote and stimulate the Kawasan Lembaga Pembangunan Langkawi as a tourist destination and duty-free area;
3. To promote, stimulate, facilitate and undertake the development of tourism and infrastructure as well as residential, agricultural, industrial and commercial development in the Kawasan Lembaga Pembangunan Langkawi; and
4. To co-ordinate the performance, in the Kawasan Lembaga Pembangunan Langkawi, of the activities mentioned in the three previous paragraphs.⁷

Since the declaration of Langkawi as a major tourist destination and a free port in 1987, the island has performed well in the tourism industry as a result of investment by both public and private sectors. LADA, in addition to its defined objectives to stimulate and co-ordinate the socioeconomic development of Langkawi, has also been assigned the task of overseeing the preservation of the natural environment during development. In relation to these objectives, the State Government of Kedah⁸ has adopted the Langkawi Structure Plan 1990-2005. As a planning document, it stresses the preservation of the natural environment and landscape, keeping in line with the

⁷ Government of Malaysia, 1990: 6-7.

⁸ Government Gazette No. 1, Notice No. 8, Vol. 35, January 9, 1992.

Langkawi Declaration on Environment to transform the island into a "nature's paradise". The Langkawi Structure Plan was prepared for encouraging, controlling and guiding development in Langkawi. Primary concerns are the establishment of a more comprehensive and systematic framework for planning tourism, land use patterns, environmental improvement measures, public facilities and utilities as well as transportation up to the year 2005.

LANGKAWI IN BRIEF

Geography and Population

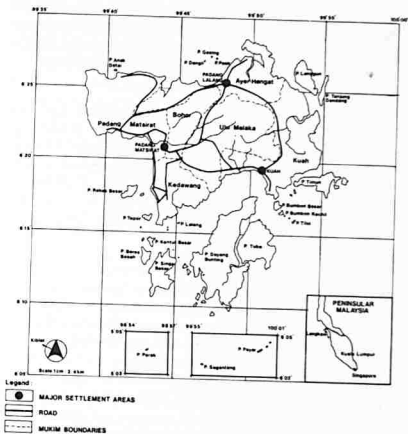
The Langkawi group of islands is located off the state of Kedah in the northwest coast of Peninsular Malaysia; it is one of the districts⁹ in the State of Kedah. The group of islands consists of 104 islands with a total area of 47,848 hectares. Pulau Langkawi is the largest of these islands with an area of 32,180 hectares. Pulau Dayang Bunting and Pulau Tuba follow with 5,091 hectares and 1,763 hectares respectively. Currently, these three are the only inhabited islands. The other islands which are very small in size are still in their natural state except for Pulau Singa Besar and Pulau Beras Basah which have also been developed for tourism. Figure 4.1 shows the map of Langkawi with its archipelago and district boundary. The remaining 99 islands are smaller and these islets make up the archipelago. Langkawi is divided into six *mukim* (parishes)—Kuah, Padang Matsirat, Ayer Hangat, Bohor, Ulu Melaka and Kedawang. Kuah is the capital town of Langkawi. In terms of size, Langkawi is larger than Penang but smaller than Singapore. The population of Langkawi as recorded in 1991 was 42,755. Of these, 89 per cent are Malays, 8 per cent are Chinese, and 3 per cent are of various descents.

Langkawi has a tropical monsoon climate with a high annual temperature of between 24°C and 33°C. Its mean annual rainfall averages 2,500mm with more rain occurring during the months of April and October with a long dry season between the months of November and March.

⁹ A district is similar to a county as defined in the United States.

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Figure 4.1



Source: Langkawi District Council, *Langkawi Structure Plan*, 1992: 1-2.

Langkawi is linked to the mainland by sea and air. It is about 30km from the Kuah jetty to Kuala Perlis and 51.5km to Kuala Kedah. Hydrofoils, hovercrafts and ferries shuttle passengers daily between Kuah and the two jetties on the mainland, Kuala Perlis and Kuala Kedah. These serve as gateways while commercial and cargo ferries berth at Teluk Ewa Jetty. The main point of entry by air is through the Langkawi International Airport in Padang Matsirat.

Land Use

The current pattern of land use in Langkawi indicates that major portions of its land are still underdeveloped. Scarcity of land is not the current problem inhibiting development of Langkawi. Forest reserves account for 57 per cent of total land area; agriculture occupies up to 16.2 per cent; scrubland and secondary land account for 12.8 per cent; villages, 7.1 per cent; and swamp, 2.4 per cent. Other types of land use allow for less than 2 per cent of the total.¹⁰ Existing categories of land use are shown in Table 4.1.

Table 4.1
Existing Categories of Land Use in Langkawi

Category	Area ('000 Hectares)
Forest Reserve	27,273.0
Agriculture	7,733.1
Forest/Undergrowth	6,133.5
Village	3,648.1
Mangrove	1,155.5
Industry	598.6
Hotel/Chalet	485.6
Others	462.4
Government Institution	198.7
Commercial	67.1
River/Canal/Lake	48.2
Housing	24.2

Source: Langkawi District Council, *Langkawi Structure Plan*, 1992: 5-2.

¹⁰ Langkawi District Council, *Langkawi Structure Plan*, 1992: 5-1.

Economic Base

Agriculture still remains the primary economic activity of the local population in Langkawi. The arable agriculture land use is only 35 per cent of the total land area. The main crop is rubber which utilises up to 40 per cent of agriculture land. This is followed by padi, 30 per cent; coconut, 10 per cent; and mixed crops, 20 per cent. Although the principal economic activity of the local population is agriculture, such yields are low, especially those of padi cultivation. This is attributable to the small size of land owned by an individual or multiple ownership for cultivation, inadequate irrigation facilities, use of traditional method of farming and the fact that such small-scale agriculture is usually for self-consumption.

Langkawi is one of the main fishing areas in Kedah. In fact, Langkawi is the largest producer of *ikan bilis* (anchovies) in Peninsular Malaysia. Aquaculture is practised in small-scale areas for cage culture, freshwater and brackish water ponds, and cockle production.

The Legend of Langkawi

A popular local myth of Langkawi is a tale about a pretty maiden named Mahsuri who lived some 200 years ago. As the tale is told, Mahsuri died a victim of a conspiracy plotted against her out of jealousy for her charming personality. She was accused of committing adultery and was sentenced to death by her own father-in-law, the Chief of Langkawi, Dato Karma Jaya. It is said that as proof of her innocence, people witnessed white blood gushing from her stab wound during her execution. Mahsuri is best remembered for her curse on Langkawi which was uttered just before she died, "For this act of injustice Langkawi shall not prosper for seven generations to come."

Decades after Mahsuri's death, Langkawi experienced a period of diminishing population. The island became almost deserted and was struck by a series of misfortunes. Unable to retrieve its glorious past for a long period, it became known as "the period of sleepy hollow". Many people believe the curse is now over as evidenced by the many development projects taking place on the island.

REGIONAL DEVELOPMENT FRAMEWORK IN KEDAH

In the context of the regional development plan, Kedah falls within the northern region together with three other states, namely, Perlis, Penang and Perak. In this region, only Kedah and Perlis can be classified as having one common characteristic in terms of natural resources and economic base. Rice farming is the main economic activity for both states. Penang is urbanised and highly dependent on manufacturing and commerce. Perak is dependent on large-scale agriculture and industry-based agriculture and coming closer behind Penang in manufacturing and commerce.

Regional growth in the northern region is very much influenced by such growth centres as George Town in Penang and Ipoh in Perak. But such spillover is too slow in reaching Kedah and Perlis. Thus, growth of subcentres such as Alor Setar, Sungai Petani, Kangar, Kulim, and other lower-level towns such as Jitra and Kuah which have great potential for development must be exploited to accelerate regional growth.

The development strategy for the state of Kedah is based upon findings and recommendations of the Kedah-Perlis Development Study (KPDS), completed in 1978. These findings and recommendations formed an integral part of the economic development planning for Kedah.

The state of Kedah is divided into three institutional regions. The Muda Agricultural Development Authority (MADA), covers most of the northwest part of Kedah and the southern part of the state of Perlis. This region is experiencing a much higher rate of development and increases in levels of income as a result of a large investment in infrastructure. The second region, the Kedah Regional Development Authority (KEDA), was established in 1981 and encompasses nearly 75 per cent of the state. Its main function was to attempt to correct the disparities between MADA and non-MADA areas. However, socioeconomic development and equity is complicated by the fact that KEDA is also affected by non-KEDA regions. The third region is the Langkawi Development Authority (LADA),

having jurisdiction over the whole of Langkawi. Since the establishment of LADA in 1990, the role of KEDA in the socioeconomic development of Langkawi has been substantially reduced. Figure 4.2 shows the geographical areas of the regional development authorities in Kedah.

LANGKAWI IN THE CONTEXT OF THE NORTHERN GROWTH TRIANGLE DEVELOPMENT PROJECT²

The Northern Growth Triangle Development Project, or the Indonesia, Malaysia, Thailand Growth Triangle (IMT-GT), is a newly proposed area for regional economic co-operation among three of the seven members of the ASEAN countries, namely, Indonesia, Malaysia and Thailand. This project proposes a growth triangle encompassing northern Sumatra in Indonesia, the four northwestern states of Peninsular Malaysia (Perak, Penang, Kedah and Perlis) and Southern Thailand. Figure 4.3 indicates the proposed growth triangle.

Langkawi, located between Sumatra and Southern Thailand, is the most likely to become the regional hub of the Northern Growth Triangle Development Project. The status of Langkawi as an international resort destination and a free port will enhance its position as a growth centre for the proposed region. The Northern Growth Triangle promotes its aspirations by focusing its efforts on eight areas of economic co-operation, namely, agriculture, fishing, livestock, tourism, trade and commerce, industry, infrastructure and human resources (Duthie, 1993). The Northern Growth Triangle Development Project also intends to back a proposal conferring preferential domestic status on any investor from Indonesia, Malaysia or Thailand seeking to invest anywhere within the Triangle. Regions in the countries participating in the Northern Growth Triangle are more or less on an equal footing. The most important forces which will influence the realisation of a regional economic co-operation within the Northern Growth Triangle are a shared common race, religion and culture.

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Figure 4.2

Location of Regional Development Authorities in Kedah



Legend

- LANGKAWI DEVELOPMENT AUTHORITY (LDA)
- MUDA AGRICULTURE DEVELOPMENT AUTHORITY (MADA)
- KEDAH REGIONAL DEVELOPMENT AUTHORITY (KEDA)
- DISTRICT BOUNDARY
- STATE BOUNDARY
- INTERNATIONAL BOUNDARY
- ROAD

Source: Langkawi District Council, *Langkawi Structure Plan*, 1992: 3-6.

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Figure 4.3
*The Northern Growth Triangle
Development Project*



Source: Duthie, S., "Asia's Latest Triangle is Taking Shape," *The Asian Wall Street Journal*, July 8, 1993: 1.

SOCIO-ECONOMIC SETTING IN LANGKAWI

In 1980, the Malays represented 89 per cent of the total population of Langkawi. The economic base of Langkawi is still dominated by the agriculture and fishery sectors, which accounted for 56 per cent of this base in 1985. The majority of Malays (69.0 per cent) are involved in the agriculture and fishery sectors while their presence in other sectors which offer higher income but requiring special skills are low. The Chinese populace is primarily involved as production and transport equipment operators (41.1 per cent) and sales (25.2 per cent) while only 13.7 per cent are involved in agriculture. Table 4.2 shows employment by ethnic group in 1980.

Incidence of poverty and out-migration rates are high due to the lack of job opportunities and dependency on the less-productive basic sectors. Therefore, efforts have to be made to diversify the economy to create job opportunities. This includes shifting towards the more productive sectors, such as the tourism industry and commercial developments, and increasing the level of productivity of the already existing economic base.

Population Growth

In 1980 the population of Langkawi totalled 29,088. Within five years, by 1985, the population had increased to 32,810. During this five-year period, the growth rate was moderate at 2.4 per cent, which was higher than that of the state, but slightly lower than that of the nation. The growth rate for Kedah during the same period was 1.3 per cent and for Peninsular Malaysia 2.6 per cent. During the next twelve years, the population of Langkawi is projected to increase to 100,367 people. Table 4.3 shows the population projection and growth rates by *mukim*, from 1985 to 2005. During this period the projected annual growth rate would be 5.0 per cent or above. The highest population would be in Mukim Kuah, the capital town and growth centre.

Table 4.2
Employment by Ethnicity, 1980

Employment Group	Malay		Chinese		Indian		Others		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Professional and Technical	383	4.9	50	6.4	11	3.6	5	2.6	449	4.9
Administration and Management	12	0.2	13	1.6	0.1	0.3	0	0.0	26	0.3
Clerical	226	2.9	43	5.5	9	2.9	0	0.0	278	3.2
Sales	535	6.9	197	25.2	49	15.9	1	0.5	782	8.6
Service	371	4.7	51	6.5	32	10.4	2	1.0	456	5.0
Agriculture, Animal Husbandry, Forestry, Fishery and Hunting	5,391	69.0	107	13.7	182	59.1	163	83.2	5,843	64.0
Production and Transport Equipment Operators and Labourers	892	11.4	322	41.1	24	7.8	25	12.7	1,263	14.0
Total	7,810	100.0	783	100.0	308	100.0	196	100.0	9,097	100.0

Source: Langkawi District Council (1992), *Langkawi Structure Plan*, p. 4-5.

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Table 4.3
*Population Projection and
 Growth Rates by Mukim, 1985-2005*

Mukim	Annual Growth Rate (%)			
	1985-1990	1990-1995	1995-2000	2000-2005
Kuah	5.46	5.83	6.03	6.09
Ulu Melaka	4.42	4.89	5.16	5.21
Bohor	5.47	5.61	5.89	5.86
Ayer Hangat	5.25	5.47	5.69	5.78
Kedawang	4.90	5.18	5.38	5.37
Padang Matsirat	5.54	5.80	5.88	5.81
Total	5.24	5.56	5.76	5.80

Mukim	Projected Population				
	1985	1990	1995	2000	2005
Kuah	12,051	15,837	21,193	28,646	38,842
Ulu Melaka, 4,120	5,139	6,562	8,492	11,020	
Bohor	2,515	3,306	4,376	5,876	7,877
Ayer Hangat	5,027	6,535	8,594	11,422	15,252
Kedawang	4,239	5,417	7,018	9,184	12,013
Padang Matsirat	4,858	6,408	8,563	11,487	15,363
Total	32,810	42,642	56,306	75,107	100,367

Source: Langkawi District Council, *Langkawi Structure Plan, 1992*: 4-10.

Migration

In the past, the young and educated from Langkawi had traditionally migrated to the mainland for better jobs and prospects. The majority of these young people were within the age group of 15 and 30 years. The pattern of migration shows that 27.4 per cent of these young people migrated to Pahang to participate in land development and resettlement; 22.2 per cent went to Penang; 17.9 per cent to the Federal Territory of Kuala Lumpur; and 16.4 per cent to Selangor. The variety of low-skill job opportunities are numerous in these states, especially those of factory workers.

With evidence of increasing job opportunities now, many people are being lured back to Langkawi. The author has spoken with a few people who are currently working in the hotel industry there.

They disclosed that they are from Langkawi and were working in other states before. Rapid development in Langkawi has triggered migration from the mainland because of attractive and diversified employment opportunities. The fact is that now many job seekers from other states, who have special skills not available locally, are coming to fill the void.

Unemployment

In 1980, the unemployment rate in Langkawi was 9.7 per cent. This figure was higher than that of the state and Peninsular Malaysia, which were recorded at 7.2 per cent and 6.1 per cent respectively. Table 4.4 shows unemployment by *mukim* in 1980.

The high rate of unemployment is best explained by the lack of employment opportunities. The labour force was immobile and did not have the required skills or college education to qualify for positions in the more productive sectors. The *mukim* of Bohor and Padang Matsirat had the highest unemployment rate at 15.3 per cent and 13.1 per cent respectively. Both *mukim* are situated along the coastal areas and characterised by agricultural and fishery activities. Traditionally, these sectors are independent and small scale in nature. During a visit to Langkawi in March 1993, I stopped at a village in Padang Matsirat and spoke with a farm worker who owns two acres of padi land. He has two boys, aged 17 and 19 years, both of whom have only completed their education up to Form Three, the equivalent of junior high school. The three members of this family are working two acres of padi land. The contribution by his two sons is not considered full-time employment.

Table 4.4
Unemployment by Mukim, 1980

	Working	Active	Inactive	Total	Total	Working	Unemployed	Workforce
		Employment	Unemployment	Workforce	Population	(%)	(%)	per Population (%)
Ayer Hangat	1,561	9	135	1,705	4,441	91.6	8.4	38.4
Bohor	602	33	76	711	2,197	84.7	15.3	32.4
Kedawang	1,225	23	96	1,344	3,683	91.9	8.9	36.5
Kuah	3,559	33	301	3,893	10,734	91.4	8.6	36.3
Padang Matsirat	1,149	17	159	1,325	4,328	86.9	13.1	30.6
Ulu Melaka	1,305	36	96	1,437	3,705	90.8	9.2	38.8
Langkawi	9,401	151	863	10,415	29,088	90.3	9.7	35.8
Kedah						7.2		
Peninsular Malaysia						6.1		

Source: Langkawi District Council (1992), *Langkawi Structure Plan*, p. 4-6.

DEVELOPMENT POTENTIAL OF LANGKAWI FOR ECONOMIC EXPANSION

Natural Environment

Current tourist attractions are enhanced by the lure of a natural environment with scenic views and a culturally interesting atmosphere. The urban environment is becoming less attractive, especially for international tourists from North America, Europe and Japan. Summer retreats for these travellers must offer enjoyment and the experience of a new culture combined with relaxation and recreational activities.

Langkawi is a group of islands which can offer gentle beauty and peace. The land is blessed with an unspoiled beautiful environment and an outstanding natural landscape. Among Langkawi's assets are the existence of green tropical rainforests on the highlands which not only create spectacular vistas but are considered to be unique in the world. Additionally, excellent white sandy beaches provide continuous constant beauty and enjoyment to all area visitors. The islets that form the archipelago can be developed with provisions for accommodation facilities. These islands provide a serene environment for activities such as yachting, scuba-diving, snorkeling and other related sea-sports.

History and Cultural Heritage

Any visit to an unfamiliar destination is enhanced and enriched by understanding the historical and cultural heritage of that area. Table 4.5 offers a list of tourist and historical attractions in Langkawi. Figure 4.4 shows the location of tourist attractions in Langkawi. Some legends of historical interest are described below:

1. *Makam Mahsuri* or Mahsuri's Tomb.
2. *Beras Terbakar* (literally, "Burnt Rice"). The villagers purportedly burnt their rice when they were invaded by the Siamese rather than leave it for the invaders use. Today, traces of the burnt rice still surface after heavy downpours.

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3. *Telaga Air Hangat* (literally, "Hotsprings"). It is said that these hotsprings were the result of a bitter quarrel between two families over the rejection of an offer of marriage. A battle ensued between the families in which everything was shattered including all pots, plates and saucers. A jugful of hot water was also flung to the ground; where it spilt, it is said, the hotsprings began to flow.
4. *Tasik Dayang Bunting* (literally, "Lake of the Pregnant Maiden"). This lake derived its name from a legend which tells of a couple married for nineteen years but had remained childless. As the story goes, the wife became pregnant after drinking from the lake. Since then, the lake has been frequented by many childless couples.

Local residents of Langkawi are a relaxed and friendly people. The way of life and customs of the locals can be promoted as tourist attractions. Cottage industries and handicrafts are other areas which will support tourism development. A few traditional kampungs, such as the fishing and agriculture villages, have a great potential for development as tourist attractions.

Free-Port Status

Since the Federal Government removed the free-port status of Penang in the early 1980s, Labuan became the only remaining free port in the country until the declaration of Langkawi as one in 1987. Penang had gained a tremendous advantage with its free-port status which contributed much to its present stage of development. The growth and development of countries such as Gibraltar, Hong Kong and Singapore rely considerably on their free-port status for their success. Development of the tourism industry in Bermuda and the Bahamas has also been supported by their free-port status.

Table 4.5
Tourist and Historical Attractions in Langkawi

Name of Place	Distance from Kuah	Attractive Characteristics	Facilities Provided	Note
RESORTS				
1. Durian Perangin	16.0km.	Waterfalls, rapids	-	Bus/taxi service available from Kuah/Teluk Ewa Jetty.
2. Telaga Tujuh <i>Seven Wells</i>	28.2km.	Waterfalls, natural water	Resting huts, glides with seven pools, stairs with 337 steps and located on a hill.	Fleet of taxi service available from Kuah/Teluk Ewa Jetty. 608m. long/access.
3. Lubuk Semilang-Gunung Raya Peak and rapids	16.8km.	Waterfalls, deep pool	Resting huts, trails from Kuah Jetty.	Boat service available.
4. Tasik Dayang Bunting <i>Lake of the Pregnant Maiden</i>	17.6km.	Located on an island off the main Langkawi island, freshwater.	Jetty, resting huts, platforms.	Boat service available from Kuah Jetty.
5. Tasik Langgun	23.2km.	Located at Pulau Langgun. Off the main Langkawi island.	-	Boat service available from Kuah Jetty.
HISTORICAL SITES				
1. Telaga Air Hangat <i>Hotsprings</i>	15.5km.	Two hotsprings	Shelter	Bus/taxi service available from Kuah/Teluk Ewa Jetty.

2. Makam Mahsuri <i>Tomb of Mahsuri</i>	17.8km.	Burial ground of Mahsuri	Shelter	Bus/taxi service available from Kuah/Teluk Ewa Jetty
3. Beras Terbakar <i>Burnt Rice</i>	12.0km.	Place where burnt rice is found; related to a local legend	-	Bus/taxi service available from Kuah/Teluk Ewa Jetty
4. Gua Cherita <i>Cave of Stories</i>	22.4km.	Related to the legend of Mahsuri.	-	Boat service available from Kuah Jetty.
5. Gua Langsuyar	19.4km.	Located within the Puteri Dayang Bunting Forest Reserve.	-	Boat service available from Kuah Jetty.
PICNIC BEACHES				
1. Pantai Dato' Syed Omar	3.0km.	Attractive scenery and beach.	Accommodation facilities.	Located near Kuah Jetty.
2. Pantai Pasir Hitam	17.6km.	Black sand	-	Bus/taxi service available from Kuah/Teluk Ewa Jetty
3. Pantai Teluk Yu	20.8km.	Natural beauty and clean beach.	-	Bus/taxi service available from Kuah/Teluk Ewa Jetty
4. Pantai Tanjung Rhu	22.4km.	Natural beauty and clean beach.	Accommodation facilities.	Bus/taxi service available from Kuah/Teluk Ewa Jetty
5. Pantai Kok	24.8km.	Natural beauty and clean beach.	Accommodation facilities.	Bus/taxi service available from Kuah/Teluk Ewa Jetty

6. Pantai Teluk Burau	25.4km.	Natural beauty and clean beach.	Accommodation facilities.	Bus/taxi service available from Kuah/Teluk Ewa Jetty.
7. Pantai Cenang	18.4km.	Natural beauty and clean beach.	Accommodation facilities.	Bus/taxi service available from Kuah/Teluk Ewa Jetty.
8. Pantai Tengah	19.8km.	Natural beauty and clean beach.	Accommodation facilities.	Bus/taxi service available from Kuah/Teluk Ewa Jetty.
9. Pulau Bumbun	6.4km.	Beautiful beach and views.	Accommodation facilities.	Bus/taxi service available from Kuah/Teluk Ewa Jetty.
10. Pulau Beras Basah	17.6km.	Beautiful beach and views.	Accommodation facilities.	Bus/taxi service available from Kuah/Teluk Ewa Jetty.
11. Pulau Singa Besar	17.0km.	Beautiful beach and views. Wildlife Park.	Jungle trails	Bus/taxi service available from Kuah/Teluk Ewa Jetty.
12. Pantai Datai	44.6km.	Beautiful beach and views.	Accommodation facilities.	Bus/taxi service available from Kuah/Teluk Ewa Jetty.
13. Teluk Anak Datai	44.6km.	Natural scenery and clean beaches.		




Source: Langkawi District Council (1992), *Langkawi Structure Plan, 1990-2005*, p. 7-5.

Figure 4.4

TOURISM ATTRACTIONS TO BE UPGRADED

- | | |
|---|----------------------|
|  | WATERFALLS |
|  | WILDLIFE PARK |
|  | PANTAI PASIR HITAM |
|  | TASIK DAYANG BUNTING |
|  | TELAGA AIR HANGAT |
|  | TOMB OF MAHJONG |
|  | BERAS TERENGGANU |

TOURISM ATTRACTIONS TO BE DEVELOPED

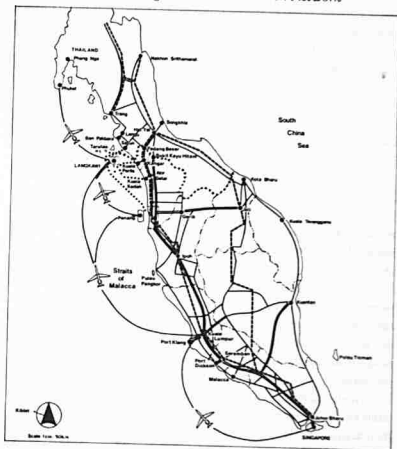
- | | |
|---|---------------|
|  | GLIA LANGSUAR |
|  | MARINE PARKS |
|  | ART MUSEUM |

- | | |
|---|---------------------------------|
|  | FISHING VILLAGES |
|  | TRADITIONAL PADDY GROWING AREAS |
|  | NATURE LOVER'S AREA |
|  | HISTORICAL TOMBS |
|  | AQUACULTURE PROJECTS |
|  | GOLF COURSES |
|  | GUNUNG RATA HILL RESORT |
|  | MARBLE QUARRIES |
|  | IKAN BILIS INDUSTRY |
|  | FOREST PARKS |
|  | MANGROVE SWAMP |
|  | ROAD |
|  | PROPOSED MAJOR ROAD |

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Figure 4.5
Langkawi: Regional Communication Network



Legend:

- HIGHWAY
- MAIN ROAD
- RAILWAY LINE
- FERRY ROUTE
- AIR ROUTE
- STUDY AREA
- INTERNATIONAL BOUNDARY

Source: Langkawi District Council, *Langkawi Structure Plan*, 1992: 3-2.

In recent years, a few other free ports have been established in tariff-enclosed countries. Generally, the areas selected as free ports are usually those less developed than other parts of the host country and located in the more remote areas. In such cases, free-port status has been adopted to stimulate local development through international economic activity.

The declaration of Langkawi as a free port was very much influenced by the development enjoyed by other countries around the world with similar status. The free-port status of Langkawi has helped to generate and enhance the economic development of the island at a faster rate, especially in tourism and related industries.

Location

Langkawi is strategically located between Phuket and Singapore, the international resorts route and tourist centres. The communication network by air or land from Singapore through Phuket via Langkawi or vice versa can easily be connected and expanded. Figure 4.5 illustrates the regional communication network for Langkawi. The warm weather throughout the year is free of monsoon conditions; this also contributes to Langkawi's definition as an ideal tourist centre. It is ideally located to take advantage of the future development of the tourism industry of Tarutao island in Thailand, within close proximity.

There is also a rail service, the Langkawi Express, which operates from Kuala Lumpur to Arau in Perlis. From there the passengers can be transferred to Kuala Perlis Jetty by bus and then board a ferry to the main island. The construction of a railroad from Arau to Kuala Perlis, if it were to be considered, would also bring new development to Perlis through the development of Langkawi. If this should happen, it would boost the development of Kuala Perlis with the new railroad terminal while at the same time, propel the growth of the new port which is scheduled to be constructed at Kuala Perlis. The building of a new road to link Satun in Southern Thailand and Bukit Puteh in Kuala Perlis, Malaysia would be the latest gateway connection to Langkawi.

INFRASTRUCTURE DEVELOPMENT

The thriving development of Langkawi did not take place until LADA was established in 1990. Private investors remained on the sideline to observe the trend of development before fully committing their resources. In order to demonstrate a serious commitment by the government to develop Langkawi, infrastructure improvement and expansion should be given first priority.

Immediately after Langkawi was declared a free port in 1987 and during the following six years, the Federal Government invested RM500 million on public infrastructure. Under the 6MP, RM374 million was allocated for Langkawi, and RM148 million out of that amount was channelled directly to LADA.

Airport

The first move by the government to improve infrastructure in Langkawi was to upgrade the local airport, bringing it up to the standards of an international airport. The Langkawi International Airport was completed in 1987 at a cost of RM87 million.

In 1991, another RM18 million was spent for airport expansion to accommodate the Langkawi International Maritime and Aerospace exhibition (LIMA). Another allocation of RM40 million has been allocated for a further extension of the airport in 1993. Because of the increasing demand for air transportation by resort tourists, the Federal Government has decided that the Langkawi International Airport be extended further to accommodate the Boeing 747 aircrafts.

Accommodation

After Langkawi was declared a free port in 1987, the number of tourist arrivals increased dramatically. In 1987, the island registered a total of 310,000 visitors. In 1988, that number increased to 438,778, or by 41.5 per cent. By 1989, the rise was 45.5 per cent for a total of 638,089 visitors (Chong, 1992). This increasing trend is expected to continue for the years ahead. The length of stay is also expected to increase from 3.5 to 4.0 days by 2005. Assuming an average occupancy

rate of 55 per cent, forecasts indicate that by the year 2010, 1.4 million tourists will be arriving annually. Table 4.6 shows the projection for rooms, beds and annual tourists between 1993 and 2010.

Tourist arrivals to Langkawi are no longer seasonal as they once were prior to free-port status. During peak periods, especially the months of October and November, due to long school holidays in Malaysia and the holidays of Hari Raya Puasa, Chinese New Year, Deepavali and Christmas, there were occasions when not a single room was available. Any shortage of rooms should be avoided and necessary steps should be taken to ensure enough rooms are available at all times. This is important to gain the confidence of tourists and the travel industry at large.

Table 4.6
Rooms, Beds and Annual Tourists, 1993-2010

Year	Rooms	Beds	Annual Tourists	No. of Nights	Average No. of Tourists per day
1993	4,193	12,800	856,700	3.0	7,920
2000	6,790	18,400	1,154,300	3.2	10,120
2005	8,000	22,400	1,284,300	3.5	12,320
2010	9,500	26,600	1,405,200	3.8	14,630

Source: Langkawi Maritime Development Master Plan, 1992.

Public Utilities

The development of public utilities has also been very successful with the response from Syarikat Telekom Malaysia and Tenaga Nasional. Telekom Malaysia has built a new telecommunications transmission station with a capacity large enough to meet the increasing demand on their facilities. Tenaga Nasional, Malaysia's sole power company, has also built new substations linking Langkawi through underwater cable with the main hydroelectric power stations on the mainland.

Other infrastructure improvements have been roads, sewerage plants and water linkages. The present network of roads in Langkawi is well planned to link major settlements and resort areas. Future

improvements are planned for widening certain major roads as necessary to meet the increasing traffic volume. Installation of traffic lights at primary intersections will be carried out to manage traffic efficaciously. The areas surrounding Teluk Burau and Teluk Datai can be further developed as road linkages and as routes with scenic views.

Immediate steps should be taken to determine adequate sewerage systems in anticipation of the increasing development in housing, commerce and tourism. Such facilities would favourably impact the quality of Langkawi's natural environment and international reputation for hygienic living conditions.

Another important public utility is the sufficient supply of clean drinking water to meet the growing need. Currently, water supply falls under the jurisdiction of the Public Works Department and its management is strictly within the control of bureaucracy. For the efficiency of management and consumer protection, like power and telecommunications, a Langkawi Water Board should be established to meet high-quality standards for drinking water and provide efficient services.

Jetty and Port

Kuah Jetty and Teluk Ewa Port have been developed as gateways for sea transportation. Kuah Jetty as a passenger terminal is one of the busiest in the country. The new Kuah Jetty was built at a cost of RM2.5 million and inaugurated in June 1993. In the near future the jetty will need to be expanded again to cater to the increasing demands of tourists who travel by land via Kuala Perlis and Kuala Kedah. The extension is needed to provide more space in the waiting area, duty-free shops and other related facilities as well as areas to accommodate a bigger ferry capacity. Teluk Ewa Port, on the other hand, handles cargo. This small port has the potential to be developed into a major port to cater to larger ships such as cargo containers.

LADA AS THE TRANSFORMATION AGENT

LADA is a corporate body falling directly under the Ministry of Finance. The yearly development expenditure for LADA is provided by the Ministry of Finance. Currently, most of the development expenditure from various sources for Langkawi are being channelled through LADA which acts as a monitoring body. Under an Act of Parliament, LADA is allowed to raise funds through borrowing from financial institutions for the purpose of meeting any of its obligations or discharging any of its duties.

LADA, as established by an Act of Parliament, has been entrusted with the responsibility to plan, promote, stimulate, facilitate and undertake economic and social development, and co-ordinate these programmes in Langkawi. All development projects in Langkawi must receive principal approval from LADA before being processed by the respective technical departments. LADA has a wide planning scope. Its main task is to consider all proposals for new development areas, types of projects to be developed and determine other planning requirements such as height control, density and landscape.

Concrete development with urban facilities will be located in the urban growth centres of Kuah, Padang Lalang and Padang Matsirat. These towns have been identified as commercial and business centres. The development of resort areas such as Pantai Cenang, Teluk Baru, Teluk Burau, Teluk Datai and Tanjung Rhu are within the domain of environmental protection. All the hotels and the chalets are built from prefabricated timber, and the natural environments are being preserved at the highest levels possible.

The present cement and marble factories will be allowed to continue operating as they have been since before Langkawi became a tourist destination and before the adoption of the Langkawi Structure Plan. The government will only consider industries which are environment-friendly. The decision to develop Langkawi as a tourist resort while protecting its environment was reached long before the 1992 Earth Summit in Rio, Brazil.

The high-speed development of Langkawi under LADA is a result of the Malaysia Incorporated approach and the bureaucratic processes which have been scaled down to a bare minimum. The Federal Government's involvement plus Prime Minister Dr Mahathir Mohamad's dynamism, vision and commitment have been the driving forces in the development and success of Langkawi. The General Manager of LADA, Datuk Haji Abdul Halil Mutalib, concluded that the Prime Minister has single-handedly spurred growth and motivated the development in Langkawi, "He sets the standard, determines the deadlines and provides the inspiration. And it has been proven that when he determines the deadline, things can be done. If you are not going to listen to the number one, who else will you listen to?"¹¹ To monitor the progress and the development in Langkawi, the Prime Minister makes frequent visits to the island.

LADA has a good record and set an example in its efforts to overcome the acute shortage of accommodations before the LIMA (Langkawi International Maritime and Air) show in 1991. The two gigantic hotels belonging to LADA were completed within unbelievably short period: the 300-room five-star Sheraton Langkawi Resort in Teluk Nibong was completed within 100 days at a cost RM30 million, while the three-star De Lima Hotel in Kuala Muda with 304 rooms was completed within 53 days at a cost RM13 million. Both these resorts eventually accounted for a total of 1,800 rooms.

Under the LADA's Act, LADA is empowered to establish a corporation or subsidiary to carry out and have charge of, conduct and management of any project, scheme or enterprise. LADA has been diversifying its activities to meet the challenges in that capacity. One such activity is the Lada Langkawi Holdings Sdn. Bhd., a venture into a passenger ferry service. The main objectives of this undertaking are to offer a better alternative to passengers and encourage competition in the market. The sea-link needs to be upgraded with ultra-sophisticated facilities to project a positive image of the network communication to the resort.

¹¹ Gabriel, September 15, 1992: 11.

The Act also provides that LADA set up its own land inventory. Without the power of compulsory acquisition of land or development through eminent domain, the government cannot, by regulation, compel development in areas where market economics are contra-indicated, or where land cannot be purchased because of fragmented or unwilling ownership. Eminent domain requires a public use or purpose to allow the acquisition of private property followed by just compensation or fair market value to be paid to the property owner. Section 28(1) of the LADA's Act declares: "When any immovable property, not being State land, is needed to be acquired by the Lembaga (Authority) for the purposes of this Act, such property may be acquired in accordance with the provisions of any written law for the time being in force in the State relating to the acquisition of land for a public purpose, and any declaration required by any such written law that such land is so needed may be made notwithstanding that compensation is to be paid by the Lembaga, and such declaration shall have effect as if it were a declaration that such land is needed for a public purpose in accordance with such written law."¹²

To streamline the government action as instituted in this Act and other similar development undertaken by other government bodies, the Land Acquisition Act 1960 was amended in 1991 to give it a broader meaning and interpretation. Section 3 of the Land Acquisition Act 1960 was amended by substituting paragraph (b) with the following: "The State Authority may acquire land which is needed ... (b) by any person or corporation for any purpose which in the opinion of the State Authority is beneficial to the economic development of Malaysia or any part thereof or to the public generally or any class of the public."¹³

Since 1987, more than 3,200 hectares (8,000 acres) of land have been acquired by the Authority for development purposes in Langkawi. The price of land in prime areas in Kuah has soared to between

¹² Government of Malaysia, 1990: 17.

¹³ Government of Malaysia, 1976: 12.

RM6 and RM7 per square foot in 1990, from 50 sen per square foot before 1987. In the resort areas of Pantai Cenang, Pantai Kok and Teluk Burau prices of land were between RM5 and RM6 per square foot in 1992. Increasing speculation has caused land value to appreciate without due justification. This rate of land appreciation might undermine development strategies and impact the island's future development direction, if this situation is not brought under control.

Land transactions in Langkawi prior to the establishment of LADA were mostly done in Kedah land measurements. The measurements used then were in "relong" and "jemba". The Kedah superficial land measures are defined below:

1 relong	= 484 jembas
	= 30,976 square feet
1 jemba	= 64 square feet
1 relong	= 0.71111 acre
1.40625 relongs	= 1 acre
	= 43,560 square feet

Property owners now prefer to deal in "per square foot" when negotiating for land sale. However, landowners need to become well versed in the conversion measurements. The author was told: "Many kampung people or the villagers will ask, how much are you willing to pay per square foot for my land? But, they do not know how many square feet there are in one acre."

Real property value has increased tremendously since 1987. In less than three years, between 1990 and 1992, LADA had paid more than RM100 million for compensation of land acquisition. Statistically, before 1990, records were not available to indicate that there were any local Malay millionaire living in Langkawi; it was only known that a prominent Chinese property developer and auto distributor, the late Tan Sri Loh Boon Siew, who had lived in Penang and owns a rubber estate in Langkawi, was very wealthy. Before the government started to invest heavily in Langkawi in 1990, its residents were struggling to escape the poverty that had a stranglehold

on their lives for years. Now they are competing to become millionaires. Today, at least thirteen people, most of whom were farm owners, have become millionaires in Langkawi because of their windfall from land acquisition.

To stabilise the market price of land, LADA has announced that they have a sufficient land inventory for future development. Future land accumulation for development can also be accomplished by the conversion of wet land through landfills or reclamation of swampy coastal land.

BUMIPUTERA PARTICIPATION

The development of Langkawi is within the scope of the New Economic Policy. Although, the NEP entered its concluding phase in 1990, under National Development Policy, 1991-2000, and within the context of the Second Outline Perspective Plan (OPP2), the continuing thrust of the NEP is to eradicate poverty and restructure society. One of the strategies under the objective of restructuring society is that of allocating a minimum of 30 per cent of the country's wealth as Bumiputera share. Regional economic policy on Langkawi is being implemented under LADA. Besides the economic expansion of the country one of the goals is to increase Bumiputera participation in the nation's wealth.

Bumiputera participation in the socioeconomic development of Langkawi should not be restricted to that of supporting labour in the tourism industry, that is, as bus and taxi drivers. In the hotel line, they are being employed as bellboys, gardeners, security guards and maids. Higher-level positions should be made available to local people if they are qualified. In 1992 there were 3,200 foreign workers in various positions in several sectors of Langkawi. The economic development of Langkawi should proceed at its own pace at whatever cost necessary initially. Eventually, however, foreign workers must be replaced by the local Bumiputera population once they have been properly trained to assume such responsibilities.

Commerce

Participation of the Bumiputeras in the commercial sector in Langkawi is encouraging. Langkawi, as a free port, offers a wide range of opportunities for the Bumiputeras to participate in trade and commerce. Although most operate small stores, the potential for expansion will increase as their businesses thrive. This is especially true in Kuah. In 1988, Bumiputera ownership of commercial premises was 34.9 per cent. However, Bumiputera participation in major settlements is not proportionate. Only 12.5 per cent of business operations in Kuah are owned by the Bumiputeras, while 87.5 per cent is owned by the non-Bumiputeras. In small towns like Padang Lalang and Padang Matsirat, Bumiputera participation is high, that is, 95.0 per cent and 48.7 per cent respectively. Outside these towns, Bumiputera participation is also quite high at 72.9 per cent.

The highest percentage of Bumiputera participation is in retail business, that is, 52.1 per cent, followed by wholesale activities and services, 7.4 per cent and 8.5 per cent respectively. Table 4.7 indicates the type of commercial activity by ethnic group in 1988. This indicates that the types of businesses operated by Bumiputeras are generally those which do not require a large capital outlay. Consequently, the returns are also minimal.

In the informal commercial sector, there are 125 stalls or booths in Langkawi (located along main streets and in major settlement areas). Out of this total, Bumiputeras account for 96.0 per cent (120 units) while non-Bumiputeras account for the remaining 4.0 per cent (5 units). This reflects that Bumiputera domination of these small business is high and satisfactory.

Table 4.7
Type of Commercial Activity by Ethnic Group, 1988

Activity	Bumiputeras		Non-Bumiputeras		Others*		Total	
	No.	%	No.	%	No.	%	No.	%
Wholesale	7	7.4	21	12.4	–	–	28	10.4
Retail	49	52.1	88	52.1	2	33.3	139	51.7
Service	8	8.5	27	16.0	3	50.0	38	14.1
Restaurant	30	32.0	28	16.6	–	–	58	21.6
Transportation	–	–	4	2.3	1	16.7	5	1.8
Construction	–	–	1	0.6	–	–	1	0.4
Total	94	100.0	169	100.0	6	100.0	269	100.0

Note: * Commercial establishment not clearly defined by ethnic group.

Source: Langkawi District Council (1992), *Langkawi Structure Plan, 1990-2005*, p. 15-4.

LANGKAWI

The government's aim is to create a major group of local Bumiputera Commercial and Industrial Community (BCIC) in Langkawi. Although, the majority of the Malay population in Langkawi is involved in agriculture and fishery, the young and educated can be groomed and trained to venture into the commercial sector. MARA (Majlis Amanah Rakyat), as one of the government trust agencies, has been very active in training and creating young Bumiputera entrepreneurs. From 1987 to 1990, MARA has conducted 15 courses related to business management, which included a Business Preparatory Course, Import and Export Management, Salesmanship, Chalet Management, Restaurant Management and Bookkeeping.

In the Business Preparatory Course, 21 candidates out of 63 had been very active and have been successful in their businesses. Six others have recently set up a business. To encourage university and college graduates to venture into business, special loans are available to them. Table 4.8 shows the various types of loans given by MARA Langkawi to the Bumiputera until January 31, 1993.

Table 4.8
*Outstanding Loans Given by MARA Langkawi
up to January 31, 1993*

Type of Loan	No.	RM
General	172	1,325,005.01
Contract Works	28	85,996.04
Special	349	351,540.25
Graduate	5	126,524.66
Corporate	1	67,728.29
Chalets	32	592,293.33
Total	447	2,549,087.58

Source: Pejabat MARA Langkawi, Progress Report up to January 31, 1993.

Besides providing capital in the form of loans, MARA has also developed lock-up stalls (20 units), bazaars (10 units) and arcades (26 units). MARA has approved for construction in 1993 several new business premises, hawkers centres (30 units) and shopping com-

plexes (30 units). In providing business premises for the Bumiputeras, MARA should give serious thought to designing and building covered shopping malls which would reflect a modern and attractive concept. This is very important in order to be able to compete with more established stores such as Yaohan which has announced its intention to open an outlet in Langkawi.

The commercial sector in Langkawi has a broad plan for upgrading its units to meet the international trading standard. This will provide greater opportunities for the Bumiputera. Financial and banking centres, restaurants and catering services, and shopping and other related activities will complement tourism development, and maximise the advantage of being a duty-free port.

Industry

Industrial development in Langkawi will be governed by environmental constraints. The growth of controlled and non-polluting resource-based industries will continue to be encouraged but will be located in specifically planned areas. The sites which have been identified for industrial development are as follows:

1. Kuah—light industries and services;
2. Teluk Ewa—port-related industries;
3. Padang Lalang—light industries and services;
4. Padang Matsirat—airport-related industries; and
5. Kisab - resource-based and marine-related industries.

Generally, the industrial sector is a minor sector in Langkawi. In 1988 there was only a total of 69 industrial establishments, and 47 of these were workshops. Of this total, Bumiputera ownership accounted for only 30.4 per cent. Table 4.9 indicates the ownership of industrial establishments by type and ethnic group. This percentage illustrates that Bumiputera involvement is still far below that of the non-Bumiputera (62.3 per cent). Of the 21 Bumiputera-owned industrial establishments, 12 are workshops (57.1 per cent). This indicates that the majority of the Bumiputera in the industrial sector are

involved in those industries which neither require large capital outlay nor highly skilled manpower.

The Bumiputera share of participation in the economy should reflect the ethnic composition, of which they are the majority component. Because of the absence of Bumiputera involvement in industrial development due to their lack of capital and skills, trust agencies shall continue to provide support facilities. Agencies such as LADA, MARA, UDA (Urban Development Authority), PERNAS and PKNK (Perbadanan Kemajuan Ekonomi Negeri Kedah) or Kedah State Economic Development Corporation will provide encouragement, especially in terms of allocation of industrial sites, buildings in areas already designated, capital, consulting and advisory services. On the other hand, should there not be any Bumiputera available at the appropriate time to venture into such industrial activities, trust agencies should form subsidiaries to fill the quota for Bumiputera. When an able Bumiputera becomes available to manage the business, then that venture should be sold to him.

In addition to this contribution by the trust agencies, the development of human resources must be increased and organised to prepare local communities with the necessary training and education for required skills so that the people will be able to actively participate in their own development. Furthermore, measures must be taken to ensure an equitable allocation of Bumiputeras in industrial establishments. The requirements set out in the Investment Promotion Act 1986 should be implemented and strictly followed as they require a guide to policies which will help achieve a balance in the Bumiputera workforce at all levels of occupation in the industrial establishment.

During my field work study in Langkawi in March 1993, I encountered a dynamic Malay businessman from Padang Matsirat, who suggested some points to the government which could encourage village people to participate in commerce and industry: by allowing some relaxation of and exemption from some departmental requirements. In his own words, "*Perniagaan baru nak mula, surat dari Jabatan Hasil Dalam Negeri dah sampai minta kemukakan penyata*

kira-kira dan bermacam soalan yang tak boleh dijawab. Kalau kerajaan boleh beri Taraf Perintis kepada syarikat besar, peniaga-peniaga kecil Bumiputera yang baru mula hendak berniaga di Langkawi patut dipertimbangkan." (This translates loosely as: "Even before our business starts its operations, the Internal Revenue Service Department has begun demanding for tax returns, asking questions which are difficult to answer and the completion of lengthy questionnaires. If the government can grant Pioneer Status to large companies, then small-time Bumiputera businessmen who are about to start out in business in Langkawi should be given special consideration.")

Transportation

There are two areas of the transportation industry into which the Bumiputera can venture. Firstly, there is land transport, which involves public service transportation. This is the provision of car or van for hire, taxi, limousine, sightseeing coach and bus services. Secondly, there is sea transportation, which would include ferry services from the island to the mainland, cargo ship, bus-boats as a means of inter-island transport and cruise boats which tour the islands.

In 1989, 312 licenses were issued; 131 licenses were for chauffeured cars and vans services, 63 licenses for car and van rental, 11 for limousines, and 107 for vehicles for special occasions. In 1988, Bumiputera participation in land transport services accounted for 93.0 per cent of the total number of operators in Langkawi. Table 4.10 demonstrates public ownership by ethnic group. During this same period, three companies were involved in ferry services to Kuah Jetty from Kuala Perlis and Kuala Kedah. Of these companies, two are non-Bumiputera owned, one is owned by MARA, but none by an individual Bumiputera.

Table 4.9
Ownership of Industrial
Establishment by Type and Ethnic Group, 1988

Type	Bumiputeras		Non-Bumiputeras		Government Others		Total	
	No.	%	No.	%	No.	%	No.	%
Marble/Quarry	-	-	-	-	2	100.0	2	100.0
Sawmill	-	-	1	100.0	-	-	1	100.0
Quarry	-	-	1	100.0	-	-	1	100.0
Ikan Bilis Drying	-	-	2	100.0	-	-	2	100.0
Rubber Smoke-house	-	-	1	100.0	-	-	1	100.0
Cement Factory	-	-	-	-	1	100.0	1	100.0
Furniture	4	80.0	1	20.0	-	-	5	100.0
Petrol Station	1	50.0	1	50.0	-	-	2	100.0
Workshop	12	25.5	35	74.5	-	-	47	100.0
Petrol Depot	-	-	1	50.0	1	50.0	2	100.0
Marble Craft	-	-	-	-	1	100.0	1	100.0
Rice Mill	4	100.0	-	-	-	-	4	100.0
Total	21	30.4	43	62.3	5	7.3	69	100.0

Source: Langkawi District Council (1992), *Langkawi Structure Plan, 1990-2005*, p. 15-5.

Table 4.10
Public Transport Ownership by Ethnic Group, 1988

Type	Hired Car		Van		Limousine		Total	
	No.	%	No.	%	No.	%	No.	%
Individual								
Bumiputera	57	74.0	27	96.4	5	50.0	89	77.4
Non-Bumiputera	3	3.9	-	-	5	50.0	8	7.0
Company								
Bumiputera	12	15.6	1	3.6	-	-	13	11.3
Non-Bumiputera	-	-	-	-	-	-	-	-
Co-operative								
Bumiputera	5	6.5	-	-	-	-	5	4.3
Non-Bumiputera	-	-	-	-	-	-	-	-
Total								
Bumiputera	74	96.1	28	100.0	5	50.0	107	93.0
Non-Bumiputera	3	3.9	-	-	5	50.0	8	7.0
Grand Total	77	100.0	28	100.0	10	100.0	115	100.0

Source: Langkawi District Council (1992), *Langkawi Structure Plan*, p. 15-6.

Bumiputera participation in transport services such as hired cars, vans, taxis and inter-islands bus-boats is very encouraging. The areas where more Bumiputera participation is needed would be the comfort services. This would require the ownership of better vehicles with luxury or semi-luxury equipment. The drivers and conductors should be professionally trained to meet international standards of coach driving, conduct and presentation.

Accommodation

The growth in the tourism industry has created new opportunities for the local population and evolved into an important economic activity. Bumiputera participation in tourist accommodation can be found in the running of chalets and hostels. In 1989 there were eleven chalets and two hostels that provided a total of 181 rooms. Although Bumiputeras are the major operators for accommodation on an individual basis (twelve Bumiputera operators compared to six non-Bumiputera), most of these establishments are lower-priced ones. The average Bumiputera equity in the more exclusive accommodations is 65.2 per cent. Although this is a high percentage, such hotels are usually owned by the respective trust agencies such as LADA and PERNAS.

Apart from the more affordable establishments such as hostels and chalets, private houses also offer bed-and-breakfast accommodation to tourists. This is similar to the rental of a farmer's home in Europe, also referred to as a bed-and-breakfast. Many tourists appreciate the opportunity to associate and interact with the local populace by staying in their homes. This enhances the tourists' knowledge of the local culture and customs.

Amanah Saham Anak Langkawi

Bumiputera participation in the economic development of Langkawi will be further enhanced through the assistance of the Amanah Saham Anak Langkawi (ASAL, Langkawi Residents' Trust Fund). ASAL was established in August 1992, with the aim of helping local residents to venture into profitable economic activities. The future

investments will be in the real property development and trade and commerce.

The Federal Government has approved a loan of RM10 million to ASAL as initial capital to begin its investment activities. Additionally, LADA has also set aside RM2 million to invest in business ventures undertaken by ASAL. ASAL will bridge the gap between the residents living in underdeveloped areas in Langkawi and those living in areas earmarked for development. It is a hope and dream of local Bumiputeras in Langkawi that ASAL will act as their agent to acquire major equity shares in the hotel industry, real property and other business enterprises.

For ASAL to actively participate in economic ventures, all Bumiputera residents in Langkawi will have to invest in ASAL through the purchase of its shares. By pulling together all Bumiputera capital in Langkawi, the future of the Bumiputera in Langkawi will be secured.

ISSUES FOR THE DEVELOPMENT OF MALAY RESERVE LAND

Langkawi can be used as a model for future development strategies of the Federal Government as Malays constitute almost 90 per cent of the total population. In terms of the status of landownership, nearly the whole of Langkawi has been gazetted as a Malay Reserve Land. Although, there is some land owned by non-Malays under "non-Malay holding,"¹⁴ it is a relatively small percentage existing in the town of Kuah and some agriculture land around the island.

Malay Reserve Land is not to be transferred in ownership to the non-Malays. This provision is under the Kedah Malay Reservations Enactment No. 63, which reads as follows: "8(1) No State land included in a Malay Reservation shall be sold, leased or otherwise disposed of to any person who is not either: (a) a Malay; or (b) a Siamese

¹⁴ Land in a Malay Reservation held by non-Malays. These lands are those usually that were held by non-Malays before the area was declared a Malay Reserve Land.

certified by the Director in writing to be a Siamese agriculturist permanently residing in the state."¹⁵

There are two points on Malay Reserve Land, which are always being raised by Malay socioeconomists and local leaders. Firstly, the compulsory land acquisition of Malay Reserve Land by the government for economic development which would not benefit the Malays directly. In some cases, land that has been compulsorily acquired is given to the non-Bumiputera or foreign companies for development. Secondly, revocation of the Malay Reserve Land by the government which would enable the ownership of the land to be transferred to non-Malays.

Compulsory Land Acquisition

Section 3 of the Land Acquisition Act 1960 provides that the State Authority may acquire land which is needed:

1. for any public purpose;
2. by any person or corporation for any purpose which in the opinion of the State Authority is beneficial to the economic development of Malaysia or any part thereof or to the public generally or any class of the public; or
3. for the purpose of mining or for residential, agricultural, commercial or industrial purposes.¹⁶

Land acquisition does not take into consideration whether the land belongs to a Malay or a non-Malay, or whether it is a Malay Reservation; it depends on current needs. The most important issue would be its strategic location within the development area. Land acquisition must always be in line with the following government policies:

¹⁵ State Government of Kedah, 1351: 3.

¹⁶ Government of Malaysia, 1978: 12.

1. For infrastructure and economic development: to create job opportunities and eradicate poverty; and
2. Privatisation policy: as the government has to reduce financial burden and to accelerate development growth through private sector involvement, the land acquired by the government has to be handed to third parties.

The people of Langkawi need to realise that to propel development, the government must receive support from the private sector. In the tourism industry, for example, to effectively bring tourists into Langkawi and to efficiently provide them with accommodation facilities an established international hotel chain is needed. The well-known international chain hoteliers, such as Sheraton and Holiday Inn with their international connections can direct their clients to Langkawi. The Langkawi Island Resort, once managed by the Tourist Development Corporation of Malaysia, was not effective in selling Langkawi to the international tourist market because it lacked international connections.

Revocation of Malay Reserve Land

Section 4 of the Kedah Malay Reservations Enactment empowers the State Authority to revoke any declaration of land as Malay Reservation. In the case of Langkawi, the author assumes that the only reason for a Malay landowner to request revocation of Malay Reserve Land would be for the purpose of enabling him to transfer landownership to a non-Malay. If a land is free from endorsement by the Malay Reserve Land, then the land reverts to a freehold status and is open for purchase by any buyer. Thus, it is easier to sell at a much higher price.

As of 1992, there had only been eight applications submitted to the State Authority for approval of revocation of Malay Reserve Land in Langkawi. Most of these were for resorts, hotels and commercial centres. Only one, however, was approved for revocation. Article 89(3)(C) of the Federal Constitution of Malaysia requires replacement, area for area, of land for which a revocation has been

granted. In Langkawi, the eight applications proposed exchanging isolated and underdeveloped land in another district in Kedah for replacement of the proposed revocation.

The issue of revocation of Malay Reserve Land is becoming a subject of political debate. In the case of Langkawi, if the issue is only for the benefit of the Malay landowner to revoke the status of the land in order for him to sell the land to a non-Malay for a higher price, then such a revocation should be rejected.

The regional development strategy in Langkawi is to reduce social and economic development disparities with other regions in Malaysia. In order to accelerate development, heavy investment in infrastructure has been made by the government to bring Langkawi to its present stage. This is especially true in terms of real property values. But, if there is no permanent change in terms of property and wealth of Langkawi Malays by transferring their property to non-Malays, then this strategy will have failed to achieve its objective.

Land Leasing

The land leasing concept is to allow Malay landowners without capital or business skills to develop his land by a third party. This is a better concept than a joint-venture, because in a joint-venture, after the property has been developed, it has to be sold to realise a profit by the capital investor. In this case, the landowner is only entitled to a small percentage of the profit. A lease is an interest in land granted by the lessor, whether he is the owner of the land or not, to a lessee for a certain period. A lease, being an interest on land, is hence, capable of being transmitted and is binding on the lessor's successors in title.

For this concept of land leasing to happen in Langkawi, the present Kedah Malay Reservations Enactment has to be modified and amended to allow lands within a Malay Reservation to be leased out to non-Malays. If this concept is accepted, then the revocation issue will not arise and the Malay landowners will be protected from the outright sale of their real property.

Inadequacy of Capital and Skills

The Malay Reserve Land in Langkawi is the highest real property value in the country when compared to other Malay Reserve Land in other states. This is because the potential for development is high and investors are willing to pay a high premium for that potential development. For example, land close to the beach could fetch around RM400,000 per hectare or 2.4 acres. Previously, the Malays in Langkawi have never dreamt of becoming so rich by selling their own property. Now they are tempted to sell their land because of the high prices offered.

Although they own the real property, they do not have sufficient capital or the professional skills to develop their land. To prevent this practice of local people from selling their land for immediate gains, trust agencies such as MARA, UDA, LADA and PERNAS should form joint-venture companies to develop the land on behalf of the Malay landowners. The involvement of a trust agency to develop Malay Reserve Land would safeguard and protect the interest of the landowner. If private individuals are encouraged to develop the land on behalf of the Malay landowners, then the occasion for fraud may arise to the disadvantage of the landowner.

CONCLUSION

When Langkawi was declared a free port in January of 1987, its future development was completely transformed, especially so with the formation of LADA in 1990. These two events, as agents of economic development, have changed the economic life of the Langkawi people tremendously. To sustain the development and further enhance the progress of Langkawi, the free-port status must be maintained, as this would propel its economic growth.

The Bumiputeras in Langkawi should be encouraged to participate in large-scale business, that is, from businesses in booths to larger stores and shopping malls. In terms of food and beverage businesses, their participation should not be confined to eating stalls but they should be encouraged to expand their enterprise into restaurants and coffeehouses.

In the future, certain government undertakings for economic development, especially for business ventures, may necessitate the acquiring of Malay Reserve Land. This could be accomplished by way of lease agreements. If the government acquires use of land for public purposes by way of lease agreements, this would protect the Malay interest and ensure that the Malays will maintain property ownership.

Although those Malays become rich overnight when the government acquires, or allow them to sell, their land outright, the crucial point is would they maintain and further improve their economic position? The rich who become richer are those people who involve themselves in business enterprises while retaining ownership of their properties.

The Federal Government has played a key role in the development of Langkawi. The presence of the Federal Government in Langkawi through LADA, which has been given a free hand to develop Langkawi, has been accused by local authorities of interfering and directly challenging their jurisdiction. Since the Federal Government has already invested millions, and will continue to invest even more in the future for the development of Langkawi, it may be in the best interest of political and economic reasons that Langkawi be made a Federal Territory.

Langkawi, as an international tourist resort, must make every effort to assure its place among the popular world tourist destinations. In this regard, Kuah, as the capital town of Langkawi, must become synonymous with other major international tourist cities such as Miami, Florida and Honolulu.

The Langkawi District Council is the local government authority in Langkawi. Kuah, as the capital town of Langkawi, although not yet entitled to be conferred "city" status, should at least be elevated to the status of "municipality". This would be appropriate in view of Langkawi's future.

Chapter 5

SUMMARY FINDINGS AND CONCLUSIONS

THERE ARE three basic reasons for the government to implement regional economic development policies in Peninsular Malaysia:

1. The regional disparities that exist between the west coast, which is well developed, and the east coast, which is underdeveloped;
2. The west coast is densely populated and dominated by wealthy non-Malays and the east coast is less populated and predominantly inhabited by poor Malays; and
3. The income inequalities which exist between urban and rural areas, again, a reflection of the ethnic composition (urban dwellers, predominantly non-Malays; rural dwellers, predominantly Malays).

The watershed of the political and economic development in Malaysia took place as a result of the racial riots on May 13, 1969, particularly in Kuala Lumpur. Since the first Chinese immigrants arrived in Malaysia in the last century, they have come to dominate the economy of the country even though the Malays account for more

than 50 per cent of the total population of the country. This situation eventually created both social and economic gaps between the Chinese and the Malays. After the 1969 riots the government realised that economic expansion, progress and the future stability of the country depends on national unity and an equitable distribution of the country's wealth among its own people.

The government decided that the only alternative to keeping multiracial Malaysia intact would be to ensure that the country's wealth is shared equitably among all its ethnic groups. In support of this decision, the New Economic Policy was formalised with the following central aims:

1. To eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race; and
2. To accelerate the process of restructuring Malaysian society to correct economic imbalances, thus reducing and eventually eliminating the identification of race with economic function.

Heavy emphasis on economic and regional development was introduced during the implementation of this policy. The policy envisaged that within 20 years (1970-1990) at least a 30 per cent interest in the country's economy, particularly its wealth, would be achieved by the Malays. And to achieve these objectives, during the first half of the NEP, the government was actively and directly involved in business ventures through trust agencies. In the second half, the government gradually withdrew its direct involvement in business through a privatisation policy, thus encouraging the private sectors' investment in public enterprises.

The NEP has helped to create the Bumiputera Commercial and Industrial Community in the country and has increased the income levels of the Malaysian population, and has thus enhanced their economic position. Although the government was serious in its efforts to overcome regional disparities and income inequalities in Malaysia

through the New Economic Policy, there are areas and trends worthy of attention and these observations are presented here.

One, during the period of the NEP (1970-1990), a goal was established that the Bumiputeras should achieve at least a 30 per cent participation in the business and commercial sector. But, by the end of the NEP period, only 20.3 per cent participation had been achieved. For other Malaysians during the same period, a target of 40 per cent participation in business and commercial sectors had been projected. Their participation was 46.2 per cent, a figure exceeding the original goal. In this respect, although the government had successfully increased the stake of Bumiputera shares in the business and commercial sectors, it was still below the minimum target. The performance of the non-Bumiputeras in these sectors, which was higher than the targeted figure, indicates that the Bumiputeras must make even greater efforts to increase their performance in these areas.

Two, it cannot be denied that the government has had tremendous success in reducing the incidence of poverty in rural areas, from 58.7 per cent in 1970 to 19.3 per cent by the end of 1990. The incidence of poverty among the Bumiputeras declined from 65.0 per cent in 1970 to 20.8 per cent by the end of 1990. During this same period, for the non-Malays, the incidence of poverty dropped from 26.0 to 5.7 per cent for the Chinese and from 39.0 to 8.0 per cent for the Indians. Currently, the reduction in economic and regional disparities in Peninsular Malaysia has improved when compared to the statistics available when the NEP was first launched in 1970. Still, the persistence of disparities in terms of regional development in Peninsular Malaysia requires much more attention and a longer period to overcome.

Three, almost all regional development programmes in Malaysia were initiated by and directly involved the Federal Government. Regional Development Authorities which were established for development of specific regions were placed under the supervision of various ministries. For example, DARA, KEDA, KEJORA and KESEDAR for land development under the Ministry of Land and Co-operative; MADA and KADA for agriculture development of padi un-

der the Ministry of Agriculture; and LADA for tourism development under the Ministry of Finance. Since the regional authority was established by the Federal Government, the attitude of the individual state government is often interpreted as a federal matter as far as the regional development authority is concerned. Hence, there is sometimes a negative attitude on the part of state governments in extending co-operation to regional authority even though the policies would benefit the state and their people. Since regional development has become the portfolio of the Federal Government, political pressures and stateism, there has been immense pressure on the part of the Prime Minister and the Cabinet to select areas for regional development.

Four, individual state governments should be encouraged to participate actively in the establishment of their own regional development authority. With the involvement of the state governments in large projects of regional development, efforts to eliminate the disparities in the interregions of the state and the nation will be enhanced.

Five, local development should be extended to include regional co-operation within the region. Individual states which have been grouped in a respective region should actively and co-operatively develop that region. Through regional co-operation, for example, in the northern region (which includes the states of Kedah, Perlis, Perak and Penang), the regional development programme can be developed on a much larger scale with the participation of all four states in a joint effort. Trade missions and promotions could be organised in unison to attract investors to the region which could then be co-operatively and equitably distributed.

Six, some of the regional development programmes have been endured with heavy reliance on a single economic base, that is, rubber or palm oil. In such circumstances, where the demand for such limited crops failed to gain entry into the international market and when prices were no longer profitable for the production of such crops, the whole region would suffer. It is then better for those re-

gions to engage in economic diversification so that during an economic downturn they would not be severely affected.

Seven, Langkawi's experience with regional development through the Langkawi Development Authority, because of the involvement of both the federal and state governments, is an excellent example of good planning process and should be emulated in all future regional development programmes in Malaysia. The following summarises the findings learned from the Langkawi experience:

1. The area to be enhanced in regional development should consist of at least 80 per cent Malays from its total population;
2. The growth centres or townships for the region should be located within the Malay Reserve Land (MRL) or at least 80 per cent of the total area should lie within the reserve land. Amendments to the Federal Constitution and Malay Reservations Enactment should be made where necessary to accomplish this policy;
3. All levels of government must actively participate in the regional development, that is, federal, state, district and local, to insure successful implementation and progress. The dedication, leadership and personality of a leader also plays an important role in stimulating the growth of a region; and
4. In the promotion of regional development, the government can make every effort to change regional policy through legislation to complement the development, that is, free port status or other complementary incentives. But, the regions themselves must possess the potential in terms of resources to accelerate the development.

Finally, with the new policy being implemented under the National Development Policy (1991-2000) and Vision 2020, the year by which Malaysia will be fully industrialised and developed, the regional disparities in Malaysia, particularly in Peninsular Malaysia, should be substantially reduced.

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