Mr. Merican's Statement on Malaysia
Executive Board Meeting 70/86
September 9, 1970

I would like first to congratulate the staff for their well-balanced appraisal and very good account of recent Malaysian economic developments.

Malaysian economic developments continued to be generally favorable. The economy grew at an impressive rate of 9.2 per cent in 1969. This compares favorably with the rates of 4.1 per cent in 1967 and 5.6 per cent in 1968, or the average annual rate of 6.2 per cent achieved for the period 1961 to 1969. Although export product prices have not remained as favorable as in 1969, the rate of GNP growth in 1970 is still expected to be around 6 to 7 per cent. This satisfactory growth performance is associated with continued domestic price stability which had prevailed for more than a decade. There were relatively small adjustments in wage rates in the private sector, and the larger but long-delayed adjustments in government wage rates arising from the report of a special salaries commission. On the wages front, no major disputes resulting in strikes occurred during the past year, nor are any currently expected. Although, as pointed out in the staff report, wage earnings probably declined as a percentage share of total income in 1969, they are on a rising absolute trend. It may be noted that the large number of rubber small holders benefitted considerably from the high price of rubber which prevailed during that year. The sharp improvement in the balance of payments position that occurred in 1969 led total reserves to increase by US$173 million to reach US$807 million at the end of 1969, or the equivalent of more than 8 months of total imports. At the end of June 1970, reserves had remained at about the same level as at the beginning of the year.

As is also indicated in the staff report, the less favorable aspects of Malaysian developments in 1969 were stagnation in investment and increasing unemployment, particularly among the young and in the urban areas. The stagnation in private investment was associated with the civil disturbances that erupted in May 1969 which made investors hesitate from proceeding with their plans for a time. It is gratifying to note, as pointed out by the staff, the definite revival of private investment activity which is also evidenced by the rapid increase in imports of machinery and equipment in the first half of 1970 and the steady upward trend in bank lending to the private sector as well as the findings of a recent survey of investors' intentions. I should add that the uncertainties arising from the May 1969 commotion has now been overcome to such an extent that it has recently been announced that parliamentary rule will be re-established and parliament reconvened in February 1971. Meanwhile the slight and unplanned decline in public sector investment in 1969 is also to be reversed as project implementation problems are overcome and in the light of the more favorable financial situation which had enabled the authorities to adopt a more liberal attitude in approving project proposals and to aim for a 10 per cent increase in investment expenditure.

The increasing concern over rising unemployment has led to various policy responses. In its "new economic policy" the government has placed greater emphasis on industrial development with heavier weights attached to the promotion of labor intensive industries. It is hoped that the manufacturing sector, the output of which has been growing at the rate of 10 to 12 per cent per annum, will expand more rapidly with the development of agro-based and timber processing industries as well as factories meeting not only domestic demands but also some export possibilities. In terms of employment, it is an irony of the situation that the most important rubber industry which is rapidly increasing its production should also be employing less and less labor. Consequently the migration from the rural to the urban areas may only be slowed down with the opening of more new lands and the promotion of other crops, including palm oil. The formulation of the Second Malaysia Plan (1971-75) is placing greater emphasis on the need to generate more employment, while at the same time trying to promote faster and more balanced economic growth not only as between sectors but also as between communities in this multi-racial nation.

Given Malaysia's current and prospective dependence on the exports of at least three primary products--rubber, tin and palm oil--she must obviously be concerned with international actions and measures which affect the prices and export possibilities of these and other products. Of crucial importance to her economic and financial stability is the prospective fluctuations in the price of rubber, which reacts sharply to changing levels of world economic activity. In the case of rubber, the difficulties caused by marked recent fluctuations in price--from the low of just over 40 Malaysian cents per pound in February 1968 to a peak of 85 Malaysian cents per pound in August 1969, compared with the current low of about 52 Malaysian cents per pound--had been accentuated by what are considered to be ill-timed announcements or news of changes in GSA stockpile targets and intentions. Given the sensitivity of rubber price to changes in stockpile objectives and sales policy, the disproportionate damage that would be caused to major rubber producing countries compared with the limited financial benefits which may accrue to the U.S. budget, and the apparent subjectivity in the determination of security commodity stockpile needs, it is to be hoped that further careful and sympathetic consideration be given to this question. I would like at the same time to welcome the GSA August 19th announcement that it was withholding rubber sales for the month of September 1970 due to current unfavorable market conditions, and also the earlier consultations held by the U.S. with the four rubber producing countries jointly, as very welcome developments in international cooperative efforts in this field.

The staff report has also elaborated the views of the Malaysian authorities relating to the Fourth International Tin Agreement and the possibility of using the Fund buffer stock facility as a means of financing a part of national contributions to the international buffer stock. While the staff report had noted the regret expressed by Malaysian authorities that consumer countries (with one notable exception) would still not participate in sharing the financial burden of the buffer stock scheme (SM/70/169, page 2, paragraph 3, last sentence), I should add that it is very much to be hoped that all major tin consuming countries will this time participate in this important commodity agreement. In connection with the Fund buffer stock financing facility, it seems to me necessary that appropriate procedures and sufficiently flexible attitudes be adopted by the Fund if this facility is to be meaningful. This matter will no doubt be further considered when the separate paper referred to by the staff is discussed in the Board.

The Malaysian authorities are in general agreement with the staff appraisal relating to the overall fiscal and monetary situation. While the sharp increase in security spending has not given rise to serious financial issues so far, a more successful implementation of the public sector development program, when associated with the higher level of security expenditure, will necessitate a review of tax revenue prospects and strategy. Additional ways of tapping available saving in the economy through increased domestic borrowing are also being explored. I would like to record the Malaysian authorities' gratitude for the many occasions when technical assistance has been provided by the Fund, and particularly in the field of fiscal policy.

As in the past, I should mention that Malaysia has no restrictions on payments and transfers for current international transactions, and to emphasize the importance attached by the Malaysian authorities to continuing financial stability and unrestricted trade and payments.