

Chapter 5

Regional Development

5

REGIONAL DEVELOPMENT

I. INTRODUCTION

5.01 The overall objective of regional development is to ensure a more balanced development in terms of a better distribution of the benefits of development across and within states. The Sixth Malaysia Plan period saw significant progress made in bringing about economic growth and socio-economic development in the states, leading to increased incomes, improved living standards and higher quality of life. Generally, states located along the western corridor of Peninsular Malaysia grew faster than the national average due to the strong growth of the secondary and tertiary sectors in these states. The other states, whose economies continued to rely on primary-based activities, achieved moderate rates of economic growth. Several joint-venture programmes and projects have been initiated under the Growth Triangles which are expected to generate positive spin-off effects and benefit the participating states of Malaysia as well as the subregions.

5.02 In terms of socio-economic development, progress was also made in improving quality of life through the provision of adequate social and infrastructure facilities and amenities in urban and rural areas. In this regard, the process of urbanization contributed much to the provision of better services and facilities for both the urban population as well as the rural population in the hinterland.

5.03 The thrust of regional development in the Seventh Malaysia Plan is aimed at achieving balanced regional development through sustaining the growth momentum, particularly of the less-developed states, with emphasis on the productive and efficient utilization of resources. The regional development strategies that will be implemented during this period will have a national as well as an international dimension. At the national level, emphasis will be given to maximizing the utilization of untapped resources and harnessing the economic

potential in the various states and regions. In this regard, focus will continue to be on diversifying the economic base of less-developed states from agriculture to manufacturing and services activities to enhance the growth potential of these states. Emphasis will also be placed on further improving the quality of life of the population through the provision of modern amenities in the urban and rural areas. At the international level, subregional economic cooperation through the Growth Triangles will be directed at bringing about greater trade and investment opportunities for Malaysia as a whole, and consequently enhancing economic growth in the participating states.

II. PROGRESS, 1991–95

5.04 The thrust of regional development during the Sixth Plan period was to reduce the disparities in social and economic development across regions and states, and to raise the standard of living and quality of life, particularly in the less-developed states. Much progress was made in diversifying the economic base of states and expanding their social, economic and physical infrastructure to enhance development. The strong economic growth, increasing urbanization and progress in socio-economic development led to higher average incomes and living standards as well as better quality of life for the population. Progress was also made in realizing the objectives of subregional economic cooperation through the formalization and implementation of various Growth Triangle initiatives.

Population Growth and Distribution by State

5.05 Changes in *population size and distribution* at the subnational level provide insights into the spatial concentration of the population and where development should be targeted, as well as a better understanding of the urbanization process in the country. Based on the Population and Housing Census, 1991, Malaysia had a population of 18.55 million in 1991, of which four-fifths or 14.96 million were in the Peninsula. As shown in *Table 5-1*, Selangor was the most populous state with 2.43 million people, followed by Johor with 2.19 million people. These two states accounted for 25 per cent of the population of Malaysia. Perak, which was the most populous state in the seventies and eighties, declined to third position, due to its continued low rate of population growth. In 1991, the population of Sabah of 1.87 million exceeded that of Sarawak for the first time, due to its high growth rate. Sabah's population constituted about 10 per cent of the total population of Malaysia in 1991, a marked increase compared with 7.6 per cent in 1980.

TABLE 5-1

POPULATION¹ BY STATE, 1980, 1991, 1995 AND 2000

State	Number ('000)				Average Annual Growth Rate (%)		
	1980	1991	1995	2000	1981-91	1991-95	1996-2000
Johor	1,644.9	2,188.1	2,443.8	2,731.5	2.6	2.8	2.2
Kedah	1,120.6	1,371.3	1,482.1	1,605.2	1.8	1.9	1.6
Kelantan	897.8	1,227.0	1,376.1	1,561.5	2.8	2.9	2.5
Melaka	466.6	540.2	571.0	598.9	1.3	1.4	1.0
Negeri Sembilan	575.9	726.2	785.6	849.8	2.1	2.0	1.6
Pahang	802.2	1,079.6	1,189.6	1,319.1	2.7	2.4	2.1
Perak	1,812.3	1,995.3	2,072.0	2,130.0	0.9	0.9	0.6
Perlis	148.8	190.7	209.1	230.7	2.3	2.3	2.0
Pulau Pinang	958.2	1,133.6	1,197.8	1,259.4	1.5	1.4	1.0
Sabah ²	1,055.1	1,867.4	2,389.0	3,136.8	5.2	6.2	5.4
Sarawak	1,351.1	1,723.8	1,885.2	2,064.9	2.2	2.2	1.8
Selangor	1,521.6	2,431.2	2,822.4	3,287.8	4.3	3.7	3.1
Terengganu	543.1	810.7	922.1	1,064.1	3.6	3.2	2.9
Wilayah Persekutuan Kuala Lumpur	981.0	1,262.1	1,343.5	1,423.9	2.3	1.6	1.2
Malaysia	13,879.2	18,547.2	20,689.3	23,263.6	2.6	2.7	2.3

Notes:

¹ Population data refer to mid-year population.² Includes Wilayah Persekutuan Labuan.

5.06 The demographic components of inter-state migration and natural increase influenced population distribution and structure at the subnational level. During the period 1980–91, Sabah registered the highest population growth of 5.2 per cent per annum, followed by Selangor at 4.3 per cent per annum. The high rate of population growth in Sabah was largely due to the sizeable inflow of external in-migrants into Sabah. According to the 1991 Census, out of a total of 300,000 external in-migrants who entered the country during the period 1986–91, about 40.8 per cent entered the State of Sabah. In the case of Selangor, its high rate of population growth was largely due to high net in-migration into the state. Migrants into Selangor comprised those who were attracted by the increasing employment opportunities generated by the rapid growth of its economy, as well as those who worked in Wilayah Persekutuan Kuala Lumpur but chose to reside in Selangor. The States of Kelantan and Terengganu recorded higher rates of population growth of 2.8 per cent and 3.6 per cent per annum, respectively, due to the relatively higher fertility rates in these states. Perak, however, registered the lowest rate of population growth of 0.9 per cent per annum. Besides its relatively low rate of natural increase, Perak continued to be one of the main sending states, particularly to its neighbouring State of Selangor.

5.07 For the period 1991–95, the population of Malaysia increased at 2.7 per cent per annum to reach 20.69 million in 1995, as shown in *Table 5–1*. This relatively high rate of population growth was due to the substantial increase in the non-citizen population during the period. The population of Sabah continued to register the highest rate of growth at 6.2 per cent per annum due to high fertility levels and high external in-migration. Selangor's population also grew at a high rate of 3.7 per cent per annum to reach 2.82 million by 1995. In terms of migration, Selangor remained a net receiving state during this period. Kelantan and Terengganu continued to register high rates of population growth due to their relatively higher rates of natural increase. Perak, on the other hand, continued to register the lowest rate of population growth, followed by Melaka, Pulau Pinang and Wilayah Persekutuan Kuala Lumpur. These states continued to have low rates of natural increase. Besides this, high out-migration to neighbouring states also contributed to the low rates of population growth in these states.

State Economic Development

5.08 The strong growth of the state economies contributed to the impressive performance of the Malaysian economy, which grew at 8.7 per cent per annum during the Sixth Plan period. The level of economic activity and incomes of

the population of each state increased, as reflected in the growth in Gross Domestic Product (GDP) and per capita GDP. A total of seven states recorded GDP growth rates that were higher than the national average, with Selangor growing at 10.9 per cent per annum, as shown in *Table 5-2*. The States of Johor, Pulau Pinang, Kedah and Melaka grew at more than 9.0 per cent per annum, while Wilayah Persekutuan Kuala Lumpur and Negeri Sembilan each grew at 8.8 per cent per annum. Moderate rates of growth were recorded by Terengganu, Perlis, Perak, Pahang, Kelantan, Sabah and Sarawak. These states registered growth rates that were less than the national average, ranging between 5.0 per cent and 8.0 per cent per annum.

5.09 In terms of GDP growth by economic activity, the manufacturing, construction and services sectors provided the main impetus for growth in all the states. The *manufacturing* sector, which grew at 13.3 per cent per annum, recorded double-digit growth rates in most states. Selangor, which was the fastest growing state, continued to be the country's major industrial centre, with the manufacturing sector growing at 12.9 per cent per annum and contributing to more than one-half of the total value added of the state, and more than one-third of the national manufacturing value added. The availability of good infrastructure facilities in Selangor continued to make it a major destination for investments in manufacturing, particularly in the electrical and electronics, furniture, food manufacturing and fabricated metal industries. Similarly, the States of Pulau Pinang, Perak, Negeri Sembilan, Melaka and Johor recorded high growth rates in manufacturing of between 11.8 per cent and 16.2 per cent per annum. The subsectors that were predominant in these states included electrical and electronics, and textile and apparel industries.

5.10 The States of Sarawak, Pahang, Kedah, Sabah and Terengganu, whose economic mainstay was agriculture and mining, also recorded high rates of manufacturing growth of between 14.7 per cent and 19.4 per cent per annum during the Plan period. The rapid growth of the manufacturing sector in Kedah was concentrated in the Sungai Petani and Kulim industrial areas. This was due largely to the spillover of manufacturing activities from Pulau Pinang. The manufacturing sector emerged as a major contributor to economic growth in Pahang, Sabah, Sarawak and Terengganu, with the rapid development of wood and wood-based, and petrochemical industries.

5.11 The *construction* sector registered double-digit growth rates in many states. The buoyant growth of this sector was stimulated by the construction of infrastructure projects as well as residential and non-residential properties.

TABLE 5-2
GROSS DOMESTIC PRODUCT BY STATE, 1990-2000
(in 1978 prices)

State	GDP at Purchasers' Value (RM million)			Per Capita GDP (RM)			Ratio of Per Capita GDP to Malaysian Average		
	1990	1995	2000	Average Annual Growth Rate (%)		2000	1990	1995	2000
				6MP	7MP				
Johor	8,576	13,818	21,390	10.0	9.1	4,082	5,654	7,831	0.92
Kedah	3,511	5,618	8,705	9.9	9.2	2,612	3,791	5,423	0.59
Kelantan	2,025	2,736	3,765	6.2	6.6	1,727	1,988	2,411	0.39
Melaka	1,960	3,106	4,751	9.6	8.9	3,723	5,439	7,933	0.84
Negeri Sembilan	2,646	4,031	6,216	8.8	9.0	3,744	5,131	7,315	0.85
Pahang	3,823	5,484	8,003	7.5	7.9	3,648	4,610	6,067	0.82
Perak	6,927	9,961	14,776	7.5	8.2	3,532	4,808	6,937	0.80
Perlis	544	787	1,160	7.7	8.1	2,936	3,764	5,029	0.66
Pulau Pinang	5,789	9,330	13,686	10.0	8.0	5,246	7,789	10,867	1.19
Sabah ¹	6,650	8,496	11,669	5.0	6.6	3,695	3,556	3,720	0.83
Sarawak	6,550	8,778	12,287	6.0	7.0	3,892	4,656	5,950	0.88
Selangor	14,639	24,518	36,473	10.9	8.3	6,341	8,687	11,093	1.43
Terengganu	5,471	8,055	11,927	8.0	8.2	6,993	8,736	11,209	1.58
Wilayah Persekutuan Kuala Lumpur	10,219	15,598	21,827	8.8	7.0	8,501	11,610	15,329	1.92
Malaysia	79,329	120,316	176,635	8.7	8.0	4,426	5,815	7,593	1.00
									1.00

Note: ¹ Includes Wilayah Persekutuan Labuan.

In Wilayah Persekutuan Kuala Lumpur, the construction sector grew impressively at 17.4 per cent per annum, largely due to the implementation of massive projects, such as the Kuala Lumpur City Centre and the Light Rail Transit System. In Selangor, the construction of the Kuala Lumpur International Airport (KLIA) in Sepang as well as the rapid development of residential and commercial buildings contributed to the strong growth of this sector, at 12.7 per cent per annum.

5.12 The *services* sector grew in tandem with the expansion of the manufacturing and construction sectors in most states, at rates between 7.8 per cent and 10.6 per cent per annum. The services sector contributed 83 per cent of the total value added of Wilayah Persekutuan Kuala Lumpur, and grew at a rate of 10.1 per cent per annum. The services sector in Selangor also grew at a high rate of 10.6 per cent per annum during the period. The rapid growth of this sector in these two states was due to the expansion of finance, real estate and business services; wholesale and retail trade, hotels and restaurants as well as transport, storage and communications. Both these states contributed about 41 per cent of the value added in the services sector at the national level.

5.13 The *agriculture* sector grew at 2.0 per cent per annum during this period, with its share to national GDP declining to 13.6 per cent in 1995. Agriculture, nevertheless, remained the dominant sector in many states, growing at rates of between 2.0 per cent and 3.3 per cent per annum. Sarawak, however, registered a negative growth of 0.3 per cent per annum, mainly due to the decline in log production. The growth of the agriculture sector in Sarawak would have been 2.4 per cent per annum, if log production were excluded. Other states such as Pahang and Sabah also recorded a decline in log production, in line with the Government's policy of sustainable management of forest resources. Nevertheless, Pahang and Sabah registered the highest rates of agricultural growth at 3.3 per cent and 3.1 per cent per annum, respectively, contributing about one-third of total value added in each state. This was due largely to the substantial increase in palm oil production in these two states, stimulated by high palm oil prices. Johor registered a growth rate of 2.4 per cent per annum due to an increase in palm oil output, which more than offset the decline in rubber production.

5.14 The *mining* sector grew at a rate of 2.9 per cent per annum, with the main generators of growth being crude oil and natural gas production. Terengganu was the leading producer of crude oil and natural gas, followed by Sarawak and Sabah. The mining sector was the primary contributor to economic growth in Terengganu, growing at 6.9 per cent per annum and contributing to more

than one-half of the state value added in 1995. The contribution of the mining sector to the value added of Sarawak and Sabah was 28.7 per cent and 13.7 per cent, respectively in 1995. There was, however, a levelling-off in crude oil production in Sarawak, while that in Sabah declined, in line with the National Depletion Policy to conserve petroleum resources. The continued decline in tin production resulted in the negative growth of the mining sector in Pahang, Perak, Selangor and Wilayah Persekutuan Kuala Lumpur. There was, nevertheless, an upsurge of quarrying activities to support the expansion of construction projects, particularly in Johor, Pahang, Perak, Pulau Pinang and Selangor, which helped to offset the poor performance of the mining sector in these states.

5.15 The *structure of the state economies* continued to undergo significant transformation, with less dependence on the primary¹ sector. Among the states, the most significant structural shift was experienced in Sabah, with an increase in the contribution of the secondary² and tertiary³ sectors to the total state value added from 43.5 per cent in 1990 to 55.4 per cent in 1995. This was followed by Kedah where the contribution of its secondary and tertiary sectors to total state value added increased from 68.1 per cent to 79.7 per cent during the period. This structural transformation was also experienced by the other states such as Sarawak, Perlis, Pahang, Terengganu and Kelantan, which have been traditionally dependent on the primary sector.

5.16 As a result of the buoyant economic conditions prevailing during the Plan period, *employment* grew between 2.1 per cent and 5.6 per cent per annum in the various states, as shown in *Table 5-3*. The strong growth in employment was due to the rapid expansion of the manufacturing and construction sectors in the various states. In terms of job creation, the bulk of the new jobs were generated in Johor, Sabah, Selangor and Sarawak. Of the 1.2 million new jobs created during the period, more than one-half were generated by the manufacturing sector, mainly in Johor, Kedah, Melaka, Negeri Sembilan, Pulau Pinang and Selangor. The construction sector, which accounted for about one-fifth of total net employment creation, was the second major job generator in most states.

5.17 While *labour force* growth has been high at 2.9 per cent per annum, the rapid growth of the economy brought about a relatively stronger demand for labour. As a result, unemployment declined markedly, with some states

¹ The primary sector comprises the agriculture, forestry and fishing, and mining and quarrying sectors.

² The secondary sector comprises the manufacturing and construction sectors.

³ The tertiary sector comprises utilities, wholesale and retail trade, hotels and restaurants; transport, storage and communications; finance, real estate and business services; Government services; and other services.

TABLE 5-3
LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT BY STATE, 1990-2000
(‘000)

State	1990			1995			2000			Average Annual Growth Rate (%)		
	Labour Force	Employment	Unemployment Rate (%)	Labour Force	Employment	Unemployment Rate (%)	Labour Force	Employment	Unemployment Rate (%)	6MP		
										Labour Force	Employment	Labour Employment Force
Johor	862.4	833.9	3.3	1,002.3	982.2	2.0	1,139.0	1,114.3	2.2	3.1	3.3	2.6
Kedah	479.7	458.5	4.4	541.6	529.6	2.2	620.2	605.7	2.3	2.5	2.9	2.7
Kelantan	390.7	367.5	5.9	473.0	451.6	4.5	561.9	533.9	5.0	3.9	4.2	3.5
Melaka	198.4	190.4	4.0	225.2	221.2	1.8	259.4	254.6	1.9	2.6	3.0	2.9
Negeri Sembilan	264.8	254.9	3.7	306.6	299.8	2.2	352.7	344.3	2.4	3.0	3.3	2.8
Pahang	380.6	365.3	4.0	440.8	425.4	3.5	510.6	492.0	3.6	3.0	3.1	3.0
Perak	716.7	684.2	4.5	778.8	760.7	2.3	873.6	852.1	2.5	1.7	2.1	2.3
Perlis	65.3	62.2	4.7	72.9	70.9	2.7	84.3	81.9	2.8	2.2	2.7	2.9
Pulau Pinang	459.4	443.6	3.4	504.8	501.5	0.7	565.1	560.1	0.9	1.9	2.5	2.3
Sabah ¹	670.5	609.2	9.1	846.4	798.6	5.6	1,007.8	950.6	5.7	4.8	5.6	3.5
Sarawak	753.3	686.1	8.9	850.9	809.4	4.9	945.6	907.3	4.1	2.5	3.4	2.1
Selangor	974.0	945.6	2.9	1,137.3	1,124.9	1.1	1,306.8	1,291.3	1.2	3.1	3.5	2.8
Terengganu	274.6	254.4	7.4	336.5	319.4	5.1	400.6	382.0	4.6	4.1	4.7	3.5
Wilayah Persekutuan Kuala Lumpur	551.6	530.2	3.9	623.1	620.2	0.5	699.5	696.1	0.5	2.5	3.2	2.3
Malaysia	7,042.0	6,686.0	5.1	8,140.2	7,915.4	2.8	9,327.1	9,066.2	2.8	2.9	3.4	2.8

Note: ¹ Includes Wilayah Persekutuan Labuan.

registering unemployment rates of less than 2.0 per cent in 1995. Wilayah Persekutuan Kuala Lumpur and Pulau Pinang recorded the lowest unemployment rate of 0.5 per cent and 0.7 per cent, respectively. The strong labour demand in the various states also resulted in the emergence of labour shortages in many sectors of these state economies, particularly those states along the western corridor. Sabah and Terengganu, however, continued to experience a high level of unemployment of 5.6 per cent and 5.1 per cent, respectively, during the Plan period. Despite the strong demand for labour in these states, the number of jobs created were still not sufficient to cater to the large pool of labour supply.

5.18 Economic growth in the various states was largely due to significant increases in *private investment*, particularly in the manufacturing sector. Total investment in approved manufacturing projects doubled from RM58.6 billion in the period 1986–90 to RM116.2 billion in the Sixth Plan period, as shown in *Table 5–4*. Of the total investment, Selangor received the highest amount of capital investments totalling RM21.6 billion, largely for the electrical and electronics industry, and transport equipment industry. Terengganu received the second highest amount of proposed capital investment valued at RM16.4 billion, particularly for the manufacture of iron and steel, chemical and chemical products as well as petroleum refining. Johor attracted a total of RM13.4 billion of capital investments for industries such as electrical and electronics, food, and textiles and textile products.

5.19 Steps were taken by the Government to encourage greater private sector participation in spearheading the growth of manufacturing industries in the east coast states as well as Sabah and Sarawak. In this regard, the Government accelerated the development of industrial estates during the period. A total of 3,926 hectares of industrial land was developed in these states, which constituted some 41.7 per cent of the total industrial land developed in the country. Of this, a total of 1,284 hectares was developed in Sarawak, a large portion of which was earmarked for the wood-based industry in the Kuala Baram and Tanjung Manis Industrial Estates. In addition, a total of 1,025 hectares of industrial land was developed in Pahang, and 656 hectares in Terengganu, particularly for the petrochemical, and wood and wood-based industries. In line with the Government's strategy to establish skill development centres in every state in cooperation with the private sector and State Governments, skill development centres were also set up in Pahang, Sarawak and Terengganu to further upgrade the knowledge and technical skills of the workforce in these states.

TABLE 5-4

**APPROVED MANUFACTURING PROJECTS BY STATE,
1986-90 AND 1991-95**

State	1986-90			1991-95		
	Number of Projects	Potential Employment	Capital Investment (RM million)	Number of Projects	Potential Employment	Capital Investment (RM million)
Johor	760	115,259	7,798.5	986	129,394	13,385.0
Kedah	165	41,714	4,985.2	279	47,070	8,859.1
Kelantan	25	6,559	101.9	26	6,801	1,092.3
Melaka	112	16,972	2,418.8	153	23,500	9,101.3
Negeri Sembilan	101	29,412	1,897.9	202	33,592	7,570.7
Pahang	70	20,919	2,265.3	75	17,308	3,490.2
Perak	192	39,308	1,577.6	290	41,291	10,764.3
Perlis	10	1,456	36.2	39	5,605	2,246.9
Pulau Pinang	432	90,580	4,591.4	514	76,088	5,675.6
Sabah ¹	129	19,263	1,727.1	223	48,449	4,658.0
Sarawak	120	38,605	5,458.6	153	32,463	10,817.9
Selangor	946	134,923	14,018.0	1,156	130,243	21,610.3
Terengganu	36	20,156	11,090.4	86	31,951	16,421.5
Wilayah Persekutuan Kuala Lumpur	107	12,566	583.2	115	10,255	458.7
Malaysia	3,205	587,692	58,550.1	4,297	634,010	116,151.8

Note: ¹ Includes Wilayah Persekutuan Labuan.

5.20 The Government also introduced several incentives to promote a more balanced distribution of industries and attract more investments to the east coast states of Peninsular Malaysia as well as Sabah and Sarawak. Companies that qualified for pioneer status were given income tax exemption on 85 per cent of their statutory income for a period of five years if they located their factories in the east coast states of Peninsular Malaysia as well as Sabah and Sarawak, compared with 70 per cent exemption for companies that located their factories elsewhere. The investment tax allowance was also increased from 60 per cent to 80 per cent for projects that were located in these areas. In addition, an infrastructure allowance of 100 per cent was granted for expenditure incurred on infrastructure development, such as the building of jetties, bridges, connecting roads, electricity cables, provision of piped water and waste water recycling equipment.

5.21 The strong growth performance at the state level was reflected in improvements in *per capita GDP*, as shown in *Table 5–2*. The states with high economic growth, such as Selangor, Johor, Pulau Pinang, Kedah, Melaka, Wilayah Persekutuan Kuala Lumpur and Negeri Sembilan, also recorded high per capita GDP growth. The rapid expansion of industrial and services activities contributed to the high per capita GDP growth in these states. Pulau Pinang recorded the highest growth in per capita GDP at 8.2 per cent per annum during the period. Sabah, on the other hand, recorded negative growth in per capita GDP at 0.8 per cent per annum due to its high rate of population growth of 6.2 per cent per annum. In terms of per capita GDP levels, Wilayah Persekutuan Kuala Lumpur had the highest per capita GDP in 1995, double that of the national average, while the per capita GDP of Terengganu, Selangor and Pulau Pinang was about one and a half times that of the national average.

5.22 The strong economic growth contributed to an increase in *household incomes* in all states during the Plan period. Average monthly household incomes grew between 3.9 per cent and 11.2 per cent per annum, as shown in *Table 5–5*. The rapid expansion of job opportunities in the manufacturing, construction and services sectors, particularly in the west coast states of the Peninsula, led to a significant increase in the number of income earners per household. In addition, the high rubber and palm oil prices in 1995 also contributed to increases in the incomes of rural households in all states. Selangor recorded the highest increase in household incomes at 11.2 per cent per annum, followed by Wilayah Persekutuan Kuala Lumpur at 11 per cent per annum, and Johor at 10.7 per cent per annum. Mean monthly household incomes in Sarawak increased at 8.1 per cent per annum, due to the expansion of manufacturing and

TABLE 5-5			
MEAN MONTHLY HOUSEHOLD INCOME BY STATE, 1990-95 (RM)			
<i>State</i>			<i>Average Annual Growth Rate (%)</i>
	<i>1990¹</i>	<i>1995</i>	<i>1991-95</i>
Johor	1,148	2,111	10.7
Kedah	748	1,287	9.5
Kelantan	708	1,081	7.3
Melaka	1,088	1,861	9.4
Negeri Sembilan	1,078	1,771	8.6
Pahang	956	1,439	7.1
Perak	972	1,461	7.0
Perlis	831	1,159	5.7
Pulau Pinang	1,332	2,214	8.8
Sabah ²	1,148	1,444	3.9
Sarawak	1,208	1,923	8.1
Selangor	1,659	3,135	11.2
Terengganu	756	1,113	6.7
Wilayah Persekutuan Kuala Lumpur	1,875	3,515	11.0
Malaysia	1,167	2,007	9.5
<i>Notes:</i>			
¹ Refers to 1989.			
² Includes Wilayah Persekutuan Labuan.			

construction activities in the state. Household incomes in Sabah, however, increased at a slower rate of 3.9 per cent per annum. The low income-earning capacity of the foreign population, who constituted about one-fifth of the state population, contributed to this slow growth. Household incomes of citizens in Sabah increased at 4.3 per cent per annum during the period.

5.23 In line with the improvements in household income levels, the *incidence of poverty* in all states declined during the Plan period. Kedah registered the most significant decline in the incidence of poverty, due to the expansion of job opportunities in the manufacturing sector, and the strong rubber and palm oil prices which contributed towards improving rural household incomes in the state. Sarawak, Perak, Sabah, Terengganu and Melaka also registered significant declines in the incidence of poverty, relative to the other states. Wilayah Persekutuan Kuala Lumpur recorded the lowest incidence of poverty, due to the availability of better employment opportunities in the state.

5.24 Although there was a significant reduction in the incidence of poverty in Sabah, Terengganu and Kelantan, these states registered the highest incidence of poverty in 1995, at 26.4 per cent, 23.7 per cent and 23.2 per cent, respectively. Sabah had the largest number of poor households totalling 116,500, one-third of whom were non-citizens. The incidence of poverty in Sabah was 22.6 per cent among citizens and 38.9 per cent among non-citizens in 1995. Kelantan recorded the second largest number of poor households, totalling 61,900 households. The high incidence of poverty in these states was due to the lack of economic activities in the manufacturing and services sectors which could provide employment opportunities to members of poor households. In addition, the continued dependence of poor households on traditional agriculture and rural activities resulted in low returns and incomes for rural households. Thus, Sabah, Terengganu and Kelantan also showed the highest incidence of poverty among rural households, at 34.3 per cent, 33.5 per cent and 27.4 per cent, respectively.

5.25 The *quality of life* in all states also improved significantly as a result of the continued efforts of the Government to provide and upgrade the various physical and social infrastructure facilities. This was reflected in social indicators such as infant mortality rates, doctors per 10,000 population, literacy rates, and access to piped water and electricity, as shown in *Table 5-6*. Wilayah Persekutuan Kuala Lumpur, Pulau Pinang and Selangor ranked the highest in terms of access to social services, while Sabah, Kelantan and Sarawak ranked the lowest. In terms of basic amenities, significant progress was made in Sabah and Sarawak in increasing the coverage and access to piped water and electricity supply. The proportion of the population provided with piped water in Sabah increased from 64.3 per cent in 1990 to 77.3 per cent in 1995, while that for Sarawak increased from 70.1 per cent to 85.3 per cent during the same period. The percentage of the population with access to electricity supply in Sabah also increased from 48 per cent in 1990 to 78 per cent in 1995, while that for Sarawak increased from 52 per cent to 80 per cent during the same period.

TABLE 5-6

SELECTED SOCIO-ECONOMIC INDICATORS BY STATE, 1990-95

State	Registered Cars and Motor-cycles per 1,000 Population		Telephones per 1,000 Population		Television Licences per 1,000 Population		Literacy Rate ¹ (%)		Population Provided with Piped Water (%)		Population Provided with Electricity (%)		Infant Mortality Rate per 1,000 Live Births		Number of Doctors per 10,000 Population		Length of Paved Roads per 10 sq. km. (km)	
	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995
Johor	351.8	432.9	91.1	184.3	116.3	134.3	88.3	92.6	79.9	93.2	85.5	100.0	13.8	7.6	4.0	4.1	2.1	2.9
Kedah	212.0	269.7	42.1	118.0	81.2	96.1	84.1	88.3	72.4	85.4	88.5	100.0	14.8	10.0	2.9	3.4	3.1	3.6
Kelantan	162.0	180.5	29.6	68.0	43.2	56.6	79.5	84.0	50.3	65.7	78.5	100.0	13.5	9.3	3.1	4.0	1.3	1.7
Melaka	316.7	458.8	79.3	200.9	120.1	138.3	88.0	91.2	92.9	98.9	100.0	100.0	11.2	10.9	4.5	5.4	5.5	8.6
Negeri Sembilan	321.1	398.4	82.7	174.2	126.9	164.9	89.8	93.4	87.8	96.9	98.5	100.0	12.8	5.3	4.8	4.8	4.1	5.5
Pahang	230.7	260.8	48.3	112.8	103.3	118.6	88.0	90.7	79.2	85.1	93.5	100.0	16.0	10.1	3.4	3.4	1.1	1.2
Perak	260.3	375.3	73.2	164.4	118.3	135.0	87.3	89.8	86.5	92.9	85.5	100.0	13.3	11.5	4.2	4.7	2.0	2.8
Perlis	248.3	276.4	56.7	121.4	81.2	96.1	86.0	90.6	68.6	87.6	98.5	100.0	16.9	6.7	3.8	3.7	6.0	7.1
Pulau Pinang	448.7	651.8	130.0	232.0	130.6	141.9	89.6	93.1	97.8	99.6	98.5	100.0	10.2	8.8	6.5	7.4	29.7	30.2
Sabah ²	109.4	101.0	62.9	81.7	65.0	50.5	71.5	78.4	64.3	77.3	48.0	78.0	31.6	37.8	2.4	2.2	0.4	0.5
Sarawak	176.6	215.0	68.0	116.8	56.3	67.2	76.0	80.6	70.1	85.3	52.0	80.0	22.3	19.2	2.5	2.9	0.1	0.2
Selangor	406.7	339.4	154.9	229.1	115.5	94.6	91.3	96.8	90.6	99.0	100.0	100.0	11.9	8.0	5.5	5.3	8.1	9.5
Terengganu	155.0	181.4	40.1	89.1	76.0	87.9	83.0	89.7	71.7	80.2	90.5	100.0	15.3	12.7	3.0	3.0	1.6	2.4
Wilayah Persekutuan Kuala Lumpur	350.9	616.3	224.3	369.5	146.8	201.4	92.7	94.0	100.0	100.0	100.0	100.0	9.7	9.7	16.7	22.6	41.4	71.1
Malaysia	272.9	339.2	89.3	164.3	99.5	108.5	85.1	89.3	80.1	89.1	83.8	95.8*	13.1	9.9	4.8	5.3	1.2	1.5

Notes:

¹ Refers to percentage of population aged 10 and above who ever attended school.² Includes Wilayah Persekutuan Labuan.

5.26 Under the Sixth Malaysia Plan, a total of RM22.6 billion, or more than one-third of the development budget, was allocated for multi-state projects which benefited people across states. These projects included, among others, the development of infrastructure such as highways, airports and railways. The rapid development of transportation and communications networks resulted in a freer flow of resources, goods and services as well as facilitated the spread and spillover of economic activities and the benefits of development within and across states.

5.27 Achievements in state economic development were reflected not only in the levels of economic activity and incomes as measured by changes in GDP and per capita GDP, but also in living standards and quality of life, as reflected by various socio-economic indicators. Based on per capita GDP levels in 1995, four states, namely Wilayah Persekutuan Kuala Lumpur, Terengganu, Selangor and Pulau Pinang recorded levels that were higher than the national average. When indicators of social development were considered together with economic indicators to form a *composite index of development*⁴, seven states were found to have indices that were higher than the national average in 1995. These states were Wilayah Persekutuan Kuala Lumpur, Pulau Pinang, Selangor, Melaka, Johor, Negeri Sembilan and Perak. Terengganu, which recorded a per capita GDP that was higher than the national average, however, had a composite index of development that was below the national average. States which had indices lower than the national average were Sabah, Kelantan, Sarawak, Perlis, Kedah and Pahang.

Urban Development

5.28 During the Plan period, the buoyant urban economy contributed significantly to economic growth. This was due to the expansion of economic activities in urban centres, especially in the manufacturing and construction sectors. The urban economic base, supported by trade, commerce, finance and transportation networks, provided important economic linkages, thus enabling the national economy to perform efficiently. As a result, the urban population enjoyed higher incomes and a better quality of life.

⁴ The composite index of development is an average score of 15 selected socio-economic indicators. These indicators include per capita GDP, share of secondary and tertiary employment, unemployment rate, urbanization rate, mean monthly household income, registered cars and motorcycles per 1,000 population, telephones per 1,000 population, literacy rate, T.V. licences per 1,000 population, incidence of poverty, population access to piped water, population access to electricity, number of doctors per 10,000 population, infant mortality rate and paved roads per 10 sq. km.

5.29 The greater economic opportunities available in urban centres continued to attract in-migration of population resulting in an increasing concentration of population in these centres. The urban population was further boosted by a redefinition of urban areas⁵ in 1991 to include built-up agglomerations. Consequently, the urban population increased from 4.75 million in 1980 to 9.47 million in 1991. As a result, the urbanization rate increased from 34.2 per cent in 1980 to 51.1 per cent in 1991, as shown in *Table 5-7*. This was also reflected in an increase in the number of towns that were defined as urban, from 67 in 1980 to 129 in 1991.

5.30 The distribution of the urban population among urban centres showed a stable pattern between 1980 and 1991, with more than 70 per cent of the urban population residing in urban centres of more than 75,000 people. The largest concentrations of urban population were in the Federal and State capitals, of which 11 had populations exceeding 150,000 people. Large population concentrations of more than 120,000 were found in commercial centres such as Klang, Taiping, Sibu and Tawau.

5.31 During 1991-95, the urban population grew at a rate of 4.5 per cent per annum, increasing to 11.3 million in 1995. The States of Wilayah Persekutuan Kuala Lumpur, Selangor, Pulau Pinang and Perak recorded urbanization rates that were above the national average. In terms of urban growth, Sabah and Selangor recorded the highest average annual urban growth rate of 7.9 per cent and 6.1 per cent per annum, due to the large inflow of in-migrants into the urban areas.

5.32 The urban population earned higher incomes, due to the expansion of urban economic activities. Average monthly urban household incomes increased at a rate of 8.1 per cent per annum, from RM1,617 in 1990 to RM2,596 in 1995, compared with rural incomes which increased at 5.3 per cent per annum during the same period. Urban households in Wilayah Persekutuan Kuala Lumpur earned the highest incomes, while those in Selangor and Sarawak earned incomes which were above the national average in 1995. Although urban households in the States of Perak, Terengganu, Kelantan, Kedah and Pahang earned incomes which remained below the national average, urban household

⁵ Urban areas were defined as gazetted areas with their adjoining built-up areas which had a combined population of 10,000 or more at the time of the 1991 Population Census. Built-up areas were defined as areas contiguous to a gazetted area and had at least 60 per cent of their population (aged 10 years or more) engaged in non-agricultural activities and at least 30 per cent of their housing units having modern toilet facilities.

TABLE 5-7

URBANIZATION RATE BY STATE, 1980, 1991, 1995 AND 2000

State	Urbanization Rate (%)				Average Annual Growth Rate of Urban Population (%)	
	1980	1991 ¹	1995	2000	6MP	7MP
Johor	35.2	48.0	51.8	56.4	4.6	4.0
Kedah	14.4	33.1	36.9	42.1	4.7	4.2
Kelantan	28.1	33.7	35.7	39.4	4.3	4.5
Melaka	23.4	39.4	44.0	49.8	4.1	3.5
Negeri Sembilan	32.6	42.5	44.7	47.6	3.3	2.8
Pahang	26.1	30.6	31.9	33.7	3.5	3.2
Perak	32.2	54.3	60.5	67.8	3.6	2.8
Perlis	8.9	26.7	30.4	35.3	5.5	5.0
Pulau Pinang	47.5	75.3	80.6	86.1	3.1	2.3
Sabah ²	19.9	32.8	35.2	38.2	7.9	7.1
Sarawak	18.0	38.0	43.4	50.5	5.6	4.8
Selangor	34.2	75.0	82.6	89.4	6.1	4.6
Terengganu	42.9	44.6	45.1	45.7	3.5	3.1
Wilayah Persekutuan Kuala Lumpur	100.0	100.0	100.0	100.0	1.6	1.2
Malaysia	34.2	51.1	54.7	58.8	4.5	3.8

Notes:

¹ Based on Population and Housing Census, 1991.² Includes Wilayah Persekutuan Labuan.

incomes in these states increased between 4.9 per cent and 7.9 per cent per annum during the Plan period. Economic factors continued to underpin the strong growth of household incomes in urban areas.

5.33 Urban centres offered not only more economic opportunities, but also a better quality of life for their inhabitants. They were equipped with modern facilities such as quality education, medical facilities, telecommunications and urban services. In addition, many cities were also centres for administration, cultural activities, sports and recreation. Urban centres in the three most urbanized states of Wilayah Persekutuan Kuala Lumpur, Selangor and Pulau Pinang remained attractive places of residence because their population concentration had not reached such undesirable levels as prevalent in primate cities. Cities such as Kuala Lumpur, Georgetown and Johor Bahru also had vibrant core centres which played a vital role in promoting efficiency of the economy.

5.34 The growth of these urban centres, however, led to increases in congestion, property values and wage costs, and environmental pollution. Among the measures undertaken to alleviate these problems were the provision and upgrading of infrastructure by the Government as well as the implementation of dispersal policies, especially those related to industrial relocation. These measures contributed to the growth of satellite towns surrounding these urban centres.

5.35 Satellite towns which had grown around existing large urban centres included Petaling Jaya, Sungai Buloh, Ampang, Serdang, Sri Kembangan, Kajang and Selayang in the Klang Valley; Sungai Ara, Perai, Gelugor, Tanjung Tokong and Tanjung Bungah in Pulau Pinang; and Pasir Gudang, Ulu Tiram, Skudai and Senai in Johor Bahru. Improved transportation networks through the construction and upgrading of roads and expressways as well as more rail links also assisted in the population spread to satellite towns. This population spread from the urban core resulted in a better population distribution and helped maintain the quality of life in these urban conurbations. There was a similar population spread from Sungai Petani to Kulim, Seremban to Senawang, Kuantan to Cukai and Kerteh, Kota Kinabalu to Donggongan, and from Kuching to its suburban fringes.

5.36 During the Plan period, the Government implemented several programmes to address the issue of inadequate low-cost housing which had resulted in an increase in squatter settlements in urban centres. Among the measures taken were the setting up of a fund to accelerate the construction of low-cost housing, and the requirement for housing developers to allocate 30 per cent of their schemes to low-cost houses.

5.37 Efforts were also directed at maintaining the quality of the urban environment through the inclusion of environmental considerations in town planning and in land-clearing, upgrading of the national sewerage system, and clean-up activities of the rivers. To alleviate the occurrence of urban flash floods due to excessive run-offs and siltation, several flood mitigation projects were implemented in urban centres such as Kuala Lumpur, Seremban, Alor Setar, Georgetown, Kota Bharu, Ipoh and Pekan. However, a major portion of the Plan allocation amounting to RM315 million for urban flood mitigation was directed to the Klang Valley Flood Mitigation and the Kuala Lumpur Drainage Programmes, due to the severity of the problem in these areas. In addition, drainage master plans were prepared for six urban centres, namely, Sungai Petani, Kulim, Cukai, Batu Pahat, Miri and Sibul, to address the drainage and flood control needs of these areas.

5.38 The Local Authorities continued to play a role in meeting the increasing needs of the urban population for a better quality of life. The Local Authorities provided a wide range of services including general urban improvement, public housing and community facilities. In order to perform these functions efficiently, the financial base of Local Authorities had to be improved. Efforts were taken by Local Authorities to improve revenue collection through the computerization of the collection system for tax assessments. Other efforts to supplement the revenue base of Local Authorities was an eight-fold increase in Federal equalization grants in Peninsular Malaysia, from RM46.7 million in the Fifth Plan period to RM386.6 million in the Sixth Plan period. However, Local Authorities continued to face constraints relating to funds and manpower which affected their capability and efficiency in the delivery of their services.

Rural Development

5.39 With increasing urbanization, the rural population, which constituted about 49 per cent of the total population in 1991, decreased to 45.3 per cent in 1995. Continued emphasis was, nevertheless, given to rural development to improve the productivity and incomes of rural households. Several programmes, such as agriculture development, rural industrialization, infrastructure development and human resource development, were implemented to develop and modernize the rural economy. The implementation of these programmes contributed to an increase in rural monthly household incomes from RM951 in 1990 to RM1,300 in 1995, and a reduction in the incidence of poverty among rural households from 21.8 per cent to 18 per cent during the same period.

5.40 Agriculture and land development programmes remained an important component of rural development. During the Plan period, a total of 353,730 hectares of land was replanted and rehabilitated, while 290,450 hectares of new land were developed. A total of 305,420 hectares of agricultural land was replanted, mainly with oil palm, rubber, cocoa and pineapple, to achieve higher yields, while 48,310 hectares of land were consolidated and rehabilitated to obtain better economies of scale. New land development during the Plan period was largely concentrated in Sabah and Sarawak. In addition, four Integrated Agricultural Development Projects (IADPs), namely, IADP Perlis as well as the first phases of IADP Pahang Barat, IADP Kalaka–Saribas in Sarawak, and IADP Kemasin–Semerak in Kelantan, were completed during the Plan period, benefiting 354,300 farm families.

5.41 With regard to the development of rural industries, new industrial sites were developed by the Regional Development Authorities for the establishment of factories in rural areas. A total of 286.7 hectares of industrial land was developed during the Plan period, which provided employment opportunities for about 12,700 people. In addition, 707 rural industries, involved in food processing, wood processing, textile and garment making as well as services such as printing and film processing, received grants to upgrade their production processes. A total of 14,519 rural entrepreneurs was also provided training to improve their business and management skills.

5.42 The provision of physical and social infrastructure during the Plan period improved the living conditions and quality of life of the rural population. In terms of physical infrastructure, the Government constructed 5,445 kilometres of new roads. In addition, about 384,200 rural households were provided access to water supply, while 77,440 households with electricity.

5.43 Although rural development programmes contributed towards increasing rural household incomes and providing additional employment opportunities, income disparities between rural and urban households widened during the Plan period. The income disparity ratio between rural and urban households widened from 1:1.7 in 1990 to 1:2.0 in 1995. This was mainly due to the continued dependence of rural households on agricultural activities as a major source of income, limited business opportunities, as well as capital constraints and lack of competitiveness of rural industries.

Subregional Cooperation

5.44 Subregional economic cooperation between neighbouring countries is an important vehicle in contributing to economic growth and development. Through this vehicle, economic development of the subregions is expected to accelerate by exploiting underlying economic complementarities and comparative advantages of the subregions. Such cooperation is important in the context of trade globalization and regional integration. This will enable Malaysia, with its open economy, to compete more effectively in the international arena. Subregional economic cooperation through the formation of the Indonesia–Malaysia–Singapore Growth Triangle (IMS–GT)⁶, Indonesia–Malaysia–Thailand Growth Triangle (IMT–GT)⁷, and Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP–EAGA)⁸ opened up greater opportunities for trade and investment among the participating components. One of the main objectives of the Growth Triangles is to improve the living standards and quality of life of the population of the participating components through the creation of new job opportunities and increased incomes. Among the sectors identified for economic cooperation are agriculture, manufacturing, tourism, infrastructure, energy, financial services and human resource development.

5.45 The private sector has been accorded a lead role in the development and implementation of joint–venture projects within the Triangles. On the other hand, the governments of the participating countries act as facilitators in the development of growth triangle projects, among others, to minimize legal and procedural obstacles that impede the efficient movement of the factors of production within the subregions. A three–tier consultative mechanism involving both public and private sectors has been established among the participating countries. The consultative mechanism comprises meetings of the Joint Business Council (JBC), Senior Government Officials and the Ministers involved in the Growth Triangles.

5.46 Since the establishment of the three Growth Triangles, several joint–venture projects by the private sector were implemented, while several others were being considered. In this regard, 54 Memorandums of Understanding

⁶ The components of the IMS-GT are the Province of Riau and West Sumatera in Indonesia; the States of Johor, Melaka, Negeri Sembilan and Pahang in Malaysia; and Singapore.

⁷ The components of the IMT-GT are the Special Territory of Aceh, the Provinces of North Sumatera and West Sumatera in Indonesia; the States of Perlis, Kedah, Pulau Pinang and Perak in Malaysia; and the Provinces of Satun, Narathiwat, Pattani, Yala and Songkhla in Thailand.

⁸ The components of the BIMP-EAGA are Brunei Darussalam; the Provinces of East and West Kalimantan and North Sulawesi in Indonesia; the States of Sarawak, Sabah and Federal Territory of Labuan in Malaysia; and Mindanao and Palawan in the Philippines.

(MOUs) were signed by Malaysian companies with their counterparts from the participating countries, of which 40 were in the IMT–GT and 14 in the BIMP–EAGA.

5.47 For the development of the *IMT–GT*, the emphasis has been the provision of physical infrastructure support, tourism promotion and the facilitation of trading activities. On-going projects included the establishment of air links between Ipoh–Medan and Pulau Pinang–Banda Aceh. Cruise and shipping services began operations between Penang Port, Langkawi, Kuala Perlis in Malaysia, Belawan Port and Lhokseumawe Port in Sumatera, Indonesia as well as Satun Port in South Thailand. In addition, haulage services were also established between Penang Port, Bukit Kayu Hitam and Hat Yai. Telecommunication rates in the IMT–GT area were also reduced to facilitate business transactions. The implementation of these projects contributed to increased trade volume in products such as agriculture produce, marine products and electronic goods, and also facilitated the movements of labour and capital across borders within the Growth Triangle area. Joint promotion of tourism product packages was carried out by the tourism associations and travel agencies in the IMT–GT. The Malaysian private sector was also involved in several investment projects in the IMT–GT area. These investments included the construction of 14 units of industrial buildings in the Medan Industrial Estate, a three-star hotel in Medan and a cold storage facility in Sabang, Aceh. Malaysia also received investments from the other countries in the subregion. In this regard, five projects involving investments from Indonesia and Thailand were approved in the textile, non-metallic, wood and wood products, and food industries.

5.48 In the *BIMP–EAGA*, focus was given to the provision of physical infrastructure support and the development of resource-based industries. In this regard, MOUs were signed to improve and expand air linkages and telecommunications networks. Regional shipping lines within the subregion improved with the establishment of ferry services between Zamboanga in the Philippines and Sandakan in Sabah, and between General Santos City in the Philippines and Bitung in Indonesia. Private investments were made by the Philippines in the food canning and fishing industries in Sabah, while Malaysian companies invested in oil palm plantation development in Kalimantan and in oil and gas exploration in Mindanao.

5.49 In the *IMS–GT*, emphasis was given to the provision of infrastructure facilities as well as the implementation of industrial and agriculture projects. Several bilateral joint-venture projects were implemented by the private sector

of the participating countries. During the Plan period, transportation and infrastructure links in the IMS–GT were further developed. In addition to the existing services, ferry services linking Tanjung Belungkor in Johor and Changi in Singapore, and Pasir Gudang in Johor and Batam in Indonesia were established. With regard to the implementation of agriculture projects, several Malaysian companies invested in oil palm plantations in Riau, Indonesia.

III. PROSPECTS, 1996–2000

5.50 The attainment of balanced regional development will continue to remain an important policy objective of the Seventh Malaysia Plan. Emphasis will be placed on raising productivity and incomes as well as enhancing the quality of life, particularly in the less–developed areas of the country. In this regard, focus will be given to strategies that enhance the efficient utilization of natural, human and financial resources to generate higher economic growth and socio–economic development. Development strategies will be directed at further diversifying the economic base of the less–developed states⁹ from agriculture to manufacturing and services industries; encouraging inter-state cooperation and resource-sharing in joint projects; as well as improving the quality of life in both urban and rural areas. Subregional collaboration will aim at maximizing the economic benefits and complementarities within the Growth Triangle areas.

Population Growth and Urbanization by State

5.51 Population growth trends at the subnational level during the Seventh Plan period are not expected to change significantly. As shown in *Table 5–1*, the states with the fastest growing populations are expected to be Sabah, at 5.4 per cent per annum, followed by Selangor, at 3.1 per cent per annum. The States of Kelantan and Terengganu, although experiencing net out–migration, are projected to register rates of growth higher than the national average because of their high rates of natural increase. The state population of Perak, Pulau Pinang, Melaka and Wilayah Persekutuan Kuala Lumpur are expected to grow between 0.6 per cent and 1.2 per cent per annum due to low rates of natural increase and high net out–migration.

⁹ Using the composite index of development as an indicator of the level of development of each state, the states whose development index in 1995 was higher than the national average were classified as more developed, while states whose index was below the national average were classified as less–developed. Based on this classification, the States of Wilayah Persekutuan Kuala Lumpur, Pulau Pinang, Selangor, Melaka, Negeri Sembilan, Johor and Perak fell under the category of the more developed states, while Pahang, Kedah, Perlis, Terengganu, Sarawak, Kelantan and Sabah were categorized as the less–developed states.

5.52 The urban population is projected to grow at a slightly lower rate of 3.8 per cent per annum for the period 1996–2000. It is expected that 13.7 million or about 58.8 per cent of the total population will reside in urban areas by the year 2000. Although the pattern of urbanization will persist, with the more developed states attaining a high urbanization rate of 74.4 per cent, compared with that of the less-developed states of 41.4 per cent, several states such as Kedah, Kelantan, Sarawak, Perlis and Sabah are expected to experience rates of urban growth higher than the national average. The acceleration of economic activities in these states is expected to attract more people to the urban centres. Sarawak is expected to experience the highest increase in the level of urbanization among the less-developed states, from 43.4 per cent in 1995 to 50.5 per cent by the year 2000.

State Economic Growth

5.53 Economic growth in all states is expected to remain high during the Seventh Plan period. The less-developed states are projected to grow at an average rate of 7.6 per cent per annum, compared with 6.9 per cent per annum during the Sixth Plan period. Among the less-developed states, Kedah is expected to record the highest growth of 9.2 per cent, followed by Terengganu at 8.2 per cent per annum. The other less-developed states are projected to grow at relatively high rates, as shown in *Table 5–2*. The main contributor to growth in the less-developed states of Kedah, Pahang, Perlis, Sabah, Sarawak and Terengganu will be the manufacturing sector, while in the case of Kelantan, it will be the wholesale, retail trade, hotel and restaurants subsector.

5.54 Economic growth in the more developed states will remain high at an average of 8.2 per cent per annum during the Plan period. Nevertheless, this rate is slightly lower than what was achieved in the Sixth Plan period. Among the more developed states, economic growth in the States of Negeri Sembilan and Perak are expected to be more rapid during the Seventh Plan period, compared with the Sixth Plan period. The full implementation of approved manufacturing projects in these states during the Sixth Plan period is expected to stimulate the expansion of economic activities in these states. The other more developed states of Johor, Melaka, Selangor and Pulau Pinang will also grow at rates equal to or higher than the national average of 8.0 per cent per annum, as shown in *Table 5–2*. About one-half of the economic growth of these states is expected to come from the growth of the manufacturing sector. Wilayah Persekutuan Kuala Lumpur, however, is projected to grow at 7.0 per cent per annum, with the finance, insurance, real estate and business services sector contributing to more than one-third of the economic growth of the state.

5.55 The structure of the economies of the less-developed states is expected to undergo a further shift towards the secondary and tertiary sectors. The contribution of these two sectors to the economies of the less-developed states is projected to increase from 58.5 per cent in 1995 to 69.2 per cent in the year 2000. The most significant shift in economic structure will occur in Terengganu with the contribution of the manufacturing sector to total value added increasing from 14.7 per cent in 1995 to 30.6 per cent in the year 2000. In Kedah, the share of the manufacturing sector to total value added is expected to increase from 32.7 per cent to 42 per cent during the same period. The strong growth of the manufacturing sector in Terengganu will come from the implementation of iron and steel, petrochemical and wood-based projects, while in Kedah, this growth will come from the implementation of several semi-conductor, wafer fabrication and fibreboard projects. Sabah and Sarawak are also expected to experience a shift in economic structure towards manufacturing. The implementation of several downstream industrial activities in the wood and wood-based industry, such as the manufacture of plywood, veneer, fibreboard and timber moulding as well as paper, will accelerate the development of the manufacturing sector in these states. These structural shifts are also reflected in changes in employment in the various states.

5.56 Employment is expected to grow at a slower rate during the period 1996–2000, due to higher capital intensity and more efficient utilization of labour. With the continued diversification of the economic base of the less-developed states from agriculture to manufacturing and services activities, employment growth in the less-developed states is expected to be higher compared with the more developed states. Employment is projected to grow at an average rate of 3.0 per cent per annum in the less-developed states and 2.5 per cent per annum in the more developed states. Among the less-developed states, Terengganu will record the highest growth in employment of 3.6 per cent per annum, arising out of the expansion of wood and wood-based, iron and steel as well as downstream petrochemical industries. Among the more developed states, the manufacturing, construction and services sectors are expected to lead in the creation of new jobs. The bulk of new job creation in the more developed states is expected to take place in Selangor and Johor as a result of the rapid expansion of manufacturing and construction activities in these states.

Strategies for Balanced Regional Development

5.57 *Economic development strategies* will be directed at diversifying the economic base of the less-developed states to generate higher economic growth. Focus will be given to efforts at broadening the manufacturing base of these

states, particularly through the development of agro- and wood-based industries, petrochemical industries, non-metallic mineral products and other resource-based industries. Towards this end, priority will be given to the development of industrial infrastructure, particularly the development of industrial estates. A total of 10,600 hectares of industrial land will be developed by the Government under the Seventh Malaysia Plan, involving an allocation of RM437 million. A large proportion of this allocation is earmarked for industrial estate development, particularly in Jeli in Kelantan, Gebeng Phase II and Mentakab in Pahang, the Kota Kinabalu Industrial Park and Taman Karamunting in Sabah, Kuala Baram and Damak Laut in Sarawak, and Telok Kalong Phase II in Terengganu.

5.58 The proposed development of these industrial estates is in line with the Government's efforts to promote investments in the East Coast and East-West Industrial Corridors in Peninsular Malaysia as well as the principal growth areas in Sabah and Sarawak. The Government will also continue to finance the development of supporting infrastructure for industrial estates. This will include the provision of roads and drainage, and the contribution cost to *Tenaga Nasional Berhad* and Water Supply Authorities to ensure that industrial estates are provided with adequate basic infrastructure and amenities.

5.59 The development of the tourism industry will also contribute towards diversifying the economic base of the less-developed states. States which are endowed with a wealth of natural assets and cultural heritage, possess potential which can be harnessed for tourism-related activities. In this respect, efforts will be directed at identifying and developing new tourism products as well as upgrading tourism infrastructure, particularly in the less-developed states. Collaborative efforts between states in marketing and promotional activities will also be stepped up to develop integrated tourism packages for the east coast states, Kedah and Perlis as well as Sabah and Sarawak. In addition, focus will also be given to developing eco-tourism and agro-tourism activities in these less-developed states, where agriculture remains a major economic activity.

5.60 Infrastructure facilities are an important prerequisite in the development of a particular region, especially in the promotion of growth and investment in the less-developed states. Under the Seventh Malaysia Plan, the Government will give greater emphasis on the provision and upgrading of infrastructure facilities such as roads, piped water and electricity supply in these states. A total of RM6.79 billion will be allocated to these states for this purpose. The implementation of major infrastructure projects by the Government and private sector, such as the East Coast Expressway that will link Karak and Kuala

Terengganu, the East–West Highway, roads linking the towns in Sabah, the Pan–Borneo Highway and the Coastal Trunk Road in Sarawak, will provide a catalyst for the further development of these states.

5.61 Continued efforts will be made to expand the coverage of and accessibility to various social facilities and basic amenities, such as health and education as well as piped water and electricity, particularly in the less–developed states. Steps will be taken to expand the provision of health and education facilities through the establishment of new hospitals, health centres and polyclinics as well as branch campuses, polytechnics, vocational and industrial training institutes.

5.62 During the Seventh Plan period, a total of RM24.8 billion will be allocated for multi–state programmes and projects, which will benefit people across states. At the same time, inter-state cooperation and resource–sharing in joint projects will be promoted to maximize the utilization of resources. In this regard, the Technical Assistance Programme for State Economic Planning Units will encourage the implementation of cross–border studies to assist participating states in identifying the areas and programmes for potential development. In addition, steps will also be taken to facilitate the sharing of labour resources between states to address the problem of labour shortages. In this respect, an appropriate mechanism will be instituted to facilitate the transfer of labour from the labour surplus State of Sabah to those states in Peninsular Malaysia which are experiencing labour shortages. Inter–state communications and information exchange will also be improved through the Government Integrated Telecommunications Network (GITN) which will eventually link all levels of Government administration from federal to state and district levels.

5.63 In order to accelerate the development of the less–developed states, the Government will allocate a total of RM20.8 billion or 30.8 per cent of the development budget to these states under the Seventh Malaysia Plan, compared with RM15.9 billion, or 27.2 per cent, under the Sixth Plan. In view of the relatively lower levels of development in Kelantan, Sabah and Sarawak, a higher share of the development allocation will be given to these states. Under the Seventh Plan, Kelantan will receive 2.7 per cent, Sabah, 6.7 per cent and Sarawak, 6.7 per cent, compared with 2.6 per cent, 4.4 per cent, and 5.4 per cent, respectively, under the Sixth Plan.

5.64 *Urban development strategies* will continue to emphasize the dispersal of urban development in order to reduce the pressures on major urban centres and to promote a better quality of life. In this respect, emphasis will also be given to the development of small and intermediate towns located in the outer ring¹⁰ surrounding the larger urban conurbations of Kuala Lumpur, Georgetown and Johor Bahru. Other towns such as Melaka, Kuantan, Ipoh, Kuching and Kota Kinabalu which are outside the influence of the three major urban conurbations are also expected to grow.

5.65 For the Plan period, smaller towns through their linkages with both the rural and urban areas are expected to play a greater role in supporting the growth of the large urban centres. The Government's initiatives to relocate small- and medium-scale industries and to establish industrial parks as well as industrial and skill training institutes in the smaller towns are expected to contribute to the growth of these towns. The increasing use of technological advances in telecommunications as well as improved infrastructure networks will also facilitate the spread of economic activities from the existing major urban centres to smaller towns.

5.66 The Government's decision to move the Federal administrative machinery from Kuala Lumpur to Putrajaya will contribute to the growth of a new development corridor between Kuala Lumpur, Putrajaya and Sepang as well as the improvement of the urban environment in Kuala Lumpur. Putrajaya, as the new Federal Government Administrative Centre, will be developed based on a Garden City concept and an innovative approach for urban planning, at an estimated cost of RM20.09 billion. Putrajaya will be equipped with the requisites for an effective and efficient government machinery, aided by state-of-the-art telecommunications, transportation and other infrastructure amenities. In this respect, Putrajaya will be developed as an intelligent city equipped with multimedia facilities. Putrajaya will form part of the multimedia super corridor between Kuala Lumpur and the KLIA in Sepang. An integrated telecommunications network which can be connected to the national information superhighway will provide Putrajaya with access to worldwide electronic communications. This development will enable the establishment of better communication networks between Government agencies as well as between the public and private sectors. It will also facilitate the public sector's move towards a paperless administration.

¹⁰ The towns in the outer ring of Kuala Lumpur will include Tanjong Malim, Rawang, Bentong, Bangi, Putrajaya and Seremban. The towns in the outer ring of Georgetown will include Taiping, Sungai Petani, Kulim, Kuala Ketil and Parit Buntar, while that of Johor Bahru will include Kota Tinggi and Yong Peng.

5.67 The development of Putrajaya will be undertaken by a consortium, Putrajaya Holdings Sdn. Bhd.. Putrajaya and its surrounding areas will cover an area of 14,780 hectares, with 4,400 hectares comprising the Core Area, neighbourhoods, parklands and other supporting facilities. The Core Area will consist of five precincts, each characterized by their predominant functions pertaining to government, commercial, civic and cultural, sports and recreational and mixed development activities. It is expected that Putrajaya and its surrounding areas will accommodate an estimated population of 570,000, of whom 250,000 will live within Putrajaya. An estimated 76,000 public sector and 59,000 private sector employees will work within Putrajaya. A corporate body, *Perbadanan Putrajaya* has been established to manage and administer Putrajaya. At the same time, Kuala Lumpur will be further developed as the commercial and financial capital of the country.

5.68 Other small and intermediate towns such as special feature towns, which have certain economic advantages but are less attractive for industrial and commercial development, will also be promoted. These special feature towns include tourism-based towns such as Bandar Melaka and Kuah as well as border towns like Bukit Kayu Hitam and Padang Besar. Island resorts and highland towns identified for tourism development will also be given support in their development.

5.69 To ensure a high quality of life for the urban population, emphasis will continue to be given to increasing the supply of low-cost housing as well as improving the urban environment, particularly through urban flood mitigation programmes and upgrading urban infrastructure. With respect to flood mitigation, major strategies will include the implementation of structural measures and formulation of drainage master plans as well as the revision of existing plans to take into consideration new urban development. Structural measures include river channel improvements and construction of retention ponds in urban areas that are prone to flash floods. Drainage master plans for all major urban centres will be prepared and revised constantly to keep abreast of urban expansion.

5.70 Increasing urbanization and rapid industrial development around urban centres will place greater demands on Local Authorities in the provision of services, urban design and land-use planning. Areas which require urban services have expanded beyond the capacity of Local Authorities, while industrial estates and Free Trade Zones (FTZs) at urban fringes also require attention. Local Authorities are, however, not adequately equipped to face the demands

that are placed upon them, particularly with respect to the management and maintenance of industrial estates and FTZs. Local Authorities also face the constraint of limited revenue sources to meet the requirements of rapid development. In this regard, appropriate Government agencies will continue to assist Local Authorities in the provision of urban facilities and road maintenance. At the same time, the Government will consider the establishment of corporations in selected Local Authority areas to undertake functions and activities of Local Authorities which will support the rapid development of those areas. In particular, such corporations will be established to manage and maintain specialized areas such as industrial estates and FTZs. The establishment of these corporations as well as the possibility of privatizing the management of Local Authority areas will be studied. Local Authorities will then concentrate their efforts on their regulatory and enforcement functions.

5.71 *Rural development strategies* will emphasize seven main principles, namely, human resource development, strengthening family values, development of a society which is self-reliant, provision of quality infrastructure, development of a sustainable rural economy, effective delivery system and the establishment of a more responsive institution for rural development. These seven principles will form the basis for the development of rural areas. The implementation of rural development strategies is expected to further improve the incomes and quality of life of the rural population.

5.72 Rural areas will be modernized to encourage its population to remain in these areas. In this regard, the quality of life in the rural areas will be improved through the provision of modern facilities and amenities. A total of RM5.98 billion will be allocated in the Seventh Plan for the provision of roads, bridges, piped water and electricity to rural areas. Besides this, the provision of other facilities and amenities, such as medical and educational facilities, will also be emphasized. In addition, the development of transport and communications links will provide the rural population with greater access to urban services and facilities. This is expected to assist in the integration of the urban and rural economies.

5.73 Efforts will also be made to increase rural productivity through the modernization and commercialization of agriculture activities and the development of rural small-scale industries. In this regard, emphasis will be placed on diversifying the economic base of rural areas and increasing rural off-farm incomes through the implementation of the *one-village one-product* approach. Under this approach, each village or group of villages will be encouraged to specialize in the production of one type of product, whether in agriculture,

manufacturing or services, where they have comparative advantage and can benefit from economies of scale. In this respect, the private sector will be encouraged to play an active role in expanding its production units to selected rural areas and in the provision of marketing channels.

5.74 Consideration will also be given to the establishment of Rural Growth Centres (RGCs) in the rural areas to facilitate the expansion of economic activities in selected areas. Efforts will be directed at identifying rural villages which have the potential to be developed as RGCs. In this regard, consideration will be given to the economic potential, population size and infrastructure availability of these villages. To expedite the implementation of RGCs, a comprehensive and systematic action plan will be prepared for each RGC.

5.75 The implementation of *subregional cooperation strategies* is expected to contribute to higher economic growth and living standards in the participating components. These strategies will include the harnessing of economic complementarities in the subregions, promoting the efficient utilization of resources, and attracting domestic and foreign investments to the subregions. Continued emphasis will be given to the provision of infrastructure facilities which will act as a catalyst for the development of the subregions. In view of labour constraints, Malaysia will emphasize the location of capital-intensive industries in its participating states.

5.76 During the Seventh Plan period, projects to be implemented in the *IMT-GT* include a teleport project and a regional television station in Langkawi, a landbridge connecting Penang Port and Songkhla, a welcome plaza in Padang Besar and Bukit Kayu Hitam, a road connection between Kuala Perlis and Satun, and a border development zone in Bukit Kayu Hitam. For the same period, the Malaysian private sector will invest in the construction of a 25 kilometre toll-road, a hospital, and industrial estates in Medan; the manufacture of construction materials and the processing of agro-based products in Aceh; and the development of a power project in southern Thailand. Apart from these projects, a study by the Asian Development Bank (ADB) has identified more than 90 initiatives to be implemented in the *IMT-GT*. Several projects identified by the ADB will be implemented by the private sector, covering several sectors including tourism, trade, telecommunications, energy, agriculture, transportation, infrastructure and human resource development.

5.77 For the *BIMP-EAGA*, several projects identified by the private sector will be implemented during this period. The Investigative Study for the *BIMP-EAGA* by the ADB, which will be completed in 1996, is expected to identify projects in agriculture, transport and communications, trade and tourism, energy and power, financial services, and human resource development. The implementation of long-term projects such as the development of infrastructure and plantations will generate a greater need for funds. In this respect, the promotion of Labuan as an International Off-shore Financial Centre (IOFC) will enable Malaysia to play an active role in providing financial services for the *BIMP-EAGA*.

5.78 With regard to the *IMS-GT*, more opportunities for private sector investment are expected around Gelang Patah in Johor where the second link between Singapore and Johor is located. To further enhance investment opportunities and to increase the flow of information among the private sector in the *IMS-GT*, a JBC will be established in 1996.

IV. CONCLUSION

5.79 Regional development strategies under the Sixth Malaysia Plan contributed towards raising the level of development, especially in the less-developed states. The strong economic growth generated largely by private investment in manufacturing and services activities brought about increased employment opportunities in the various states. Increasing urbanization not only enabled the provision of better services and modern facilities to the population, but also facilitated the spread of economic activities from the major urban centres to their hinterland. The provision of social and physical infrastructure also enabled further development of the various states. Consequently, the population enjoyed higher incomes, better living standards and improved quality of life during the period.

5.80 Balanced development will remain an important objective of regional development during the Seventh Plan period. The development of the less-developed areas will be intensified through continued diversification of the economic base and the provision of good supporting infrastructure facilities. Urban and rural development strategies will continue to be directed at achieving higher living standards and quality of life of the population. In addition, subregional cooperation through the Growth Triangle initiatives are also expected to lead to a more efficient utilization of resources in the subregions and contribute towards enhancing economic growth and development in the participating states.

