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Evolving Paradigms in Regional Development in Malaysia

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Abstract

In seeking to foster economic growth, policy-makers in Malaysia have also had to grapple conceptually and operationally with how best to deal with differing income levels in different parts of the country. In addition, this challenge has changed in nature over time, in line with the country's increasing wealth and urbanization, and as understandings of what regional development is and how it should be pursued have evolved. Over the decades, approaches have shifted away from a sole focus on rural development and an aspatial approach to regional development towards a greater emphasis on urbanization and a deeper understanding of the relationship between location and economic growth. Basing itself on the analysis of central government planning documents and budgetary allocations, this article will look at the evolution of regional development policy in Malaysia. In so doing, it will analyse what Malaysian policy-makers have understood regional development to be, how they have sought to approach it, what resources they have spent on this issue, and how the government has been structured to tackle it.

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Evolving Paradigms in Regional Development in Malaysia

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1. Introduction

Malaysia attained independence with a multi-ethnic population, dualistic economy, significant internal disparities in income, and a geographically uneven pattern of development, with resources and infrastructure concentrated along the west coast of the Malay Peninsula. This was further accentuated in 1963, with the union with Sarawak and Sabah to form the Malaysian Federation. Consequently, while seeking to promote economic growth, policy-makers have also had to grapple conceptually and operationally with how best to tackle varying levels of wealth within the country.

Furthermore, while Malaysia has changed, with its urban population increasing and its overall income levels rising, so have the understandings of policy-makers of what regional development is and how it should be pursued. Thus, over the decades, attention has shifted away from a sole focus on rural development and an aspatial approach to its promotion towards a greater emphasis on urbanization and a deeper understanding of the relationship between location and economic growth.

By comparing and contrasting the evolution of regional development policy across time, this article will analyse what Malaysian policy-makers understand regional development to be, how they seek to approach it, what resources they have spent on this issue, and how the government has been structured to tackle it.

To this end, this article is structured in the following manner. After this introduction, the following section will set out this paper's: key definitions; research questions; and methodology. Each of the subsequent four sections will analyse one period in regional development policy, namely: the immediate post-colonial period; the NEP era (1971-90); 'Mahathirism' (1991-2005); and post-Mahathirism (2006-present). The penultimate section will provide an assessment of the effectiveness of regional policy since independence, and the final section will conclude.

2. Definitions, Questions, and Methods

Usually referring to a spatial unit between the national and local, the term 'region' can be used in a variety of ways, depending on one's discipline and the purpose of the enquiry. According to Paasi (2002), there are three common ways to define the term. The first, termed 'pre-scientific' or 'administrative', refers to spatial units (such as planning regions or administrative areas) that simply group data or other information. This means that the contours and sizes of the units are given and there are no theoretically- or empirically-grounded criteria for establishing them. The second is 'discipline-centred', where the discipline used by the researcher has empirical or theoretical criteria to establish the nature and borders of a particular region or regions. For example, a discipline such as geography would define a region according to its geographic characteristics, soil condition and population. The third is the 'critical perspective', which holds that regions are not self-evident but, rather, constructed concepts.

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Thus, there are many different ways to define or demarcate regions, depending on what one looks at. Furthermore, these decisions can be, and often are, contested, and can also change over time.

This article will adopt a discipline-based definition of regions. Specifically, it will use a political science approach, and will define regions as subnational territories that possess the same political and administrative characteristics within a given country. However, it recognizes the merit of the 'critical perspective' in holding that what regions are and where their boundaries lie are also constructed concepts and, as such, can change over time.

As for 'development', while recognizing that there are other dimensions to the concept, this article will retain an exclusively economic focus. An indicative definition is that used by the OECD, whereby regional development can be seen as a 'general effort to reduce regional disparities by supporting employment and wealth-generating economic activities [within countries]' (n.d.).

As such, the article is guided by the following questions.

a) How has the Malaysian government defined regions?
b) What regional development priorities has it had?
c) What measures has it undertaken to promote regional development?
d) How have these definitions, priorities and approaches changed over time?

With regard to the methodology, this article will base itself on the analysis of central government planning documents and, where available, information on budgetary allocations. This encompasses the Malaysia Plans and, where relevant, Mid-Term Reviews and Outline Perspective Plans.

Having set out the terms, research questions, and methodology, the next section will look at regional policy in the immediate post-colonial period.

3. Regional Policy in the Post-Colonial Period (1957-1970)

At independence, Malaya/Malaysia was characterized by important internal disparities in income, economic structure, and infrastructure, which were largely due to its origins as an amalgam of pre-existing political units.

In general terms, during the colonial period, there were three types of political unit. The Straits Settlements of Penang, Malacca, and Singapore were colonized directly by the British, who transplanted laws, institutions, and civil servants from the United Kingdom. The Federated Malay States of Selangor, Perak, Negri Sembilan, and Pahang were colonized later. While retaining their traditional rulers, they came under a considerable amount of influence from the British, who amalgamated many elements of government into a federation, also deployed many civil servants, and transplanted many legal institutions. The Unfederated Malay States came under colonial control much later and retained many more features of independent polities, receiving fewer British advisers and civil servants (Emerson 1937; Gullick 1992).

These distinct governing structures and colonial experiences meant differing: economic structures; levels of government revenue; and extent of migration. In general terms, the Straits Colonies and Federated Malay States had: longer and more extensive colonial involvement; externally-oriented economies; highest levels of taxation income – and consequently more extensive social services; as well as the greatest flows of migration from China and India. In contrast, the Unfederated Malay States had shorter and less intrusive colonial experiences, and retained control over many functions of government, not least immigration. Relative to their southern and western counterparts, the Unfederated Malay States were more rural, and mono-ethnic. The exception was Johor, which due to its position between the Federated Malay States and Singapore, was more oriented towards commodity exports and experienced a higher degree of migration (Hutchinson 2015; Aiken et al 1982).

Thus, this yielded three differing economic structures across the peninsula. The former Straits Settlements were heavily oriented to trade; the former Federated Malay States and Johor were oriented towards commodity production for export; and the four northern Unfederated Malay States were geared towards rice production for domestic consumption (Brookfield 1994).[1]

This regional disparity was aggravated by the colonial pattern of infrastructure investment, which did not privilege connections between these entities. In each state or settlement, infrastructure was linked to the main port, with very few connections between them. In particular, there were almost no connections between the east and west coasts of the Peninsula, and infrastructure connections within and between Sarawak and Sabah were even more under-developed (GoM 1969, p. 19).

At independence, Malaya was one of the richest countries in Asia, due to its successful export of rubber and tin. However, despite its high level of export earnings, it faced high levels of poverty among its essentially rural populace. In 1957-58, an estimated 44 percent of rural households lived on less than $ 120 per month (Snodgrass 1975, p. 261).

According to the earliest calculations of GDP per capita by state, the northern states of Kelantan, Terengganu, and Perlis were, along with Malacca, the poorest. Conversely, the wealthiest states were the four former Federated Malay States and Johor. Across this time period, six states had below-average income levels, and five had above-average income levels. Comparing the per capita income of the poorest state in 1963, Kelantan, with the richest, Selangor, yields a factor of three. While this is significant, it should be placed in perspective. At the same point in time, the ratios of internal disparity for Brazil and Mexico were eight and ten, respectively (Spinanger 1986, p. 18).

The differing economic structures and income levels also mapped onto the distribution of the main ethnic groups in the country, as the northern Unfederated Malay States had been much less exposed to large-scale migration flows. Thus, in 1965, the poorest states of Kelantan, Terengganu, and Perlis were majority-Malay and overwhelming rural. Of the four northern states, Kedah had deep historical links with Penang and had thus been more exposed to global trade (Wu 2010). As a result, its income levels were somewhat higher than the other northern states.

[1] While they joined Peninsular Malaysia to form Malaysia in 1963, one could include Sarawak and Sabah in the second category, as both had long exported timber and were integrated, in some fashion, to shipping routes. Furthermore, Sarawak had important rubber, saw-milling and oil refining operations (GoM, 1965: 22).

Table 1: GDP per capita by State (1963-70), dollars and ratio

State	1963		1966		1970	
Kelantan	416	0.58	372	0.47	492	0.55
Terengganu	594	0.83	547	0.69	628	0.71
Malacca	625	0.88	685	0.86	677	0.76
Perlis	532	0.75	706	0.89	754	0.85
Penang	519	0.73	636	0.80	768	0.87
Kedah	619	0.87	731	0.92	789	0.89
Johor	740	1.04	852	1.07	963	1.09
Pahang	840	1.18	974	1.23	1005	1.13
Perak	788	1.11	942	1.18	1045	1.18
Negri Sembilan	995	1.40	1022	1.29	1133	1.28
Selangor	1174	1.65	1274	1.60	1503	1.69
Average	713		795		887	

Source: Economic Planning Unit, unpublished in Lim 1976, p. 45.

Table 2: Percentage Distribution of Population by Race, 1965

	Malays	Chinese	Indians
Kelantan	91	6	3
Terengganu	92	6	2
Malacca	50	40	10
Perlis	76	18	6
Penang	29	57	14
Kedah	68	20	12
Johor	50	40	10
Pahang	55	34	11
Perak	40	43	17
Negri Sembilan	42	40	18
Selangor	30	47	23
Peninsular Malaysia	50	36	14

Source: Lim 1973, p. 139

In addition to the perceived high degree of income disparities, the country was faced with a very rapid increase in population, with growth rates above 3 percent p.a. (Federation of Malaya 1961, p. 14). Unlike previous periods in history, the main driver was not international migration, but rather improvements in health. This led to high rates of migration from rural areas to Kuala Lumpur, which strained resources and also created large slums. Policy makers also worried about the implications of high population growth for the viability of land holdings in rural areas, with consequent effects for per capita income (Government of Malaya 1956, p. 30; Rudner 1975, p. 85).

Furthermore, notwithstanding its relative wealth, Malaya's economic model was vulnerable due to its reliance on rubber and tin. Aside from its narrow specialisation, these vital commodities were under threat. Rubber was threatened by synthetic latex and Malaya's tin reserves were being exhausted. Furthermore, the government sought to mobilize higher quantities of revenue to pay for the demand for expanded rural services, as well as deal with the Emergency (Federation of Malaya 1961, p. 15).

Formulated by colonial officers preparing for the transition to independence, the First Five Year Plan was launched in 1956. Its overriding goal was to 'increase national income, output, and wealth, and to do so in directions which will contribute substantial revenue to the budget. This means rubber, tin, and other mining, new industries and the opening up of new land' (Government of Malaya, 1956: iv).[2] To this end, the Plan had the following priorities:

- Economic development, which included: improving rubber yields; lifting output among traditional farmers; developing the mining industry; improving land utilization; and stimulating industrial production
- Improving social services such as health and education
- Developing the country's communication system, which included: road, rail and air transport; as well as the telephone system and postal network (1956: 32-33).

This Plan was a-spatial in that it had no specific regional priorities beyond increasing production and incomes in rural areas. Indeed, very little mention was made of any specific location within the country for investment or priority action.[3]

These macro-level priorities were mirrored in the budget allocations. Economic development was the over-riding prerogative, receiving almost 80 percent of the total. Within this rubric, agriculture and rural development, transport, and utilities/electrification were the top three priorities, receiving seventy percent of the total between them. Social services received thirteen percent of planned allocations. It can be argued that by apportioning so much expenditure to transport and utilities, the Plan was, in fact, privileging urban areas. However, the idea behind this spending pattern was to improve linkages between the rural economy and urban centres, and also link the east and west coasts by road and rail (Cho 1990, p. 52; GoM 1969, p. 19).

Conversely, industrialization was given less explicit attention. While it was cited as a priority, there were no specific targets in terms of employment or production. However, thinking began to change in 1957, following an influential World Bank mission to the country, which recommended that greater emphasis be given to promoting industrialization. Thus, the Pioneer Industrial Ordinance was passed in 1958, which gave tax incentives to firms investing in selected areas. Given the need for more developed infrastructure, this measure overwhelmingly favoured larger urban centres, such as Kuala Lumpur, Johor Bahru, Ipoh, and Penang. Consequently, Malaysian planners were ambivalent about this measure, fearing it would increase rural-urban disparities and also encourage higher rates of migration (Rudner 1975).

Relative to its predecessor, the Second Five Year Plan (1961-1965) had largely the same priorities, but was much more ambitious in terms of its size. It was some 2.5 times bigger than the First Malaya Plan, but still sought to diversify economic activities, boost productivity, generate employment, and to continue to expand social services (Federation of Malaya 1961, p. 16).

And, as with the First Plan, it also sought to reconcile the competing prerogatives of investing in rural development and promoting industrialization, without aggravating internal disparities

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[2] While also known as the General Plan of Development, this article will refer to this document as the First Five Year Plan.

[3] The only aspect of the Plan with a specific spatial characteristic, is the listing a port to serve Kuala Lumpur as a priority for investment (Government of Malaya 1956: 34).

or encouraging migration (Rudner 1975). While the direct budget allocation for agriculture and rural development decreased slightly, other aspects of the budget targeted rural areas, in particular the rural road network (Federation of Malaya 1961, p. 57).

Table 3: Public Sector Development Expenditure 1956-1970

Sector (proportion)	First Malaya Plan (1956-60)	Second Malaya Plan* (1961-1965)	First Malaysia Plan (1966-1970)
Economic Development	**77**	**67**	**63**
Agriculture & Rural D	23	18	26
Commerce and Industry	1	2	3
Transport	23	22	13
Communication	5	4	5
Energy/utilities	24	20	16
Social Development	13	16	18
General Administration	6	6	3
Security	1	2	3
Defence	3	9	13
Total Plan ($ million)	1,007	2,645	3,610

Source: Cho 1990, p. 52, GoM 1971, p. 70. *Peninsular Malaysia only

Due to the weight of the rural and largely Malay electorate, rural development was vital during this period. The Second Five Year Plan incorporated a National Rural Development Plan and the newly created Ministry of Rural Development was helmed by the Deputy Prime Minister, Tun Abdul Razak. He oversaw a nation-wide rural development drive rolled out in every district in the country, with considerable resources dedicated to the replanting of rubber plants to boost productivity (Federation of Malaya, 1961, p. 37).

The Federal Land Development Authority, which had been set up in 1956 to open up new areas for agriculture and land settlements, also increased the scope of its operations in the 1960s. While it had some 22 schemes underway by 1960, the area it had under rubber cultivation increased from 5,900 hectares in 1960 to 59,900 in 1970 (Abdul 1994, p. 49).

What can be said about transfers to areas within the country? In general terms, it can be said that the more rural northern and eastern states such as Terengganu and Perlis received higher per capita allocations than the southern and wealthier states such as Selangor, Penang, and Johor. Pahang is somewhat of an outlier, given its relatively high per capita income. However, like its northern and eastern counterparts, the bulk of its population lived in rural areas.

Table 4: Federal Grants Per Capita (1958,1963)

State	1958	1963
Johor	8.20	7.49
Penang	16.64	8.08
Selangor	9.06	9.33
Kedah	10.47	9.68
Kelantan	9.22	9.83
Perak	8.71	9.99
Malacca	14.39	12.24
Negri Sembilan	13.95	12.41
Perlis	18.86	14.18
Pahang	12.94	17.26
Terengganu*	12.50	39.91
Average	10.26	11.28

Source: Lai 1975: 404. *For 1963, this is due to a reimbursement of a tax on iron ore.

The First Malaysia Plan (1MP) (1966-1970) was the first plan to incorporate Sabah and Sarawak. It entailed another significant expansion in size, from $2.6 to $3.6 billion. As with its predecessors, it devoted substantial resources to agriculture and rural development. Indeed, it increased the proportion allocated to this rubric, mostly likely because of the two large and predominantly rural East Malaysian states. Within agriculture, the Plan substantially boosted outlays for land development as well as drainage and irrigation (GoM 1966, p. 69). The Plan also continued the prioritization of energy, utilities, and social services, but relative to the Second Five Year Plan, the budget allocation for transport decreased and that of commerce and industry increased.

1MP also contains the first, incipient discussion of regional issues. It mentions internal disparities within the country, specifically the East Coast of the peninsula, as well as the Borneo states. Sabah and Sarawak, in particular, are singled out for priority investment in terms of transport infrastructure. However, income disparities are still conceptualized as between groups, rather than between parts of the country (GoM 1966, pp. 2,6,71).

Over the course of the 1960s, the government began to develop its industrialization strategy more fully. Following the World Bank's recommendation, emphasis was placed on providing a conducive environment for growth, through ensuring adequate infrastructure and a good policy regime for foreign investment. In 1965 and 1968, the policy regime was altered to provide more incentives for investment, with the idea of generating more manufacturing employment. And, in 1967, the Federal Industrial Development Authority was established (GoM 1969, p. 2). However, as with its agricultural equivalent, the focus was on the overall industrial base, with little or no focus on reducing disparities in income between regions (Spinanger 1986). That said, the 1968 investment regime provided some additional incentives for states outside the Klang Valley such as Kedah, Terengganu, and Johor.

Towards the end of the 1960s, Malaysian planners began to see the need for a more explicitly regional strategy. The Mid-Term Review of the First Malaysia Plan contains an explicit mention of what was termed 'regional and area development', which argues for integrated local-level plans as well as state-based plans to catalyse development (GoM 1969, p. 134).

In sum, regional planning was in its incipience during this phase of Malaysia's history. In addition to coping with the transition to independence and the absorption of Sabah and Sarawak, the overwhelming focus was on promoting rural development, diversifying the economy, and developing infrastructure. Income disparities were seen to exist at the household level and between rural and urban areas, but were not linked to specific geographical regions. That said, the over-riding focus on rural development meant that the northern and eastern states in the country received higher per capita allocations, and the wealthier, southern states, less. With the incorporation of Sarawak and Sabah, planners began to look at disparities within regions and also appreciate the need for a more spatially differentiated approach.

4. Regional Policy during the NEP (1971-90)

Following the events of May 13th, the establishment of the National Operations Council, regional policy – along with economic policy in general – experienced a sea-change. Facing criticisms that the government had not been active enough in addressing inequality and generating opportunities for the Bumiputera community, the next 20 years of regional policy were to be characterized by a range of interventions in the economy. Indeed, the Second Malaysia Plan (2MP) opened by stating 'economic policies and development will be considered in their relationship to social development in general and the over-riding need for national unity in particular' (GoM 1971, p. 2).

Enabled by a growing economy, 2MP continued the trend of substantially increasing the development budget by more than two-fold, to more than M$ 7 billion (Table 5). As with 1MP, the sectoral distribution was quite similar, with two-thirds of the budget allocated to economic development. Of this, agriculture and rural development received, by far and away, the largest allocation. However, transport, particularly in the form of roads to ongoing agricultural settlement programs as well as important thoroughfares connecting the east and western peninsular regions, was well-funded. Energy and utilities, particularly the electrification of rural areas were also key (GoM 1971, pp. 192,212).

In contrast to the previous planning period, regional development needs were clearly articulated under discussions regarding 'economic balance'. Economic balance was seen as an imperative that encompassed income inequalities between ethnic groups, between urban and rural areas, and also between states. 2MP explicitly mentioned inter-state income inequality – measured as disparities in GDP per capita between states – as an issue, stating that all regions in the country needed to share in the 'benefits of development' (GoM 1971, p. 42).

To this end, 2MP set out a far-reaching and multi-pronged strategy to increase per capita incomes in the more agricultural states as well as agricultural regions in more industrialized states. This included the development of land in virgin forest, large-scale settlement programs, and irrigation schemes in Pahang, Johor, Terengganu, and Kelantan, and to a lesser extent in Kedah and Perlis (GoM 1971, p. 46). To this end, number of state-based regional development authorities were established in the early 1970s to complement the work of FELDA (Ali Hassan 2004, p. 73; GoM 1971, p. 148). Beyond agriculture, forestry was also seen as key in helping raise incomes of people in Sabah and Sarawak (GoM 1971, p. 142).

In addition to opening up areas, substantial resources were invested into in situ development, which involved the upgrading of existing agricultural activities to boost incomes. To this end, FELCRA and RISDA, dedicated to development and upgrading of existing palm oil and rubber small-holdings were established (Ali Hassan 2004, p. 73).

This was bolstered by projects to disperse industrial activities from existing urban centres to rural communities to generate incomes in the latter locations as well as lessen diseconomies of scale in the former. This was further complemented by initiatives to develop a network of new growth centres or townships in rural areas, often around these new formal sector activities (GoM 1971, p. 154).

This focus on rural areas was complemented by a multi-tiered urbanization strategy. In order to avoid excessive concentration of resources in Kuala Lumpur as well as to reduce large-scale migration to the capital, alternative urban centres were to be developed and promoted. The largest alternative growth centres included Georgetown (Penang), Johor Bahru (Johor), and Ipoh (Perak). Below that were the other state capitals, and at the bottom were a number of mid-sized cities throughout the country (Taylor and Ward 1994, p. 124).

While Malaysia's federal system attributes the bulk of resources and responsibilities to the centre, state governments do have prerogative over land issues. As a result, state governments were important implementing agents in this endeavour. Furthermore, they had all established economic development corporations to spearhead local level activities in their territories in the late sixties and early seventies. As a result, state governments were seen as crucial partners in implementing both the NEP as well as regional development plans (GoM 1971, p. 115).

Table 5: Public Sector Development Spending by Allocation (1971-1990)

	2MP	3MP	4MP	5MP
Sector (proportion)	1971-75	1976-1980	1981-1985	1986-1990
Economic Development	**67.2**	**68**	**53.2**	**58.8**
Agricultural & Rural Dev.	26.5	25.5	19.5	26.4
Commerce and Industry	8	9.5	12.7	8.1
Transport	16.4	15.2	9.6	11.3
Communications	5.5	6.4	3.6	0.3
Energy and Public Utilities	10.3	11.6	7.6	11.5
Social Development	**14.7**	**16.6**	**14.9**	**22.54**
Security	**15.2**	**11.9**	**21.9**	**11.7**
General Administration	**2.9**	**3.2**	**1.9**	**7**
Total Budget (RM mil)	7,250	18,555	42,829	40,075

Sources: GoM, 1971, 1976, 1981, 1986

The Third Malaysia Plan (3MP) continued much along the same lines. Overall development spending almost tripled to M$ 18.5 billion, but was structured along much the same lines. Agriculture and rural development were the largest line item, followed by transport and energy. As before, much of the investments in these last two rubrics were aimed at rural areas (GoM 1976, pp. 345, 371).

As with its predecessor, 3MP continued its commitment to balanced growth between regions in the country, even at the cost of immediate economic gains. The Plan also contained the first explicit target for reducing internal disparities in income, namely that the poorest state should have a GDP per capita of not less than two-thirds the national average. Based on this criteria, the states of East Malaysia as well as those along the East Coast of the peninsula were explicitly mentioned, along with target dates for the attainment of this goal (GoM 1976, pp. 199, 214).

However, while land settlement programs continued, 3MP focused somewhat less on this aspect, and concentrated more on in situ development, namely raising incomes and productivity in areas that had already been settled. To this end, the work of those regional development authorities established in the 1970s was extended, and so-called Integrated Agricultural Development Projects were set up in most states on the peninsula, including relatively urbanized ones such as Selangor, Melaka, and Negri Sembilan (Asan Ali 2004, p. 75).

While commerce and industry did not receive as large an allocation as agriculture, it was still a focus of policy. On one hand, infrastructure was built up in smaller urban centres to enable industrial activity to be located there, and location-specific incentives were provided from 1977 onwards to encourage new investments away from the west coast (Cho 1990, pp. 80, 125). Thus, during the 1970s, a network of 76 industrial estates in the north and east of Peninsular Malaysia were established (GoM 1981, p. 296).

The rural and urban strategies were complemented by policies to influence the flow of people. On one hand, policy-makers wanted to promote out-migration from smaller and more densely-populated rural states such as Kedah, Perlis, and Kelantan to larger frontier states such as Pahang, Johor, Sabah, and Sarawak (GoM 1976, p. 214). In addition, they wanted to reduce migration to Selangor in favour of smaller urban centres, particularly those emerging in rural areas.

Development spending per state largely mirrored these priorities (Table 6). Consequently, Terengganu, Pahang, and Sabah, which were large, poor, and rural states received the highest per capita allocations. Smaller, more urbanized states such as Penang and Melaka, as well as larger and wealthier states such as Selangor received less.

The Fourth (4MP) and Fifth Malaysia (5MP) Plans contained a number of important continuities as well as contrasts with those developed in the 1970s. These were due to structural changes such as the increasing urbanization of the country and its burgeoning industrial sector, as well as lessons learned from the previous decade.

First, the move to open frontier areas, often in conjunction with investments from state-owned corporations was successful in terms of the movement of people, the generation of employment, and the creation of a number of smaller urban centres. Second, in situ development, for its part, had mixed results. It tended to benefit larger land-owners in those areas targeted, as opposed to small-holders. In addition, many project participants were passive recipients of technology and expertise (Ngah 2010, p. 7).

The regional development authorities had, arguably, less impressive results. Their master plans were prepared at different points in time and by different people, with different lead agencies and degrees of state and federal ownership. In the new growth centres that were to anchor these regions, less than 20 percent of the planned population took up residence there. Of the various strategies, the industrial dispersal strategies experienced the least success. It was very difficult to encourage firms to relocate to smaller population centres. In cases where larger firms, particularly state-owned enterprises did, they generated few linkages with the local economy (Ngah 2010, p. 7).

With regard to 4 and 5MP, they represented a significant increase in budgetary terms, as they were twice the size of 3MP and more than four times the size of 2MP. In all four Plans, economic development was the highest priority, and received the bulk of the budget. However, it is notable that 4 and 5MP allocated somewhat less in proportional terms to this rubric. Like their predecessors, 4 and 5MP were still heavily focussed on rural areas which, in the 1980s, was still where the majority of the country's population lived. Spending on transport and communications decreased notably under 4 and 5MP, relative to the 1970s. Much of this funding was redirected to social development activities, which experienced a notable increase, particularly in 5MP.

Interestingly, while commerce and industry received a larger allocation in 4MP, this decreased under 5MP to the levels of 2 and 3MP. Notwithstanding this, the Government of Malaysia began to dedicate more attention to industrialization. Under 4MP, the emphasis began to shift from import substitution to export promotion (GoM 1981, p. 6). However, this greater emphasis was not mirrored in greater budget allocations as, after 1983, Malaysia began to implement a sustained privatization drive. Consequently, much of the investment in modern sector activities was to come from the private sector.

In terms of regional development, 4 and 5MP contained the most extensive and sophisticated treatment of disparities in geographic terms. Whereas 3MP specified states and income targets for priority action, these two Plans developed and put forward an integrated planning approach. First, these two Plans introduced and used the concept of the planning region, which was defined as 'a relatively contiguous land mass at a more or less uniform state of development, with similar resources, dominated by a single metropolitan area', which could 'encompass an entire state or a group of states' (GoM 1981, p. 99). These were: Northern (Kedah, Perlis, Perak, and Penang); Central (Kuala Lumpur Federal Territory, Melaka, Negri Sembilan, and Selangor); Eastern (Kelantan, Terengganu, and Pahang); Southern (Johor); Sabah; and Sarawak. This was complemented by a three tier classification for the states, according to their income per capita. The Kuala Lumpur Federal Territory as well as Selangor were high income states, the four northern states were low-income, and the remaining eight states were middle-income.

For the first time, 4MP contained an explicit statement of the objective of regional development. First, it was linked to the implementation of the NEP, and its goal was to 'narrow the disparities in the standard of living between regions by accelerating the rate of growth of the less-developed regions relative those which are more developed' (GoM 1981, p. 99). This was to be achieved through: an equitable distribution of services and amenities; dispersing industries; developing urban areas; and establishing new townships.

The use of these regions was to enable more effective planning for the allocation of specific industries and the selection of growth centres. Individual states were thought to be too small to realize economies of scale, and also did not capture the spillover effect as well as connections that individual urban centres had with other areas. This also marked the beginning of a change in the objective of fostering economic growth, away from seeking to generate jobs and income in specific locations - so-called 'place prosperity' - towards 'people prosperity', which was to be enabled, in part, through migration within the various regions.

This also marked a change in the understanding of migration, away from seeking to minimize it, to accepting it, particularly if it took place outside of the Klang Valley (Taylor and Ward 1994, p. 129). And, it addressed urbanization issues for the first time, particularly issues arising from diseconomies of scale, such as congestion and rising land prices. To deal with these issues, the largest urban areas were to formulate structure plans to guide future growth. In addition, 4MP continued the campaign of dispersing industries, particularly away from Kuala Lumpur, but also Georgetown, Ipoh, and Johor Bahru (GoM 1981, p. 184).

Despite the introduction of regions in 4MP, expenditure was still disbursed across the states. Relative to 3MP, the northernmost and poorest states continued to receive higher per capita allocations, as did Sabah and Sarawak. However, 4MP introduced three important changes. First, breaking with the tradition that more urbanized and wealthier states would receive less development expenditure, Selangor began to receive significantly more in per capita terms. Second, a greater proportion of project funding was destined to multi-state initiatives, as opposed to individual states. Third, 4MP also introduced an explicit target for narrowing income disparities between states – the poorest state in the country was to attain at least two-thirds of the national average in per capita terms (GoM 1981, p. 178).

Table 6: Per Capita Development Allocations by State, 3-5MP

	3MP 1976-1980	4MP 1981-1985	5MP 1986-1990
Melaka	644	1,889	1,015
Penang	935	1,222	1,137
KL Federal Territory		2,368	1,521
Perak	930	1,464	1,861
N. Sembilan	1,003	1,833	1,979
Sarawak	1,372	1,851	2,059
Kedah	761	1,983	2,092
Selangor	643	2,444	2,145
Johor	1,114	1,651	2,276
Sabah	1,762	2,797	2,712
Perlis	761	1,911	3,162
Kelantan	1,207	2,892	3,231
Pahang	2,885	3,378	3,574
Terengganu	1,732	3,391	5,346
Multi-state (%)	11.2	26.4	24.9

Sources: GoM 1976, 1981, 1986

5MP, for its part, contained many continuities with its immediate predecessor. It was the last Plan to really emphasize agricultural development, but also devoted considerable time to analysing urban issues and the issue of inter-regional disparities. As with 4MP, 5MP continued to use the concept of region in discussing development issues and committed the Government to addressing inter-regional disparities. Yet, the region was also advanced as a means for reducing inequalities between states, through enabling poorer states to team up with richer ones and to benefit from spill-overs (GoM 1986, p. 166-7). In addition, as with the 4MP, regions formed the basis for planning and discussion of planned expenditure (GoM 1986, Ch V).

However, 5MP also contained a note of caution, as planners had come to appreciate the difficulty of simply encouraging industries to disperse out of the Klang Valley. Thus, while regions were put forward as alternate economic centres, policy-makers also were more circumspect about the feasibility of encouraging firms to relocate to far-off locations or, indeed, providing infrastructure on the scale needed for this to be feasible. Thus, incentives, facilities, and investment were targeted at specifically-defined areas (Taylor and Ward 1994, p. 127). Indeed, rather than a 'scatter-gun' approach to industrial dispersal, 5MP had a more nuanced approach, seeking to promote agglomeration economies within selected urban centres in different parts of the country. Export-oriented industries would be allowed to locate according to market criteria. In contrast, 'footloose' industries, as well as those producing for the local market were to be encouraged to locate in smaller centres (GoM 1986, p. 358).

5MP was released just after the Industrial Master Plan (IMP). The IMP targeted seven resource-based sectors such as food processing, rubber, and palm oil for priority action, as well as five non-resource based sectors such as electronics and textiles. These were accompanied with a diverse array of general incentives, as well as a range of location-specific incentives for activities. In addition, in a clear recognition of the constraints inherent in widely dispersing industrial activities, the Master Plan contemplated concentrating resources and incentives in two corridors, one on each coast in Peninsular Malaysia. The western corridor ran down the coast from Penang through Kuala Lumpur, ending in Johor. This would maximize the existing investment in infrastructure, which simultaneously reaching some three quarters of the country's population (UNIDO 1985, p. 84). The Eastern Corridor encompassed Terengganu, Kelantan, and Pahang and came with additional benefits for projects located there (Asan Ali 2004, p. 77). However, while 5MP placed much greater importance on manufacturing, the development allocations for this were not substantially higher than in the past, as the resources for the sector's development were to come from the private sector. Indeed, the Plan began with an impassioned plea from Prime Minister Mahathir for more local involvement in manufacturing for export (GoM 1986, p. vi).

With regards to spending by state, 5MP prioritized spending in the north and east, namely in Terengganu, Pahang, Kelantan, and Perlis. However, like 4MP and unlike 3MP, Selangor received relatively more spending than other wealthier and urbanized states. Similarly, 5MP continued with the 4MP's precedent of disbursing one quarter of the budget through multi-state projects.

Thus, while sharing notable similarities, such as a drive to intervene in the economy and 'restructure', the NEP period can be divided into two. The first was characterized by a much greater focus on rural areas and an emphasis on working with state governments. The second was characterized by a greater awareness of the limitations of policy, a growing recognition of the need to foster industrialization, and the beginning of multi-state projects as well as the use of regional planning units.

5. Regional Policy and 'Mahathirism' (1990-2005)

While Mahathir assumed office in 1981, and the Mid-Term Review of the Fourth Malaysia Plan did introduce a number of important changes, it was only from 6MP onwards that regional policy during his administration acquired a markedly different tone and emphasis. Relative to previous periods, the Mahathir planning period was much more focussed on urbanization and industrialization.

The 6, 7, and 8MP shared a number of important commonalities. First, they continued the downward trend in allocations for economic development, with these reduced from 57 in 6MP to 46 percent in 8MP, and the allocations for social development, particularly, increasing (Table 7). Agriculture and rural development, for its part, also received substantially less resources over this period, and from 7MP onwards was only referred to as agricultural development (GoM 1996, p. 177). Indeed, 8MP allocated 8 percent of the budget to this rubric – roughly one quarter the levels seen in the 2MP. While commerce and industry were to be driven by the private sector and thus less dependent on public spending, 7MP was the first Plan to allocate more to this rubric than agriculture.

Table 7: Per Capita Development Allocations, 6-8MP

Sector (proportion)	6MP (1991-1995)	7MP (1996-2000)	8MP (2001-2005)
Economic	**57**	**50**	**45.9**
Agricultural Development	16.4	8.1	7.1
Commerce and Industry	10.5	8.7	9.4
Transport	19.6	23.3	19.8
Communications	0.1	0.1	2.4
Energy and Public Utilities	8.7	7.6	7.8
Social	**24.5**	**29.3**	**34.1**
Security	**15.3**	**13.6**	**9.8**
General Administration	**3.4**	**7.1**	**10.2**
Total Budget (RM mil)	55,000	67,500	110,000

Sources: GoM 1991, 1996, 2001

Turning specifically to 6MP, it continued to stress balanced development, which was taken to mean reducing disparities in social and economic development, as well as between different parts of the country. However, relative to previous Plans, 6MP did not use the concept of regions or corridors. Indeed, 6MP was exclusively state-based in its discussion. Poorer states were to be helped through projects to: diversify their economies – in particular developing their industrial and service sectors; building up their infrastructure; and improving their business environments. Continuing with the shift to 'people-based prosperity' seen in 4MP, labour mobility between states was to be facilitated (GoM 1991, pp. 50, 147).

The 6MP contemplated substantial investment in urban areas, particularly in and around Kuala Lumpur. This included the Kuala Lumpur Commercial Centre, the roll-out of a light rail network, as well as the construction of Putrajaya. In addition, the Kuala Lumpur International Airport was to be built in Selangor. This was accompanied by greater emphasis on urban planning, including the formulation of a Nation Urbanization Policy, as policy-makers became increasingly aware of potential diseconomies of scale arising, not just in Kuala Lumpur, but also Georgetown and Johor Bahru (GoM 1991, p. 50). This was bolstered by investment in infrastructure to connect these centres with nearby satellite towns (GoM 1996, p. 155).

This was consistent with changes in the country, as in 1991, more than half of Malaysia's population lived in urban areas (GoM 1996, p. 153). In addition to its smaller population base, agriculture was seen to have limited potential, afflicted by a scarcity of land, shortage of labour, and increasing costs of production (GoM 1991, p. 42). Thus, with the exception of Sabah and

Sarawak, 6MP no longer discussed opening up new areas for agriculture, and instead focussed exclusively on in situ development. Furthermore, the regional development authorities that were established in the 1970s and early 1980s began to be closed down and often privatized (Ngah 2010, p. 7). Notwithstanding this continued investment in rural areas, it is important to note that the income gap between rural and urban areas widened during the 1990s, from 1:1.7 in 1990 to 1:20 in 1995 (GoM 1996, p. 157).

6MP also continued the focus on industrialization. Regarding regional development, it moved away from the idea of corridors, and proposed instead the rollout of industrial parks, particularly in the East Coast states as well as Sabah and Sarawak (GoM 1996, p. 146). This was complemented by sub-regional cooperation, in the form of Growth Triangles, involving a subset of states and neighbouring provinces in neighbouring countries such as Thailand, Indonesia, and the Philippines (GoM 1996, p. 158).

In terms of development allocation by state, 6MP continued to direct higher than average per capita development allocation to Terengganu, Pahang, and Perlis (Table 8). However, Kelantan received substantially less, and the Kuala Lumpur Federal Territory received more than MYR 3,500 per capita expenditure – almost three times the amount stipulated in 5MP.

7MP and 8MP continued with these broad thrusts. As with 6MP, the Plans committed themselves explicitly to balanced regional development, which implied additional resources being committed to less developed states (GoM 2001, p. 10). As before, addressing internal disparities involved additional emphasis being placed on diversifying the economies of poorer states, particularly through: the encouragement of industrial activities by providing infrastructure such as industrial parks; improving the business climate; and encouraging businesses to take advantage of lower costs. In certain states, this was complemented by initiatives to develop the tourism sector (GoM 1996, p. 163; GoM 2001, p. 152). Furthermore, the road network expanded substantially during this period, with the East-West and North-South highways being completed, greatly facilitating road-based transport between Kuala Lumpur and the East Coast, as well as along the West Coast of the Peninsula.

Urbanization and its related problems were also an important element of regional development planning in 7 and 8MP. As before, the development of smaller urban centres near primary conurbations was promoted as a means of reducing diseconomies of scale (GoM 1996, p. 165). Furthermore, 7MP and 8MP contemplated the shift of the federal capital from Kuala Lumpur to Putrajaya to reduce congestion. 8MP developed this further, with the establishment of the Multimedia Super-Corridor, which ran from the new capital to the Kuala Lumpur International Airport (GoM 1996, p. 165).

While it was to receive fewer resources than in the past, rural development was still included as a component of the country's regional development plans. This included the provision of basic infrastructure for rural areas, in particular roads, piped water, and electricity (GoM 1996, p. 163). 8MP complemented this with a specific mention of Sabah and Sarawak (GoM 2001, p. 154). Last, both Plans incorporated the multi-country Growth Triangles as a means of directing resources to – and catalysing investment in – border regions in the northern states, Sabah and Sarawak, as well as Johor (GoM 2001, p. 155).

Table 8: Development Allocations by State, 6-8MP

	6MP (1991-1995)	7MP (1996-2000)	8MP (2001-2005)
Selangor	2,200	1,347	1,745
Kelantan	1,700	1,215	1,999
Johor	1,800	1,353	2,006
Perak	1,200	1,518	2,210
Terengganu	3,700	2,470	2,529
Pahang	2,700	2,393	2,783
Penang	1,499	1,578	2,851
Sabah	1,600	1,513	2,859
Kedah	2,000	2,115	2,913
Melaka	1,600	2,008	3,588
Sarawak	2,000	2,244	3,919
N. Sembilan	2,100	2,153	5,719
KL Federal Territory	3,547	4,192	6,570
Perlis	2,700	4,213	7,252
Multi-state (%)	35	36.8	33.8

Sources: Jomo and Wee 2014; DoS 2016

7 and 8MP continued the same geographic targeting seen in 6MP (Table 8). Perlis and the Kuala Lumpur Federal Territory received the highest per capita allocations under both Plans. That said, in contrast to 6 and 7MP, which both prioritized Terengganu and Pahang, 8MP allocated higher than average amounts to Negri Sembilan and Sarawak. At the other extreme, all three Plan allocated relatively less to the larger, more urbanized, and wealthier states of Selangor, Johor, and Perak. Kedah received more allocations than in the past, rising towards the middle of the group. Also in keeping with 6MP, 7 and 8MP continued the tradition of using multi-state projects, with at least one third of all expenditure being disbursed in this manner (Table 8).

Thus, the Mahathir period of regional development planning can be characterized by: the elimination of regions or corridors for planning and promotion; a return to the use of states as sites of policy intervention; a substantial increase in the size and scope of multi-state projects; and a very conspicuous focus on urban areas, particularly Kuala Lumpur.

6. Regional Planning Post-Mahathir (2006-2020)

Despite coming under the Third Outline Perspective Plan, and containing many elements in common with the Eighth Malaysia Plan, the Ninth Malaysia Plan began what was, ultimately, to amount to a complete reconceptualization of regional development and the role of government in promoting it. Unlike in the past, where economic activity was seen as something that could be dispersed to different parts of the country, in the current regional planning phase, it is seen as something to be harnessed wherever it occurs with the aim of maximising spill-over effects. And, in contrast to the past, the role of the central government is not to redistribute wealth from one region to another, but rather help all regions grow. In operational terms, this has resulted in the bypassing of state governments in favour of regional growth corridors on one hand, and cities on the other.

As with the 8MP, the 9MP largely centred on improving overall economic competitiveness, developing its manufacturing sector, and deepening its human capital base. Thus, of its five strategic thrusts, two were centred on moving up the value chain and increasing knowledge and innovation. Two other thrusts sought to address quality of life and administrative efficiency (GoM 2006, p. 14-15; 17-18).

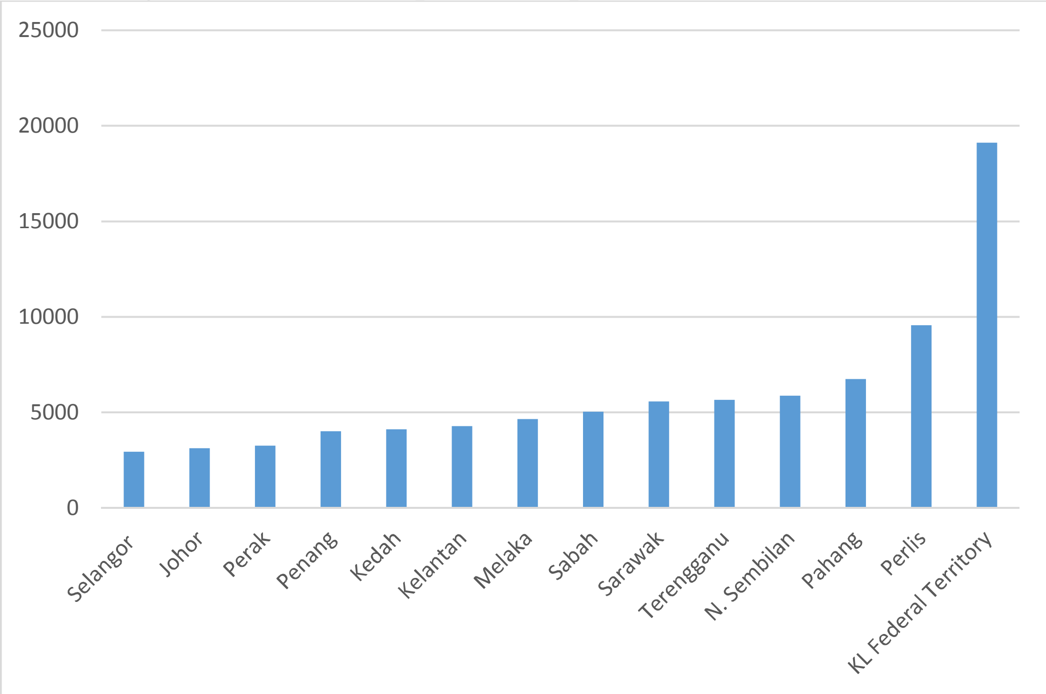
As with its predecessors, the issue of addressing socio-economic inequalities received considerable attention, and constituted a separate strategic thrust. The 9MP pledged to halve the incidence of overall poverty and eliminate hardcore poverty by 2010 (GoM 2006, p. 34). However, in contrast to previous plans, the discussion of reducing poverty and inter-ethnic disparities in income was combined with the treatment of geographic disparities in income (GoM 2006: Chapters 16 and 17). Furthermore, the concept of B-40, which refers to the bottom 40 percent of the population in income terms regardless of ethnicity was introduced as an area for priority action (GoM 2006, p. 35).

In contrast to previous Plans, which focussed on states in their discussion of development spending, the 9MP discussed spending and priorities using the multi-state planning units proposed by 4MP, with four areas for the Peninsula (North, Central, South, and East) in addition to Sabah and Sarawak (GoM 2006, p. 356). In addition, the concept of 'transborder development' or 'regional growth corridors' was introduced as a way of reducing geographic disparities between regions (GoM 2006, p. 35). Largely mirroring the multi-state planning units, these corridors were to have specific sectoral focuses that cut across state boundaries (GoM 2006, p. 363). That said, there were no specific targets for the reduction of regional disparities.

The 9MP noted that the income disparity between urban and rural areas had increased since 1990, and pledged to address it. However, relative to the past, the 9MP continued the trend of spending less on agriculture, which was understandable, given that, by 2006, only 35 percent of the population lived in rural areas (World Bank 2016). Much of the Plan focussed on liveability issues, centring on urban services, public transport, and housing (GoM 2006, pp. 37-41). In addition, an urban hierarchy was introduced, with cities ranked according to their size and economic importance (GoM 2006, p. 368). The Kuala Lumpur conurbation is ranked first, followed by Georgetown (Penang); Johor Bahru (Johor); and Kuantan (Pahang).

In terms of spending across the various states, the 9MP very clearly focussed on the Kuala Lumpur federal territory, with per capita spending levels some four times the national average. Pahang and the smaller states of Perlis and Negri Sembilan also received higher than average per capita allocations. The more rural states of Sabah, Sarawak, and Terengganu received average levels of per capita spending, and the richer and more urbanized states of Selangor, Johor, Perak, and Penang the least. Following from the previous plans, the tradition of important multi-state projects continued, but, surprisingly did not receive higher levels of spending (GoM 2006, p. 351).

Figure 1: 9MP Per Capita Development Allocations by State



Source: calculated from GoM 2006 and DoS 2016

The Mid-Term Review of the 9MP developed the concept of the growth corridor further. The specifics of the five growth corridors were laid out, with their composite state(s), geographic extent, sectoral focus, and expected investment and employment targets specified (GoM 2008, p. 66-67). They were: Iskandar Malaysia, a stretch of southern Johor; the Northern Corridor Economic Region, spanning Kedah, Perlis, Penang, and part of northern Perak; the East Coast Economic Region, including Kelantan, Terengganu, Pahang, and part of Johor; the Sarawak Corridor of Renewable Energy, which encompassed a swathe of the eastern part of the state; and the Sabah Development Corridor, which included the whole state. These corridors were meant to reduce regional 'imbalances' in the country, enable economic development in a more 'coordinated' manner, and help leverage new sources of growth (GoM 2008, p. 66).

In contrast to the 7, 8, and 9MPs, the 10MP reversed the trend of decreasing the overall budget allocation for economic projects, allocating 55 percent of all spending to this rubric – a level not seen since 6MP (Table 9). In addition to a greater emphasis on economic development, the 10MP was imbued with a greater sense of urgency, mentioning the middle income trap and the possibility of the country being bypassed by regional competitors (GoM 2010, p.5). In response, Malaysia was to remain competitive through a number of strategies. Key among them was the pursuit of greater specialization in a number of areas to boost productivity and innovation. The 10MP listed twelve National Key Economic Areas (NKEAs), which were sectors where the country aimed to attain global competitiveness. In contrast to Plans in the early 2000s, the focus shifted from manufacturing to services. Of the NKEAs, 3 were agricultural or natural resource-based, 1 was manufacturing related, and 7 were services of various types, including finance, education, and private healthcare (GoM 2010, p. 122).

The 10MP also incorporated a very different understanding of economic activity and location. In stark contrast to past approaches, which advocated dispersing industries and opening new areas of the country, the 10 MP sought to harness the power of agglomeration economies. Drawing very clearly from the influential 2009 World Development Report, *Reshaping Economic Geography*, the 10MP sought to maximize agglomeration economies enabled by proximity and density, as productivity in dense urban environments was held to benefit from spill-overs as well as network effects (GoM 2010, p. 116). Following this logic, large, compact urban centres were held to promote innovation and more efficient use of resources. And, crucially, governments were thought to be unable to simultaneously foster economic growth and 'spread it out smoothly' (World Bank 2009, p. 2).

This new thinking had two geographic implications for Malaysia's regional planning approach. First, in 10 MP, the concept of growth corridors was brought out more fully. Matched with specific NKEAs, the five growth corridors were labelled as key growth engines of the economy, to be powered by greater specialization and agglomeration economies (GoM 2010, p. 70). These corridors were also seen as a means to reduce regional disparities, as they were to draw in workers, resources, and firms from nearby areas (GoM 2010, pp. 121, 401).

Second, this was complemented by a new focus on cities, in particular Greater Kuala Lumpur. This national conurbation attained vital significance, as it was held to generate 8 times more economic activity than any other urban centre in the country. Consequently, Greater KL was made a discrete NKEA and a priority for investment (GoM 2010, p.112).

The focus on cities was complemented by an extensive discussion of urban issues, including liveability, public transport, and planning issues. Following from the focus on agglomeration economies, cities were conceptualised as very important sites of economic activity, that need to be able to attract and retain financial and human capital to remain viable. Relative to the past, rural issues received much less attention, and the discussion was limited to expanding essential services in rural areas (GoM 2010, pp. 250,259).

In tandem with the emphasis on regional economic corridors and Greater Kuala Lumpur, state governments were completely bypassed as implementing organizations. Harking back to the First and Second Malaya Plan, there was no mention of state governments in the text. In addition, breaking with a precedent established in the 3MP, there was no breakdown of expenditure by state.

Turning to the various categories of socio-economic inequality, the 10MP made very little mention of poverty, which stands to reason, given that this had fallen to 3.8 percent. Continuing on from the 9MP, the B-40 concept was used, and the bulk of the discussion on socio-economic disparities centred on this, as well as inter-ethnic inequality. In addition, the 10MP noted that the disparity in income between rural and urban areas had increased from 1:1.7 in 1990 to 1:2.1 in 2004. However, there was no discussion of how this will be addressed, beyond stating that the various growth corridors would contribute to reducing regional inequality (GoM 2010, p. 401).

Table 9: Public Sector Development Expenditure 9-11MP

Sector (proportion)	9MP 2006-2010	10MP 2011-2015	11MP 2016-2020
Economic Development	**45**	**55**	
Agricultural Development	5.1		
Mineral	0.1		
Commerce and Industry	9.9		
Transport	15.9		
Communications	0.3		
Energy and Public Utilities	10.9		
Social Development	**37.5**	**30**	
Security	**10.6**	**10**	
General Administration	**6.9**	**5**	
Total Budget (RM mil)	220,000	230,000	260,000

Sources: GoM 2006; 2010; 2016

On a conceptual level, the 11MP (2016-2020) has many continuities with its predecessor. However, beyond picking out these similarities, it is not possible to discuss financial commitments, as with the exception of the total size of the budget, there is no information at all on the sectoral breakdown of the 11MP. That said, the 11MP retains the previous emphases on economic activity and location and consequently uses regional economic corridors as well as cities as the sites of policy intervention.

Regarding the economic corridors, they are to be kept as a key element of the country's economic strategy, as well as a means to tackle 'intra- and inter-regional imbalances'. Relative to the 10MP, the specialization of each corridor is increased, with only one or two lead sectors, as opposed to four or five. Thus the Iskandar region in Johor is to focus on creative industries, the Northern Corridor is to specialize in the automotive and aeronautics sectors, and the Eastern Corridor is to develop its petrochemical sector. The corridor in Sabah is to focus on tourism and palm oil processing, and Sarawak is to leverage on its cheap hydropower to produce aluminium, steel and glass (GoM 2011, p. 3-31).

Regarding cities, their role is heightened relative to the 10MP. Investing in competitive cities is portrayed as a 'game changer' - an innovative approach to accelerate the country's development (GoM 2011, pp. 1-8, 1-16). As before, cities are seen as 'nodes' that benefit from agglomeration economies, and are key for attracting investment and talent. And, as before, Greater Kuala Lumpur is taken to be the pre-eminent urban centre in the country. However, based on a variety of criteria including geographic 'advantage', GDP contribution, population, existing infrastructure, and higher education institutions, three additional urban centres are identified. Thus, Johor, Kuching, and Kota Kinabalu are to benefit from master plans and additional investment to increase their: urban density; liveability; innovative potential; and sustainability (2011, p. 8-37). Over time, they, too, are to become regional growth engines.

Turning to socio-economic inequality, the treatment of disparities has been re-cast as 'inclusiveness'. In the 11MP, the government commits to improving the wellbeing of all its citizens, 'regardless of socio-economic background or geographic location'. Continuing with the 10MP, the 11MP pledges to focus on the B-40, and help move them towards attaining middle class status and living standards. Rural areas are to be transformed through improved connectivity, through investments in roads and water supply, as well as greater mobility of people, and a conducive business environment. And, the growth corridors remain a key strategy in this area, as they are meant to increase linkages between rural and urban areas.[4] As with the 10MP, there is no mention of state governments in relation either to fostering economic growth or addressing inequalities. While the 11MP stresses the importance of 'geographic balance in economic growth', any commitment to equalizing per capita income seems to have been relinquished, with the Plan only expecting the states collectively grow in 'tandem' with national average growth rates (GoM 2011, p. 2-21).

Thus, relative to the previous period, the post-Mahathir can be characterized by an even greater emphasis on urbanization and cities. This is accompanied by a reconceptualization of the role of the state in fostering economic growth and a renunciation of state action to encourage investors and firms to locate in specific areas. Furthermore, while not explicitly stipulated, government policy no longer seeks to redress income disparities between regions.

7. Results

What can be said then about the effectiveness of regional policy, if at all, across the various phases of regional planning?

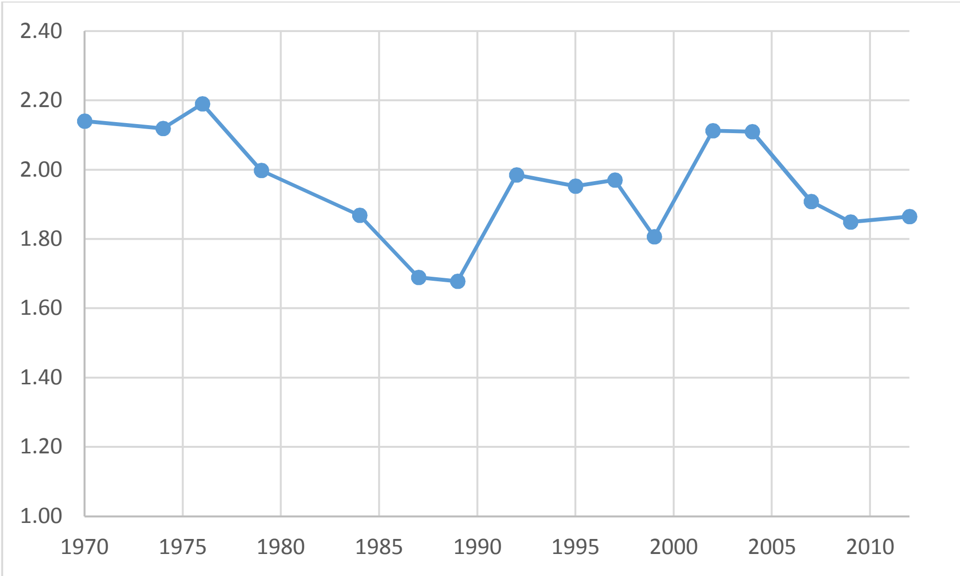
Of course, the country has enjoyed consistent rates of economic growth over the past five decades. Certainly since 1970, this has been accompanied by a very significant decline in poverty levels, from an estimated 49% incidence in 1970 to a mere 1.7% in 2012 (UNDP 2014, p. 32). Regarding inequality, the country has made more modest progress. In 1970, the Gini coefficient was 0.51, falling to 0.43 in 2012. However, much of the reduction happened in the 1970s and 1980, as the Gini coefficient has remained largely unchanged since 1987, when it reached 0.47 (UNDP 2014, p. 35).

What can be said about income inequality between urban and rural areas? With regard to this, Malaysia has made more progress, although it has not been linear. The income gap between rural and urban locations was 2.14 in 1970. After reaching 2.20 in 1976, it proceeded to fall steadily to around 1.65 in 1987. Following this, it proceeded to rise in two bursts to approximately 2.10 in 2002-2004, before falling again to 1.86 in 2012 (UNDP 2014, p. 37). Thus, the rural-urban disparity is still substantial, but less pressing as there are now fewer people living in rural areas. Thus, inequality is now much more about disparities in income between states and, increasingly, cities.

What can be said about inequality between states? Turning first to the prevalence of poverty, it can been seen that while overall rates are low, there are significant differences across the various states, ranging from 8.1 percent in Sabah down to 0.1 percent in Melaka. In general, those states with the highest rates of poverty are the predominantly agricultural states in the northern and eastern parts of the peninsula, as well as East Malaysia. The more urbanized states have significantly lower rates of poverty.

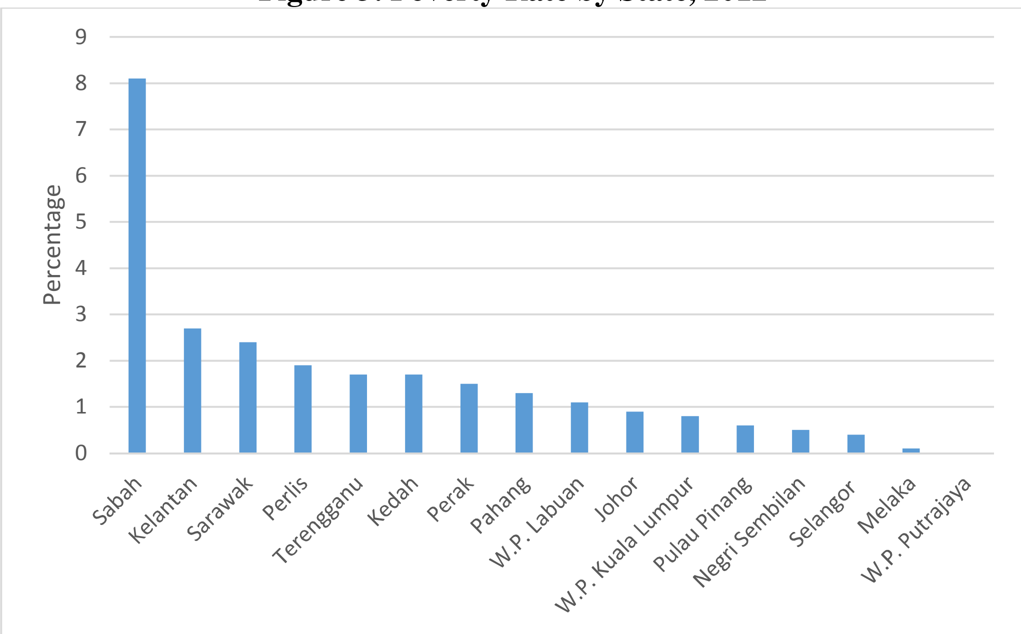
[4] In addition, the establishment of a cross-border growth zone in northern Malaysia and southern Thailand is mentioned (EPU 2015, p. 3-31).

Figure 2: Income Gap by Location (rural-urban)



Source: UNDP 2014, p. 37

Figure 3: Poverty Rate by State, 2012



Source: UNDP 2014, p. 41

What can be said about income levels between the states? Table 10 sets out GDP per capita by state for 1970 and 2013. Overall, the pattern of inequality has stayed the same, with the states along the west coast of the peninsula better off, and the northern and more agricultural states with lower income levels. However, there have been some notable changes. Sabah, initially one of the wealthier states in the federation, is now among the poorest. Perak has also experienced a notable decline in per capita income. Melaka, Penang, and Sarawak for their part experienced an important increase in per capita income.

Table 10: GDP per capita by State, 1970 and 2013

	1970		2013	
	$	Ratio	MYR	Ratio
Kelantan	463	0.47	10,677	0.32
Kedah	665	0.67	16,316	0.49
Perlis	665	0.67	18,519	0.56
Sabah	1,177	1.18	18,603	0.56
Perak	981	0.99	21,150	0.64
Terengganu	592	0.60	23,285	0.71
Johor	900	0.91	25,302	0.77
Pahang	975	0.98	26,759	0.81
Negri Sembilan	979	0.99	33,033	1.00
Malacca	798	0.80	34,109	1.03
Selangor*	1,617	1.63	37,851	1.15
Penang	987	0.99	38,356	1.16
Sarawak	881	0.89	41,115	1.25
Kuala Lumpur FT			79,752	2.42
Malaysia	994		32,984	

Sources: GoM 1976; DoS 2014. *Including the KL Federal Territory for 1970.

With regard to disparities in income, in 1970, only three states, Selangor, Sabah, and Penang had above average income. In 2013, five states had above average income. It is notable that Selangor's per capita income is now much closer to the national average than in 1970. However, this is due to the subsequent excision of the KL Federal Territory. Comparing the richest and the poorest state shows that income disparities have been increasing. In 1970, the difference in per capita terms between Kelantan and Selangor was a factor of three. By 2013, the ratio for Kelantan (again) and Sarawak was a factor of four. If Kelantan and Selangor are compared for both years, the ratio does increase appreciably over time. Income levels between East and West Malaysia have also diverged over time, in favour of the latter (Abdullah, Doucouliagos, and Manning 2015).

However, beyond these broad comparisons, it is difficult to say whether income levels between Malaysia's various states have converged or diverged over time. Looking at income levels over the 1970-2006 period, Ali and Ahmad (2009) find no significant convergence in per capita income between the states over time, attributing this to the differing underlying economic structures of the states. Hooi and Jen (2011) analyse income levels over the 1970-2003 period. They find that overall income levels have diverged between states. However, they find that incomes convergence between states within three discreet groups or 'clubs' of: rich (KL Federal Territory; Penang; Melaka); middle income (Johor; Selangor; Negri Sembilan; Perak; and Sarawak); and low income (Sabah; Perlis; Kedah; and Kelantan). However, when household income is analysed – as opposed to GDP per capita – the inter-state disparities in income are considerably reduced. This could be due to: substantial numbers of inter-state commuters; inter-state transfer payments; or the poor mapping of economic activity and state boundaries.

Abdullah, Doucouliagos and Manning (2015) carry out one of the most rigorous examinations of income disparities between states. In general terms, they find that inter-state income inequality fell during the 1970s and early 1980s, before rising again. At first blush, this is consistent with the NEP period, which saw an important targeting of rural areas, which would have benefited the country's northern and east states. However, upon further analysis, they attribute this effect, not to conscious policy, but rather to spill-over effects between states as well as the weak correlation between state borders and the location of economic activity. They conclude that, overall, government efforts to reduce income disparities between states have not been effective, and that structural factors including initial income levels, human resources, as well as capital investment all influence the evolution of per capita incomes across Malaysia's states (Abdullah, Doucouliagos, and Manning 2015).

Thus, despite Malaysia's enviable record of increasing incomes and reducing poverty, the various regional development policies adopted by the Government, as well as considerable financial resources channelled to particularly the poorer northern and eastern states, regional inequality has proven difficult to address.

8. Conclusions

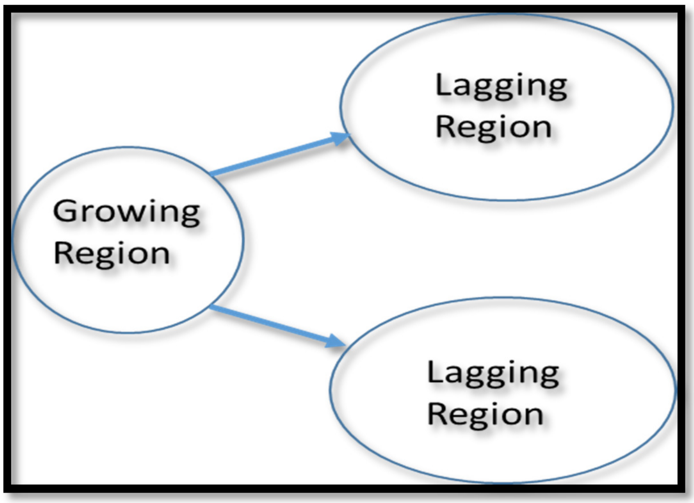
This article has looked at evolution of regional policy in Malaysia since 1956, and in the process has sought to identify changing understandings of regions and regional development, different policy frameworks and approaches, and varying organizational emphases. It has then also reviewed what is known about the effectiveness of government policy to address inter-regional income disparities.

This article has argued that regional development policy has been dynamic and that there have been four distinct phases, due to the changing profile of the country as well as evolving understandings of the relationship between location and economic growth. Initially, attention was focussed exclusively on rural development, through large-scale land settlement initiatives and spending on infrastructure. Following the NEP, the country undertook a more ambitious and far-reaching programme, which encompassed dispersing modern sector activities to rural areas, upgrading rural settlements, and moving people to frontier areas. During the Mahathir period, emphasis was placed more on urbanization, and particularly the development of Greater Kuala Lumpur. Over the last ten years, regional policy changed again, retaining a focus on the Klang Valley but also promoting a select number of urban centres and increasing connectivity to rural areas. As the country has urbanized, emphasis has also changed, away from rural development towards urbanization and the accompanying issues of liveability as well as maximizing the benefits of agglomeration.

Beyond evolving understandings of the relationship between economic activity and location, the understanding of what a region is as well as what the site of government intervention should be have also evolved. During the first phase of Malaysia's regional policy, planners focussed uniquely on rural and urban areas. In the NEP phase, the focus was initially on states and subsequently on multi-state planning regions. However, this proved shortlived as, during the Mahathir period, the focus on states was re-emphasized. In the most recent period, states have been superseded by growth corridors and, increasingly, cities.

The perceived role of the government has also changed over time. For the first three periods of Malaysia's regional policy, the reduction in disparities between regions was a clearly stated government responsibility. In planning terms this can be termed the Donor-Recipient Policy Model (Figure 4), where the government seeks to minimize disparities between regions, through: targeted spending; the promotion of investment in targeted areas; or transfer payments from wealthier regions to poorer ones. This emphasis was particularly notable during the NEP period, although it was also an element of regional policy during the Mahathir period.

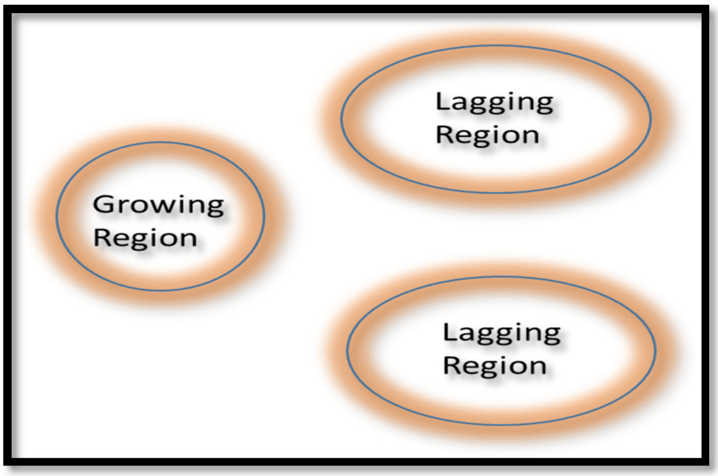
Figure 4: The Donor-Recipient Policy Model



Source: Pike et al 2007, p. 1262

However, this understanding of the role of the government changed notably in the post-Mahathir period. Rather than seeking to minimize inter-state disparities in income, the role of government policy is to first encourage economic growth where it takes place, recognizing that investment will flow to areas that provide the most conducive environment, and this is often in established industry locations. Regarding other regions, central policy should seek to encourage them to capitalize on their comparative advantage, as well as foster linkages to growing regions to allow workers and firms to access them. This is termed the Growth-Oriented Policy Model (Figure 5).

Figure 5: The Growth-Oriented Policy Model



Source: Pike et al 2007, p. 1262

By way of concluding, this article will make four points.

First, the available information would lead us to conclude that inter-regional disparities are increasing over time. While prevailing thinking on the relationship between economic activity and location would lead us to conclude that this issue is difficult to tackle, it may prove difficult for national policy-makers to completely renounce it for political or even economic regions. Implicit in the 'Growth-Oriented Policy Model' is that regional governments can and should be made to compete with one another in order to attract and retain investment. However, unlike other federations where state and provincial governments account for approximately half of government expenditure, in Malaysia this proportion is under 10 percent (OECD; Jomo and Wee 2014). As a result, state governments are not currently in a position to significantly promote policy innovation. Quantitative analyses suggests that simply increasing per capita allocations, or increasing spending on infrastructure may be insufficient. Rather, increasing the human capital base and environment for investment may be more fruitful. Thus, rather than abandoning 'inter-regional solidarity', policy-makers may need to look at their 'tool-box' of interventions.

Second, it is worth asking whether regions and cities are the optimal entities for fostering economic development and encouraging competition. While their remits and budgets are limited, state governments are responsible for land management and have played an important role in promoting industrialization at the local level. In addition, they raise approximately 80 percent of their own revenue and hold periodic elections for office. Thus, they fulfil most of the underlying criteria of what is termed fiscal federalism. However, growth corridors are managed by appointed officials and are not subject to elections. Furthermore, they do not generate their own revenue and are not directly comparable as they have different sizes and target sectors, making it very difficult for them to be subjected to meaningful comparison. While they generate a significant portion of their own revenue, cities are subject to many of these same issues. Thus, despite large conurbations – such as Greater Kuala Lumpur – straddling state borders, it is difficult to see other regional entities assuming an effective economic governance role.

Third, while it is appreciated that larger urban centres are more efficient and offer positive externalities, they can also suffer from diseconomies of scale. Thus, the growing focus on the Greater Kuala Lumpur conurbation may need to be tempered or complemented with a focus on realistic alternative sites for investment. As policy-makers in South Korea and Thailand have learned, there are downsides to having large 'primate' cities and encouraging industries to disperse once they have invested is very difficult.

Fourth, the focus on priority conurbations has changed over time, with Kuala Lumpur and, to a lesser extent, Johor Bahru the only constant sources of policy attention. In their time, Ipoh, Kuantan, and Penang have been portrayed as important centres of industry and innovation. Under 11MP, Kuala Lumpur, Johor Bahru, Kuching and Kota Kinabalu are to be the priority urban centres for the foreseeable future. While the first two conurbations are, undoubtedly important for the national economy, so are, arguably, Greater Penang, Ipoh, Malacca, and Kuantan. Furthermore, while it is understandable that East Malaysia needs at least one priority conurbation, does it have the population base and economic dynamism to sustain two?

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