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Are Five-Year Development Plans Passé in Malaysia?

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EXECUTIVE SUMMARY

- Five-year development plans have been used as a tool of medium-term economic policy-making in Malaysia since the early 1950s.
- In recent years, Malaysia's five-year development plans have contained less and less information on detailed sectoral development allocations, which makes it difficult to assess the efficacy of development expenditures.
- This trend could be driven by the declining importance of development expenditures in the Malaysia economy and the greater role played by government-linked companies (GLCs) in driving private investment.
- There is thus a need in Malaysia for the government to re-assess and explore alternative approaches to medium-term economic policy-making.

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INTRODUCTION

Since July 2017 bureaucrats in Malaysia's Economic Planning Unit have been busy preparing the mid-term review report assessing the progress achieved in country's latest five-year development plan, the *Eleventh Malaysia Plan 2016-2020* (11MP).[1] The five-year development plan is part of an unbroken tradition that dates back to colonial times. In total, fourteen five-year plans have been published since the early 1950s. Over the years, the orientations of these plans have evolved in response to changes in economic structure, policy goals, resource constraints and external shocks.

In more recent years, the structure and contents of five-year plans such as the *Tenth Malaysian Plan 2000-2015* (10MP) and the 11MP have been altered in significant ways. In particular, there is less emphasis on the presentation of detailed sectoral allocations for development expenditures. Instead, both the 10MP and 11MP were mainly concerned with proposing broad policy goals. In light of such changes, it is pertinent to ask whether the five-year development plan is still relevant as a tool for economic policy-making for Malaysia? This is not an unusual question to ask, given that many countries such as South Korea and India have already abandoned the use of five-year development plans.

This essay seeks to answer the question whether Malaysian policymakers should continue to draft five-year development plans in the future. We begin by discussing the basic nature of five-year development plans.

MALAYSIA'S FIVE-YEAR DEVELOPMENT PLANS

A development plan is primarily a document crafted to help a government mobilize available economic resources to achieve specific socio-economic goals within a given time frame.[2] Unlike the annual budget plan or statement, which focuses primarily on short-term economic stabilization issues such as inflation and unemployment, a development plan covers a medium-term time frame of about four to six years.[3] As such, development plans often emphasize not only economic growth but structural as well as institutional change.

Malaysia's first development plan was the *Draft Development Plan* (DDP), a six-year plan covering the 1950-1955 period for Malaya (pre-independent Peninsular Malaysia). Subsequently, a total of 13 five-year development plans have been formulated and launched, with the latest being the *Eleventh Malaysia Plan 2016-2020* (11MP).[4] Many of these five-year plans adopted a structure that closely resembled the elements identified by the development economist Arthur Lewis in his classic book on development planning. In the book, Lewis (1966, p.13) provided a list of elements that are usually found in a typical development plan. These include the following:[5]

(i) A survey of current economic conditions;
(ii) A list of proposed public expenditures;
(iii) A discussion of likely developments in the private sector;
(iv) A macroeconomic projection of the economy; and
(v) A review of government policies.

All the above elements were consistently present in most of Malaysia's five-year development plans. Thus far, all of the five-year development plan documents have featured chapters that are devoted to discussions on past and future macroeconomic performance (i and iv). The remaining elements (ii, iii and v) have traditionally been discussed in thematic chapters that are based on economic sectors e.g. agriculture, manufacturing, energy and health. However, there has been less detailed information on proposed public expenditure plans (item ii) in recent five-year plans.

Historically, at least up to the *Ninth Malaysia Plan 2006-2010* (9MP), detailed allocations for development expenditures for each sector were presented. This practice was discontinued in the *Tenth Malaysia Plan 2011-2015* (10MP), where figures for the development allocation were only presented for four broad categories, namely, general administration (5%), security (10%), social (30%) and economic (55%). The *Eleventh Malaysia Plan 2016-2020* (11MP) contained even less information on the allocations for development expenditures. No figures for development allocation were presented in the 11MP document though the government did separately announce the total allocation for development expenditure for the five-year plan (RM260 billion).

This trend of decreasing information on development allocations in successive five-year plans since the 10MP has puzzled many observers and dismayed some. Do such changes imply that five-year development plans are no longer relevant and useful? Has the Malaysian economy changed over the years in such a way that development expenditures are no longer as important as they used to be? Has the modus operandi of development expenditures changed in recent years to such an extent that the emphasis has shifted to annual economic stabilization? The following sections reflect on these questions.

DEVELOPMENT EXPENDITURES IN FIVE-YEAR PLANS

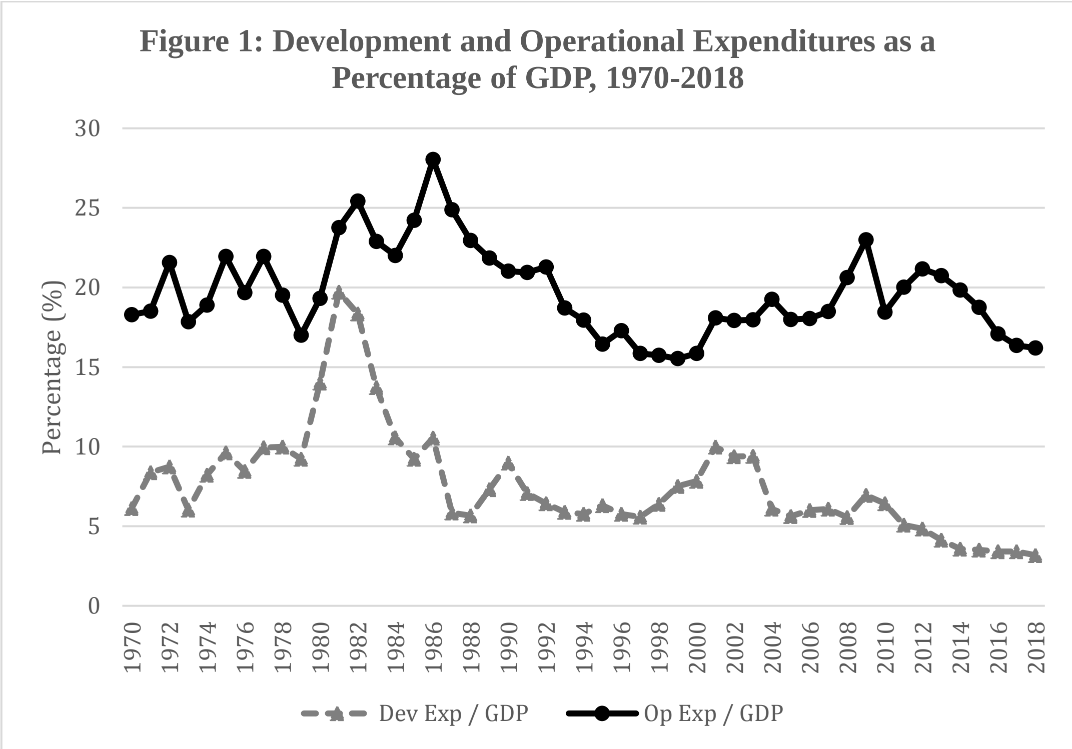
Development expenditures in Malaysia are clearly less important today compared to the 1980s and 1990s. This can be seen from the size of development allocations in the various five-year plans in relation to the size of the Malaysia economy. Development expenditure as a percentage of GDP (**Table 1**) peaked at 22.6 percent during the Fourth Malaysia Plan 1981-1985. The comparable figure for the 11MP is less than four percent. This is also confirmed by figures on annual development expenditures as a percentage of GDP, which showed a drastic decline since 1981 (**Figure 1**).

Table 1: Development Expenditure / Allocation under Various Five-Year Development Plans in Malaysia

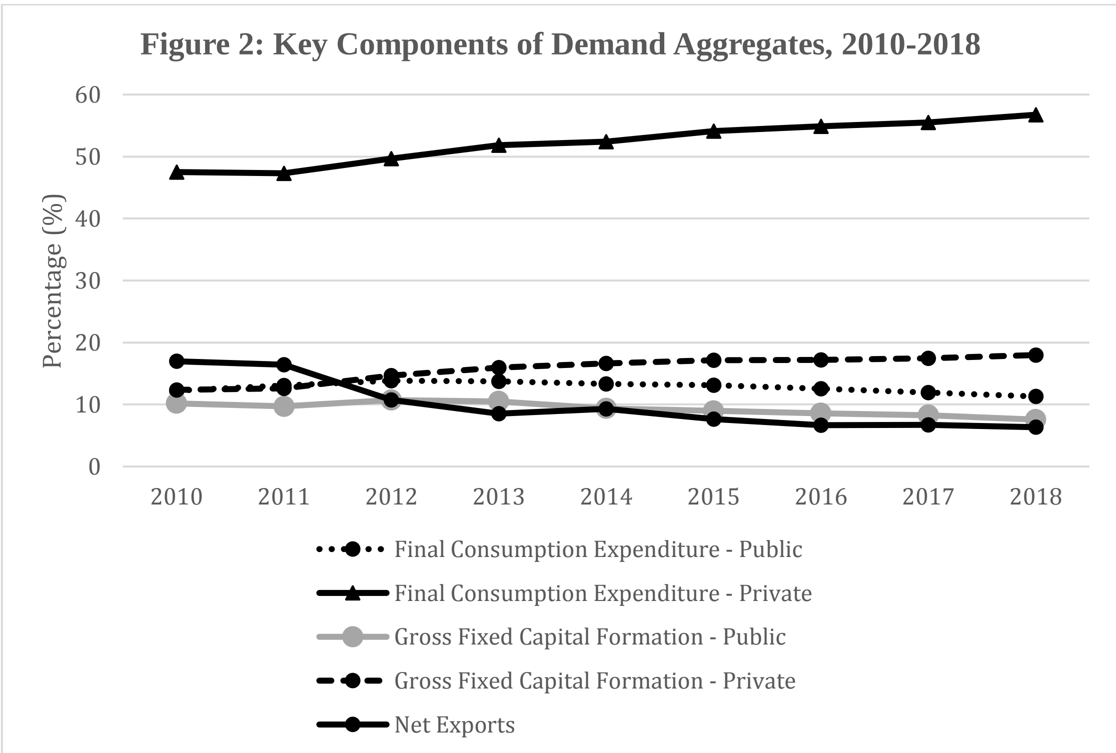
Five-Year Plan	Period	Expenditure / Allocation (RM, mil. current)	Expenditure/Allocation as a Percentage of GDP (%)
First Malaysia Plan	1966-1970	4,242	8.1
Second Malaysia Plan	1971-1975	9,901	10.9
Third Malaysia Plan	1976-1980	27,804	14.0
Fourth Malaysia Plan	1981-1985	78,643	22.6
Fifth Malaysia Plan	1986-1990	61,850	13.2
Sixth Malaysia Plan	1991-1995	117,658	13.4
Seventh Malaysia Plan	1996-2000	222,877	15.1
Eighth Malaysia Plan	2001-2005	170,000	7.8
Ninth Malaysia Plan	2006-2010	200,000	3.9
Tenth Malaysia Plan	2011-2015	230,000*	4.5
Eleventh Malaysia Plan	2016-2020	260,000*	3.6

Source: Author's compilation from various Malaysia Plans; Note: All figures are actual expenditure except those indicated by *, GDP figures for 2019-2020 are estimated based on average growth from 2014-2018

More recent data on the key components of demand aggregates for the Malaysian economy also indicate a decline in the role of public sector expenditure and investment, especially since 2013 (**Figure 2**). Similarly, there has been a decline in the contribution of net exports to aggregate demand. Much of the slack in public expenditures and investments as well as net exports have been taken up by the growth in private consumption and private investment. With the private sector having emerged as the main driver of economic growth today, one is prone to ask if there is still a role left for five-year development plans.



Source: EPU/DOS



Source: Bank Negara Malaysia

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QUESTIONING THE RELEVANCE OF FIVE-YEAR DEVELOPMENT PLANS

Questioning the relevance of the five-year development plan is not an unusual thing to do. Today, many countries, especially developed ones, do not have regular and scheduled five year-development plans. South Korea used to publish five-year development plans but abandoned this practice in 1993.[6] India's *Twelfth Five Year Plan 2012-2017* was the country's last five-year development plan. These examples aside, there are also a number of countries that continue to use five-year plans such as China, Indonesia, Vietnam and Thailand.[7] The practice of using five-year plan as a tool for economic policy-making seems to vary from country to country.

Whether a five-year development plan is still useful depends on the rationale for using such a plan. One key rationale for a five-year plan is that it provides a broad summary of the overall economic and developmental strategies of the government. Such information can be very useful to the private sector as it provides signals about the future directions of the economy. This is a role that the 11MP continues to play today. However, it can be argued that the articulation of such strategies does not necessarily require a five-year development plan. The government can easily establish special committees to deliberate and publish medium-to-long term strategies to achieve the same goal.

A second key rationale for a five-year development plan is the use of such a plan to prioritize projects and programmes by reconciling proposed development projects with available resources (or the "development ceiling").[8] Five-year plans are particularly well-suited for this purpose. It is in this sense that five-year development plans in Malaysia have been useful especially during the early stages of the country's development in the 1960s and 1970s. Such plans have been particularly useful for planning and budgeting for large-scale public investments in infrastructure and for effectuating structural transformations. This function of the five-year plan has clearly diminished over the years, based on two observations. First, as discussed earlier, the relative importance of development allocations has declined. Second, recent five-year plans contain few details on project allocations and assessment of fiscal resources availability.

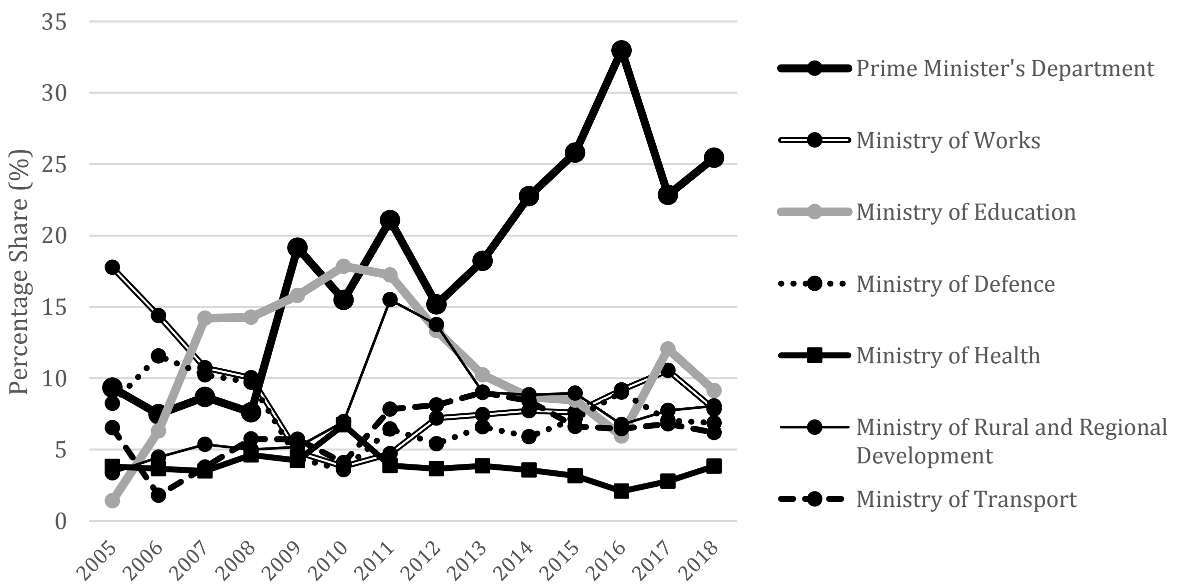
The first observation may be related to the changes that have taken place with the advent of privatization in the 1980s. Today, much of the infrastructure investments are undertaken by private companies, including government-linked companies (GLCs). This trend was already evident in the early 1990s when five-year development expenditures by non-financial public enterprises (NFPEs) were as large or larger than those of the federal government.[9] For example, in the Sixth Malaysia Plan (1991-1995), the development expenditure for NFPEs and federal government were RM48.5 billion and RM54.7 billion, respectively. In the Seventh Malaysia Plan (1996-2000), NFPE's development expenditure of RM119.5 billion exceeded those of the federal government at RM99 billion. More recent large-scale projects such as Iskandar Malaysia, East Coast Economic Region, PETRONAS Pengerang

Integrated Complex and the Kuala Lumpur Light Rail Transit Line 3 (LRT3) project were spearheaded by GLCs. Consequentially, the blurring of the boundaries between public and private investments may require a rethinking about the role of five-year development plans.

The second observation on the lack of details on project allocations and assessment of fiscal resources availability points to a decline in the governance aspect of development planning. The publication of project allocations and fiscal resources enables public assessment of the efficacy of medium-term public expenditures – what was spent on, how much was spent and what were the outcomes. It is entirely possible that the abandonment of detailed medium-term allocations accords the government greater flexibility in public spending. This is particularly relevant since the Malaysian government continues to strive to maintain fiscal discipline in terms of budget deficit reductions and maintaining sustainable debt-levels.

Furthermore, from a budgetary expenditure perspective, it is interesting to note that the de-emphasis on the publication of detailed sectoral allocations in the 10MP and 11MP has coincided with more allocations being channelled through the Prime Minister's Department (**Figure 3**). It is estimated that about a quarter of the development expenditure in 2018 will be spent through the Prime Minister's Department. A few projects account for the bulk of these expenditure (**Table 2**), the most important of which is the facilitation fund which is a financial grant to encourage private investment by financing basic infrastructure development.[10] Allocations were also made to public-private partnership projects. For the 2016-2018 period, both types of projects account for about 28 percent of total development expenditure by the Prime Minister's Department.

Figure 3: Selected Ministries' Share of Development Expenditure 2005-2018



Source: Ministry of Finance, Malaysia

Table 2: Composition of Development Expenditures under the Prime Minister's Department, 2016-2018
(Percentage)

Items	2016	2017	2018	2016-2018
1. PR1MA	15.0	0.0	4.1	6.4
2. Five Corridor Development	14.5	15.0	7.3	12.1
3. Public Private Partnership Projects	0.0	9.4	5.1	4.8
4. Government Electronic Project	7.0	7.5	5.3	6.5
5. Pan Borneo Highway	7.1	14.5	16.4	12.8
6. Special Projects	0.1	3.1	4.7	2.7
7. Mesra Rakyat Project	7.5	7.8	6.6	7.2
8. Facilitation Fund	27.8	14.5	26.9	23.4
9. Maritime Enforcement Agency	3.2	3.7	4.0	3.6
10. Others	17.8	24.6	19.6	20.6
Total	100.0	100.0	100.0	100.0

Source: Ministry of Finance, Malaysia

Whilst it is possible to allocate funding for such activities, it might be difficult to ascertain beforehand (five years ahead) how such funds will be used given that these projects depend much on private sector investments. Thus, any assessment on the impact of such allocations is only possible after such projects have been implemented. This however does not reduce the importance of providing information on the amount of total allocations which could provide a better assessment of where development funds are being allocated, what needs to be monitored and what the impact of the development expenditures is.

Hence, the relevance of a five-year plan would be enhanced if more detailed information on development allocation are presented in the plan's document. Such information could enhance governance by improving transparency and accountability in development allocation and spending.

CONCLUSIONS: ARE FIVE-YEAR DEVELOPMENT PLANS PASSE?

A five-year development plan clearly provides the Malaysian government with an opportunity to articulate its medium-term economic policy priorities. Whilst this provides useful signals to the private sector, the lack of details on development allocations makes it difficult to assess the impact of such allocations. In so far as the role of public development expenditures has diminished significantly and that a large proportion of resources aimed at catalyzing private sector investments are likely to come from GLCs, the approach taken by the five-year plan – if it is to be continued – needs to be modified.

More specifically, the five-year plan document needs to contain more information on the extent of resources that are being mobilized through GLCs to achieve the development goals of the nation. This would also provide a more accurate assessment of the contributions of GLCs to the Malaysian economy. If this is not possible, then perhaps five-year development plans have diminished their usefulness to a significant extent.[11] This should prompt explorations of alternative approaches to medium-term economic policy making, which would include greater reliance on sectoral and thematic plans (e.g. Industry 4.0, Green Economy etc.). Ideally, this should be supplemented with greater use of regular thematic reports that can be used to monitor various aspects of development.

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APPENDIX

Appendix Table 1: Development Plans in Malaysia

Five-Year Plans	**Period**	**Prime Minister**	**Long Term Plans**
Draft Development Plan	1950-1955		
First Malaya Plan	1956-1960	Tunku Abdul Rahman 31/8/57 – 22/9/70	
Second Malaya Plan	1961-1965		
First Malaysia Plan	1966-1970		
Second Malaysia Plan	1971-1975	Abdul Razak Hussein 22/9/70-14/1/76	First Outline Perspective Plan, 1971-1990
Third Malaysia Plan	1976-1980		
Fourth Malaysia Plan	1981-1985	Hussein Onn 14/1/76-16/7/81	
Fifth Malaysia Plan	1986-1990	Mahathir Mohamad 16/7/81-31/10/03	
Sixth Malaysia Plan	1991-1995		Second Outline Perspective Plan, 1991-2000
Seventh Malaysia Plan	1996-2000		
Eighth Malaysia Plan	2001-2005		Third Outline Perspective Plan, 2001-2010
Ninth Malaysia Plan	2006-2010	Abdullah Ahmad Badawi 31/1003-3/4/09	
Tenth Malaysia Plan	2011-2015	Najib Razak 3/4/09 -	
Eleventh Malaysia Plan	2016-2020		

Source: Compiled by authors based on information from five-year plans and outline perspective plans

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[1] The mid-term report for 11MP is scheduled to be tabled in the Malaysian Parliament in July 2018.
[2] This definition draws from Waterson (1965, p.8).
[3] Development plans covering periods of ten or more years are usually regarded as long-term plans. Since 1970 and starting with the Second Malaysia Plan 1971-1975, the five-year plans were embedded within long-term plans (10-20 years) such as the First Outline Perspective Plan 1971-1990 (OPP1), the Second Outline Perspective Plan 1990-2000 (OPP2) and the Third Outline Perspective Plan 2001-2010. Each of these were anchored by key policies such the New Economic Policy (NEP) and its successors, such as the National Development Policy (NDP) and National Vision Policy (NVP).
[4] See Appendix Table 1 for a list of the five-year development plans.
[5] Excerpted from Lewis (1966, p.13).
[6] In South Korea, this followed the merger of the Economic Planning Board (est. 1961) with the Ministry of Finance (est. 1948) in 1994.
[7] For example, China's *13th Five-Year Plan 2016-2020*, Indonesia's *National Medium Term Development Plan 2015–2019*, Thailand's *12th National Economic and Social Development Plan 2017-2021*, and Vietnam's *Socio-economic Development Plan 2016-2020*.
[8] See the discussions on the process of drafting five-year plans in EPU (2007, p.66).
[9] A NFPE is defined as a company in which the government owns 50 percent or more of the equity. In the Eighth Plan (Table 6.2), the NFPEs listed included Kumpulan Guthrie Berhad, Malaysia Airport Berhad, PETRONAS, Putrajaya Holdings, Telekom Malaysia Berhad and Tenaga Nasional Berhad.
[10] The facilitation fund is administered by the Public Private Partnership Unit (UKAS) of the Prime Minister's Department. UKAS's website (http://www.ukas.gov.my/en/dana-mudah-cara) provides a list of 63 projects that have received funding from the fund.
[11] This does not, however, diminish the importance and relevance of future longer-term development plans anchored by new socio-economic vision, such as the forthcoming Transformasi Nasional 2050 (TN50).

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