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**Hari Khamis
6hb Januari, 1972**

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DEWAN RA'AYAT
House of Representatives

PARLIMEN KETIGA
Third Parliament

PENGGAL PARLIMEN PERTAMA
First Session

KANDONGAN-NYA

RANG UNDANG² DI-BAWA KA-DALAM MESHUARAT [Ruangan 5149]

USUL:

**Waktu Meshuarat dan Urusan Yang di-Bebaskan daripada Peratoran Meshuarat
[Ruangan 5150]**

RANG UNDANG²:

Rang Undang² Perbekalan, 1972 [Ruangan 5151]

MALAYSIA
DEWAN RA'AYAT YANG KETIGA

Penyata Rasmi

PENGGAL YANG PERTAMA

Hari Khamis, 6hb Januari, 1972

Meshuarat di-mulakan pada pukul 2.30 petang

YANG HADHIR:

- Yang Berhormat Tuan Yang di-Pertua, DATO' CHIK MOHAMED YUSUF BIN SHEIKH ABDUL RAHMAN, S.P.M.P., J.P., Dato' Bendahara Perak.
- Yang Amat Berhormat Perdana Menteri, Menteri Luar Negeri dan Menteri Pertahanan, TUN HAJI ABDUL RAZAK BIN DATO' HUSSEIN, S.M.N. (Pekan).
- „ Timbalan Perdana Menteri dan Menteri Hal Ehwal Dalam Negeri, TUN DR ISMAIL AL-HAJ BIN DATO' HAJI ABDUL RAHMAN, S.S.M., P.M.N., S.P.M.J. (Johor Timor).
- Yang Berhormat Menteri Kewangan, TUN TAN SIEW SIN, S.S.M., J.P. (Melaka Tengah).
- „ Menteri Perpaduan Negara, TUN V. T. SAMBANTHAN, S.S.M., P.M.N. (Sungei Siput).
- „ Menteri Perhubungan, TAN SRI HAJI SARDON BIN HAJI JUBIR, P.M.N. (Pontian Utara).
- „ Menteri Perdagangan dan Perusahaan, TUAN MOHAMED KHIR JOHARI (Kedah Tengah).
- „ Menteri bagi Hal Ehwal Sarawak, TAN SRI TEMENGGONG JUGAH ANAK BARIENG, P.M.N., P.D.K., P.N.B.S., O.B.E., Q.M.C. (Ulu Rajang).
- „ Menteri Buroh dan Tenaga Ra'ayat, TAN SRI V. MANICKAVASAGAM, P.M.N., J.M.N., P.J.K., S.P.M.S. (Klang).
- „ Menteri Pertanian, TAN SRI HAJI MOHAMED GHAZALI BIN HAJI JAWI, P.M.N., D.P.C.M. (Kuala Kangsar).
- „ Menteri Kerja Raya dan Tenaga, DATO' HAJI ABDUL GHANI GILONG, P.D.K., J.P. (Kinabalu).
- „ Menteri Kesihatan, TUAN LEE SIOK YEW, A.M.N., P.J.K. (Sepang).
- „ Menteri Kebudayaan, Belia dan Sukan, DATO' HAMZAH BIN DATO' ABU SAMAH, D.S.R., S.M.K., S.I.M.P. (Raub).
- „ Menteri Kebajikan Am, TAN SRI FATIMAH BINTI HAJI HASHIM, P.M.N. (Jitra-Padang Terap).
- „ Menteri Pelajaran, TUAN HUSSEIN BIN DATO' ONN, P.I.S., M.B.E. (Johor Bahru Timor).
- „ Menteri Teknologi, Penyelidikan dan Kerajaan Tempatan, DATO' ONG KEE HUI, P.N.B.S. (Bandar Kuching).
- „ Menteri Hasil Bumi, TUAN ABDUL TAIB BIN MAHMUD (Samarahan).

- Yang Berhormat Timbalan Menteri Kewangan, TUAN ALI BIN HAJI AHMAD (Pontian Selatan).
- „ Timbalan Menteri Pertanian, DATO' ABDUL SAMAD BIN IDRIS, J.M.N., A.M.N., P.J.K. (Kuala Pilah).
- „ Timbalan Menteri Buroh dan Tenaga Ra'ayat, TUAN LEE SAN CHOON, K.M.N. (Segamat Selatan).
- „ Timbalan Menteri Pertahanan, Y.M. TENGKU AHMAD RITHAUDEEN AL-HAJ BIN TENGKU ISMAIL, P.M.K. (Kota Bharu Hilir).
- „ Timbalan Menteri Hal Ehwal Dalam Negeri, TUAN MOHAMED BIN YAACOB, P.M.K., S.M.T. (Tanah Merah).
- „ Setiausaha Parlimen kepada Perdana Menteri, WAN ABDUL KADIR BIN ISMAIL, P.P.T. (Kuala Trengganu Utara).
- „ Setiausaha Parlimen kepada Menteri dengan Tugas² Khas dan Menteri Penerangan, TUAN SHARIFF AHMAD (Langat).
- „ Setiausaha Parlimen kepada Menteri Pengangkutan, TUAN MOHAMED BIN UJANG, A.M.N., P.J.K. (Jejebu-Jempol).
- „ DATO' DR HAJI ABDUL AZIZ BIN OMAR, D.J.M.K., J.M.N., J.M.K., S.M.K. (Tumpat).
- „ Y.A.M. TUNKU ABDULLAH IBNI ALMARHUM TUANKU ABDUL RAHMAN, P.P.T. (Rawang).
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- „ TUAN HAJI ABDUL WAHAB BIN YUNUS (Dungun).
- „ PENGHULU ABIT ANAK ANGKIN, P.P.N. (Kapit).
- „ TUAN ABU BAKAR BIN UMAR (Kubang Pasu Barat).
- „ TUAN HAJI AHMAD BIN ARSHAD, A.M.N. (Muar Utara).
- „ PENGIRAN AHMAD BIN PENGIRAN INDAR (Kinabatangan).
- „ TUAN HAJI AHMAD BIN SA'ID, J.P. (Seberang Utara).
- „ TAN SRI HAJI NIK AHMED KAMIL, D.K., S.P.M.K., S.J.M.K., P.M.N. (Ulu Kelantan).
- „ PUAN BIBI AISHAH BINTI HAMID DON, A.M.N., P.J.K. (Kulim Utara).
- „ DR AWANG BIN HASSAN, S.M.J. (Muar Selatan).
- „ TUAN AZAHARI BIN MOHD. TAIB, S.M.K., A.M.N., J.P., J.S.M. (Sungei Patani).
- „ DATO' PENGARAH BANYANG ANAK JANTING, Q.M.C., P.B.S., P.N.B.S. (Julau).
- „ CHEGU BAUDI BIN UNGGUT (Bandau).
- „ TUAN BOJENG BIN ANDOT (Simunjan).
- „ AWANG BUNGSU BIN ABDULLAH (LIMBANG-LAWAS).
- „ TUAN HAJI AWANG WAL BIN AWANG ABU (Santubong).
- „ TUAN CHAN FU KING (Telok Anson).
- „ TUAN CHAN SIANG SUN, A.M.N., P.J.K., J.P. (Bentong).
- „ TUAN CHAN YOON ONN (Ulu Kinta).
- „ TUAN CHEN KÖ MING, P.B.S., A.M.N. (Sarikei).
- „ DR CHEN MAN HIN (Seremban Timor).
- „ DR CHU CHEE PENG (Kluang Selatan).
- „ TUAN VALENTINE COTTER *alias* JOSEPH VALENTINE COTTER (Bau-Lundu).
- „ TUAN PETER PAUL DASON (Pulau Pinang Utara).
- „ TUAN V. DAVID (Dato Kramat).

Yang Berhormat TUAN FAN YEW TENG (Kampar).

- „ DATIN HAJAH FATIMAH BINTI HAJI ABDUL MAJID, J.M.N., P.I.S.
(Batu Pahat Dalam).
- „ TUAN THOMAS SELVARAJ GABRIEL (Pulau Pinang Selatan).
- „ TUAN GOH HOCK GUAN (Bungsar).
- „ TUAN HANAFIAH HUSSAIN, A.M.N. (Jerai).
- „ TUAN HASHIM BIN GERA (Parit).
- „ TUAN RICHARD HO UNG HUN (Sitiawan).
- „ TUAN HOR CHEOK FOON (Damansara).
- „ TUAN HUSSAIN BIN HAJI SULAIMAN (Besut).
- „ TAN SRI SYED JAAFAR BIN HASAN ALBAR, P.M.N. (Johor Tenggara).
- „ TAN SRI KHAW KAI BOH, P.M.N., P.J.K. (Ulu Selangor).
- „ TUAN KHOO PENG LOONG, O.B.E. (Bandar Sibu).
- „ TUAN LATIP BIN HAJI IDRIS (Mukah).
- „ TUAN LEE SECK FUN, K.M.N. (Tanjong Malim).
- „ TUAN LIM CHO HOCK (Batu Gajah).
- „ TUAN LIM KIT SIANG (Bandar Melaka).
- „ TUAN LIM PEE HUNG, P.J.K. (Alor Star).
- „ TUAN LOH JEE MEE (Batang Padang).
- „ TUAN WALTER LOH POH KHAN (Setapak).
- „ TUAN LUHAT WAN (Baram).
- „ TUAN ANDREW MARA ANAK WALTER UNJAH (Betong).
- „ TUAN HAJI MAWARDI BIN LEBAI TEH (Kota Star Utara).
- „ TUAN MOHAMED ARIF BIN SALLEH, A.D.K. (Sabah Dalam).
- „ DATO' HAJI MOHAMED ASRI BIN HAJI MUDA, S.P.M.K.
(Kota Bharu Hulu).
- „ TUAN HAJI MOHD. CHIK JOHARI ONDU MAJAKIL (Labuan-Beaufort).
- „ TUAN MOHD. DAUD BIN ABDUL SAMAD (Kuala Trengganu Selatan).
- „ TUAN MOHD. NOR BIN MD. DAHAN, A.M.N., J.P. (Ulu Perak).
- „ TAN SRI MOHAMMAD SAID BIN KERUAK, P.M.N., S.P.D.K. (Kota Belud).
- „ TUAN MOHD. TAHIR BIN ABDUL MAJID, S.M.S., P.J.K. (Kuala Langat).
- „ TUAN MOHD. TAHIR BIN HAJI ABDUL MANAN (Kapar).
- „ TUAN HAJI MOHAMED YUSOF BIN MAHMUD, A.M.N. (Temerloh).
- „ TUAN HAJI MOHD. ZAIN BIN ABDULLAH (Bachok).
- „ DATO' ENSKU MUHSEIN BIN ENSKU ABDUL KADIR, D.P.M.T., J.M.N.
(Trengganu Tengah).
- „ WAN MOKHTAR BIN AHMAD, P.J.K. (Kemaman).
- „ TUAN HAJI MOKHTAR BIN HAJI ISMAIL, J.S.M. (Perlis Selatan).
- „ TUAN MUHAMMAD FAKHRUDDIN BIN HAJI ABDULLAH, J.P.
(Pasir Mas Hilir).
- „ TUAN MUSA BIN HITAM (Segamat Utara).
- „ DATO' HAJI MUSTAPHA BIN HAJI ABDUL JABAR, D.P.M.S., A.M.N., J.P.,
J.M.N. (Sabak Bernam).
- „ TUAN MUSTAPHA BIN HUSSAIN (Seberang Tengah).
- „ TUAN JONATHAN NARWIN ANAK JINGGONG (Luboh Antu).
- „ TUAN NG HOE HUN (Larut Selatan).

- Yang Berhormat RAJA NONG CHIK BIN RAJA ISHAK, P.J.K. (Kuala Selangor).
- " TUAN OTHMAN BIN ABDULLAH, A.M.N. (Perlis Utara).
- " PENGARAH RAHUN ANAK DEBAK (Serian).
- " TUAN R. C. M. RAYAN *alias* R. C. MAHADEVA RAYAN (Ipoh).
- " TUAN SEAH TENG NGIAB, P.I.S., S.M.J. (Muar Pantai).
- " DR S. SEEVARATNAM, P.J.K. (Seremban Barat).
- " DATO' S. P. SEENIVASAGAM, D.P.M.P., P.M.P., J.P. (Menglembu).
- " TUAN HAJI SHAFIE BIN ABDULLAH, A.M.N., B.C.K. (Baling).
- " TUAN SOH AH TECK, A.M.N., (Batu Pahat).
- " DR A. SOORIAN (Port Dickson).
- " TUAN SU LIANG YU (Bruas).
- " TUAN SULAIMAN BIN BULON, P.J.K. (Bagan Datoh).
- " WAN SULAIMAN BIN HAJI IBRAHIM, S.M.K. (Pasir Puteh).
- " DR SULAIMAN BIN MOHAMED ATTAS, J.P., P.J.K. (Rembau-Tampin).
- " TUAN SULAIMAN BIN HAJI TAIB (Krian Laut).
- " PENGIRAN TAHIR BIN PENGIRAN PATERA (Kimanis).
- " TUAN TAI KUAN YANG, A.M.N., P.J.K. (Kulim Bandar Bharu).
- " TUAN TAJUDIN BIN ALI, P.J.K. (Larut Utara).
- " DR TAN CHEE KHOON (Batu).
- " TUAN TAN CHENG BEE, A.M.N., J.P. (Bagan).
- " TUAN TIAH ENG BEE, P.I.S. (Kluang Utara).
- " TUAN JAMES STEPHEN TIBOK, A.D.K. (Penampang).
- " TUAN TIBUOH ANAK RANTAI (Rajang).
- " TUAN TING MING KIONG (Bintulu).
- " TUAN JOSEPH UNTING ANAK UMANG (Kanowit).
- " TUAN V. VEERAPPEN (Seberang Selatan).
- " TUAN YEH PAO TZU, A.M.N. (Tawau).
- " TUAN YEOH TECK CHYE (Bukit Bintang).
- " TUAN HAJI YUSOF BIN HAJI ABDULLAH *alias* HAJI YUSOF RAWA (Kota Star Selatan).
- " TENGKU ZAID BIN TENGKU AHMAD, D.P.M.K., J.M.K., S.M.K. (Pasir Mas Hulu).

YANG TIADA HADHIR:

- Yang Berhormat Menteri Pembangunan Negara dan Luar Bandar, TUAN ABDUL GHAFAR BIN BABA (Melaka Utara).
- " Setiausaha Parlimen kepada Menteri Pelajaran, TUAN MOHAMED BIN RAHMAT (Johor Bahru Barat).
- " NIK ABDUL AZIZ BIN NIK MAT, J.P. (Kelantan Hilir).
- " Y.T.M. TUNKU ABDUL RAHMAN PUTRA AL-HAJ, K.O.M., C.H., D.M.N. (Kuala Kedah).
- " TUAN HAJI ABDUL RASHID BIN HAJI JAIS, A.D.K. (Sabah Selatan).
- " DATO' HAJI ABDUL RAZAK BIN HAJI HUSSIN, D.S.W., J.S.M. (Lipis).
- " TUAN AHMAD BIN HAJI ITHNIN (Melaka Selatan).
- " TUAN HAJI AHMAD DAMANHURI BIN HAJI ABDUL WAHAB, P.M.P., P.J.K. (Hilir Perak).

- Yang Berhormat **TUAN AJAD BIN O. T. UYONG (Labuk-Sugut).**
 „ **TUAN BUJA BIN GUMBILAI (Tuaran).**
 „ **TUAN EDWIN ANAK TANGKUN, A.B.S. (Batang Lupar).**
 „ **TUAN EDMUND LANGGU ANAK SAGA, P.B.S. (Saratok).**
 „ **DR LIM CHONG EU (Tanjong).**
 „ **TUAN PETER LO SU YIN (Sandakan).**
 „ **DR MOHAMED BIN TAIB, P.M.K., P.J.K. (Kuantan).**
 „ **TUAN MOHD. SALLEH BIN DATO' PANGLIMA ABDU. LAH (Darvel).**
 „ **TUN DATU HAJI MUSTAPHA BIN DATU HARUN, S.M.N., P.D.K., K.V.O., O.B.E. (Marudu).**
 „ **TAN SRI SYED NASIR BIN ISMAIL, P.M.N., J.M.N, D.P.M.J., P.I.S. (Muar Dalam).**
 „ **DATO' PANG TET TSHUNG, P.D.K. (Kota Kinabalu).**
 „ **TUAN RAMLI BIN OMAR, K.M.N., P.M.P. (Krian Darat).**
 „ **DATO' JAMES WONG KIM MIN, P.N.B.S. (Miri-Subis).**
 „ **TUAN STEPHEN YONG KUET TZE (Padawan).**

YANG HADHIR BERSAMA:

- Yang Berhormat Peguam Negara, **TAN SRI ABDUL KADIR BIN YUSOF, P.M.N., P.J.K. (Di-lantek).**
 „ Menteri Dengan Tugas² Khas, **DR LIM KENG YAIK (Di-lantek).**

DO'A

(Tuan Yang di-Pertua *mempengerusikan Meshuarat*)

**RANG UNDANG² DI-BAWA
KA-DALAM MESHUARAT**

**RANG UNDANG² DEWAN BAHASA
DAN PUSTAKA (PINDAAN) (No. 2)
(PINDAAN)**

Rang Undang² bernama suatu Akta bagi meminda Akta Dewan Bahasa dan Pustaka (Pindaan) (No. 2), 1971; di-bawa ka-dalam Meshuarat oleh Menteri Pelajaran; di-bachakan kali yang pertama; akan di-bachakan kali yang kedua pada persidangan akan datang dalam Meshuarat kali ini.

**RANG UNDANG² PELAJARAN
(PINDAAN)**

Rang Undang² bernama suatu Akta bagi meminda Akta Pelajaran, 1961, antara lain untuk membuat peruntukan bagi menubuhkan Lembaga Pusat dan menggolong

lembaga² pengurus dan lembaga² pengelola bagi sekolah² bantuan penoh bagi menguatkuasakan beberapa shor Surohanjaya Di-Raja mengenai Perkhidmatan Guru² di-Malaysia Barat; di-bawa ka-dalam Meshuarat oleh Menteri Pelajaran; di-bachakan kali yang pertama; akan di-bachakan kali yang kedua pada persidangan akan datang dalam Meshuarat kali ini.

USUL

**WAKTU MESHUARAT DAN URUSAN
YANG DI-BEBASKAN DARIPADA
PERATORAN MESHUARAT**

Menteri Buroh dan Tenaga Ra'ayat (Tan Sri V. Manickavasagam): Tuan Yang di-Pertua, saya mohon menchadangkan:

Bahawa walau apa pun peruntukan Peratoran Meshuarat 12, Dewan Ra'ayat ini hendaklah di-tanggohkan hingga pukul 2.30 petang hari Juma'at, 7hb Januari, 1972 sa-baik² sahaja Rang Undang² Perbekalan, 1972 telah di-chadangkan dan di-sokong untuk Bachaan Kali Yang Kedua.

Menteri Pertanian (Tan Sri Haji Mohamed Ghazali bin Haji Jawi): Tuan Yang di-Pertua, saya mohon menyokong.

Usul di-kemuka bagi di-putuskan, dan di-setujukan.

Di-putuskan,

Bahawa walau apa pun peruntukan Peratoran Meshuarat 12, Dewan Ra'ayat ini hendak-lah di-tanggohkan hingga pukul 2.30 petang hari Juma'at, 7hb Januari, 1972 sa-baik² sahaja Rang Undang² Perbekalan, 1972 telah di-chadangkan dan di-sokong untuk Bachaan Kali Yang Kedua.

RANG UNDANG²

RANG UNDANG² PERBEKALAN, 1972

Bachaan Kali Yang Kedua

Menteri Kewangan (Tun Tan Siew Sin): Tuan Yang di-Pertua, saya mohon men-chadangkan bahawa satu Rang Undang² yang bernama "Suatu Akta bagi menggunakan sa-jumlah wang daripada Kumpulan-wang Disatukan untuk perkhidmatan bagi tahun 1972 dan bagi memperuntukkan wang itu dan lain² wang sa-bagaimana yang telah di-benar di-keluarkan untuk perkhidmatan bagi tahun itu" di-bacha bagi kali yang kedua.

This is the first Budget to be presented to this House since the reconvening of Parliament after its suspension as a result of the May 1969 troubles. In my last budget statement, I stressed that 1971 marked the start of a new era, since the Budget reflected, among other things, the objectives of the New Economic Policy. I also mentioned that domestic economic activity in 1971 would provide the main impetus to economic growth in view of the uncertain trends in the world economy. These two factors have in fact greatly influenced the performance of the Malaysian economy in 1971. The New Economic Policy made itself felt in a sizeable increase in public demand and enabled the economy to grow at a satisfactory rate in spite of falling export earnings. This is quite an achievement. Whereas a decline in export earnings led to an absolute decline in GNP in 1961, the effect of the decline in export earnings by one-half of 1% last year was more than offset by the growth in domestic demand which was largely generated by the

new and more pronounced development effort of the public sector. As a result, the gross national product is estimated to have grown by nearly 5% in 1971 to \$12,300 million. Though this represents a slowdown after the buoyant years of 1969 and 1970, and also falls short of the projections of the Second Malaysia Plan, the achievement is by no means unsatisfactory, considering the slow growth of world demand brought about by the troubled international economic and monetary situation, taking into account Malaysia's heavy dependence on exports.

The International Economic Situation

Let me, therefore, first turn to the world economic and monetary situation in 1971. International relations in this field reached a critical point last year. Production and demand in most major industrial countries expanded only slowly, whereas inflation on a world wide scale still continued strongly, though it was not as pronounced as it was during the record inflation year of 1970. In addition, and partly as a consequence of this, the international monetary and trade system underwent yet another major crisis. Fortunately, agreement was reached among the big industrial powers in December 1971 to settle the major disequilibria in exchange rates which enabled the United States to withdraw its import surcharge of 10%.

In 1971, the United States, which dominates the economic relations of the non-Communist world, experienced a year of relatively slow recovery from the 1970 recession, coupled with an almost unabated rate of inflation. As is known, this led to a highly critical balance of payments situation with the result that the rest of the world was inundated with unwanted US dollars. International liquidity rose at unprecedented speed. To counter the internal and external consequences of these developments, the US Government adopted direct price and wage controls, introduced measures for faster internal expansion, reduced foreign aid and imposed a 10% surcharge on imports of manufactured products. These steps, announced by President Nixon on 15th August last, may have been necessary for improving the US balance of payments situation and for accelerating growth inside the United States, but they have hit the European countries and Japan and could well have undermined confidence in the entire international economic system. The imposition of the US import

surcharge could have provoked a trade war as other industrial countries might retaliate with protectionist policies of their own. This could have meant the end of the long period of international trade liberalisation which helped so much to generate the unprecedented and worldwide growth which has occurred since the Second World War and which has benefited the developing countries that follow liberal policies, such as Malaysia. Happily, this danger has receded, thanks to the realignment of the major currencies on 18th December last year, permitting the United States to withdraw the import surcharge after 4 months.

Both Western Europe and Japan, which have had their longest and strongest boom of the post-war period, viz. from 1968 to 1970, experienced a considerable slowdown in their rate of growth during 1971. This development was further accentuated by the uncertainties in international economic relations. However, in view of the August restrictions by the US, most industrial countries have adopted expansionary fiscal and monetary measures during the last few months, so that a somewhat more rapid rate of growth in most of these countries can be expected for 1972, especially after the removal of the uncertainties in the international monetary situation. Only the future can tell whether the parity changes announced last month will achieve the desired effects, but I am hopeful that even Japan and West Germany, whose currency revaluations have been more than generally expected, should be able to adjust themselves fairly rapidly to the new situation.

Malaysia is affected by these monetary events in so far as the prices of imports from those countries, whose currencies have been revalued, are pushed upwards in terms of Malaysian dollars. This applies especially to the prices of machinery and equipment, which are needed for the implementation of the Second Malaysia Plan. As a consequence of these parity changes, imports from Japan and Germany might become more expensive by about 9% and 5% respectively, but these will be partly offset by a lowering of prices for US goods by about 8%. Our studies indicate that the overall cost of imports to the nation would be about 0.5% less while the overall decline in export earnings would be about 0.8%. The overall net effect on Malaysian price levels can therefore be expected to be

relatively small. On the other hand, the external debt burden will become considerably lighter in terms of Malaysian dollars, because a substantial portion of the outstanding debt is in US dollars. Consequently, we have made a tidy capital profit out of these realignments.

Overseas Demand

Malaysia's total commodity exports in 1971, estimated at \$5,145 million, fell short of the already disappointing export level of 1970, which reached \$5,162 million, by about one-half of 1%. This again shows only too clearly how a developing country, which is still mainly a raw material supplier, can suffer from slow economic growth in the major industrial countries. Prices for most of Malaysia's major primary products were depressed as a consequence of the unexpectedly slow upturn in industrial production in the United States and the considerable slowing down of economic activity in Western Europe and Japan. This poor overseas demand hit West Malaysia more seriously than East Malaysia. West Malaysia's exports fell by 5½%, from \$3,987 million in 1970 to an estimated \$3,765 million in 1971, whereas the production of oil in commercial quantities, viz. at the rate of 70,000 barrels a day in 1971 and this is expected to increase to 90,000 barrels a day this year, bolstered the export receipts of East Malaysia, which rose by 17½%, i.e. from \$1,175 million in 1970 to an estimated \$1,380 million in 1971.

In 1971, exports to the United States, estimated at \$655 million, were about 2½% less than in 1970, when it reached a total of \$670 million. This was largely due to a substantial decline in the value of tin exports. Malaysia's exports would also have performed better but for the depressed rubber price. Rubber exports to the US are estimated to reach 200,000 tons in 1971, an increase of 30% over the 1970 figure, but owing to the sharp fall in prices, export earnings are expected to rise by only 10%. Exports to the EEC countries, estimated at \$600 million in 1971, would be about 6% lower than in 1970, reflecting the end of the industrial boom in the Community. Exports to Japan, estimated at \$910 million, also showed a decline of about 3%. Exports to the USSR, the People's Republic of China and other Communist countries are also expected to fall fairly substantially from the previous year's level. Trade with China has, however, been picking

up during the latter months of 1971. Exports to the United Kingdom, on the other hand, are estimated to rise by about 2% to \$345 million.

Rubber export earnings, which accounted for 30% of Malaysia's total exports in 1971, were badly hit by declining prices and are estimated to decline by 10½% from \$1,724 million to \$1,540 million. This could not be offset by an increase in the volume which rose by 7½% from 1.32 million tons to 1.42 million tons, and which consisted of a higher proportion of better quality rubber than in 1970. Exports of Standard Malaysian Rubber, or SMR for short, were estimated to account for 22% of the total volume of rubber exports in 1971 compared with only 17% in 1970. Rubber prices, which began to decline almost continuously since mid-1969, did not exactly receive a boost when the US Government announced that as from July last year 6,000 tons of natural rubber would be released every month from its stockpile. This figure was brought down to 4,000 tons a month after protracted negotiations and this is clearly a situation we have to live with for the time being. The Malaysian Government, on its part, is doing everything it can to support prices by intervening in the market whenever it considers such a move desirable. We changed our tactics recently by switching to the purchase of lower grade physical rubber in order to narrow, if not eliminate altogether the highly undesirable differential between No. 1 paper rubber and actual physical rubber of the same quality. As a result, this differential has almost completely disappeared, but the main problem of prices, which are far too low, still persists. We clearly have to think again, and although it would be premature at this stage to say what is in our minds, there is no doubt that something more radical will have to be done, and done soon. One of the most curious phenomena which came to light as a result of changing our buying policy is a situation where although we are prepared to buy lower grade physical rubber, the quantities required are not forthcoming, and yet prices refuse to move upwards! This might show that there is something seriously wrong somewhere and calls for a basic reappraisal of the entire rubber market, its operations and their future.

The timber industry was badly affected by the fall in overseas demand. The export volume of saw logs was estimated to decline

by 6½% from 6.29 million tons in 1970, to 5.90 million tons in 1971, while that of sawn timber remained stagnant at about 960,000 tons. Timber prices did not show any significant change, but owing to the fall in the export volume of saw logs, timber export earnings, estimated at \$820 million in 1971, were 2½% lower than the total of \$844 million reached in 1970. The decline in timber exports particularly affected the economy of East Malaysia, which depends substantially on timber. The fall in East Malaysia's timber exports was mainly due to a sharp reduction in demand from Japan which had difficulty in exporting timber products to the United States, following the imposition of the US import surcharge. The future of our timber exports will, to a great extent, depend upon our finding other markets and also upon more domestic processing of timber. With these objectives in mind, the Government has reorganised the approach towards the promotion of timber exports by setting up a new Timber Export Industries Board to co-ordinate the development of the timber industry in the national interest. I shall have more to say on this important matter later.

Exports of tin, which accounted for 18% of Malaysia's total exports, were estimated to have declined by about 10½% to \$910 million in 1971 compared with \$1,013 million in 1970. This was due to a fall in the average price, which came to \$631 per pikul, compared with \$665 per pikul in 1970, and to a sharp decline in imports of tin ore, especially from Indonesia, for processing and re-export. The volume of exports in 1971 is estimated at 86,000 tons, compared with the 1970 figure of 91,000 tons. Exports of iron ore, which had been declining in recent years as a result of the depletion of known reserves, fell very markedly to \$20 million in 1971, compared with \$107 million in 1970.

The fall in total exports, arising from lower export earnings from rubber, timber, tin and iron ore would have been much more serious had it not been for the continuing strong performance of palm oil exports and the substantial rise in crude petroleum exports. Palm oil export earnings increased by almost 40% to an estimated \$365 million in 1971, compared with \$263 million in 1970. This achievement is due largely to the planting industry's foresight in undertaking extensive planting programmes, which enabled Malaysia to maintain her position as the world's

most important palm oil supplier to the rapidly growing market for high quality edible oils. The export volume of petroleum doubled in 1971, with the export value rising even faster as a result of the substantial rise in world oil prices. It is interesting to note that petroleum exports in 1971 were estimated to amount to \$437 million or about 9% of our total exports, compared with \$203 million or 4% in 1970. Sarawak, which has become an important oil producer, is likely to receive a considerable boost to its growth from oil extraction and processing.

One important development in Malaysia's export performance in recent years has been our success in increasing exports of manufactured goods which were estimated at \$600 million or 12% of Malaysia's total exports in 1971. This is the result of continuing efforts to promote industrialisation coupled with a good record of price and cost stability, which has enabled Malaysian goods to be competitive abroad. I would like to add that the Government is currently reviewing the export incentives provided under the existing Investment Incentives Act, with a view to making appropriate changes for more effective encouragement of industries.

Although primary commodity exports earn most of our foreign exchange receipts at the moment, we should not lose sight of the fact that the tourist industry has a tremendous potential for earning considerably more foreign exchange. Unfortunately, this potential has not yet been realised for reasons which I need not enter into here, in spite of the fact that this country could be a paradise for tourists and has far more to offer than most countries in this region which, however, are doing far better. I have no doubt that more drive, more work, and more imagination on the part of all concerned could produce spectacular results within a reasonable period of time.

In anticipation of the increase in demand for personnel for hotels and restaurants, the Government is establishing a school to provide training for such personnel. In 1971, 30 hotels had taken advantage of new investment incentives offered to the industry. These hotels will generate approximately 9,000 jobs when completed and will double the number of 6,000 rooms currently available at hotels of international standard. Many of these hotels are located in the principal towns; others will be located at Cameron Highlands,

Port Dickson, Kuantan and Pulau Langkawi. While the Government welcomes the overall trend it would, however, like to see more development taking place in the East Coast States of West Malaysia, as well as in East Malaysia. It has already offered unusually generous incentives for tourist development in these areas. The response has, however, been negligible. If however, the private sector feels that further incentives are required, I would welcome fresh proposals for our consideration if such proposals have a reasonable chance of yielding worthwhile results.

Domestic Demand

As I pointed out earlier, the reduction in export earnings did not lead to a decline in the domestic economy, although overseas demand accounted for as much as 30% of total demand. This shows the resilience and basic strength of the Malaysian economy. In this connection, it may be worth recalling that only about ten years ago, a decline in export earnings automatically led to an absolute decline in gross national product. In 1971, on the other hand, domestic demand continued to expand at a healthy rate of 6½% in spite of the decline in export earnings.

To a considerable extent, this welcome change in the economic pattern can be attributed to public sector activity under the New Economic Policy, which exercised a stabilising influence on the domestic economy, and which also provided a stimulus to private investment and consumption in 1971. As a result, although those engaged in the export industries will continue to feel the ups and downs of overseas demand, the repercussions on the economy as a whole and on the average wage earner and manufacturer are now less marked than they would have been even a few years ago.

In 1971 the most buoyant segment of domestic demand came from public sector expenditure on gross capital formation, which expanded by slightly more than 11%. This figure does not however, reflect fully the impact of public sector activity on the overall economy, since a large portion of public expenditure consisted of Federal Government lending for investment by Government agencies and statutory bodies which would generate greater private investment and income growth only in later years. Although I shall expand on the subject of Federal Government finances later, I should point out

here that the Federal Government's development expenditure has been growing at a greatly accelerated pace in the last two years. In 1971 alone, we have been able to step up development expenditure by as much as 25% which is even more than that originally estimated in last year's Budget. Much of this expenditure took the form of rapidly increasing investment in education, land development, security and Government participation in commerce and industry through its various agencies.

Public consumption rose by about 10½% in 1971, compared with the 1970 rate of 18½%. Although the former rate may still seem rather high, I should point out that a part of what is statistically regarded as public consumption is in fact accounted for by such services as salaries for additional teachers, expenditure on education, and better security and health services.

Private domestic demand for investment and consumption continued to increase though at a slower rate than in 1970. It is true that the growth of private investment slowed down as had been forecast in the last Budget. This slowdown was, however, largely an adjustment process after the exceptional increase in investment which took place in 1970. Private investment rose by about 6% in 1971, which is higher than the overall GNP growth rate. All available short term indicators also suggest that private investment maintained fairly satisfactory growth in 1971 despite the depressing influence of the export sector. Private investment in machinery and equipment in particular continued to grow rapidly and was 15% higher than in 1970, though price increases for some imported capital goods could have accounted for part of the high rate of increase.

In regard to private investment, it has always been this Government's policy to encourage the private sector to make the bulk of the contribution to Malaysia's capital formation. The continuing efforts to attract new investors have resulted in a further increase in investment by new firms. Applications from 242 new companies were approved in the first ten months of 1971. Their proposed paid up capital of \$488 million represented an increase of 14% over the corresponding period of 1970. In this context, I should also mention that more

investment projects are in the pipeline and can be expected to materialise in the near future.

Reflecting the continuing growth of the gross national product, private consumption in 1971 rose by about 5½%, the same rate of growth as in 1970. It is estimated that the per capita gross national product of Malaysia reached \$1,100, which is among the highest in East Asia and is surpassed only by Japan, Hongkong, Singapore and Brunei. I do not think it is unfair to say, however, that the last three countries mentioned are not strictly comparable with countries like Malaysia and Japan. It is therefore apparent that this Government's policy of basically relying on private enterprise, and of supplementing this by appropriate and growth orientated public action has benefited the country as a whole.

Production

After having given you a broad picture of the demand side of the economy, i.e. the demand from foreign and domestic buyers, I should like to review the supply side, i.e. the production of goods. The gross domestic product of 1971 estimated at \$12,500 million is about 5% higher than the 1970 figure of \$11,919 million. The structure of production has continued to change along lines that have become apparent in the last few years. Despite a considerable increase in the physical output of rubber, the share of rubber production in the gross domestic product has continued to go down; it now accounts for only about 11% of the gross domestic product. On the other hand, agricultural diversification has made further progress, while the manufacturing sector has continued to increase its contribution to the domestic product.

The agricultural sector still occupies a dominant position in the economy. It produces about one-third of the entire national product, provides about one-half of the employment for the labour force, and supplies almost two-thirds of Malaysia's exports. In view of this situation, the modernisation of agriculture plays a key role in achieving the objectives of eradicating poverty, generating greater employment opportunities and restructuring society. Honourable Members will recall that the Second Malaysia Plan allocates \$491 million in West Malaysia alone for various agricultural development projects, such as

agricultural research and education, drainage and irrigation and the improved marketing of agricultural produce.

The most important activity in the agricultural sector is rubber production. After a slow growth in 1970, the volume of rubber output increased to about 1.32 million tons in 1971 representing a growth of 6% over 1970, despite the slump in prices. But the performance of the rubber industry, which has coped successfully with a downward price trend for some considerable period of time, cannot be measured only in terms of quantity. What is equally important for the economy as a whole is the fact that the rubber industry continues to improve the quality of its product. The production of Standard Malaysian Rubber was stepped up 43% to an estimated 320,000 tons in 1971, representing 24% of total rubber output. Judging from this development, our target of producing one half of total output in the form of SMR by 1975 is likely to be achieved. In this connection, the Government has allocated \$35 million under the Second Malaysia Plan to expand the capacity of the Malaysian Rubber Development Corporation to process smallholder rubber into SMR. This programme will not only increase the proportion of high quality rubber, equally important, it will benefit the smallholders directly through the provision of improved processing and marketing facilities, and thus ensure a much higher return for their product and their labour.

Malaysia holds an important position in the world market for vegetable oils. In particular, the production of palm oil has gone up very markedly by about 38½% to an estimated 585,000 tons. Vegetable oils offer promising opportunities for agro-based industries and for job creation. By the end of 1971, 4 factories for the extraction of palm kernel oil had been established and 8 companies have gone into the refining of palm oil, all of which had so far been exported in crude form. Domestic use of palm kernels for processing accordingly increased by about 50%. More factories to process palm kernels are expected to start work in 1972. In order to encourage this expanding production, it will be necessary for Malaysia to negotiate with the European Economic Community, especially after the entry of the United Kingdom, for appropriate arrange-

ments to enable Malaysian exporters to compete on more reasonable terms with their African competitors who are already enjoying substantial tariff advantages in this enormous market.

Rice output in 1971 was estimated to increase by 13% to 1.19 million tons. This met about 88% of total rice requirements in Malaysia. We should aim to produce not more than 90% of our total rice requirements, much less attain self-sufficiency in rice, in view of the fact that the cost of rice production in this country is relatively high compared with that of important rice producers in Asia. Under such circumstances, any surplus production will either have to be exported at a loss, or the difference between domestic and overseas prices will have to be borne by the Government in the form of a subsidy. This is the surest way to economic and financial ruin. We are, therefore, encouraging marginal single crop padi farmers to switch to other crops in order to earn a better livelihood, so that padi production could be concentrated in double cropping areas. The obvious solution to this problem is better yields per acre, leading to substantially higher incomes for padi farmers.

The timber industry, which expanded its output very rapidly in 1970, experienced a slowdown in production as a result of slackening demand in the course of 1971. Production of saw logs increased only by 3% in 1971, while that of sawn timber rose by about 1%. While increasing production, it is essential to bear in mind that production should not be increased at such a rate that our forests cannot be regenerated fast enough to keep up with such a rate. In such case, it will only be a matter of time before our timber resources are exhausted. This truth is self-evident.

There was further growth in the fishing industry, as indicated by increased marine fish landings in West Malaysia. Total marine fish landings in 1971, estimated at 316,000 tons, were 7½% higher than in 1970. This is an important area of economic activity which is receiving increasing attention from the Government. In this connection, the Fisheries Development Authority was established to promote more extensive use of modern fishing techniques and to provide cold storage and processing facilities. Fishermen's Associations, run on similar lines as

Farmers' Associations, are also being established in the larger fishing villages. Extension services for the fishing industry will be provided through these Associations. The Fishermen's Training Institute in Penang, which is already operational, will provide training programmes for marine and inshore fishermen.

As regards the mining sector, production of tin-in-concentrates, estimated at 73,000 tons in 1971, practically stagnated for the second consecutive year, partly because of adverse market conditions and the gradual depletion of known reserves. Iron ore production also fell dramatically, largely because of the closure of the two biggest mines at Rompin and Bukit Besi. The production of bauxite in Johore continued to run at about the same level as in 1970 when output amounted to 1 million tons. An important new development in the mining sector is the significant increase in petroleum production in Sarawak to which I have already referred.

Manufacturing output is estimated to have grown by about 9% to \$1,400 million in 1971 in terms of value added, which is about twice as fast as the expansion rate for the economy as a whole. The manufacturing industries now already contribute about 124% to Malaysia's gross domestic product. In regard to prospects for the immediate future, two sources could provide some clues. In the year ending last March, MIDF, i.e. Malaysian Industrial Development Finance Berhad, approved 141 projects compared with 95 the year before, and the loans approved totalled \$68 million, representing an increase of over 40%. It is of course true that these figures cannot possibly give a complete picture, as MIDF finance covers only a small segment of the private sector, and is hence not representative of overall trends. FIDA, however, should provide a more complete picture. Between 1968 and 1970, FIDA approvals increased from 40 to 334 in terms of numbers, and in terms of proposed called up capital from \$42 million to \$454 million. This is certainly a refreshing change for the better. In fact, it is a tremendous improvement. It has been the Government's policy to promote industrial growth in order to absorb the unemployed and to attain a more equitable distribution of economic benefits among races and regions. In this context, I would like to mention that 46% of total employment in

pioneer establishments was taken up by Malays and about 11% of the paid up capital was provided by the Malay community. These figures indicate further progress in labour and capital participation by Malays in manufacturing industry.

Under the Second Malaysia Plan, the Government's policy includes the location of industries in the less developed parts of the country. Additional tax incentives are granted to industries which are established in specified development areas, where infrastructural facilities are also provided. In addition, land development schemes such as the Jengka Triangle, the Pahang Tenggara and Johore Tenggara Schemes, have been set up in selected areas. The major objective of these schemes is to develop integrated timber-based complexes.

A final aspect of our industrialisation policy which I would like to mention is the promotion of labour intensive industries. A new provision has been added to the existing Investment Incentives Act, 1968 whereby tax relief is granted to companies on the basis of the number of workers they employ, i.e. industries which employ more workers will enjoy a longer tax relief period even though their capital investment may be small. Certain industries have been designated as priority industries. These industries include electronics and motor component parts manufacturers, which will be entitled to an additional year of tax relief under our pioneer legislation. As a result, it is encouraging to see that 15 new electrical and electronics firms were approved in the first ten months of 1971. The establishment of export-orientated industries, the offer of additional incentives and free trade zones were among the measures taken to expand industrial production and reduce unemployment.

Imports

The supply of goods and services is not only made up of domestic production and employment of resources, but also of imports. Total imports in 1971 were estimated to have gone up by about 34% above the 1970 level. Compared with the previous year, this represented a considerable slowdown, which is explained by two factors, namely, the long term trend towards import

substitution and the cyclical short term slowdown in domestic demand. Import substitution had its effect on imports of food, beverages and tobacco which went down by about 3½%. These imports accounted for 19% of total imports in 1971. The increase in rice production was the most outstanding example of foreign exchange saving through import substitution. Import substitution had also contributed to the decrease in imports of manufactured consumer goods, although in the case of imports of many manufactured goods, the decrease was due more to the cyclical slowdown in economic activity after the 1970 investment spurt. Imports of manufactured goods, excluding machinery and transport equipment, which accounted for 21% of total imports in 1971, fell by 4½% to \$930 million owing to the combined effect of import substitution and the slowdown in economic activity. That the 1970 performance had returned to a more normal pace but had not come to a standstill in 1971, was clearly indicated by the continuing strong rise in imports of machinery and transport equipment, which were estimated to have increased by as much as 15% over 1970. However, not the entire rise in import value was a real addition to the supply of goods in Malaysia, since a part of this rise was attributable to higher prices for imported capital goods.

This again highlights a basic dilemma which Malaysia and many other developing countries have been facing for a long time, but which became more conspicuous in 1971 because of the slack in economic activity and continuing inflation in the major industrial countries. While the prices of our imports, particularly our capital goods imports, are rising all the time, the prices of our traditional primary commodity exports are going down and the price of rubber, our most important export commodity, is going down all the time. This again emphasizes, if further emphasis is required, the vital need to industrialise as rapidly as possible, to diversify our exports and concentrate on new products with better price prospects, and to maintain price and cost stability inside the country.

Balance of Payments

In spite of the decline in export earnings, I am happy to report to the House that Malaysia enjoyed yet another year of surplus in the overall balance of payments. The

overall balance, which includes all foreign exchange receipts and payments, recorded a surplus of \$215 million, and if the allocation of special drawing rights is included, Malaysia's reserves would register an increase of \$275 million, compared with an increase of only \$124 million in 1970. I might also add that 1971 was the third year in succession in which Malaysia's reserves rose and, for the three-year period our reserves recorded a total increase of \$925 million.

As I have stated earlier, exports in 1971 showed a slight decline, but in view of the sharp slowdown in import growth, mainly as an adjustment to the unprecedented increase in the previous year, the merchandise balance recorded a surplus of \$807 million. Although the merchandise surplus was \$123 million lower than in 1970, it was still substantial and continues to be the main source of strength in Malaysia's balance of payments. Net payments on invisibles, consisting mainly of payments for freight, insurance and investment income registered a slight increase of \$40 million to \$856 million mainly because of the adverse effects of the world wide escalation in freight rates and other shipping charges. However, owing largely to the reduced merchandise surplus, the current account in 1971 ended up with a small deficit of \$50 million, compared with a surplus of \$114 million in the previous year.

On capital account, there was a significant inflow, arising from the Federal Government's net foreign loan receipts, amounting to \$330 million. The excellent credit standing of Malaysia, in the context of an easing in credit conditions and lower interest rates abroad, permitted the Treasury to take up three market loans in New York and London totalling \$287 million. As in previous years, the private sector continued to receive long term capital for investment in the country. The net private long term capital inflow was estimated at \$160 million in 1971. The basic balance of payments position, therefore, which includes both current and capital accounts, recorded a surplus of about \$520 million, demonstrating the continuing strength of Malaysia's balance of payments. After taking into account the negative errors and omissions item, the overall balance recorded a surplus of \$215 million.

As a result of the developments to which I have just referred, our total net external reserves amounted to \$2,870 million at the end of 1971, an increase of \$275 million over 1970. This comfortable level of reserves, equivalent to 8½ months of retained imports at the current level, permits us to face with greater confidence the fluctuations in export earnings and any other uncertainties that may arise from external monetary and political developments. It also contributes in no small way to our creditworthiness, which has enabled us to borrow on better terms in foreign capital markets than most, if not all other developing countries, and has helped to encourage foreign investment in the country. I should repeat here that we regard these reserves as an asset that contributes greatly to the financial stability of our economy. I would also like to assure the House that these reserves have been profitably invested and suitably diversified.

Monetary developments

In line with the slower growth of the economy, the money supply also expanded less rapidly than in 1970, at the rate of about 6½%, compared with a growth rate of nearly 8½% in 1970. The main impetus to growth in money supply was provided by the considerable stepping up of Federal Government expenditure, particularly for development purposes. However, taking public sector operations as a whole, the impact on money supply was somewhat less expansionary because of the build up of State Government deposits with the banking system, implying that a part of the States' additional revenue, including transfers from the Federal Government, had not been fully utilised. This development, I must say, is a matter of some concern to the Federal Government. The external sector also exerted an expansionary influence on money supply, though on a more modest scale, owing to the poor export performance. In contrast, the private sector which had been highly expansionary in 1970, showed a reverse trend in 1971. Bank credit to the private sector rose somewhat more slowly than in 1970, though still at the satisfactory rate of 17%. On the other hand, private sector holdings of fixed and savings deposits rose markedly by about 17%, mainly reflecting the greater liquidity generated by the fiscal operations of the Federal Government.

To keep in line with short term interest movements abroad, discount rates on Treasury bills were lowered in three stages during 1971, so that they now range from 4½% to 4¾%, depending on their period of maturity. This lowering of short term rates is also designed to encourage more investment in longer term securities.

Activity in the domestic capital market rose considerably during the past year. The Treasury raised \$635 million through domestic bond issues, which was \$240 million more than in 1970. The bulk of the funds, amounting to \$412 million, was provided by the non-bank private sector, especially the Employees Provident Fund. The stock market, too, was active during 1971 and new shares worth nearly \$45 million were issued. Sentiment in the Stock Exchanges also improved considerably and total share turnover was 19% higher in value than in 1970.

Cost of Living

Malaysia has enjoyed an exceptionally high degree of domestic price stability. This is true not only of the past year but also of the entire period since independence. Based on the information available up to now, the retail price index is estimated to have gone up by 1½% to 2% in 1971, the major part of which occurred during the first few months of the year and was due to the January floods. For the rest of 1971, the index has declined. Malaysia has thus continued to enjoy the high degree of price stability that she has had in the past. For example, the average rise in the retail price index since 1963 has been less than 1% per annum. This is an outstanding record of price stability which is probably unsurpassed by any other country, developing or developed, even if we take into account the charge that our price index has only a limited coverage and may therefore, have underestimated certain price increases. Since 1963, the major industrial countries have experienced an average rate of price increase of nearly 4% per annum and most developing countries have surpassed this rate in a big way. The maintenance of a high degree of price stability in Malaysia even in 1970 and 1971, when accelerated inflation occurred in the industrialised countries, is an outstanding achievement by any standard.

This unique record, which provides benefits going far beyond the purely economic field, is above all due to the relatively continuous stability of prices for food and for basic consumer goods, whereas the prices of many imports have risen, especially over the last 2 years. That these rises have been relatively moderate is a result of the liberal import policy that permitted Malaysian buyers to switch from more expensive to cheaper sources of supply. The Government encourages Malaysian buyers to seek the cheapest imports and has always granted importers free and unfettered access to foreign markets, irrespective of ideological considerations. As regards internal prices, the Government has and will continue to keep a close watch on price movements and will undertake the necessary measures to prevent profiteering. Honourable Members will be aware that those firms with pioneer status to whom we granted tariff and other protection against outside imports, have to subject themselves to certain price controls. This has to a great extent enabled Malaysia to avoid the price increases that usually came with import substitution in many other developing and even developed countries. The Government recently extended the obligation for shops and stores to attach price tags to consumer goods. In short, we shall do everything we can to protect the consumer, because we regard price stability as a major economic and social asset.

Employment

Unemployment is one of the major problems which this Government has to tackle under the Second Malaysia Plan. The situation can only improve gradually in view of an annual rate of increase in the labour force of over 3%, with the major incidence of unemployment occurring in the youngest age group, which consists largely of unskilled workers.

Although sources of information on employment are still uncomfortably limited, it is fair to say that the expansion of economic activity in recent years has generated more employment opportunities, especially in 1969/1970. The improvement in the unemployment situation in 1971 was revealed by the decline in the number of registered unemployed at the labour exchanges from an average monthly figure of 170,000 in 1970 to 158,870 in the first ten months of 1971. I must stress that this figure is only a partial indicator, since not all the

unemployed make use of the services of the exchanges. The continuing improvement in the employment situation is shown by the increase in the number of new vacancies reported to the labour exchanges, which totalled 33,630 in the first ten months of 1971, compared with 31,670 during the corresponding period of 1970.

However, unemployment is not a problem which can be solved by short term measures. The Government's long term policy includes the expansion of industrial and vocational training, and the encouragement of labour intensive industries. Honourable Members are aware that legislation was enacted in 1969 to ensure priority for the employment of Malaysian citizens and the restriction of overtime. It is estimated that these two measures, which have been applied with some flexibility, have so far resulted in 75,800 new jobs, 53,000 of which have been filled. In addition, the Government provides subsidies for labourers transferred from West to East Malaysia, where labour is in short supply.

I would not like to conclude my observations on employment without referring to the good industrial relations between labour and management in Malaysia. The number of strikes has been kept to a minimum; in the first ten months of 1971 only 7,893 man days were lost. The credit for this performance must partly be given to the newly revived National Joint Labour Advisory Council in which the representatives of both management and labour cooperate to preserve industrial peace. Employees should be given a square deal but they should also realise that if companies are to remain in business they must earn reasonable profits. Wage increases must keep in step with growth in productivity. Let me stress that good industrial relationships are a tribute to the good sense of both employees and employers in this country and constitute one of the main reasons for Malaysia's steady progress, its international competitiveness and continuing attractiveness to foreign investors. In the end, this will certainly benefit the worker and all citizens in general through greater job security and faster job creation.

Federal Government Accounts

Before considering the fiscal programme and the financial plan for 1972, I would like first to refer to the final outturn for 1970 and the results anticipated for 1971.

1970 Accounts

The financial outturn of the Federal Government in 1970 was much better than anticipated in my last budget address. Ordinary Budget revenue at \$2,394 million, exceeded the figure estimated in that address by \$65 million, and this is a record increase of 14% over 1969. Inland Revenue collection, at \$767 million, an increase of 31% over that of 1969, largely accounted for the very significant growth in total revenue. This record collection was primarily due to buoyant rubber prices in 1969, which averaged 150 cents per kilogramme, and which had very favourable effects on incomes and profits. To a certain extent, the increase could also be attributed to a further improvement in the tax collection machinery. Revenue from export duties, at \$259 million, turned out to be almost the same as that estimated in my last budget speech. However, the actual yield from import and excise duties was \$17 million less than anticipated.

Ordinary Budget expenditure totalled \$2,222 million, or 5% lower than the estimate of \$2,340 million given in the last Budget. This was mainly due to a 15% shortfall in expenditure on security.

After taking into account the customary budgetary adjustments to ordinary revenue and expenditure, the current account showed a surplus of \$237 million, which is the largest we have had in many years.

The most striking development in 1970, in so far as Government finances are concerned, was the spectacular increase in development expenditure. Development Fund expenditure, which includes gross lending by the Federal Government, increased substantially by 18% from \$615 million in 1969 to \$725 million in 1970. This was \$75 million more than envisaged in my last Budget. After allowing for principal repayments on existing loans, development expenditure and net lending came to \$712 million. I consider this to be a major breakthrough in the Government's effort to expand the public sector's development programme. Honourable Members may be aware that Federal Government development expenditure had been more or less stagnant during most of the First Malaysia Plan period.

The overall deficit thus amounted to \$475 million, since the large surplus on current account contributed \$237 million towards the

financing of development expenditure. The bulk of the deficit was financed by net domestic borrowing amounting to \$308 million, and a drawdown of assets totalling \$152 million. Net financing from foreign sources amounted to only \$15 million, compared with a total of \$30 million anticipated in my last Budget.

Estimated Financial Outturn for 1971

As to be expected when presenting the annual Budget, the accounts for the preceding year cannot be finalised on time. The figures now presented in respect of 1971 are estimates based on the latest available indicators. For the purpose of analysing the estimated financial outturn for 1971 and subsequent years, I will exclude the expenditure of the Telecommunications Department which will be financed out of its own revenue within the Telecommunications Fund established under Part IIA of the Telecommunications Act, 1950, as amended by Ordinance No. 86, 1971. With the establishment of this Fund, the Telecommunications Department has begun to operate on a commercial accounting system. A statement of the estimated receipts and expenditure of this Department has been laid separately before the House.

Ordinary Budget revenue is now estimated at \$2,380 million. This is \$56 million more than the comparable original estimate. The favourable outturn stems principally from income tax collections, the yield from which is now estimated to exceed the Budget estimate of \$632 million by 11%. Again, this was due to better enforcement and to buoyant incomes and profits for the good years of 1969 and 1970. Total revenue expectations represent an increase of 4% over comparable 1970 receipts. On the other hand, the revenue from import and excise duties appears to have fallen short of the Budget estimate of \$927 million by about \$34 million. This is in line with the slowdown in investment and consumption during 1971. Other items of revenue are generally fairly close to the original estimates.

Ordinary Budget expenditure is now estimated at \$2,480 million. This is 14% more than the comparable expenditure for 1970. The revised estimate takes into account the supplementary budget of \$54.8 million passed by this House recently and a further supplement of approximately \$40 million

to be presented later. At the same time, allowance has been made for a shortfall in expenditure in respect of some Ministries. Certain items of expenditure have to be provided by supplementary estimates as they could not be foreseen or their nature is such that the amount could not be estimated with any degree of accuracy at the time of preparing the original 1971 Budget. One major item in this category, which was anticipated in my last budget speech, was the additional expenditure resulting from the implementation of the Suffian Report, which, among other things, obliged the Government to pay arrears due to salary increases as from 1st January, 1970 for Government employees in Divisions I to III. A supplementary provision has to be made for this purpose. This House has already approved \$15 million on this account in respect of the Ministry of Health while bids totalling \$34 million from the Police and other Departments have already been processed and will be included in the next supplementary estimates for 1971. For many Ministries and Departments, however, much of the additional expenditure on this account has been met from within their original allocations, as savings have arisen owing to the delay in filling vacancies in their respective establishments. Other unforeseen items in the first supplement included a contribution of \$23 million to the Government Rubber Trading Trust Account to enable the Government to expand its rubber operations, and \$9 million to the National Disaster Relief Fund to provide relief to those affected by the floods which swept the country in January last year. In spite of the need to provide for the Suffian salary revisions, there are indications that some expenditure shortfalls will occur in a number of heads, particularly the Ministry of Defence, which is expected to close its accounts with a shortfall of about 8% on its total appropriation of \$410 million.

Given the estimated outturn of current revenue and expenditure already outlined, and after making the necessary adjustments thereto, a current deficit of \$32 million is expected to emerge at the end of 1971. Bearing in mind that the revised 1971 estimated outlay of \$2,480 million includes

the additional expenditures to which I have referred, and also the payment of salary arrears under the Suffian Report, the current account has not fared much worse than what was envisaged in my last budget message.

The total allocation for development expenditure in 1971, including the interim estimates and subsequent supplements came to \$1,370.6 million. Of the total overall provision, it is now estimated that actual expenditure for the year may reach a record level of \$890 million. Apart from some improvement in our implementation capacity, this high estimated outturn to some extent reflects the participation by the Government in commerce and industry, in conformity with the policies outlined in the Second Malaysia Plan. During the year, the Government invested \$33.5 million in Malayan Banking Berhad, \$26 million in Malaysian Airlines System Berhad, \$15.5 million in the Government Officers' Housing Development Company Limited and \$4 million in the Malaysian Rubber Development Corporation Berhad. In addition, a loan of \$75 million has been given to PERNAS and \$55 million to the Malaysian Industrial Development Finance Berhad to finance various private sector projects. After taking into account loan repayments of \$18 million, actual development expenditure and net lending are now estimated at about \$872 million.

With the deficit on current account standing at \$32 million, and development expenditure and net lending at \$872 million, the overall deficit for 1971 is, therefore, estimated at \$904 million. The financing of this overall deficit has been met from the traditional sources, namely, domestic and foreign borrowing and foreign grants. The net result was an increase of realisable assets by about \$118 million.

Net domestic borrowing reached \$670 million in 1971 or \$362 million higher than in 1970. This sharp increase was due partly to the very high liquidity in the banking sector, which contributed a net amount of about \$140 million. The level of Treasury bills outstanding rose by \$158 million, from \$792 million at the end of 1970 to \$950 million at the end of 1971. During the year, three domestic loans totalling \$635 million were raised. Of this gross total, \$298 million came from the Employees Provident

Fund, \$54 million from the Post Office Savings Bank and \$205 million from the banking sector.

Net foreign borrowing reached an all time record of \$330 million, due mainly to favourable interest rates and Malaysia's excellent credit standing abroad. An amount of US\$50 million was raised through a consortium of banks in New York led by the Chase Manhattan Bank, US\$20 million through the London branch of the First National City Bank of New York, and another £10 million through a consortium of banks in London led by the Rothschild Intercontinental Bank Limited of London. Disbursements of project loans totalling about \$95 million came principally from the World Bank and the Asian Development Bank. Foreign grants, which also financed part of our development expenditure, were estimated at \$22 million, which came mainly from Britain and Australia.

1972 Expenditure Proposals

One significant change in the method of presenting this year's Budget is that both the Operating and Development Estimates are consolidated in one document. The consolidation of the two estimates in a single volume is designed to facilitate closer co-ordination of resources for the implementation of programmes proposed in the Budget, and also to provide a ready reference to the total outlay proposed for each Ministry or Department.

Honourable Members will note that the Supply Bill, 1972 seeks to appropriate monies in accordance with the Federal Estimates for 1972 tabled as Command Paper No. 47 of 1971. The Bill was read a first time in the House on 8th December, 1971. This Supply Bill for 1972 and the Consolidated Fund (Expenditure on Account) Act, 1971 which has been passed by this House recently, specify in their respective schedules the heads of expenditure, the titles of Ministries and Departments and the amounts to be appropriated. However, as a result of the redistribution of Ministerial portfolios effective from 1st January, 1972, there have been changes in the titles of four Ministries, while two new Ministries have been created. In regard to the changes in Ministerial titles, amendments will be made accordingly, i.e. at the time when this Supply Bill is considered in committee. Notice of the

amendments will be given to the House at the appropriate time. Arising from these changes, it is necessary for me to suspend those portions of the appropriations to the Prime Minister's Department, the Ministry of Agriculture, and the Ministry of Trade and Industry, allocated for activities and functions which are now to be transferred to the new Ministry of National Unity or the Ministry of Natural Resources, as the case may be. Expenditure for these Ministries will initially be met through the issue of advances from the Contingencies Fund in the case of Ordinary Budget expenditure, and from the Contingencies Reserve in the case of Development Fund expenditure. These advances will be recouped by means of supplementary estimates, which will be submitted to the House later in the year.

This year's Budget has been framed on the basis of requirements for carrying out the policies and programmes outlined in the Second Malaysia Plan, and also to maintain, or where necessary, to increase the level of public services provided by the various Ministries and Departments. The whole framework has been worked out in the spirit of the New Economic Policy, based upon a rapidly expanding economy offering increasing opportunities to all Malaysians as well as additional resources for development.

The total amount proposed in the Estimates is \$4,069 million, of which \$2,735 million is for operating expenditure and \$1,334 million for development expenditure. The latter includes \$40 million for a contingencies reserve.

Current Account

I will first deal with the current account of the Federal Government. As stated earlier, Ordinary Budget expenditure for the year is estimated at \$2,735 million or 10% higher than the revised estimate for 1971. Compared to the last Budget estimate, the increase is about 14%. It must be remembered that in the last Budget, it was not possible to include the additional expenditure arising from the implementation of the Suffian salary revisions for civil servants. Thus a significant portion of this increase is due primarily to the higher allocation for personal emoluments arising from the general revision of salaries, the need for additional staff to expand the activities of

certain Ministries and Departments, and also the result of the upgrading of a number of superscale posts in certain Ministries and Departments, particularly in the professional grades.

If the details of the 1972 Estimates are compared with those of 1971, it will be found that the largest expenditure increase is in respect of the Treasury. Debt service charges and pensions and gratuities have been given \$48 million and \$27 million more respectively than in 1971. Capitation and road grants to the States have been increased by \$16 million owing to higher population figures disclosed by the recent census and the revision in the rate of road maintenance grant from \$4,500 to \$4,600 per mile. A new allocation of \$50 million is to be made to the National Padi and Rice Authority, and \$20 million will be set aside for the Government Officers' Housing Loans Fund in addition to the \$20 million allocated in 1970. With the creation of the National Padi and Rice Authority, the operations of the Government rice stockpile through the Supplies Department Trading Account will be closed and the current appropriation of \$58 million for this Account will be returned to revenue.

Other major increases are in respect of expenditures on education, health, agriculture, Police, broadcasting, the Public Services Department and the Ministry of Works and Power. An increase of \$78 million is needed for the Ministry of Education in order to establish an additional number of science biased schools, and expand technical and vocational schools, and also to meet additional expenditure arising from the increase in the student population. The Ministry of Health requires \$23 million more, mainly for salary increases and additional staff for hospitals, health centres and clinics. The Ministry of Agriculture requires an additional \$13 million because the operating expenses of MARDI, FAMA and the Muda Authority are being met from the Ordinary Estimates instead of from the Development Estimates, which was the practice in the past. Apart from these, the Police need an additional \$12 million, mainly for salary increases and also for stepping up operations against communist activity in the border areas. The Ministry of Works and Power needs an increase of \$13 million, owing largely to salary revisions and the need for additional technical staff to

handle construction programmes in the Second Malaysia Plan. Finally, the Public Services Department requires an increase of \$8 million, because of the need to make a larger provision for scholarships and training awards. More detailed explanations on the necessity for such increases will be given by my colleagues during the Committee Stage.

The Ordinary Budget provision of \$2,735 million does not, however, include the salary increases arising from the implementation of the Aziz Commission's Report for teachers. As has happened in the case of the Suffian Report, these increases could not be accurately calculated in time for inclusion in the estimates of the Ministry of Education. The net amount required on this account will have to be provided by supplementary estimates during the year and is roughly estimated to cost \$150 million, which include arrears for 1970 and 1971. Another item that has not been included, and for which the Government may have to seek a supplementary vote during the course of the year is the liquidation of the Widows' and Orphans' Pension Fund to enable payment of refunds to contributors. If the refund is to be effected this year, a sum of about \$25 million may be required.

Ordinary Budget revenue at current tax rates is estimated at \$2,610 million, which is 10% more than the estimated outturn for 1971. Total tax revenue is estimated at \$2,247 million or 6% higher than the revised estimate for 1971. Based on past experience, this is generally consistent with projected GNP growth for 1972. Non-tax revenue, which comes largely from commercial undertakings and miscellaneous receipts on investments, interest on loans and transfers, is estimated at \$362 million, showing an increase of 36% over the revised 1971 estimate. This very high increase is mainly due to the transfer of \$58 million from the Supplies Department Trading Account as a result of the takeover of rice stockpile operations by the National Padi and Rice Authority.

Revenue from export duties is estimated at \$246 million, 4% higher than the revised estimate for 1971. Better average prices for rubber and tin than in previous years have been assumed as overseas demand is expected to improve with the upturn in economic activity in many industrial countries. For 1972, we have based our

revenue yield on an average price of 50 cents per pound, or \$1.10 per kilo for R.S.S. No. 1 in so far as rubber is concerned, and an average price of \$640 per pikul for tin.

The yield from import duties and excise is estimated at \$954 million, indicating a 7% increase from the previous year. This significant increase is expected because of the anticipated expansion in overall demand in the economy. Duties on petrol are expected to increase by 10%, heavy and fuel oils by 6%, motor vehicles by 8%, textiles by 7½% and other items by about 7%.

The performance of the Inland Revenue Department, which includes income tax, is expected to yield \$854 million, or an increase of 6%. Income tax, which includes development and tin profits tax, is estimated at \$753 million, compared with the \$705 million expected for 1971. This increase of 7% is consistent with the continuous improvement in tax collection techniques and with the growth of incomes in the year of assessment. One new item of interest which forms part of Inland Revenue collections is the royalty on petroleum. Owing to the steep rise in petroleum production in Sarawak, the yield from royalty, which was negligible in 1970, increased to \$7.3 million in 1971, and for 1972 is estimated at \$11 million.

With revenue at current tax rates estimated at \$2,610 million, and an Ordinary Budget expenditure provision of \$2,735 million, the Consolidated Revenue Account is expected to result in a substantial deficit of \$125 million. After taking into account the adjustment items on both revenue and expenditure, the current account is estimated to show a deficit of \$54 million. This situation is far from satisfactory, considering that known commitments, such as the additional payment of salaries to teachers under the Aziz Scheme and the refunds arising out of the Widows' and Orphans' Pension Fund, have not been included in the expenditure estimates.

Development Estimates

The appropriation for development expenditure, including \$40 million for contingencies, as approved by this House recently, is \$1,334 million. As the appropriation has been extensively debated in the House, I need not elaborate on it here any more, apart from bringing it within the framework of the overall Federal Government Budget.

Honourable Members are aware that the allocation made for Development Fund expenditure has always been higher than actual expenditure in any given year. For 1972, out of a total allocation of \$1,334 million, only a sum of \$910 million is expected to be spent, implying a shortfall of 30%. It is estimated that about 60% of this actual expenditure will be on items of direct economic significance, i.e. expenditure that should generate additional income, 18% on education and social services, 19% on security and the remainder on consumption items such as general administration.

As I have said earlier, this Budget is framed in such a way as to take into account the targets and aspirations expressed in the Second Malaysia Plan. One of the new roles of the Government is greater direct participation in the establishment and operation of a wide range of productive enterprises. In this way, it is hoped that new industrial activities will be established in selected growth areas and that a Malay commercial and industrial community will also be created. For this purpose, the Government has allocated \$141 million for industrial and commercial programmes, including allocations for PERNAS, MIDF, the Urban Development Authority, State Development Corporations, MARA, the Malaysian International Shipping Corporation Berhad and Malaysian Airlines System Berhad. I would like to assure the private sector that the expanded role of the Government in the field of commerce and industry will not jeopardize its legitimate interests.

After taking into account loan disbursements and repayments within the Development Fund, total development expenditure and net lending is estimated at \$888 million. With the current deficit projected at \$54 million, the overall deficit of the 1972 Budget is now estimated at \$942 million.

Sources of Financing

One major source of financing the overall deficit is expected to be domestic borrowing. Net domestic borrowing for 1972 is estimated to total \$600 million. It is estimated that \$266 million would be contributed by the Employees Provident Fund, \$64 million by the other savings institutions such as the Post Office Savings Banks, the insurance companies and other provident funds; \$60 million by the State Governments, public

authorities and private individuals; and \$210 million by the banking sector. The estimate from the banking sector has been worked out in accordance with projections made in the Second Malaysia Plan, and also taking into account the liquidity prospects of the monetary system during the year.

Receipts from foreign borrowing and grants are expected to yield \$182 million. The bulk of loan receipts is expected from the disbursements of project loans from the World Bank and the Asian Development Bank. At the same time, it is also hoped that substantial amounts could be drawn from the credit facilities offered by Japan, France and other countries. The Japanese Government has agreed to extend a new line of credit amounting to \$300 million (Yen 36 billion) to help finance the Second Malaysia Plan. The detailed terms and procedures for its utilization are now being negotiated. Further borrowings in foreign markets will certainly be considered and it is believed that the situation in at least the first half of 1972 should be favourable.

Domestic borrowing and foreign financing will not be enough to finance the huge overall deficit. The gap remaining will have to be closed by a drawdown of the Federal Government's realisable assets and the new revenue measures that I am going to propose. Before going to that, however, I should repeat that certain new expenditures such as the pay increases for teachers and the refunds arising from the Widows' and Orphans' Pension Fund have not been included in the present Budget. For that reason, in formulating this year's Budget, our financing requirements have been planned in such a way that our realisable assets will be maintained at a sufficiently high working level to be able to meet these additional expenditures.

Revenue Measures and Other Tax Changes for 1972

I now come to the proposed revenue measures and other tax changes for 1972. These changes are expected to yield about \$122.3 million of net additional revenue in 1972. If it will be of immediate relief to some Honourable Members here, let me say right away that it is not proposed to make any change in income tax for revenue purposes. (*Tepok*)

REVENUE MEASURES

Sales Tax

In view of the need to raise a substantial amount of additional revenue for 1972, as I indicated earlier in my speech, it is necessary to find a new source of taxation which can meet this requirement. The tax will have to be one with a broad and expanding base so that the rate can be kept low. With these considerations in mind, it is now proposed to introduce a single stage sales tax. To implement this tax, new legislation will have to be enacted. Copies of the Sales Tax Bill will be made available to Honourable Members in a short while. This tax is estimated to yield about \$84 million of additional revenue this year.

I should now like to explain the important features of this new tax. All goods imported into or manufactured in Malaysia will be subject to sales tax at the rate of 5% unless they are specifically exempted. Personal or professional services, sales of real or intangible property—for the benefit of the layman, intangible, according to the experts, means stocks and shares—will be excluded from the scope of this tax. Some classes of goods will be exempted from the proposed tax. I cannot at this stage name these goods but I can say that in its deliberations Government has borne in mind the effects of the tax upon the lower income groups and industrial development generally. In short, we will exempt basic necessities such as essential foods, and the raw materials which are regarded as essential for key manufacturing industries. The tax will apply throughout Malaysia except Labuan to which even the present surtax does not apply.

This tax will be levied either at the time of importation, or at the time the goods are sold, or otherwise disposed of by the manufacturer, as the case may be, and it will be calculated on the sale value of the goods in question. For imported goods, the sale value will be the sum of the value of such goods for the purpose of customs duty and the amount of customs duty payable on such goods. In respect of domestically manufactured goods, the sale value will be the price at which the goods are sold to an independent person in the ordinary course of business.

The tax will be collected and administered by the Royal Customs and Excise Department. It will be payable by importers and manufacturers of taxable goods. Sales tax on imports will be collected in the same way as customs duties, that is to say, it will be collected before the goods are released from Customs control. With regard to domestically manufactured goods, the tax will be assessed according to the returns which manufacturers will be required to submit. The tax is payable at the time the returns are submitted.

The Government is fully aware that since this is a new tax altogether, its introduction is bound to bring about some difficulties, inconvenience or perhaps even some confusion to importers, manufacturers and the public generally. It is, therefore, necessary that the public, in particular importers and manufacturers, should be adequately informed of the nature and operation of the tax, as well as the various procedures required to be followed. With this objective in mind, the Government does not propose to bring the law into force immediately it is enacted. Some reasonable period of time, which I am not able to disclose at this juncture, will be allowed before the tax is made effective and during this period, the public will be enlightened about this new tax. A booklet explaining in general terms the operation and the effect of the Sales Tax Act is being published and will be made available to the public in a few days' time. In addition, Treasury and Customs officers will make special efforts to meet Chambers of Commerce and other trade organizations to explain in greater detail the obligations of the business community and the procedures to be followed after the Act has come into force. Courses will be organized by the Customs Department at the Customs College in Malacca for the business community. In short, Government will do all it can to help the public to understand the operation of this tax.

Honourable Members will, therefore, have noted that the interval allowed between the announcement of the tax and the date of its coming into force is a departure from the usual practice of levying taxes of this kind. The Government fully realizes the likely consequences of such a move. Nevertheless, on balance, the Government still feels that this interval is necessary in the interests of ensuring a smooth operation of the tax as

well as minimizing the initial difficulties and inconvenience which are likely to be experienced by the public.

Finally, I should like all concerned to note especially that until the law has come into force, and this will be notified in the *Government Gazette*, no sales tax is payable and I wish to warn that the Government will take a very serious view of those who mislead the public.

Gaming Tax

At present the taxes on all types of gambling which involve the use of tickets, coupons or receipts such as lotteries, three digit and four digit forecasts, horse racing, sweepstakes and fruit machines are levied on the gross sales or receipts from such activities, and are paid to the Accountant-General on the basis of the returns of sales or receipts submitted to that Department periodically.

It will be noted that all these taxes are only borne by the promoters of such forms of gambling. It is considered reasonable that the players themselves should also be liable to pay some tax to the Government on these activities. It is, therefore, proposed to introduce a new gaming tax at the rate of 5% subject to a minimum of 5 cents on the value of the ticket in the case of a lottery, or on the amount betted in the case of sweepstakes, three digit and four digit forecasts and toto. The tax is to be levied at the time the tickets are bought or stakes are submitted at gaming offices, as the case may be. It is to be made applicable to all gaming activities except the social welfare lottery. The latter is excluded from the scope of the tax because the funds obtained from it are used for welfare purposes. It is estimated that this new tax will yield about \$10.4 million per annum.

Duties on Malt Liquors

It will be recalled that while some tax changes were introduced in the 1970 Budget on spirits such as brandy, whisky, wines, and so on, the tax on malt liquors namely, beer and ale, stout and porter was left untouched. The excise and import duties on these items have remained unchanged since 1967 and 1965 respectively. It is now proposed to increase the rate of excise duty from \$5.20 to \$6.40 per gallon or 20 cents per quart bottle. In order to maintain an adequate level of protection for the domestic product, the import duties on these items are to be raised

from \$7.60 to \$9.40 per gallon, representing an increase of 30 cents per quart bottle. The additional revenue expected from these changes is of the order of \$5.2 million per annum, of which \$4.6 million will be from excise duty.

Other Tax Changes

I should like now to turn to other tax changes which are primarily designed to achieve other than revenue objectives. Some of these changes will result in the Government obtaining additional revenue, while in other cases it will incur some loss in revenue.

Export Duty on Palm Oil

I had earlier in my speech touched upon palm oil and referred to the strong export performance of this commodity. However, as Honourable Members are aware, palm oil, like rubber, is subject to wide fluctuations in the world price. While it is our earnest hope that the present satisfactory price will continue, we have to be realistic and expect a decline in the price at some future point in time. It is necessary, therefore, that we should think ahead and devise some precautionary measures to assist the industry during its difficult times when the price is ridiculously low, so that the incomes of those engaged in this industry would not be too adversely affected. This price stabilization scheme is being worked out in detail by the Treasury in conjunction with the other Ministries concerned, but I should like to mention at this stage that a special fund will be created for this purpose.

Obviously we need sufficient funds for this scheme if it is to achieve its purpose, and it is only fair that such funds should be contributed by the industry itself. At present, palm oil is subject to export duty at a flat rate of 7½%. This rate has remained at this level since 1965. This method of levy is clearly unsatisfactory because it does not take into account changes in the price of the commodity. It is, therefore, proposed to introduce a graduated scale of export duty on palm oil to replace the existing flat rate. On a value not exceeding \$350 per ton, the rate will be 7½%, and thereafter the marginal rate rises by 2½% for every subsequent \$50 increase in value until the value reaches \$700 per ton. After this level any further increase in value will attract a 30% marginal rate. The detailed rate structure is set out in the Order, copies of which will be circulated to Honourable

Members in a short while. It is estimated that this new export duty structure will generate about \$23.4 million of additional revenue in 1972, though I should add that not all of this additional revenue will be credited to the proposed Palm Oil Price Stabilization Fund. The formula for sharing the proceeds of this levy will be worked out in due course, in conjunction with the Ministries concerned.

Harmonization of Import and Export Duties

I do not think that it is necessary for me to explain again the need for harmonizing tax rates in West Malaysia, Sabah and Sarawak, because this exercise has been going on since Malaysia Day, more than 8 years ago. In the area of import duties, the items affected are set out in the Order, copies of which are being circulated to Honourable Members. A significant harmonization that may be noted relates to import duties on sugar. Honourable Members will recall that the first move in this direction was made in the 1965 Budget, that is, 7 years ago, and some changes were also introduced in the last Budget. I cannot recall any other item whose rates of duties were harmonized in such a truly graduated and gradual manner as sugar. I think Honourable Members will agree that 7 years is a reasonable time within which to allow for these graduated changes, and in view of the fact that we have our own domestic refineries which are in a position to supply sugar to the entire Malaysian market, it is time that import duty rates on refined and raw sugar in Sabah and Sarawak are completely harmonized with West Malaysian levels. Sugar of polarisation exceeding 99° will henceforth attract import duty at the rate of \$224 per ton, that of polarisation exceeding 98° but not exceeding 99°, \$201.60, and that of polarisation exceeding 95° but not exceeding 98°, \$156.80 per ton in Sabah and Sarawak. Sugar refined in West Malaysia when moved to East Malaysia will be liable to import duty equivalent to only the present excise duty of \$170 per ton. Since at present the import duty is \$145.60 per ton in East Malaysia, the increase payable by East Malaysian consumers of West Malaysian sugar will only be \$24.40 per ton or a little more than one cent per pound.

It is also proposed to harmonize the import duties on some transport items which include radiators, radiator parts and accessories. These items are at present not dutiable in West Malaysia but in Sabah and Sarawak

they are subject to import duty at rates ranging from 20% to 30%. The rates are now to be harmonized at the Sarawak rate of 30% in most cases. Motor assemblers in West Malaysia will be allowed to continue to import these items duty free as at present. All these changes, together with other minor changes, are estimated to yield about \$657,000 of additional revenue per annum, of which about \$400,000 will come from the duty changes on sugar.

Export duties on rubber are also to be completely harmonized. At present three separate formulae are used for calculating these export duties in West Malaysia, Sabah and Sarawak. Of these, the formula applicable in West Malaysia has the least burdensome effect. It is, therefore, proposed to revise the export duty formulae in Sabah and Sarawak so that they will be in line with that in West Malaysia. The loss in revenue from this harmonization exercise is estimated to be about \$1.6 million in 1972.

Excise Duty on Samsu

Statistics have shown that the revenue collection from the levy of excise duty on samsu has remained more or less static for the past 10 years. We cannot believe that this is due to a reduction in the general level of samsu consumption. It is more likely that this is due to an increase in the distilling of illicit samsu more commonly known as moonshining. I have been advised that the present rate of excise duty of \$30 per gallon is an incentive to moonshining. To remove this incentive, it is now proposed to reduce this rate to \$20 per gallon. On paper, this will result in a loss of revenue to the Government of about \$1.3 million per annum. In practice, however, it is more likely that there will be a gain in revenue, if past experience is any guide. We have found in the past that duties on items which, for example, can be smuggled in only too easily, actually bring in more revenue in the aggregate when their rates are reduced substantially, because, under such circumstances, the incentive to smuggle largely disappears, and hence the Government is able to collect the duty on a much higher proportion of imports.

Finally, I would like to announce some fiscal incentives for industrial development. I shall deal first with income tax.

Tax on Interest Derived by Non-Residents

According to the present income tax law, a 40% tax has to be deducted at source on payment of interest to a non-resident person, that is a non-resident individual, company or body of persons, including a partnership. Although a deduction for expenses wholly and exclusively incurred in earning the interest is allowed under the law, it is found that in practice claims for such a deduction are very seldom made to the Inland Revenue Department. This is largely due to the difficulty in proving such expenses on the part of foreign lenders. So, in effect, the tax paid at source at the rate of 40% becomes final. Such a situation makes it costly for the private sector to obtain foreign loans or to enter into deferred payment arrangements for the purchase of machinery and equipment from foreign suppliers, because more often than not, Malaysian borrowers are required to bear the tax.

The Government has recognised the need to make foreign borrowing cheaper by reducing or even exempting the tax on interest earned by foreign sources, provided that the loans on which they are paid are approved by the Government, through the conclusion of bilateral agreements for the avoidance of double taxation. While this device is advantageous in many ways, the conclusion of such agreements is generally a time consuming process.

To overcome this problem, it is now proposed to amend sections 6 and 109 of the Income Tax Act to provide for a reduction in the tax payable on interest paid to a non-resident person to 15% on the gross amount of the interest, provided that the loan or indebtedness giving rise to the interest is made or incurred for development purposes or for capital equipment required for development projects in Malaysia, and also provided that such loan or indebtedness is approved by the Treasury. This amendment will take effect as from 1st January, 1972, and will only apply to loans made as from that date. These conditions are considered necessary in order to ensure that the loans for which the tax concession is given are used for development or industrial purposes in line with the economic and social objectives of the country.

It is difficult to estimate the loss of revenue which will result from this change because the tax concession will apply to approved loans only. On a rough basis, this loss is estimated to be in the region of \$1.5 million per annum.

Export Duty on Logs

Earlier in my speech I emphasized the need to encourage more domestic processing of timber. Export of sawlogs is one category of export which we can well do without. A fairly large proportion of our sawlogs goes to other developing countries where it is processed and re-exported as finished goods. As a result, I am informed that such developing countries make large profits out of this activity. It is, therefore, obvious that if we have the required energy and initiative, such processing, which cannot by any means be regarded as a sophisticated industry, could well be done by us. If we do this, not only will we gain far more foreign exchange, equally important, we would provide many more badly needed jobs, and in the process make a significant contribution to our economic growth. In order to encourage such domestic processing, it is proposed to increase the export duty on sawlogs and logs roughly worked from 10% to 15% in West Malaysia. The additional revenue yield is estimated at about \$2 million per annum.

Suspended Import Duties

In September 1969, the import duties on a number of manufactured goods were increased in order to encourage investors to produce those goods domestically. The results of this exercise have been very encouraging. It is proposed now to undertake a similar exercise and the items chosen and the proposed increases in their import duties are shown in the *Gazette*, copies of which will be made available to Honourable Members. However, in view of the experience gained in the 1969 exercise, which brought in its train some unintended effects, the Government does not propose to introduce these changes immediately, but to suspend them until such time when these products can be produced domestically, and in the case of fruits, when we can produce them in adequate quantity. Honourable Members can rest assured that the Government will use

its best judgement to decide on the appropriate timing for effecting changes so as to avoid any unnecessary hardship to the public.

It will be noted that the idea behind this move is really to give a firm commitment in advance on the part of the Government that it will provide this margin of tariff protection to producers who are prepared to produce these items domestically. I should add that we will review the levels of tariff protection proposed if these are later found to be inadequate.

Overall Deficit

With the additional revenue of \$122.3 million expected from these tax changes, a current account surplus of \$68 million is anticipated. Taking into account development expenditure and net lending of \$888 million, the overall deficit would, therefore, be \$820 million, while the comparable figure for 1971 is expected to amount to \$904 million. However, as I stated earlier, part of the \$23.4 million of additional revenue expected from the revised export duty on palm oil will be diverted to the proposed Palm Oil Price Stabilization Fund. Hence, the current account surplus to which I have just referred will be reduced by that amount, and consequently the overall deficit will increase to that extent.

Conclusion

It will, therefore, be seen that this Budget is not only a forward looking Budget, it has introduced several new features. In the first place, we are restructuring the export duty on palm oil so that in times of high prices, something is laid aside for the producer, and this will be returned to him when prices are low. This will help all producers, large and small alike. Secondly, rubber producers in Sarawak and Sabah will pay lower export duties on rubber from now on. This should certainly help at this time of low prices. Thirdly, timber exporters in West Malaysia will have to pay more but the increase can be regarded as moderate even at this time of lower prices, for the simple reason that profits from timber operations will still be satisfactory enough even with this slightly higher impost.

Fourthly, this Budget practically completes the harmonization exercise between West and East Malaysia in so far as customs duties

are concerned, and the cost is small. Fifthly, there is this new sales tax, but although the range of products affected is extensive, basic necessities and raw materials essential for the promotion of industrialisation will be exempted from this tax. Under such circumstances, this tax should not unduly affect those in the lower income groups who can least afford to bear the additional burden.

Finally, the new list of suspended duties should accelerate industrialisation by informing potential investors beforehand of the margin of protection which they can expect to receive from the Government, without at the same time placing an unnecessary burden on consumers in this country. This procedure should help them to decide more quickly, and I hope it will help them to decide in favour of investing in this country.

Owing to our unusually excessive dependence on exports of primary commodities, and the dominant role which such exports play in our overall economy, it is clear that we do not have much control over future price prospects in this field. The recent currency realignments agreed to by the major industrial countries and the immediate removal by the Americans of the 10% import surcharge should, in the long term, enable world trade to resume its interrupted growth as a result of the removal of the uncertainty

which until then clouded the international monetary horizon. There is thus reason to hope that the economies of Western Europe, North America and Japan may pick up again. Under such circumstances, it is not too much to expect that the export prices of our principal primary products will recover to more profitable levels, though we might remember the saying that there is many a slip betwixt the cup and the lip! In view of the expected recovery in export prices and the expanding role of the public sector, the Malaysian economy should do better this year than it did in 1971. Indeed, a growth rate of rather more than 6% is envisaged.

Whatever happens, however, our domestic economy has clearly shown that it has the strength and resilience to survive stormy weather, whether political or economic. Let us add to this strength in every way we can, each and every one of us, so that together we can face with greater confidence any trials that may lie ahead. (*Tepok*)

Menteri Buroh dan Tenaga Ra'ayat (Tan Sri V. Manickavasagam): Tuan Yang di-Pertua, saya mohon menyokong.

Tuan Yang di-Pertua: Meshuarat ditanggohkan hingga 2.30 petang esok.

Dewan ditanggohkan pada pukul 4.30 petang.