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**ROLE OF ECONOMIC PLANNING UNIT  
IN  
NATIONAL DEVELOPMENT**

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## ROLE OF ECONOMIC PLANNING UNIT IN NATIONAL DEVELOPMENT

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### I. INTRODUCTION

The rapid development experienced by Malaysia over the last four decades led to an increase in income levels, where the nominal Gross National Product (GNP) per capita rose almost ten-fold to US\$3,500 in 2001 compared to US\$370 in 1970, which places Malaysia in the category of an upper middle-income economy based on the World Bank's classification. The development philosophy adopted by the Government i.e. "growth with equity" since the 1970s brought about significant reduction in the incidence of poverty, a more equitable distribution of income as well as growing size of the middle-class income group. The incidence of poverty was reduced from 49.4 per cent in 1970 to 7.5 per cent in 2000.

2. At the same time, the economy was transformed from a primary commodity producer to an exporter of manufactured goods, where the share of the manufacturing sector to the real Gross Domestic Product (GDP) is currently almost four times that of the agriculture sector. Nevertheless, the contribution from the agriculture sector is still significant and the country continues to be major world producer of palm oil, rubber, cocoa, pepper and tropical hardwood. Rapid economic expansion has created employment opportunities and by the end of 2001, Malaysia is enjoying full employment for its population of 23 million. In addition, the rate of inflation was sustained at very low and manageable levels.

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3. Malaysia's success in achieving high-sustained growth since 1970's is attributed to many factors. The fundamental factors include instituting sound development policies, good economic management, strong private domestic investment initiatives and quality of human resources. The social and political stability that prevailed since 1970 have provided the best environment for development in this country.

4. Development planning was accepted as a function of the Government since 1950's with the preparation of the First Five-Year Development Plan, 1956-60. The establishment of the Economic Planning Unit (EPU) in the Prime Minister's Department in 1961, enabled development planning to be carried out with authority and the successful use of the inter-agency planning and monitoring mechanism. Malaysia's development efforts were always premised on a pro-business growth strategy. The approach chosen has been a mixed economic system, where the private sector is the engine of growth while the public sector plays the role of a facilitator of development and ensures that the achievement of socio-economic objectives of the nation. While undertaking indicative economic planning through various development plans, the Government pursued market-oriented policies with regards to private sector investment and activities, both domestic and foreign investment. Since 1970, the basic philosophy adopted emphasized the achievement of growth with improvements in the distribution of income. Hence, planning goals are not only set in macroeconomic terms but also in socio-economic targets. These approaches, coupled with the pragmatism shown by the Government in adjusting to changing requirements and circumstances, have resulted in a rapid and stable development throughout Malaysia's post-independence history.

## II. ROLE OF ECONOMIC PLANNING UNIT

5. The Economic Planning Unit (EPU) in the Prime Minister's Department played a major role in economic development planning for Malaysia since its inception in 1961. Development efforts undertaken by EPU were based on the direction and vision of nation building that is in line with the changing needs of the nation. In this new millennium the objectives of EPU are as follows: -

- i. To enhance Malaysia's socio-economic development towards achieving a developed-nation status by the year 2020;
- ii. To improve the quality of life of all Malaysians and promote balanced and sustainable development through effective development planning;
- iii. To strengthen internal resilience and international competitiveness; and
- iv. To promote optimum utilization of available resources.

To realize these objectives, the following are the roles of EPU: -

- formulate policies and strategies for socio-economic development;
- prepare medium and long-term plans;
- prepare development programmes and project budget;
- monitor and evaluate the achievement of development programmes and projects;
- advise Government on economic issues;
- initiate and undertake necessary economic research;
- plan and coordinate privatization programme and evaluate its achievement;

- ❑ coordinate Malaysia's involvement in the development of growth triangle initiatives;
- ❑ initiate and coordinate bilateral and multilateral assistance;
- ❑ manage the Malaysian Technical Cooperation Programme; and
- ❑ monitor and evaluate investment activities to ensure they are in line with the corporate equity restructuring objective.

### **III. ORGANIZATION STRUCTURE**

6. The Economic Planning Unit which comprise 17 sections, is headed by a Director-General. The Secretariat to National Economic Action Council (NEAC), the Foreign Investment Committee, the General Services Section, the Legal Adviser and Computer Section report directly to the Director-General while the 13 other sections which make up two main divisions i.e the Macro Planning Division and the Sectoral Planning Division, report to the two Deputy Director-Generals, respectively.

### **IV. MACRO PLANNING DIVISION**

7. The Macro Planning Division is responsible for the formulation and evaluation of policies and strategies in macroeconomics, regional development, income distribution, human resources development and international cooperation in line with national objectives.

*a. Macroeconomics and Evaluation Section*

- ❑ formulate policies and strategies in the areas of national income, output, expenditure, balance of payments and public accounts.
- ❑ prepare macroeconomics framework for the short, medium and long-term.
- ❑ monitor and advise on current and prospective macroeconomic issues including implications of global economic trends.
- ❑ evaluate socio-economic programmes in order to provide feedback for the planning and implementation process.
- ❑ advise the public sector agencies on the conduct of evaluation studies.
- ❑ coordinate and approve applications from local and foreign researches to conduct research in the country.

*b. Distribution Section*

- ❑ formulate policies and strategies to eradicate poverty and reduce income disparities.
- ❑ formulate policies and strategies to restructure employment and ownership equity as well as the creation of a Bumiputera Commercial and Industrial Community.
- ❑ evaluate and analyze policy issues arising from the implementation of various programmes to eradicate poverty and restructure society.

c. *Human Resource Section*

- formulate human resource development policies and strategies.
- undertake analysis of trends and issues in human resource development, and prepare medium and long-term projections of population, employment and manpower requirement.
- monitor the availability of skilled and high-level manpower to ensure matching of supply and demand.
- secretariat to the National Human Resources Development Council.

d. *Regional Economics and Environment Section*

- formulate policies and strategies to promote balanced development among regions and states as well as development of urban and rural areas.
- advise State Economic Planning Units in the formulation of development policies and strategies at the state level.
- formulate and evaluate policies and strategies relating to the environment and natural resources.
- coordinate Malaysia's involvement in the development of growth triangles with neighbouring countries.

## V. SECTORAL PLANNING DIVISION

8. The Sectoral Planning Division is responsible for the formulation and evaluation of sectoral policies and strategies and the preparation of programmes and projects to be implemented under the development plans. The Division also ensures the allocation of funds for the various sectors of the economy is in line with the overall macro-economic framework and the efficient utilization of resources towards achieving balanced growth amongst sectors and regions.

### *a. Agriculture Section*

- formulate policies and strategies for the optimum utilization of resources, to ensure that the sectors contribute towards sustainable development.
- prepare the sectoral planning framework for the medium and long-term in line with the desired structural transformation.
- analyze sectoral trends and issues.
- provide allocation for development programmes and projects and evaluate their achievements.

### *b. Commerce and Industry Section*

- formulate policies and strategies for the optimum utilization of resources so as to ensure that the sectors contribute towards sustainable development.
- prepare the sectoral planning framework for the medium and long-term in line with the desired structural transformation.



- analyze sectoral trends and issues.
- provide allocation for development programmes and projects and evaluate their achievements.

*c. Development Budget Section*

- coordinate the preparation of the development budget required for the five-year plan and the mid-term review as well as annual allocation.
- analyze and monitor performance of development expenditure consistent and overall public finance position.
- provide allocation for the development programmes in security and general administration and evaluate their achievement.

*d. Energy Section*

- plan and formulate policies and strategies for the development of the sectors.
- ensure the provision of adequate and high quality electricity network and petroleum product.
- provide allocation for the development of the programmes and projects and evaluate their achievement.

*e. Infrastructure and Utilities Section*

- plan and formulate policies and strategies for the development of the sectors.

- ensure the provision of adequate and high quality infrastructure facilities.
- provide allocation for the development of the programmes and projects and evaluate their achievement.

*f. Privatization Section*

- plan and coordinate privatization programme at federal and state levels.
- Evaluate the achievements of privatized projects to ensure their effectiveness and efficiency.

*g. Social Services Section*

- formulate policies and strategies for the development of education and training, health, housing and other social services to improve quality of life.
- provide allocation for development programmes and projects and evaluate their achievement.

*h. External Assistance Section*

- formulate policies and strategies to promote international cooperation in line with national priorities.
- manage the Malaysian Technical Cooperation Programme which promotes technical cooperation with other developing countries.

*i. Technical Services Section*

- provide engineering and technical advisory support services in the planning, design, cost estimation and implementation of projects.
- secretariat to the Standard and Cost Sub-Committee of the National Development Planning Committee.

**VI. SECTIONS DIRECTLY UNDER THE DIRECTOR-GENERAL**

*a. NEAC Secretariat*

- provide the secretariat for all levels i.e National Economic Action Council (NEAC), Exco of the NEAC and the Working Group of the NEAC Executive Director.
- responsible to the NEAC and Exco to the NEAC to undertake analysis and report continuously to the NEAC all relevant and critical issues and development for follow-up action by the Government.

*b. Secretariat to the Foreign Investment Committee*

- process application and make recommendation for acquisition of assets and interest as well as mergers and takeovers of companies.
- monitor and evaluate investment activities to ensure they are in line with the corporate equity restructuring objective.

*c. General Services Section*

- provide administrative, financial and personnel support.
- secretariat to the National Development Planning Committee.
- coordinate feedback on decisions of the Cabinet and other national level meetings as well as Parliamentary matters.

*d. Legal Adviser*

- to advice and give opinion to the organization on legal issues.

*e. Computer Section*

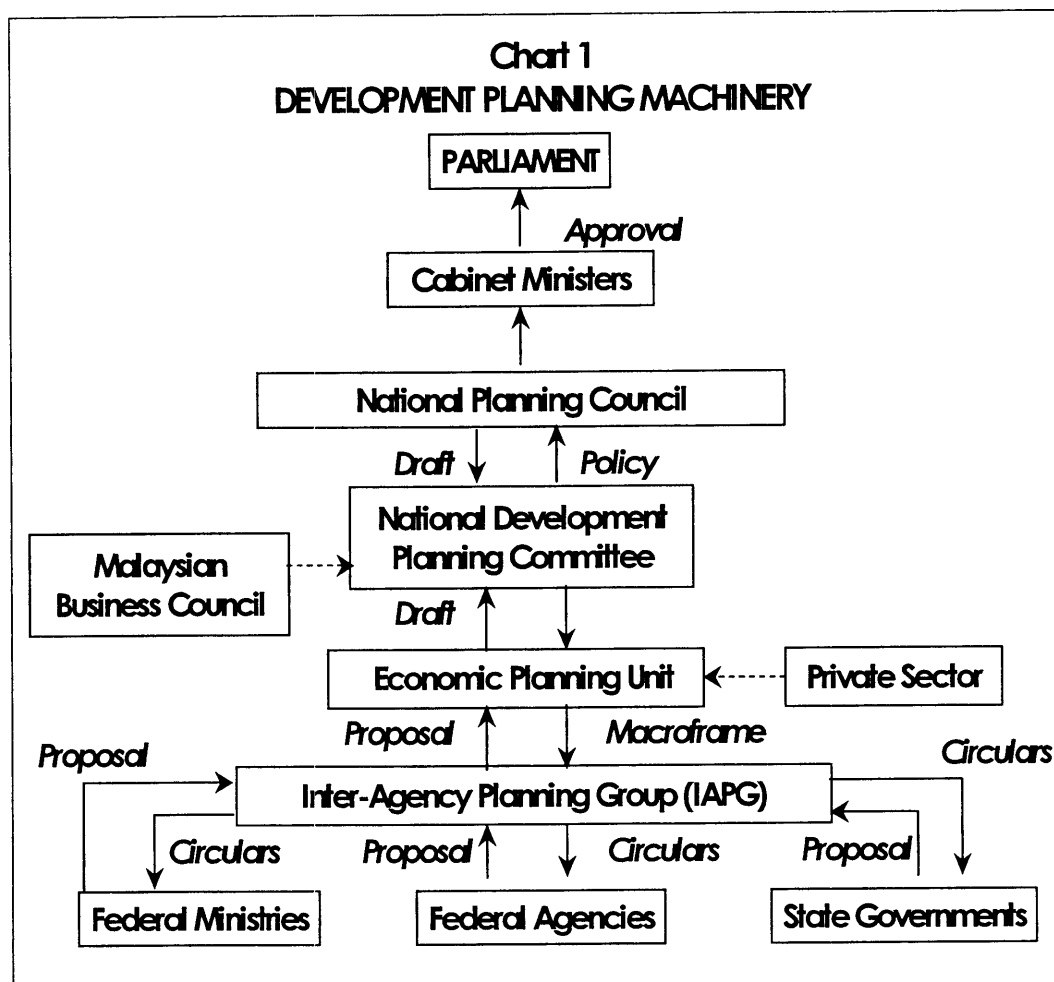
- provide computer services and management information system.

## VII. PLANNING MACHINERY

9. In Malaysia, the highest level of decision-making in matters of major public policy in the economic and social fields is the National Planning Council (NPC), which is the economic committee of the Cabinet, comprising of key economic ministers. Aside from the NPC, there are two other Ministerial Councils namely the National Development Council which considers matters on the implementation of the development programmes and projects and the National Security Council which deals with security and natural disasters. All the three Councils are chaired by the Prime Minister.

10. The National Development Planning Committee (NDPC) assists the NPC. The NDPC, a committee of senior Government

officials chaired by the Chief Secretary to the Government, is responsible for formulating, overseeing the implementation of, and reviewing all development plans as well as making recommendations on the financial allocation for the projects involved.



11. Planning at the Federal level is undertaken by the central agencies through the Inter-Agency Planning Group (IAPG), in which the EPU, the Public Services Department, the Implementation and Coordination Unit (ICU), and the Administrative and Modernization Unit (MAMPU) under the Prime Minister's Department, the Treasury

and the Central Bank as well as the planning cells of the various ministries and agencies are represented as shown in *Chart 1*. The IAPG is central to the planning process, providing inputs for policy formulation at the NDPC level. All draft plans are discussed by the NDPC before being approved by the Cabinet and Parliament. The EPU serves as the secretariat to the NDPC and its sub-committees namely the Estimates Sub-Committee, the Standards and Costs Sub-Committees and the various IAPGs.

12. The main focus of planning at the national level is on the public sector programmes over the five-year development-planning period. The Cabinet on the recommendation of the NDPC approves the overall public sector expenditure target and allocations according to the various sectors, ministries and states.

13. Planning at the state level is the responsibility of the State Economic Planning Units (SEPUs) which formulate the development strategy, coordinates the preparation of state development programmes and submits its plans for Federal Government's consideration after approval by the respective State Executive Committees. Although directly responsible to the State Government, the SEPUs work closely with Federal agencies, especially the EPU in the formulation and implementation of development programmes and projects in their respective states.

14. Planning is also done in collaboration with the private sector. Besides a number of councils and committees, such as the National Economic Consultative Council and the Malaysian Business Council, private sector involvement is obtained through dialogues conducted by the Treasury, the Ministry of International Trade and Industry and the Central Bank.

## VIII. PLANNING PROCESS

15. Planning in Malaysia is a two-way inter-active process between the EPU, on the one hand, and the line ministries and agencies on the other, which implies the top-down and bottom-up process. This ensures that national policies and strategies are realized and development concerns at sub-regional level are integrated well into the overall national development thrusts.

16. At Federal level, in consultation with other central agencies such as the Treasury and the Central Bank, EPU reviews the past performance of the economy and evaluates its limitations, constrains and bottlenecks and assesses the prospects and potential. It then prepares the macro-economic framework and growth targets and assesses the implications of these targets on the size of the public sector development programmes and projects as well as the required contribution of the private sector. These consultations are conducted through IAPGs and their Technical Working Groups (TWGs).

17. Planning from the top, which is confined to setting macro level parameters, is determined in the context of the IAPGs. The EPU is the secretariat for each of IAPGs whose work precedes the formulation of any development plan. During these consultations, factors such as the international economic situation, resource availability and constraints (both domestic and foreign) implementation capacity, shortfalls from, and limitations to policy implementation are considered.

18. At the same time, a call circular is issued to all ministers, departments, statutory authorities, State Governments, and also the Non-Financial Public Enterprises (NFPEs). The circular contains general guidelines on the procedures for plan preparation, the schedule for submission, the timing and the criteria for proposed programmes and projects to be submitted by the various ministries, agencies and states. The agencies are requested to review their strategies and development thrusts, and translate them into

programmes and projects for implementation as well as to bid for funds required to implement these programmes during the plan period.

19. Planning from the bottom, on the other hand, essentially involves the line ministries, agencies and the state governments, which translate the sectoral master plans into specific programmes and projects. The EPU plays key role in matching the micro-level programmes and projects with the macro-level plans for each economic sector.

20. The development thrusts, directions and related policies for the planned period and priority orderings for the sectors and the implicit distribution across states agreed to by the IAPGs are submitted to the NDPC, for consideration before, finally, being submitted to the NPC or the Special Committee of the Cabinet chaired by the Prime Minister and comprising senior ministers. The committee then advises the Cabinet before the plan document is approved for tabling in Parliament. The plan document is then tabled in Parliament for adoption.

21. Development planning in Malaysia is further characterized by the fact that planning, which is the first part of the project cycle, is complemented by the tasks of monitoring project implementations and carrying out post-implementation evaluation or impact studies. The feedback from these agencies as well as from those of the implementing ministries and departments are used by EPU in the next round of planning which later provides the basis for improving planning approaches and strategies.

## IX. PLANNING HORIZON

22. Socio-economic development in Malaysia has a three-tiered cascading planning mechanism, covering the long-, medium- and short-term planning horizon, as shown in *Chart 2 and 3*. Vision



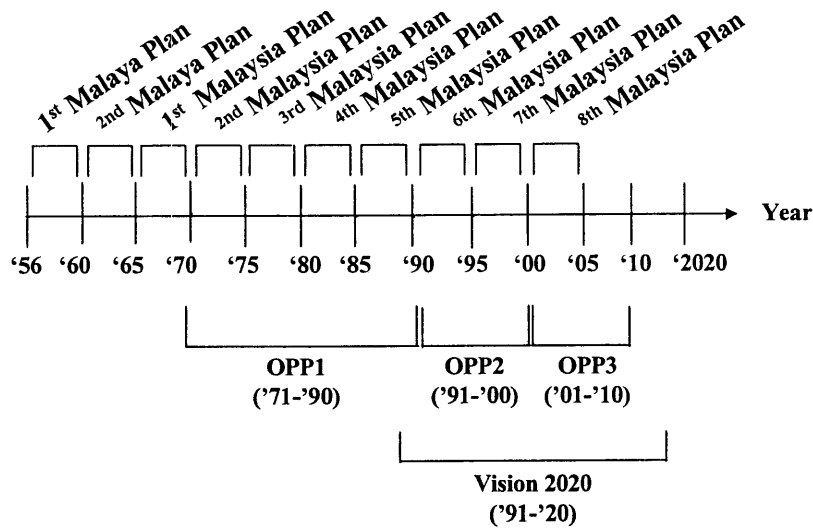
2020 was launched in 1991 to cover a 30-year period to provide a long-term focus for national development effort. The Outline Perspective Plan sets the broad thrusts and strategies in the development agenda for the nation over a long-term. The First Outline Perspective Plan (OPPI) was a twenty year plan covering the period 1971-1990, while the Second Outline Perspective Plan (OPP2) and Third Outline Perspective Plan (OPP3) which covers the period 1991-2000 and 2001-2010 respectively, a shorter planning horizon due to the uncertainty in forecasting the growth path for the Malaysian economy over the longer term.

**Chart 2**  
**PLANNING HORIZON**

- **LONG TERM PLANNING (EPU)**
  - Vision 2020, 1991-2020
  - First Outline Perspective Plan (OPP1), 1971-1990
  - Second Outline Perspective Plan (OPP2), 1991-2000
  - Third Outline Perspective Plan (OPP3), 2001-2010
- **MEDIUM TERM PLANNING (EPU)**
  - Five-year development plans, such as the Eighth Malaysia Plan (2001-2005)
  - Mid-term review (MTR) of the five-year plans
- **SHORT TERM PLANNING (Treasury)**
  - Annual Budget

Chart 3

## PLANNING HORIZON AND DOCUMENTS



23. The next tier is the medium-term plan for a five-year period. The 5-year development plans are formulated to operationalize the Outline Perspective Plans. They set out the macro-economic growth targets as well as the size and allocation of the public sector development programme. In addition, they contain the role envisaged for the private sector as well as provide the direction with respect to the sectors that ought to be promoted, thereby giving guidance to the private sector in determining their own investment policies. Currently, the Eighth Malaysia Plan, covering the period 2001-05, is in operation.

24. In the middle of the five-year cycles, a mid-term review (MTR) of the five-year plan is carried out. The MTR is not only a stocktaking exercise to determine whether the plan is being implemented in accordance with the stated targets and development

schedule, it also reviews macro-economic and sectoral policies and strategies and make adjustments if needed. Currently, the Economic Planning Unit is in the process of preparing the MTR for the Eighth Malaysia Plan. The final tier is the short-term planning. The annual budget is undertaken by the Ministry of Finance in conjunction with their annual budget preparation. In addition, the Central Bank also monitors short-term development, focusing on the monetary and financial side.

25. The planning process also involves consultations with the private sector. The Malaysia Incorporated arrangement aims at developing the synergy between the public and private sectors through mutual support and cooperation in achieving national objectives. This arrangement was further strengthened with institutionalized dialogues between the Government and the private sector as well as the formation of several councils such as the Malaysian Business Council and the National Economic Consultative Council, all of which provide an effective platform for communication with the Government. Such dialogues, which are frequently held, have not only resolved problems and bottlenecks, but also served to provide feedbacks on wide ranging issues, including Government policies, global markets and the general assessment of the health of the domestic economy. So whilst the mechanisms of formulating and implementing the development plans seem to suggest a rigid process, in reality the actual process is more flexible and pragmatic. The Malaysia Incorporated concept is, therefore, a key strategy in the development of the nation and is a means to ensure the competitiveness of the national economy. Its pro-business policy stance and the constant interaction between the public and private sectors at all levels of the planning and implementation process makes the national objectives clear and easily understood by the major players, particularly the private sector investors, including foreign investors.

## X. POLICY EVOLUTION

26. The evolution of Malaysian development policies can be classified into the following major phases, namely the pre-New Economic Policy (NEP) period, the NEP period (1971-1990) and the post 1990 policy. During the pre-NEP period, the *laissez faire* policy was adopted. The emphasis was on economic and rural development aimed at promoting growth with strong emphasis on export market. Efforts were directed towards building up physical infrastructures as well as social infrastructures. Policies were also directed to expand production, particularly in the tin mining activities and plantation sector. A modest beginning was also made in encouraging manufacturing activities to produce light manufactured goods to reduce imports and to generate employment.

27. In 1970, the NEP was launched under the OPP1 (1971-90). The NEP sought to eradicate poverty and to restructure society. The basic philosophy was "growth with equity" with national unity as the overriding objective. It was targeted that the incidence of poverty in Peninsular Malaysia should be reduced from 49.3 per cent to 16.7 per cent and that the ownership of share capital in the corporate sector should be restructured such that the share of Bumiputera would increase from 2.4 per cent to at least 30 per cent while that of other Malaysians from 32.3 per cent to 40 per cent. For the foreigners, the policy was to reduce their holding from 63.3 per cent to 30 per cent by 1990. Apart from these, it was also targeted that the employment pattern at all levels should reflect the racial composition of the population.

28. This socio-economic engineering exercise was to be undertaken within the context of an expanding economy so that in the process of distributing the benefits of development, no ethnic group would experience any sense of absolute deprivation. To achieve the NEP objectives, the public sector was expected to play a major and active role in the economy, including in the productive sectors, while the private sector activities were encouraged to be the