

# **RURAL DEVELOPMENT MODEL IN MALAYSIA**

**By**

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## Abstract

*Rural development has been the core focus of the Malaysian economic policies since her independence in 1957 through the 1990s. The rural sector is pivotal to the country's economic growth, social and political development. Some of the salient characteristics of the sector are: high incidence of poverty, low productivity, lack of basic economic and social infrastructures and market imperfections. This paper examines the evolution of the Malaysian rural development policies, strategies and programmes since the 1960s. As the rural economy is agriculture-based, agricultural policy through agrarian reform has been the major instrument that was responsible in transforming the poverty-stricken community to a commercial-oriented sector. Development efforts are governed by the twin objectives of achieving growth with equity. The government policy has to some extent achieved the intended results but poverty and inequality within and between sectors are still significant and apparent. Hence, rural development continues to be an important agenda to the country's development effort.*

## Introduction

One of the major thrusts of the Malaysian economic development since her Independence in 1957 has been and continues to be the rural development programmes. The rural sector plays a pivotal role in the country's economic growth, social and political development.

The Malaysian economy depended on the rural sector in the early development stage for agricultural input and output and hence the country's export earnings and growth in the 1960s and 1970s. The rural sector before the 1990s was almost synonymous with agriculture as more than 70% of her population were engaged in agricultural activities including livestock and fishing. Taking agriculture as a proxy for the rural sector, its importance as the engine for growth reached its peak in the 1970s. As shown in Table 1, in 1970, this sector accounted about 30% of the country's GDP, it went down to about 14% in 1995 and expected to reduce to about one-tenth in the early 21st century ( while the share of the manufacturing sector is estimated to increase to around 40%) . Like any other developing economies, the growing economic importance of the manufacturing sector implies that the rural sector has fulfilled its role as the supplier of labour, land and capital required for industrial

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development. Despite the declining trend of agricultural share in the GDP, it will remain an important sector to the country in terms of export earning, employment and food security. The same argument applies to the rural sector.

One of the major social problems of the rural sector is poverty. Although poverty is a universal problem; its higher occurrence and incidence in the rural sector makes it predominantly rural phenomenon (Chamhuri, 1996). The incidence of poverty in the country was very high in the 1970s, that is, almost half of the populations lived in poverty, with the rural sector suffered the highest. In the said period, about 60% of the rural population were considered poor and lived in poverty compared to 21% of the urban sector. The problem is further aggravated with the predominance of the Malays (the indigenous population which account about 57% of the country's population in 1995) in the rural sector and hence creating an economic imbalance between the Malays and the other ethnic groups. This inequity was perceived as a potential seedbed for social unrest and political stability which might hinder the country's progress and development.

With the above premise, the Malaysian government, since Independence has embarked on various economic programmes and strategies aiming at developing the rural sector mainly through the agricultural policies and the whole economy through the industrialisation policies. The success has been commendable as reflected by the reduction of poverty incidence to 9% in 1995 and expected to reach only 6% by early 21st century. Nevertheless, the benefits of the development strategies have not been equitable between the rural and urban sector as the former recorded 19% incidence of poverty compared to the latter which was about 4% in 1995. Hence, the struggle to improve the rural sector is still an important agenda to the government in the next century.

This paper attempts to examine the evolution of the rural development policies in Malaysia since her Independence that was responsible in improving somewhat the quality of life in the rural sector. The review would provide some understanding of the philosophies, rationales as wells as the lessons that can be learned from the Malaysian rural development experience.

Table 1: Composition of Malaysia's Gross Domestic Product (GDP) by Industry of Origin (%)

Sector	1970	1980	1990	1995	2000 <sup>a/</sup>
Agriculture, forestry and fishing	29.0	22.9	18.7	13.6	10.5
Mining and quarrying	13.7	10.1	9.7	7.4	5.7
Manufacturing	13.9	19.6	27.0	33.1	37.5
Construction	3.8	4.6	3.5	4.4	4.8
Services	39.6	42.8	42.1	44.2	45.7

Note <sup>a/</sup> estimated

Source: (i) Government of Malaysia, Second Outline Perspective Plan, 1991-2000.

(ii) Government of Malaysia, Seventh Malaysia Plan, 1996-2000.

The paper is organised in the following manner. The following section provides a brief information on the major characteristics of the rural sector particularly

on the poverty incidence. This is followed by a chronological review of the development planning and policy since 1960s. The agrarian reform - the fundamental strategy of the rural development policies - is reviewed in the consequent paragraphs. The major policy instruments for agrarian reform such as land development, consolidation and rehabilitation and integrated rural development and industrialisation are examined in the following sections. The paper ends with conclusion and policy implications.

### The Rural Sector

The rural sector economy is mainly agriculture-based as more than three-quarter of her population are involved in agricultural activities. It comprises mainly smallholder operators in the agricultural sector and labourers and employees working in an informal sector which has been defined as “other industries”. The smallholder agricultural sector comprises rubber, palm oil and coconut smallholders, paddy farmers, fishermen, mixed farmers and estate workers. The “informal sector” refers to population residing in the rural sector that is involved in other agricultural activities not mentioned earlier or semi-industrial urban based employment like mining, manufacturing, construction, transport, utilities, trade and services.

In terms of population distribution, the rural population has registered an increase in number from 4.6 mn in 1957 to 9.4 mn in 1995 (an increase of 106%) (Table 2). The share of rural population of the total however has shrunk from about three-quarter to 45% during the said period. The decline in the share of rural population from the total despite the high birth rate in this sector was due to the massive out-migration to the manufacturing sectors which were mainly located in the urban areas, particularly in the post 1970 period. It was during this period that Malaysia began her intensive effort towards urbanisation and industrialisation programmes.

Table 2: Distribution of Rural-Urban Population, 1957, 1970, 1980, 1990 and 1995 (mn)

Sector	1957		1970		1980		1990		1995	
	mn	%	mn	%	mn	%	mn	%	mn	%
Urban	1.6	26.5	2.5	28.7	4.5	34.2	7.2	40.7	11.3	54.7
Rural	4.6	73.5	6.3	71.3	8.6	65.8	10.5	59.3	9.4	45.3
Total	6.2	100.0	8.8	100.0	13.1	100.0	17.7	100.0	20.7	100.0

Source: Population and Housing Census, 1980  
The Second Outline Perspective Plan, 1991-2000  
Five Year Plan, various issues

As mentioned earlier, poverty was and still is prevalent in the rural sector. The magnitude (the number of poor households and hardcore poor) and the progress of the government’s effort in addressing this problem are presented in Tables 3 and 4. The Tables provide the following observations. Firstly, at the national level, the incidence of poverty seems to have reduced from almost half in 1970 to about 9% in 1995

(Table 4). Regionally, the problem of poverty is more acute for Sabah (34% in 1990) and Sarawak (21%) compared to Peninsular Malaysia (15%) (Table 3). Secondly, the incidence of poverty in the rural sector is relatively high ie. at 19% compared to the urban sector at 3.7% in 1995 for the whole of Malaysia. The regional distribution of poverty incidence suggests that the rural sector in Sabah and Sarawak are higher relatives to the Peninsular Malaysia. The rural sector in Sabah and Sarawak records poverty incidence at 39% and 24% respectively compares to 19% in Peninsular Malaysia in 1990.

Despite the overall reduction in poverty incidence, the problem of poverty among traditionally peasant farmers and fishermen remain intractable. In 1990, the incidence of poverty among padi farmers (30%), rubber smallholders (24%), coconut smallholders (27%) and fishermen (39%) remained high (Table 5).

The factors contributed to the poverty problem are multidimensional in nature ranging from social to economic factors. Ungku Aziz (1964) in his earlier work on the subject described poverty as a vicious cycle of low productivity, malnutrition, lack of infrastructures, low incomes and unemployment embedded in structural defects, reinforced by imperfect competition (middlemen monopoly-monopsony) and the relative neglect of the rural economy. Hence, rural development addressing poverty problem involves a multi-sectoral approach which include agricultural development, rural industrialisation, infrastructural development and welfare programmes.

## **Evolution of Development Policy**

### **Pre-Independence**

Prior to Independence, Malaysia's rural development policy was embedded in the agricultural development policy. During this period, the agricultural policy was designed to serve primarily the needs of British colonial rule with a purposive neglect of the rural sector. While the British companies ventured into plantation agriculture, largely rubber and other commercial crop cultivation, the indigenous population (the Malays) remained largely in subsistence and smallholder agriculture. The neglected rural economy in general became involuted: incomes were very low because output and prices were low, output was low because of poor traditional production techniques; and low income led to a lower standard of welfare (Ungku Aziz, 1964). This scenario, considered as the legacy of the British colonial agricultural policy, became the basis that shaped Malaysia rural development policy after independence.

### **1960s**

There was a significant change from benign colonial neglect to active intervention in the development of the agricultural and rural sectors. The main effort at agricultural development devolved upon the traditional subsistence and smallholder subsectors to serve primarily the indigenous population. Two development plans were introduced: First Malaysia Plan (1956-60) and Second Malaysia Plan (1961-65).

Table 3: Incidence of Poverty and Number of Poor by Region, in 1985 and 1990

	1985		1990	
	Urban	Rural	Urban	Rural
<b>PENINSULAR MALAYSIA</b>				
Incidence of Poverty (%)	8.2	24.7	3.0	8.0
Number of Households ('000)	81.3	402.0	69.8	160.2
Incidence of Hardcore Poverty (%)	2.4	8.7	0.3	0.8
Number of Hardcore poverty ('000)	23.8	141.8	7.0	16.0
Total Households ('000)	991.7	1629.4	2326.1	2001.2
<b>SABAH</b>				
Incidence of Poverty (%)	14.3	14.3	6.5	27.3
Number of Households ('000)	7.5	68.5	9.6	74.4
Incidence of Hardcore Poverty (%)	2.9	11.7	0.9	4.1
Number of Hardcore Poor ('000)	1.5	20.8	1.4	11.2
Total Households ('000)	52.4	177.4	147.3	272.5
<b>SARAWAK</b>				
Incidence of Poverty (%)	8.2	37.3	0.8	16.5
Number of Households ('000)	4.2	85.9	0.9	59.0
Incidence of Hardcore Poverty (%)	1.7	11.9	0.2	1.5
Number of Hardcore Poor ('000)	0.9	27.3	0.2	5.4
Total Households ('000)	51.2	231.2	114.6	357.2
<b>MALAYSIA</b>				
Incidence of Poverty (%)	8.5	27.3	3.1	11.2
Number of Households ('000)	93.0	556.4	80.3	293.6
Incidence of Hardcore Poverty (%)	2.4	9.3	0.3	1.2
Number of Hardcore Poor ('000)	26.2	89.9	8.6	32.6
Total Households ('000)	1095.3	2038.0	2588.0	2630.6

Source: Second Outline Perspective Plan 1991-2000.

Under the two plans, agricultural development programmes were assigned to improve the economic and social well being of the farming communities in particular, and the rural populace in general (Malaya, 1961, Chee, 1979). To implement the programmes, Malaysia adopted a *laissez faire* economic system. The private sector was assigned the role of engine of growth in contrast to the government sector which undertook investment in social and physical capital apart from providing support to the private sector.

Table 4: Malaysia: Incidence of Poverty and Number of Poor in 1995 and 2000

	1995			2000		
	Urban	Rural	Total	Urban	Rural	Total
Incidence of poverty (%)	3.7	15.3	8.9	2.2	10.3	5.5

No. of household ('000)	84.6	285.6	370.2	59.9	193.5	253.4
Incidence of hardcore poverty (%)	0.8	3.7	2.1	0.1	1.0	0.5
No. of hardcore poverty ('000)	19.2	69.2	88.4	3.2	19.8	23.0
<b>Total households ('000)</b>	<b>2270.3</b>	<b>1870.3</b>	<b>4140.6</b>	<b>2732.6</b>	<b>1874.6</b>	<b>4607.2</b>

Source: (i) Government of Malaysia, Second Outline Perspective Plan, 1991-2000.

(ii) Government of Malaysia, Seventh Malaysia Plan, 1986-20000.

Table 5: Peninsular Malaysia: Incidence of Poverty, 1970-80

Sector	1970		1976		1984		1987		%
	Total poor household	Incidence of Poverty (%)	Total poor household	Incidence of Poverty (%)	Total poor household	Incidence of Poverty (%)	Total poor household	Incidence of Poverty (%)	
RURAL	70.9	58.7	666.9	47.8	402.0	24.7	408.2	22.4	19.3
Rubber									
Smallholders	226.4	64.7	73.8	58.2	67.3	43.4	83.1	40.0	24.0
Padi Farmers	123.4	88.1	150.9	80.3	67.3	57.7	54.4	50.2	30.0
Estate workers	59.4	40.0	-	-	16.0	19.7	11.7	15.0	29.0
Fishermen	28.1	76.2	17.6	62.7	9.5	27.2	10.7	24.5	39.0
Coconut									27.0
Smallholder	16.9	52.9	12.4	64.0	6.6	46.9	4.9	39.2	
Other									
Agriculture	128.2	89.9	274.4	52.1	158.8	10.0	-	-	-
Other						10.0			
Industries	123.5	35.2	139.5	27.3	76.5		-	-	-
URBAN	85.9	21.3	94.9	17.9	81.3	8.2	81.3	8.2	7.3

Source: Government of Malaysia, Malaysia Development Plan, various issues.

The Second Malaysia Plan also incorporated a National Rural Development Plan aimed at reorganizing and mobilizing institutions and efforts towards modernizing and developing the rural sector. The Ministry of Rural Development planned and co-ordinated the activities of all agencies related to rural development.

At the district or local level, the District Rural Development Committees implemented, monitored and reviewed as the Rural development projects in what was known as the Rural Economic Development (RED Book) Plan located at District Operation Rooms, which recorded the progress and attainment of rural development projects as district level (Chamhuri, 1996).

The RED projects focussed on building basic infrastructures and institutions. The infrastructural approach was intended to provide linkages to the rural economy, provide rural employment and raise productivity and incomes of rural peasants (Stephen Chee, 1975). The social and economic infrastructures provided were rural roads, drainage and irrigation facilities, basic amenities like rural electricity, water, school, health, community and religious centres, etc. The rural institutions were established to facilitate production and marketing functions; and also the credit needs of the rural peasants. These infrastructures and institutions were expected to generate rural employment besides raising productivity, incomes socio-economic status of the rural population.

Despite the infrastructural programmes, the incidence of poverty remained at a serious level in the 1960s. To break through the vicious cycle of poverty, a more effective measure was needed in the form of a structurally-oriented programme that could absorb the underemployed rural population in the over crowded rural agricultural sector. During this period, there was abundant agricultural land which could be developed into land development schemes. Thus large and extensive land development schemes under the Federal Land Development Authority (FELDA) became a catalyst for rapid rural development. Vast areas of undeveloped land were brought into cultivation of rubber and palm oil through new land development and settlement schemes. Largely for economic and political reasons, the main thrust shifted production orientation of traditional smallholder from policy subsistence activities to the production of export crops.

New land development programmes were extended to include the cultivation of oil palm through a policy of crop diversification and double-cropping of rice was expanded under the drive for self-sufficiency in rice production. Agricultural rehabilitation and consolidation were also emphasized under *in situ* development programmes. Emphasis was also made to upgrade agricultural research and extension and to correct the shortcomings facing land tenure, credit processing and marketing. These aimed at reducing production costs so as to ensure fair returns to producers. The policy objective of increased productivity and output, nonetheless, had not been eschewed in view of continuing emphasis on agricultural modernization and increased pace of land alienation and development for agriculture.

Rural industrialisation was another strategy started under SMP to increase employment, productivity and incomes of the rural population. Rural Industrial Development Authority (RIDA) was launched to improve the well-being of rural communities by setting up rural or cottage industries. Later RIDA was expanded into MARA or The Council of Trust for Indigenous People, whose role has included providing training and educational facilities to Malays to further their education and to than involvement in the urban industrial sector.

## 1970s

The advent of racial disturbance in 1969 caused a major shift or turnaround in the role and policy of the government. It pointed out the relative failure of private-sector led growth strategy in bringing about equitable distribution of income and development among races, sectors and region. This subsequently brought about an interventionist role of government in the economy (Abdul Aziz, 1994). In 1970, The government launched The New Economic Policy (NEP) 1971-1990 and The First Outline Perspective Plan 1971-1990. The primary objective of NEP was national unity and this was to be achieved through a two-pronged strategy of eradication of poverty and restructuring of society (Malaysia, 1971). The First Outline Perspective Plan, 1971-90 spelt out poverty reduction and equity share ownership targets to be achieved. It was targeted that the rural poverty would reduced to about 21.6% by 1990 and the Bumiputera (indigenous Malays) share of equity ownership should be at least 30%. The implementation of these two policies saw a more direct role of the public sector in agriculture and a series of policies effecting equity, ownership and employment in the private sector.

## 1980s

In 1984, the National Agricultural Policy (NAP) was launched to provide a much more “all encompassing” policy approach to agricultural development. The NAP was designed to ensure a balanced and sustained rate of growth in the agricultural sector *vis-a-vis* the other sector in the economy. The policy objectives of the NAP aimed specifically at maximising income from agriculture through effective and efficient utilisation of the country’s resources and the revitalisation of the sector’s contribution to the national economy (Malaysia, 1984). An important rationale behind the formulation of the NAP was the concern for the slower rate of growth of the agricultural sector relative to other sectors in the economy and the prevailing poor state of welfare of agriculture.

In the 1980s, agricultural development strategies continues to accelerate new land and *in situ* development, and social and institutional progress. In addition to primary commodity production, food and industrial crop production have become implicit policy goals. There was also emphasis on agricultural-industrial linkages through the expanded development agro-based industries mainly in processing, storage and handling of agricultural commodities to increase their value-added before export. This approach to agricultural development, in general, was to incorporate the participation of the private sector as “partners in development”. The NAP was assumed significant for expanded efforts to rise agricultural productivity and incomes in the Fifth Malaysia Plan period (1986-90) and thereafter.

In 1987, a “new” approach to rural development was implemented with the launching of (Red Book II) which attempted to revise the legacy of The Red Book plan of the 1960s (UPP, 1987).

The new approach emphasizes the role of the districts in spearheading the rural development in a more integrated manner using group farming, rural industries, cooperatives, rural urbanization, regrouping and restructuring of traditional villages and commercialization of agriculture as the main strategies.

NAP has been effective in terms of guiding resources use as well as output growth and changes in its composition. Value-added of agriculture grew at 4.6% per annum during the period 1986-90 compared to 3.1% for 1981-85 although its share in the overall GDP has declined to 18.7% in 1990 as against 20.8% in 1985. Agricultural output and export base have become more diversified as new and higher value commodities enter local and foreign markets.

The level of agricultural employment in 1990 was marginally higher than that of 1985 reflecting a limited headway in the mechanisation and automation of important production activities. This was due to the slow pace of generation, adoption and diffusion of labour saving technologies coupled with relatively low level of human capital base in the sector. However, the growth of labour productivity in particular for the period 1986-1990 was 3.7% p. annum, higher than that of the overall economy although still below the 4.7% growth rate of the manufacturing sector.

Productivity differences within sector especially for major export crops have also been narrowed. However, supply side constraints have increasingly become policy concern particularly those involving increased labour shortages, wage increases for important farm operations, increasing cost of new land development and limited technological options which have reduced the competitiveness and the international market share of the traditional export commodities and have constrained the overall growth of the sector (Abdul Aziz, 1994). Late 1980s saw that Malaysia was unable to sustain the leading position in rubber whilst simultaneously facing limited viable options with regards to other crops and commodities such as flowers and fruits, in its diversification efforts. This is despite the expanding market opportunities for such non-traditional agricultural exports.

Thus it is clear that the 1984's NAP has not adequately and effectively addressed the increasing inter-sectoral productivity and implied income, differences, in particular, between agriculture and manufacturing sector. Secondly, it did not develop sufficient viable options to supply-side constraints. Lastly, it did not sufficiently position the sector to take advantage of market opportunities. With this scenario, the new NAP was introduced in 1992 to rectify the problem.

### **1990s**

The First Outline Perspective Plan (OPP1), covering the period 1971-90 has implemented four development plans for the Second Malaysia Plan 1971-75 to the Fifth Malaysia Plan 1986-90. These development plans have been implemented within the framework of the NEP which was introduced by the government in 1970 to promote growth with equity with the objective of fostering national unity among the various races.

The Second Outline Perspective Plan (OPP2), covering the period 1991-2000 has been formulated based on a policy which is called The National Development Policy (NDP). The NDP will build upon the achievements during the OPP1 to accelerate the process of eradicating poverty and restructuring society so as to correct social and economic imbalances (Malaysia, 1992). It provides a broader framework for achieving these socio-economic objectives in the next 10 years within the context of a rapidly expanding economy.

It was in 1992 the New National Agricultural Policy was introduced to address the significant shortcomings of the previous NAP. The overriding objective of the new NAP is the maximization of income through optimal utilisation of resources. Its specific objectives include: the achievement of a balanced development between agriculture and manufacturing sector, enhancement of the integration of the sector with the rest of the economy and in particular the manufacturing sector and the achievement of a higher level and greater depth of food industry development. Agricultural development efforts will be implemented on the basis of sustainability (Malaysia, 1993). The new NAP introduced a number of significant shifts in policy stand. First, unlike in the 1970s and 1980s, the private sector was assigned again to provide the impetus for growth in the agriculture to compete with the manufacturing sector for resources particularly land and labour. Secondly, in view of the limited

agricultural land in the Peninsular Malaysia, land development schemes will be limited to Sabah and Sarawak states. Thirdly, food sector is given a special emphasis, beyond self-sufficiency objective stipulated throughout the 1960s and 1970s. The policy emphasis for food sector is towards creating a dynamic industry capable of both substituting imports and exploiting the export market potentials. Fourthly, downstream activities will be encouraged to increase the linkages between the agriculture and manufacturing sector. Lastly, a more dynamic and competitive marketing and exporting strategies will be adopted in response to the liberalisation of the world trade in the next century.

### Public Sector Allocation

Given the government's accent on poverty eradication it follows that the development of the agricultural and rural sector has consistently been accorded high priority in the national plans. Table 6 provides the development allocation and estimated expenditure of the Federal Government by sector for Fifth, Sixth and Fourth Malaysia Plan. Economic and social programmes accounted for a major share of development expenditure followed by security and administrative programmes. For instance, under the Fifth Malaysia Plan these sectors accounted about 65% and a quarter of the total allocation respectively. Under the Sixth Malaysia Plan, while the share of social development remain unchanged, the share for economic sector has been reduced to about half of the allocation. Nevertheless in terms of absolute value allocation for both sectors have increased. Under the Seventh Malaysia Plan, the share for the economic sector is expected to remain at about half of the allocation while the share for the social programmes is expected to increase to almost 30%. In the economic sector, agriculture and rural development sub-sector accounted about RM7.3 mn or 21% of the total expenditure under the Fifth Malaysia Plan. However the expenditure for this sub-sector under the Sixth Malaysia Plan has reduced both in terms of value and percentage, ie, reduced to RM6.3 mn and 12% respectively. This trend is expected to continue under the Seventh Malaysia Plan. In the agriculture and rural development sub-sector, the expenditure was mainly on land development, replanting, rehabilitation and the provision of infrastructure, drainage and irrigation as well as support services such as credit, marketing, research, extension and incentives for the commercialisation of agriculture (Table 7). The distribution of the expenditure under the Seventh Malaysia Plan shows a different emphasis compares to the earlier period. For instance, new land development will be de-emphasized and more allocation is given towards *in-situ* development. Support services will continue to receive a fair share of the allocation to facilitate agricultural development. Similarly, forestry and fisheries programmes will be provided with higher allocation.

Table 6: Federal Government Development Allocation and Expenditure by Sector 1986-2000 (RM mn)

Sector	5MP (1986-1990)			Federal Government			7MP (1996-2000)	
	Revised Allocation	Expenditure	(%)	Revised Allocation	Expenditure	%	Allocation	%
1. Economic	24048	22886	64.8	29,875	27,712	50.6	33,706	50.0
Agriculture & Rural Development	7427	7325	20.8	6,685	6,344	11.6	5,460	8.1
Mineral Resources Development	43	43	0.1	55	50	0.1	47	0.1
Commerce & Industry	3981	3981	11.3	5034	4047	7.4	5864	8.7
Transport	7393	6823	19.3	12,749	12270	22.4	15762	23.3

Communication	815	792	2.2	76	70	0.1	58	0.1
Energy	947	918	2.6	872	829	1.5	1058	1.6
Water Resources	2954	2667	7.6	3641	3433	6.3	4030	6.0
Feasibility Study	74	52	0.1	130	99	0.2	223	0.3
Research and Development	414	285	0.8	633	570	1.0	1204	1.8
II. Social	9046	8764	24.8	14,780	17,555	24.8	19,803	29.3
Education and Training	5812	5700	16.1	7,760	7345	13.4	10,210	15.1
Health & Population	981	931	2.6	2,519	2387	4.4	2,658	3.9
Information & Broadcasting	33	20	0.1	110	108	0.2	238	0.4
Housing	1452	1452	4.1	2056	1825	3.3	2875	4.3
Culture Youth & Sports	171	131	0.4	502	451	0.8	946	1.4
Local Town Council Welf. Servs	319	91	0.8	961	701	1.3	1550	2.3
Village & Community Development	275	237	0.7	633	543	1.0	1236	1.8
Purchase of Land	3	2	0.0	239	225	0.4	90	0.1
III. Security	2955	2527	7.2	11,139	10987	20.1	9188	13.6
Defence Services	1858	1497	4.2	9,258	9258	16.9	7000	10.4
Internal Security	1097	1030	2.9	1,881	1729	3.2	2188	3.2
IV. Administration	1241	1123	3.2	2,706	2451	4.5	4803	7.1
General Services	1045	944	2.7	2605	2352	4.3	4623	6.8
Upgrading and Renovation	196	179	0.5	101	99	0.2	180	0.3
Total	3720	35300	100.0	58500	54,705	100.0	67500	100.0

Source: Malaysia Plan, various years

Note: 1 include housing loan programme for the public sector employee

## Rural Development Strategies and Programmes

The persistence of rural poverty in the country implies that agricultural development alone could not be relied on to significantly reduce rural poverty. Strategies of rural industrialization, rural outmigration, creation of non-farm employment, population control programme, community development and rural urbanization, form the non-agricultural components of rural development policy. Together with the provision of infrastructure, basic needs and welfare programmes are provided to improve the quality of life and well-being of the rural population and to bring about greater integration between the rural sector and the national economy. This section reviews the major strategies that have been implemented to develop the rural sectors namely: agrarian reform, integrated rural development, rural industrialisation, and rural growth centres.

### Agrarian Reform

Among the above mentioned policy strategies, one key strategy that was responsible in transforming the rural sector in Malaysia was agrarian reform. It was viewed as a means of bringing structural and institutional changes in the agricultural sector, and fostering the greater equity in agricultural and rural development. The reform determines the size distribution of holdings and alters the institutional structure governing man's relationship with land. While land reform may be a necessary condition for agricultural and rural development, it is not a sufficient condition, as its strategy affects only one of the factors of production, namely land (World Bank, 1975). The strategy of agrarian reform affects a wider range of inputs and institutions and aims at the transformation of rural life and activities in all their economic, social, cultural, institutional, environmental and human aspects (FAO, 1978). The major agrarian reform implemented in Malaysia were land development and settlement and *in situ* development.

#### *Land Development and Settlement*

The primary objective of the settlement strategy is to provide land to landless or marginal farmers, and at the same time to provide more gainful employment and better incomes. These settlements or schemes are normally managed by a semi-autonomous land development authority which plans, designs, coordinates and implements the schemes which involve land clearing, provision of infrastructure, services and housing, selecting the settlers and assists the settlers in the production, marketing and processing of the crop.

Land development by various federal, state and joint venture programmes are undertaken to modernize the agricultural sector, eradicate poverty and to overcome the unemployment problems. Suitable agricultural land are opened up into economic-size lots of between 8-10 acres for distribution to potential landless or marginal farmers.

Table 8 shows the progress in new land development under various programmes between 1965-1995. Up to 1995, more than 1.9 mn ha of land were developed under various programmes. Land developed by federal agencies, especially Federal Land Development Authority (FELDA) form the bulk (45%) of land development programmes. The area developed increased from 418,608 ha between 1965-70 to 866,058 ha between 1971-80, but declined to 417,570 ha between 1981-85, reflecting the constrains in land availability and escalating costs of development. Between 1991-95, FELDA only developed 14,930 ha of land in Sabah, reflecting a shift in operation to land abundant regions. Since 1991, joint venture between government agencies and private sector, mostly in Regional Development Authority (RDA) areas formed the bulk of new land development schemes.

### ***In Situ* Development**

*In situ* development involves replanting, rehabilitating and consolidating activities on existing agricultural areas that are faced with problems of poverty and low productivity. The government agencies that are mainly involved in the replanting programme are the Rubber Industry Smallholders Development Authority (RISDA), Sabah Rubber Fund Board (SRFB) and Departments of Agriculture, Sabah and Sarawak. As shown in Table 9, between 1991-95, a total of 305,420 ha of land was replanted. RISDA replanted 204,870 ha of land, benefiting 118,900 rubber smallholders.

Table 7: Development Allocation for Agriculture and Rural Development Programmes, 1986-2000 (RM mn)

	5MP		6MP	7MP
	Allocation	Expenditure	Allocation	Allocation
In-situ Development	2739.3	2693.2	4117.3	1736.0 <sup>2/</sup>
Integrated Agricultural Development Projects	1030.6	1021.8	1439.4	-
Drainage and Irrigation	202.3	200.3	463.3	1,500 <sup>3/</sup>
Rural Flood Mitigation and Coastal Protection	82.6	77.2	347.3	-
Replanting	595.8	581.2	905.0	-
Rehabilitation	828.0	812.7	962.3	-

Land and Regional Development	2801.4	2774.6	2383.3	-
New Land Development	2129.7	2117.5	1315.5	590.0
Regional Development	671.7	657.1	1064.5	1054.2
Forestry	125.2	120.8	198.6	171.8
Fishery	270.1	264.4	375.8	609.7
Livestock	139.8	130.9	271.1	242.0
Support Services	1028.8	1011.8	1081.2	1221.3 <sup>4/</sup>
Input Subsidies for Padi	396.8	396.8	398.0	-
Agricultural Credit				
Processing and Marketing	597.5	586.1	540.9	-
Extension and Other services	34.4	28.9	142.1	-
Other Programmes of MOA	325.5	329.3	591.9	441.3
Total	7427.0	7325.0	7325.0 <sup>1/</sup>	7566.3

Source: Sixth Malaysia Plan 1991-1995

Note: 1/ Allocation for R&D will be catered under a separate fund of \$600 million of which the Agriculture Sector is allocated a sum of \$273.8 million.

2/ Includes IADPs, Replanting; and Land Consolidation and Rehabilitation.

3/ Include rural flood mitigation and coastal protection.

4/ Include Input Subsidies for Padi, agricultural credit, R & D processing, marketing, extension and other services

Land consolidation is aimed at consolidating and enlarging fragmented and uneconomic holdings. In Malaysia, the problems of uneconomic and fragmented holdings have long been recognized as the major structural factors contributing to low incomes and low productivity among farmers. Traditionally, the role of land consolidation and rehabilitation in Malaysia, except for the state of Sarawak, has been entrusted to the Federal Land Consolidation and Rehabilitation Authority (FELCRA), except for rice land which is handled by the Ministry of Agriculture (MOA). For Sarawak, the land consolidation and rehabilitation programme is conducted by the Sarawak Land Consolidation and Rehabilitation Authority (SALCRA).

Table 8: Malaysia: New Land Development, Various Years  
(ha)

Agency	Hectarage				
	1965-70 <sup>1</sup>	1971-80	1981-85	1986-90 <sup>2</sup>	1991-95
Federal Programmes					
FELDA <sup>3</sup>	-	373,705	161,600	105,139	14,930
FELCRA <sup>4</sup>	-	50,710	31,100	-	-
RISDA <sup>5</sup>	-	31,463	9,770	-	-
State Programmes <sup>6</sup>		155,662	158,000	21,227	27,240
Joint Venture /Private Sectors <sup>7</sup>		120,047	57,100	6,626	151,050
Total	418,608	866,058	417,570	132,992	193,220

Sources : Malaysia Plans, various issues

Note : During 1965-70, land development under various development programmes totalled 418,608 hectares. There was no breakdown according to agencies and programmes (see Second Malaysia Plan, p.125-126).

1. Since 1986 FELDA became the major land development agency. FELCRA and RISDA concentrated on rehabilitating existing idle land and mini-estate.
2. Federal Land Development Authority
3. Federal Land Consolidation and Rehabilitation Authority
4. Rubber Industry Smallholder Development Authority
5. Land Development by State Agricultural Development Corporation
6. Land Development under Regional Development Authority

FELCRA's task were mainly (i) the rehabilitation of unsuccessful state-managed schemes, (ii) the consolidation of unused government land fringing villages for the purpose of providing additional land to small farmers so as to enable them to possess economic size land holdings, (iii) youth land development programme to develop unused marginal government land to provide land to unemployed rural youths and (iv) in situ development project. SALCRA has similar task as that of FELCRA.

Between 1991-95, a total of 48,310 ha of land under the land consolidation and rehabilitation programme was developed for various crops. FELCRA developed 24,490 ha. SALCRA rehabilitated 14,270 ha of land for oil palm cultivation, while MOA rehabilitated 5,250 ha, particularly rice land.

For paddy sector, a common form of rehabilitation is through group farming approach, popularly known as the Padi (rice) Mini Estate (PME). Conceptually, the PME refers to the cultivation of rice under a single management, involving the amalgamation of rice land under one large unit, managed by government agency, cooperative, individual or a private sector concern. Under the group farming approach, all participants will jointly own the scheme, share all costs and benefits according to their share of land in the scheme. In addition, participants may work on the scheme as farm labourers to earn wages.

## **Integrated Rural Development**

The persistence of poverty in the rural sector prompted questions and appraisal regarding the effectiveness of past rural development in reducing rural poverty. It was felt that past rural development strategies, including agrarian reform measures, although these were technically sound, were unfocused and lacked the integrative nature of a more comprehensive strategy. To ensure an effective result, a more integrated approach to rural development was needed. In 1971 the FAO popularised the strategy of integrated rural development (IRD) which later gained popular support from lending and donor agencies (FAO, 1978).

Table 9: Replanting, Land Consolidation and Rehabilitation Programmes, 1971-95  
(ha)

Programme/Agency	1971-5	1976-80	1981-5	1986-90	1991-5
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REPLANTING	182 500	120 400	148 330	170 152	305 420
Rubber Industry Smallholders Development Authority	34 500	21 500	131 800	140 000	204 870
Federal Land Development Authority				23 049	43 280
South Kelantan Development Authority					5 600
Sabah Rubber Fund Board			6 700	3 500	3 320
Sabah Land Development Authority					3 040
Department of Agriculture, Sabah					590
Department of Agriculture, Sarawak			3 480		27 450
Malaysian Pineapple Board	6 000		3 150	3 603	4 450
Sarawak Land Development Board					920
State Economic Development Corporation					11 900
Coconut Replanting & Rehabilitation Project	52 400		3 200		
LAND CONSOLIDATION & REHABILITATION		71 100	71 720	151 102	48 310
Federal Land Consolidation and Rehabilitation Authority			59 110	117 800	24 490
South Kelantan Development Authority					1 800
Sarawak Land Consolidation and Rehabilitation Authority		4 500	3 220	9 850	14 270
Ministry of Agriculture				13 452	5 250
Department of Agriculture, Sarawak			9 390	10 000	
Department of Agriculture, Sabah					2 000
Rural Development Corporation, Sabah/Joint Ventures					500
Coconut Replanting & Rehabilitation Project		35 300			
Kelantan State Land Development Project		31 300			

Source: Malaysia Plans, various issues.

Such a strategy of area development along with the provision of basic inputs and infrastructure for resource development and the support of a well-structured rural institutions are the necessary components of IRD. The ultimate objective of the comprehensive IRD strategy is to transform rural society through collective self-reliance.

The strategy of area development was justified on the basis that focusing IRD projects on selected or targeted areas would produce quicker and greater impact compared to an unfocused and diluted approach. This is particularly important in situations of scarce resources and manpower. By concentrating on selected areas or localities, it will facilitate intensive planning and implementation that will help identify and solve the rural problems, integrate basic components of IRD and link micro-level village planning with macro target-setting and planning.

From a concept of area development, IRD may be expanded as a regional development strategy. This strategy normally includes natural resources or land development programme, basic economic infrastructure and social amenities, the provision of agriculture support services like credit, marketing, research, extension, farm inputs and the development of the non-agriculture rural component like rural industries, rural public works and community development projects. A typical IRD will consist of rural development projects with an agricultural component, known as the Integrated Agricultural Development Projects (IADPs), and with a non-agricultural component.

In Malaysia the IRD approach was originally considered as a rural development strategy in the early 1970's. The concept of area development

(Mohamad, 1972) which was to become the basis for regional and integrated agricultural development programme emphasised a two-pronged attack on rural and agricultural development. The first prong called for an integrated and concerted effort of rapid rural and agricultural development to meet the needs of areas or regions that were ready for take-off. The second prong called for a continuous programme directed towards preparing other areas or regions for accelerated rural and agricultural development.

Area development is considered as one of the strategies identified by the New Economic Policy (NEP) to reduce poverty and to structure of society. The strategy was aimed at:

- i. encouraging the modernising of the rural sector through modern techniques of production;
- ii. providing agricultural support services such as extension, credit and improved marketing arrangements; and
- iii. modernizing the rural sector through direct and indirect participation of the farming community in the establishment and running of rural industries and commercial enterprises and the expansion of urban services.

In Malaysia, the IADP is designed to revitalise and rehabilitate *in-situ* or existing agricultural areas that are faced with problems of poverty and low productivity. An integrated package of infrastructures, services, inputs and technology are provided and coordinated through institutional development specific to the IADP.

Currently there are 17 Integrated Agricultural development Projects (IADPs), 10 of which have been completed and another seven in various stages of implementation (Table 10). Initially, some IADPs started as large-scale irrigation projects (Muda, Kemubu, Besut, Barat Laut Selangor and Krian/Sg. Manik and Kelantan Utara) which were aimed at increasing rice production to meet the self-sufficiency target. Hence, it is not surprising that most of the IADPs are paddy-based. Other IADPs which are based on mixed crops, the replanting of rubber, coconut, pineapple or rehabilitation through diversification into more profitable crops, such as oil palm and cocoa forms the major programmes. Examples of such IADPs are the Johor Barat, Pahang Barat and Negeri Sembilan Timur.

Relative to new land development, the project costs of IADPs are cheaper, resulting in lower per hectare development costs. The projects costs which range between RM0.23 million for Pulau Pinang and RM646 million for Samarahan are partially funded through foreign loan either from the World Bank or Asian Development Bank.

The IADPs benefited a large number of beneficiaries, amounting to about 514,000 households. The projects cover about 5.13 million hectares, 61 percent of which are agriculture areas.

Out of the 17 IADPs, Muda and Kemubu are statutory authorities which are run on a corporate model and are given powers including planning, promotion and undertaking agricultural, social and economic development in the designated area. In the corporate model, the Authority is the main planning and implementing agency,

with the activities of other agencies coordinated through the office of the General Manager.

The other IADPs are run on a co-ordinative model through the Project Management Unit. The Project Director (from the Ministry of Agriculture) manages and coordinates the planning, implementation and monitoring of projects which are under the jurisdiction of various related agencies. In the presence of a large number of agencies, the issue of effective coordination always presents immense problem. In the case of large IADP such as the Pahang barat (6 administrative districts), decentralisation was undertaken which led to the creation of mini-IADPs to facilitate implementation at the local level.

### **Rural Industrialisation**

Rural industrialisation began to receive major attention and encouragement in Malaysia in the early 1970s. This was seen to comprise four integral components; namely,

- i. primary processing of agricultural raw materials for export, for example, rubber milling, palm oil milling and cocoa bean production;
- ii. traditional activities which may loosely be described as handicrafts with such products as batik, basketry, pottery, silverware and woodcarvings, produced by small, home-based enterprise;
- iii. small-scale production of consumer goods for local markets, with products such as bread and cakes, fish crackers, clothing, furniture, brick and cement blocks; and
- iv. automotive and electrical repairs, often involving only a working proprietor using informal premises.

With a view of promoting and enhancing rural industrialisation, substantial public sector resources have been earmarked to provide, among others, loans and grants, consultancy and extension services, entrepreneurial development, training, infrastructure facilities and tax benefits (Sixth Malaysia Plan 1991-95). Six main areas of rural non-farm and industrial opportunities have been identified to have strong inter-sectoral linkages; namely, low and medium-technology transfer, subcontracting, resource-based industries, local market-oriented activities, tourism-related activities and traditional manufacturing. Among the programmes which have been promulgated for the Seventh Malaysia Plan included provision of credit through government agencies including the Agricultural Bank of Malaysia (BPM), development of industrial land and premises; provision of training and entrepreneurial development by government agencies; upgrading of technology and promotion of marketing; product and process development; preparation of feasibility studies and development of ancillary industries.

During the Seventh Malaysia Plan, appropriate institutional arrangements and incentives will be provided to facilitate the implementation of a more broad-based programme with greater emphasis on higher employment opportunities and increased productivity. The development of the rural non-farm industry is seen to be an essential component of the strategy necessary to achieve a more balanced growth in the rural areas. Accordingly, the scope of rural industrialisation programmes will be extended beyond cottage and handicraft industries and will not be confined to only villages.

Table 10: Development under IADPs

Projects	Projects Duration	Project cost (RM mn)	Agriculture Area (ha)	Project Area (ha)	Number of Beneficiaries ('000 Households)
MADA I	1965-1970	235.4	97,000	125,987	63
MADA II	1976-1993	223.6	-	-	16
KADA	1967-1974	75.0	54,228	60,438	45
Besut	1971-1979	61.8	10,121	14,200	4
Johor Barat I	1974-1985	233	134,037	148,517	30
Johor Barat II	1986-2003	347	137,294	210,540	35
Kelantan Utara	1976-1984	188	307,600	307,600	108
Barat Laut Selangor	1978-1990	318.87	82,044	100,194	19
Krian/Sungai Manik	1979-1985	336.37	30,600	30,600	19
Endau-Rompin	1981-1986	182.00	47,343	47,343	
Negeri Sembilan	1981-1987	106.85	166,392	513,300	19
Kemasin Semerak	1982-1991	172.91	46,560	68,380	22
Melaka	1982-1988	82.79	127,223	93,117	10
Lembah Kedah	1983-1988	323.50	335,500	840,000	33
Perlis	1983-1992	190.00	32,907	47,045	10
Pulau Pinang	1983-1998	0.233	77,619	102,950	51
Pahang Barat	1983-1991	115.70	1,224,600	2,270,000	8
Kalakas Saribas	1986-1992	135.30	161,000	61,000	9
Samarahan	1986-1992	646.18	57,037	86,170	10
Total			3,129,105	5,127,081	514

Sources: Malaysia Plan, various issues.

Table 11 shows the allocations for industrial development for the Sixth Malaysia Plan. These would in most case incorporate budget allocations directed at rural industrialisation and rural industries. It may be seen that the allocation for rural industries has been increased, from RM 77.4 in the Fifth Malaysia Plan 1986-1990 to RM 162.3 in the Sixth Malaysia Plan 1991-95.

Table 11: Development Allocations for Industrial Development, 1991-1995 (RM mn)

	Programme	
	1986-90	1991-95
Industrial estate development	127.7	291.4
Development of infrastructure	n.a	491.3
Rural infrastructure	77.4	162.3
Training and consultancy	28.1	341.7
Heavy industries	2553.6	1497.3
Commercial development	25.0	235.0

Sources : Sixth and Seventh Malaysia Plans

In the context of the Second Outline Perspective Plan 1991-2000 (OPP2), the development of rural industries will continue to be an important vehicle towards increasing the living standard of the rural population. Their development will also provide opportunities for entrepreneurial resources of the Bumiputera community to interface with the modern manufacturing sector. Toward this end, the OPP2 has identified a number of approaches to support rural industrial development including marketing, infrastructure and financial programmes aimed at restructuring the rural industries and improving productivity, technology, product and management capabilities of the rural industries.

### **Rural Growth Centres**

The rural growth centres (RGCs) involve the clustering of traditional villages, encompassing the main village or a cluster of villages to function as a single economic unit. The RGC shall be provided with the necessary facilities and infrastructure such as school, shops, markets, clinics, prayer halls, civic centres, water, electricity and other amenities. The objectives of the RGCs are as follows:

- i. to eradicate poverty;
- ii. to ensure a balanced development between urban and rural areas;
- iii. to improve the equality of life of the rural population; and
- iv. to establish and strengthen the rural urban linkages between the rural hinterland and the neighbouring towns;

The RGCs involve the diversification of the rural economy based on the development of agro-based small scale industries and non-agricultural activities and services. These are aimed at enhancing the urban environment and infrastructure for a more effective linkages with the mainstream economic activities.

The strategy of RGCs through rural urbanisation and agricultural commercialisation and modernisation are expected to provide the impetus for the growth of the rural areas. Rural urbanisation could either come about through the location of industries in the rural areas, or resource-based industrialisation, building upon strong and effective linkages between the rural and industrial sectors through employment, consumption, supply of inputs and raw materials, sub-contracting, marketing, transportation and other ancillary services.

### **Conclusion**

Rural development has been the core focus of the government policy, strategy and programmes after Independence through the 1990s with a lesser emphasis in the next century. The rural sector was strategic to the country's economic growth, social and political development. The sector was crucial in providing the agricultural labour and output to the country; while the high incidence of poverty that characterised the sector posed a major threat to the social and political stability of the nation. The multifaceted significance of this sector provides the underlying rationales for all the Malaysian development and economic policies since 1960s.

Since the rural economy is agriculture-based, agricultural policy has been the major instrument that brought improvement to the rural life and welfare. Before 1984, that is the year National Agricultural Policy was implemented, agricultural and rural policies were embedded in the economic policy. In the early post independence period, agricultural and rural development programmes failed to spearhead the agricultural sector which was the backbone of the economy then. It was in the 1970s, under the First Outline Perspective Plan that the sector began its active contribution to the economy as a result of heavy government commitment to the sector. In fact it can be said that the sector not only provide the engine for economic growth of the country and but also laid the foundation for the country's drive towards industrialisation in the 1990s. The share of agricultural sector in the country's GDP has declined from its peak at 30% in the 1970s to about 14% in the 1990s. The reduction of agricultural sector contribution to the economy is seen as an indicator of a country's progress from an agriculture-based to an export-oriented economy. Although the contribution of agriculture to the country's economy is declining but its absolute value is expected to increase and its economic and socio-political significance in terms of export earning, employment and food security will remain strong.

The success of the agricultural and rural programmes in Malaysia is reflected in the reduction in the poverty incidence in the rural sector from almost 60% in the 1970s to about 15% in 1995. Agrarian reform was the major strategy that was instrumental in transforming the rural sector from a poverty-stricken farming community to a commercial-oriented sector. It was responsible in bringing structural and institutional changes in the sector, besides fostering greater equity in the rural and agricultural development. The agrarian reform measures implemented were tenancy reform, land development and settlement, land consolidation and *in-situ* development. Besides these agrarian transformation, the country also has implemented other programmes to complement the agricultural development like rural industrialisation and ensured a fully integrated development projects are being carried out and other institutional support and services. However, despite various policies and programmes to improve the life in the rural sector, poverty and income inequality still remain grave concerns when the economic being of this sector is compared to the non-agricultural or non-rural sectors. It cannot be denied that some progress have been achieved in poverty reduction along with improvements in socio-economic indicators such as life expectancy, mortality rates, literacy rate, proportion of population supplied with safe drinking water and electricity and nutritional adequacy. But the fact remains that there exists a disparity of income between and within the sectors and poverty incidence is still high and serious in some sectors and region. Hence, rural development is still an important agenda to the country's future development plan.

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