

CHAPTER II

DEVELOPMENT OF INDUSTRIES AND THE FIVE-YEAR PLANS

First Five-Year Plan

The real starting point of industrialisation in Malaya in which a definite programme was prepared for it could be found in the development plans of 1956-60 and the present Second Five-Year Plan.

The First Five-Year Plan for the Federation of Malaya, was adopted in October, 1956, for the period ending 31st December, 1960. The significance placed on the development of industry is reflected in the amount of allocation of public investment in this sector. Out of a total public investment of \$1,007 million only \$12.1 million was directly allocated to industry which is only 1.2% of the total public expenditure. And of this \$12.1 million \$11.1 million went to site development. This amount spent on industry is like a tiny drop of water dripping on the pleasant land. However, the indirect effects of the public expenditure on industry in the following sectors: transport, communications, utilities and the social services are important as they contribute to the preparation of the economic environment for the development of industries. The amount of \$635.5 million spent in these four sectors is about 65.4% of the total expenditure.

The growth of industry in this period when: "Measured in terms of horse power, the number of machines and other installations in manufacturing establishments more than doubled between 1955 and 1959."¹ It was further estimated that gross fixed investment in manufacturing amounted to \$85 million or about 14 per cent of total private investment.

The preparation of the Petaling Jaya industrial estate with developed industrial sites having access to such basic utilities as; roads, water, electricity and telecommunications proved to be a great influence in attracting industrial investment. More than 150 factory

¹See Federation of Malaya, Second Five-Year Plan 1961-1965, Government Printer, K.L., 1961, p.3

lots were sold and about 80 factories started production.²

Another feature during the Five-Year Plan was the passing of the Pioneer Industries (Relief from Income Tax) Ordinance, 1958. This ordinance provided substantial tax incentives. Profits of enterprises which qualify as "pioneer" industries are exempted from income tax ranging from a period of two to five years depending on the amount of capital investment made. In the period concerned, 55 firms with a called-up capital of about \$28 million and producing 232 products had been awarded pioneer status. About 35 of these units started production before the end of the First Plan period.

The total number of workers employed in the manufacturing sector was roughly estimated at 145,000 in 1960 compared with about 133,000 in 1955 or an increase of about 9 per cent during the Plan period. Figures for the total manufacturing output were not available, but it was estimated that the increase was about 20 per cent to 25 per cent. The rate of growth for biscuits, soft drinks, cement, wood-working and light engineering industries were the most rapid.

Second Five-Year Plan 1961-1965

The Second Five-Year Plan recognises the major economic problems which it has to face. These are mainly centred round the problems of population and the 'lopsided' economic growth of Malaya.

Firstly, the population is expected to increase by more than a million persons during the Second Plan period. There is an estimated number of 340,000 new entrants to the labour force. The rate of population growth is at more than 3 per cent a year.

There is a further problem of the rural population which have over 60 per cent living in depressed situation and land hunger. Under employment and unemployment is widespread.

Secondly, there is the "over-specialization and an excessive dependence of the economy on a single product-rubber."³ Rubber accounts for over 25 per cent of the national income, nearly 30 per cent of employment, and about 60 per cent of exports. It is extremely sensitive to price fluctuations and to the technological development of synthetic rubber.

²Ibid., p.4.

³Ibid., p.15.

The broad objectives of the Plan are laid down to tackle the above problems:

- (1) The rural population is to be provided with facilities and opportunities to improve its levels of economic and social well being.
- (2) The increase of the country's population of working age by about 15 per cent during the Plan period is to be provided with employment.
- (3) The per-capita output of the economy is to be raised and the per-capita living standards is to be protected against the adverse effects of a possible decline in rubber prices.
- (4) The diversification of the Malayan economy in agriculture and industrial expansion is to be encouraged.
- (5) The social amenities such as education, public health and housing are to be improved and expanded.

It is to be noted that industrial expansion in the long-term "offers perhaps the greatest promise for sustained development and diversification of the Federation economy."⁴

To achieve these objectives related to industrialisation the allocation of public investment planned for the industry sector will be examined. The amount is more than twice the amount actually spent in the First Plan but not even twice the amount planned for during the same period. Out of a total plan target of \$2,150 million, only \$27 million is to be allocated to industry as compared with the plan target of \$15.8 million in the First Plan. This amount of \$27 million is about 1.3 per cent of the total planned public investment which is equivalent to the percentage actually spent in the First Plan. From this figure, it will seem very incongruous to expect industrial expansion to offer very great promises when the big drive is not in industry at all. It is very interesting to note that Wheelwright says that "industry is really treated as a Cinderella"⁵ in the plan. Even then more than one third of the \$27 million goes to rural industry. A figure of \$7.5 million in contrast to

⁴Ibid., p.16.

⁵See E.L. Wheelwright, "Reflections on Some Problems of Industrial Development in Malaya", Malayan Economic Review, Vol. VIII, No.1, April 1963, p.67.

the First Plan target of \$14 million is directed to site development. There is no doubt that public expenditure on industrial development has a very low priority in the plan.

To offset this pessimistic picture of the little direct aid given to industry, \$1,327.9 million or 63.5 per cent as compared with 65.4 per cent in the First Plan is allocated to the four sectors: transport, communications, utilities and the social services. But of course these are general aids rather than specific ones. They do not only serve industry alone but many others as well.

The views and attitudes of the government towards industrialisation are helpful in explaining the steps taken to encourage industry. It recognises that the role of manufacturing is still a small one. It is very impressed about the results of recent additions to the country's manufacturing capacity in the First Plan. And has already been noted it places a lot of hopes on the manufacturing sector to stabilise and sustain the economy in the long-run. As stated in the Five-Year Plan, the policy of the Government is to rely on private initiative for this development, but at the same time to encourage the growth of private industry through every reasonable means of assistance, consistent with the general interest.

The Government thinks that the basic contribution to industrial growth is through the preservation of a sound and stable monetary and financial climate in which free enterprise can operate within this freedom from restrictions, controls and uncertainties. More specific assistance and encouragement will come in the form of providing credit through its participation in the Malayan Industrial Development Finance, Ltd. The success of the Petaling Jaya industrial estate will be followed up with more industrial estates in Penang, Perak, Selangor and Johore. These industrial estates will be located in the most equitable regional distribution. The tax relief ranging from two to five years provided by the Pioneer Industries (Relief from Income Tax) Ordinance, 1958 will be continued. In addition to this duty exemption on the required raw material imports of an industrial venture will be considered and given if justified. Tariff protection will be used as a temporary means of assistance to "infant industries" in cases where there is every prospect that they will be able to compete equally with others by the end of the protected period. Already in existence are protective duties imposed recently on sulphuric acid, tyres and tubes, pesticides, hard soap, aluminium household utensils and other articles.

In the Second Plan period, no greater acceleration in industrial growth is expected but rather the same expansion as in the First Plan period. However, it is expected

that the level of industrial output during 1961-1965 to be 50 per cent to 75 per cent larger than in the last five years. Industrial employment might not be able to increase proportionately as much as before because of more capital-intensive methods of production. However, an increase of about 20 per cent, or about 30,000 additional industrial workers are expected.

The pattern of allocation for industrial promotion is given below:

	\$ Million
(1) Industrial Estates	7.5
(2) Institute of Industrial Technology and Industrial Productivity Centre	1.8
(3) Malayan Industrial Develop- ment Finance Ltd.	2.5
(4) Pineapple Canning Industry	5.0
(5) Rural and Industrial Develop- ment Authority	<u>10.0</u>
Total:	<u>26.8</u>

Although the figures for the Second Plan as a whole is of greater magnitude than the First Plan; yet proportionately the public expenditure in industry and also of the four sectors with which we are concerned: transport, communications, utilities and the social services is about the same.

Interim Review of the Second Five-Year Plan

The Interim Review of the Second Five-Year Plan⁶ in December 1963 has somewhat altered the picture. Revisions have raised the original Second Plan target of \$2,150 million to \$2,930 million and it is expected that the actual outlays may reach \$2,800 million. In this revised targets, an outlay of \$59.6 million will go into industry. This is about 2.3 per cent of the total expenditure. Percentage-wise, the total expenditure of the revised figures for the four sectors remain about the same. The only huge change in the pattern of allocation in the industry sector is that

⁶See Malaysia, Interim Review of Development in Malaya under the Second Five-Year Plan, Government Printer, K.L., 1963, pp. 22-23.

of a loan of \$37.5 million to the Malayan Industrial Finance Ltd. The original aid that was planned was only \$2.5 million. The rest of the items in the industry sector with only a very little increase remain approximately the same.

Private investment in the manufacturing sector can be seen from the two tables below. From table 1 which shows the value of goods produced in selected manufacturing industries classified and grouped together in 12 major groups for the year 1959-1961; two-thirds of the classified industries show a rising trend in the net value of output. The remaining one-third shows a slight fall in the year 1961; though it was increasing the net value of output from 1959-1960. The four groups thus affected were:

- (1) Processing of rubber and coconut oil in factories off estates.
- (2) Food manufacturing industries.
- (3) Beverage manufacturing industries.
- (4) Wood products manufacturing industries.

From table 2 which indicates production in terms of physical units of selected manufactured goods for the years 1955, 1960-1962; we may say that as a whole production is on the upward trend. Aerated waters is on the downward trend from 1960-1962. If we take the ten major group of products, the only exception in output growth is aerated waters. Manufacturing output is therefore rising, although it is still a small factor in the Malayan economy.

At the end of the First Plan 1960, there were established 55 pioneer companies with a called-up capital of about \$28 million since the Pioneer Industries (Relief from Income Tax) Ordinance came into effect in 1958. This took place in a period of 2 years. Though for the next two years the number of pioneer companies has not been able to match that of the first two years yet substantial growth took place. The rate of growth in the pioneer companies can be seen in the figures below:

TABLE 1

NEW VALUE OF OUTPUT OF SELECTED MANUFACTURING
INDUSTRIES, FEDERATION OF MALAYA, 1959-61

(in thousand)

	1959	1960	1961
Processing of rubber and coconut oil in factories off estates	43,730	47,542	43,255
Food manufacturing industries	16,139	21,729	21,150
Beverage manufacturing industries ..	9,658	11,249	11,145
Tobacco products manufacturing industries	10,624	17,866	22,220
Wood products manufacturing industries	28,207	30,069	35,098
Rubber products manufacturing industries	12,377	14,312	15,265
Chemical products manufacturing industries	15,003	20,004	24,582
Non-metallic minerals products manufacturing industries	5,933	7,643	9,033
Basic metals and metal products manufacturing industries	7,041	8,678	10,709
Machinery manufacturing industries	2,799	3,695	4,245
Transportation equipment manufacturing industries	2,552	3,169	3,572
Other covered industries and establishments	12,451	16,020	21,030
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Total, selected industries	166,594	209,996	221,321

Source: Department of Statistics, Survey of Manufacturing Industries,
Federation of Malaya, 1961. p. 6

TABLE 2

PRODUCTION OF SELECTED MANUFACTURED GOODS,
FEDERATION OF MALAYA, 1955, 1960, 1961 AND 1962

	Unit	1955	1960	1961	1962
1. TOBACCO PRODUCTS:					
(a) Cigarettes & cigars	million pounds	5.0	9.6	11.3	12.6
(b) Other manufactured tobacco	million pounds	2.6	2.2	2.3	2.3
2. COPPER	'000 cwt	237	356	378	384
3. NICKEL	'000 cwt	104	319	340	353
4. AERATED WATERS ..	million gallons	8.4	12.6	12.7	12.5
5. PINEAPPLE PRODUCTS (exports) ..					
	'000 tons	20	33	33	34
6. RUBBER MANUFACTURES:					
(a) Sheeting & matting	sq. million	3.7	4.3	4.9	5.1
(b) Foam rubber mattresses ..	'000 units	n.a.	45	48	56
(c) Other foam rubber	'000 pounds	n.a.	1,032	1,423	1,707
(d) Rubber compounds	million pounds	2.3	3.5	3.6	3.5
(e) Bicycle tubes	'000 pieces	743	1,238	1,822	2,025
(f) Canvas shoes and slippers ..	'000 doz. pairs	918	1,329	1,335	1,393
(g) Rubber soles and heels ..	'000 doz. pairs	19	81	92	72
7. REFINED RUBBER AND SMOKED SHEETS (crepe)					
	'000 tons	64	85	74	77
8. BUILDING MATERIALS:					
(a) Cement	'000 long tons	107	282	326	321
(b) Bricks and tiles	million pieces	n.a.	44	97	110
(c) Spun concrete pipes	'000 feet	n.a.	167	240	279
9. TIN METAL (tin ore refined by smelter)					
	'000 long tons (metal content)	71	76	79	82
10. COCONUT OIL (crude and refined)					
	'000 tons	n.a.	73	87	92

Source: Department of Statistics, Monthly Statistical Bulletin of the States of Malaya, October 1963.

TABLE 3

Pioneer Industries

	December 1960	December 1961	December 1962	June 1963
Number of Pioneer Industries	55	71	87	99
*Called-up Capital (Million \$)	29	54	69	134
Employment at beginning of tax free period	4,430	6,566	8,347	9,539
Employment at end of tax free period	5,357	8,522	11,798	13,319
Rate of growth of Pioneer Industries (1960 as 100) ..	100	129	158	180

*Figures are rounded up.

Source: Quoted from Interim Review of Development in Malaya under the Second Five-Year Plan, p.47.

It can be seen that employment at the beginning of the tax free period has slightly more than doubled in a period of two and a half years. The average increase of employment for 1960-62 was about 2,150 workers per year. The amount of called-up capital for these new firms of \$133.6 million is mainly contributed from overseas which comprise 73 per cent of the total in 1963. Of the 99 approved industries about 70 have started production and employ about 5,000 workers. The latest figures available show that about 105 pioneer certificates have been granted; and of these about 86 companies are in production. There is about half of the establishments in the chemical group, about a quarter in metals and engineering and the rest in food, beverages, tobacco and non-metallic minerals.

Here, it is seen, how the private sector of the economy has responded to the stimulus and encouragement of the government in its industrialisation policy which is primarily devoted to the creation of a suitable investment climate for private enterprise. While public investment is determined by the decision of the Federal government, the State governments and the few other public authorities, private investment is the result of as many individuals as there are in the decision making processes. The decision to start a business enterprise is an illusive thing to pin point. But if the external conditions or environment in which a business thrives can be made as conducive and attractive as possible by public investment and other

measures then "half the battle is won." Of course, there are many vital internal factors which have to be taken into account in a business organisation for its survival.

