

CHAPTER III

ENVIRONMENTAL FRAMEWORK

Political and Legal Situation

Since the birth of Malaysia at 16th September, 1963, quite a few major changes will be taking place in the near future affecting vitally the prospects for industrialisation. Here attention will be limited mainly to Malaya. However, it is important to bear in mind the changing situation which will come into hand as a result of Malaysia, concerning such topics as the common market, tariff and other industrialisation policies.

Industries can only prosper and grow in an environment conducive to their existence and development. This environment may be classified into the political, legal, economic and existing business situations, and the social and cultural background.

Earlier, some of the objectives, attitudes, policies and actions of the government in encouraging and promoting industrialisation in the Five-Year Plans have already been noted. In the words of the Second Five-Year Plan: "For the future, the importance of manufacturing to the Federation's long-run development and economic diversification can hardly be over-emphasized."⁷ Furthermore there are various considerations to be taken into account in the motivation of the government for greater industrialisation. Diversification of the economy through industrialisation to ensure stability of National Income because of price fluctuations in one or two raw export commodities is only one of the reasons. Since Malaya has no control over the prices of its two major exports, rubber and tin, it is very essential that the economy be made more flexible to withstand the booms and slumps of these raw commodities. Naturally, employment and income will also swing up and down following these booms and slumps. To diversify the economy is to ensure stability of both foreign exchange earnings and the national income through a scheme of diversified exports if possible.

Another good stabilising effect is the establishment of industries which permit the economic production of

⁷See, Second Five Year Plan, op., cit. p.19

goods for domestic use which otherwise have to be imported. Such local manufacturing reduces demands on the country's foreign exchange resources.

In addition, industrialisation is needed to absorb the increase of new workers. It is also hoped that industrial growth will provide employment to the unemployed and under employed. In the survey on unemployment and under employment carried out by the Statistics Department, in 1962, it shows that the incidence of unemployment for both males and females in nearly all age groups was highest in the five largest towns.⁸ This means that the drift towards the town over the past 15 years since the Emergency has increased the problem of urban unemployment. The survey reveals that in the five towns concerned, male unemployment was 7.4 per cent, against 4.4 per cent in the rural areas; while female unemployment was 15.9 per cent against 6.1 per cent. Although the incidence of unemployment was higher in urban areas, some 61 per cent of all unemployed men and 62 per cent of all unemployed women lived in rural areas. The largest numbers unemployed in rural areas were of course, simply the consequence of the rural population being two-and-a-half times as large as the urban population. Industrialisation is needed to avoid the threat of large-scale urban unemployment as a result of the influx from the rural areas. It is estimated that unemployment in the whole country may be in the region of half a million. The highest rates of unemployment are among persons 15-19 years old, with persons 20-24 years old next.

Another reason for a greater rate of industrial growth is that local raw products are exported and then re-imported in a manufactured or processed and more expensive form. This according to the Industrial Development Working Party, 1957, "is sufficient in itself to impel attempts to set up similar manufacturing industries within the basic producer country."⁹ Manufacturing usually pays better than the extraction and processing of raw materials.

The consideration of reducing the vulnerability of the supplies being cut off in crises or war may also induce the rate for establishing industries.

Finally, the objectives of industrialisation have associations and overtones of a strong and positive connection between the wealth and standard of living and the extent

⁸See, Federation of Malaya, Report on Employment, Unemployment and Underemployment, 1962, Department of Statistics, K.L., 1962.

⁹Refer to the Report of the Industrial Development Working Party, 1957, Government Printer, K.L. Chapter 1.

of its industrialisation. Manufacturing is associated with "a higher stage of production", "spectacular economic progress" and "rise in levels of living." To countries who have recently gained their political independence, industrialisation promises economic independence.

The attitude of the government towards a greater rate of industrial growth is positive though not actively and indirectly involved in the actual participation of creating new industries. It is hopeful that business entrepreneurs will be attracted to an investment climate made as suitable and as conducive as possible to business enterprises. It expects that the private sector of the economy will respond favourably to the conditions and terms created for industrialisation. The policy of the government is one of preparing the groundwork and environment for business enterprises to grow. For as the Finance Minister in an interview with the Straits Times remarked that: "The essential prerequisite for a sound economy is really a climate which is conducive to investment both in the public and the private sectors."¹⁰ It may therefore be said that the industrial development policy of the government is one largely of a promotional effort geared to the provision of an investment climate favourable to private enterprise.

Among the various aids and stimuli (which will be treated more fully later in Chapter IV) are the provision of industrial estates, an industrial credit institution, tariff protection, double taxation agreement and investment guarantees, industrial training and research facilities. The government has adopted these various programmes to facilitate industrial acceleration:

"In seeking to make each of these individual programmes contribute as much as possible to development, Government seeks to avoid controls or other measures that would discourage new ventures. The Government of Malaysia is committed to private enterprise as the principal form of production. It is our firm policy to maintain an environment in which opportunities increase and private owners are encouraged to produce, to prosper, and to expand their enterprises, for the benefit and prosperity of the whole economy."¹¹

¹⁰Straits Times, April 3rd, 1963.

¹¹Quoted from Interim Review of Development in Malaya under the Second Five-Year Plan, p.50.

One of the various incentives offered to industrialists is that of the Pioneer Industries Ordinance, 1952. The pioneer industry legislation offers a tax-free period ranging from two to five years. If the company's fixed capital investment does not exceed \$100,000 it will be granted two years free from company tax when it is approved as a pioneer industry. The period can be extended to three years if the investment is valued at between \$100,000 and \$250,000 or to five years if it exceeds \$250,000.

There is a legislation which protects local industrialists against dumping by foreign exporters. This is enacted in the Customs (Dumping and Subsidies) Ordinance 1959, which is a comparatively recent enactment. Although Malaya is a member of the General Agreement on Tariffs and Trade, which has some binding influence in the matter of manipulating tariffs and quotas of the member country; yet with this ordinance Malaya can pass duties over and above the normal tariff or even a quota on dumped goods. The object of this ordinance is "to provide for the imposition of anti-dumping and countervailing duties where goods have been dumped in the Federation or are being or have been imported into the Federation under subsidy."¹²

Other legislation connected with business enterprises are the various Ordinances:

- (1) The Companies Ordinances 1940 to 1946
- (2) The Employment Ordinance, 1955
- (3) The Children & Young Persons Ordinance, 1947
- (4) The Weekly Holidays Ordinance, 1950
- (5) The Wages Council Ordinance, 1947
- (6) The Industrial Courts Ordinance, 1948
- (7) The Trades Disputes Ordinance, 1949
- (8) The Trades Unions Ordinance, 1959
- (9) The Employees' Provident Fund Ordinance, 1951
- (10) The Workmen's Compensation Ordinance, 1952
- (11) The Machinery Ordinance, 1953

¹²See Federation of Malaya, Customs (Dumping and Subsidies) Ordinance, 1959, Section 1.

The Companies Ordinances 1946, which is based on the 1929 Companies Act of the United Kingdom require that every business enterprise operating in Malaya must be registered in accordance with its regulations and rules if it is a limited liability corporate business. For small business or a partnership it must be registered under the Registration of Business Ordinance 1956. Very recently a draft called the Companies Bill 1964 was issued for study, criticisms and comments. This Companies Bill after taking into consideration any modification and revision required will form a new Companies Act for Malaysia. It is to replace the existing Companies Ordinance 1946, which being based upon the British Company legislation of 1929 is now completely out-of-date. The Bill is based upon the current English and Australian legislation, which has its guiding principles: "first that the investing public must be given adequate protection and secondly that no undue or unnecessary burden must be placed upon honest business enterprises which are far more numerous than the few notorious and dishonest ones."¹³

Thus, we see that the Companies Bill does not in any way present any difficulty at all to the formation of limited public companies. The subjects dealt with cover the registration or incorporation of the company, the financial structure, the management and administration, the accounts and audit and the winding up of the company.

There is no one comprehensive law which sets out all the conditions under which workers may be employed. Labour legislation is taken care of by the various ordinances dealing with conditions of employment such as the days and hours of work, contracts of service and termination, remuneration, the employment of women and children and other things. These terms of service are mainly covered by the Employment Ordinance.

Other labour legislation is that concerning child labour under the Children and Young Persons Ordinance. No child under eight can be employed in any capacity whatsoever. The minimum age for which a child can be employed in a factory, warehouse or workshop is fourteen.

The Weekly Holidays Ordinance requires every business with certain exceptions to remain closed on the locally appointed day of rest (which may be on Sunday, Friday or any other day in the week) and in addition to close on five specified days a year in addition to the weekly holidays.

¹³Refer to Malaysia, Companies Bill 1964 (Draft)
Government Printer, K.L., 1964, p.iii.

No labourer may be compelled to work for more than six days in any week or for an aggregate of more than forty-eight hours over the same period.

There is no minimum wage legislation in Malaya but wages councils can be established under the Wage Councils Ordinance 1947 to enquire and make recommendations regarding the remuneration and conditions of employment of workers. However, if there is already an adequate machinery to deal with such problems then a Wages Council cannot intervene; a dispute in these circumstances would be referred to an industrial court under the Industrial Courts Ordinance.

The Trade Disputes Ordinance of 1949 sets down the requirements and conditions of initiating a strike, lock-out or picketing. There is no compulsory arbitration in Malaya although there is talk about instituting this.

The Trade Unions Ordinance of 1959 is more of the nature of a charter establishing the formation and registration of a union, its internal administration, its corporative rights and responsibilities, the conduct of its officers and the custody and accounting of union funds. Trade unionism is open to all workers who wish to be members. (In fact no contract of service may include a section limiting the right of the worker to join a trade union or to take part in its activities.¹⁴)

The Employees Provident Fund lays down that in general, any person earning \$400 or less per month is required to contribute to the fund at a specified rate, his employers contributing a similar sum. The rate of contribution is specified in the Ordinance, for example if the employee's salary is \$130 a month, employer and employee each will contribute \$7. However the ordinance does not cover certain types of workers such as domestic servants and certain agricultural workers.

The Workmen's Compensation Ordinance 1952, follows that which formerly existed in Britain. This ordinance provides for compensation when the workers are injured in any industrial accidents or to their dependants if they are killed. It is necessary to report any major accident in the industrial plants. The settlement of disputes arising from claims is investigated by the Commissioners of Workmen's Compensation.

The Machinery Ordinance is a legislation intended to ensure the safety and welfare of the workers. It relates to the construction, installation, operation and inspection

¹⁴Refer to Federation of Malaya, Employment Ordinance, 1955, Part II, Section 8.

of power-driven machines generally. It is responsible for the enforcement of safety, health and welfare regulations of the workers in their industrial surroundings. Such things as ventilation, lighting and other hygienic conditions are looked into.

So far a look at the political and legal situation in which business enterprises are to work in has been examined. The political atmosphere is stable and inviting. The present ruling political party which forms the government has demonstrated, since it came into power in 1956, a willingness to help industries as much as possible. Though we may criticise the defects and shortcomings of its actions yet its spirit and attitude towards industrialisation is beyond reproach. Actions may fall far too short of ideals and objectives. There is an air of confidence and trust in the present political situation. A strong, stable and predictable government is essential for the growth of industries and business enterprises. When there is political uncertainty then entrepreneurs will be frightened away for "neither the domestic nor any potential overseas investor is likely to establish new enterprises where the future cannot be foreseen with any degree of certainty."¹⁵ When the political situation is unstable the government is unlikely to put money into its industrialisation plans because it will be pouring money into defence, the army and other security sectors rather than in industry. In underdeveloped countries, the attitudes and postures of conflicting parties may present an exaggerated form of nationalism which appears highly anti-foreign and anti-capital. Surely in such a position, capital whether foreign or local will go to another place. The protection and guarantees of the government towards business enterprises are very essential for industrialisation. Industry needs a long time to get itself established and if during this period the winds of strife and changes prove to be too inimical then it will fall. Malaya is fortunate in having a sound and dependable investment climate for industries.

Economic and Existing Business Situation

The economic and business situation in which business enterprises operate will be explored here. Industrialists must need look at the many facets of the economy and the existing pattern and progress of business enterprises before they can decide on the feasibility of setting up their own companies.

¹⁵See Dr. Goh Keng Swee "Management in the Developing Society", Malayan Economic Review, Vol. VIII, No.1, April 1963, p.12.

Labour

The labour available for industry can be generally looked at from the population figures by age group at the end of 1961. From table 4 we note generally that the age group ranging from 15-39 comprise 34.9 per cent or 2,524,000 of the total population. It is most likely that new entrants to industry will be from this range (chosen arbitrarily). Table 4 which shows us the total population and age-groups is the first step to provide us a clue to the potential labour force for industry. We also know that about 68,000 new entrants to the labour force will be added yearly during the Second Plan period. The amount of labour which is available can never fall short of demand though the quality and types of labour needed for industry require a closer look.

TABLE 4

MALAYA-POPULATION BY AGE GROUP, END-1961
(thousand)

<u>Age Group</u>	<u>No.</u>	<u>%</u>
0- 4	1,280	17.7
5- 9	1,128	15.6
10-14	890	12.3
15-19	665	9.2
20-29	1,078	14.9
30-39	781	10.8
40-49	622	8.6
50-59	448	6.2
60 & over	<u>340</u>	<u>4.7</u>
	<u>7,232</u>	<u>100.0</u>

Source: Based on the latest Official Census or Population Estimate updated to December 1961.

From table 5 which shows the economically active population of Malaya based on the 1957 Population Census, we note that in terms of employment the manufacturing sector of Malaya shows only 6.4 per cent or 135,700 of the total labour force of 2,126,200. Among the nine groups of economic activities, manufacturing is on the fourth position.

into: The types and quality of labour may be classified

- (1) Managerial
- (2) Secretarial and office staff
- (3) Technical
- (4) Skilled and semi-skilled
- (5) Unskilled

Industrialists need to know the availability of these classes of workers. Any entrepreneur must be able to find the right types of workers.

TABLE 5
ECONOMICALLY ACTIVE POPULATION OF MALAYA, 1957
(thousands)

<u>Major Industry Groups</u>	<u>Number</u>	<u>%</u>
Agriculture, forestry, hunting and fishing	1,244.8	58.5
Mining and quarrying	58.5	2.8
Manufacturing	135.7*	6.4
Building and construction	67.8	3.2
Electricity, gas, water and sanitary services	11.6	0.5
Commerce	195.2	9.2
Transport, storage and communications	74.8	3.5
Services	319.7	15.0
Others	18.1	0.9
Total	2,116.2	100.0

Source: Population Census 1957. (Age 15 and above)

*This number includes a substantial number of workers engaged in handicrafts, rice milling and rubber processing off estates.

The need to get the right calibre of men at the managerial level is a crucial factor in developing industries. In any business enterprise management is needed for obvious reasons to run the operation successfully. In the words of Bryce:

"No matter how good the market prospects, how sound the financial structure, or how outstanding the engineering, every project will ultimately succeed or fail on the strength of its management, for no project can be better than its management in the long run."¹⁶

It has been pointed out that at the management level there is a shortage of trained and experienced men. And it is also added that men of enterprise and managerial talent have mostly gone into trade rather than industry. These observations do have an amount of truth in them if it is seen that about three-quarters of the Pioneer Industries called-up capital is of foreign origin. However this is just a glimpse at the more capital intensive production manufacturing sector. Admittedly, it will take quite some time to create the reservoir of skill and efficient managers for industry. Where companies utilise most of their production by using local materials, then local men who are more knowledgeable in their own environment will be able to fill up managerial posts more effectively. Local managers have proved that they are as good as anyone when given the chances to prove themselves. This can be seen in certain Pioneer industries which have only a few top managers who are of foreign origin.

Malaya is a country which welcomes foreign capital and foreign managerial and technical know-how. The state of the development of industry is such that a professional managerial group has to be built up as soon as possible. This will be made earlier by the substitution of foreign managerial class by Malaysians. As such, programmes for the training and development of a managerial class are encouraged in the industries themselves and by education and business training given by the University of Malaya. Although a large proportion of managers have to be imported at present there is a considerable scope for the building up of a managerial group. The Immigration Law does facilitate the building up of a managerial class in industry by prescribing that the recruitment of a foreign personnel must earn more than \$1,200 per month and unless there is no available Malayan with the required qualification then only will he be allowed to work here.¹⁷

¹⁶See Murray D. Bryce, Industrial Development, McGraw Hill Book Company, New York, 1961, p.158.

¹⁷See Federation of Malaya, Immigration Ordinance, 1950, Section 9.

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¹⁶See Murray D. Bryce, Industrial Development, McGraw Hill Book Company, New York, 1961, p.158.

¹⁷See Federation of Malaya, Immigration Ordinance, 1959, Section 9.

Industries in Malaya which are foreign-owned and controlled are asked to train their own men for managerial posts. Usually their policy is to send their local men overseas where they can be trained and equipped for these duties. There is also the National Productivity Centre in Petaling Jaya which offers courses for senior management personnel in such courses as: general management, production management, management accounting and personnel management. There are other courses to develop executive and supervisory talent amongst managers and the managed. While these courses are held only for people who are already within industry; new entrants to executive levels of industry will come mostly from the graduates of the local university or from foreign universities. There is an average of about 50 specialists in economics turned out every year by the University of Malaya. It does not mean that only this number of graduates in economics will have hopes of taking up a business career; neither will it mean that most of them will find themselves a place in industry. The most that can be said of them is that they offer better raw material for management training. Some of the courses offered in the Economics Department are basic studies in management and business administration. The sources for training management may be summed up by the observation of Professor Leslie Wong of the University of British Columbia:

"Many large organisations operate their own management training centres for their promising executive and in the highly industrialised countries management courses at the middle and higher levels are co-ordinated and offered through universities."¹⁸

Secretarial and office staff which are required to assist in the clerical work of industry are abundant and efficient. Commercial schools are very well attended and they produce typists, stenographers, secretaries, book-keepers, etc.

Technical training and engineering skills at the highest level are taught in the university while that of a middle level are taught in the Technical College at Kuala Lumpur. The Engineering Faculty of the University of Malaya is well recognised for its high standards and reputation. The Technical College while qualifying students for technical grades also provide courses leading to full professional qualifications in engineering, architecture and surveying. The lower level of technical training is provided by technical institutes which are at a secondary level. These prepare

¹⁸Refer to Leslie Wong "Management Symposium" Malayan Economic Review, Vol. VIII No.1, April 1963, p.3.

pupils after the Lower Certificate of Education to become technicians through Diploma courses at the Technical College. Under the Second-Five Year plan the secondary trade schools at Ipoh and Johore Bahru are to be re-organised and a third is to be opened on the east coast. These secondary trade schools prepare nine years of schooling for industrial and vocational crafts.

Furthermore, there is the Central Apprenticeship Scheme which is co-ordinated at a national level. This is a training scheme which allows those who have at least passed six years of primary education to equip themselves in the Engineering Trades, Electrical Trades, Building Trades and Printing Trades. The course is carried out on the job training supplemented by theoretical part-time technical training. Employers who wish to recruit apprentices are notified of pupils by the Central Apprenticeship Board. When an apprentice passes the necessary examinations and tests he receives a Certificate of Proficiency from the Board.

All these institutions prepare potential technical staff for industry. They too will provide the supply of skilled workers necessary for the success of the industrial drive. However there is already a pool of skilled and semi-skilled labour in large urban areas. These workers have been employed in secondary industries and the training and skills have been passed from one to another in their own internal systems. They are a highly mobile group. Much engineering skill and craftsmanship is also to be found in major towns serving the tin and rubber industries. Other sources come from the manufacturing and processing industries, communications and services and the government and quasi-government sources. New industries will have no difficulty in training or obtaining such skills as required. There seems no reason to suppose that the expansion of industries will be retarded for lack of suitable labour.

Malaya testifies of the state of industrial peace by the relatively small number of strikes. Since 1957 down to 1960, the country has lesser and lesser strikes as is revealed by the figures below:

<u>Year</u>	<u>Number of Strikes</u>	<u>Number of Workers involved</u>	<u>Man-days lost</u>
1957	113	14,000	219,000
1958	69	9,500	59,000
1959	39	7,000	38,500
1960	31	4,200	40,750

Source: Official Year Book, 1961, p.186.

These figures are for the whole country and they cover strikes in all sectors of the economy. For the manufacturing sector alone, the figures would be very much smaller.

As a whole, labour should not present any problem at all. In general, the population comprises mainly of a young, virile and adaptable group. Education and training programmes are vigorously pursued. The value of education is highly regarded. Primary education is free and universal. Secondary education is widespread. The number of student at the beginning of 1960 in about 5,000 primary school was about 140,000. Those at the secondary level in the same year with about 386 secondary schools had a student-population of 157,000.

Capital

What is the situation concerning capital and industry in Malaya? Firstly, the capital requirements for manufacturing industries vary from the type of industry concerned. In capital intensive industries more capital to labour would be required and in smaller establishment which are usually of a lesser capital intensive nature, less capital investment to labour would be required. It is estimated that the capital investment per worker is around the region of \$20,000 to \$30,000, that is, to employ one thousand workers in the manufacturing industries would require an investment of around \$20,000,000 to \$30,000,000. In Jamaica, it requires about on the average of \$17,000,000 to employ 1,000 workers in a new industry. Anthony Bottomley has estimated that the capital investment per worker for Rothmans and Tamask Enterprises Ltd. in Singapore were only \$18,000 and \$8,000 respectively.¹⁹ From this picture emerges a conclusion that a tremendous amount of capital will be required in the manufacturing sector if the rate of 6,000 new jobs per year will be filled as anticipated in the Second Year Plan.

Secondly, where will the gigantic amount of capital for investment in industry come from? Much of the supply of capital will come from foreign sources. In fact the Minister of Commerce and Industry, when seconding the motion for the Pioneer Industries Bill said: "The blunt fact remains. The Federation of Malaya needs foreign capital far more than foreign capital needs the Federation of Malaya."²⁰ Local savings because of high productivity and

¹⁹Refer to Anthony Bottomley, "The Role of Foreign Branch Plants in the Industrialisation of Singapore." Malayan Economic Review, Vol.VII No.1, April, 1962, p.35.

²⁰Federation Government Press Statement. Seconding of the Motion for the Pioneer Industries Bill, 1958.

incomes will also provide a substantial amount of capital. Much of this capital has come from the companies whether large or small through ploughing back of profits. The establishment of the Malayan Stock Exchange in Kuala Lumpur has contributed to a greater private participation in share capital. Over-subscription to share issues of new industries shows an increasing evidence that Malaysians are keen and willing to participate in industrial ventures. Although the government does not at the present undertake the direct operation of industries by providing the necessary capital; however it does participate indirectly through the provision of capital by the Malayan Industrial Development Finance Ltd. The MIDFL is an industrial credit institution sponsored by the government, the Exchange Banks, the Colonial Development Corporation, the Commonwealth Development Finance Company, insurance interest in Malaya and the United States. Other lending institutions may also be approached, e.g. those of the United Nations, United States and other countries. From these various sources of both foreign and local origin, capital for fixed assets may be derived.

Capital for working operations and short-term credit may be obtained from the Malayan commercial banks of which there are 24 of them operating with about 162 branches throughout the country. Trade credit and loans may also be provided by the agency houses and other business houses.

Finally, some aspects of the problem of capital supply will be examined. Foreign investment has a wide choice of places to invest and if it is to be attracted to Malaya, various financial inducements and other arrangements have to be made. Foreign private capital will only come if it can expect security, fair treatment and chances of making a sufficient return to their investment. However when it does come, it will help the process of industrialisation by bringing with it technological skill and managerial experience. It will also be "safely assumed that foreign investors will help ease any bottleneck which might occur as a result of the exhaustion of local finance (and perhaps, foreign exchange)."²¹

One of the problems of local capital is that when it is available, it is not always allied with enterprise and technical knowledge. Earlier, it was noted that local capital tend to go into commerce and trade where quicker returns can be made. However the problem of not channelling local capital into industry for one reason or another is partially solved through participation in industrial ventures offered by foreign investors. Thus it could be seen that a solution to a problem observed by Puthuchearry may be found; that though conditions in Malaya are favourable to domestic

saving yet; "The high rate of saving is not turned into a high rate of capital formation."²² This he attributes to the lack of re-investment.

One of the results of the heavy expenditure of the government on social overhead capital is that funds will not be available for industrial development in proportion to its importance. The government's non-interference and non-direct participation in industry attitude may have to change if capital investment in certain vital and essential industries are not made available. This position was stated by the Minister Enche Khir Johari in a review of government industrial policy; "the government will consider participation only in certain projects which are considered too risky or too big for private enterprise or in cases where it is in the national interest that government participation is proved necessary."²³ Meanwhile the government has pursued its policy of making the Malayan environment as favourable as possible to industries.

Natural Resources

What are the available Malayan resources or raw materials which might help industries to utilise them as economically as possible? Malaya is well known for its rubber production on about three and a half million acres. This comprises about two-thirds of the total area under cultivation. But lots of rubber do not make the Federation a natural centre for a really large manufacturing industry for many types of rubber goods. The reason is that rubber forms only a small part of the cost of the entire finished products. There is no saving in transport costs and furthermore other cost factors form the larger part in the production process. In fact only one per cent of all crude rubber is used in the production of rubber goods in Malaya.

The other agricultural products such as rice, coconuts, oil palm, fruits, vegetables, and livestock may offer prospects for the manufacturing of food preparations. Canning and packing industries for these products may be established. This kind of activity will also be suitable for fish products.

The timber resources of Malaya may offer industries the raw materials for plywoods, hardboards, softboards and paper production. It can also furnish the raw materials for furniture-making.

²²See J.J. Puthucheary, Ownership and Control in the Malayan Economy, Eastern University Press Ltd., Singapore, 1960, p.154.

²³Straits Times, June 8th, 1962.

Among the mineral deposits, tin mining is the most important industry. In 1957, the Federation of Malaya gained 32.4 per cent of world production. In 1959, the figure was 27.2 per cent. Tin does not offer much scope for industry; the same reason of cost factors apply for tin as well as rubber. No new significant tin deposits have so far been discovered.

Although there is insufficient production of iron ore and bauxite for heavy industries in steel and aluminium there would seem to be prospects for the setting up of smaller related industries in these fields. The production of steel bars and other constructional steel requirements are at present being produced by the recently built National Iron and Steel Mills Ltd. in Singapore. All of the iron-ore produced in Malaya is exported. In 1959, iron-ore exports were 3¼ million tons. Increased production may be expected from the new iron-ore mine in the Rompin district of Pahang, which is in the course of development. There are no other significant mineral-ores which may help the opening up of other industries.

Malaya is not endowed with the raw materials required for an industrialised economy as found in the Western countries; however this does not mean that Malaya cannot be industrialised with medium-sized and other smaller-sized establishments. Efforts in research may yield substantial prospects for further industrialisation. It might also be pointed out that other countries without great natural resources have succeeded in their industrialisation efforts. However this is only one factor among so many others.

Basic Services

While labour, capital and natural resources form the basic factors of economic production; other basic services are also essential for buttressing economic production. These services fall under transport and communications, electricity, water and power. Under the Second Five-Year Plan the revised targets for transport, communications and utilities form 45.5 per cent of the total public investment. Under the First Five-Year Plan, the actual expenditure on these items was 51.1 per cent of the total expenditure. The importance of these items can be seen from the expenditure allocated in the development plans. Every effort has been made to increase the existing supply of these services which are more than adequate for demand.

The Official Year Book 1961, claims that: "The Federation of Malaya can lay claim to the best system of

communications in the Far East, if not in Asia."²⁴ The facts are that a network of over 7,000 miles of well distributed roads serve all the principal urban and economic centres in the country. These roads are designed and built to international standards. The railway system like the road system covers an extensive area north to south, east and west of the country. Both systems are well connected to the major ports of Penang, Port Swettenham and Singapore. Existing harbour facilities are being improved and expanded with additional deepwater berths, shore installations, storage warehouses, etc.

There are eight aerodromes with regular internal flights. The new international airport at Kuala Lumpur under construction will cater for the requirements of the jet air crafts and the mounting volume of air traffic.

Postal services throughout the country are regular and reliable. In all the larger towns a twice daily house-to-house delivery service is available. In the smaller towns a once daily delivery service is provided. Malaya is provided with an extensive telephone, telegraph, teletype and VHF radio network linking the major urban and trading centres with many overseas countries.

Electricity is the main source of power for industrial purposes in Malaya. The main suppliers of electrical power are the Central Electricity Board, the Perak Hydro-Electric Power Company Ltd., the Kinta Electrical Distribution Company Ltd., Huttenbachs Ltd., and the City Council of George Town in Penang. The Central Electricity Board can also issue licences to private industries wishing to generate their own power.

Potential supply of electrical power is well ensured by the Hydro-Electric Project in the Cameron Highlands which is well under way. By 1963, the first phase has a yield of 75,000 KW and ultimately a total yield of 200,000 KW will be available. It is expected that the prospective power needs of the Federation will double itself between 1960 and 1967. In anticipation of future demand, there are long-term plans to increase the power supply even further with additional hydro-electric schemes. The bulk of this additional power demand will be met by the expansion programmes of the C.E.B. In addition to the Cameron Highlands scheme, the C.E.B. will undertake to build a Thermal Power Station at Johore Bahru. This will provide power for the industries at the Johore Bahru industrial area.

²⁴See Federation of Malaya, Official Year Book 1961, Government Printer, K.L. p. 139.

At present, electricity generated by existing installations is more than adequate to supply consumers. The pattern of consumption of electricity has changed from one of predominance in the tin industry to that of an increasing proportion in commerce and industry. In 1953, the quantity consumed by the tin industry was 68 per cent of the total as compared with 8 per cent for commerce and industry. In 1959, it was 42 per cent compared to 20 per cent respectively. In 1963 it was 47 per cent compared to 29 per cent respectively. Supplies for any normal industrial project can be made available almost immediately in any of the major towns, Kuala Lumpur, Klang, Malacca, Johore Bahru, Penang and Ipoh.

Special tariffs to suit many different purposes are in force. As an illustration, a production plant using a minimum of 10,000 units (Kw/hr) might find the following typical tariff convenient:

	<u>M\$ per unit</u>
First 50,000 units per month	0.08
Each unit in excess of 50,000	0.055

In the Federation, most piped water supplies are the direct responsibility of the State Public Works Departments i.e. the Jabatan Kerja Raya. Most of the larger towns are equipped with a reliable supply of fully treated water. A constant check of public-supplied water by sampling ensures that there will be no water-borne diseases or chemical over-treatment. As in the case of electric power, water is sufficient and dependable for industrial purposes. Charges for treated water for industrial purposes vary in different parts of the country, ranging from \$1.00 - \$2.00 per 1,000 gallons.

As far as the basic services are concerned; they are of a high standard and well developed. Expansion and improvement programmes are well carried out. Industries will benefit from the adequate and reliable supply of these services.

Market

It is not only in the factors which make industrial production possible that make an economy suitable for the setting up of industries. Production must find an outlet through the market available, otherwise no revenue will flow in. It would seem obvious that without revenue or profits any business enterprise will have to cease to exist in the long run. The market or demand for industrial products must be of sufficient volume in order that industries of a large scale may survive. The greater the demand for the products of a capital-intensive industry, the lower the cost of production and the lower the price which may be charged.

The market for consumption of industrial goods can be from local or foreign sources. The total population is only a general picture of what the market size is like. As far as the demand for an industrial product is concerned the total population may not be very encouraging at all. Malaya has a total population of slightly over seven million people. Out of this population, who are the actual ones who demand the product? How much do they buy? What is the rate of their buying and what potential demand is there available? These are vital questions to industrialists.

It has always been pointed out that the market in the Federation of Malaya for manufactured goods is small. The smallness of the market will be a limiting factor to the size of the industry. However if the purchasing power is great implying that the population has the income to consume such goods, then the population size will not be so discouraging. The purchasing power of the population is most likely to be unevenly distributed, that is only those who have the money and will spend the money on the product will constitute the market demand for the product. In other words the market is narrowed down to those who can afford to buy and who really buy the products. The Federation of Malaya has a per capita income of about \$800 which although is less than that of \$1,300 for Singapore yet it is far higher than those of Asia and Africa.

The demand for industrial goods is reflected by the amount at present being produced locally or being imported into the country. From a look at the import figures for the items concerned, the volume and value of these imported products might offer prospects for the establishment of certain industries. A five-year period of total imports into the Federation of Malaya will show a rising trend of imports:

<u>Year</u>	<u>Total Imports</u> <u>\$ Million</u>
1959	1,739
1960	2,150
1961	2,230
1962	2,447
1963	2,534

Source: Monthly Statistical Bulletin of the States of Malaya, April 1964.

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Just as the total population figures give a general idea of the market; these total import figures serve the same function. The analysis of these figures in detail will illustrate the market opportunities available in the Federation of Malaya.

Furthermore, the available or potential market for these industrial goods in certain cases will be given further tariff concessions besides the existing tariff which automatically provides a measure of protection against competing imports. There is also the anti-dumping legislation provided by the Customs (Dumping and Subsidies) Ordinance 1959 which protects the market of local industries.

The prospects of exporting industrial products to neighbouring countries will depend on many factors. It will depend partly on the industrial policy and programmes of the foreign countries and the marketing problems involved in such transactions. The government may be able to take certain measures to encourage the export trade. Mutual agreements and trade treaties may be effected through governmental channels. In 1963, a Malayan delegation to the Ecafe conference in Manila raised certain points of allowing the Federation to export manufactured goods to other countries in the Ecafe region. Every country around South-East Asia is equally concerned about industrialisation and protecting its own market.

The potential market is quite potent in attracting the establishment of industrial projects. An expanding market which has an increasing purchasing power may promise good things to come. With the formation of Malaysia and the common market arrangements, the existing market will be increased by about slightly over three million consumers. In addition this will be a protected market. It is estimated that purchasing power will be about 52 per cent higher than now existing in Malaya, within the Malaysian market. The potential market will also be about the same size as that of the Philippines and Thailand. Although the potential Malaysian market is substantial, yet it is only considered just adequate for efficient production in a number of important fields.

Existing Business Situation

Present business situation existing in the manufacturing sector will reveal certain aspects which may be useful to the establishment of industries. Since the manufacturing industry will only be relevant for this study, a breakdown of the manufacturing sector into twelve major industry group as found in the Survey of Manufacturing Industries, Federation of Malaya, (1960-62) will be followed (See Table 1 for list of major industry groups). For convenience the industrial activities of Malaya will follow the

above classification. Generally, the term industry in Malaya refers to:

- (a) The primary industries of agriculture including the main industry of rubber.
- (b) Other primary industries, including in second importance, the tin industry and other mining industries.
- (c) The secondary industries which would include the manufacturing industries.
- (d) The cottage industry e.g. handicrafts activities such as weaving, woodwork from forest materials, gold and silver smithing etc.

The majority of the Federation's industries are related directly or indirectly to the country's position as a producer of raw materials. The factors which influence their location are generally; the availability of raw materials, nearness of local market and/or transportation facilities. These industries of over 100 types of manufacturing activities are found with the greatest density in or around the main towns of Penang, Province Wellesley, Perak, Selangor and Johore.

Apart from the processing industries of estates of rubber, coconut, and other milling activities of rice, and timber other products such as: furniture, plywood, cigarettes, biscuits, paints, industrial gases, chemicals, cement products, tiles, fans, soap, matches, tin cans, wire and wire products, pharmaceuticals, plastics, motor vehicle parts and accessories, etc. are produced.

The size, extent, and nature of the manufacturing sector can be seen by various figures. The contribution of manufacturing industry to G.N.P. is not yet substantial as compared with other traditional sectors of the economy. In 1961, this contribution was around 6 per cent. In terms of employment, it accounted only about 6½ per cent. Rubber in contrast accounted for about one-third of the G.N.P. and about 55 per cent of the total gainfully employed population. There are over 6,000 factories throughout the country which use power driven machinery, but most of them are still small units termed as "backyard" factories.

Between 1959 and 1961, it was estimated that the net value of output in Malaya rose by about 30 per cent. This was accompanied by a rise of around 26 per cent in salaries and wages paid. The volume of commercial banking lending also rose by about 25 per cent. Employment in the manufacturing sector for the same period increase by about

15 per cent.²⁵ The growth of the chemical product as a group was particularly rapid, the value of sales rising over 50 per cent between 1959 and 1961. The establishment of the pioneer firms played a large part in this increase. Other categories also showed substantial progress in sales and net value of output. Although the absolute level of output in the manufacturing sector is still small, yet, investment and the value added to this sector has sharply increased. (Refer to table 1 and table 2).

The classification of the 12 major groups of industry may be seen as three categories:

- (1) The primary processing of agriculture products such as rubber and coconut off estates;
- (2) the manufacture of food products, beverages, tobacco, structural clay products, wood products i.e. industries using mainly local raw materials with relatively simple production methods. Many of these industries employ more than 1,500 workers;
- (3) the manufacture of tin cans, machine parts, machinery repairs which require capital-intensive operations.

In Malaya, in 1961 about 22 per cent of value added originated in primary processing, 42 per cent in food and other basic manufactures and 36 per cent in the more capital intensive operations.

The size-distribution of the manufacturing firms can be divided into 34 per cent of all firms under 20 employees; 2 per cent with over 100, and these latter ones producing about 40 per cent of the value added. The rest of the firms have in between 20 - 100 workers.

In general, the European and foreign firms are of a bigger unit than the Chinese-owned firms. There are increasing number of foreign-owned firms which are joint ventures of local capital and foreign capital. The present industrial sector is one in which growth is taking place; more and more industrialists are becoming aware of the favourable investment climate in Malaya.

²⁵ See International Bank for Reconstruction and Development, Report on the Economic Aspects of Malaysia, Government Printer, K.L., 1963, p.26

Social and Cultural Background

Since almost all of the manufacturing establishments are located in or around the major towns of Malaya, this discussion will deal only with the urban society. Rural society has certain features which are peculiar and unique in itself. The social and cultural background of the rural people differs from the urban society in degree, extent and nature.

The sociological and cultural background has an important part to play in the success or failure of the country to industrialise itself as rapidly as possible. The beliefs and values of the Malayan society may be expressed in institutions such as the churches, schools, organised societies and associations. These institutions may help or hinder the industrialisation process.

Malayan society is heterogeneous and mixed. It is termed as a plural society. This population is divided into four major racial groups mainly the Malays, Chinese, Indians and others. Others include the Europeans who are mainly the British, Eurasians, Jews etc. A breakdown of the population by ethnic groups is given below.

Malaya-Population by Ethnic Groups 1961

<u>Ethnic Groups</u>	(thousands) <u>Number</u>	<u>%</u>
Malay	3,616	50.1
Chinese	2,670	36.9
Indian & Pakistani	813	11.2
Others	<u>129</u>	<u>1.8</u>
	<u>7,228</u>	<u>100.0</u>

Source: Based on the latest Official Census or Population Estimate, 1961.

In addition there are about 4,000 indigenous people who live mainly in the forests of Malaya. Malays include the Indonesians who have come from the neighbouring countries.

It is to be expected that in such a pluralistic society that there should be diversity in languages, religions and customs. For commercial and industrial purposes, the English language with its international standing is mainly used as a vehicle of communication. It is to be

expected that Chinese is also used among themselves because of their influence in commerce and industry. However, bilingualism is common in these fields. The Malay language which will be the sole official language in 1957 has its prevalent usage in the government department.

Similarly, the four main races may follow their religious training in Islam, Buddhism, Hinduism or Christianity. In religion and in customs there are no significant problems which may slow down the progress of industrialisation. It could be said that as far as the urban society is concerned, these things do not raise any problems at all.

The need for industrialisation and the expectations which it raises are clearly felt by the urban society. The urgency to industrialise is pronounced in the objectives of the development plans. The effects of education and communication in promoting the concept of material well-being are widely felt. Industrialisation is seen as an agent in bringing progress, affluence and the solution to many economic ills and problems. The attitudes towards higher consumption standards are reflected in the increasing amount of imports and the greater amount of production at home. Prosperity, status, and esteem are associated with material progress. The Malayan society is as much influenced by economic well-being as other societies in the more and highly developed countries of the West.

There can be no doubts about the enterprising nature of the urban society. The direction in which this enterprise seeks for outlets may not be in industry in the majority of cases. This is seen in the proliferation of business activity in commerce and the scarcity of local enterprises in industry. To encourage enterprise whether it is local or foreign is the prime objective of the government's industrial policy. The comments of Sir Sydney Caine, former Vice-Chancellor of the University of Malaya, Singapore on enterprise in Singapore and Malaya is worth taking into consideration:

"Now nobody who lives in Singapore can doubt that its population has great enterprise. We may have private doubts whether all the enterprise is well directed, but its existence is apparent all around us. The whole history of Singapore has been one of enterprise The atmosphere of enterprise is less all-pervading in the mainland of Malaya but again nobody can avoid the evidence of great enterprise by all races."²⁶

26 ^{LIM TAY BOH} Sir Sydney Caine, Problems of the Malayan Economy, Eastern Universities Press Ltd., Singapore, 1960, p.68

If enterprise is not industrially orientated so also, will managerial ability and technical know-how. However the basic qualities and characteristics in other fields of management require more or less the same aspects as would be needed in industry. "Management is a process which is the same whether in industry, business, government, army and similar organisations."²⁷ Basically, the functions are similar namely, planning, organising, co-ordination and control. Management requires men who have tremendous vigour and capacity for work combined with shrewdness of judgement. The material through which managerial evolvement may be formed is promising and sufficient. The needs for managerial skills are also recognised and training programmes are being instituted. In Malaya, if managerial abilities are correctly encouraged and fostered, the transition to industrialisation would be made very much faster and easier.

The ability to adapt to technological changes or for that matter to any business changes is very essential in industry. Technology and science by bringing changes in manufacturing processes can help to bring quicker and faster industrialisation to this country. "Specifically, changes in the technology of manufacturing processes to permit low-cost output at low volume could hasten the spread of industries in all underdeveloped countries."²⁸ Technological and scientific training is regarded as of vital importance in the programme for hastening industrialisation. Encouragement is given through exhortation, scholarships and other training facilities offered by the United Kingdom, Colombo Plan and other countries. Underlying the technological and scientific aspects is the basic belief in man's ability to find solution to problems and limitations imposed on him by his environment.

In Malaya, there are no cultural or social ties which may tie down labour to certain occupations or geographical areas. This stems in part from the historical forces of seeking a fortune by their ancestors. Family ties though respected are not a barrier to labour mobility. The influx of labour from the rural homes and the villages into the big towns as noted earlier is increasing the problem of unemployment in the towns. Immigration into Singapore from the Federation for better prospects or jobs is a common occurrence. Labour is highly mobile wherever there are better prospects. In fact the history of Malaya is a history of labour mobility from the surrounding countries.

²⁷Refer Joseph Mark, "The Strategy of Management in Industrialization", Malayan Economic Review, Vol.VIII, No.1, April, 1963, p.21.

²⁸See Gordon Withell, "Management of Change in Industry", Malayan Economic Review, Vol.VIII, No.1, April, 1963, p.27.

In large scale industries, it is essential that performance in work is based on merits rather than on any other bases of race, wealth or influence. Industries are not significantly affected by the move to encourage employment of a certain less progressive race in the field of business into their establishments. Neither will the call to train local personnel to take over certain posts endanger the prospects of industrialisation. "The best people for the best results," is axiomatic for all situations. In Malaya, ability, talent and skill in the business world are recognised and rewarded.

Greater productivity bringing better wages and working conditions is attractive to all workers. There is a great capacity for work even exceeding the normal eight hours per day as long as there are worthwhile incentives. Productivity through training is also appreciated by the workers. In other words, there is a spirit of self-help and self-improvement in the attitudes of the workers.

In general, the sociological and the cultural influences in retarding industrialisation is very insignificant. On the other hand, the attitudes, beliefs and upbringing of the urban society have great potentials in bringing further growth to industries. The significant amount of human resources which is highly flexible, adaptable, capable and initiative is a great asset for industry.

