

CHAPTER IV

Aids and Incentive for Industrialization

Introduction

An introduction to the number of pioneer companies, amount of called-up capital, employment, nature of production and rate of progress has already been given in the second chapter. In Malaya as a whole, the capital - intensive production methods of the majority of pioneer firms have made the most rapid growth. About half of the 103 pioneer firms in Malaya are located in Petaling Jaya, one-fifth in Johore Bahru and the rest are scattered in Province Wellesley, Perak, Selangor and Johore. There is only one pioneer industry - the Kelantan Match Factory Ltd. operating in the east coast of Malaya.

The pioneer industries produce about 358 products such as:- agricultural machinery, cement, asbestos products, batteries, bolts, nuts, canned food-stuffs, chemicals, condensed milk, cotton wool and medical dressings, electric cables, insulating and acoustic materials, lawn mowers, matches, metal containers, metal preparations, tooth-paste, tyres, plastic products etc. In addition, several large-scale pioneer projects such as; a sugar refinery, a flour mill, an aluminium rolling mill, a paper mill, two oil refineries, a tyre moulding plant and an iron and steel works have been built or are being built.

The net value of output of pioneer firms in the manufacturing industry is estimated around 5 per cent of the total Malaysian net manufacturing output by the end of 1962. In Malaya alone, the net value of output for 59 operating pioneer industries was in the region of about 30 million in 1962. There were 87 industries granted pioneer certificates in that year.

It is typical for one or two pioneer firms to dominate the market in each pioneer industry and only in a few industries, such as paints, pharmaceuticals, matches and toothpaste are there from three to six firms. In a survey of existing pioneer firms by Stuchen in 1963, it was revealed that at least two-thirds of the firms have plans for expansion and the production of new and different products.*

*Philip Stuchen is a Colombo Plan expert sent to advise the government on the setting up of pioneer industries.

The pioneer industries are allocated to 13 major groups:-

- (1) Agriculture
- (2) Food, Drink and Tobacco
- (3) Chemicals and Related Products
- (4) Metal Recovery and manufacture
- (5) Engineering and electrical goods
- (6) Vehicles
- (7) Miscellaneous Metal Goods Manufacture
- (8) Textiles
- (9) Clothing and Footwear
- (10) Non-metallic structural and related products
- (11) Timber, Timber Products and Furniture
- (12) Paper, Paper Products and Printing
- (13) Miscellaneous Manufacturing Industries.

As noted earlier in chapter two, the chemical group has the most number of firms followed by the metals and engineering group and the food, drink and tobacco group.

Legislation of Pioneer Industries

Pioneer industry legislation is provided by the Pioneer Industries (Relief from Income Tax) Ordinance, 1958. It is "an ordinance to make provision for encouraging the establishment and development in the Federation of industrial and commercial enterprises by way of relief from Income Tax".²⁹ The period of tax-free holiday in connection with the amount of investment made has already been noted earlier. A pioneer company may, however, graduate from two years relief to five years or from two to three years and thence to five years in stages as its fixed capital expenditure becomes not less than the limits specified in the ordinance.

²⁹See Federation of Malaya, Pioneer Industries (Relief from Income Tax) Ordinance, 1958, Section One.

The pioneer industry legislation was recommended by the Industrial Development Working Party, 1957 which was formed through the sponsorship of the Alliance party to look into the problems and aspects of promoting industrialisation. It was one of the many recommendations to attract local or foreign capital to embark on schemes involving new forms of enterprises which are either unrepresented or inadequately represented in the Federation.

In part two, section 3 of the Ordinance, the conditions for pioneer status for the industry or product are written as follows:

(a) any industry not being carried on in the Federation on a commercial scale suitable to the economic requirements or development of the Federation or at all; and

(b) there are -

(i) favourable prospects of further development of the industry; or

(ii) insufficient facilities in the Federation - to enable the industry to be carried on a commercial scale suitable to the economic requirements or development of the Federation.

(c) it is considered in the public interest to encourage the development or establishment of the industry in the Federation by the making of an order declaring the industry to be a pioneer industry and any product or products of such industry to be a pioneer product or products.

Among other topics covered by this Ordinance are the administrative arrangements whereby applications are to be issued with the pioneer certificates which may be cancelled or amended to include other changes in the pioneer status. Part three of the Ordinance deals with the tax relief period concerning such items as commencement date, capital allowances, dividends exemption and the carrying forward of losses incurred in the tax relief period.

The application for pioneer industry status requires that certain information and particulars be given. This is found in Section 4 of the Ordinance. In section 11 of the Ordinance the forms of application required to be filled give a fuller detail of the required particulars. The things included in the application form are:

(1) the pioneer industry and products intended to be produced by the company or proposed company

(2) the capital structure

(3) the analysis of the product quality and costs.

- (4) the production rate and capacity in terms of marketable quantities on production day and at each stage of development of the company;
- (5) the size and cost of construction of the buildings, plant and machinery of the factory through stages and the location;
- (6) the various types of labour from unskilled to managerial level; particulars of foreign technical and managerial personnel and steps taken to arrange for Malayan personnel to take over their place if any;
- (7) the technical agreements with overseas companies and also management agreements;
- (8) the market analysis of the company's share of the proportion of that market, competition through imports and any local production already existing;
- (9) tariff concessions and other details.

The Minister of Commerce and Industry is the person who decides to grant the pioneer certificate after taking into consideration of the following factors:

- (1) the number of pioneer companies already established or about to be established for the production of the product or products mentioned in the application;
- (2) the production or anticipated production of such pioneer companies;
- (3) any objections of existing and established manufacturers to the proposed industry or product to be declared pioneer. This is to safeguard existing manufacturers' interest, otherwise, the failure to do so may mean that new-comers to the industry may be given an unfair advantage over established manufacturers.

Some grounds for rejecting the applications of certain companies are:

- (1) applications withdrawn before they could be considered;
- (2) the productive capacity of companies already granted pioneer status would supply the local market;
- (3) no qualifications for retrospective granting of pioneer status;

(4) not considered expedient in the public interest because the product is already made on a substantial scale in the country;

(5) refused on grounds of security;

(6) objections received and upheld;

(7) rejected because raw materials are to be imported when complementary and entirely suitable local raw materials are available.³⁰

In the speech of the Minister of Commerce and Industry when seconding the motion for the final reading of the Pioneer Industries Bill, 1958, he remarked that there was absolutely no difference in treatment between foreign and local capital for pioneer status. In fact, "the need for capital is so great that there is room for all the local and foreign capital wishing to invest here, with plenty more to spare". However, "All other factors being equal, I am prepared to give preference to a pioneer factory which is financed wholly by local capital."³¹ The next in order of preference would be capital financed by local and foreign capital in partnership and the last, companies financed wholly by foreign capital.

Other conditions and qualifications which are not legislated for Pioneer industries but are of a persuasive and conditional character are drawn to the attention of applicants.* However, pioneer firms have to obey the ordinary legislation regulating conditions of employment in the same way as do non-pioneer firms. Non-pioneer firms are in no way obliged to observe the special conditions and qualifications attached to pioneer firms. To all applicants for pioneer status, the Government through the Ministry of Commerce and Industry negotiate and agree on these conditions regarding capital, employment, raw materials, etc.

Local participation in the capital structure of any pioneer project is recommended as desirable. Furthermore if the project is to be initiated by foreign companies, at least 49 per cent of the share capital should be taken up by Malaysians. This however, is not rigidly laid down; the actual share to be allotted to local participation depends on the size and nature of the project and the type and amount of foreign capital available and necessary. Malay participation in the capital of pioneer industries is to receive special treatment

³⁰Refer to Dewan Ra'ayat, Questions and Answers, November 30th, 1960.

³¹See Seconding the Motion for the Final Reading of the Pioneer Bill, 1958, op. cit.

*Refer to the Ministry of Commerce and Industry published bulletins to prospective industrialists.

through the preference and reservation of a certain proportion in its allotted issues. This is to allow a greater stake in the economy of Malaya by nationals of Malaya whoever they may be. In 1962 out of about 46.8 per cent of local capital in pioneer industries about 25 per cent had either been taken up or reserved for Malay capital.³²

As to labour, preference should be given to Malaysians whenever possible. During the initial years of the company a limited number of foreign technical and executive posts may be held but with the provision that most, if not all, of them are to be replaced by Malaysians within specified periods. If foreign personnel have to be employed, then training should be given to Malaysians to take over from them within reasonable periods. There should also be employed in pioneer industries a certain percentage of Malays.

Raw materials or commodities of Malaya should be made use of as far as possible. This will ensure that the resources of Malaya are effectively utilised and that the attending industries are benefited.

Machinery for installation in a new plant or for the expansion of an existing one is to be new and modern or up-to-date. This is to compete with foreign producers by cutting down labour and reducing production costs.

Rather than mere assembly, it is desirable that pioneer companies carry on manufacture to as great an extent as is feasible. This extent of manufacture should moreover be progressively increased as the companies gain more experience in their respective fields.

Tariff concession and pioneer status are considered separately. Pioneer projects requiring tariff concessions as a precondition for their establishment would be considered for pioneer status only after their tariff requests have been resolved. The new enterprise must show that it is being efficiently operated, that costs of production are reduced and a competitive position vis-a-vis imported products of the same type is maintained.

Applicant companies should consult the Ministry of Commerce and Industry before they conclude any arrangements with foreign firms for technical aid, loan of patents, trade marks, processes, etc. involving the payment of fees or royalties.

Approval of the Controller of Foreign Exchange is required for the free transfer of capital and earnings between Malaya and countries outside the Sterling Area. Within the Sterling Area the government allows unrestricted transfer of capital and earnings between the Federation and other countries.

³² See Straits Times, December 1st, 1962.

Thus, legislation for pioneer industries in addition to the normal legislation provided for all industries is carried out through the Pioneer Industries Ordinance. Various conditions and qualifications are attached to this legislation when conforming to pioneer applications.

Examples of pioneer industries which have part of their capital subscribed by the public are: Esso Standard (M) Ltd., Shell Refining Co. (M) Ltd., Hume Industries (M) Ltd., Metal Box Company (M) Ltd. and Dunlop Malayan Industries Ltd. Other pioneer companies which are not public companies may have joint capital ventures with local capital too.

All pioneer industries employ local labour. Training at the operative and executive levels are given. In the case of Colgate and Palmolive (Asia) Ltd. long before the plant was ready for actual operation, senior employees were sent to plants in other countries for a thorough indoctrination in methods of plant operation and production. Every operator was given a two-month familiarisation course by foreign instructors.

Whenever it is economical and feasible to use raw materials they are utilised as in the case of natural rubber by Dunlop Malayan Industries and local cement in the Hume Industries (M) Ltd., and the Malayan Nozawa Asbestos Cement Co., Ltd. However most of the raw materials are imported. There seems to be little scope for local raw materials in this direction.

In the case of machinery, they are all modern and up-to-date in almost all the pioneer industries.

It is interesting to note that in the case of Johnson and Johnson Ltd. all the staff and executives are local except for the managing director and plant manager who are from overseas.³³ Again in the Malayan Nozawa Asbestos Cement Co., Ltd., there are only four Japanese on the staff, a manager, engineer and two technicians while the 150 odd workers are local personnel. Colgate and Palmolive (Asia) Ltd. has only 3 foreigners in its top management.

In the middle of 1962, out of 80 firms granted pioneer status, 20 had no tariff protection at all.³⁴ There is some degree of correlation between pioneer industries and higher tariffs.

³³See Straits Times, Made in Malaysia Supplement October 26th 1963.

³⁴Wheelwright, op.cit., p.70.

Provision of Services to Industries

In general all these services, inducements and facilities are also available to both pioneer and non-pioneer industries. These specific measures taken to create an atmosphere conducive to industries are based on the recommendations of the Industrial Development Working Party, 1957. Earlier we have noted something about these facilities for industrial development.

Basic Services

The provision of public services and utilities on such items as roads, railways, sea and air ports, posts, telecommunications, electricity and water have already been discussed in previous chapters. There is no weakness in the supply of these basic services. On the other hand they are adequate, sufficient and good.

Advisory and Informative Services

The central organisation for dealing with enquiries from prospective industrialist is the Industrial Development Division of the Ministry of Commerce and Industry. From here printed material and answers to specific to questions about any phases of setting up an industry are provided. This Division came into existence in 1957. In connection with this Division, industrial promotion in the form of publicity and advertising campaign to publish the bright prospects for foreign and local industrialists are carried out. A Colombo Plan expert working with this Division has made a survey of the type of industries which can economically be or ought to be established in the Federation.

Industrial sites preparation, services

Land for industries are being established in Penang, Perak, Selangor, Negri Sembilan and Johore. An account of the progress made in the development of industrial sites in the various states is given below:

Penang - Sungei Mak Mandin, Butterworth

The Penang State Government has set up an industrial Trading Estate Committee to develop about 320 acres at Sungei Mak Mandin, Butterworth. The first phase of development was about 50 acres. Up-to-date about 30 acres of land have been divided into suitable lots for alienation arising out of 14 successful applications. The site will be leased on a 99-year basis and the cost of development per acre is about 50 cents per square foot. The premium for an underdeveloped site is about 25 cents per square foot. The quit rent which is additional to the above charges is \$1,307 per acre per annum excluding survey fees. This picture shows that

although the site is not fully developed yet interested manufacturing companies may acquire lots at the site and develop them at their own expense.

Perak - Tasek, Ipoh

About 200 acres of land have been cleared and more than one mile of road and drains constructed. One factory has already commenced production, while proposals have been received from the following concerns: Government Printer, Malaya Feed Mills Ltd., Malaya Chemical Industries, Fraser & Neave Ltd., Gammon (Malaya) Ltd., and Hume Industries. They all occupy about 100 acres of land. Initial deposits for further 50 acres from other firms have also been received. The land is being sold at 25 per square foot on a 99-year lease. Recently a delegation led by the President of the Town Council visited Hong Kong with a view to attract industrialists there to invest in the Tasek industrial estate. The Ipoh Municipality is responsible for developing the site.

Other industrial sites for the smaller light type of industry are being considered. About 100 acres of land along the Menglembu Road, Ipoh will cater for these smaller establishments. The major part of the work in developing this area will be taking place during 1963-65.

The Taiping Town Council in Perak has set aside about 117 acres with immediate water and electricity supplies available. No roads have been constructed yet. The site is near the town of Taiping. The establishment of light industries for local and foreign industrialists is contemplated.

Selangor - Petaling Jaya

Petaling Jaya which is the first new town of Malaya has a total of 3,900 acres. The industrial site of about 700 acres zoned for industrial purposes has now been almost fully taken up by investors. The rest of the acreage not allocated for industry are used for residential, commercial and other public purposes. Only about 20 to 30 acres of the 700 acres of industrial land are yet available to industries. However there is a possibility that about 200 acres of mining land leases which will expire in about 5 years time will be converted into industrial land.

The price of industrial land in 1957 was at 27 cents per square foot or \$11,762 per acre. This included the levelling of the land, the building of roads and the connecting of water and electricity mains. In 1964, the remaining few acres are priced at \$1 per square foot. The quit rent per annum was at \$500 per acre originally; at present it is at \$1,000 per acre.

At present, a total of 215 lots have been sold for industrial purposes. The lots range from a quarter acre to 30 acres in size. From 1957 when the industrial site was opened up till the present there are 110 factories in operation. Of the hundred over factories in Petaling Jaya, nearly half are pioneer industries. In a period of six years, the average growth was about 18 factories per year.

The estimated total population of Petaling Jaya is about 40,000. The industrial population is 6,086 for 103 factories which lodged a return in 1964 to the Town Secretary of Petaling Jaya. Of this figure, 3,745 were daily-paid and 2,341 were monthly-paid workers. Roughly, the average growth of employment in a period of six years was about 1,000 workers per year for all the industries. Pioneer companies contributed most to this growth.

The State Government of Selangor is already finalising negotiations to acquire the new 700-acre industrial site to be located at Batu Tiga a few miles from Petaling Jaya. This site lies between the Federal Highway and the railway line which pass to Klang and Port Swettenham.

About 200 acres have already been booked by local and foreign manufacturers though the price, terms and conditions have yet to be fixed. Work had already begun on the 70 acre site for the Imperial Chemical Industries (M) Ltd. A wide range of industries including a car assembly plant, food factories, building materials factories and an electrical plant is to be set up. Numerous inquiries are being received.

The industrial site will come under the jurisdiction of the new State Development Corporation. This corporation will also take charge of other industrial sites to be put up in Selangor. There is a proposal to develop a new town like Petaling Jaya with an area set aside for industries. Details are still not known.

Negri Sembilan

Both the Esso and Shell refinery are in production. Other companies have shown interest in setting up factories in the area. Port Dickson may therefore become an industrialised town in the future.

The State Government of Negri Sembilan is planning to establish a 400-acre Industrial area a few miles from Seremban. Plans are being arranged and finalised.

Johore - Jalan Larkin Industrial Area

The State Government has set aside about 135 acres divided into 58 lots. The terms of alienation in this area will be on a 60-year lease with a premium of \$1,568 per acre. Quit rent is at \$157 per acre per annum excluding survey and other fees at scheduled rates. About 32 acres divided into 9 lots are under development while another 37 acres have been applied for. Work on roads, rail and water mains are being carried out. The new \$18 million Johore Bahru power station will be sufficient to meet all requirements in this area.

Other State Government such as Malacca and Pahang are already interested in the possibility of developing industrial sites in their respective states by taking advantage of the Federal Government loan which is at low rates of interests. The Second Five-Year Plan provides a trust fund of \$7.5 million for loans to States for the development of industrial estates.

Research Services

At present the Government is planning to set up a Department of Scientific and Industrial Research to undertake research for industrial firms which do not have their own research facilities in this country. The majority of foreign firms established in the country have the research organisations of their parent companies to rely on. A committee consisting of officials and representatives from the University of Malaya is studying the feasibility and means of implementing a Report, prepared by Dr. Jordan of the United Nations on the setting up of the research organisation.

The research should be able to provide such information, advice and proposals for many of the feasibility studies and technical aspects of industries. Feasibility studies may determine whether a prima facie case exists for the local production of a commodity. Potential investors would be informed of the problems and uncertainties yet to be resolved. Details of cost studies, market possibilities and production and technical aspects of establishing the industry would be made available. The development, testing and improvement of products, processes, and materials would also be given scope in this type of research.

Present research facilities on many aspects of industrial production are provided by the many Government departments. Of the Agriculture, Forestry, Geological, Mines, Fishery, Chemistry and the Rubber Research Institute. The information collected by these departments are only incidental in the course of their duties. Statistical aspects of the economy is provided by the Malayan Statistical Department. A more complete picture of manufacturing industries is being provided by the survey of these establishments.

The Malayan Industrial Development Finance Ltd. through its Economics Research Section undertakes initial feasibility studies and marketing surveys, either on its own or in co-operation with specialists. Market surveys are also being carried out by private commercial organisations.

Training Services

The National Productivity Centre with the help of the International Labour Office was established in 1961 for the training of management, executives, supervisors and trade unionist. Five international experts provided by the I.L.O. and a counterpart staff of Federation nationals who will ultimately carry on the work in about five years time are available to carry out this training programme. Experts in their own fields are also invited to take part in it.

The Centre will undertake the training of management at all levels by conducting seminars, courses, and demonstration projects in plants, using modern management techniques covering factory organisation, stores control, human relation. Working conditions, factory layout, job methods, material handling, work study and works costs accounting.

The Centre will serve as a forum and clearing house for all productivity work and problems in the Federation of Malaya, not only conducting training courses but also collecting and disseminating information about productivity and new methods, encouraging exchange of experiences. Research within the field of industrial engineering and standardisation of methods and systems, will be carried out where such detailed information is not available. A comprehensive technical reference library will also be available to all.

Pioneer industries are given priority in the selection of participants for the courses and also in the selection of factories where follow-up projects will be held. Many pioneer firms have already setn their men to such courses as: production planning and control, management accounting and budgetary control, management of personnel, introduction to management, job simplification for supervisors etc.

Financial Services

The Malayan Industrial Development Finance Ltd. (MIDFL) was established in March 1960 to assist industrialists in the provision of medium and long term loans. Commercial banks provide only short term loans or floating capital rather than funds for permanent assets. MIDFL begins where the commercial banks leave off. Its officially authorised capital was \$15 million, which was

increased in August 1962 to \$50 million. A proposal to reorganise the MIDFL as suggested by the staff members of the International Bank for Reconstruction and Development (World Bank) in November 1962 will greatly increase its resources. The proposals have been accepted and negotiations with the World Bank will increase its present capital up to \$250 million. The International Finance Corporation of the World Bank will also be contributing capital to the MIDFL after reorganisation.

Various facilities are offered by the MIDFL besides the provision of long and medium term loans. The minimum loan is for \$50,000, but this may be less than the stated amount. The security for long or medium term loans required by the MIDFL generally takes the form of a first debenture charge on the applicant's assets. Where appropriate alternative forms of security may be considered. Full debt repayment, on the annual reducing balance outstanding, is extended over a reasonable number of years. The borrower has the option of repayment at short notice. MIDFL may permit the postponement of capital repayments beyond the agreed development period.

Applications for loans have to meet certain basic requirements, among which are the provision by the sponsors of 50 per cent of the total fixed capital required, the furnishing of evidence that the project is capable of earning a reasonable return, and that expert management will be available to conduct the business in an efficient manner. Full details of a comprehensive nature of the company are also required. Among other things, the inspection of premises, equipment and operations are also carried out if the information provided indicates that the application may be acceptable.

Hire purchase facilities are also provided by the MIDFL. This is to assist in the financing of the machinery and equipment or in the modernisation of existing plants. MIDFL will undertake to supply major items of industrial equipment on a payment-by instalment basis over periods related to their useful working life. Upon deposit of an initial instalment of 25 per cent of the C.I.F. price of the plant or machinery, (the remaining 75 per cent being advanced by MIDFL) it is hired out at rentals payable monthly or quarterly, moderate financial charges being calculated on the reducing balance outstanding.

MIDFL will undertake to provide loans to cover the construction costs of factories by MIDFL appointed construction firms. Here loans will be provided to cover the cost of erecting a number of standard factory units designed to suit specific technical requirements, provided government approval for the plan is forthcoming, and the layout and management of the property are satisfactory to MIDFL. Complete factory development schemes on Government-approved industrial estates can also be financed.

Loans may be granted for up to 15 years. Repayments are, again, calculable on the annual reducing balance of the loan outstanding. The loan applicant is expected to be able to meet not less than 20 per cent of the estimated cost of the land and buildings, and to agree to insure the property with an approved company.

Through its associates overseas MIDFL can furnish prospective investors with ready-made plans of turnkey projects for the complete establishment of suitable production units.

MIDFL will consider subscribing to shares in established or new public and private companies after assuring itself that efficient management is available. It will also make arrangements to offer its shareholding for sale to the public or to the other shareholders of the company on terms previously agreed upon.

Other services available are in the underwriting of capital issues, issuing house services for capital flotations, and advisory services in regard to industrial capital.

MIDFL balance sheet at the end of its financial year at March 31st, 1962 reveals that \$3.6 million was put up in secured loans to four companies and \$121,464 in outstanding hire purchase contracts with five companies. The loans range from \$427,000 to \$2,046,267 and the hire-purchase contracts from \$5,000 to \$39,170. Two of the loans and two of the hire-purchase contracts went to companies with pioneer status. Commitments show that \$7 million would go to the Dunlop Malayan Industries Ltd. and two loans of over \$1 million to other pioneer companies. Of 77 applications investigated during the financial year ending 31st March 1962, only 15 loans were accepted. It also undertook to underwrite capital and provide issuing house services to the Malayan Tobacco Company Ltd., and the Dunlop Malayan Industries Ltd. For the former company of \$8 million stock units; it was 600 per cent oversubscribed and for the latter company of \$4.86 million stock units; it was 400 per cent over-subscribed.

Co-ordinating Services

Since the formation of Malaysia in September 1963, the Federal Government will be setting up an autonomous agency called the Federal Industrial Development Authority or FIDA. This agency will deal with the federal aspects of:

- (1) making the recommendations of pioneer applications;
- (2) formulating policy on industrial site development, administering related Federal funds, and acting as co-ordinating agency among State institutions with such functions;

- (3) carrying out, or contracting for economic feasibility studies of industrial possibilities;
- (4) providing general guidance and advice to the units engaged in industrial research...., and other agencies such as the National Productivity Centre and the Small Industries Service Institute;
- (5) assembling general information on the conditions of Malaysian industrial production and directing industrial promotional work, domestically and abroad;
- (6) facilitating exchanges of information, and co-ordination, among institutions engaged in industrial finance, the Tariff Board, and other bodies concerned with industrial policy so as to permit optimum use of staff in this field; and
- (7) reporting annually to the Government on progress and problems of industrialisation in Malaysia and making recommendations to deal with these problems.

FIDA will thus provide the necessary over-all co-ordinating services so vital to the successful implementation of the various industrial programmes.

The provision of services may be seen as providing basic services, informative and advisory services, land development services, research and training services, financial services, and finally, co-ordinating services.

Provision of Financial Inducements

The principal inducement for industrialists is the Pioneer Industries (Relief from Income Tax) Ordinance 1958. This we have discussed earlier to quite some extent. Since the enactment of the Ordinance 103 companies have been certified with pioneer status. The potential employment offered by these pioneer companies is over 15,000 people. They involve a total of \$634,970,000 in nominal capital. The paid up capital to date is \$134,398,055 of which \$36,444,559 or 26 per cent has been contributed from local sources. The number of factories in operation up-to-date is eighty-six.

The above inducement has attracted, influenced and encouraged both local and foreign industrialists.

In complement to the Pioneer Industries Ordinance, as a financial inducement, the government adopts a liberal attitude towards the remittance of capital out of the country. It is only

in remitting capital to countries outside the Sterling Area that permission, which is nominal, is required from the Controller of Foreign Exchange. When approval has been obtained for the investment, the repatriation of capital and profits are freely allowed, and if necessary can be guaranteed by the Government. Within the Sterling Area, there is complete freedom to transfer capital, profits, and dividends subject to the normal exchange controls administered by the Central Bank.

The Government has also given an undertaking to guarantee the security of foreign investments in the Federation. Payment of fair and appropriate compensation will be undertaken in the event of any private enterprises being expropriated or nationalised. Security of foreign investments has been formalised with the U.S.A. and West Germany through concluding with them investment guarantee agreements.

Besides this, comprehensive agreements for relief from double taxation are in force between the Federation of Malaya and the United Kingdom and other Commonwealth countries. Similar conventions are in operation between Sweden, Denmark and Norway.

Existing financial inducement is in the form of a stable tax system. Changes since 1947 has been very slight. The company tax from 1948-1950 was levied at a flat rate of only 20 per cent; from 1951-1953 it was raised to 30 per cent and from 1959 onwards at 40 per cent. In addition there is a comprehensive system of deductible allowances.

The computation of the chargeable income on which the 40 per cent is levied is arrived at after the following deductions:-

- (1) An initial allowance of 20 per cent in respect of capital expenditure incurred in the provision of plant and machinery. Further, an annual allowance which is computed at varying rates depending on the nature of the plant and machinery.
- (2) An initial allowance of 10 per cent in respect of capital expenditure incurred on the construction of an industrial building and in addition an annual allowance of 2 per cent in respect of the total cumulative cost of the building. Where an expansion to an existing plant is considered necessary in the normal process of growth, the initial allowance of 10 per cent is also allowed. This includes the subsequent expenditure on improving or altering the buildings.

There is provision for the carrying forward of losses and unused capital allowances and for their setting against profits

made in subsequent years. The total effect of these allowances is to reduce the tax liability of the companies.

Personal income tax is comparatively charged at low rates. Taxation rates are calculated on a progressive scale but again allowances and deductions are made for reliefs. The present rate of chargeable income ranges from 6 per cent on the first \$2,500 to 45 per cent on incomes in excess of \$55,000 per year.

The incentives available in Malaya have drawn responses from industrialist from 14 foreign countries. They include the U.S.A., United Kingdom, Australia, France, Germany, Hong Kong, Formosa, Japan and Denmark. The amount of called-up capital in pioneer industries that these foreign nations have provided forms three-quarters of the total amount.

Protection of the Market

For many Malayan industries, the existing revenue tariff automatically provides a measure of protection against competing imports. All local manufactured articles enjoy a certain degree of protection if similar imported articles are subject to import duty. Where there is excise duty, there is still a measure of tariff protection because the excise duty in all cases is lower than the import duty on the corresponding imported articles.

The average Federation's tariffs is about 20-25 per cent which will not be considered high by international standards.³⁵ The highest percentage is 100 for canned pineapples. Protective tariffs applied to certain goods will also increase the percentage of duty imposed.

Occasions may arise when a local industry whether pioneer or non-pioneer requires tariff protection in the form of new or increased import duties and concessions or remission or reduction of duty on imports of raw material and component parts. Such matters are normally dealt with by the Tariff Advisory Committee which was set up by the Government as part of its industrialisation programme in 1959. There have been other occasions when the Government found it necessary to consider applications for tariff concessions without reference to the Tariff Advisory Committee. Such applications are usually of an urgent nature of simple straight forward ones which would not merit the careful scrutiny of the Tariff Advisory Committee.

³⁵Refer to Federation of Malaysia, Trade Classification and Customs Tariff, 1964, Government Printer, Kuala Lumpur.

The terms of reference of the Committee are to investigate and advise the Minister of Commerce and Industry on applications by manufacturers or potential manufacturers within the Federation, for tariff protection, the reduction of import duties on raw materials, the reduction of excise duties or for drawback; or on any application for other assistance or concessions involving the tariff policy of the Government's industrial development policy as set out from time to time.

The Tariff Advisory Committee will be superseded by the creation of an autonomous body called the Malaysian Tariff Advisory Board. Besides reporting on the proposed Common Market to the Central Government which will be available soon, the Board will be responsible for the following functions:

- (1) Extension of existing protective tariffs;
- (2) Introduction of new tariffs or changes in existing rates;
- (3) Periodical review of the level of all protective duties and recommendations concerning the level of protection which would be appropriate for a further period;
- (4) To advise the Federal Government before any anti-dumping duty is introduced and;
- (5) To advise the Federal Government on any other relevant matters.

The Tariff Advisory Board was recommended by the mission under the International Bank for Reconstruction and Development led by Jacques Rueff. Suggestions as to the terms of reference for the Board to take into account and to assess the effects of any measure recommended by it or by the applicant industry would include, inter alia, an analysis of the effects of the proposed measures on:

- (1) the cost of living in Malaysia;
- (2) the cost of production of other industries; including the cost of public works, and particularly of the export industries, such as rubber and tin;
- (3) the entrepot trade in Singapore and Penang;
- (4) the net effect on employment and national income.

The report should be sufficiently informative to give the means to weigh the overall net benefits (both short and long-term) to the national economy.

In the past tariff protection against import competition was not used to a great extent in the Federation of Malaya. However it is now in a position to proceed carefully in the direction of tariff protection as a device to stimulate further industrial expansion. With the proposed Common Market being set-up in Malaysia this would mean the complete elimination of tariff and other trade barriers to the circulation of goods originating in Malaysia. And the same import duty on like products would be applied by all the Malaysian States originating in countries outside Malaysia.

The Customs (Dumping and Subsidies) Ordinance 1959, as we have noted, is another important measure adopted by the Government to protect industry against unfair competition. This legislation provides for the imposition of duties in addition to normal import duties on dumped imported goods. Section 13 of the Ordinance is as follows:

"Any duty chargeable under this Ordinance on any goods shall be chargeable in addition to any other duty for the time being chargeable thereon under the Customs Ordinance 1952, or any other written law."

Thus, protection of the market is ensured not only by the raising of tariffs, the granting of import duty exemption for the import of raw materials, components and capital equipment which would bring lower costs of production and the protection against dumping by foreign exporters but also by the "Buy Malayan" campaign of the Government.

The Federal Government has instructed all its departments to give preference to local products to the extent of 5 per cent more than what imported goods cost, provided the locally made articles are of the same or better quality. This is what the Minister of Commerce and Industry considered as "the small price we must pay for industrialisation."³⁶ By buying local goods the Government will be assisting consumption of home-made products, conserving the country's foreign exchange reserve and encouraging industrialisation.

The Ministry of Commerce and Industry will also be leading out in a campaign to break down prejudice against locally made goods.³⁷ As observed by Wheelwright: "Brand consciousness is extraordinary high, probably due in part to inferior imitations reaching the market in the past, and to a certain amount of adulteration."³⁸

³⁶ See article "The Small Price We Must Pay for Industrialisation", in the Straits Times, June 9th 1963.

³⁷ Refer to Straits Times, March 28th 1963.

³⁸ See Wheelwright, op.cit. p.69.

Through the Government's example of using and paying the "small price" for locally manufactured products, and through the promotion of "Made-in-Malaysia" trade fairs annually, the Government will provide the impetus in breaking down prejudice against locally produced goods. The main purpose of the trade fair (held in 1962 and in 1963) is to bring to the attention of the public the range and variety of goods, comparable or even better in quality and value of imported goods. In the 1963 Trade Fair, about 145 different products were on display. These were the products of factories belonging to 54 firms both in the Federation and Singapore.

There is no doubt that foreign firms can be established here even if there are lesser attractive terms and conditions than are to be found in Malaya; however the various inducements offered to industrialists should always be improved. Wider scope and greater opportunities should be offered to local industrialists who do not possess many of the factors which make it possible for them to set up industries as easily as foreigners. The proposals for industrial research and other plans to benefit industrialists should be implemented as soon as possible.