

CHAPTER V

CONCLUSION

Problems & Prospects of Industrialisation

In surveying the industrialisation policies of the Government; it is found that the great importance attached to the manufacturing sector is greatly contrasted to the small amount of public investment spent on it. As the Government is committed to private enterprise, it is unlikely that the Government would initiate any large scale enterprise on its own. However there is a likelihood that the Government in its review of the progress in industrial development may take steps to participate and invest in certain projects which do not offer sufficient attraction to private investors.

Looking at some of the problems and prospects of industrialisation; it has been found that many vital factors which are essential to the development of industries are rather lacking in Malaya. These are local industrial entrepreneurs, managerial and technical know-how, capital and natural resources. The entry of foreign entrepreneurs with their capital, technical know-how and managerial personnel can in a way help to industrialise the country. With joint ventures of either public or private companies, the existing and potential local factors of production would be more effectively utilised.

Although the potential market provided by Malaysia is of a substantial size, yet it will only be just adequate to support efficient production in a number of important fields. Export markets are unlikely to be easily available as they encounter industrialisation programmes of a similar nature as are found in Malaya. Furthermore difficulties such as high tariff barriers and other economic and political barriers may be set up.

Much more co-ordination in the establishment of industries is to be desired as the market is limited. It may prove to be quite essential to limit the amount of industries producing the same products. Competition in setting up the same industries in the various territories of Malaysia has to be controlled. Sometimes a single industry would be able to produce for the whole demand of Malaysia, as such, to allow unwise competition would result in scarce resources being wasted.

Among the various aids and incentives offered to industrialists; the terms and conditions laid down for pioneer industries are in the right direction and scope. However, wider coverage and quicker effort should be placed on certain activities which benefit both pioneer and non-pioneer industries. Finance should be extended to smaller industrial units too. Promotion of industries either locally or abroad must be well planned and be continuous. The setting up of research, training and other institutions to aid industries must be stepped up. In other words, greater scope and faster acceleration of the industrial programme is needed.

The Government is already in the process of implementing the recommendations and proposals of the I.B.R.D's report on Malaysia and industrialisation.⁴¹ The Tariff Advisory Board has already been formed. It will look into the question of tariffs and the Common Market. The proposal for the setting up of the Federal Industrial Development Authority (FIDA) has been accepted. The formation of FIDA which is being planned at the present moment will look into the federalisation of various aspects of industrial promotion and federal co-ordination in pioneer legislation, site policy, industrial finance, feasibility studies, industrial research and administration. There is no doubt that the successful implementation of these plans and proposals will bring about a more rapid rate of industrialisation and help to solve many problems connected with it.

The case study of the Dunlop Company had demonstrated in practical terms the part which foreign investors can play in the field of industry. The arrangement and set-up of the company in accordance with the terms of the pioneer industry's requirements will benefit the economy as a whole. In such an arrangement, the objection to foreign economic dominance will appear insignificant. Both parties stand a chance to gain from such an enterprise.

The policies of industrialisation must not conflict with the objectives of the Government. In the use of tariffs the living standard of the people must not deteriorate because of the avowed aim of the Government to protect and raise the standard of living. The unwise use of tariffs may bring into being new industries which have no economic basis of existence, thus wasting scarce resources and raising the prices of consumer goods.

It is recognised that tariff protection may be suitable and desirable where though in the short run the prices of the local goods may be a little above foreign

⁴¹Refer to I.B.R.D. Report on the Economic Aspects of Malaysia, op. cit., pp. 38-39.

competitors; but within a few years, the company would be able to compete without protection. There are other conditions which justify industrialisation behind a tariff barrier. Tariff may be suitable where the price is competitive with imports to give investors confidence, to prevent the splitting of market and to utilise a larger scale of production. Brand preference for foreign goods is rather prevalent in Malaysia, Made-in-Malaysia goods although of the same quality or price are often discriminated in preference for foreign brands. Tariffs may bring about an opportunity to overcome such a superficial preference. Since the Government is out to attract foreign investors; high tariffs may induce them to establish their plants because of the fear of losing their market here.

The objections to tariffs may include; the hampering of the free flow of trade, the fact that "infant industries" may never develop and that once a tariff exist, it would be difficult to remove it. The latter reason is that a vested interest is created by the traders, trade unions, employees and others concerned that business losses and unemployment would result if the tariff barrier is to be removed.

The Government recognises that the judicious use of protective tariffs in the long run would be the most successful method of implementing its industrial policies. However the level of protective duties would have to be reviewed by the Tariff Advisory Board after a few years in order to consider whether a further period of protection would be appropriate.

The crucial problem of all these devices and plans to create a favourable prospective investment climate lies in this fact - whether the rate of expansion and progress of industries will be sufficient to solve the aims and objectives of industrialisation, which in turn will help solve the major economic problems of Malaya. Will the rate of growth in the industrial sector bring about greater prosperity, greater utilisation of natural and human resources and greater stability to this country?

At present the rate of expansion in the pioneer companies if taken as an indicator is steady and can only absorb about one-third of the yearly expected increase of 6,000 new workers (see Second Five-Year Plan) in the manufacturing sector. The absorption of new workers by the non-pioneer industries has also to be taken into account to see whether the employment objective set out for this sector can be achieved. A much more rapid rate of growth in the manufacturing sector is needed if the other objectives for example; contribution to national income, stability and growth are to be achieved. As it is manufacturing plays but a very minor role in the economy of Malaya.

The rate of expansion in the industrial sector in the future would depend on many factors which we have examined in the previous chapters. This would relate to:

(a) the political stability which would include a stable government which is efficient, dependable and progressive in its outlook. In this connection, its external and international relations with other countries may help or hinder economic development in general and manufacturing in particular. At the moment, the confrontation policy of Indonesia may prove to have adverse effects on the economy of Malaysia. Defence budget will have to be increased and other scarce resources diverted to solve this problem. If the Indonesian confrontation turns out to be really serious, local and foreign investors would be unlikely to risk their capital here,

However, the present outlook on investment is not too dark. The Federation Government has recently begun to raise loans in London, New York and Bonn.⁴² Funds will be available to provide capital for industrial development or defence. In the matter of defence the United Kingdom, Australia, New Zealand, the United States and other countries are providing or will provide aid to the country. Technical aid will continue to be available from the United Nations, under the Colombo Plan, the U.S. Peace Corps, private foundations and other organizations.

(b) the degree of prosperity in the economy generally especially that of agriculture, planting and mining. The result of declining prices for rubber which is forecast to bring about 55 cents per lb. by the year 1970 will have unfavourable results on the Balance of Payments. This is because rubber accounts for about half or usually more than half of the Malayan exports, thus the price of rubber has an important effect on total export value.

The figures below will show that the balance of payments has deteriorated from a surplus of \$308 million in 1960 to a projected deficit of \$397 million in 1965.

Balance of Payments, Current Account
Balance, Malaya, 1960-65.
(\$ million)

<u>Year</u>	<u>Current Account Balance</u>
1960	308
1961	14
1962	-203
1963	-209
1964	-407
1965	-397

⁴²Interim Review of Development in Malaya of the Second Five-Year Plan, op. cit., p.54

Source: Department of Statistics.

In connection with the balance of payments difficulties, it might be necessary to import only the essential goods and not to import goods that are already being manufactured in Malaya. Exports of goods and services would have to be increased and thus industries may benefit from the adverse balance of payments, (assuming their own import requirements are met).

(c) the extent to which local and foreign capital will respond to the various Government inducements and concessions available to industries: such as tax reliefs through the Pioneer Industries Ordinance, the provision of services, financial inducements and the protection of the market. These topics have already been discussed in the previous chapters. In passing several things may be noted. The granting of tax concessions should be, as it is, temporary only; because one of the long run advantages of efficient industrialisation is that through direct taxation, a source of public revenue can be obtained. This would be dynamic, reliable and equitable.

At present there is no problem in the location of industries as there is no restriction placed on them. There might be a possibility that in the future, steps would be taken to ensure a more equitable distribution of industries in certain areas. In addition, certain regions or States in Malaysia might concentrate on heavier or lighter types of industries depending on the advantage of a lower cost and more efficient production.

Steps should be taken to limit wasteful duplication of production facilities in cases where one large firm would be sufficient to serve the entire potential domestic market unless further production is to be exported and there is no excess capacity. Industries may have to be export-orientated later on, although at present there is much scope for industries in the import-replacement field.

(d) the speed in which natural resources and human resources can meet the challenge of industrial production. It is hoped that with the establishment of industrial research more local raw materials may be exploited for industrial purposes. These raw materials will have to be produced at the most efficient and lowest cost possible condition. Quality and standardisation will have to be emphasised.

There is a lack of local managerial skills, technical know-how and local entrepreneurs in the field of industrialisation. The examples of Japan, India and Hong Kong which have to a great extent succeeded in overcoming these problems can point the way for Malaysians to follow.

Training in management and technological skills will be emphasized in the future. Institutes to train executives in business administration and management will be a feature in Malaya and Singapore. The Deputy Controller of the Industrial Development Division will recommend such an institute to be set up in Malaya.⁴³ Meanwhile, preliminary work has been done on a plan to establish an Institute of Management to cater for the urgent requirements of top management personnel in Singapore.⁴⁴

In addition, it is likely that the University of Singapore will be establishing a Faculty of Technology in its expansion programme.⁴⁵ This and other schemes which emphasize the importance of acquiring technological skills will help Malaysians to industrialise faster.

Local entrepreneurs will be much more willing to invest their capital when management, technology and technical skills are abundant in industries. At present, they may have an outlet through joint ventures with foreign investors but for the future an increase rate of industrialisation has to be provided by local entrepreneurs with local capital. In this way only can the full benefits of industrialisation be received. Political independence must go with economic independence.

(e) the present success of established manufacturing industries. The phrase: "Nothing succeeds like success," is also applicable to prospective industrialists. Industries do not bring quick profits, on the contrary they might have to sustain losses in the first few years. Although there are no figures to substantiate the profitability of present industries, in 1963 generally speaking one in seven were not making profits yet.⁴⁶ Some were breaking even and others were doing very well. In one case profits of as much as 4,000 per cent were made.

The investment climate in Malaya has attracted and will probably attract industrial development so long as the provision of positive inducements are preserved and further improved. For it is only possible to solve many of the economic problems and to reach the goals and objectives of industrialisation when the rate of industrialisation is of a sufficient rate and size.

⁴³See the Malay Mail, June 29th, 1964.

⁴⁴See Straits Times, June 25th, 1964.

⁴⁵See Straits Times, July 3rd, 1964.

⁴⁶Refer to Straits Times, June 9th, 1963.