

CHAPTER III

AN ASSESSMENT OF INDUSTRIAL DEVELOPMENT

Although Malaya is still regarded as an agricultural country (the agricultural sector contributes about 49% of the G.N.P. and employs 60% of the total labour force output), her economic expansion has been from all sides. The agricultural development has been very impressive, but the one that strikes our notice is the increasing momentum of industrial development, especially in the last few years since Malaya attained independence. The first of the new industrial development can be discerned by any lay observer in the form of industries set up in the various industrial sites. What the observer cannot see but may be a more important indicator to industrial development is the increasing amount of blue-prints, pioneer applications under consideration and market studies.

Manufacturing industries were set up in Malaya long ago, but it is in recent years that industrial development has been stepped up, due to the growing acute pressures as explained in the previous chapter, and the increasing realisation of the significance of industrialisation to a developing country.

Historical Development.

Actual industrialisation started late in Malaya, because it was only in recent years that the need for it became more acute. But there are other factors, both economic and political to explain this. For the most part, raw materials produced in Malaya do not lend themselves for any basis of industrialisation. Hitherto, Malaya was under colonial rule, and the then authorities were not induced to follow a

policy of deliberately fostering local factory industries , so long as the production of rubber and tin could provide full employment for ~~the~~^{the} people and there was no population pressure. Manufacturing might mean the loss of rubber and tin interests. No doubt, it was true that even without official encouragement or protection, some of the more enterprising and prosperous Chinese community might undertake industrialisation even on a small scale, but the smallness of the market and the competition faced from other industrialised countries catering for larger markets were other limiting factors. Furthermore, the "rubber and tin mentality" was prevalent. These two industries provided better returns for their investment.

Whatever manufacturing enterprises existed at that time were mainly concerned with processing of raw materials (such as rubber and tin) to a form suitable for export. Industrial expansion was only at first stimulated, though not intensified, during the First World War. Light manufacturing industries to cater for the local people were developed. Industrial development was again given an upstart during the Great Depression in the 30s; it went on through the Japanese occupation and continued on after the Second World War. During the latter period, an internal market was created and developed by the increasing population with rising standards of living. Many more manufacturing enterprises were founded and the range of products were widened to include such items as cement, glass, soap and paints. But even up to 1947, according to the International Bank Mission Report¹, only about 9% of the working people was engaged in manufacturing industries, the majority of which were devoted to simple processing and the servicing of mining and transport equipment.

¹ International Bank Mission for Resonstruction and Development: " The Economic Development of Malaya" 1954.

So far, whatever industrial expansion that had taken place had been haphazard and there was no specified programme for a coordinated industrial development. With the changing conditions faced in Malaya, the International Bank Mission was invited to study the economic situation in 1954. In its report, the need for industrialisation and industrial programme was emphasised. This was reiterated by the Industrial Development Working Party (this mission was set up by the Federation government in 1956). Further policy recommendations for development were outlined.¹ In November 1956, as an initial step, tariffs were raised (tariffs were first levied in 1954, but for revenue purposes). The result was that there was a spate of industries being set up in the Federation, many of which were from Singapore. As a first step to plan and coordinate the industrial programme, the Development Division within the Ministry of Commerce and Industry was set up.

Recent Industrial Development.

With the setting up of the Industrial development programme, a more persistent and continuous development was carried out. Since then, important structural changes has taken place in the manufacturing sector. The small scale industries have declined in importance, while the more capital intensive industries have increased relatively. The actual extent of development is very hard to determine as there is no systematic survey of this kind since the implementation of the industrial programme. However, some idea of the industrial development can be gauged through the examination of various statistical data as listed below, the inter-relationship among them and from inferences drawn from the overall economic development of the country.

¹ It is of interest to note that the present policies of industrial development are the implementation of many of the main recommendations set out by the two missions.

Increase in Manufacturing Establishments

One way of indicating whether there is any development in the industrial sector is to see whether there is any increase in the number of manufacturing establishments being set up. From the table showing the number of establishments of elected manufacturing industries in the Federation of Malaya (Table I in the next page) there is seen an increase from 1545 establishments in 1959 to 2267 establishments in 1962 - rather an impressive increase. It is to be noted too, that the total increase in establishments is continuous throughout the 4 year-period. It would be very much better and more conclusive if we could compare a longer time span, but unfortunately we cannot do so because the first manufacturing census was only carried out in 1959. However, there is no doubt that as far as the number of manufacturing establishments is concerned, it has increase quite substantially.

Table I also provides us with the trend of the increase of establishments in the various industrial groups. From the table, we see that the trend follows very closely to the trend of industrial development observed in many other countries. In the process of industrial development, there is always observed a marked drop in the relative importance of factories concerned with the processing of raw materials and food, and a relative expansion of the consumers' goods industries and the more capital intensive industries, such as the manufacturing of metals and machinery. The establishments concerning with the processing of estate type products have decreased somewhat between 1959 and 1962. Those establishments in the food, beverage, tobacco and rubber products manufacturing categories do show an increase in number. But this must not be taken to mean that the trend does not conform to the usual trend. The absolute numbers have increased, but the growth has been very small when a comparison with the growth of other manufacturing groups is taken. For example , the chemical products manufacturing industries, the basic metal products manufacturing industries and the transportation

TABLE I

NUMBER OF ESTABLISHMENTS OF SELECTED
MANUFACTURING INDUSTRIES, FEDERATION
OF MALAYA, 1959 - 1962

Industry	Number of Establishments			
	1959	1960	1961	1962
Processing of Estate-Type Agricultural Products in Factories off Estates	157	156	156	155
Food Manufacturing Industries.	239	239	241	319
Beverage Manufacturing Industries	73	71	72	80
Tobacco Products Manufacturing Industries	143	149	146	143
Wood Product Manufacturing Industries	413	427	439	470
Rubber Products Manufacturing Industries	46	45	43	46
Chemical Products Manufacturing Industries	127	130	136	315
Non-metallic Minerals Products Manufacturing Industries	136	132	134	188
Basic Metals and Metal Products Manufacturing Industries	105	108	106	275
Machinery Manufacturing Industries	60	59	63	146
Transportation Equipment Manufacturing Industries	34	36	37	93
Other Covered Industries and establishments	12	20	22	37
Total Selected Manufacturing Industries	1545	1572	1595	2267

Source: Department of Statistics, ' Survey of Manufacturing Industries, Federation of Malaya, 1962. '

equipment manufacturing industries, have increased somewhat.

This trend of growth and the increase in absolute numbers of establishments should provide a good evidence to show that industrial development has taken place in Malaya.

Increase in Pioneer Companies.

Perhaps a safer and a more adequate indication that industrial development has been carried out in this country is the increase in the number of pioneer companies (companies that enjoy a certain period of tax-free holidays)¹. This is because, on the one hand, pioneer status is granted mainly to encourage new industries to be set up, and on the other, because the figures, being directly kept by the Ministry of Commerce and Industry, are more up to date and can be relied upon to a greater extent.

Amongst the increase in the number of manufacturing industries shown in Table I, pioneer industries are also included. The number of pioneer industries has also increased together with the general increase of the other manufacturing (non-pioneer) industries. Up to the end of September 1961, in all 65 companies in the Federation had been granted pioneer status. The nominal capital of these pioneer companies was \$189.6 million of which \$35.5 million had been called up. Of this amount, 54% represented overseas capital and the rest was local. The growth of pioneer companies was quite remarkable, considering that pioneer industries did not start until 1958. More than 5,000 Malayan had found employment in these new industries. Even at the end of 1961, the number of pioneer companies had increased up to 71, and the called up capital was about \$54 million.

The remarkable increase had continued on. From 1961 to the middle of 1963, there was a further increase in pioneer firms, from 71 to 99. With it, the amount of called up

¹ This will be dealt with more elaborately in Chapter 4.

capital increased from \$54 million to \$134 million. The nominal capital in June 1963 was \$634,970,000, of which 73% was supplied from overseas sources. (Refer to Chart I on page 20 and Chart II on page 21). These companies will have an estimated total employment of about 10,000 in the initial stage and which is expected to increase to about 15,000 by the end of the tax relief period. So far 70 companies have started production.

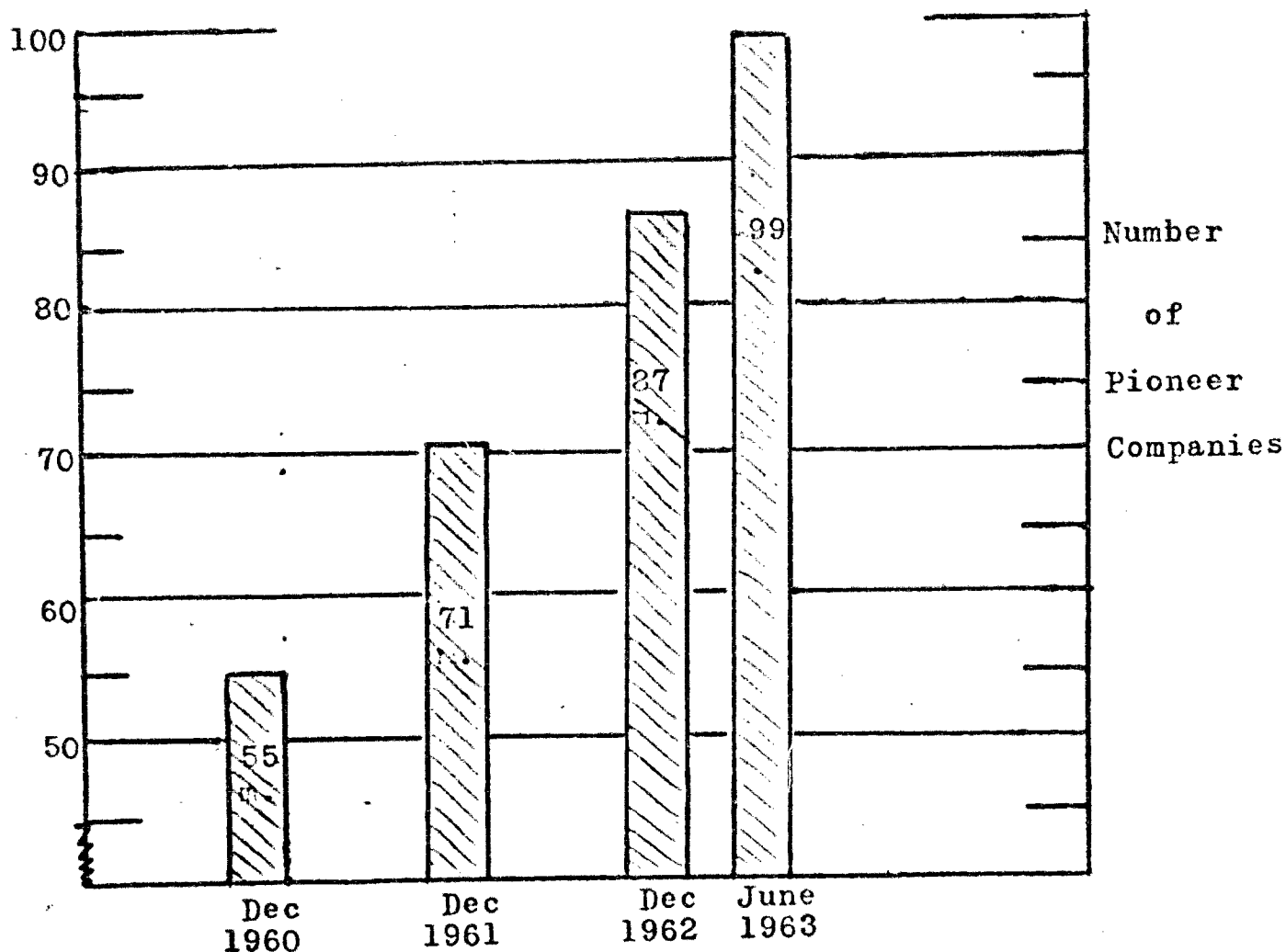
The rapid increase in pioneer firms shows the eagerness of the investors to take advantage of this privilege. It also shows even without any amount of optimism that industrial development is prevalent.

There is an interesting point to note here. While there was an increase of 12 pioneer firms from 1962 (when there were 87 pioneer companies) to June 1963 (when there were 99 pioneer companies), the called up capital was increased by \$65 million. This is a very high increment as compared to an increase of only \$15 million in called up capital from 1961 to 1962 considering that there was a greater increase of pioneer firms (an increase of 16) during this period. The cause of this is due to the fact that the 12 firms set up were of a more capital intensive nature. For example, amongst the 12 companies, there were 2 petroleum industries (Esso and Shell) which have very high capital basis. At present, inquiries regarding the setting up of iron and steel plants (again extremely high capitalised) and other heavy industries are being carefully studied and everything possible is being done to materialise them. These show that more capital intensive industries are growing in importance - a sign again that industrial development has been slowly gaining momentum.

A very good way to accelerate industrial development is the setting up of more heavy industries, in the sense that they have high capital basis. To this end should the government pay more attention. However, this does not mean

CHART I

FEDERATION OF MALAYA,
NUMBER OF PIONEER COMPANIES ,
(from Dec. 1960 to June 1963).

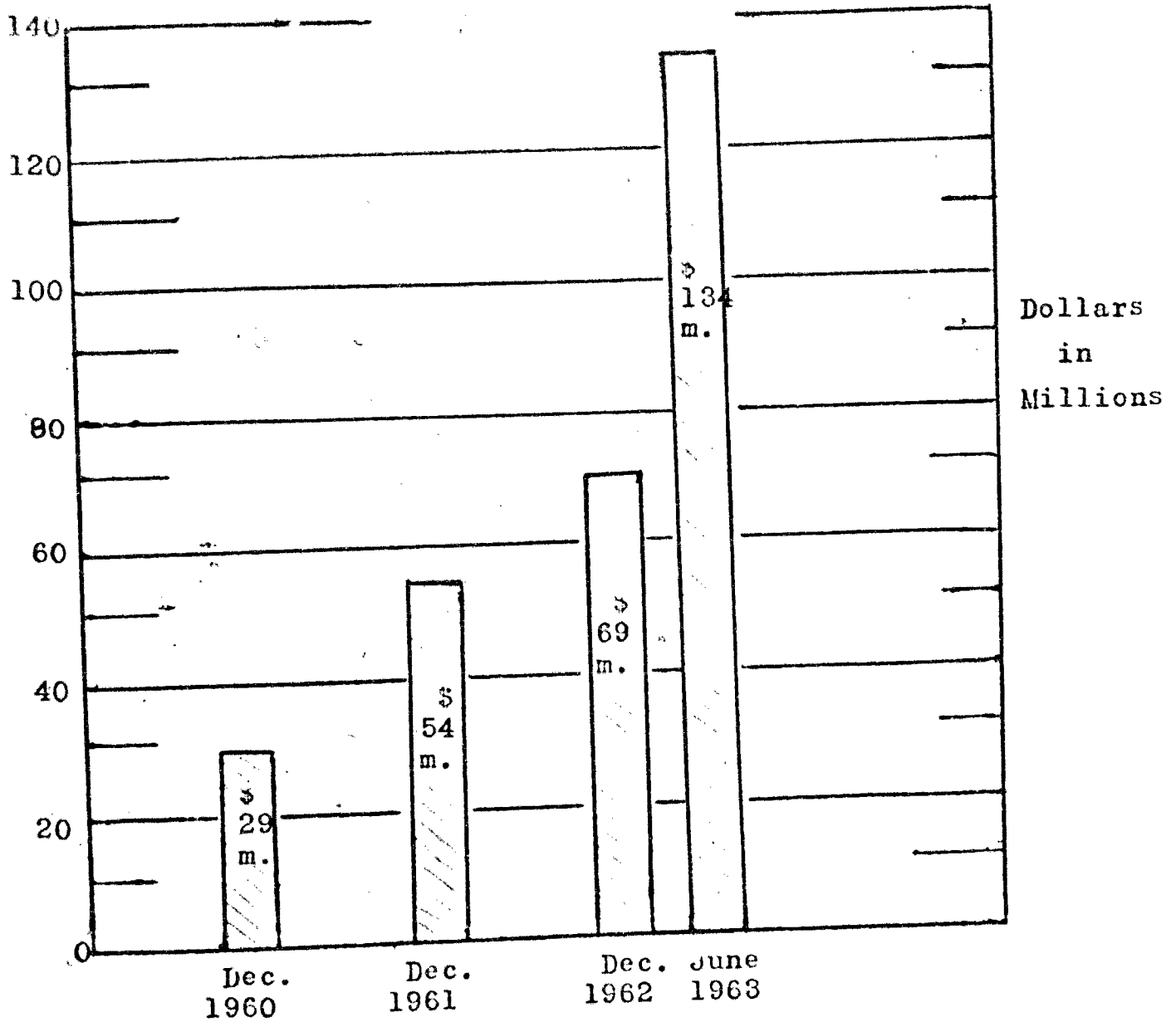


Source: Data obtained from the " Interim Review of
'Development in Malaya under the Second Five
Year Plan " December 1963.



CHART II

FEDERATION OF MALAYA,
CALLED UP CAPITAL OF PIONEER
COMPANIES, (from Dec. 1960 to June 1963).



Source: Data obtained from the " Interim Review of Development in Malaya under the Second Five Year Plan " December 1963.

that light industries should be discouraged, but simply that more efforts should be done to welcome the participation of such heavy industries.

Increase in the Value of Output.

Another good indicator that industrial development has taken place is the percentage growth of net output produced by the manufacturing establishments. This is because if there is a growth in the value of the net output, it can either mean that the number of establishments has increased (on the assumption that the existing industries produced the same value of net output) or that the value of net output has increased (this time on the assumption that there is no increase in the number of manufacturing establishments) or both. That the number of establishments has increased, there is no doubt about it. But an increase of industries without a proportional increase (if not more than a proportional increase) in the value of net output cannot be regarded as favourable to industrial development. If the proportional increase of establishments is higher than the proportional increase in the value of net output, this may mean that some firms are producing at a smaller scale than they should be, which may lead to waste and high prices. This cannot be regarded as a step towards industrial development. Rather it is a detrimental aspect to the process of development. But if the percentage increase in net output is higher than the proportional increase in the number of manufacturing industries, then it can be a proof that industrial development has taken place.

On the next page is Table II showing the net value of output of selected manufacturing Industries from 1959 - 1961.¹ It shows roughly a 33% increase in the net value of output in the total selected manufacturing industries. There was only about 4% increase of the number of manufacturing establishments in the same period. This, therefore, shows

¹ Due to the extension of coverage in the 1962 Survey of Manufacturing Industries, the 1962 figure cannot be used for comparison.

TABLE II

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

(\$ thousand)

Industry	Net Value of Output		
	1959	1960	1961
Processing of Agricultural Products (Estate - type) in Factories off Estates.	43,730	47,542	43,255
Food Manufacturing Industries	16,139	21,729	21,150
Beverage Manufacturing Industries	9,658	11,249	11,145
Tobacco products Manufacturing Industries	10,624	17,866	22,220
Wood Products Manufacturing Industries	28,207	38,089	35,098
Rubber Products Manufacturing Industries	12,377	14,312	15,265
Chemical Products Manufacturing Industries	15,083	20,004	24,582
Non-metallic Minerals Products Manufacturing Industries	5,933	7,643	9,033
Basic Metals and metal Manufacturing Industries	2,799	3,695	4,245
Transportation Equipment Manufacturing Industries	2,552	3,169	3,572
Other covered Industries & Establishments	12,451	16,020	21,038
Total, Selected Industries	166,594	209,996	221,312

Source: Department of Statistics, " Survey of Manufacturing Industries, Federation of Malaya, 1961 "

that the net value of output has risen more than the proportional increase in the number of industries. Note that, too, that some industries, such as those concerning with processing of agricultural products, show a drop in the net value of their output. This conforms to what we have said earlier about the declining importance of such industries. Both of these are a reflection of industrial development.

If we compare this increase in the net output to the increase in employment in the selected manufacturing industries, we can bring out another point which we have already stated, as an encouraging sign of industrial expansion. Whereas there is an expansion of 33% in the net value of output, there is only a 16% increase in employment. This is an indication of capital-intensive nature of the establishment, especially the new industries.

Increase in Employment.

Employment figure in the industrial sector is still another, though not the least important, indicator of industrial development. Increase employment can come about either due to the increasing number of establishments being set up, or to the expansion of the existing industries which inevitably employ more people, or to both causes. Therefore unless industrial development has taken place, there will not be an increase in the employment in the manufacturing sector.

Table III on page 25 shows the increase of employment in the selected manufacturing industries between 1959 and 1961. In 1959 the employment figure was 40,836, but in 1961, the figure had gone up to 47,289. This shows that extra 6,453 people were employed in the manufacturing sector during that period - a reflection that some development in that sector must have taken place.

Further, the table showing the increase in employment, when examined under the various categories, conform to the trend of industrial expansion. Employment in the estate-type processing industries shows a drop in employment

TABLE III

EMPLOYMENT (FULL TIME & PART TIME) IN
 SELECTED MANUFACTURING INDUSTRIES,
 FEDERATION OF MALAYA, 1959 - 61.

Industry	E m p l o y m e n t		
	1959	1961	Change 59 - 61
Processing of Estate-type Products in Factories off Estates	8,312	7,945	-367
Food Manufacturing Industries	3,966	4,493	527
Beverage Manufacturing Industries	1,859	2,009	150
Tobacco Products Manufacturing Industries	3,470	3,874	404
Wood Products Manufacturing Industries	8,142	9,478	1,336
Rubber Products Manufacturing Industries	5,030	5,429	399
Chemical Products Manufacturing Industries	2,376	3,131	755
Non-metallic Minerals Products Manufacturing Industries	1,957	2,697	740
Basic Metals and Metal Products Manufacturing Industries	1,688	2,345	657
Machinery Manufacturing Industries	1,073	1,471	398
Transportation and Equipment Manufacturing Industries	760	1,017	317
Other Covered Manufacturing Industries	2,263	3,439	1,176
Total, Selected Manufacturing Industries	40,836	47,289	6,453

Source: Department of Statistics, " Survey of
 Manufacturing Industries, 1962 ".*

* Due to the extension of coverage in the 1962 Survey, the 1962 figures cannot be strictly used for comparison purposes.

figure, while employment in those industries concerning with tobacco products, beverage products and food manufacturing, show rather an insignificant increase relative to the increase in employment figure of the other manufacturing industries such as wood products and chemical products manufacturing. It is true that employment in the Machinery manufacturing industries, and the transportation and equipment manufacturing industries show also a slow relative increase, but it can be explained by the fact that these are more capital intensive industries and as such need to employ less people.

General Inferences.

There are other evidences to show that industrial development has taken place in this country. In the first place, there is a marked evidence to show that many important items of imports have been replaced by local manufactured goods. Commodities such as cigarettes, biscuits and cement which formerly had occupied a large part of the international trade had dropped substantially. This drop cannot be explained by a drop of home consumption because per capita consumption has been favourable in the past years. It can only be explained that these imported goods are substituted by locally manufactured goods.

Secondly, and this may be overlooked, is the increasing number of investors applying for pioneer status for their firms and for permission to set up industries in the Federation. Just recently, for example, 4 more new firms were proclaimed pioneer companies. A car assembly plant has been set up and a sugar refinery is going to start production. Many countries, both in Asia and Europe, have continuously express their intentions to come to Malaya to invest in industries. So far, many businessmen and industrialists from 14 foreign countries (from Japan, Hong Kong, United Kingdom, United States, France and Australia to mention just a few) have participated in industries. This is a situation

in sharp contrast to that of a decade or so back, when foreigners had second thoughts before coming to invest in the Federation. This is another proof that the industrial sector has expanded quite considerably during the period.

Finally, the government has approved a total of \$27 million for industrial development programme (e.g. the building of industrial sites etc.), a sum vastly different from that invested in the First Five Year Plan (1956 - 60) which was only 12.1 million dollars. This is in anticipation that the industrial development which has taken place will continue on. Otherwise there is no justification for such an increased sum of investment.

Initially, Petaling Jaya in Selangor was the only industrial site. But now, many new industrial sites, like ~~that~~ that of the Tasek Industrial site (in Perak), the Sungei Mah Mandin Industrial site (at Butterworth in Penang) and an industrial area in Johore, have been set up. Many more are being planned, the more important being in the Batu Tiga area, the Taiping area and the Jalan Larkin area. These are done to cater for more industries that are being built up.

From all these evidences, there can be no doubt that industrial development has taken place. An exact assessment, however, cannot be determined in this fashion. But this is not important to us. What we are concerned is with the question whether there is any development in the industrial field. If there is any development, however small, then the sign is encouraging, because we must remember that industrialisation is only a recent undertaking in the Federation of Malaya and as such there is little expectations that the rate ^{of development} will be a fast one. However, if a start has been made, from which errors and inadequacies can ~~be~~ be amended, we may look forward that given the present conditions, industrial development can be carried on in the future and at a faster rate.