

CHAPTER II

REASONS FOR UNDERTAKING INDUSTRIALISATION

Malaya has been experiencing economic growth and in recent years, the economic accomplishments have been rather impressive. But in the process of attaining economic growth, many problems have arisen and lately these problems have been magnified and become clearer. For economic growth to continue on to take place, such problems must be overcome; otherwise they may act as a deterrent for further growth. The problems may be hoped to be overcome in a number of ways, but lately with an increasing clearer realization of what industrialisation can play in solving these problems and at the same time in determining the economic growth of a country, industrialisation and sustained industrial development may be the best instrument whereby most, if not all of the problems faced can be hoped to be overcome. So in fact, looking from another point of view, these problems act as pressures for industrialisation to be undertaken.

This chapter will outline the various reasons that probably made Malaya undertake industrialisation.

The Need for Diversification.

One main reason for Malaya to industrialise is the need to diversify the economy. The Malayan economy is very unstable and inflexible, because it over-specialises and excessively depends on 2 products - rubber and tin. These 2 products constitute about 80% or more of the total exports and employ more than $\frac{1}{2}$ of the total working population. As long as both these goods can give good and steady returns, Malaya will actually be better off in still continuing to specialise in both these goods. The prosperity of Malaya in

the past was due largely to the good prices fetched from these 2 products. Now the prospect for good rubber prices is a myth. With the keen competition from synthetic rubber, the prices of natural rubber is constantly on the downward trend. For example in 1960, the rubber price was M\$ 1.06 per lb. but in 1963, it was only 71 cents per lb. There is no reason to believe that the price for natural rubber may improve, but there is every indication and expectation that it will continue to fall. Whatever it is, it shows the danger of price fluctuations. The same goes with tin. With its inelastic supply and demand, the prices of tin can experience very wide fluctuations. (A sharp rise in the price of tin is expected, but there is no guarantee that it will not fall later).

The implications resulting from the changes in the prices of these 2 products are obvious. The Malayan economy is already very inflexible and therefore ill-equipped to withstand the strains caused by changes up to 30% of the Gross National Product. In the past the need for diversification was not so acute. Risks of social and political unrest were minimised, because the labour force (mainly Chinese and Indians) was flexible and repatriation could always be the answer to the final solution. This safety valve no longer exists, especially so with the independence of Malaya. The only way to counter the potential threat (and there will always be a threat so long as there is a risk of an uncertain market for rubber and tin) to the stability of our economy is to diversify the economy. Industrialisation offers the best way to diversify the economy and to stabilise the otherwise unstable economy .

No doubt, as far as the question of diversification is concerned, it can also come from the agricultural sector by the expansion and diversification of that sector (such as the planting of oil-palm, coconuts etc.). But in terms of both diversification to stabilise the economy and at the

same time to promote economic expansion of the country as a whole, industrialisation towards this end is by far the better way out, because of its wide economic and social implications on the other parts of the economy.

The Need for Economic Independence.

Another reason that probably leads Malaya to undertake industrialisation is the unwillingness to remain as suppliers of raw materials to the more industrialised countries both of Europe and Asia. Such dependence means that the situation of the Malayan economy is very dependent upon the demand of raw materials in the West, and the demand is very unstable and there is not likely to be much expansion in their demand of raw materials since the market for industrial raw materials is already substantial. It also means that in such a situation the industrialised countries reap the greater benefits of employment and income that flow from manufacturing. Any increase in the technology of the production of rubber and tin which can lead to lower prices will benefit the buyer of the products more than it will benefit the producer country, since these products are exported.

A dependence of this type cannot lead to economic maturity, in much the same way that political progress cannot be achieved unless a country has political independence. A way to gain economic independence is through industrialisation, because unless Malaya embarks on a programme of industrial development, it will still continue to be dependent on rubber and tin and therefore remains dependent to the more industrialised countries.

This is another point to augment the importance of industrialisation as a means of diversifying the Malayan economy rather than making use of the agricultural sector for this purpose. But whether the government has this purpose in mind as the main basis for undertaking industrialisation (while recognising the importance it can play) or is industrialisation undertaken for some other more important reasons

is still quite uncertain. The investment that enters into the agricultural sector is still relatively very much higher than that which enters into the manufacturing sector.

The Need for More Employment Opportunities.

Malaya is facing a very serious problem in the rapid increase in population. From 1947 to 1957 (the last Population Census) there was an estimated increase of 30% of the total population. This means that the annual rate of growth is approximately about 3%. Further, according to Mr. Wheelwright¹ there was an estimated increase of 298,000 to the work force between 1957 - 1962, while the increase of the work force between 1962 - 1967 is expected to be 451,000. This, he says, will not be changed by any change in the birth-rate, for the persons who will come into the labour force market is already living.

This problem of the increase in population is aggravated by the lack of jobs for those seeking work. Unemployment among the young is very acute. According to the Second Five Year Plan, agriculture by itself can only absorb at most 150,000 between the period of the Plan. This figure may be too optimistic. It is based on the assumption that there is no technical or mechanical changes or improvements taking place in the agricultural sector. If such improvements should take place (and there is a possibility) it means that less and less people will be needed to produce the food-stuffs to sustain the expanding economy. Furthermore, in the agricultural sector, underemployment already existed, so that less outside people need be employed. Again the attraction of agricultural jobs is not great compared to the magnetism of the town life, and there is already observed a rural exodus from the rural areas to the urban places. (This is a world-wide characteristic and Malaya is no exception).

¹ In his article "Industrialisation In Malaya". Printed in "The Political Economy of Independent Malaya". Edited by T.H. Silcock and E.K. Fisk.

All these mean that the agricultural sector may not give employment to the 150,000 figure. The approximate employment targets set by the Second Five-Year Plan for the other sectors are; construction - 60,000; transportation - 100,000; utilities - 4,500; government and other services - 40,000 . There is an expected decline in the employment figure in the mining sector.

This means that only about 300,000 people are expected to be given jobs during the Plan period. If Mr. Wheelwright is correct in his estimation, the increase of working population between 1962 - 1967 of 451,000 (this period corresponds rather closely to the Plan period) will not be able to find employment.

The unemployment problem is a very serious one. It has arisen quite naturally with the early stages of economic growth attained by Malaya. The absolute level is not important. What is important is whether it is growing or not; if it is growing it is an ominous sign. In Malaya, according to the Annual and Monthly Labour Reports, unemployment trend is proceeding upwards, and this upward trend, from the look of the present circumstances will continue on. For example the Reports show that in 1957 there was 38,679 unemployed and in 1962, the unemployed figure had gone up to 50,157.

Additional jobs must be found for the unemployed. Industrialisation is expected to provide as many as 30,000 jobs (as stated in the Second Five Year Plan). Of course, it is not expected that industries can absorb all those that are not employed by the other sectors, but they can employ many people who without industrialisation, may not be able to obtain any jobs at all. More important than this is the fact that the industrial sector has the greatest growth potential relative to other sectors, and this may in the long run absorb more people. This need for increased employment opportunities should therefore be a strong prima facie case for stepping up the rate of industrialisation.

The Need for Strengthening the Balance of Payments

So far, Malaya has been experiencing a very strong foreign exchange position. Malaya is in such a fortunate position because of good rubber and tin prices, since Malaya derives a great foreign exchanger in these two forms. These import earnings are used for payments of imports, and about 60% of the net imports consists of manufactured goods. As long as rubber and tin fetch good prices, the present favourable exchange position will be maintained. But should the prices fall, and it has been expressed many times that a decline in the prices of these two products is very likely (actually the rubber price at present is constantly declining), the foreign exchange position will be in a dangerous position.

Some measures must be adopted in order to prevent such eventualities. Since a large percentage of Malaya imports consist of manufactured goods, the best measure is to cut down this imports ratio. This means imports replacements by substituting the imported goods by our own manufactured goods. To do this necessitates the setting up of local industries. Thus industrialisation can contribute to the strengthening of our balance of payments by cutting down on the dependence of exports earnings of rubber and tin.

If industrialisation is recognised as a means of combating a decline in the strong exchange position, it must be all the more clear that industrialisation must be stepped up while Malaya is still experiencing a favourable foreign exchange position and when all necessary raw materials and equipment can still be bought easily from abroad. In other words make hay while the sun shines. In the long run, if industrial development can be sustained it may be possible, like the most highly industrialised countries, to make use of the manufacturing sector as an exchange earner.

The Need for Raising the Standard of Living.

To these pressures that probably explain why Malaya undertakes industrialisation, can be added another one. And

this is the need to improve and increase the living standards of the people in Malaya.

Standard of living must rise with the economic growth of the country. A characteristic of all economically advancing country is the increasing marginal propensity to consume and the increasing marginal propensity to import . These demand that the wealth of the people must be sufficient .

In the past three or four years, the per capita production of the Malayan economy has increased somewhat (output increase is 4.5% / year, while the population growth is only about 3% / year). But as it stands, the per capita income in this country has dropped considerably since 1960 (it fell some 4% in 1961 and stayed about the same in 1962). However, the living standards have been protected from falling drastically through the substantial inflow of foreign capital, especially in the form of private investment. But how long can foreign capital be used to protect the living standards from falling? Furthermore, instead of using the conservative measure of preventing the living standards from falling, every effort should be directed to raise them, and one way of doing this is to raise the per capita income of the people.

To raise the per capita income, the overall national income must rise relatively faster than the growth of population. Rubber and tin will still continue to supply the major part of the national income, but at a decreasing percentage. To raise the overall national income must therefore mean that other items that can contribute to the national income must be used. Industrialisation is probably one of the best means that can be used to raise the national income of the country. The significance of the part it can play in this field must be recognised. Industries are growth indicator. The expansion is cumulative. They will give rise to other economic units, such as export and import agencies, advertisement houses and other tertiary industries. The employment of workers in the manufacturing industries will lead to the employment of other

workers in industries producing raw materials and foodstuffs. Wages will rise, more will be spent and the greater will be the multiplier effect. National income as a whole will increase. If the national income can increase more than the population growth, the per capita income will increase and the living standards of the people in the country can also hope to rise. Industrialisation can, therefore increase the living standards of the people, and this is probably a reason why industrialisation is undertaken in Malaya.

To what extent industrialisation can overcome these problems which are in fact the very pressures that caused such an undertaking, is still yet to be decided. These pressures are real, though we cannot say which the specific pressure or reason is that is of overriding importance in making Malaya industrialise. The importance of industrialisation as a means of diversification cannot be over-emphasised. The role it can play to overcome the other problems must also be recognised, though the results must be patiently watched, since industrialisation in Malaya is only a recent undertaking and still constitutes a minor sector. No doubt, since the year when industrialisation was undertaken, the development has been impressive, it is not yet fully entrenched. The significance will become clearer as it develops, although there can be little doubt even now that " for the future, the importance of manufacturing to the Federation long-run development and economic diversification cannot be over-emphasised ".¹

¹ Federation of Malaya
Second Five Year Plan
1961 - 1965.