

CHAPTER V

ENVIRONMENTAL FACTORS

Incentives are important, but do not in themselves attract industrialists. What is equally vital, if not more important, is the environment (or the investment climate) in which the industrial development is carried out. Unless it is conducive to industrial development, no amount of incentives given can assure that the industrial economy can expand. In the Federation of Malaya, the industrial environment has been very favourable due to many factors and this favourable industrial environment has undoubtedly allowed industrial development to take place in the country.

In this discussion of the factors that have gone to create a favourable industrial environment, we shall consider the environment as consisting of three aspects. (a) political aspect i.e. considering the political environment, (b) economic aspect (or the economic environment) and (c) social aspect (or the social environment). The last 2 are rather closely connected.

A Political Environment:

The political environment in the Federation has been favourable to industrial development. This is due to the political stability which is dependent greatly on the government policies regarding political matters as well as matters of economic significance.

It is the government stated policy that it encourages industrialisation and will do its very best to see that it is carried out successfully. Therefore, in policies regarding this field of economic activities, the government is firm and positive. Thus the incentives offered by the government to promote industrial development. Besides this, it has also made every means of smoothing the way, displaying a maximum of goodwill, speed and efficiency in removing minor

obstacles, attending promptly to requests and refraining from obstructing industrial progress. In other words, besides the granting of incentives, the government has also attracted industrialists through the implementation of all sound rules of hospitality.

In internal political matters, the government is sound and just as can be proved by the absence of any major political crisis. A political crisis can undo all the good work done. As far as the foreign policies are concerned, the government is very friendly and has close ties with many democratic countries, which incidentally facilitate the signing of treaties and agreements in matters regarding foreign capital participation in the Federation.

The part that political stability has played in industrial development is obvious. Industrialists are more confident in setting up industries because they are quite certain that their production will not be suddenly interrupted by any strife or unrest. The political stability means significantly more to the foreign investors. There is no point in granting inducements to interested foreign investors, if they have the idea that they have little or no chance of getting any remunerations or their capital back because of political unrest. Thus, political stability is the ultimate factor in foreign participation in local industries.

Besides providing confidence to foreign investors, political stability in the Federation has helped the country to attain economic growth. Economic development in the other economic sectors has a 'pulling' effect on the industrial sector. After all, the expansion of the manufacturing industries (when the industries depend on the internal market, as is the case of Malaya), depends partly on the total population and partly on the purchasing power of the people.

B Economic Environment:

Political stability as a factor by itself is not enough. Economic environment is just as important, if not

these problems are eradicated, industrial progress may proceed on at a faster rate. The Central Bank of Malaya (or Bank Negara) which was only formed in 1959, has as its principal job the overcoming of these internal problems. Its major functions may be summarised as " to promote monetary stability and a sound financial structure in the Federation and to influence the credit situation to the country's advantage thereby creating a favourable atmosphere for industrialisation " ¹.

Strong Responsible Trade Unions.

The existence of strong responsible trade unions is another factor that has contributed to the favourable economic atmosphere in this country. Industrial relations between the employers and employees are very important in determining the success and failure of the business enterprises. Resentment of the workers leading to poor work , sabotage and strikes are the ultimate results of bad relationship, and these do not help in the ordinary operations of the business enterprises. Smooth understanding between the two major groups can go a long way to avert these interruptions to production and thereby in preventing low production. Business successes will lead to industrial expansion.

In Malaya such industrial relationship has been functioning satisfactorily. Employees are under strong and responsible trade unions, which are democratic, voluntary and independent, whereby both the employers and employees are free to negotiate and to enter into collective agreements on any matter they consider relevant and to choose their own arbitrator in cases of disagreement. These policies are based on the principle of building up industrial democracy

¹ " The Role of Central Banking in Industrialisation " by Ismail Ali Bin Mohamed Ali (Governor, Bank Negara Tanah Melayu) Printed in The Malayan Economic Review. Volume VIII No 1, April 1963. page 19.

with eventual aim of achieving self-government in industry.

It is clear that responsible trade unions exist here and that they have maintained a peaceful relationship between the workers and the employers. Malaya has a very low number of industrial strikes and man-days lost as compared to most countries (Singapore for example). In 1959 there were only 39 strikes (in 1958, before the trade unions were properly formed there were 69 strikes). An important point must be noted here. The number of industrial strikes should not be taken as the sole means of judging whether or not the trade unions are responsible and strong in the sense that they help in maintaining good relationship between the employers and employees. What should be more important is the ease at which strikes are settled and agreements formed. In Malaya, most of the strikes are easily settled - an evidence of responsible and strong trade unions and friendly relationship. Moreover, most of the strikes are justifiable and responsible.

Such friendly industrial relations have, beyond any doubt, played an important part in making the economic atmosphere of the Federation more conducive to industrial development. Any investors (either foreign or local) will have to think twice before before deciding to establish industries in any place in the Federation, if they think that the existing industrial relations are unreliable because of unruly and irresponsible trade unions. This is because, under such a situation, production may be curtailed suddenly.

The Existence of Commercial Houses.

In Malaya, the cost of production of manufactured goods is comparatively high.[^] This is due partly to the small internal market upon which the industries are dependent, and partly to the high cost of labour. For manufacturers (especially the newly established firms) to establish their own system of marketing or distributional channels will only

add to the cost of production, leading to prohibitive prices and lower sales. Industrialists who naturally are seeking materialistic gains will, therefore be more hesitant in undertaking any new ventures. This will not, of course, be favourable to industrial development.

However, in Malaya, the existence of established commercial houses has helped the industries in cutting down (or escaping⁷) marketing costs, which otherwise they have to incur if they have to establish their own distributional channels. These commercial houses have distributional network already established throughout the country. Factories, with the help of the commercial houses will, therefore, be spared the expenses of establishing their own distributional systems, which even if established may prove inefficient. Commercial houses also gain from this arrangement; they will not lose business they otherwise may have lost as a result of locally manufactured goods replacing imported ones which the established commercial houses have been handling for some time. As such, commercial houses, by helping to cut down production cost in this manner, have played a role in making the economic environment conducive to industrial development. However, it is important that commercial houses should be used only to facilitate the distribution of goods produced by the industries. Costs incurred in marketing research, product planning etc., must be met by the factories concerned because these activities cannot be dispensed with by any individual business unit. Again, commercial houses with their established distributional network should not be used blindly. A careful study and consideration to see whether or not such established channels are appropriate to one's marketing programme, should be undertaken first.

Manpower:

The existence of abundant and semi-skilled labour is yet another asset for the industrialists. In the Federation there is enough manpower, and they are available in most

places. The only drawback is that labour cost is comparatively high. Furthermore, the workers are very responsive, very adaptable to new ideas and willing to develop skills, if they are given enough vocational training.

However, there is a comparative shortage of technically skilled labour and professional management in the industrial field. The absence has not been detrimental to industrial development since it can be overcome by the ease of obtaining them from overseas when they are required. The recruitment of overseas skilled labour is not of a good policy in the long run, but at least the ease in getting them means that there is no fear of the lack of such an important factor of production should the need arise; otherwise the absence may prove harmful by deterring the establishment of manufacturing industries.

As such, the abundant supply of local semi-skilled labour and the ease of obtaining technically skilled labour from overseas when the need arises, have made investors more readily to set up new industries and to expand their existing ones.

Capital.

In the past there was a lack of domestic capital available to the industrial sector in the Federation. Institutional houses (insignificant number) and commercial banks (the majority of which were foreign owned - and still are - which held about 85% of their total bank deposits overseas), were very reluctant to extend advances to local manufacturers. Whatever loans that were granted were only for short period and the interests charged were rather high. With the setting up of the Central Bank of Malaya (or Bank Negara), one of the major functions of which is to influence the credit situation to the country's advantage, the situation has changed considerably. The Central Bank does that by the power of which it is granted, to prescribe the rates of interest applicable to

commercial banks and other financial institutions as well as to influence the bankers to grant loans only to suitable investors. As such, the attitude of the commercial banks and the financial houses towards the granting of loans have changed somewhat, especially so in the last 3 or 4 years. Domestic capital from these sources is much more mobile and can be achieved easier. Further, the loans are granted at lower rates of interest and for longer terms. This has given assurance to prospective industrialists that finance of worthwhile ventures can be available in appropriate amounts and at nominal rate of interest.

Domestic capital from sources other than the commercial banks and financial houses, is also relatively abundant, although it is not sufficiently tapped for industrial purposes. This has been borne out by the public's willingness to invest in local manufacturing ventures. For example, the Dunlop Malayan Industries with an offer of \$4.68 million shares was oversubscribed by 400%; the Malayan Tobacco Co. Ltd. with an offer of \$8 million stock was oversubscribed by 660%. The recent Esso Standard offer of \$17.5 million was also heavily oversubscribed by 16 times. Although these are partly explained by speculation, it is evident that there is a great deal of idle domestic capital. It had existed for a long time already, but it was not tapped due to the inadequacy of institutional channels through which the public savings could be effectively directed to productive investment. However, during recent years, many moves have been undertaken to remedy this. The setting up of the M.I.D.P.L. and an organised Stock Exchange are such moves. This means that domestic capital is always available for those who need it.

A stock Exchange is a mechanism more significant in tapping private domestic savings and direct them into prospective undertakings (industrial). Actually a Stock Exchange is a place where stocks and shares can be bought and sold freely, fairly and effectively. Further, it also acts as an agency

by means of which capital is raised through the sale of shares subscriptions. Therefore, through the Stock Exchange, the public can have the widest choice in vesting varying amounts of their savings in different types of securities which they can sell quickly whenever they wish to do so, and also industrialists are enabled to get capital for starting new enterprises and to extend their scope of operations. With the existence of an organised Stock Exchange (a fully operative Stock Exchange was only formed in 1960), it means, thus, that local capital can be obtained easily because of the willingness of the public to invest by buying industrial shares and also that prospective industrialists can obtain the necessary funds by shares subscriptions. The availability of enough domestic capital for industrial purposes have played a great role in making the economic environment more suitable for industrial development to take place.

C Social Environment.

Favourable social environment is also important to industrial progress. In the Federation, the social environment has been very conducive to industrialisation, and it plays its part, together with political and economic environment, in allowing industrial development to take place in the country. The factors that make the social atmosphere favourable are all due to the changes of the social attitudes towards the process of industrialisation by the people of the country, both from the employers' and employees' point of view respectively. To allow industrialisation to be carried on is to accept the changes that industrialisation brings to them, the changes in their social and cultural structure (because of specialization, lost of personnel importance and the acceptance of dynamic technology and economic advances). Although the ^{full} acceptance of social changes is a time consuming process, any changes towards these directions are contributing to create a suitable social climate for welcoming industrialists.

In the Federation, during the past few years, the social attitudes towards industrialisation are observed to be constantly changing in the positive direction. Industrial development has been slowly but steadily being accepted by the people. The philosophy of both the employers and employees towards the industrial process shows positive changes. They are slowly modifying their thoughts and attitudes in response to the industrial development taking place in the country. They are also, step by step, accepting the implications on their social structures. The employees have resorted to trade unions to do things in an orderly and peaceful manner to achieve their objectives, and the employers are also accepting and recognising the trade union movements. This is a situation in sharp contrast to say, the last 10 or more years. In real fact, the establishment of trade unions and their acceptance are evolutionary stages in the process of industrial development in any country. This is borne out by the history of industrial revolution either in England or in the United States of America (and for that matter any country at all, that have become industrialised). The formation of trade unions and their acceptance in Malaya reflects a change of social attitude that necessarily accompanies industrial development.

The employers, too, have adopted to changes in their thinking towards industrialisation. They have become more mature ('industrially') in their thinking regarding the running and organising the business operations. The business units as observed are becoming bigger than those units that were set up before the advent of any industrial programme. Moreover, the present business units are more well organised. To the industrialists, now, status has become more important to them¹. Formerly this was not so. In highly industrialised countries, such as Canada and the United States, business status is a very important aspect in the business world.

¹ Interviews with several managers and proprietors of various companies have confirmed this statement.

The public, too, have accepted industrialisation. The willingness of the public to invest in locally established manufacturing industries is a pointer to that fact.

Thus, the slow acceptance of industrialisation by the people in the Federation, together with its implications on their economic and social lives, have furnished factors in making the social environment of the country more conducive to industrial development.

It is very difficult to say which aspect of environmental factors play a more important part in allowing industrial development to take place. This is because it is very much doubted that industrial development can take place in the absence of any of the 3 aspects of environment. If there is political stability, but the economic and social atmospheres are unfavourable, it is obviously very difficult in perceiving industrial development taking place. Therefore, one aspect of environment depends and interplay with the others, and it cannot be said that one is more important than the other in allowing industrial development to be carried out.

In other words, for development in the industrial sector to take place, the overall investment climate must be favourable. And it must not be left to deteriorate. The government can do a lot in this direction. Any conditions and directions that are imposed on an industry should be kept to the essential minimum. The number and size of the factories must not be predetermined on the basis of market appraisals carried out by a government department. This applies also to the scale of production carried out by any individual industry. This should be the job of the industry concerned. The government should act in an advisory capacity only and let the private enterprises do their own thinking. Sometimes their assessments may be wrong. If so, they bear the loss. Decisions should be decided by those who bear the risks! However, government must step in when necessary to ensure that no industries act in ways detrimental to the process of industrialisation.