

faster rate than the policy-makers have accepted (in spite of the fact that a lot of money is invested for development plans in the rural sector).¹ Again, the long term prospects for stable products are not bright, and such expected loss of export earnings must be counteracted by a larger industrial base.

At the outstart, we can safely say that the prospects for continuing the present industrial development, and maybe at a faster rate, in the future are bright indeed. Many problems will be faced, but these are minor obstacles which can be easily overcome. In contrast, many conditions will be found to be appropriate for future development.

Investment Climate:

There is clear evidence that the present favourable investment climate which has played a substantial part in allowing industrial development to take place in the past few years, will be carried on in the near future. This will, of course, prove conducive for industrial expansion to take place in the future too. The evidence is borne out by the recent political victory obtained by the Alliance Party, returning it to control the government of Malaya, (the Alliance party is the one which initiated the industrial programme), in the 1964 Federal Elections. It will, therefore, mean that the policies regarding industrial development, and for that matter, the economic development of the country in general, will continue on. Policies of granting incentives (such as the giving of pioneer status etc.) to local and foreign investors (refer to Chapter 3) will be continued on, but perhaps modified and amended. The granting of incentives have

¹ This is referred by J.C. Caldwell in his article "The Demographic Background". Printed in The Political Economy of Independent Malaya. Edited by Silcock and E.K. Fisk. (Eastern Universities Press, 1963).

that this political threat will be overcome. If the 'confrontation' can be successful, it will be a terrible blow to future industrial development.

All these factors, in other words, will make the investment climate in the future to be even more favourable. This will facilitate and ensure that the future industrial development can proceed at a faster rate.

Capital:

Should the need for foreign capital be relied upon for the industrialisation programme in the future, there can be no doubt, that it will be forthcoming. Already many foreign investors have shown their eagerness to invest in the industrial sector in the Federation. The political stability which has every certainty to be continued in spite of Soekarno's 'confrontation', will be an extra, though important, incentive. However, too much dependence on foreign capital has dangers of leading to foreign domination in the industrial base and the high costs incurred in the long run. But if domestic capital is to be increasingly called upon, will there be enough domestic capital available in the future to the local manufacturers to start and expand their industries?

At present, domestic capital is relatively abundant, but it is still not flowing into the industrial sector at any significant amount (as seen above). However, first signs have appeared to show that a change in attitude is forthcoming. The eagerness with which the investing public have received recent shares issues is a pointer in this direction. The capital potentialities are very great indeed. The general atmosphere for private investment is good, and with the setting up of some institutional channels by which savings can be effectively directed to productive investments, potential domestic capital can be tapped easier.¹ Given the right ventures, therefore, there are very good chances that domestic capital can be made available quite easily to the manufacturers.

¹ Please see next page.

At this juncture, it will not be very much wrong to say that in the future, the public will be more eager to invest in industries. 2 reasons may be given. One is that, the present shares quoted in the Malayan Stock Exchange generally show potential earning powers. Another is, and perhaps the more important one, the fact that there may be no other better places to invest their money and expect high returns. The "rubber and tin mentality" which had in the past led most people to invest in these 2 lucrative industries, may not be so acute in the future, due to the decreasing rubber prices and competition from synthetic rubber and the depletion of tin deposits.

It can be expected also, that in the future, more capital can be obtained as loans from the commercial banks and local financial institutions. The proportion of total bank advances to the manufacturers is still small (because of the conservative lending habits of the bankers to local manufacturers), but with the setting up of the Central Bank, these banks will realise the crucial part they can play in the industrial development of the country. Later when the commercial banks can see for themselves the degree of certainty in lending to local industries, and with the assistance of the Central Bank, they will have more confidence to extend more credit in the future.

Therefore, with capital (either foreign or local) expected to be abundant in the future, investors can have the fullest confidence in setting up new industries and to expand their existing ones.

¹ (from the previous page). It has been recommended in the Quarterly Monthly Economic Review (Volume 42, June 1963) to set up an institution analogous to the Economic Development Board in Singapore. With this, there will be an increased efforts to tap small private domestic capital.

Manpower and Technical Skill:

As far as unskilled and semi-skilled labour are concerned, there can be no fear that they cannot be obtained in sufficient numbers. With the increasing rate of population growth and rural exodus taking place at a much faster rate than expected, manpower in sufficient amount for the industrial sector is always available.

However, there is a relative shortage of technically skilled labour and professional men. This is often a major impediment to industrialisation in underdeveloped countries, but this is not an acute problem in Malaya as there is a sufficient nucleus workers who have acquired a knowledge of factory production. Besides, the shortage can be easily overcome. It can be done by speeding up the development of vocational training institutions, and this is not very difficult as seen from the present rate at which technically trained people are turned out by the various vocational centres. Should this rate be not sufficient in the future, the ease of obtaining overseas professional men and skilled labour will see to it that there will be no lack of those adequately trained to run business enterprises.

The more serious problem comes in the form of higher wages and salaries in relation with the productivity. This, and the small volume of production (because of the smallness of the internal market which the manufacturing industries depend upon greatly), can lead to high prices of the locally manufactured goods. Competition from imported goods is already keen and with the high prices, the fighting chances will be practically cut down to half. But the competition can be overcome by adequate tariff protection given to some local manufacturers to make them in a more favourable competitive terms with the imported goods. In the future, tariff protection will, no doubt, be extended since the importance of such protection has become increasingly more obvious. With the formation of Malaysia (to be elaborated

later) the internal market has been extended. This will mean a bigger volume of production and as such the cost of production will be cut down somewhat. Ultimately, locally manufactured goods will appeal more to local consumers. Thus, the high cost of labour will pose no significant obstacle which cannot be overcome.

Scepticism of Local Consumers:

The use of buying imported goods have resulted in a prejudice against locally manufactured products. Yet the sales of locally made goods depend on the internal market. This problem may sound unimportant, but it must be recognised and appreciated and attempts must be made to overcome it. No doubt, this drawback will not prove in any significant way, detrimental to future industrial development, but it is very important that confidence must be built up for the locally manufactured goods. Once confidence is created, the problem will automatically disappear.

Formation Of Malaysia:

Perhaps one of the most obvious indicator that industrial development will be carried on at a higher level and at a faster rate in the future in Malaya, is the formation of Malaysia in September 1963. " The creation of Malaysia and the consequent unification of several hitherto independent economies will bring about a change in the economic structure of the area The sector of the Malaysian economy which will in the long run benefit most from this change is the manufacturing industry sector , , , " ¹ : It is the manufacturing industry sector of Malaysia that was stated to gain from the formation of Malaysia, there is no doubt about it, but this

¹ " Report on the Economic Aspects of Malaysia" by a Mission of the International Bank of Reconstruction and Development . July 1963. (The report is usually known as the Reeff Report.) page 25.

implies that within each country (Malaysia consists of the Federation of Malaya, Singapore, Sabah and Sarawak) the respective industrial sector will have good chances of expansion in the future. This will, therefore, mean that the industrial sector in the Federation of Malaya, which is a part of the Malaysian Federation, will also benefit from this political unification. And there are several reasons for saying this.

The formation of Malaysia with its wider resource base as a whole will give further economic stability to Malaya. This can mean a further attraction to set up industries in the Federation of Malaya.

Furthermore, the formation of Malaysia can open up industrial possibilities especially with the establishment of a common market to promote trade expansion supported by a co-ordinated and judicious tariff policy. The Rueff Mission has reported on this importance. If Singapore and the other 2 territories were to continue to follow their own independent industrialisation programme and introduce their own protective tariffs (as they have done so before the formation of Malaysia and will do so unless there is a centrally co-ordinated industrialisation programme), Malaya access to the Singapore market (and to a lesser extent the markets of Sabah and Sarawak) will be limited. That is why it is important to have a common market and a centrally planned and co-ordinated industrialisation programme and tariff protection. By creating a Malaysian Common Market (supported by a co-ordinated tariff policy) the Federation of Malaya can increase the size of its protected market by over 50%. The internal consumers will also increase from 7 million to roughly about 10 million. This would allow the establishment in the Federation of a number of industries for which the size of the domestic market was hitherto inadequate for economic production.

Besides, having access to a larger market, the formation of Malaysia can make for more efficient industrial production, because factories in the various parts will be

subject to mutual competition. Challenge is always a spur to progress! The experience of the European Economic Community has proved that this is so. Since the Common Market (as it is usually called) was established in 1957, manufacturing in each of the six member countries has grown faster than ever before. Malayan industrialists, together with industrialists from the other 3 member countries, can be expected to benefit in this way from the Malaysian Common Market.

However, there is the fear that with a common market and a harmonized tariff policy, industries will tend to concentrate in Singapore, which reputedly has more developed and efficient infra-structure, better skilled personnel and more efficient services. (As a point of interest, Singapore started her industrialisation programme earlier than the Federation of Malaya). And added to this now, is that Singapore is experiencing more political stability within the framework of Malaysia. (In the past many manufacturing industries had been set up in Malaya rather than in Singapore not because the ^{later} infra-structure and other social amenities were inadequate, but the political environment was not favourable). This possibility does exist, but it does not need necessarily arise when there is a centrally co-ordinated programme for industrial development. Co-ordinating of the various countries' industrialisation programmes can be brought about, according to the Rueff Mission, by the formation of a Tariff Advisory Board (to harmonize the tariff policies of the 4 member countries of Malaysia)¹ and the setting up of a Federal Industrial Development Authority or the F.I.D.A. (The Malayan government has accepted in principle the formation of such a body), whose functions are:

"(a) making recommendations for pioneer applications.

¹This Board ^{may be} a reconstruction of the present Tariff Advisory Committee..

(b) formulating policy on industrial site development, administering related Federal funds and acting as coordinating agency among state institutions with such functions;

(c) carrying out, or contracting for, economic feasibility studies of industrial possibilities;

(d) providing general guidance and advice to the units engaged in industrial research..,

(e) assembly general information on the conditions of Malaysian production and directing industrial promotional work, domestically and abroad.."¹

With the establishment of the F.I.D.A., equal incentives and promotions as well as a common industrialisation programme can be achieved in all the four territories. In this case, there is no reason to believe that industries will be concentrated in Singapore to the detriment of the Federation of Malaya and the other countries which make up Malaysia. Actually Malaya may benefit more from this line-up, as far as industrial development is concerned. Industrial amenities, skilled personnel and technical services, which have been lacking in the Federation, but existed in Singapore can now (with the formation of Malaysia) be obtained from Singapore easily. Since the momentum in industrial development in Malaya has already been built up, the easy means of getting such amenities as mentioned above, may well hasten the rate of industrial development in this country.

Malaysia is a reality now. The Malaysian Common Market supported by a coordinated tariff policy and a common industrialisation programme will inevitably be created. Each country will benefit in the industrial sector since the greatest potentialities of Malaysia lies in that field. From this it

¹ "Report on the Economic Aspects of Malaysia" by a Mission of the International Bank for Reconstruction and Development. July 1963. page 39.

enterprises, for the benefit and prosperity of the whole economy."¹

This is a clarion for industrial development. This, together with the fact that industrial opportunities in Malaya is still underexploited (Phillipines and Thailand have more industries though purchasing power in Malaya is double them) and with the imminent drop in rubber prices and mineral exploitation running up against limited resources and the entrepot trade hit by Indonesia confrontation, should set the course for industrial development.

Therefore the course is set and the wind is fair and favourable. There is every reason to believe that industrial progress will go far and at an accelerating rate.

¹ Interim Review of Development in Malaya under the Second Five-Year Plan. December 1963. page 50