

CHAPTER 2

THE MALAYSIAN MANUFACTURING SECTOR

2.1 Introduction

The manufacturing sector in Malaysia has grown rapidly since the 1960s. Its contribution to the Malaysian economy either in terms of the share of GDP, export earnings, or employment generation becomes significant. With the sector becoming an increasingly important sector in the Malaysian economy, its industrial structure is expected to have important implications for the performance of the sector as well as the economy as a whole. Therefore, it is necessary to discuss the structural changes of the Malaysian economy since independence to provide a historical insight into the development of manufacturing sector.

2.2 Background of the Malaysian Economy

Structural Change

In the early years after Independence (1956-60), Malaysia's GDP grew at an average annual rate of 4.1 per cent per annum. The Malaysian economy then relied heavily on the agriculture sector as an important source of economic growth. Agriculture sector accounted for 37 per cent of the gross domestic product in 1960, i.e. twice the average for all developing countries (Bruton,

1992). During this time, Malaysia was already the world's largest producer and exporter of natural rubber and tin, contributing approximately 33.3 per cent and 37 per cent respectively of the total world output of these commodities. About 71 per cent of its total export earnings came from rubber and tin where rubber accounted for 60 per cent and tin accounted for 11 per cent.

The over-dependence on rubber and tin made the Malaysian economy vulnerable to the fluctuations in the prices of these commodities. To overcome this problem, Malaysia embarked on a programme to diversify and modernise its agricultural sector by the cultivation of new crops such as oil palm, cocoa, and pineapples. By the end of 1970, commodities such as timber and palm oil accounted for 16.5 per cent and 5.1 per cent of gross exports, respectively.

Table 2.1
Annual Growth Rate (%) of Gross Domestic Product (GDP)

Year	1956-60* (1960=100)	1961-65 (1965=100)	1966-70 (1970=100)	1971-75 (1970=100)	1976-80 (1970=100)	1981-85 (1978=100)	1986-90 (1978=100)	1991-95 (1978=100)
1	2.9	1.4	6.2	10.0	11.7	6.9	1.2	8.7
2	2.5	6.9	1.0	9.4	7.8	6.0	5.4	7.8
3	0.5	5.5	4.2	11.7	6.7	6.2	8.9	8.3
4	4.5	5.8	10.4	8.3	9.3	7.8	8.8	8.7
5	9.9	5.6	5.0	0.8	7.4	-1.1	9.8	8.9 ^f
Avg	4.1	5.0	5.4	8.0	8.6	5.2	6.8	8.5

Notes: * For Peninsular Malaysia only
f forecast

Sources : Annual Report of Bank Negara Malaysia, 1990 p.53, 1991 p.1, 1994 p.1, Economic Report 1994/95 p.XV.

Even though rubber and tin continued to be important commodities in the 1960s, their relative importance as export earners had declined. For example, rubber share in total export earnings of the country declined from 60 per cent in 1957 to 33 per cent in 1970. Similarly, tin's share of export earning fell from 11 per cent in 1957 to only 5 per cent by the end of 1970.

In contrast, manufacturing activities became an increasingly important activity in Malaysia. The manufacturing sector accounted for only 9 per cent of Gross Domestic Product in 1960 (see Table 2.2). By 1970 its share of GDP had increased to 12 per cent and this was partly due to the fiscal incentives to promote manufacturing activities such as the Investment Incentives Act (IIA) of 1968. By late 1970s, Malaysia became the world's largest producer of electronic chips and the third largest world exporter of the product (after U.S.A. and Japan). As at 1994, the manufacturing sector's share of GDP stood at 32 per cent (Table 2.2).

The share of the services or tertiary sector in the GDP has remained relatively stable. It accounted for 45 per cent of GDP in 1960 and 43 per cent in 1994 respectively.

Table 2.2**Malaysia - Gross Domestic Product (%) by Sector**

	1960*	1965*	1970	1975	1980	1985	1990	1993	1994
Agriculture	37	32	32	31	23	21	19	16	14
Mining	6	9	6	4	10	10	10	8	7
Manufacturing	9	10	12	16	20	20	27	30	32
Construction	3	4	5	5	5	5	3	4	4
Services	45	45	45	44	42	44	41	42	43
Total	100	100	100	100	100	100	100	100	100

* Peninsular Malaysia only

Sources : Economic Report, Ministry of Finance, 1972/73 - 1994/95, Bank Negara Malaysia, Annual Report, 1994.

Malaysia has undergone extensive economic diversification through the modernisation of its rural-agricultural sector and industrial sector over the past few decades, while still maintaining an open economy. The external orientation of the economy means that exports and imports constituted a high percentage of GDP. In 1960, exports and imports were equivalent to 55 per cent and 42 per cent of the GDP, respectively. For the past three decades, the openness of the Malaysian economy has increased. By 1994, exports' share of the GDP was 80.2 per cent while imports' share stood at 78.2 per cent (see Table 2.3). As a result, Malaysia continues to be susceptible to fluctuations in the terms of trade.

Table 2.3

Malaysia: Total Exports And Imports As A Percentage Of GDP, 1960-1994

YEAR	GDP (RM million) (Current Prices)	Total Exports (RM million)	Total Imports (RM million)	Exports % of GDP	Imports % of GDP
1960	6,837	3,632	-	53.12	-
1961	6,696	3,238	2,816	48.36	42.05
1962	7,056	3,260	3,071	46.20	43.52
1963	7,515	3,330	3,210	44.31	42.71
1964	8,056	3,382	3,229	41.98	40.08
1965	8,837	3,782	3,356	42.80	37.98
1966	9,394	3,846	3,380	40.94	35.98
1967	9,774	3,724	3,325	38.10	34.02
1968	10,160	4,123	3,524	40.58	34.68
1969	11,629	5,052	3,582	43.44	30.80
1970	12,155	5,163	4,288	42.48	35.28
1971	12,955	5,017	4,416	38.72	34.09
1972	14,220	4,854	4,534	34.14	31.89
1973	18,723	7,372	5,934	39.37	31.69
1974	22,858	10,195	9,891	44.60	43.27
1975	22,332	9,231	8,530	41.33	38.20
1976	28,085	13,442	9,713	47.86	34.59
1977	32,340	14,959	11,165	46.26	34.52
1978	37,886	17,074	13,646	45.07	36.02
1979	46,424	24,222	17,161	52.18	36.97
1980	53,308	28,172	23,451	52.85	43.99
1981	57,613	27,109	26,604	47.05	46.18
1982	62,579	28,108	29,023	44.92	46.38
1983	69,565	32,771	30,795	47.11	44.27
1984	79,550	38,647	32,926	48.58	41.39
1985	77,547	38,017	30,438	49.02	39.25
1986	71,144	35,319	27,921	49.64	39.25
1987	79,625	45,225	31,934	56.80	40.11
1988	90,861	55,260	43,293	60.82	47.65
1989	102,587	67,825	60,858	66.11	59.93
1990	115,828	79,646	79,120	68.76	68.31
1991	129,559	94,497	100,831	72.94	77.82
1992	147,784	103,657	101,440	70.14	68.64
1993	163,039	121,214	117,423	74.35	72.02
1994	185,300	148,611	144,941	80.20	78.22

Sources:

- 1) Economic Report, Ministry of Finance, Malaysia, 1990-1995.
- 2) International Financial Statistics Yearbook, 1989-1994.
- 3) Bank Negara Malaysia, Annual Report, 1963-1966, 1994.

External Balance

The overall balance of payments of Malaysia underwent some fundamental changes over the past three decades. During the 1960s and

1970s, the country's balance of payments was characterised by a strong current account in which sizable and consistent surpluses in the merchandise account more than offset deficits in the services account. However, since the second half of the 1980s there has been a distinct shift in the source of strength of the overall balance of payments from the current account to the capital account. This was particularly apparent following the increase in foreign direct investments in the country since 1988.

Macroeconomic Stability

Inflation and unemployment have always been the two major areas of concern to Malaysia's policy makers. During the 1970s, the average rate of inflation was about 4.5 per cent a year. The high rate of inflation was mainly due to the oil shocks that occurred in 1973-74 and 1979-80. The average annual inflation rate during these period were 13.9 per cent and 8.2 per cent, respectively. In early 1980s, the slow down in the world economy resulted in greater stability in import prices as well as an easing of domestic demand pressures. As a result, Malaysia's inflation rate fell to 5.8 per cent. During the height of the recession in 1985, the rate of inflation reached as low as 0.4 per cent. However, with the strong recovery of the country's economy since 1988, the rate of inflation increased steadily from 2.5 per cent in 1988 to 3.1 per cent in 1990. By 1992, after four years of sustained growth, the rate of inflation reached 4.7 per cent (see Table 2.4). In response to this, the Government

implemented various restrictive monetary and fiscal policy measures to dampen excessive demand pressures in the economy. As a result, the rate of inflation declined to 3.7 per cent in 1993 and 3.5 per cent in 1994.

At the height of the recession in 1986, massive retrenchment in the manufacturing and mining sectors resulted in an high unemployment rate at 8.8 per cent (see Table 2.4). With the recovery of the economy in late 1980s, the situation improved somewhat. After 1990, the unemployment rate fell to below 5 per cent and reached as low as 2.9 per cent in 1994. The Malaysian economy is now at full employment and is facing shortage of labour.

Table 2.4
The Rate of Inflation and Unemployment

Year	Inflation (%)	Unemployment (%)
1970	1.9	7.5
1975	4.5	7.4
1980	4.5	5.6
1985	0.4	6.9
1986	0.7	8.8
1987	0.8	7.3
1988	2.5	7.2
1989	2.8	6.7
1990	3.1	5.1
1991	4.4	4.3
1992	4.7	3.9
1993	3.7	3.0
1994	3.5	2.9

Sources:

- 1) Economic Report, Ministry of Finance, Malaysia, various years.
- 2) Bank Negara Malaysia, annual Report 1993, p.84, 1994, p.252.

2.3 Structural Changes in the Manufacturing Sector

Three Phases of Industrialisation

In the past thirty years, the Malaysian economy has been transformed from an agriculture-based economy into a second-tier NIC¹ (Limqueco et al., 1989). This transformation process (or Industrialisation) which began in the late 1950s can be divided into three main phases (Jomo and Edwards, 1993). The period between the late 1950s and late 1960s can be regarded as an import-substitution period. During this phase, the manufacturing sector was generally quite capital intensive, often British-owned and usually poorly linked to the rest of the national economy. In effect, the manufacturing sector during this period generated relatively limited employment opportunities and its products catered mainly for the small domestic market. During this period, government intervention was largely limited to the provision of infrastructure facilities and other incentives. Government directly and indirectly subsidised the establishment of new factories and protected the domestic market. Tax incentives were offered to pioneer industries since 1958 but from the beginning of the 1960s, with the establishment of the Tariff Advisory Board, import-substituting industries were further encouraged by the provision of protection through import duties and quotas. In fact, the greatest incentive to the growth of the manufacturing sector was protection of the domestic market (Jomo and Edwards, 1993).

¹ NIC - Newly Industrialised Countries such as Korea, Taiwan and Singapore.

The second phase of export-oriented industrialisation began during the late 1960s when the limitations of import-substitution became apparent. By the early 1970s, government's efforts to attract and encourage export-oriented industries were in full force. Various new measures - notably the establishment of Free Trade Zones in 1971 were introduced to facilitate and encourage Malaysian manufacturing production for exports (mainly using imported equipment and material). The development of export processing industries in Malaysia was rapid during this period. Besides the expansion of resource-based industries (e.g. rubber, palm oil, wood products), non-resource-based export industries also became more important since the 1970s (in terms of growth and employment generation).

The third phase of industrialisation which began in the early 1980s was less distinct because it did not involve explicit abandonment of export-oriented industrialisation, but only the promotion of selected heavy industries. This new phase has been termed the second round of import-substitution. The heavy industrialisation programme during this period was carried out by a public sector agency, namely the Heavy Industries Corporation of Malaysia (HICOM). The industries established by HICOM included the Malaysian Car project, three motorcycle engine plants, a petroleum refining plant and a petrochemical project. One consequence of the heavy industrialisation programme has been massive government borrowings and the conferment of infant industry protection on these

industries. The latter, especially, raised production costs and prices of consumer goods in the country (Jomo and Edwards, 1993).

Growth of the Manufacturing Sector

The Malaysian manufacturing sector grew rapidly in the 1970s (see Table 2.5). The exceptional growth of the sector in nominal terms during 1973 and 1978 were largely due to inflationary effects brought about by the OPEC-induced oil-shock². In real terms, the manufacturing sector experienced a very high growth rate of 58% in 1973. During this period, rapid expansion were observed in several manufacturing industries such as food industries, non-ferrous metal basic industries, manufactured rubber products and the manufacture of electrical machinery, apparatus, appliances and supplies³.

For most of years in the 1980s, the growth of the sector was more moderate particularly during the first half of the decade. However, even though the economy experienced a negative growth rate in 1985, the manufacturing sector still posted a real growth rate of 1.5 per cent. The manufacturing sector's performance was exacerbated by outflows of capital⁴.

² The price rise which took place in 1973 and 1979 were due to supply shocks. The first of these was the result of a radical change in the policy of the OPEC nations. They restricted their collective output causing the market prices for oil to rise. Prices of oil tripled within that year. The second shock also caused a price rise but it was quite a mild one compared to the first shock.

³ For example, the rubber products industries grew by nearly 200% in 1973.

⁴ In 1984 and 1985, there was a surge in the outflow on the investment account.

Table 2.5
Average Annual Growth Rates of Manufacturing Value-added, 1971-1992

YEAR	Manufacturing value-added (%) (at current prices)	Deflated value-added (%) ¹ (1990=100)
1971	7.5	7.5
1972	22.1	20.2
1973	68.4	57.8
1974	18.6	11.4
1975	9.9	23.7
1976	21.4	23.4
1977	20.5	18.1
1978	30.0	29.6
1979	16.9	18.4
1980 ²	-	-
1981	-	-
1982	6.7	-9.4
1983	6.1	8.3
1984	11.4	11.3
1985	-1.9	1.5
1986	3.0	2.5
1987	9.9	9.6
1988	21.2	19.3
1989	28.6	28.4
1990	20.2	19.8
1991	26.3	59.5
1992	14.5	65.5

Notes:

1) The annual growth rate is measured by the percentage change in value-added from 1970 to 1992, taking 1990 as the base year.

2) There was no industrial survey in 1980.

Source: Survey of Manufacturing Industries, Peninsular Malaysia, 1971-1992, Department of Statistics.

The economy began to recover strongly after 1986 and as a result, the growth of the manufacturing sector picked up once again. From 1988 onwards, the average annual growth of the sector exceeded 20 per cent (see Table 2.5). The dramatic recovery of the manufacturing sector can be partly attributed to international currency realignments (Jomo and Edwards, 1993). For example, in 1986, the exchange rate of the ringgit to the IMF's Special Drawing Rights (a basket of currencies) fell by 20 per cent (Economic Report, 1989/90). This

depreciation of the ringgit lowered the production costs in the sector substantially. This, coupled with favourable external market conditions, resulted in a resurgence of export-oriented manufacturing. By the end of the 1980s, the manufacturing sector in Malaysia was once more expanding at a rapid rate.

Structural Change in the Manufacturing Sector

Manufacturing is now the single most important sector of the Malaysian economy in terms of its share of GDP, contribution to exports earnings and employment. The sector is quite well diversified. The structure of the sector has not remained static over the years. In 1975 the food industry's share of total output in the manufacturing sector at 27.5 per cent was the largest in the sector (see Table 2.6). However, the industry's relative importance (in terms of its share of total output) began to decline in subsequent years. By 1990, its share of the total output in the manufacturing sector fell to below 20 per cent. Another industry which has declined substantially in its relative importance is the rubber products industry. In the mid-1970s, the industry, with a share in total output at 11 per cent, was the second largest industry in the manufacturing sector. Its contribution to the total industry output declined subsequently in 1980s and by 1990, its share was reduced to 6 per cent of the sector's total output. The electrical machinery industry became the most important manufacturing industry with a share of total output at 27.8 per cent in 1990. Similarly, the industry's share of total employment in the manufacturing sector

has increased. In 1975, the sector's share of total employment in the sector was at 11 per cent. This had risen to 28 per cent in 1990 (see Table 2.6).

Table 2.6
Peninsular Malaysia: Output and Employment in Manufacturing Industries, 1975-1990
 (as a percentage of total industry output and total industry employment)

Sectors	1975		1981		1985		1990	
	Output (%)	Emp (%)	Output (%)	Emp (%)	Output (%)	Emp (%)	Output (%)	Emp (%)
Food Products	27.5	13.1	23.9	12.6	27.6	12.9	17.1	8.3
Beverages & Tobacco	5.4	3.2	3.5	3.2	4.0	2.2	2.1	1.2
Textiles	5.1	10.6	4.0	7.4	2.8	6.4	3.3	4.9
Timber-based Products	7.8	14.8	5.6	13.9	4.1	10.3	4.2	9.1
Paper & Printing	3.4	6.0	2.8	5.6	3.0	5.7	2.8	4.0
Chemical & Chemical Products	5.6	3.5	4.2	3.2	4.8	3.3	4.6	2.6
Petroleum Products	7.1	-	12.0	-	10.1	-	4.3	-
Rubber Products	11.0	9.7	7.4	6.1	6.5	6.3	6.0	7.5
Non-metallic Minerals	2.6	3.8	3.0	4.2	3.5	4.5	2.6	2.8
Iron & Steel Basic Inds	2.7	2.4	2.2	2.0	3.5	2.4	4.1	1.7
Fabricated metals	3.2	4.6	2.8	5.7	2.5	4.0	3.5	4.0
Machinery except Electrical	2.2	3.4	2.3	4.1	1.7	3.0	3.3	3.4
Electrical Machinery	9.2	11.5	12.7	15.2	14.2	19.0	27.8	28.0
Transport Equipment	3.0	3.8	3.3	3.4	3.2	3.8	5.0	2.9
Other Manufactures	4.2	9.6	10.3	13.4	8.5	16.2	9.3	19.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Survey of Manufacturing Industries, Peninsular Malaysia, 1975-1990, Department of Statistics.

Similar trends are observed if we look at the data on the value-added in the manufacturing industries (see Table 2.7). In 1975, food and electrical machinery accounted for one third (32.2 per cent) of total value-added in manufacturing sector. A further 32 per cent of value-added was accounted for by the combined output of beverages & tobacco, timber-based products, chemical & chemical products and rubber products (see Table 2.7). By 1985, electrical machinery had the largest share of the total value-added in the

manufacturing sector followed by food products. In 1990, the electrical machinery industry's share of total value-added in the industry reached 24.2 per cent.

Table 2.7
Peninsular Malaysia: Value-Added in Manufacturing Industries, 1975-1990

Sectors	Value-added (%)			
	1975	1981	1985	1990
Food Products	21.2	13.3	16.0	9.9
Beverages & Tobacco	6.2	5.3	7.7	4.0
Textiles	5.9	3.9	3.2	3.7
Timber-based Products	8.9	6.4	5.5	5.2
Paper & Printing	5.2	4.0	5.7	4.7
Chemical & Chemical Products	6.4	4.3	6.0	5.8
Petroleum Products	2.8	5.4	3.8	2.3
Rubber Products	10.9	5.8	5.9	6.5
Non-metallic Minerals	3.5	4.1	6.6	5.1
Iron & Steel Basic Inds	2.9	1.7	3.5	3.2
Fabricated metals	3.7	2.7	3.2	3.7
Machinery except Electrical	3.1	2.7	2.3	4.3
Electrical Machinery	11.0	12.1	17.9	24.2
Transport Equipment	3.0	4.0	4.6	6.0
Other Manufactures	5.3	24.3	9.1	11.4
Total	100.0	100.0	100.0	100.0

Source: Survey of Manufacturing Industries, Peninsular Malaysia, 1981-1990, Department of Statistics.

Manufacturing Sector and International Trade

Manufacturing export has contributed 12 per cent to total exports in 1970 and the share increased to 22 per cent in 1980. In 1994, the share of manufacturing export has reached 78 per cent of total exports (see Table 2.8). However, the average annual growth rate of manufacturing exports has decreased from 28 per cent in 1970s to 23 per cent in 1980s (see compounded annual growth rate at the bottom of Table 2.8). From 1980 to 1986, the average annual growth rate of manufacturing exports was 18 per cent. But the annual

Table 2.8
Manufacturing Sector's Share in Total Exports, 1970-1994

Year	Total Export RM mil. (current prices)	Gross Manufacturing Export		
		RM mil. (current prices)	% Change	As a % of Total Export
1970	5020	612	-	12.2
1971	4884	507	-17.2	10.4
1972	4736	608	19.9	12.8
1973	7263	1112	82.9	15.3
1974	10022	1684	51.4	16.8
1975	9057	1978	17.5	21.8
1976	13330	2472	25.0	18.5
1977	14864	2764	11.8	18.6
1978	16932	3640	31.7	21.5
1979	24060	4844	33.1	20.1
1980	28013	6101	25.9	21.8
1981	26900	6302	3.3	23.4
1982	27946	7417	17.7	26.5
1983	31762	9554	28.8	20.1
1984	38452	12164	27.3	31.6
1985	37576	12111	-0.4	32.2
1986	34970	15329	26.6	43.8
1987	44733	20216	31.9	45.2
1988	54596	27085	34.0	49.6
1989	67824	36567	35.0	53.9
1990	79646	46835	28.1	58.8
1991	94497	61420	30.3	65.0
1992	103657	71124	15.8	68.6
1993	121214	89666	26.1	74.0
1994 ^e	153700	120200	34.1	78.2

Compounded Annual Growth Rate

	Total Exports	Manufacturing Exports
1970-80	20.7	28.2
1980-90	12.1	23.5
1970-94	16.5	25.9

Note: e - estimate

Sources:

- 1) Vijayakumari Kanapathy, "Industrial Restructuring and its Implications for Employment, Wages and Human Resource Development", mimeo, Kuala Lumpur, August 1990, Table 3.
- 2) Economic Report, Ministry of Finance, 1994/95.
- 3) Bank Negara Malaysia, Annual Report, 1994.

growth rate has increased to 29 per cent in the period of 1987-1994. The decline in the growth rate of manufacturing exports in the early 1980s was partly due to Malaysia's rising real effective exchange rate and partly to the recession in the international economy. Over the period of 1970-94, the average annual growth rate of manufacturing export was 26%.

Manufacturing Sector and Employment

The structural changes in the economy over the last three decades have had an impact on employment patterns in Malaysia. Before independence, the manufacturing sector was not a very important source of employment in the country. The sector's share of total labour force amounted to less than 7 per cent before the country's independence in 1957. By 1965, the manufacturing sector was employing only a little over 8 per cent of the work force. The change in employment pattern favouring the manufacturing sector became more evident with the encouragement of export-oriented and labour intensive industries in the 1970s. As a result of the structural changes that ensued in the economy, the agricultural sector's contribution to total employment declined from 50.5 per cent in 1970 to 37.2 per cent in 1980 and it declined further to 29.9 per cent in 1990 (see Table 2.9). On the other hand, the manufacturing sector's share of total employment increased from 11.4 per cent in 1970 to 15.5 per cent and 17.6 per cent in 1980 and 1990, respectively. The services sector in total contributed about 31.5 per cent share of the employment in 1970 and its contribution increased steadily to 40.4 per cent in 1980 and 45.5 per cent in 1990 (see Table

2.9). In 1993, the share of employment in the manufacturing sector has risen to 23.9 per cent and increased steadily to 24.6 per cent in 1994. As a whole, the agricultural sector still employed a large percentage of the labour force. However, its contribution to total employment has reduced. The manufacturing sector is expected to generate much of the future employment for the labour force.

Table 2.9
Employment by Sector (%)

	1970	1975	1980	1985	1990	1991	1992	1993	1994
Agriculture	50.5	47.6	37.2	31.3	29.9	26.8	26.0	21.4	20.0
Mining	2.6	2.2	1.3	0.8	0.6	0.6	0.6	0.5	0.5
Manufacturing	11.4	11.1	15.5	15.2	17.6	20.1	20.5	23.9	24.6
Construction	4.0	4.0	5.6	7.6	6.4	6.7	6.8	7.5	7.8
Services	31.5	35.1	40.4	45.1	45.5	45.8	46.1	47.6	47.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: 1) Bank Negara Malaysia, Annual Report, 1990, p.71, 1992, p.244.

2) Economic Report, 1979/80, 1990/91, 1991/92, 1992/93, 1994/95

The average annual growth rate of employment in manufacturing sector as a percentage of total employment was 10 per cent during 1970-80 (see Table 2.10). It was considerably higher than the 3.8 per cent recorded for the economy as a whole. During 1980-90, the average annual growth rate fell to 6.1 per cent as compared to 3.3 per cent in the whole economy. Over the period of 1970-94, the annual average growth rate of manufacturing employment was 8.2%.

Table 2.10
Manufacturing Sector's Share in Total Employment, 1970-1994

Year	Total Employment ('000)	Employment in the Manufacturing Sector		
		('000)	% Change	As a % of Total Employment
1970	3340	301	-	9.0
1971	3467	326	8.3	9.4
1972	3599	353	8.3	9.8
1973	3735	382	8.2	10.2
1974	3877	414	8.4	10.7
1975	4020	448	8.2	11.1
1976	4376	623	39.1	14.2
1977	4476	663	6.4	14.8
1978	4542	665	0.3	14.6
1979	4700	707	6.3	15.0
1980	4817	755	6.8	15.7
1981	5031	787	4.2	15.6
1982	5165	799	1.5	15.5
1983	5429	841	5.3	15.5
1984	5565	879	4.5	15.8
1985	5625	855	-2.7	15.2
1986	5707	861	0.7	15.1
1987	5881	921	7.0	15.7
1988	6088	1013	10.0	16.6
1989	6351	1171	15.6	18.4
1990	6686	1333	13.8	19.9
1991	6891	1470	10.3	21.3
1992	7096	1639	11.5	23.1
1993	7396	1742	6.3	23.6
1994 ^e	7618	1877	7.7	24.6

Compounded Annual Growth Rate

	<u>Total Employment</u>	<u>Manufacturing Employment</u>
1970-80	3.8	10.0
1980-90	3.3	6.1
1970-94	3.5	8.2

Note: e - estimate

Sources:

- 1) Vijayakumari Kanapathy, "Industrial Restructuring and its Implications for Employment, Wages and Human Resource Development", mimeo, Kuala Lumpur, August 1990, Table 3.
- 2) Economic Report, Ministry of Finance, 1994/95.
- 3) Bank Negara Malaysia, Annual Report, 1994.

2.4 Summary

Over the past three decades, there has been considerable changes in the structure of the Malaysian economy. The Malaysian economy has become a more diversified economy. The manufacturing sector is now the principal sector after services. This is in sharp contrast to the situation before independence in 1957, when the economy was heavily geared towards the production of primary commodities. Efforts by government to encourage the diversification of the Malaysian economy and promote industrial development has been successful.

Due to global economic interdependence and the country's heavy reliance on the external sector, Malaysia suffered quite a severe recession in 1985. However, through the implementation of a few stabilisation policies during the mid-1980s, Malaysia has gained its economic strength. In 1994, it attained a budget with a surplus of RM677 million. The manufacturing sector particularly has expanded strongly since 1987. The continued expansion in manufacturing output relative to growth in other sectors of the economy has enabled the manufacturing sector to enhance its position as an important contributor to the country's GDP as well as in providing employment opportunities. The impressive performance of the manufacturing sector in recent years has mainly been the result of continuous implementation of policies and strategies to create an efficient and export-oriented manufacturing sector.