

CHAPTER FIVE

CONCLUSION – SUMMARY OF FINDINGS

SMIs in Malaysia have been given importance since as far back as in the First Malaysia Plan (1970 –75). However, the actual realisation of the importance of the role played by SMIs came with the Promotion of Investment Act, 1986. Prior to this, the 1968 Investment Incentives Act was actually discriminating against SMIs where the quantum of incentives granted was by size of the industries.

The purpose of this study is to evaluate the importance of SMIs in output, employment and income creation in Malaysia. As data for Japan's current manufacturing sector's performance was unavailable in Malaysia when this research was carried out, the comparison between Malaysia and Japan was done using Japan's 1966 manufacturing data. Nevertheless, this comparison revealed some interesting findings.

5.1 Summary of Findings

The importance of Malaysia's SMIs in generating output is not as important as the role played by Japan's SMIs. As was discussed in section 4.1, SMIs in Malaysia were not important at all in generating output for the year 1994. In fact, even in 1981, SMIs' generation of output was below that of large scale industries in almost all the manufacturing sub-industries. Most of Malaysia's manufacturing output comes from the large scale industries. However, as was seen for the Japan's case, in 1966 itself the Japanese SMIs there seemed to play a more important role in creating output; even if it was only by the resource-based industries.

Nevertheless, the importance of Malaysia's SMIs can be observed in generating employment opportunities as well as income in the resource-based industries. Industries such as leather, wood, furniture, paper, footwear, plastic and rubber are all more labour productive for the small medium scale industries. These industries are also less capital intensive. This would mean that these industries are more labour intensive. As such, the ability of SMIs in generating employment has to be acknowledged, especially self-employment. In times of an economic slowdown, the one way of reducing the number of people unemployed is by generating more self-employment opportunities, as was seen back in 1986. Being less capital intensive would also mean less technology, making it easier for those with lower levels of education gaining gainful employment.

At the same time, although the percentage of income generated by these similar industries are much lower than that of their larger counterparts, the income per capita created is higher. As was the case in Japan, Malaysia's SMIs in the manufacturing sector created income per capita higher than that of the large scale industries. As such, SMIs are able to ensure a high standard of living.

5.2 The Stage of Malaysia's SMI Development

Malaysia's SMIs today seem to be going through what is known as the first stage of Japan's SMIs' structural adaptation. The first stage of Japan's SMI evolution was characterised by labour-intensive manufactures such as textiles, simple metal products, light electrical and mechanical machinery and sundries. This stage prevailed during the 1950s (Tajima, 1978; Motai and Ohkawa, 1978).

Stage two of Japan's SMI development was during the 1960s. This was characterised by rapid structural changes toward heavy and chemical industries. Due to shortage of labour and sharply rising wages experienced at that time, Japan's SMIs which were labour intensive were badly affected. At the same time, the Japanese SMIs started experiencing sharp competition from other developing Asian countries such as Taiwan, Korea and Hong Kong. Stage two of Japan's SMI evolution took off when the SMIs started to shift corporate production to labour abundant neighbouring Asian economies (Ozawa, 1985).

By mid-1970s, a new stage of development (the third stage) took place. As the Japanese industry started restructuring towards the more value-added, high technology sectors, many SMIs too became successful as manufacturers of higher value added and more diversified lines of products. Basically, today, SMIs in Japan have become more capital intensive.

The most important argument for the shift in the structure of production of the Japanese SMIs is the increasing costs of labour in Asia's NICs (newly industrialising countries). Instead of shifting production over to other Asian countries where labour costs were still low, the Japanese SMIs started using more labour reducing measures of production (Osaka Asian Medium & Small Enterprises Centre).

At the same time, the Asian NICs, including Malaysia started emphasising the development of more capital intensive industries (such as the heavy chemical industry) and to invite foreign direct investment in these areas. As countries like Malaysia started encouraging the development of the 'supporting' industry, capable of producing parts and

components for large assemblers, the Japanese SMIs started moving towards higher value added industries from labour intensive light manufactures. Japanese SMIs became efficient subcontractors for the large scale manufacturers.

From the discussion above, it is obvious that Malaysia's SMIs' development is at least three decades behind that of Japan's. Our SMI sector is still characterised by more traditional labour intensive methods of production. The involvement of the SMI sector in heavy industries is still weak and as was discussed in chapter two, the industrial linkages between SMIs and the large scale manufacturers in the Malaysian economy is far from satisfactory. Most of the large scale industries subcontract to the SMIs in their own home-country, Japanese industries included. A few of them also find it easier to subcontract to industries in Thailand (Ismail Muhd Salleh & Latifah Rahim, eds, 1992).

However, although Malaysia's SMI development is much slower, it is on the right path. We are, at what can be termed as the first stage of development. For the sector to proceed on to its second and finally, its third stage, the Malaysian SMIs have to become more competitive. Technology is the key word.