PIONEER INDUSTRIES AND INDUSTRIALIZATION IN MALAYSIA

by

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SYNOPSIS

In this study the writer shall attempt to describe and analyse briefly on the industrial pioneer sector of the whole manufacturing sector. As this topic is too wide, only certain but important aspects of the pioneer sector will be dealt with. In Chapter II the history and growth of the pioneer sector can be seen. No study of this topic is complete unless the investment and employment aspects of the pioneer companies are dealt with. This is done in Chapters IV and V. Chapter III relates the incentives offered by the Government including the Investment Incentives Act 1968. Only in Chapters I and VI does the writer deals with the manufacturing sector as a whole. This is necessary as in Chapter I where the case for industrialization is seen and in Chapter VI where the recommendations and comments of the industrialization policy are given. This is done so because in these 2 chapters no clear demarcation line can be drawn between the non-pioneer manufacturing sector and the pioneer manufacturing sector and also these sectors are very closely inter-related.

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CHAPTER I

THE IMPORTANCE OF THE MANUFACTURING SECTOR TO MALAYSIAN ECONOMY

Introduction

An export-orientated economy has its limitations. It can only by exploiting carefully and successfully its comparative advantage of international trade, raise the standard of living of any country up to a certain level after which it can never enjoy the same rate of economic progress[1] it had experienced. When comes to such a situation, to achieve a greater economic growth and a higher standard of living, there is a need for structural transformation of the economy.

Malaysia is such a country. It has enjoyed the gains of international trade which was responsible for transforming Malaysia into one of the richest countries in Asia, with a high per capita income and a high standard of living. But now the case for a structural transformation is being urgently advocated. No longer can the Malaysian economy rely exclusively on her export earnings to raise her standard of living; to combat unemployment, underemployment and disguised unemployment, characteristics of developing economies; to preserve the balance of payments position and to obtain more revenue. The time has come for Malaysia to resort to industrialization as a means to achieve the above needed wants.[2]

Malaysia also a typical case of a developing nation, and like most developing nations find its economy in complete reliance on certain products on which they have comparative advantage. The reliance of the Malaysian economy on the export of rubber and tin, the twin pillars of the Malaysian economy, is a classic example. For example in 1965, rubber and tin together accounted for 55% of the total export earnings and about 30% of its Gross National Product.

Due to the importance of these 2 commodities, resulted in an unbalanced growth of a dual economy; with an impoverished rural sector existing side by side with a comparatively well advanced sector enriched by the rubber and tin industry. The obvious dangers of such an economy is likely to be wide fluctuations in G.N.P. In such a situation then Malaysia has no choice but to diversify its economy.

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[1]The term 'economic progress' is used interchangeably with 'economic development' and 'economic growth' by the writer.

[2]The term 'industrialization' is used interchangeably with 'industrial growth' and industrial development' by the writer.

Malaysia today is undergoing intensive economic development. The diversification of its agricultural sector and its manufacturing sector are the two most important. As the present exercise is mainly concerned with the manufacturing sector, the diversification of the agricultural sector will be completely left out.

Silcock in his general review of Economic Policy[3] of Malaysia recognised 4 basic problems. They are racial imbalanced, increasing population pressure, instability due to the price of rubber and the high level of imports, and lastly the balance of payment difficulties. It can be seen in the following discussion in this chapter, how the effects of the last 3 basic problems can be lessened through the industrialization process.

The importance of industrialization in the Malaysian economy can be clearly seen by the significance attached to it by the First Malaysian Plan 1965-1970, which says, "if national income and employment are to rise over the next 20 years, as envisaged by the Perspective Plan 1965-1985, considerable structural changes in the economy will have to occur with industry accounting for an increasing share of the total". It goes on further to state that ". . . the promotion of accelrated development in the manufacutring activity is therefore important."[4] This realisation of the Government on the importance and growing need of a bigger manufacturing sector can be easily seen by showing the public expenditure channelled to this sector of the economy over the period 1956 to 1970.

Although the industrial development sector expenditure consists of only a small percentage of the total public development expenditure, one must not forget that the industrial sector forms only part of the all-embracing manufacturing sector. Special emphasis is placed on the industrial sector because this sector has great potentialities in accelerating the growth of the economy. As can be seen in Table 1.1 there was a tremendous increase of $47 million or 388.4% spent in this sector over the same sector but spent between the period 1956-1960. Again for the period 1966-1970, the amount to be spent in this sector is $133.9 million, an increase of $74.8 million or 126.5% over the development expenditure spent on the same sector between the period 1961-1965. This clearly prove the intention of the Government; that the industrial sector must be expanded, exploited and promoted to play a bigger role in the future.

Another clear indication of the growing importance of the manufacturing sector and hence its rapid growth is provided by the amount the commercial banks in Malaysia loan out to this sector compared to other sectors. This sector over the years began to borrow more and more for investment purposes. The contribution of the manufacturing sector to the Malaysian economy will be discussed fully in the following paragraphs.

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[3] T.H. Silcock: '<u>Political Economy of Independent Malaya</u>', p.242.

[4] First Malaysia Plan, p.123.

TABLE 1.1

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE ON INDUSTRY
1956-1970

	First Five-Year Plan		Second Five-Year Plan		Third Five-Year Plan	
	$M	% of Total[(a)]	$M	% of Total	$M	% of Total
Industrial Development[(b)]	12.1	1.3	59.1	2.5	133.9	3.2

Source. Extracted from First Malaysia Plan and Mid-Term Review of First Malaysia Plan.

[(a)] % of total non-security expenditure only.

[(b)] Industrial Development would include expenditure spent or given to site development, MIDF, FIDA, MARA, Borneo Development Corporation Ltd., rural industries and others. Under MARA, exclude capital cost of its Institute of Technology which is included under Education and Training sector.

Population and Labour Force

There is a gap between the growth rate of the Gross Domestic Product and the growth rate of the population which necessitates acceleration of the industrialization programme. The economy of Malaysia is not growing fast enough to absorb the growth of the labour force and this results in a continuing growing amount of unemployed. Industrialization is seen to be one of the instruments which can absorb part of the growing labour force.

Malaysia has a total population of 9.8 million (1966). West Malaysia itself has a total population of 8.3 million and a population density of 163.2 persons per square mile. This constitutes roughly about 82.65% of the total population of Malaysia. Although the size of the population of Malaysia is not that great to hamper the economic growth, the rate of natural increase[5] however is considered to be one of the highest in the world. At this rapid rate of 3% a year, the population will double in less than 25 years. This rate of natural increase will probably continue in the years to come as the death rate is already very low.[6] Migration is out of the question as a means of reducing this rapid population growth.[7] However the First Malaysia Plan forecast that by 1970 the rate of natural increase will fall from 3% to 2.8% or 2.9% a year.

This prediction is made with the allowance of the factors of net migration decreasing the population and a decrease of life births. However it can safely presume that the rate of 3% a year is likely to continue until 1970. At this growth rate of 3% a year, the population will increase by 1½ million from 9.4 million in 1965 to 10.9 million by mid-1970.for the whole of Malaysia. This can be seen in Table 1.2.

With this rapid rate of natural increase, one would expect an equivalent rate of increase in its labour force. Malaysia's population is relatively youthful and as education becomes more available and longer, the number of persons seeking employment will not grow so rapidly in 1965 to 1970 as the total population. Nevertheless an estimated number of 460,000 potential workers will be added to the total labour force during this period. This means that an average of 92,000 new jobs have to be created every year in order not to increase the already 160,000 unemployed persons in the country (1965). The labour force will rise from 3.2 million in 1965 to about 3.7 million by 1970. Malaysia's labour force can be seen in Table 1.2.

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[5]The Rate of Natural Increase is calculated by using the following formula:

$$\text{Rate of natural increase in year 'x'} = \frac{\text{natural increase in year 'x'}}{\text{population at mid-year period 'x'}} \times 1{,}000$$

$$= \frac{\text{Birth rate during year 'x'} - \text{Death rate during year 'x'}}{\text{population at mid-year 'x'}} \times 1{,}000$$

[6]The Death Rate is calculated by using the following formula:

$$\text{Death rate for year 'x'} = \frac{\text{number of death in year 'x'}}{\text{population at mid-year 'x'}} \times 1{,}000$$

[7]The Net Migration Rate is calculated by using the following formula:

$$\text{Rate of net migration for year 'x'} = \frac{\text{net migration during year 'x'}}{\text{population at mid-year 'x'}} \times 1{,}000$$

$$= \frac{\text{Immigrants during year 'x'} - \text{emigrants during year 'x'}}{\text{population at mid-year 'x'}} \times 1{,}000$$

TABLE 1.2

MALAYSIA POPULATION 1965 AND 1967 (THOUSANDS)

Population	1965	1970	Annual Growth Rate %
West Malaysia	8,052	9,334	3.0
Sabah	520	613	3.3
Sarawak	839	963	2.8
Malaysia	9,411	10,910	3.0

Source: First Malaysia Plan 1965-1970.

TABLE 1.3

MALAYSIA LABOUR FORCE, 1965 AND 1970 (THOUSANDS)

Population	1965	1970	Annual Growth Rate %
Malaya	2,678	3,055	2.7
Sabah	214	250	3.2
Sarawak	334	382	2.7
Total	3,226	3,687	2.7

Source: First Malaysia Plan 1965-1970

The dangers of not being able to create new jobs for the new emerging workers will result in not being able to increase per capita income levels and hence the standard of living. In addition, to this, the unavailibility of jobs will result in frustration and discontent to the new job seekers.

Thus, in order for the economy to grow rapidly, and at least contain the present standard of living, a significant reduction of the overall rate of unemployment must be resulted. One such way to achieve this result is by accelerating the industrial development programme.

This solution was also recommended by the IBRD Report; "That the importance of a steady and substantial expansion in industrial employment opportunities is needed if living standard are to be raised or even maintained.[8]"

In Malaya itself, according to the First Malaysia Plan, the manufacturing sector employed 173,000 persons in 1965 and by 1970,[9] an estimate number of 209,000 people will be employed under this sector; an increase of 36,000 persons or an increase of 20.8%. This means that the planned target is 7,200 new jobs a year will be created by the manufacturing sector. Although this may not look impressive at all one must realise several points. Firstly, although the increase is only 36,000 jobs in 5 years, the net increase by 1970 over 1965 is 20.8%. The other sectors of the economy according to the planned target may increase in greater amount quantity-wise. For example, in the primary sector a net increase of 165,000 jobs will be created. But in reality the net increase over 1965 is only 11.9%. Again in the construction, utilities and transport sector, an increase of 42,000 jobs will be created. This is more in terms of quantity than the manufacturing sector but the net increase over 1965 is only 20% which is 0.8% less than the manufacturing sector. All these go on to show the growing importance of the manufacturing sector, - though small it may be, its growing importance is by no means small compared with the other sectors. In fact it can be said that the manufacturing sector in no time will be the most important sector of the economy. Industrialization in Malaysia is already off to a good start.

Table 1.4 will show the contributing sectors of the economy to the labour problem.

Another point to note is that though the numbers employed in the manufacturing sector is small, one must realise that this sector is growing very rapidly. The existing manufacturers are increasing their production and hence their labour force. This is due to the rise in per capita income which register an annual growth rate of 2.7% over the years, 1960-1965. This increase in per capita income will thus generate a greater demand for consumption goods which part is supplied by the manufacturing sector.

This is especially true in the growth of pioneer companies which is at a very rapid rate for certain years. For instance, in 1959 there was only 18 companies holding pioneer certificates and in 1965 there was 101 such companies. As at 30th November 1968 although there was 140 companies holding pioneer stutus certificates, there are 107 such companies were approved in principle. This goes on to reflect the tremendous rate of growth in pioneer companies which is hard to forecast its exact pace. The employment figures of the 107 approved companies as at 30th November 1968, which they must commence its production at least by 2 years after the date of its approval, will employ an estimated number of 14,364

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[8] IBRD Report 1955, '<u>Economic Development of Malaya</u>', p.120.

[9] <u>First Malaysia Plan</u>, Table 3.7.

TABLE 1.4

MALAYA: EMPLOYMENT BY SECTOR, 1965-1970
(THOUSANDS)

Sector	1965 (Preliminary)	1970 (Target)	Net Increase 1965-1970 (Target) %
Agriculture, forestry and fishing	1,388	1,553	11.9
Manufacturing	173	209	20.8
Mining and quarrying	61	61	-
Construction, utilities and transport	210	252	20.0
Public Administration and defence	257	312	21.4
Other Services	429	508	18.4
Total	2,518	2,895	15.0

workers.[10] This goes on just to show the rate of growth of new jobs in the pioneer sector which is only part of the all embracing manufacturing sector.

Hence we can conclude by quoting the IBRD Report. It said that "in the coming years and decades, the growth of population is likely to outstrip by far the absorption capacity of the 'staple' activities, rubber and tin production and entrepot trade or which Malaya now depends. Unless equally productive alternatives continue to be developed, the Malayan standard of living may gradually drift from its present relatively high 'rubber' level back towards the 'rice''levels prevailing in much of the rest of Asia. Agricultural settlement is gradually occupied, an increasing proportion of the population will have to find employment elsewhere if it is not to remain idle or underemployed."[11] As was written earlier, the manufacturing sector will be the most productive sector in the years to come and this sector will absorb part of the growing labour force.

[10] Malaysia Industrial Digest, Vol.1, No.4.

[11] IBRD Report 1955, op.cit., p.423.

Contribution to Gross Domestic Product (GDP)

It can be seen that under this section, the contribution of the manufacturing sector to the Gross Domestic Product is very important. Table 1.5 shows the growing importance of the manufacturing sector over the years 1963 to 1967, and because of its important contribution to the GDP, the urgency and the need to industrialise Malaysia or the need to increase or accelerate the pace of the industrialization programme in Malaysia is justified.

Due to the writer's difficulty in obtaining a comprehensive table for the whole of Malaysia, the writer will only present a comprehensive table of the contributing sectors to the GDP for West Malaysia only which can be used to represent as a true picture for the whole of Malaysia.

One noticeable fact is that the contribution to the GDP by the manufacturing sector over the years 1963, 1965 and 1967 was not very large. In fact, for the 3 years computed, the contribution by this sector was only the fourth largest out of 14 sectors. It contributed only 9.1% to total GDP in 1963, 10.2% to total GDP in 1965 and 11.4% to total GDP in 1967. There was no change of position for the 3 years. However, a closer look into the tables will reveal that although the manufacturing sector's contribution in terms of size is behind the agriculture, forestry and fishing sector, the wholesale and retail sale sector and the services sector, it was the leading sector as far as percentage increase between 1965 and 1967 was concerned. Agriculture, forestry and fishing which contributed the biggest share to the total GDP only increase by 3.6% between 1965 and 1967. The wholesale and retail sector which was the second biggest contributor to GDP, contributed 15.8% to GDP in 1967, had in fact recorded an increase of only 8.2% from 1965 to 1967. The third biggest sector, the services sector contributed 14.4% to GDP to GDP had only increased by 13.2% over 1965. Whereas the manufacturing sector which contributed only 9.1% to GDP in 1963, 10.2% to GDP in 1965 and 11.4% to GDP in 1967, the fourth biggest sector had in fact registered a tremendous increase of 18.6% between the years 1965 and 1967 and hence the greatest growing sector when compared with the other 3 leading sectors mentioned.

This goes on to indicate clearly that although the manufacturing sector is not the biggest contributor to the GDP, it has shown signs clearly that it will eventually become one. This dynamic sector over the years have recorded the greatest growth rate when compared to the 3 biggest sectors. Although 2 other sectors recorded a greater increase rate, namely the electricity, water and sanitary services sector, and the banking, insurance and real estate sector which have a growth rate of between 1965 and 1967 of 25.1% and 20% respectively, they are not as important as the manufacturing sector. This is because the manufacturing sector helps to bring into the country more foreign exchange and also it helps to retard the outflow of our currency overseas through imports.

Rubber the biggest individual contributor to Malaysia's GDP since pre-war and it still is, has, in fact, begun its decline. From the tables we can see that this individual sub-sector record a decrease of 12.9% over

TABLE 1.5

MALAYA - INDUSTRIAL ORIGIN OF GDP AT CURRENT FACTOR COST

Sectors	1963		1965		1967		% of Increase/ Decrease Between 1965 and 1967
	$M	%	$M	%	$M	%	
Agriculture, forestry and fishing	1,847	31.5	1,956	28.6	2,026	27.8	+ 3.6
a) Rubber	1,009	17.2	1,010	14.8	880	12.1	-12.9
b) Other	838	14.3	946	13.8	1,140	15.7	+16.3
Mining and quarrying	419	7.1	598	7.7	464	6.4	-22.4
Manufacturing	533	9.1	701	10.2	832	11.4	+18.6
Construction	274	4.7	315	4.6	340	4.7	+ 7.9
Electricity, water and sanitary services	98	1.7	131	1.9	164	2.2	+25.1
Transport storage and communication	206	3.5	249	3.6	258	3.5	+ 3.6
Wholesale, and retail sale	950	16.2	1,065	15.6	1,153	15.8	+ 8.2
Banking, insurance and real estate	91	1.6	110	1.6	132	1.8	+20.0
Ownership and dwellings	277	4.7	298	4.4	310	4.2	+ 4.3
Public administration and defence	373	6.4	493	7.2	570	8.8	+15.9
Services	794	13.4	928	13.6	1,051	14.4	+13.2
GDP	5,790	100.0	6,844	100.0	7,300	100	+ 6.1

Source: Malaysia Information for Investors - FIDA, October, 1968.

the years 1965 to 1967. Rubber is primarily an export product. Another important export sector is the mining and quarrying sector which has in the past and present been one of the 2 main pillars of our economy has also began to decline in its importance as a contributor to GDP. It has recorded a decline of 22.4% between the years 1965 and 1967. According to the First Malaysia Plan, the export proceeds from these 2 sectors will remain important for some time to come but they cannot be expected to contribute significantly to economic growth, at least over the next 5 years. The consequences of this will result in a smaller export earning and unless there are other sectors in the economy to counterbalance this loss of revenue and importance, the standard of living will definitely not increase especially when the labour population and labour force are growing so rapidly. The manufacturing sector especially the industrial sector has been looked upon as the "compensating" sector to keep the economy stable.

For the years 1963 to 1967, the manufacturing sector contributed an average of about 10% to total GDP. Though this figure is by no means large at all, it has been shown that it is growing rapidly. Again as compared to other important sectors of the GDP, has in fact seen that these sectors are losing their importance. Hence the writer can safely say that though small it may be, the manufacturing sector is showing its future importance as a solution to economic growth in Malaysia.

Import Replacement

As the export earnings of Malaysia for the future is not too bright, some solution must be found in order to stop or decrease the out-flow of Malaysia's foreign exchange. Silcock warned that if Malaya is to maintain its living standards it will have to direct attention either to export promotion or import substitution.[12] This solution as was mentioned by Silcock lies in import replacement. In this section, the writer shall justify the need for import replacement and then goes on to show how import replacement has been achieved in the industrial field.

About half of the goods and services consumed in Malaysia in the recent years have been imported from abroad and this necessity of importing goods and services will continue to increase in the future as the country's population, income level and degree of modernization rises. Added to this, since export of rubber and tin do not increase fast enough, new products have to be produced locally in order to save the foreign exchange so derived. Increasing the production of export orientated products as a means of financing imports is one solution but this is not possible in the short run. Therefore, manufacturing those goods presently imported to be consumed locally is the obvious solution. Together with the present high levels of consumption of so many manufactured goods make the opportunities for the production of domestic consumed commodities promising. This is so especially import substitution is more easily realised than income in export earnings in order to save foreign exchange. This

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[12] T.H. Silcock: "Political Economy of Independent Malaya", p.248.

TABLE 1.6

MALAYSIA: GROWTH OF EXPORTS AND PRODUCTION FOR DOMESTIC USE 1960-1965
($ millions, 1960 prices)

	1960	1961	1962	1963	1964	1965	Annual Growth Rate (%)
GDP (in market prices)	6,918	7,136	7,529	8,005	8,567	9,182	5.8
Exports of goods and non-factor services	3,824	3,919	3,999	4,184	4,256	4,381	2.8
Exports as % of GDP	55	55	53	52	50	48	-
GDP for domestic use	3,094	3,217	3,530	3,821	4,311	4,801	9.2
Domestic use as % of GDP	45	45	47	48	50	50	

Source: First Malaysia Plan, Table 2.3

is the only solution and possible means in the short run. However, at the same time the drive towards export-orientated industries must be carried on.

This solution of import-replacement has already shown itself felt in Malaysia. This movement of import substitution can be seen as there was a significant shift in the composition of output away from production for export and towards production for the domestic market. Between 1960 and 1965 export output grew only 2.8% yearly while output for domestic use increased at 9.2% yearly. As a result exports fall from 55% to 48% of total output over the period 1960 to 1965. Table 1.6 will qualify the above reasoning.

Due to the increasing importance of production for the domestic market, there is a significant increase in domestic investment for the production of goods and services for the domestic market. There is a decline in imports especially principal goods. As we shall see in later chapters of the increase in domestic investment, the table below will suffice to prove that there is a decrease in imports of some principal imports due to an increase in domestic investment. Thus, the result of import replacement can be seen.

TABLE 1.7

MALAYSIA: PRINCIPAL IMPORTS ($ MILLIONS)

	1965	1966	1967 (Preliminary)
Food, Beverages and Tobacco	873	839	$ 852
Manufactured Goods	804	797	785
Machinery and Transport Equipment	729	800	736
Mineral Fuels	389	437	446
Inedible Crude Materials	238	164	167
Others	336	360	264
Total - All Commodities	3,359	3,379	3,253

Source: Malaysia Information for Investors - FIDA

Government's Role

The important role of the manufacturing sector to the growth and development of the Malaysian economy cannot be denied. Realising the importance and potentialities of this sector, the Government in its role to assist in the growth of this sector is most important. As in the past the government will leave the operational role in the manufacturing sector largely in the hands of the private entrepreneurs. The Government's role is mainly to provide the infrastructure needed in this sector of the economy, granting incentives and maintain a favourable investment climate.

In its attempt to speed up the manufacturing sector especially the industrial field, the Government has set up an institution called the Federal Industrial Development Authority (FIDA) to spearhead the growth of the industrial sector. The work of FIDA will be briefly discussed here and in Chapter III. Briefly the work of FIDA includes industrial planning, investment studies, contact centre for potential investors and the processing of applicants for pioneer status. Other institutions of lesser imporance but by no means unimportant shall also be discussed later. Such institutions, both private, Government and quasi-government includes Malayan Industrial Estates Ltd. (MIEL), Malayan Industrial Development Finance (MIDF), Tariff Advisory Board (TAB) and so on.

One important aspect that should be noted and credit to be given to the Government, is that in its attempt to stimulate the growth of the manufacturing sector especially the industrial sector, has not forgotten about the resources available in Malaysia. As the country's abundant labour resources are easily obtainable, the Government urges and encourages the setting of labour intensive factories; factories that utilises more labour-intensive methods of production rather than capital intensive wherever these are technically possible and economically justified. The Government by doing this economises the use of its scarce capital resources. However, whether this aim is successful in creating labour-intensive factories can be seen in later chapters. But it can be mentioned that the aim is towards the right direction, although this is successful or not is another matter. Another important contribution done by the Government in its attempt to preserve and serve the country's scarce resources is by revealing to potential investors which commodity is worth producing and which are not. In this way, there will be no wastage of those scarce resources. On the other hand, whereby resources are plentiful for example rubber, the Government encourages the setting of industries that deals with this abundant resources. The Government encourages the use of local raw materials whenever possible. For example, the Government in its attempt to do this agrees to extend by 1 year a tax holiday for the company which has been granted a pioneer status certificate, if it incorporates in its manufactured product (if any) a specific percentage of Malaysia's raw materials. There are other work done by the Government which must be given credit too, but since this is only an introductory chapter, the emphasis on these work will not be stated. However the writer can safely conclude by saying that it is clear and evident that the Government is placing a lot of emphasis on industrial development but whether the rate of industrial development so far is satisfactory or not, and whether the existing industrial development policies needs changing or not will be discussed in the last chapter.

Conclusion

From a brief review of the problems of the Malaysian economy one is aware of the growing importance of the manufacturing sector as a catalyst to Malaysian economic progress and development. From a traditional, export-orientated economy, the government has launched a programme of industrial development and agricultural diversification to shift the dependence of the economy from these traditional export sectors. Rapid industrialization has been seen as a key factor in maintaining the economic buoyancy that Malaysia has enjoyed for the past decade. Malaysia will not have it that good again as in the past, depending chiefly on her exports. The future, whether the income level and standard of living will rise or fall will have to depend greatly one day in the manufacturing sector. The rising trend in imports of industrial products is also likely to continue consequent to a rapid rate of population growth and the continued development of the economy. But this rapid growth in population which results in an expansion of imports will not be able to match by any forseeable exports.[13] However, it is the aim of the Malaysian Government to reduce this trend in imports by encouraging development of import-substituting industries and also to in fact reverse this trend by encouraging the exports of locally manufactured goods from Malaysia. As in the past, the Malaysian Government will not involve itself in direct investment in the private sector. Government's policies has been to create the necessary infrastructure facilities and to invest in the public sector activities so as to strengthen the base of the economy on which private investments are to build on and to create the necessary pre-condition for industrial take-off.

Up to the present, the results of Government efforts to expand the manufacturing sector especially the industrial sector has not been very encouraging and fruitful as desired it to be. Some investors both foreign and local has taken advantage on the favourable investment climate in Malaysia. This favourable investment climate will include investment incentives offered by the Government, both to pioneer and non-pioneer certificate holding companies, a stable economy both politically and economically, a modern monetized economy with a good network of modern and advanced financial institututions, cheap labour and lastly a well developed infrastructure. As at February 28th, 1969, there are 148 companies holding pioneer status certificates with a nominal capital of $1,241,160,000 and a total called-up capital of $319,115,376. Out of this total called-up capital, $186,398,586 was foreign called-up capital and the rest local. U.S.A. and U.K. are the two biggest foreign investors. U.S.A. total called-up capital came up to $45,540,577 and U.K. total called-up capital came up to $40,344,640. Hong Kong was the third biggest investor contributing a total called-up capital of $33,939,213. Fourth was Japan and fifth was Canada. These 148 companies have a potential employment at the end of 'tax free' period of 19,051 persons. There are also 126 pioneer companies approved in principle as at the same date, with a total nominal capital of $684,020,490 and a total called-up capital of $187,321,002. The number of persons employed in these 126 pioneer companies at the end of the tax free period will be 15,934 persons.[14]

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[13] Ibid., p.248

[14] Refer to Malaysia Industrial Digest, Vol.2 No.1, 1969

CHAPTER II

HISTORY AND GROWTH OF PIONEER INDUSTRIES

Industrial Activity Before the Independence

Industrial activity up till the time of the Independence (1957) was mainly concentrated on enterprises that were closely associated with primary production of rubber, tin and domestic trade. The nature of the economy was such that secondary industry had to meet a severe test before it could become established as it was in a virtually unprotected market in which competition from imports had to be faced. Rubber, tin and trading activities were highly profitable and attracted capital into non-industrial uses. This fact coupled with the availability of new land for settlement, tended to keep wages relatively high. In addition there was no cheap sources of power for industry.[1] As a result industrial activity has tended to concentrate on lines which enjoy considerable natural protection from foreign competition: those closely associated with primary production and trade, operations which must be performed on the spot and industries sheltered by high transportation cost or other special advantages of location. Such enterprises were mainly in the engineering trades, in the processing of agricultural, mining and forestry products, and in the manufacture of food preparations, beverages, tobacco, rubber goods, furniture, printed materials and building supplies.[2] As can be seen, this pattern covered a wide range of industries catering chiefly to the domestic and nearby markets. This stage of industrial development had been reached almost entirely without tariffs or other forms of protection.

One important measure of the extent of industrialization of a country is the proportion of the work force in secondary industry, manufacturing, building and construction. According to the 1957 Census of Population, 9.5% of the total labour force was engaged in the secondary industry sector. It appears that there is a decline in the proportion of the work force employed in primary industry between 1947 and 1957 from 68.7% to 61.3%, an increase in secondary industries from 7.4% to 9.5%, and a more substantial increase in the tertiary industry proportion from 23.9% to 29.1%.[3] This proved that already by 1957, the importance of the industrial sector was gaining momentum.

The average industrial unit was very small by western standards.

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[1] E.L. Wheelwright: "Industrialization in Malaysia", p.2.

[2] IBRD Report 1955: op.cit., p.119.

[3] Census of Population 1957 - Table 6.4, p.30.

There were no private manufacturing firm that employed more than a few hundred workers; the average firm has perhaps 20, the majority less than 10.[4] According to the first Census of Manufacturing Industries carried out in 1959, the smaller units, employing less than 20 persons, constituted 87% of the number of establishments but accounted for only 23% of the gross value of sales. Again another feature was that there was a high degree of self-employed persons in this sector. The1957 Population Census showed that of the 135,000 people employed in manufacturing, 34% or 45,600 were self-employed.[5]

With regard to the aspect on ownership, management and work-force, the IBRD Report of 1955, observed that the capital and management in manufacturing industry appeared to be mostly Asian with a few important exceptions (European capital has tended to concentrate on the plantations, mines and commerce, while the Chinese have taken a leading role in the industrial sector). Between 80% and 90% of employers were Chinese, the remainder were Indians.[6] Almost two-thirds of wage-earners in the secondary industry were Chinese and in manufacturing, the proportion was three-quarters; Malays and Indians accounted for a higher proportion of the labour force in the outdoor occupations of building and construction work than in manufacturing where their numbers were relatively small.[7]

Another feature of the Malayan industrial enterprise in this period was with regard to variations in technical equipment and efficiency. As was seen there was a wide range of enterprises, and this rendered an enormous variation in techniques of production and efficiency. Equipment ranged from ill-equipped outdated ones to those of well-equipped and efficiently conducted enterprises.

Lastly it was seen that up till the Independence, there was a heavy concentration of industry in only four states, the first three being the most populous and three of the four being the most highly urbanized. Selangor had the widest range of relatively large industries of any state, most of it being concentrated in and around Kuala Lumpur. It also has the largest average size of establishments in any state with a figure of 17 full-time paid workers per establishment. Perak, Johore and Penang were the other 3 states besides Selangor.[8]

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[4] IBRD Report 1955, op.cit., p.422.

[5] Census of Population 1957, p.26.

[6] IBRD Report 1955, op.cit., p.422.

[7] E.L. Wheelwright: op.cit., Table 5, p.8.

[8] Ibid., Table 7, p.10.

Reports That Led to the Passing of the Pioneer Industries Ordinances 1958 (No. 31 of 1958)[9]

1. The IBRD Report, 1955

This report, organised by the IBRD under Sir Louis Chick, K.B.E., Chief de Mission, was at the request of the Governments of the Federation of Malaya, the Crown Colony of Singapore and the United Kingdom. It was in this report that for the first time, the concept of pioneer industries and its applicability was discussed. The aim of this report was three-fold:[10]

i) to assess the resources available for future development;

ii) to consider how these resources might best contribute to the economic and social development of Malaya;

iii) to make recommendations for practical measures to further such development.

Before attempting to state the recommendations of the IBRD Report, it is useful to note the following views of the Report. Firstly, it very strongly suggested the need for a greater emphasis on industrial development. Then it went on to say that if it was to sustain or to raise Malaya's living standards, industrial development must not merely provide some sort of work for idle hands: it must provide work productive and profitable enough to justify the wage levels that go with Malaya's present living standards.[11] But if satisfactory rate of progress are to be achieved in industrial development, industrial activity will have to move increasingly into lines more directly and openly competitive with manufactured products from abroad.[12]

The recommendations of the report were as follows:[13]

i) Malayan secondary industries which have concentrated for the most part in fields where they have a localized natural advantage, must move into lines which meet more direct and open competition with industries of other countries, on the basis of cost and quality. Hence, there was a necessity for high and precise standards of quality for its products;

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[9] In this study, the writer does not attempt a full analysis of the reports but rather only the recommendations of these reports in relation to Malaysia's industrial development.

[10] IBRD Report, "The Economic Development of Malaya", Preface, p.(vii).

[11] Ibid., p.423. [12] Ibid., p.121.

[13] Ibid., Technical Report 8, Chapter 6.

ii) The Report recognised the need for some degree of tariff protection but strongly against any attempt to the imposition of quantitative import restrictions for protective purposes. Instead as a protective measure, the Report recommended the imposition of anti-dumping laws. Also recommended was that official limitations on new entries to secondary industries should not be imposed, unless in very exceptional circumstances;

iii) Encouraged the setting up of more training facilities for industrial workers;

iv) Recommended the establishment of an Institute of Industrial Research to investigate both the technological and economic aspects of secondary industries in Malaya. Industrial research should not be left to individual firms or industries;

v) Consideration should be given to financial requirements for private industrial development and to establish a separate organization to extend medium and long-term financing to industries. Meanwhile it was also suggested that in appropriate and carefully investigated cases, the Government should, if necessary, be prepared to guarantee bank advances to sound industrial projects of substantial economic importance;

vi) A gradual swing away from the very small-scale "family" enterprise towards a more modern form of joint-equity organization;

vii) According to the Report, several under-developed countries have adopted "pioneer industry" legislation,[14] and was not in favour of a similar legislation being introduced in Malaya for the purpose of encouraging the growth of industrial development. As such they concluded by saying, "we believe that general concessions along the lines now followed are likely to be more effective in Malaya is encouraging industrial development than any attempt to distinguish 'new ' industries as such under 'pioneer industries' legislation. New Malayan industries should mostly grow out of the wide range of existing enterprises, and special tax concessions to 'new' industries would, in our opinion, involve invidious comparison of a very difficult and unnecessary kind. Generous depreciation allowances[15] automatically favour the industries and enter-

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[14] "Pioneer industry" legislation was first defined by the Report as "under which new industries may be granted exemption from income tax on these profits for a period of years, special concession in depreciation allowances and other tax privileges."

[15] The depreciation allowances referred to are those provided in respect of capital expenditure, under the Income Tax Ordinance 1947 (M.U. Ordinance, 48 of 1947).

prises that are developing most rapidly in terms of the acquisition of capital assets".

viii) The establishment of a Division of Industrial Development, under the supervision of the Members for Economic Affairs. The role of this establishment is as a contact between secondary industries and the government, and helping the setting up of new enterprises.

2. The Working Party Report[16]

This Report adopted a very similar approach as the IBRD Report 1955, and as a preface to its recommendations the Report noted that measures which can be taken by Government to promote development fall into 2 categories as regards their effect on revenue and expenditure.

i) those which reduce revenue; and

ii) those which increase annually recurrent expenditure.

Tax relief on profits and exemption from customs duty on raw materials and equipment fall under the first category, while items such as the establishment of special government departments, the development of industrial estates and the fostering of research fall into the latter. This Report considered that the reduction of revenue resulting from the first kind of action could only be temporary if an expansion of local industries was achieved.

This Report recommended certain Government actions so as to accelerate the pace of industrial development.

i) Provision of various kinds of services for industry, such as industrial sites, access roads, water, sewerage and electricity; research and credit facilities;

ii) The provision of financial inducements to private enterprises, such as special relief from income tax. Specific recommendations were made concerning pioneer industry, defined as one 'which is not being conducted on a scale adequate to the economic needs of the territory and for which there is a favourable prospect of further development.' The Report did not suggest any specific rates, but a committee proposed to draft legislation giving 'tax holidays' to such industries;

iii) Inducement to foreign capital such as guarantees against nationalization and guaranteed remission of profit and repatriation of capital;

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16 This Report is known as "Malaya (Federation) Report of the Industrial Development Working Party, 1957". Due to the unavailability of this Report, the writer have no choice but to utilise E.L. Wheelwright "Industrialization in Malaysia" analysis of the same report.

iv) Administrative measures such as tariff protection in selected cases, duty-free entry of certain goods, and purchase of local products by government departments. A specific recommendation was made for Tariff Advisory Committee to administer tariff making;

v) A survey of industrial development opportunities was recommended in which the following should be considered:

a) Potential demand, both domestic and foreign, for capital and consumer goods which might be produced in the Federation;

b) The possibility of developing existing secondary industries in urban and rural areas, and of introducing new ones;

c) The appropriate scale of such projects and their capital requirements.

Effects of the Reports

The main difference between the two reports was that one did not advocate for the provision of tax relief and the other did. No special reasons was given by the IBRD Report for not favouring the setting up of pioneer industries. On the other hand, the Working Party Report realised the role pioneer industries can play in the industrial development of Malaya, strongly recommended the setting up of pioneer industries. This recommendation of the Working Party Report, eventually led to the passing of the Pioneer Industries Ordinance one year after the Working Party Report. Overall, most of the recommendations of the two reports were taken up. Some were incorporated into the Pioneer Industries Ordinance, while some became separate Ordinances and Projects, with the aim as to assist the industrial sector. For example, the Tariff Advisory Board and the Industrial Development Division were set up.[17] The Anti-dumping act was passed by Parliament. Government departments are to assist by buying local products. The Investment Guarantee Act was signed with United States of America and Germany. Industrial estates became a reality. To encourage the promotion of exports, special export allowances were allowed. Credit institutions were set up, on a quasi-government partnership basis. Other recommendations taken up were the training of industrial labour, the setting up of quality control into Malaysian products, research facilities and guaranteed remission of profit and repatriation of capital.

Implementation Policy: Various Acts Passed

The Pioneer Industries (Relief from Income Tax) Ordinance, 1958 (No. 31 of 1958) was the first Act that was passed, that led to the

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[17]The functions of the Industrial Development Division of the Ministry of Commerce and Industry were taken over by the Federal Industrial Development Authority in 1967.

introduction of tax relief for pioneer industries. This Act was the result of the IBRD Report 1955, and especially the Working Party Report 1957 recommendations. The main provision of this Act was the granting of a 'tax holiday' for an initial period of two years to any manufacturing establishment designated as 'pioneer'.[18] This two years relief period could be extended to:

i) three years where a fixed capital expenditure of $100,000 or more has been incurred, or

ii) five years where a fixed capital expenditure of $250,000 or more has been incurred.

There was a need to harmonize the various Pioneer Ordinances of Malaya, Singapore, Sabah and Sarawak when these 4 states were joined up to form Malaysia in September 1963. As a result the Pioneer Industries (Relief from Income Tax) (Variation) Act 1965 (No. 30 of 1965) came into being to harmonize the various pioneer industries Ordinances of Malaya, Singapore, and Sabah under a common revised tax relief structure. Under this new Act, an initial tax relief period of two years is awarded[19] to any manufacturer designated as 'pioneer' with an extension to:

i) three years when $250,000 or more has been incurred in fixed capital expenditure;

ii) four years when $500,000 or more has been incurred in fixed capital expenditure;

iii) five years when $1,000,000 or more has been incurred in fixed capital expenditure.

Although this Act was passed, the Sarawak Pioneer Industries Ordinance 1957 was not affected by this Act, for it was considered unnecessay to extend the granting of tax relief to Sarawak. At this time Sarawak offered the incentive of accelerated depreciation to her investors, under her own Pioneer Industry Ordinance. Arrangements were made to do away with all these complications and to enforce the whole of Malaysia under the same Act. The Sarawak Pioneer Industries Ordinance 1957 was repealed and the Malaya Pioneer Industries (Relief from Income Tax) Ordinance 1958, as amended by the Pioneer Industries (Relief from Income Tax) (Variations) Act 1965 was extended to Sarawak on January 1st, 1966 by means of the Pioneer Industries (Relief from Income Tax) (Borneo States) Order 1966. The Sabah Pioneer Industries (Relief from Income Tax) Ordinance 1956, as amended by the Variations Act 1965, was also modified to harmonize it with the new Ordinance. In 1968, another incentive Act was passed by Parliament. This Act is known as Investment Incentives Act 1968 (No. 13 of 1968) which was applicable to the whole of Malaysia with effect from January 1st, 1968.

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[18] Pioneer Industries (Relief from Income Tax) Ordinance 1958,

[19] Pioneer Industries Act 1965 (Section 12).

Growth of Pioneer Industries

Since the time when the first Pioneer Industries Ordinance was passed in 1958, there are at present up till 31st December 1968, 142 pioneer establishments in operation. The number of companies awarded the pioneer status certificate yearly since 1958 can be seen in Table 2.1 and Diagram 2.1. One distinct feature stands out if an analysis is made from Table 2.1 - the growth trend is not uniform. The percentage increase from 1959-1960 was 77.7%, 1960-1961 was 37.5%, 1961 to 1962 was 54.5% and 1962 to 1963 was 25%. After 1963 the percentage increase decline greatly. There was only a 7.1% increase from 1963 to 1964, 10.9% increase from 1964 to 1965, 12.8% increase from 1965 to 1966, 10.5% increase from 1966 to 1967 and a 12.5% from 1967 to 1968.

The contribution of the pioneer companies to total covered industries[20] reveal some interesting facts as can be seen in Diagram 2.2.[21] The number of pioneer companies as a percentage to the total covered industries for the period 1959 to 1967 is almost negligible. In 1959, it was a mere 1.2% and it increases very slightly even till 1967 when is a only 4% of the total covered industries. However the gross value of sales[22] of own manufactured products of the pioneer companies was surprisingly large. In comparison with the total covered industries, the gross value of sales in 1959 was a mere 1.4% but it increased yearly by a small amount until 1962. From 1962 onwards, the gross values of sales of pioneer companies increased tremendously until in 1967 it consisted of 33.5% of the gross value of sales in all covered industries. The same trend exhibits itself when the net value of output[23] is taken into consideration.In 1959, the net value of output of the pioneer companies as a percentage to total covered industries was a mere 2.6%. By 1962, the share of the net value of output of the pioneer companies came up to 12.3%. In 1967, although the pioneer companies formed only 4.3% of the total covered industries, its share in the net value of output was 34.3% to the total covered industries. All these proved that though the pioneer sector was very small physically compared to the total covered industries, its share in the total output was by no means negligible. Another conclu-

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[20] Total covered industries does not mean that the whole of the manufacturing sector. It consisted of only those that the Statistics Department manage to derive information from. This consisted of 74 selected industries including the whole of the pioneer sector.

[21] Diagram 2.2 is drawn with data extracted from Table 2.2 of the Survey of Manufacturing Industries in West Malaysia, 1967.

[22] Gross value of sales - Value of Sales or shipments, during the calendar year of products manufactured in the reporting establishment plus amounts received for repairs, services and other work done on materials owned by others (Export duties and excise taxes paid on sales are excluded).

[23] Net value of output - The gross value of sales for the year, less the value of materials pruchased during the year, plus/minus the change in value of stock during the year.

TABLE 2.1

NUMBER OF PIONEER COMPANIES IN OPERATION, 1959-1968

Year	As At 31.12.59	As At 31.12.60	As At 31.12.61	As At 31.12.62	As At 31.12.63	As At 31.12.64	As At 31.12.65	As At 31.12.66	As At 31.12.67	As At 31.12.68
ber of ablishments	18	32	44	68	85	91	101	114	126	142

Source: Extracted from Table 2.1 'Principal Statistics of all Pioneer Companies' in Survey of Manufacturing Industries 1967, led by the Statistics Department.

DIAGRAM 2.1

GROWTH OF PIONEER COMPANIES 1959 TO 1968

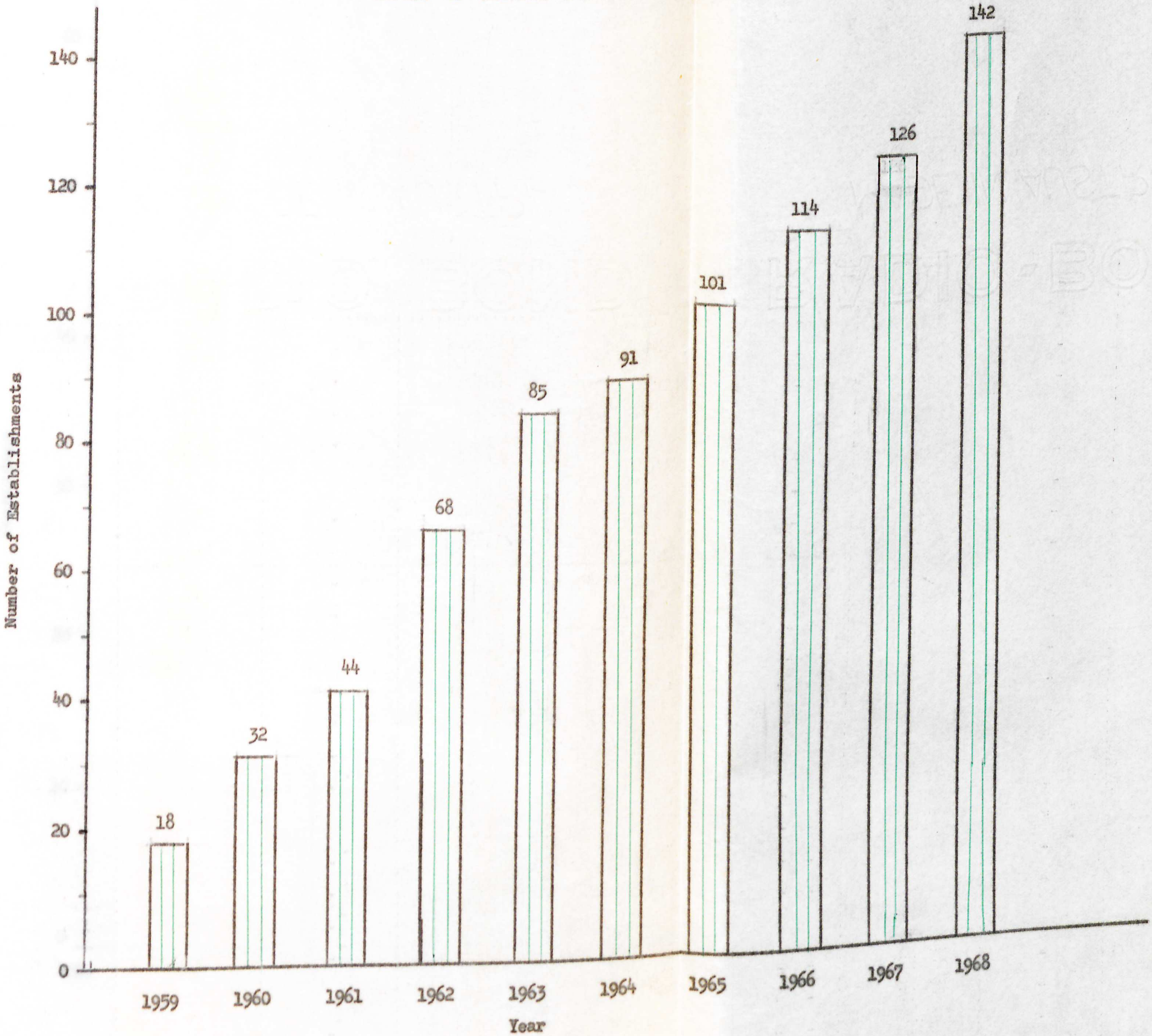
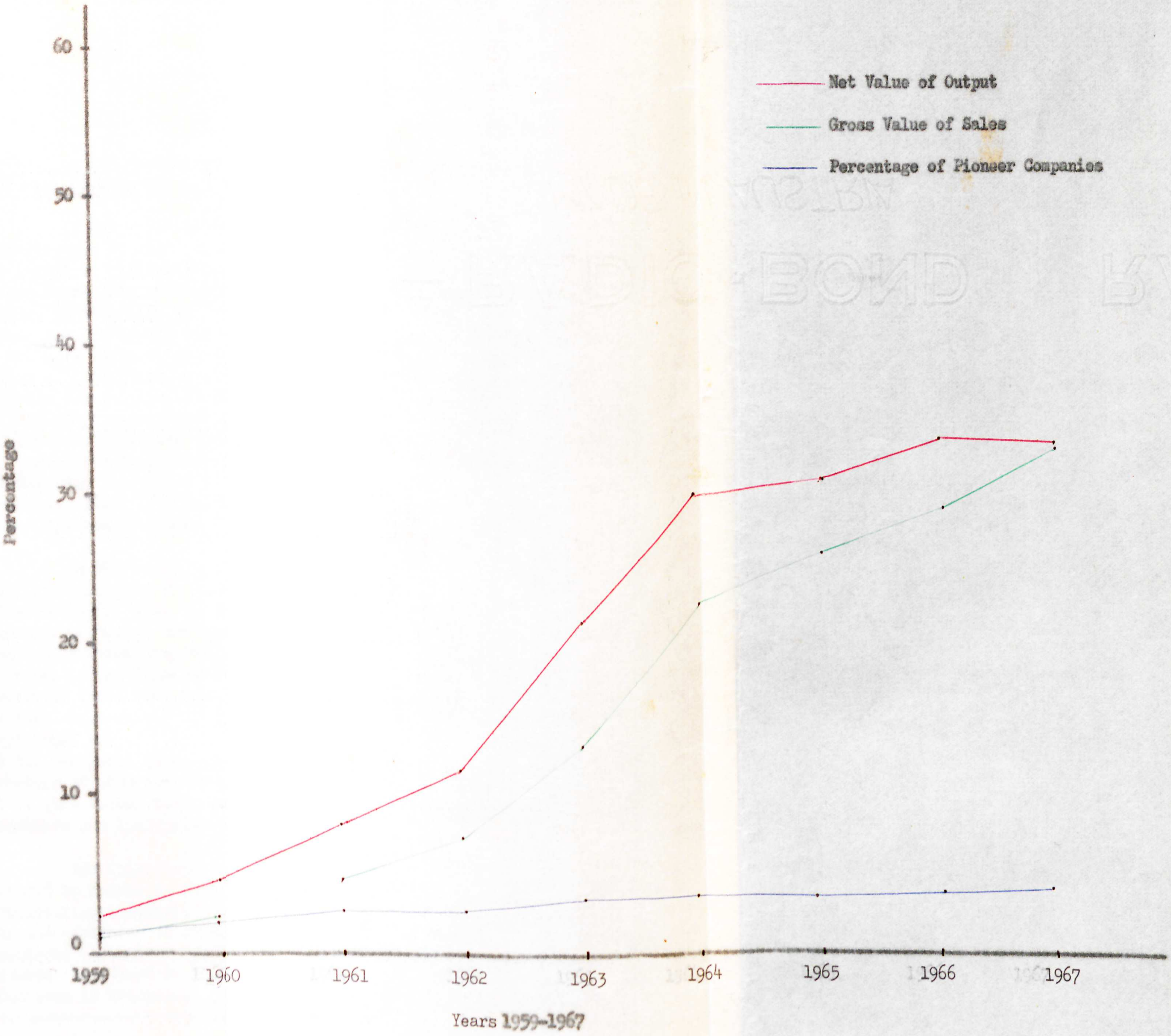


DIAGRAM 2.2

CONTRIBUTION OF PIONEER COMPANIES TO TOTAL COVERED INDUSTRIES 1959-1967



sion that can be drawn is that the average size of the pioneer companies was much bigger than those in the average non-pioneer firms if production is taken to be the criteria.

CHAPTER III

INVESTMENT INCENTIVES

Institutions and Policies Set Up With the Aim of Assisting Industrial Development

In the words of the Minister of Commerce and Industry when presenting the Investment Incentives Act 1968 to Parliament, he said: "Our immediate objectives are to provide greater employment opportunities for our increasing population, to widen and strengthen the base of our economy, to diversify the sources of our foreign exchange earnings and to increase our export income. The Investment Incentives Act is one of the measures towards achieving these objectives. The Act provides a variety of incentives to induce a greater and more rapid flow of investments not only in manufacturing and agricultural based industries but also other enterprises and to encourage the expansion of exports in manufactures."[1] It was found to be absolutely necessary to offer investment incentives to foreign investors since the other Asian countries are offering such incentives to attract foreign investors into their countries. Thus, if Malaysia wants to induce a greater flow of foreign capital in, has no choice but to offer investment incentives.

As it was mentioned in Chapter II, the first investment incentives Act was the Pioneer Industries (Relief from Income Tax) Ordinance 1958. With the passing of this Ordinance was the first true conscious effort of the Government to industrialize the country. The industrialization programme was started. However with the formation of Malaysia, it was found necessary to harmonize the various separate investment incentives Acts of Malaya, Sabah, Sarawak and Singapore into one Act. As a result the Pioneer Industries (Relief from Income Tax) (Variation) Act of 1965 was introduced. But as time progress, this Act too was found to be inadequate especially when concern with the promoting of export-orientated industries. The Investment Incentives Act of 1968 became the latest Act and it was for the first time, export incentives was incorporated into this Act.

The incentives provided by this latest Act (I.I.A. 1968) are designed to induce a greater and more rapid flow of investment into manufacturing industries, certain kinds of commercial enterprises and into the expansion of exports of manufactured products. However, the Investment Incentives Act 1968 is only one among a number of other measures introduced by the Government to promote the development of industries in Malaysia. To the intending industrialist, the incentives

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[1] Speech given by the Minister when introducing the Act in the House of Representatives on 29th February 1968.

offered under the Act should be seen as one among a larger related group of incentives offered by the Government to encourage investment. These include:

i) Protective Tariff

Tariff measures such as protective duties, against foreign competition would be used as a tool to encourage and help infant local industries. For this purpose of protective tariff, the Tariff Advisory Board was established by the Government in 1963, and The Customs (Dumping and Subsidies) Ordinance 1959 was passed with the aim to protect local industries from dumping tactics adopted by other countries.[2] In Chapter VI, the effectiveness of tariff protection can be seen.

ii) Exchange Control

As a member of the sterling area, Malaysia's Exchange Control regulations generally follow the pattern of sterling area countries. There is no restriction on repatriation of profits, dividents and capital to a country in the sterling area. However, repatriation of capital to a non-sterling area is freely allowed if approval of the Government has been obtained prior to the investment being originally made. Similarly repatriation of profits and dividends outside the sterling area is freely allowed provided certain foreign exchange formalities are compiled with (submission of audited balance sheets or an acceptable alternative) at the time of repatriation.[3]

iii) Investment Guarantee

The Malaysian Government's policy of democracy and free enterprise 'ipso facto' guarantees foreign investments in Malaysia against any expropriation. However as a further assurance, the Malaysian Government has signed the Investment Guarantee Agreements with the Governments of United States and West Germany. Under this Malaysia gives a specific guarantee that she will not nationalize the assets of the nationals of these 2 countries. Malaysia is prepared to sign similar Investment Guarantee Agreements with any other countries. In addition to this, Malaysia is also a member of the Convention on the Settlement of Investment Disputes.[4] This gives additional protection to foreign investments in Malaysia.

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[2] First Malaysia Plan, p.132.

[3] Ibid., p.131.

[4] Ibid., p.131.

iv) Industrial Sites

The provision of developed industrial sites with facilities such as power, water, telecommunication and roads. There are at present 10 of such sites in West Malaysia alone and one is fully occupied i.e. Petaling Jaya. Five new industrial estates have been proposed or are currently being developed. The benefits derived from setting up an industry in such sites includes a good existing infrastructure; cheaper water and electricity rates, an extension of 1 year tax relief may be given if it is a pioneer industry and easy accessibility to the main towns and ports.[5]

v) Import Duty Concession

Manufacturing industries may also apply to the Government for total or partial exemption from import duties or capital equipment for initial installation or expansion. Raw materials imported for manufacture can also be exempted from import duties.

vi) Preferential Purchases

All Government Ministries, Departments and semi-government bodies are required to purchase locally manufactured products provided their quality is acceptable and their prices do not exceed equivalent imported prices by 10%. Extensive "Malaysian goods campaigns" have been and will continue to be launched to encourage more purchases of locally manufactured goods.

vii) Provision of Institutions Involved in the Promotion and Development of the Industrial Sector

These institutions were set up with the primary aim to assist the development and expansion of the industrial sector, both pioneer and non-pioneer sectors. A detailed description of them is needed since the role they play in the industrialization process in Malaysia is so important.

a) Malaysian Industrial Development Finance (MIDF)

In order to assist the establishment of new industries through extending financial support, the above-mentioned public financial institution was founded in 1960 with funds subscribed from a number of banks, insurance companies and other financial institutions, including strong representation of foreign interest. Upon recommendations of the World Bank (IBRD) and

[5] For more details refer to Appendix I and Map 1.

the International Finance Corporation (IFC), MIDF underwent reorganisation in 1963, which paved the way for an increase in share capital.

Private industrialists can apply for MIDF loans to cover part of the costs of land, factory building and machinery needed for their projects. This loan assistance consists of equity participation, debentures or hire purchase facilities. MIDF also extends other forms of assistance, such as issuing of shares and their underwriting and consulting services in marketing, accounting, finance, etc. Apparently largely owing to limitations of operational funds but also because of its conservative loan policy, MIDF's operations, instead of being concentrated on the promotion of selected branches of industry, are generally spread out over a large number of undertakings involving small commercial risks. At the end of 1967 agreed loans for 186 projects amounted to only $63.4 million, whereas the cumulative total underwriting and direct share subscription totalled about $38.8 million. By any standard this volume of operation within a period of 7 years could not be considered very large and it appeared to have made only a small impact on the development of industries. Given expanded resources and a change in the current conservative policy, MIDF could become an industrial financial organisation of formidable stature.

b) <u>Malaysian Industrial Estates Limited (MIEL)</u>

This body, instituted in September 1964 as a wholly owned subsidiary of MIDF with an authorised capital of $10 million, provides assistance specifically to small- and medium-size industries. As expansion and relocation of these industries in many cases are considerably handicapped by lack of suitable factory buildings and sites, they can apply to MIEL for long-term financing of these requirements.

MIEL can extend loans of up to 80% of the total cost of land and factory buildings for an agreed long-term period provided certain conditions with regard to factory location, field of operations, etc. are met. Factory mortgage loans and requirements for hire purchase facilities at favourable rates may be made up to 75% of the cost in freight price of imported goods required.

MIEL itself undertakes considerable preparatory work in the establishment of industrial estates by advising state governments in plotting of industrial areas, in the layout of infrastructure facilities and the grouping of industries. In several cases MIEL has participated actively in advanced construction of a limited number of factory buildings. On the other hand, it provides advisory services to prospective manufacturers concerning the selection of a suitable site, future extension requirements and the use of technology. Other activities include supply of information about existing facilities for design, quality improvement, market surveys and labour training.

The operating capacity of MIEL, however, is again significantly constrained by limited operational funds, which at the beginning of 1968 stood only at $2.2 million of which more than half was loan capital.

c) Council of Trust for Indigenous People (Majlis Amanah Raayat - MARA)

This is a statutory body set up to promote industrial as well as other economic activities designed to raise the economic status of Malays in rural areas. For this purpose, MARA provides financing for the establishment, expansion and modernization of rural enterprises in the form of loans for the acquisition of fixed assets or part of the working capital. MARA has extended its activities in the development of industrial skills in the rural areas. The running of the MARA College may be cited as the major start in this direction.

d) The Federal Land Development Authority (FLDA)

This body was established in 1965 as the Government's principal agency for large-scale land development and settlement schemes. Although so far its main interest has been in the cultivation of oil palm and rubber, the development of other agricultural crops to be used as raw materials for export manufacturing industries has received serious attention. So it would be most desirable to co-ordinate the activities of MARA and FLDA so as to make export manufacturing also viable in rural areas. Rural industrialization, if consistently and effectively pursued, will greatly contribute to the reduction of existing inter-regional differences in productivity and income. Rural industrialization will lead to the development of export manufacturing industries.

e) The Federal Industrial Development Authority (FIDA)

Due to the lack of co-ordination in the implementation of industrial policies, this institution, established in October 1967, represents the Government's main co-ordinating instrument to influence the direction of industrialization into the most desired fields. FIDA's tasks are: to undertake thorough feasibility studies of prospective industries; to co-ordinate institutions associated with industrial development; to assess applications for pioneer holders certificates; and to make recommendations on the development of industrial sites. Periodic reports have to be submitted regularly to the Minister of Commerce and Industry on the progress of industrialization, along with its own recommendations for follow-up action. FIDA is also meant as a contact centre between local and foreign investors. Through the FIDA's Registry of Potential Investors and Entrepreneurs, Malaysia's investors who lack technical know-how but have capital and who wish to invest in manufacturing and other industrial activities have been brought into contact with other investors who possess the relevant know-how.

f) Other Institutional Facilities

The establishment of the following institutions may, in due course, greatly enhance accelerated development of industries: The National Productivity Centre, providing training facilities for management supervisory personnel; The Central Apprenticeship Board and the Industrial Training Institute, engaged in training of technicians. The Standards Institution of Malaysia, advise industries on standardization of products and control of quality. Finally, the Malaysian Institute of Management whose primary aim is to promote education and training for management personnel at all levels.

viii) Double taxation arrangements with countries providing investment capital. The general principle underlying such treaties signed with the United Kingdom, Japan, Denmark, Norway and Sweden, is that income should not be taxed both in the territory in which it arises and in the country in which the recipient resides. The government is anxious to enter into similar agreements with other countries.[6]

Investment Incentives Act 1968 (No. 13 of 1968)

What does the Investment Incentives Act of 1968 offer then? Broadly, this Act provides for 2 types of Investment Incentives.[7]

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[6] Ibid., p.131.

[7] Diagram 3.1 gives a comprehensive picture of the whole Act.

THE INVESTMENT INCENTIVES ACT

I. PIONEER STATUS

(a) Procedure for granting pioneer Status remains the same.

(b) Scope extended to non-manufacturing industries.

- **TAX HOLIDAY**
  - S.13 — **CAPITAL INVESTMENTS**
    - Less than $250,000 = 2 years
    - $250,000 plus = 3 years
    - $500,000 plus = 4 years
    - $1 million plus = 5 years
    - Capital expenditure to be incurred within one year following end of relief period.
  - S.14 — **ADDITIONAL YEAR each** — MAX - 3 years
    - (a) Has factory in Development Area, or
    - (b) Produces Priority Products, or
    - (c) Uses Specified Local Content
- S. 13 — **CAPITAL ALLOWANCES**
  - Only given where losses incurred throughout tax relief period. Allowance notionally calculated and aggregated as deduction in post-pioneer period. Part allowance given where asset is also for non-pioneer business.
- S. 22 — **DIVIDENDS are exempted**
  - Now also exempted in hands of shareholders of companies receiving tax-free dividends from pioneer companies.
- S. 23 — **PAYROLL TAX**
  - Present exemption from payroll tax continues for employees producing pioneer products.
- S. 25 — **LOSSES**
  - Net losses incurred in pioneer period can be offset against profits of the post-pioneer period.

II. INVESTMENT TAX CREDIT — S.26

(a) Given once for year of assessment in which capital expenditure is incurred.

(b) Capital expenditure must be incurred within 5 years from beginning of basis period in which project is approved.

- Granted to companies not considered qualified or deserving pioneer status or as choice by companies.
- Amount not less than 25% of capital expenditure incurred on factory, plant or machinery for approved project.
- **Additional 5% for each**
  - (a) Has factory in Development Area, or
  - (b) Produces Priority Products, or
  - (c) Uses specified Local Content
- Amount of credit tax exempt can be carried forward in case of loss or insufficiency of income until fully utilised against subsequent profits.

III. EXPORT INCENTIVES

- S.27 & Schedule — **DEDUCTIONS FOR PROMOTION OVERSEAS**
  - Expenses Qualified
    - (a) Overseas Advertising.
    - (b) Supply of free samples overseas.
    - (c) Export market research.
    - (d) Preparation for overseas tenders.
    - (e) Fares and expenses for negotiation or conclusion of contracts overseas.
    - (f) Supply of technical information overseas.
- S.28 — **ACCELERATED DEPRECIATION ALLOWANCE**
  - Only resident companies qualify. Allowance not given if — (a) export primary commodity, (b) pioneer company, (c) given investment credit.
  - Company must be approved. Must export 20% by value.
  - Given only in respect of capital expenditure incurred for modernization.
  - Rate — 40% per annum in lieu of normal depreciation allowance.
- S.29 — **EXPORT ALLOWANCE**
  - (i) Non-resident companies and exports of primary commodities excluded. Pioneer company qualifies.
  - (ii) Allowance related to —
    - (a) increase in exports of manufactured products;
    - (b) wages paid in respect of employees with less than $500 basic wage per month;
    - (c) amount of Malaysian materials used (50% of which by value provided in Malaysia).
  - (iii) Scheme allows deduction for income tax purposes of 20 cents for every dollar incurred on wages and Malaysian materials used in basis period.
  - Formula used:- $\frac{(VE) - (AV3)}{GS} \times$ (aggregate of (iii) above
    - VE = value of export sales of manufactured products in basis period.
    - AV3 = average of exports sales of manufactured products for 3 preceding basis periods.
    - GS = total gross sales for basis period.
- S.30 — **PAYROLL TAX**
  - Granted to registered non-pioneer companies exporting more than 20% of the total production of registered products.
  - Refund — to registered manufactured products, based on the proportion of export turnover to the value of total turnover of company for the year.

1) Incentives for initial setting up of manufacturing establishments in Malaysia. These which can be termed as primary incentives are:

   a) Pioneer Status; and

   b) Investment Tax Credit.

2) Incentives for existing and new Malaysian manufacturers to export their manufactured goods. These are known as export incentives which include:

   a) Accelerated Depreciation Allowances;

   b) Deductions for promotion overseas;

   c) Export allowance; and

   d) Payroll tax refund.

The various forms of relief are granted to expand the industrial sector and to encourage exports of manufactured products either from the existing manufacturers or the setting up of more export-orientated industries. The most important forms of reliefs are:

1) Those of the Pioneer Status, which allows a company total exemption from the payment of income tax for 2 to 8 years.

2) Investment Tax Credit, which allows a company to deduct from its taxable income a sum of at least equal to 25% of the sum spent on the fixed assets. Companies which meet required conditions can obtain more than 40% of tax credit for exemption.

3) Accelerated Depreciation Allowances, which allows a company an annual depreciation allowance of 40% instead of the 10% provided under the Income Tax Ordinance.

One important aspect of this Act is that a company may be granted only one of these 3 forms of tax relief at anyone time and thus the applicant must judge for[8] himself which one of the relief is most beneficial to his company. Any qualifying company may apply for the grant of either pioneer status or an investment tax credit. If it is a resident company[9] and manufactures for exports,[10] it is eligible to apply

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[8] Incentives for Industries - (prepared by MIDF).

[9] A "resident company" is defined under the Income Tax Act 1967 as a company whose control and management is exercised in Malaysia for the basis year, for that year of assessment.

[10] Export capacity must not be less than 20% of its total output.

for accelerated depreciation of its fixed capital investment as well. Such a company is also eligible to apply for the other forms of tax relief offered as export incentive, in addition to pioneer status or other alternative forms of tax relief.[11]

Though the writer's study is only limited to Pioneer Companies and hence its incentives and not otherwise, however it is important to analyse the whole of the Investment Incentives Act 1968 fully. This is done so by the writer in this chapter. As was mentioned, a company may be granted only one of the three reliefs unless it is a resident company. Thus the company has to choose one of the three types of reliefs available. To exercise this choice, the company must be able to differentiate the benefits that can be derived from each of the relief incentives and then to examine and choose which one will benefit him most. The writer thus intends to examine the three relief incentives carefully and then goes on to compare their difference and how to make a choice between the three.

Pioneer Status

The Investment Incentives Act 1968 provides that a company or persons proposing to manufacture a 'pioneer product'[12] may apply to the Minister of Commerce and Industry for pioneer status. How much then must a pioneer company invest to qualify for the pioneer certificate? A company granted pioneer status will be allowed an initial tax relief period of 2 years beginning on production day.[13] No minimum investment level is required for the initial 2 years of income tax relief. Extension of tax relief will, however, be granted if the following conditions are satisfied:[14]

i) If by the end of the third year of production, the company has incurred fixed capital expenditure[15] of not less than $250,000, the pioneer period will be extended by one year to three years;

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[11] See Investment Incentives Act 1968 - (Section 28 (2)(b)(i)) (Section 29 (6)), pp.119-121.

[12] "Pioneer product" means any product declared by an order made under Section 3 of I.I.A. 1968 to be pioneer product.

[13] "Production day" in relation to a pioneer factory means specifying the day on which the factory will commence to produce in marketable quantities the pioneer product or products intended to be produced therein, as confirmed, varied or amended by a pioneer certificate.

[14] Refer to Investment Incentives Act 1968, Section 13, p.108.

[15] "Fixed capital expenditure" in relation to a pioneer company means capital expenditure incurred by the company or its pioneer factory or on any plant, machinery or other apparatus used in Malaysia is connected with and for the purposes of that factory or its pioneer enterprise (see I.I.A. 1968 Section 13 (5)).

ii) If by the end of the fourth year of production the company has incurred fixed capital expenditure of not less than $500,000, the pioneer period will be extended by one year to four years;

iii) If by the end of the fifth year of production, the company has inccured fixed capital expenditure of not less than $1,000,000, the period will be extended by one more year to five years.

To ask for extension of its tax relief period, a pioneer company must make an application to the Minister of Finance within 30 days after the end of the year following the end of its tax relief period and stating the amount extra incurred by the company.[16] However, apart from extensions available by way of capital expenditure, an additional year of tax exemptions is granted for each of the following conditions:[17]

i) where the pioneer company in operation is located in an area declared as a development area.

ii) produce in marketable quantities a priority manufactured product or products.

iii) incorporates in its manufactured products (if any) the required percentage of local content as specified.

Thus the maximum tax relief period for a pioneer company is 8 years, if all the requirements to satisfy the cause are valid. But actually how do benefits occure to a pioneer company? Apart from total tax relief from the payment of income tax which is at the rate of 40% of taxable income, a pioneer company is exempted from the payment of a 5% payroll development tax on taxable income and a 2% payroll tax on total payroll.[18] Dividends paid from the exempted income of a pioneer company will also be exempted in the hands of its shareholders.

An important aspect to note is that a pioneer company also qualifies for the initial and annual allowances on capital expenditure and moreover the capital expenditure incurred during the tax relief period may be carried forward and treated as capital expenditure incurred on the day following the end of the tax relief period.[19] For a company granted pioneer status for 3 years, this will work out as shown in Case 3.1.

From the example of a simplified case of the capital expenditure

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[16] I.I.A. 1968 (Section 13 (3)(9)(b)), p.108.

[17] Ibid. (Section 14 (2)), p.109.

[18] See Appendix II for Malaysia: Taxation.

[19] I.I.A. 1968 (Section 18 (2)) p.112.

CASE 3.1

Year	Capital Expenditure Incurred	Capital Allowances	
1	$100,000	-	
2	$100,000	-	
3	$100,000	-	
4	$300,000 (aggregate)	Initial allowances	
		20%	$60,000
		Annual allowances	
		10%	$30,000
	Total capital allowances		$90,000

of a pioneer company granted 3 years pioneer status, it can be seen that the capital expenditure incurred during the 3 year tax exemption period was being carried forward to the following year, thus receiving the benefits of the capital allowances allowed to non-pioneer companies.

If a pioneer company incurred losses every year throughout the relief period, there are special provisions granted whereby capital allowances are notionally calculated each year and cumulatively aggregated for the duration of the pioneer period. The total amount so derived is allowed as a deduction from assessable income in the first year of the past pioneer period.[20]

Suppose the same example as the earlier one is used, that is, a pioneer company that has been granted pioneer status for three years and during this period incurred a capital expenditure of $300,000 over the three year period. The only difference will be that this time, the company is making a loss every year.

[20] *Ibid.* (Section 18 (3)), p.112.

CASE 3.2 [(a)]

Year	Expenditure	Rate of Allowance			Capital Allowances
1	$100,000	Initial allowance	20%	$20,000	
		Annual allowance	10%	$10,000	$ 30,000
2	$100,000	Initial allowance	20%	$20,000	
		Annual allowance (aggregated with balance of $70,000)	10%	$17,000	$ 37,000
3	$100,000	Initial allowance	20%	$20,000	
		Annual allowance (aggregated with balance of $133,000)	10%	$23,300	$ 43,300
Post-relief tax		10% of $189,700		$18,970	$ 18,970
		Capital allowances allowed as deductions			$129,270

(a) This footnote shall explain how some of the figures are derived so as to facilitate to the reader faster reading:

a) $70,000 - is derived by deducting $30,000 of capital allowances from $100,000 spent on capital expenditure in year 1.

b) $133,000 - is derived by deducting $67,000 ($30,000 + $37,000) of capital allowances from $200,000 spent on capital expenditure for year 1 and year 2.

c) $189,000 - is derived by deducting $110,300 ($30,000 + $37,000 + $43,000) of capital allowances for 3 years from a total capital expenditure of $300,000 for the 3 years.

What happens when there are losses in any year but not in every year? Losses incurred in any year of the pioneer period may be carried forward and offset against assessable income in the past pioneer period, but the amounts so carried forward must be net amounts i.e. a balance left over after being offset against profits made during the pioneer period.[22]

In the following example, there are 2 companies, A and B whereby each company has been awarded a pioneer certificate for 5 years. The amount of profit or losses for each company for each year can be seen below. The example is self-explanatory.

CASE 3.3

Year	Case A		Case B	
	Profit	Loss	Profit	Loss
1	-	$10,000	-	$20,000
2	-	$15,000	-	$25,000
3	$ 5,000	-	$ 5,000	-
4	$10,000	-	$10,000	-
5	$10,000	-	$15,000	-
Total	$25,000	$25,000	$30,000	$45,000
Balance in Year 6	-	-	-	$15,000
Benefits	None		$15,000 may be carried forward to offset assessable income in year 6 and after.	

[22] Investment Incentives Act 1968 (Section 25), p.115.

The Investment Tax Credit (I.T.C.)

The Investment Incentives Act also provides for investment tax credits in the form of deductions from taxable income. This credit is given to a company not considered qualified for or deserving of pioneer status or to a company not applying for pioneer status as a matter of choice. It is given on capital expenditure for plant and machinery or other apparatus used in Malaysia in an approved investment project. The Act specifies that the amount of investment tax credit shall not be less than 25% of the capital expenditure incurred. The credit is given only once for the year of assessment in which the expenditure must incurred within 5 years from the beginning of the basis period in which the project is approved. This means that if the capital is incurred in the sixth year, it will not qualify for the I.T.C. Tax relief equalling the amount of the credit is given and such credit can be carried forward in case of loss or insufficiency of income until the whole of the credit has been utilised. The dividends of such a company are also exempted from tax. The I.T.C. is given on the top of the normal[23] initial capital allowance of 20% and the annual capital allowance of 10%.

Taking an example of 2 companies investing $600,000 in fixed assets during 5 years, its tax relief will be computed as follows:

CASE 3.4

Year	Rate of I.T.C.	Case A Amount Invested	Case A I.T.C.	Case B Amount Invested	Case B I.T.C.
1	25%	$600,000	$150,000	$200,000	$50,000
2	25%	-	-	$100,000	$25,000
3	25%	-	-	$100,000	$25,000
4	25%	-	-	-	-
5	25%	-	-	$100,000	$25,000
6	25%	-	-	$100,000	-
Amount to be deducted from taxable income			$150,000		$125,000

[23] *Ibid.* (Section 26).

Although both companies A and B each invested an amount of $600,000 in fixed assets, the I.T.C. of Company A is more ($25,000) than the I.T.C. of Company B. This is because as stated before, the I.T.C. is offered to a period not exceeding 5 years after the beginning of the basis period in which the project was approved.

The I.T.C. will be increased by an additional 5% of the approved capital expenditure[24] for each of the following conditions fulfilled by the Company:

a) If its factory is in a development area;

b) Produces a priority product;

c) Attains the required percentage of Malaysia content.

The previous example given shows what relief does a company enjoy when it is granted an investment tax credit. The example as illustrated by Case 3.5 will go one step further. It shall be shown how ~~do~~ benefits actually accrue to a company granted an I.T.C. The benefits amount to a tax exemption equal to the tax credit given at a minimum amount of 25% on total capital expenditure. Where income in the first year of assessment is lower than the credit given, the excess of credit over income representing unutilised credit may be carried forward for deduction against income earned in the following and subsequent years[25] until the whole amount of the credit granted is used up. The benefit ~~works~~ to be derived can be seen in the example given in Case 3.5. Here we assume that the company invested a total capital expenditure of $440,000 for the 5 year period and $100,000 in the sixth year. The I.T.C. granted is assumed to be 25%.

The profit of the company was only subjected to taxation on the sixth year after the ending to the I.T.C. period of 5 years grant. Even then, according to our example the profit subjected was only $40,000 instead of $45,000 because the company suffered a loss in year 3 of production and that throughout the 5 years' period, the income is lower than the credit granted. Hence, the excess of credit over income, was being carried forward for deduction against income earned in the following and subsequent years until the whole sum of the credit granted is used.

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[24] Ibid. (Section 26 (1) to (4)), pp.116-117.

[25] Ibid. (Section 26 (4) & (5)), p.117.

CASE 3.5

Year	Amount Invested	I.T.C. (25%)		Profit or (Loss)	I.T.C. Carried Forward	Profit Subject to Taxation
1	$ 60,000	$15,000		$10,000	$ 5,000	-
2	$ 80,000	$20,000 c/f $ 5,000	$25,000	$20,000	$ 5,000	-
3	-	- c/f $ 5,000	$ 5,000	Loss	$ 5,000	-
4	$200,000	$50,000 c/f $ 5,000	$55,000	$35,000	$20,000	-
5	$100,000	$25,000 c/f $20,000	$45,000	$40,000	$ 5,000	-
6	$100,000	- c/f $ 5,000	$ 5,000	$45,000	-	$40,000
7	-	-		$50,000	-	$50,000

Export Incentives

The Investment Incentives Act 1968 also provides incentives for the promotion of exports. These incentives are known as the export incentives and comprises of incentives which include:

1) Deductions for promotion of exports;

2) Export Allowance;

3) Payroll Tax Relief;

4) Accelerated Depreciation Allowance

As was mentioned earlier there are several underlying conditions needed in order to qualify for some of these incentives. Firstly, the company that applies for the export allowance must be a resident company and secondly its export value must not be less than 20% of its total output value. Such a company then is eligible to apply for all the export incentives. What are then the benefits that could be derived?

1. Deductions for the Promotion of Exports

The I.I.A. 1968 provides for deductions to be made for expenses incurred for the promotion of export by an approved company. Such deductions are in addition to other deductions allowed to those in the pioneer company and the non-pioneer company granted an Investment Tax Credit. The deductions allowed are of outgoings and expenses for the promotion of exports of an approved company from income tax payable.[26] These deductions are:

i) Advertising expenses incurred overseas;

ii) Costs of supplying and delivering free samples;

iii) Expenses for carrying out market research or obtaining export market information;

iv) Expenses incurred in the preparation of overseas tenders;

v) Expenses incurred in the negotiation and conclusion of contracts; and

vi) Expenses in disseminating technical information.

These deductions for out-goings and expenses are allowed to a company if they were incurred primarily and principally for the purpose of seeking opportunities or in creating or increasing a demand, for export of goods manufactured, produced, assembled, processed, packed, graded, or sorted in Malaysia. Pioneer companies will have special privilege. All deductions which would have been allowed under the schedule and which are incurred during a pioneer company's tax relief period can be carried forward and this amount is allowed as a deduction in the post relief period. For this incentive non-resident company can apply.

In addition to the above, items under Section 33 of the Income Tax Act 1967 are also deductable, these being:

i) interest paid on money borrowed;

ii) rent payable for that period;

iii) expenses incurred on the renewal, repair or alteration of assets.

2. Export Allowances

A further incentive introduced is the export allowance. A non-resident company does not qualify for such allowance and exports of primary commodities are excluded. This allowance is intended to:

i) encourage exports of Malaysia manufactured products;

ii) induce more liberal use of Malaysian materials (50% of which by value provided in Malaysia) thereby maximizing net

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[26] Ibid. (Section 27) p.118.

foreign exchange savings;

iii) encourage maximum employment of abundantly available labour. This allowance is related to wages below a basic individual rate of \$500 per month to encourage the recruitment of semi-skilled labour.

This scheme also allows an extra deduction for income tax of 20 cents for every dollar of expenses incurred in wages and purchases of Malaysia materials during the basis period. The amount of the allowance is calculated in the following manner:

i) The average export sales of manufactured products for the three preceding years are initially calculated;

ii) The excess of the export sales of manufactured products for the current basis period over the average export sales for the three preceding years; is then determined and

iii) Applying the following formula:[27]

$$\frac{\text{Excess of Export Sales as determined}}{\text{Total Gross Sales for Basis Period}} \times 0.20 \text{ cents}$$

3. Payroll Tax Relief

A registered non-resident manufacturing company exporting a registered product is qualified for a refund of payroll tax for a given year, if more than 20% (by value) of its total production is exported. The amount of refund is based on the proportion of the value of the export of the registered product to the value of the total turnover of the company in a particular year.[28] The following formula is used to calculate this payroll tax relief:

$$\frac{\text{Export Sales}}{\text{Total Sales}} \times \text{Payroll Tax Payable}$$

4. Accelerated Depreciation Allowance

A resident company, approved for the purpose, is entitled to an accelerated depreciation allowance, if it exports 20% (by value) of its

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[27] The same formula can be written in the following form:

$$\frac{(VE) - (AV3)}{GS} \times 0.20 \text{ cents}$$ on the total of every dollar incurred on wages and Malaysia materials used in the basis period.

where (VE) = value of export sales in basis period
(AV3) = average of export sales for 3 preceding years
(GS) = gross sales for basis period.

[28] Ibid., (Section 30), p.121.

total production and if it incurs qualifying plant expenditure in respect of an asset used for the purpose of the business of the company. The expenditure must have been incurred for the purpose of modernizing the company's production technique or to set up a modernized factory. The allowance given amounts to 40% per annum computed on a declining balance basis in lieu of the normal depreciation allowance of 10% per annum given under the Income Tax Act 1967.[29] A non-resident company or a company exporting primary commodity does not qualify for this allowance. Taken together with the initial write-off allowance of 20%, a company granted an accelerated write-off rate will be able to write off more than 94% of its investment in plant and equipment in 5 years, compared to more than 20 years for a company on the normal rate.

Actually how do the benefits accrue to a company granted the accelerated depreciation allowance? This can be easily answered if we make use of a simplified example. A company as stated will be able to write off more than 94% of the initial outlay in 5 years with accelerated depreciation. This is computed as follows in the simplified example of a company with a capital expenditure of $100,000.

CASE 3.5

Year	I.T.C. Rate	Residual Expenditure	Capital Allowance
1	Initial 20% + Accelerated 40%	$100,000	$60,000
2	40%	$ 40,000	$16,000
3	40%	$24,000	$ 9,600
4	40%	$14,400	$ 5,800
5	40%	$ 8,600	$ 3,400
	Capital allowance over 5 years		$94,800
	% of total expenditure		94.8%

Comparisons

Suppose a company qualifies for all the 3 main incentives, namely the pioneer status, the Investment Tax Credit and the Accelerated Depreciation Allowance, which of these should the company choose? As was mentioned earlier, a company can only apply for one of the 3 main incentives offered unless it is a resident company which export more than 20% of its total output, then this company has only to choose between

29 Ibid. (Section 28), p.118.

the first 2 incentives offered as the third incentive is offered automatically in such a case.

At that time of its making an application, a company will find it difficult to make an exact assessment of the relative advantages that can be derived from the alternative forms of tax relief. However on comparison between the I.T.C. and the accelerated capital depreciation allowance is comparatively straight forward, since the amount of tax relief to be derived from them can be estimated. This is so because the company will most probably know the exact amount or the estimated amount that will be spent on fixed capital expenditure. But on the other hand, the company cannot be certain about the amount of tax relief it will enjoy under pioneer status as the profits is not likely to be easily forecast.

Therefore, a comparison involving pioneer status will have to depend on assumptions about expected profitability. If this assumption can be made on the level of future profitability, the fixed calculated amount of relief due can be made and hence able to judge which incentive should the company choose. For example, in a comparison with the I.T.C. the probable profit level could be set against the tax credit, expressed it as a percentage of annual return on capital, and depending on whether the profit expected is higher or lower than the equivalent tax credit, the company can choose one form of relief over the other. For instance, in the case of a company investing $100,000 in fixed assets representing 50% of the company's total financing the tax credit derive from the I.T.C. will be $25,000. This if expressed as a return on capital over 2 years, is equal to 6¼% (derived from an assumed annual return of $12,500 over 2 years of eligible pioneer status on the total investment of $200,000). Thus, in this particular instance, if the company's profit expectation is above 6¼% a year, its preference should be for pioneer status.

It should be realised that, the decision is based on judgment on profitability. The preference as indicated above, for pioneer status, was not simply from the fact that the expected profit rate is estimated to be higher than 6¼%, the applicant will choose pioneer status. Profitability in this instance is subjective. It depends on how much weight is to be given by the applicant to the element of uncertainty. The judgment therefore really involves a judgment as to how much uncertainty the applicant is willing to accept as part of his choice for pioneer status in preference over the absolute certainty of the I.T.C.

A comparison between pioneer status and the accelerated depreciation allowance may be made on the same principle and any differences between the respective amounts of benefit to be derived from pioneer status and the accelerated depreciation allowance would be judged as was between pioneer status and the I.T.C.

Reasons for the Provision of Investment Incentives

The reasons for the Government to provide so many incentives to investors are that the Government felt that in order to accelerate the pace of industrialization, certain incentives especially tax relief incentive must be offered to investors in order to induce them to invest in Malaysia. No doubt it can be argued that Malaysia already with a strong investment climate both politically and economically is ~~already~~ attractive enough to encourage people to invest in Malaysia. After all, there are plentiful supply of cheap labour, a good infrastructure, and a strong economy. What more do investors need? The experience of Malaysia as well as that of other countries in similar conditions suggests that the provision of incentives will encourage a significantly faster rate of capital formation than might otherwise be expected. It cannot be denied that without the provision of incentives, there will still be people investing in Malaysia, but only at a much slower rate. This is especially so when other countries in Asia offer incentives to their investors in order to attract investors to their country.

Some of the incentives offered are done so in order to induce manufacturers to utilise Malaysian materials rather than importing them. The main objectives of the export allowances are to promote export-orientated industries. The Tariff Advisory Board was set up to protect infant industries. All these and many others were set up by the Government in order to see that industrialization in Malaysia leads to economic development. Overally it can be summarised that the main objectives of the Investment Incentives Act 1968 are to encourage more exports from existing industries and to promote export-orientated industries, to induce greater and more rapid flow of investments for modernization and expansion of existing plants, increased utilization of domestic raw materials and to expand the existing industrial sector.

CHAPTER IV

INVESTMENT OF PIONEER COMPANIES

Introduction

Malaysia, a developing nation, has one distinct phenomenon unlike most developing nations. This phenomenon is the 'reservoir of untapped capital' in the hands of the public. This amount of abundant capital can be seen as that in the past, whenever there are shares floated out to the public, over-subscription of capital is not uncommon. A few examples will speak for themselves regarding this phenomenon. When Hume Industries (M) Berhad floated its shares to the public, it was over-subscribed by 25 times of local capital. Malayan Flour Mill (Sdn.) Berhad offered its equity to the public and it was over-subscribed by 21 times. Shell Refining Company (F. of M.) Berhad shares again was over-subscribed by 20 times by the public. These examples and many others tell the same conclusion, an abundant amount of local capital. In fact, it appears that this 'reservoir of untapped capital' that awaits to be released into profitable investment channels is growing.

The potential investment capital is not only seeking outlets into industrial investment but also in Government securities. Recently when the Government floated a $75 million development loan, it was over-subscribed by $61 million. This example proves the same thing, that Malaysia in this aspect is considered unique among developing nations.

The Government in recognition of this abundance of potential local capital awaiting profitable investment channels, has laid down a policy that all foreign investments should come into Malaysia on joint-venture basis. This policy has been designed to give Malaysians an opportunity to participate in the new industrial sector of the nation's economy.

This local participation policy of the Government insofar does not seem to deter foreign investors from investing in Malaysia. The system is such, that companies that are granted Government incentives under the Investment Incentives Act 1968, are required by law to release at least 50% of their equity capital for local participation. This policy however does not necessary take into effect as soon as the company is registered or begin production. It is given a period of time[1] to conform

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[1] For example it can be 2 years or any such time as determined by the Minister of Commerce and Industry.

to the local capital requirements.[2] The extent of foreign capital participation in any joint-venture is however not fixed. It is determined by the nature of the project the company is undertaking. If the company manufactures export-orientated products, and thus do not require the support of the domestic market, the Government may allow a greater flexibility in the ratio of share capital distribution. On the other hand, if the company manufactures products that are for the domestic market, the company is expected to give a greater degree of local participation. All these arrangements are completed prior to the registering of the particular company.

The intention of the Government in instituting this policy is not to place operational control in the hands of local parties. The Government does realise that this will discourage foreign investors, and has drafted out a separate Malaysianization policy for the industrial enterprises, as far as technical and professional personnels are concerned. According to this separate policy, technical and professional personnels are not subject to the 1975 Malaysianization target. For this sector only, those companies that were established before 1965, the target date is further extended to 1980. Those companies that have been established after 1965 are not subject to this date. The Government also recognise that foreign firms would like to retain certain key posts indefinitely to safeguard their interest. For this purpose the Government has allowed these firms to retain expatriates in key posts. All these regulations were drafted with one aim in mind; that is, not to discourage foreign participation into Malaysia's industrial sector.

Analysis of the Investment of Pioneer Certificate Holders

The schedule of investment of Pioneer Certificate Holders as at 31st December 1968, in Appendix III will be utilised to examine the present capital investment in the Industrial Pioneer Sector.

In the schedule, the various type of industries are divided into a total of 21 different industrial groupings according to their kinds of output. These 21 groups are then further sub-divided into smaller precise sub-groups when found to be necessary. For example, the first industrial group appeared in the schedule is the Food Manufacturing Industries. As there are at present many pioneer companies that deals with food, but different kinds of food, it was found necessary to further sub-divide this group into more precisely defined sub-groups. These sub-groups are concerned with the Manufacture of Dairy Products, Canning and Preserving of Food Preparations, Grain Milling, Sugar Manufacturing and Refinery and lastly, the Manufacture of Miscellaneous Food Preparations.

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[2] The reasons why foreign investors may not like to release its equity as soon as the company established may be because it may think that the company can be operated more effectively if it does not have the intervention of local investors. Or it may be due to the fact that the company is very sure of making quick returns and thus when they have to release their equity to local investors, the shares so offered are of a higher value than par value. Hence, by selling their shares at market value which is above par value, there is a profit involved.

The capital invested in the Pioneer Companies are differentiated into various kinds of capital in order to give a more comprehensive picture. These different types of capital investment are Nominal Capital, Called-up Capital and Loan Capital. Nominal capital "is the amount of capital represented by the par or stated value of a corporation's issued stock".[3] Called-up capital is made up of local called-up capital and foreign called-up capital. Loan capital is a combination of local loan capital and foreign loan capital. The total local capital invested is made up of local called-up capital and local loan capital. The same goes for the total foreign capital invested, which comprises of the foreign called-up capital and foreign loan capital. The total capital invested therefore is a combination of the total called-up capital and the total loan capital. Or putting it in another way, it comprises of the total local capital and the total foreign capital.

The analysis of the schedule will be in the following manner. Firstly the 5 biggest industrial groups will be selected and will join into a single group and then a comparison is made with another group which comprises of the rest of the 16 groups. Then the overall industrial pioneer sector will be analysed. The 3 industrial groups which have the most companies in it will be examined next. Lastly before the conclusions are made, the industrial sub-group which has the greatest capital investment in it will be discussed.

The 5 groups of industries with the highest total capital investment are in the Manufacture of Petroleum and Coal Products, Manufacture of Chemicals and Chemical Products, Food Industries, Manufacture of Basic Metal, and the Beverage Industry. The amount of capital invested, both foreign and local capital in each of the above industrial group can be seen in Table 4.1 and in Diagram 4.1.

These 5 groups of industries comprise only 23.8% of the total number of the industrial groups, and yet their total capital invested are in much greater proportion. The total capital invested in these 5 major industries forms 78.72% of the total capital invested in the industrial pioneer sector, and yet as mentioned, by industries groupings proportion, it is only 23.8%. This means that the total capital investment of the other 16 industrial groups consist only 21.28% of the total capital invested. Out of this total capital invested in all the 21 industrial groups, the share of the total local capital of the 5 major industries comes up to 67.7% while the other 16 industrial groups comprise of 32.3% of the total local capital. The same trend also exhibits itself when foreign capital is concerned. Out of the total foreign capital invested in the whole industrial pioneer sector, the foreign capital of the 5 major industries comprises of 86.5% of the total, and that leaves the foreign capital invested in the 16 industries a mere 13.5% of the total.

35.59% of the total capital invested of the 5 leading industrial groups are local capital, and 64.41% of it foreign participation. If we further breakdown these figures, we find that out of the total local capital invested in these industries, 28.04% of it comprises of local loan

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[3] Kohler, "A Dictionary for Accountants" p.323.

TABLE 4.1

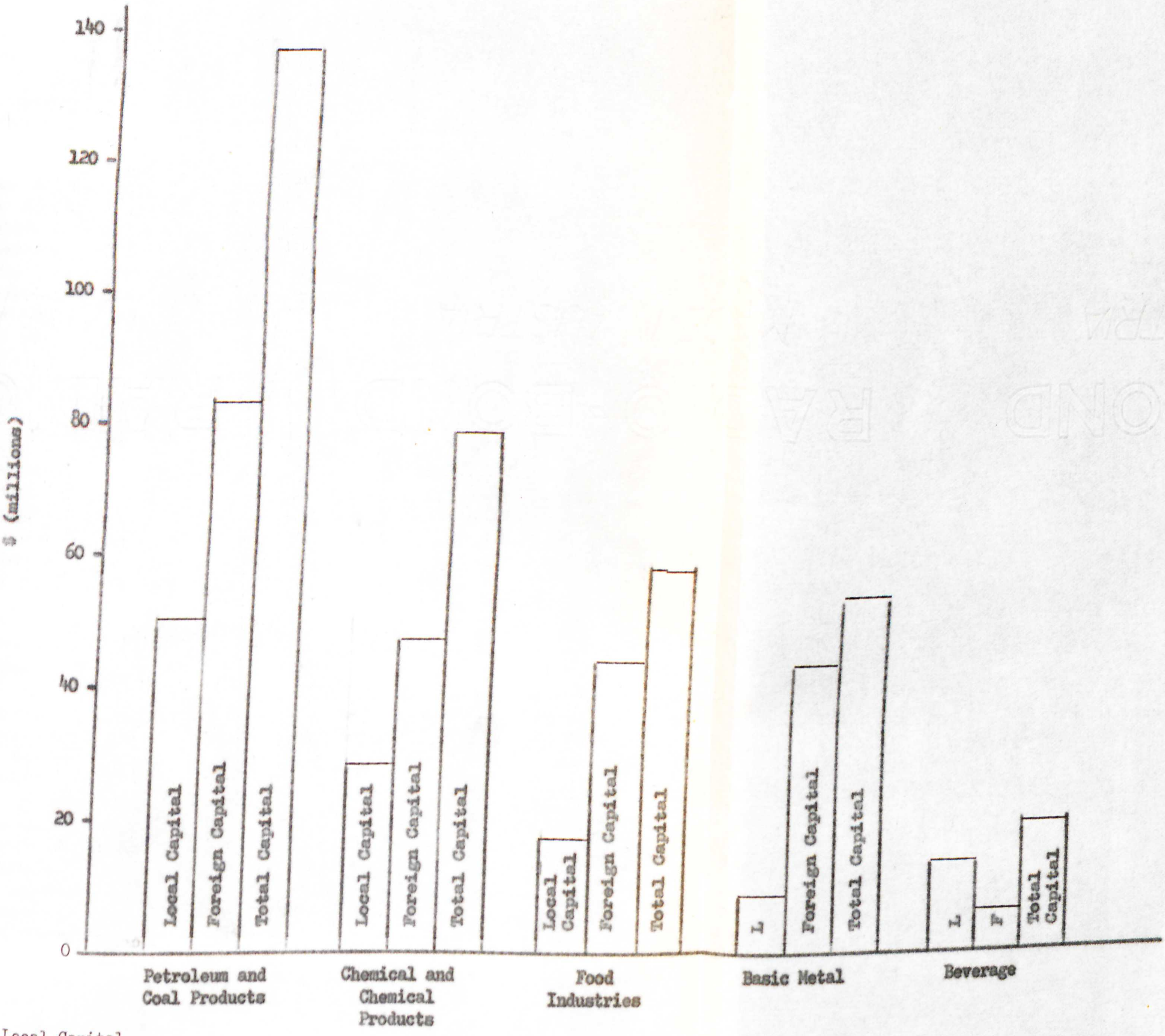
INVESTMENT OF 5 GROUPS OF INDUSTRIES

Type of Industry	Total Capital	Local Capital	Foreign Capital
1. Manufacture of Petroleum and Coal Products	$138,446,253.00	$ 48,911,356.00	$ 85,534.939.00
2. Manufacture of Chemical and Chemical Products	$ 78,434,329.03	$ 32,738,883.40	$ 45,695,445.63
3. Food Manufacturing Industries	$ 58,894,088.08	$ 16,297,883.00	$ 42,596,205.08
4. Basic Metal Industries	$ 53,582,862.00	$ 9,877,736.00	$ 43,705,126.00
5. Beverage Industries	$ 20,868,000.00	$ 16,824,000.00	$ 4,041,000.00
Total	$350,222,532.11	$124,649,858.40	$225,572,673.71

Source: Extracted from Appendix III

DIAGRAM 4.1

TOTAL AND TYPES OF CAPITAL INVESTMENT OF 5 INDUSTRIAL GROUPS



L - Local Capital
F - Foreign Capital

capital and 71.96% are called-up capital. On the other hand, 32.42% of the total foreign capital are loan capital and 67.58% are foreign called-up capital.

With regard to the rest of the 16 industrial groups in the industrial pioneer sector, 62.82% of its capital invested are local capital and 37.18% are foreign participation. Out of this local capital invested, 70.39% of it are called-up capital and the rest, loan capital. On the other hand, and of the foreign capital in this 16 industrial groups, 94.23% of it are called-up capital and the rest, a mere 5.77% of it are loan capital.

By picking out the 5 largest industrial groups, in terms of total capital invested, several conclusions can be reached. It proves that without doubt, these 5 industrial groups are the most important industries in the pioneer industrial sector since its share of the whole industrial pioneer sector total capital investment came up to 78.72% although by total industrial groups proportion it is only 23.8%. There is also a clear indication that industrial undertakings that needed vast amount of capital, the share of foreign participation is greater than local participation. (In the 5 major industrial groups, foreign participation came up to 64.41%, and in the rest of the smaller industrial groups, 16 of them, foreign participation is only 37.18%.) It may mean either that industrial undertakings that need large amount of capital, it can only be undertaken largely by foreigners in terms of capital contribution, or that in such costly projects, foreigners prefer not to release their equity for local participation in the earlier years of production, or hold a larger share of the equity themselves, for efficiency purposes or profit purposes. It can even be that foreign investors prefer to undertake the opening up of industries that need large amount of capital, or long-term projects, for various purposes. Whatever it may be, none of these 5 groups are established on local capital alone.

In the whole of the industrial pioneer sector, there are certain industries which are not on a joint-venture basis; they are of strictly local initiative. These industries are in the Manufacture of Paper and Paper Products; Printing, Publishing and Allied Industries; Manufacture of Leather and Fur Products except footwear and wearing apparel; Manufacture of Transport Equipment and lastly in Theatres and Other Related Services. A further examination into them reveals that these industries involved only a small investment outlay. The Manufacture of Paper and Paper Products industry has the largest capital investment of $2.4 million, and the Theatres and Other Related Services Industry has a capital investment of only $300,000. On the whole, the average capital investment of these 5 industries is only $1,019,560. This means that those industries which does not have foreign participation in capital investment are not of great importance in terms of their contribution to capital investment.

The Petroleum Refining Industry which consists of 2 companies has a total capital investment of $137,121,366. This means that although these 2 companies form only 1.4% of the 142 companies, has its share of capital investment to total capital investment of 30.82% and out of this total investment of the 2 companies, 61.19% are foreign investment. This and the preceding paragraph show that when the industry needs a large capital outlay to be invested, foreign participation is necessary. Only when the outlay of investment is small, the foreign participation is not necessary. In fact it can be said that foreign investors seem to invest in industries that need a large amount of capital and hence when only few or no local investors can handle it alone.

71.73% of the total capital invested in the 142 companies are called-up capital and the rest of it are loan capital, and out of this total called-up capital, 41.54% are local called -up capital and the rest foreign called-up capital. Out of the total loan capital of this whole pioneer industries, 40.99% of it are local loan capital and 57.01% are foreign loan capital. A same analysis but anlysing it by another way reveals the same conclusions. 41.38% of the total capital invested are local capital and the rest 58.62% are foreign capital. Out of these local capital, 71.63% of these are local called-up capital and out of the foreign capital, 71.18% of these are foreign called-up capital. All these reflect that in the whole industrial pioneer sector, the contribution of foreign investors to total capital investment is greater than those contribution by local investors. (58.62% are foreign contributions while 41.38% are local contributions.)

There are 3 industrial groups which together have 66 pioneer companies in them. These 3 industries, namely Food Manufacturing Industries, Chemical and Chemical Products Industry and the Metal Products except machinery and transport equipment industry, are the leading industries which have the greatest number of companies under them. These 3 industries which are only 14% of the total number of industries, in fact comprise of 46.48% of the total number of companies. The capital investment invested in these 3 industries constitute 33.18% of the total capital investment invested in the 21 industries.

The grand total of all the various kinds of capital, and total capital invested, in the pioneer sector as at 31st December 1968, can be easily visualised in Diagram 4.2.

Sources of Foreign Capital

A total of 19 foreign nations participate in the pioneer industrial sector in Malaysia. Together these 19 countries contribute more than 50% of the total capital investment in the pioneer sector.

As at 28th February, 1969, there are 148 pioneer companies in operation, an increase of 8 companies since the start of 1969. The total investment of these 148 companies came up to $447,941,993.29. Out of this amount, 58.39% or $261,541,511.70 are foreign capital which 71.27% of it are called-up capital and the rest, 28.73% of it are loan capital. The 19 countries involve, and the amount they contribute can be seen in Table 4.2.

The 5 countries that invested more than the rest of the 14 countries into these 148 pioneer companies are the United States of America, Japan, United Kingdom, Hong Kong and Canada, each contributing 28.13%, 22.56%, 20.27%, 12.98% and 10.56% respectively to the grand total amount of foreign investment. Together these 5 nations contribute

DIAGRAM 4.2

VARIOUS TYPES OF CAPITAL INVESTED IN PIONEER COMPANIES
(AS AT 31ST DECEMBER 1968)

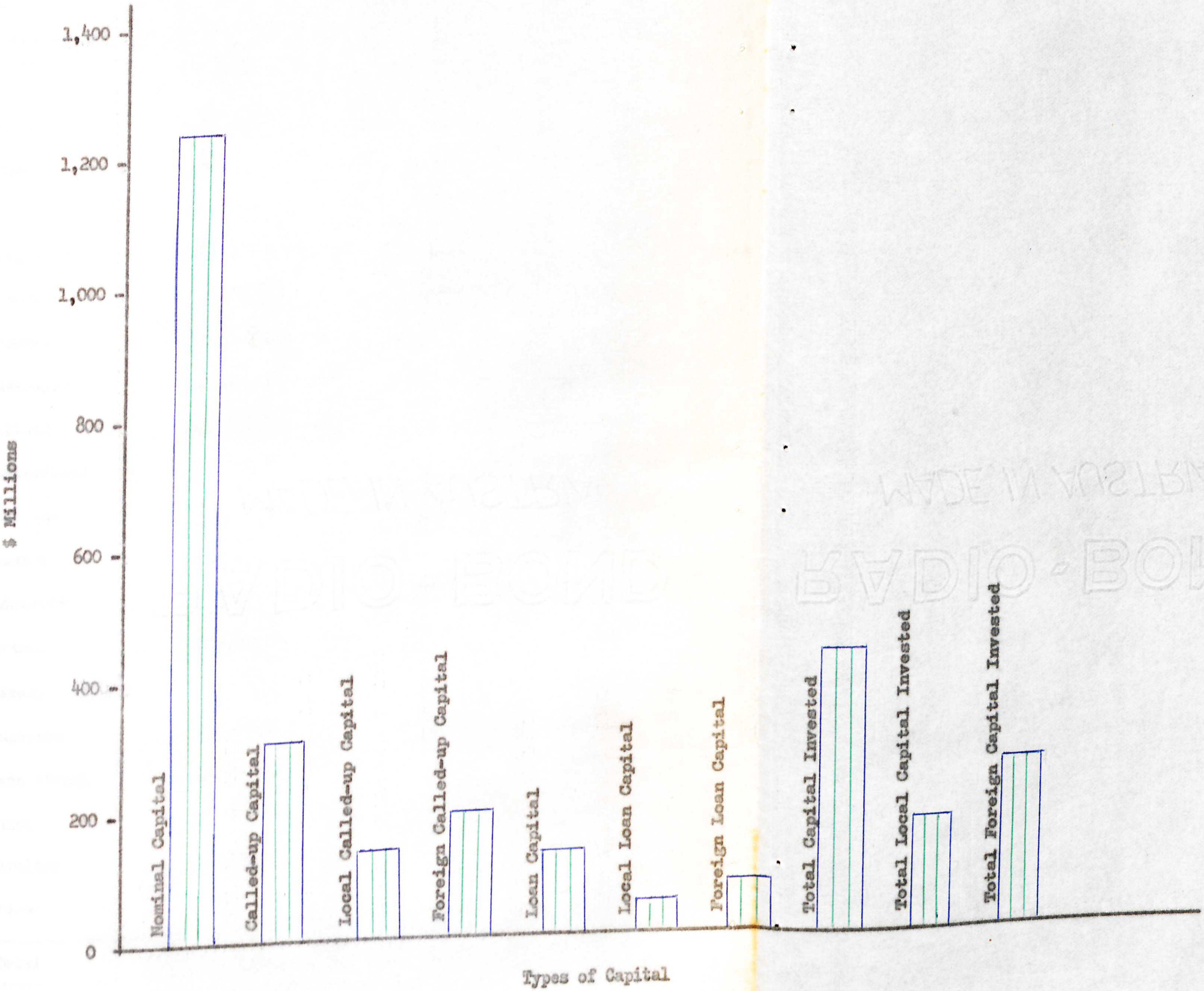


TABLE 4.2

FOREIGN INVESTMENT (AS AT 28TH FEBRUARY 1969)

Country of Origin	Total of Foreign Investment ($)		Grand Total
	Called-up	Loan	
U.S.A.	45,540,577.00	28,021,366.00	73,561,943.00
Japan	27,333,135.00	32,464,677.71	59,797,812.71
U.K.	40,344,640.00	12,674,690.49	53,019,330.49
Hong Kong	33,939,213.00	18,500.00	33,957,713.00
Canada	26,101,570.00	1,547,229.00	27,648,799.00
Bahamas	7,000,000.00	-	7,000,000.00
Australia	2,152,950.00	-	2,152,950.00
Holland	1,632,001.00	-	1,632,001.00
Switzerland	1,560,000.00	-	1,560,000.00
Thailand	113,000.00	408,966.00	512,966.00
Denmark	250,000	-	250,000.00
Indonesia	230,000.00	7,297.50	237,297.50
Curacao	90,200.00	-	90,200.00
Germany	45,750.00	-	45,750.00
Singapore	31,750.00	199.00	31,949.00
South Africa	25,800.00	-	25,800.00
Brunei	5,000.00	-	5,000.00
Gibraltar	2,000.00	-	2,000.00
Formosa	1,000.00	-	1,000.00
Total:	186,398,586.00	75,142,925.70	261,541,511.70

Source: <u>Malaysia Industrial Digest</u>, Vol. 2, No.1.

an amount not less than 94.50% of the total foreign investment. This means that the other 14 nations together invest only 5.5% to the total foreign investment. Although there are 19 countries participating in the Pioneer Industrial Programme of Malaysia, only 5 of these countries play an important role in supplying the capital investment needed. The other 14 countries contribute a negligible amount of capital investment to the pioneer industries. To be precise, these 15 nations invested only $13,555,913 to the whole industrial pioneer sector.

Diagram 4.3 will give a clearer picture of the contributions of foreign nations to the capital investment of the pioneer sector.

Need for Direct Private Foreign Investment

It has been seen that a great part of the pioneer sector was financed by private foreign investors. The need for such financing has not been fully analysed. The writer shall attempt briefly to analyse the benefits derived.

It has been explained earlier on the importance of the industrial sector both the pioneer sector and the non-pioneer sector, as a means to further economic development. Also it was seen that in Malaysia there is a large supply of domestic private capital waiting to be invested. It can be stated that though there may be an abundant supply of domestic private capital, it is by no means enough for greater and more rapid industrialization. The demand for more private foreign investment in the industrialization process hence cannot be denied. It should also be noted that the fear of having too much private foreign capital may result in foreign domination of the industrial sector is misinterpreted in terms of development planning and also it should not be regarded synonymously with the features of colonialism.

From the stand point of national economic benefit, the essence of the case for encouraging an inflow of capital is that the increase in real income result from the act of investment is greater than the resultant increase in the income of the investors. The benefits can accrue to:[4]

a) domestic labour in the form of higher real wages;

b) consumers by way of lower prices;

c) the government through higher tax revenue; and

d) indirect gains through the realisation of external economics.

For example, Malaysia a developing country, the inflow of foreign capital may not only be significant in raising the productivity of a given amount of labour but may also allow a larger labour force to be employed. Also the benefits derived to the recipient country not only

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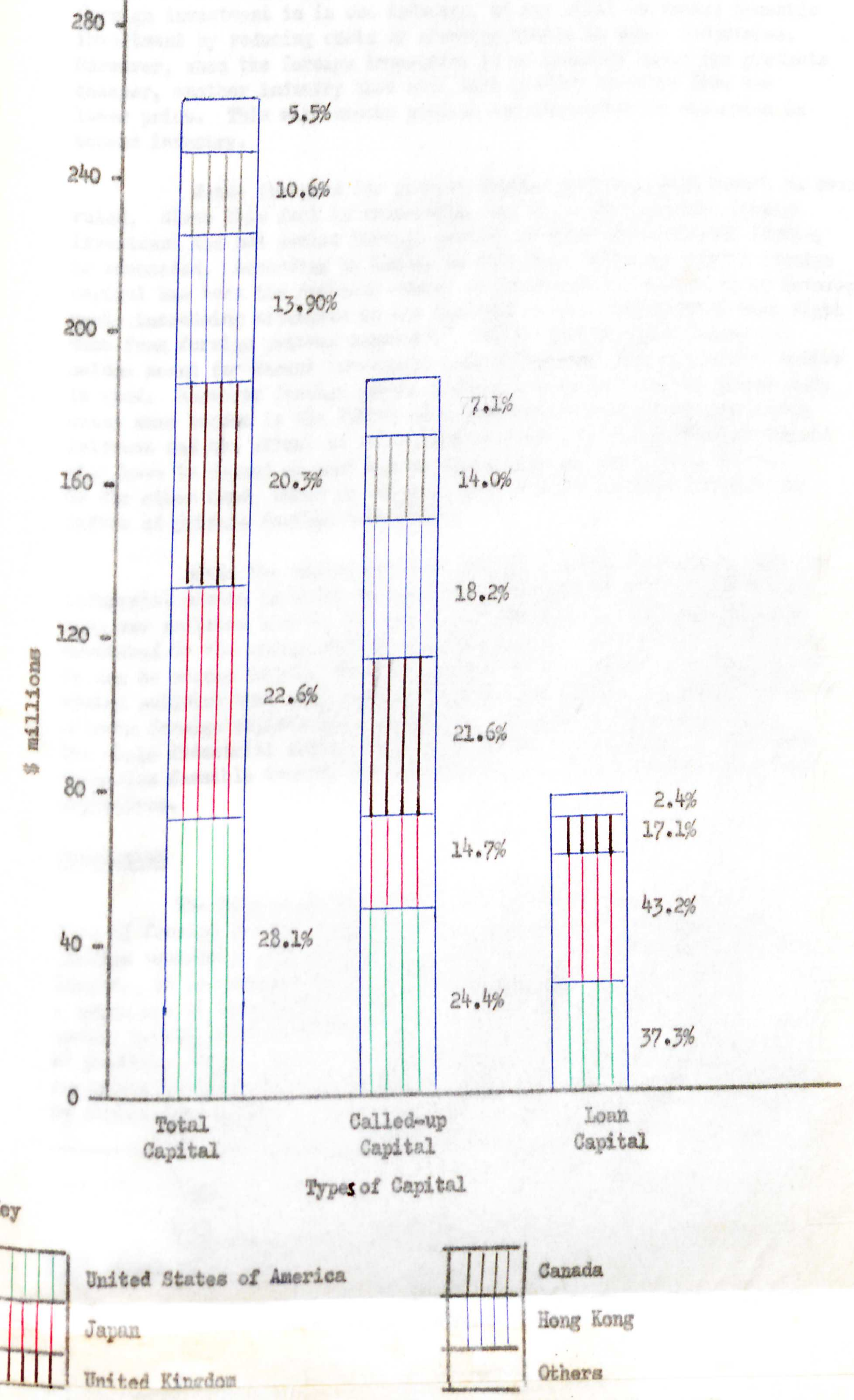
[4] G.M. Meier, "Leading Issues in Development Economics", pp. 151-152.

DIAGRAM 4.3

FOREIGN INVESTMENT: TOTAL INVESTMENT, CALLED-UP CAPITAL AND LOAN INVESTMENT



capital and foreign exchange but also managerial ability, technical personnel, technological knowledge, administrative organisation and innovation in products and production techniques - all of which are in short supply in Malaysia. Private foreign investment may also serve as a stimulus to additional domestic investment in Malaysia. Even if the foreign investment is in one industry, it may still encourage domestic investment by reducing costs or creating demand in other industries. Moreover, when the foreign investment is an industry makes its products cheaper, another industry that uses this product benefits from the lower price. This will create profits and stimulates an expansion in second industry.

Hence the need for greater foreign participation cannot be over-ruled. Since this fact is undeniable, why is it that private foreign investment and not public foreign capital or inter-governmental lending is advocated. According to Meier, he said that "although public foreign capital has been the dominant source of international financing of development, increasing attention is now focussed on the contribution that might come from foreign private sources".[5] Public foreign investments are seldom meant for direct investment into industries with the profit motive in mind. Moreover foreign public lending not in the form of grants only means some burden in the future when these funds need to be repaid with interest and the extent to which foreign loans can be serviced or repaid will have to depend on what can be saved domestically in the future. On the other hand, there is not such much obligation involved with the inflow of private foreign investment.

Since the demand for more private foreign investment into the industrial sector in order to accelerate the pace of industrialization, many new policies have to be made by the Government. The new policies advocated by the writer will be discussed in the last chapter. However, it can be stated briefly that the central problem now is for Malaysia to devise policies that will succeed in both encouraging a greater inflow of private foreign capital into the pioneer sector, or for that matter, the whole industrial sector, and ensuring that it makes the maximum contribution feasible towards the development of the country's development objectives.

Conclusion

The Government has made an all out effort to encourage the flow of foreign capital into the country. The wisdom of encouraging foreign ownership of a growing industrial sector may well be questioned. However, it is undeniable that direct investment by foreign investors is a quick way to industrialize but it must not be forgotten that this is a costly method, and will encounter the problem of an increasing outflow of profits. Only a portion of this net profit outflow of the foreign investors has come back in the form of a net capital inflow.[6] This can be especially serious since there is no law in Malaysia that restricts

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[5] Ibid., p.149.

[6] Bank Negara Malaysia, Quarterly Economic Bulletin, December 1968, Table VI.7, p.70

the outflow of foreign capital. The policy of inducements and encouragement to foreign capital by the Government is like 'holding open the door of a bird cage in the expectation that more birds will fly in than out'.[7] But then it is undeniable that there is a need to import foreign capital. Or it may be argued that the Government would be better occupied in devising measures to reduce the outflow of capital and to channel what it can into internal investment. Whatever it is, greater foreign capital inflow is needed to accelerated the pace of industrialization, eventhough there may be a cost involved.

Whatever the system should be, we have seen that foreign capital was responsible for more than 50% of the total capital invested in the pioneer sector. It must not be forgotten that foreign investors' capital is not the only benefit Malaysia's industrial sector receives but also their initiative and technical know-how.

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[7] M.C. Puthucheary, "Ownership and Control of the Malayan Economy", p.159.

CHAPTER V

EMPLOYMENT

Introduction

For this chapter the analysis on employment will be made on the basis of the date of pioneer companies available in the Survey of Manufacturing Industries in West Malaysia 1967 compiled by the Statistics Department. This is the latest of such surveys carried out by the Statistics Department, and here the analysis will be for the period 1959 to 1967 only.

The labour force is being classified into 3 types of labour or rather the employment status of the workers are divided into 3 different types according to their working duration and conditions. They are full-time workers, part-time workers and home-workers.[1] Full-time workers refer to those who work not less than a six-hour day or more than 20 days a month. On the other hand, part-time workers refer to those who work less than a six-hour day or less than 20 days a month. Home-workers are those employed by the manufacturing establishments but working in their own homes rather than in the factories employing them. In the tables of this chapter home-workers are classified as part-time workers. In their industrial status,[2] that is, the kind of work they are employed to do, are classified into managerial, supervisory, technical, general, clerical, factory and home-workers. Factory workers are those employed directly by the company and those employed through labour contractors.

The total covered industries in this chapter is taken to mean the combination of the pioneer sector and the non-pioneer sector.[3] All the pioneer companies are included in this survey but for the non-pioneer sector not every one of the manufacturing establishments are included but the majority of them are covered under this survey.

Growth of Employment (1959-1967)

The growth of employment in the pioneer sector, both for part-time and full-time employees can be seen in Table 5.1 and Diagram 5.1.

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[1] Definitions and classifications are by the Statistics Department in their Survey of Manufacturing Industries in West Malaysia, p. x.

[2] Ibid., p.x.

[3] The term 'total covered industries' here is used interchangeably with the term 'manufacturing sector' by the writer.

TABLE 5.1

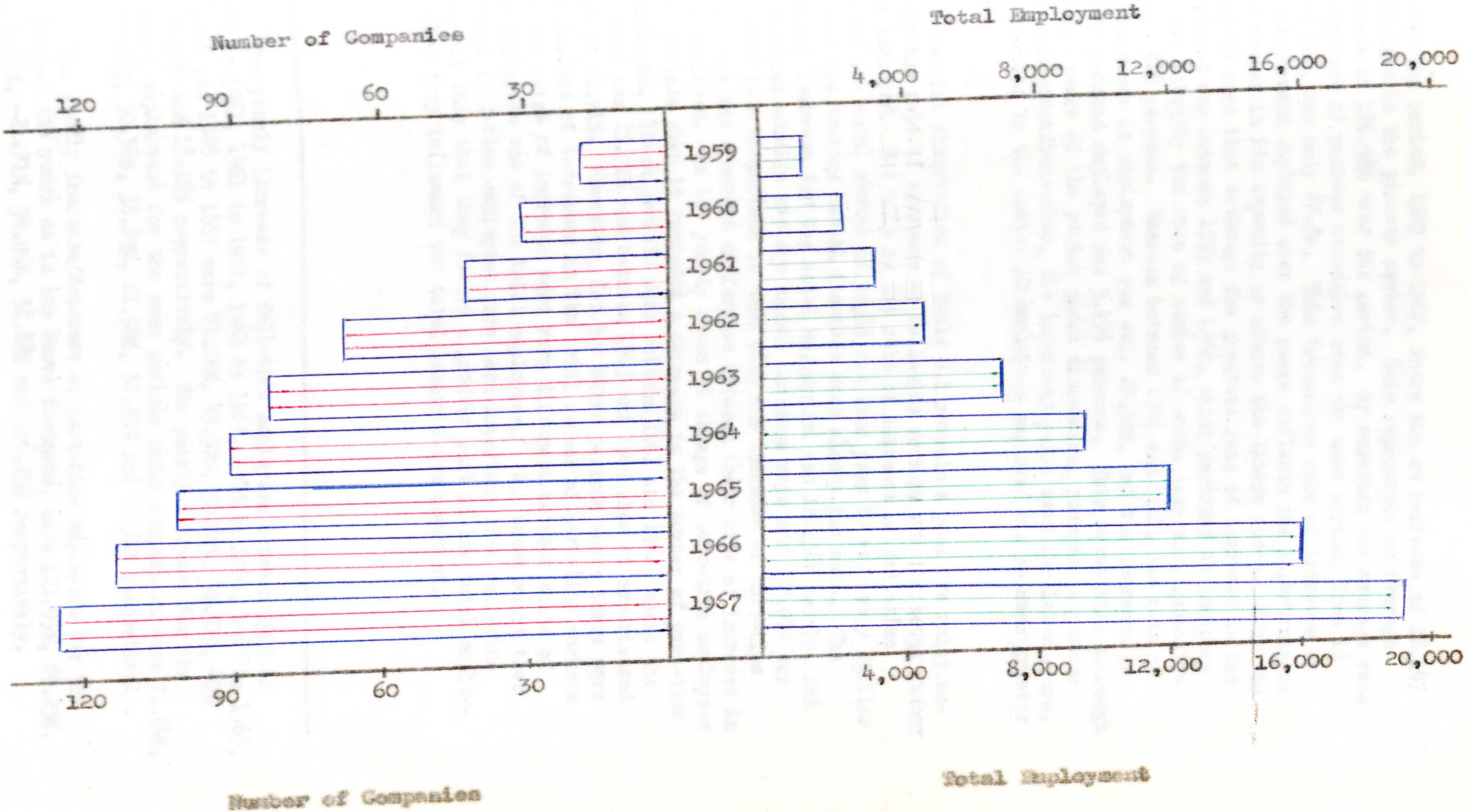
GROWTH IN TOTAL EMPLOYMENT OF PIONEER COMPANIES (1959-1967)

	As At 31st December																	
	1959		1960		1961		1962		1963		1964		1965		1966		1967	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Full-time Employees	1,255	96.84	2,149	95.94	3,081	95.24	4,648	97.46	7,042	98.20	9,859	98.99	11,953	98.39	15,895	98.31	18,782	97.10
Part-time Employees (including home workers)	41	3.16	91	4.06	154	4.76	121	2.54	129	1.80	101	1.01	196	1.61	272	1.69	561	2.90
Total	1,296	100.00	2,240	100.00	3,235	100.00	4,769	100.00	7,171	100.00	9,960	100.00	12,149	100.00	16,067	100.00	19,343	100.00

Source: Compiled from data available in Survey of Manufacturing Industries of West Malaysia, 1967.

DIAGRAM 5.1

NUMBER OF PIONEER COMPANIES AND TOTAL EMPLOYMENT 1959-1967



Over the period, 1959 to 1967, there was an increase of 18,147 employees engaged in the pioneer sector. This represents an average annual increase of 186.58% over the period. By contrast the average rate of annual increase of pioneer companies over the same period, from 18 companies to 126, was only 87.5%. This tremendous rate of increase in the number of persons employed over the years reflects the importance of the pioneer sector in its capacity to absorb the labour force. From the table it can be seen that although the greatest rate of increase in the numbers employed was between 1959 and 1960, which recorded an increase of 72.84%, but actually the rate of number of works increase, quantity-wise was only 944 persons. Whereas between 1966 and 1967, the rate of percentage increase in employment was only 20.38%, but the increase in the number of persons employed was 3,276 persons. This means that although in the earlier years of the period under discussion, recorded a greater yearly increase percentage-wise, the important years were the later years, where the increase in the number of employees employed was in much greater proportion.

A careful observation of Table 5.1 reveals a positive relationship between the rate of increase of full-time workers and the total number of workers employed. Not only is the rate of increase of full-time employees and the total number of employees from year to year very similar but also that the average annual increase were almost the same. The average annual increase for the total employment was 186.58% yearly, and for the full-time workers average annual increase rate was 187.07% per year. However if a comparison is made with the increase of part-time employees, there was a marked difference between their rate of increase in the number employed. In the yearly rates of change of part-time employees there were periods when it recorded a decrease in the number of part-time workers employed. These periods were between 1961 and 1962, where the decreased rate was 21.71% and between 1963 and 1964 when it experienced a decrease of 21.71%. Moreover, for the other periods where there were increases instead of decreases in the total number of part-time workers employed, the rates of increase were very different between those of full-time employees and of the total employees.[5] All these meant that without doubt full-time employees were more important than part-time employees, not only that they formed a greater part of the total employment but also they influence the total labour force movement.

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[4]The yearly increase of full-time employees between 1959 to 1960, 1960 to 1961, 1961 to 1962, 1962 to 1963, 1963 to 1964, 1964 to 1965, 1965 to 1966 and 1966 to 1967 were 71.24%, 43.37%, 50.86%, 51.51%, 40% 21.24%, 32.98% and 18.16% respectively. The yearly increase for the overall total employment for the same periods under comparison were 72.84%, 44.41%, 47.42%, 50.36%, 38.89%, 21.98%, 32.25% and 20.38% respectively.

[5]The yearly increase/decrease of part-time employees for the periods between the years as in the above footnote, were 121.95%, 69.23%, -21.43%, 6.61%, -21.71%, 94.06%, 38.88% and 106.25% respectively.

From Diagram 5.1, the upward movement of both the pioneer companies and the total number of paid employees can be seen. In 1959 there were only 18 companies with pioneer certificates employing 1,296 employees both on full-time and part-time basis. This gives us an average of 72 workers per company. By 1967 there were 126 pioneer companies employing 19,343 workers, both on full-time and part-time basis.[6] Thus a company had an average of 154 workers. This means that over the years under 'discussion', as the number of pioneer certificate holders increased the size of these new companies also increased in terms of their employment capacity. By 1967, an average pioneer company employed twice as many workers as an average company in 1959. To be more precise, there are 2 possible explanations for this trend. Firstly, as mentioned, the size of the new pioneer firms tends to be bigger than those established earlier. The reasons for this will not be argued here. Secondly, the reason may be that as time goes by, the existing pioneer firms grew larger due to longer establishment and hence their employment capacity increased. This cumulative effect over the years coupled with the establishment of new companies, thus enlarges their labour force capacity.

As was mentioned earlier and can be seen in Table 5.1, by 1967 not only has the number of full-time workers increased greatly but also that the demand for part-time workers has decreased. In 1959 the part-time workers form 3.16% of the total labour force in the pioneer sector. By 1967 this amount dropped to a mere 2.9%. It went as low as less than 2% of the whole labour force for the years 1963 to 1966. This and the above paragraph conclusion, means that as the size of a company increases, the demand for part-time workers decreases.

Comparison of the Employment of Pioneer Companies To Total Covered Industries

Observing Table 5.2 clearly, 3 deductions can be reached.

Firstly, it can be seen that the increases in the number of pioneer companies compared to the total covered industries over the period 1959 to 1967 is less than the increase in employment for both full-time and part-time employees of pioneer companies as a percentage to total covered industries. The average annual increase in the number of pioneer companies as a percentage of total covered industries was only 44.79%.[7] Meanwhile, the average annual increase of full-time employees employed in the pioneer sector as a percentage to the total covered industries was 84.37% which was almost twice the rate of increase of the number of pioneer companies to total covered industries. The average yearly increase of part-time workers of the pioneer companies as a contribution to total covered industries was however not as rapid as the increase in the full-time employees. The average annual increase was only 44.4% which was as slow as the yearly increase of the pioneer companies to total covered

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6 Figure rounded up to the neareast.

7 Derived from the following calculation:

$$(\frac{43}{12} \times 100) \div 8$$

TABLE 5.2

CONTRIBUTION OF PIONEER COMPANIES TO TOTAL COVERED INDUSTRIES (PERCENTAGE)

Year	Number of Establishments	Number of Paid Employees as at 31st December	
		Full-time	Part-time (including Home-Workers)
1959	1.2	3.2	2.9
1960	2.0	4.9	5.3
1961	2.8	6.8	7.6
1962	2.9	8.6	4.4
1963	3.6	12.0	4.7
1964	3.8	15.3	3.4
1965	3.6	15.7	5.3
1966	4.0	19.3	6.3
1967	4.3	21.6	10.3

Source: Extracted from data available in Survey of Manufacturing Industries 1967.

industries. However as was mentioned in earlier paragraphs, the part-time employees in pioneer companies formed only a minority and less important role in the total employment aspect. The slow rate of increase of part-time workers in the pioneer companies especially when compared to the rate of increase in the total covered industries was because most pioneer companies were well modernized industries and hence the need for part-time workers and home-workers was unimportant.

The second observation which is the most important, revealed that although the pioneer companies form a small percentage of the total covered industries, the employment aspect of it however is not as negligible. In fact, especially in the later years, the total employment in pioneer companies became an important feature of the manufacturing sector. Since the proportion of full-time employees is much greater and important than the part-time employees in the pioneer sector, the analysis here will be mainly on those who are full-time workers.

In 1959, pioneer companies formed only 1.2% of the total covered industries and employed 3.2% of the total employment in the total covered industries. This was about 2½ times greater than the number of pioneer companies in terms of contribution to total covered industries. By 1963, the number of pioneer firms formed 3.6% of the manufacturing sector, an increase of 2.4% over a period of 4 years. But in the employment of full-time employees, the pioneer sector employed 12.0% of the total employees in the manufacturing sector. This was slightly less than 3½ times the proportion when comparing total pioneer industries to total manufacturing sector. This means that although the pioneer sector formed only 3.6% of the total covered industries, its employment capacity was 12% of the capacity of the total covered industries. By 1967 the number of pioneer firms increased its proportion to 4.3% of the total covered industries. This means that from 1963 to 1967, a 4-year duration, the percentage increase of pioneer companies when compared to total covered industries was a mere 0.7%. But this was not the important point. The important fact was that the number of workers employed in the pioneer sector as compared to the total covered industries increased by a much greater proportion. To be precise its share of employment to total covered industries increased from 12% in 1963 to 21.6% in 1967, an increase of 9.6%, as compared to only an increase of 0.7% in terms of the number of pioneer companies to total covered industries. Again this meant that by 1967, out of every 5 employees in the manufacturing sector one was employed in the pioneer sector[8] which consisted of only 126 firms, wherease the other 2,834 companies of the non-pioneer sector employed the other 4 workers. Since the total employment of the 126 pioneer companies was 19,343 workers, the average employment capacity of each firm was 154 workers. On the other hand there was 2,835 firms in the non-pioneer sector employing 72,943 workers, which give us an average of 26 workers per firm.[9] This proved that the number of pioneer companies was not increasing very rapidly when compared to the whole manufacturing sector, but rather that the employment capacity of the pioneer companies was increasing very greatly and hence their importance in terms of contribution in absorbing the unemployed in the labour force. It also proved that the average size of the firms in the pioneer sector was bigger than those in the non-pioneer sector, so long as the employment capacity of firms is used as a criteria.

On the other hand, the difference between the proportion of part-time workers of the pioneer sector to the whole manufacturing sector in terms of number of establishments and number of paid employees was not so great. This was especially true in the later period of the years under discussion. This meant that as the pioneer sector enlarged itself, the number of part-time workers also increased but not as greatly or rapidly as the increase of full-time employees in the pioneer sector.

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[8] Total number of establishments covered in the manufacturing sector was 2,961 of which 126 of them are pioneer companies as for 1967. The total employment of the manufacturing sector for the same year was 92,286 workers, both full-time and part-time workers and 19,434 of them are working in the pioneer firms - Refer to Survey of Manufacturing Industries 1967.

[9] Figures are corrected to the nearest.

The third observation that can be made has already been mentioned partly in the earlier part of the chapter. From Table 5.2 it can be seen already that the increase in the proportion of full-time employees of the pioneer sector compared to the overall industrial sector was at a very rapid pace. It formed 3.2% of the total covered industries in 1959 to 21.6% in 1967. This was at a much more rapid rate than the increase in the employment of part-time workers in the pioneer sector. It formed 2.9% in 1959 and increased slightly to 10.5% by 1967. Several reasons may be given to explain this phenomenon as to why part-time workers increased at such a slow pace in the pioneer sector when compared to the total covered industries and also why they formed only a small portion of the workers in the pioneer sector compared to the manufacturing sector.

In the non-pioneer section of the manufacturing sector, there are certain industries that employ large numbers of part-time workers. Such industries for example are the pineapple canning industry and larger rice mills and also those whose work is concerned with the remilling and processing of rubber off estates. The first 2 industries do not operate the whole year round but only during certainseasons when they work full-time. So on an average throughout the working period of the whole year most of them are considered as part-time workers. In industries dealing with the remilling and processing of rubber, most of them do not work the whole day. Their work is such that they do not work a normal working day in terms of time and duration. On the other hand in the pioneer sector, there is no existence of such industries that have to rely solely on part-time workers, or rather the relieve on them is not so great. Here employees have to work all the year round without any interference of seasons. Another reason to this phenomenon is that in the non-pioneer sector there are certain industries that resemble the workings of handicrafts industries or cottage industries. In these industries they employ mostly part-time workers because the work is not on a full-time basis. It may be that the work is done after the normal working hours of the worker and this part-time work is the worker's second occupation. As was earlier mentioned, an average pioneer firm is much larger than an average non-pioneer firm in terms of their employment capacity. This means that these pioneer firms demand much more labour than an average non-pioneer firm and thus their demand for consistent full-time labourers is greater than part-time workers, by logic. Lastly the pioneer industries of which more than 50% belonged to foreign investors in terms of investment, are well modernized with modern planning, producing and selling systems which demand the workers' consistent consciousness. Here, specialization is the key to modern production and specialization demands consistent regularity at work which only full-time workers can qualify.

Employment Status

The employment status of the paid employees of the pioneer sector was classified into full-time workers and part-time workers which included home-workers. Under the Company's Act, "the . . . employment of unpaid workers is not allowed". All employees hence were paid employees. In this sub-section, a short analysis on the employment status will be attempted, as this was done partially in the preceding paragraphs and also will be treated in the paragraphs following this sub-section. However the employment status of the worker will be analysed in terms of employment size group as seen in Table 5.3.

TABLE 5.3

EMPLOYMENT STATUS OF PIONEER COMPANIES BY PAID FULL-TIME EMPLOYMENT SIZE-GROUP

Paid Full-time Employment Size-Group	Number of Establishments	Number of Paid Employees at 31.12.67			
		Full-time	Percentage	Part-time	Percentage
Under 20	9	107	0.58	3	0.53
20 - 29	6	152	0.81	75	13.37
30 - 49	17	659	3.51	113	20.14
50 - 99	36	2,648	14.09	163	29.06
100 - 199	29	4,182	22.32	7	1.25
200 - 499	25	7,939	42.27	165	29.41
500 and above	4	3,085	16.42	35	6.24
Total	126	18,782	100.00	561	100.00

Source: Compiled from data extracted from the Survey of Manufacturing Industries in West Malaysia, 1967.

From the table, as far as full-time employees were concerned, the greatest number of them were employed in firms with 200 to 499 workers, which formed 42.27% of the total employment in the pioneer sector. Second was the 100 to 199 employee size-group which was responsible for employing 22.32% of the total workers. The third largest employee of full-time workers was those firms with employment size of 500 and above. The three of these employment size-group classifications have 58 firms in it. The conclusion that can be reached was that as the size of the firm increased in terms of employment capacity, the number of full-time employees employed in these firms also increase. However there was on exception where the firms which employed more than 500 workers each did not employ the total number of workers compared to firms under other size-group. The explanation is that there were only 4 firms under this employment size-group but employed on an average of 771 employees each. No doubt other employment size-group firms may employ more workers but then their average number of workers per firm was much less. Firms which had less than 100 workers in it employed only 18.99% of the total number of workers in the pioneer sector.

Meanwhile, the employment of part-time workers showed a different trend. No possible specific explanation can be given to interpret this trend. Firms with 50 to 99 workers and 200 to 499 workers employed the most part-time workers. It could not be that these 2 groups have the most number of firms in it, though together there are over 61 firms because a firm with 100 to 199 workers in it employed only 1.25% of the total number of part-time workers in the pioneer sector and this group consisted of 29 firms.

Labour Force Composition and Industrial Status

The composition of the labour force is divided into male workers, female workers and those under 16 years of age or child workers. The industrial status on the other hand classify workers under 4 categories of workers. The first group or classification are those managerial, technical, supervisory general and clerical workers. The second group are those directly employed factory workers and the third group consists of those factory workers employed through contractors. There is a fourth group which as classified earlier as part of the part-time workers, are the home-workers. Meanwhile the employment status of the workers, whether they are employed on a full-time or part-time basis is also made use of to divide the composition of the workers and their industrial status into 2 definite main groups as can be seen in Table 5.4.

As far as full-time workers were concerned, 18,782 employees were employed under this classification in 1967. Out of this 18,782 employees, 70.49% of them were male workers, 29.29% of them female workers and the rest, a mere 0.22% consisted of workers under the age of 16. Those workers classified under the first classification by industrial status, 86.86% of them, were men and 13.14% of them women. There were no worker under this classification under 16 years of age. As for those in the second classification, 64.83% of them were men, 34.85% were women while the balance of 0.32% were child workers. Meanwhile for those in the third classification of workers, that is, those factory workers employed through contractors, 80.95% of them were men, 19.05% of them women and no child workers. These proved that those full-time workers, no matter what category of industrial status they were in, women formed a smaller majoirty than the male workers, but formed a bigger majority than those workers whose age were less than 16 years old.

What category of workers or industrial status did the male workers, female workers and those under 16 years of age were mostly employed in? For male workers, 28.16% of them were in the first category of work, 67.44% in the second and 4.4% in the third category. For the female workers, a smaller majority of them worked in the first category. Here only 10.25% of them were employed in the first group whereas the majority of them, 87.26% worked in the second category of work and even a smaller majority still worked in the first category. For those workers under 16 years of age, all of them worked in the second category of occupation, that is, those directly employed as factory workers.

With regard to part-time workers, there were 561 workers in this category of employment status, working under 4 categories by industrial status. It had one extra category of workers more than under full-time

TABLE 5.4

PIONEER COMPANIES LABOUR FORCE COMPOSITION AND INDUSTRIAL STATUS: 1967

Industrial Status	Number of Workers as at 31st December 1967						Total
	Men		Women		Under 16 Years of Age		
	Numbers	Percentage	Numbers	Percentage	Numbers	Percentage	
Full-Time Workers							
a) Managerial, technical, supervisory, general and clerical workers	3,728	28.16	564	10.25	-	-	4,292
b) Directly employed factory workers	8,929	67.44	4,800	87.26	42	100.00	13,771
c) Factory workers employed through contractors	582	4.40	137	2.49	-	-	719
Sub-Total	13,239	100.00	5,501	100.00	42	100.00	18,782
Part-Time Workers							
a) Managerial, technical, supervisory, general and clerical workers	11	5.85	-	-	-	-	11
b) Directly employed factory workers	90	47.87	212	63.47	39	100.00	341
c) Factory workers employed through contractors	86	45.74	116	34.73	-	-	202
d) Home-workers	1	0.54	6	1.80	-	-	-
Sub-Total	188	100.00	334	100.00	39	100.00	561
Grand Total	13,427		5,835		81		19,343

Source: Compiled from data available in Survey of Manufacturing Industries, 1967.

basis. This was the home-workers. Out of the 561 part-time workers, 33.51% of them were male workers, 59.54% were female workers and 7.95% were child workers. By industrial status those under the first classification of occupation were all men whereas those in the second classification, men formed 26.39% and a bigger majority of the, 62.17% were women, and lastly child workers formed only 10.44%. For those factory workers who were employed through contractors, that is, the third classification, 42.57% of them were men, 57.43% were females and none of them were workers less than 16 years old. As for those home-workers, only 14.28% of them were men, while the rest, 85.72% of them were female workers. All these proved that as far as those part-time workers were concerned, women workers formed a bigger majority in the total employment. Women workers were more important than men workers and those workers less than 16 years old. Child labour formed only a negligible part of the part-time workers in terms of employment status, labour composition and industrial status.

The category of workers by industrial status that men workers on part-time basis, a greater part seemed to be in the second and third category of occupations, with none of them in the first group. As for those workers under 16 years of age, they were only employed in the second classification of workers.

Overall by industrial status, as far as full-time employees were concerned, 22.85% of those workers of the whole labour force composition were in the first category by industrial status, 73.32% in the second category and 3.83% were in the third category. As for those part-time workers, 1.96% of those workers were under the first category, 60.78% of them in the second, 36% were in the third and only 1.26% of them home-workers. If taken on an average, that is, the combination of both part-time and full-time workers, in the first category by industrial status consisted of 86.89% of male workers, 13.11% female workers and no workers under 16 years old. For the second category, 63.91% were men, 35.52% were women and 0.57% were workers younger than 16 years old. Meanwhile those factory workers that were employed through contractors, that is the third category, 72.53% were men, 27.47% were women and again no workers under 16 years of age. Lastly those home-workers, 14.28% of them were men and the rest female workers.

On the whole, out of the total number of workers in the pioneer sector, both those on full-time and part-time basis, the male workers formed 69.42% of the labour force composition and the female workers formed 30.17% of it. Only a negligible number of them, 0.41% of the total employment to be exact, were workers under 16 years of age.

If a comparison is made on the basis of employment status, that is those under full-time employment and those under part-time employment, several deductions can be summarised through the analysis in the preceding paragraphs. Those who were working in the first category of work, by industrial status, 86.86% of them were men as far as full-time employment was concerned and the rest, 13.14% were women workers. However, for the same category of work but on a part-time basis, only men were employed. In the second category of work, women workers comprised of a greater amount than men workers and those whose age were under 16 years where part-time employment was concerned. Women workers formed 62.17% of the workers for this category of work, while men formed only 26.39%. On the other hand, for the same classification of industrial status, but on full-time basis, men workers were more than women workers by 19.98%. Those under 16 years of age again formed a negligible part of the total. For the third category of work, again there was a difference between full-time and part-time employment. Men workers formed a greater majority on full-time basis, but women formed a bigger majority on part-time basis. No worker was under 16 years of age.

Lastly by industrial status, both for full-time and part-time workers, 22.25% of the total employees of the whole labour force composition worked under the first category of work. 4.76% of them were in the third category of work and 0.14% of them were home-workers. The greatest proportion of them, 72.85% were in the second classification that is, those factory workers who were directly employed by the factories.

Having analysed the employment aspect of the pioneer industries in such great detail, and some conclusions drawn, there are still further deductions that can be made regarding the following questions. By labour force composition why was it that men workers formed a greater proportion than women workers where full-time occupations were concerned? Why was it that where part-time occupations were concerned, women workers formed a greater proportion than men workers? Why was that workers under 16 years of age or child labour existed in Malaysia and why was it formed only a small portion of the total labour force? Lastly, whey was it obvious that overall, men workers formed a greater portion than women workers?

Men workers were more than women workers in full-time occupations (70.49% against 29.29%). There are several reasons for this trend. As to be expected in most countries, the greater percentage of employees are men, as they are usually the bread-winners of their respective families. Women by nature are often confined to their homes. Some of the work perform in the pioneer industries as well as other industries may prove to be too rough and tough for women and child workers. Where works that require a great deal of physical exertion or long hours of work, and jobs that are performed in odd hours of the day, women workers find themselves unable to qualify for such jobs. Again, the place of work may be far away and transportation to and fro for work may be difficult, hence women may be more reluctant than men to be in such work.

On the other hand, where part-time works were concerned, there was a greater percentage of women workers than men workers (59.54% against 33.51%). There are several reasons for such a phenomenon. In such cases, part-time women workers usually worked with the aim to supplement the family income, to make ends meet or to enjoy a high standard of living. Such part-time work are suited for them since the duration of work is less than 6 hours a day or less than 20 days a month. This will enable them to have time for their home work when they are not working. Another reason for this phenomenon is that home-workers are considered to be part-time workers. Women formed a bigger proportion of this category of work. This type of work will enable them to perform their house work and at the same time earn an extra income by performing their work in the house.

are better than women in this respect especially when they are given a job to supervise the workers, especially men workers. Most employers still possess this conservative thought. Lastly, no child labour was in this category as the reason is obvious.

In the second category of workers, that is, those factory workers that were directly employed, the question here is not that why there are more men than women for such jobs, but rather why was there such a great proportion of women workers. One reason was because of few workers in the first category of work. Another reason was that a great part of these workers were part-time workers and a great part of these part-time workers were women. The reason for this was earlier explained.

For those factory workers employed through contractors, most of them were men and lastly those home-workers, most of them were women, the reason was again earlier explained.

<u>Conclusion</u>

The growth of the labour force in the pioneer sector is rather rapid especially when compared to the whole manufacturing sector. As was seen in Table 5.2, in 1959 the pioneer sector only comprised of 3.2% of the total number of full-time workers in the whole manufacturing sector, and increased to 21.6% by 1967. It was also seen that by labour force composition, the presence of woemn workers especially in part-time jobs was quite prominent. Out of the total of 19,343 workers in the whole pioneer sector, 30.17% of them were women workers, and 69.42% were men workers. Child labour, though in existence, formed only a small percentage of the total labour force.

What is the future prospect like for employment opportunities in the pioneer sector? Two factors will see to it that in the future the employment capacity of the pioneer sector is good. One, is that the present established pioneer companies will enlarge their labour force in the years to come as their companies enlarged itself physically. Hence we have the cumulative factor. The other factor is that there is the opportunity of new pioneer firms to be established and hence, employment opportunities. As at 28th February 1969, there are 126 pioneer firms approved to begin operation in Malaysia, and the expected employment at the end of their tax free period is estimated to be 15,934 workers.[9] Thus when the tax free periods of these companies end, the employment capacity of the pioneer sector will be considerably enlarged because of greater output.

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9 <u>Malaysia Industrial Digest</u>, Vol. 2, No. 1, 1969.

CHAPTER VI

REVIEW OF INDUSTRIALIZATION POLICY

Introduction

During the Second World War the Malayan economy was at a standstill. All forms of production, agricultural and manufacturing, was either stopped completely or production was at a much slower pace than pre-war production capacity. The first few years after the War were spent mostly in rehabilitation and readjustment of the stagnant economy. Although most of the effort and energy were geared towards this task, the progress was very slow. This was due to the much lower per capita income, a smaller number of trained personnel, the stagnation of technical development during the war period, recovery was thus slow.[1] Producctivity per head was very low too. However, the Government's role in planning has not been forgotten. Even before Independence, despite the concern with internal political stability and security during the so-called emergency period, economic growth took precedence. In fact the emphasis on growth aroused the early interest of the Government in planning and led to the formulation of the First Five Year Plan (1961-1960) followed by the Second Five Year Plan (1961-1965) for the Malayan States. With the formation of Malaysia, existing plans for the constituent member states were integrated into the current First Malaysia Plan (1966-1970).

The realisation for the need to quicken the development of industries and their exports became all the more urgent as the primary products-based exports were increasingly losing their dynamic vigour. 1958 saw the introduction of the pioneer holders' certificate with the aim of promoting and encouraging the setting up of 'pioneer' factories in Malaya. There was, however, one great defect in this Ordinance which was due to the short-sightedness of the planners concerned. This Ordinance was drafted with the aim not to promote export-orientated industries but rather import-substituting industries. Plans drawn up were of short-term basis and not of long-term basis. This defect of the Ordinance was not realised by the planners for the next few Ordinances until in 1968 when the Investment Incentives Act (Relief from Income Tax) was passed that this mistake was corrected and export incentives for the first time was incorporated in the Act. So it was only after a lapse of 10 years from the introduction in 1958 of the Pioneer Industries (Relief from Income Tax) Ordinance that a conscious effort was made to promote export-orientated industries. Earlier, the major orientation of the Ordinance and the subsequent incentive instrument was mainly on import-substitution industries catering for the domestic market.

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[1] United Nations "Economic Survey of Asia and Far East, 1965", p.155.

Malaysia's industrial output recorded a significantly high rate of growth during the first half of the 1960s but its share in the Gross Domestic Product so far remain nevertheless relatively small. The share of the manufacturing sector to G.D.P. at factor cost rose from 8.7% in 1960 to 10.8% in 1965 and employing only 6% of the total labour force.[2] Similarly, exports of manufacturers and semi-manufacturers although they have grown rapidly in the past, so far constitute only a small fraction of overall exports. In addition, the projection of exports over the period 1966-1975 indicates a marked slow-down in their growth rate reflecting the lack of dynamism in industries in general.[3]

Recommendations for Policy

The industrial growth of the economy at present is not as rapid as was desired. The increase in its capital investment in these new industries, the employment capacity and its output capacity forms only a small percentage of those in the whole manufacturing sector. Eleven long years have passed since the introduction of the Pioneer Industries (Relief from Income Tax) Ordinance in 1958 to December 1968, and there are only 142 pioneer companies in operation. A re-orientation of the whole industrial programme, especially its incentives, is needed. A new and more ambitious programme with far-sightedness in long-term planning is the answer to the solution. With this aim in mind, the following recommendations are suggested.

Government initiative is definitely needed to replace part of the present private initiative, not only to accelerate the growth of the pioneer sector but also the importance of the industries. We shall see how Government initiative is needed in policies regarding ownership of industry, policies regarding foreign assistance to industry, selection of industries and so on. In essence, the main theme is that the Government should play the key role in the industrialization process and not the private investors.

Ownership of Capital

Firstly, policies regarding ownership of industry have a bearing on the structure of industries or industrial growth. In Malaysia as mentioned, the development of the industrial sector has been left almost entirely to the private sector whereas in countries like mainland China, all industries are owned and operated by the State. Malaysia should follow other countries like Taiwan, Indonesia, Philippines, Iran and South Korea where they maintain a position between the two extremes.[4] In these countries the Government played a leading role in developing some key import-substituting industries such as cement, fertilizer,

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[2] Sumitro Djojohadikusumo, "Trade and Aid in S.E.A.", p.36.

[3] United Nations, "Joint ECAFE/UNCTAD Survey of Export Possibilities of Manufacturers and Semi-manufacturers," December 1968, p.1.

[4] United Nations, "Economic Survey of Asia and Far East 1965", p.229.

chemicals, iron and steel, machinery and so on and then transferred these industries to private enterprises after they have been developed. No doubt in Malaysia there existed some of these key industries, but then would it not be better if the Government has taken up the initiative years back and hence by now these industries would have been well developed. The industrial growth of such industries would have definitely been faster. For example, only recently was the sugar refinery plant and the iron and steel mill begun operation. Again there is at present no industry yet that manufactures machinery. The Government by playing such a role does not mean that private investors cannot enter into such industries. In fact the Government would have welcome it.

Selection of Industries

Secondly, the Government should play the important role regarding the selection of industries. There is one distinct feature in the pioneer sector, or for that matter, in the manufacturing sector on the whole. That is, the industries are not interrelated at all.[5] The achievements of the industrial programme so far has been quantitative rather than qualitative. The Government should play a leading role in the development of industries which place special emphasis on the metal and machinery building sector which will produce capital equipment and hence accelerate economic growth. The aim is to create a whole range of interrelated industries as a base for further industrialization. Examples of such countries are India and mainland China.[6] In Pakistan and Taiwan, the strategy is different but the ultimate aim is the same. They have concentrated initially on the creation of an interrelated sector of consumer and intermediate goods to be followed by expansion into heavy industrial development at subsequent stages. In Malaysia, where industrial development is left almost entirely to the private sector, and the Government limits itself only to granting incentives, obviously, the short-term plans for industrialization and private investment preferences, have not been designed to create the industrial complex necessary for further rapid industrialization. Thus, although a few major necessities exists, such as cement, sugar refinery, petrol refinery and rubber products, the emphasis has been on food processing and canning, beverages, light chemical products and other light consumer goods. So, in spite of the active role played by the Government, the results show that the national policy were originally not designed to give the industrial sector a strategic role in economic development. Individual projects were implemented to meet existing market demands.

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[5]For the various types of industries present in the pioneer sector, refer to Appendix III showing their investment schedule.

[6]United Nations, "Economic Survey of Asia and Far East 1965" p.230.

[7]Ibid., p.230.

"Promotional Status"

The Government should inclue in the Investment Incentives (Relief from Income Tax) Act 1968, 'promotional' status to industries in the order of their importance to the economy or industrial development. For example, promoted industries are classified into 3 classifications in the order of their importance to current economic development. Different incentives, or incentives of varying degrees will be given to different classification of industries. Group A will consist of such of such industries like iron and steel, manufacture of capital equipment, fertilizer products and petroleum products. Group B includes various types of chemical and food industries, car assembling plant, synthetic fibre and plastic products. Group C will consist all those industries not classified under Groups A or B. The incentives offered to Group A investors are more and of a greater degree than those offered to Group B investors. Meanwhile Group B investors will received more incentives than Group C investors. In this manner the Government can expect private investors to be more attracted to set up factories producing goods classified under Group A type of industries than Groups B or C as Group A type of industries offer better and more incentives, ceteris paribus. Thus, those industries which the Government think are vital to current economic development and industrial growth, or in terms of import-substitution or export-earnings will be classified under the group concern judging them in their varying degree of importance. However, it must be noted that their importance are judged against the needs of the current economy and the industry must be dropped from the group concerned if that industry has already dropped its importance. Or if the Government thinks that a certain type of industry in Group B should be elevated to Group A due to the shortage and importance of this industry to current economic development it must be elevated without delay.

Common Market and Tariff Control

The domestic market within Malaysia is limited and hence most of the import-substituting industries' demand for their output is small and limited. In order that the domestic market is to be enlarged so as to facilitate greater demand, the setting up of a common market is advisable. The I.B.R.D. Mission to Malaysia in 1963 stated that "more rapid industrialization appears a necessary means of argumenting Malaysia prosperity and two fundamental conditions for achieving this goal are the creation of a common market for domestic product and the judicious use of tariffs to protect the market."[8] Hence it is advisable for the Governments of Malaysia and Singapore for the initial stage, to establish a common market for all the goods originating in any States of Malaysia and Singapore. This implies the complete elimination of tariffs and other trade barriers to the circulation of such goods inside the common market. The application of all these States import duties must be the same on products originating in or countries outside Malaysia and Singapore. To establish a common market it is necessary to agree to include all products which are being produced or manufactured in Malaysia

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[8] I.B.R.D. (Rueff Report), "Report on the Economic Aspect of Malaysia 1963", p.31.

and Singapore are consumed within the area in significant quantities.

As industrialization is one of the strategic objectives, manufacturing must be protected against imports by tariffs or by other means. Domestic and foreign interest alike may hesitate to set up local plants to compete against foreign goods unless the latter are placed at a disadvantage. This is especially the case where the industry will depend largely on the domestic market. The Government so far has been cautious, even hesitant, in its protective tariff policy. This also can be seen in the First Malaysia Plan as it said: "The Government however is intent upon ensuring that no more protection than necessary will be accorded, for the cost of industrialization to the domestic consumer must be minimised. The Government is also intent that tariff protection will not be afforded for periods longer than are absolutely necessary."[9]

These principles are reasonable and relevant enought but their application to-date has been timid. Either Malaysia wants to industrialize for a price has to be paid by consumers and vested interest or things must be left to the so-called 'free play of economic forces'. It does more harm than good when the implementation of tariffs protection is done half-heartedly. The Government most probably has been influenced by the Rueff Report as it wish 'not to rock the boat'.[10] This argument is that industrial development should not increase the cost of living. A rough estimate by Wheelwright shows that tariff will raise the cost of imported goods by 25% and then raise the overall cost of living by not more than 6%. For the lower income group, the increase would not be more than 5%.[11] The cost of living would increase most for the higher income groups because they spent the greatest proportion of their income on imported manufactures. Furthermore, the effects would be spread gradually over a number of years and not felt immediately mainly because tariffs would have to be imposed in stages as domestic manufacturing developed. Thus, what the Government should do is to protect the existing domestic manufactures as much as possible from imported manufactured goods so as to enable the domestic producers to derive a bigger market. Assurance must be given to potential investors and those existing manufacturers that the Government will use its powers to impose tariff customs if necessary and without delay to protect them.

<u>Public Enterprises</u>

There is another policy the Government can adopt directly rather than to leave everything to private initiative. The Government should adopt a policy of developing public interprise as a 'vehicle of industrialization' or the Government, if necessary, should subsidize those public enterprises in the initial stages to allow them to compete.

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[9] First Malaysia Plan (1965-1970) p.132

[10] This was stated by Sumitro Djojohadikusumo in his book 'Trade and Aid in S.E.A.'. For Rueffo recommendations, refer Chapter 7 of Rueff Report (I.B.R.D. Report).

[11] E.L. Wheelwright, 'Industrialization in Malaysia', p.100.

They can be developed into effective instruments of planning even Malaysia is a non-socialist country. Countries like India, Pakistan and Japan have done this and therefore Malaysia has no special circumstances which justify treating it as an exception.[12] Political ideology here need not be a barrier because these public enterprises can later be sold to private investors, as this was done in Japan.

Balance Rural Urban Industrial Growth

In order to decrease land pressure and increase the average holding of a farm family from the present non-economic holding, increased number of people have to be taken off the land. Malaysia is no exception in this especially where not only the greater part of the population lives in rural areas (in the only population census taken in Malaya in 1957 the urban population was only 26.5% of the total with the rest, 73.5%, living in rural areas)[13] but also present is the population growing rapidly. This land pressure and non-economic farm holding can be solved by either industrialization or by opening up new land or both together.

Industrialization so far have been carried out in the urban areas or near urban areas only. All the industrial estates are near the big towns and ports where they enjoy not only better transport, communication and labour facilities but also easier credit, banking and governmental facilities. This resulted in the rural areas less developed having few or none of the modern factories which would benefit them in many ways. This includes employment opportunities for their surplus labour and a demand for their agricultural products. There are 2 methods whereby the Government can resort to in seeing the rural depressed areas receiving the direct benefits of industrialization. One is by offering 'differential incentives' and the other is by direct governmental action in setting up the factories themselves in such areas.

The Rueff Report states that differential incentives system might be justified only 'if a tendency towards excessive industrial concentration with its attendent social cost should develop after several years.' The Report further continues that "if excessive concentration in one or two areas, it might be legitimate to introduce differential incentives to encourage a better regional growth'.[14] This argument may be valid in countries with a fairly homogeneous political unit without serious ethnic difference and a high degree of mobility of labour. For Malaysia it is not valid as there are great regional and ethnic inequalities in existence. The Government should seriously consider offering different incentives and establish special regional development authorities for such underdeveloped depressed areas.

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[12] Syed Waseem Ahmed, 'How Can We Promote a More Rapid Industrial Growth in Malaysia', Ekonomi, Vol. 8, p.519.

[13] Sumitro Djojohadikusumo, op.cit., p.67.

[14] Rueff Report, op.cit., p.14.

Different incentives are necessary to achieve greater industrial dispersion and to stimulate a higher rate of industrial participation in under-developed rural areas. One such type of incentives can take the form of a different tax relief system under a reviewed industrial legislation. For instance the authorities concerned can zone the country into 'developed' and 'under-developed or depressed' areas. To encourage the setting up of factories in the latter areas, the tax relief benefits to be offered must be greater than those given to pioneer factories which are established in the developed areas. For example, 2 extra years of income tax relief period to be granted to those pioneer factories that are established in 'under-developed' areas. In other words, it means that as far as possible, the differential tax relief structure for the 'under-developed' areas should be fixed in such a way as to more than equate the gains in extra benefits received from 'developed' areas in the form of longer tax relief periods with the loss they suffer as a result of their unfavourable locations. Needless to say, the Government must see to it that the basic facilities like water, electricity, communication lines and a normal transportation system are available.

The second method of setting up factories in 'under-developed' areas is by direct investment of such factories by the Government. This method obviously needs a lot of planning before the actual establishment of factories. In this case the Government need not worry of the differential tax system at all. It is, after all, public enterprises and will benefit the public in general. The Government need not worry of the profit motive at all since the main aim in setting up these factories are not to make any profit but rather help the under-developed areas. If the Government's ideology is against such public investment, then the Government can achieve the same results by offering subsidies to those factories that are established in these depressed areas.

Export Possibilities

One serious defect of the pioneer sector so far is that the export capacity of these pioneer companies are very small.[15] The year 1968 which was marked by a serious attempt for the first time to promote export-orientated industries, may have ushered in a new phase in the country's industrialization process. The result of this attempt is yet to be seen. However, it can be said that at least the fault of the planners of the earlier Pioneer Investment Acts concentrated in promoting import-substituting industries rather than the export-orientated industries have been realised and now such incentives have been incorporated in the latest incentives offered. The need for quickening the development of industries and their exports becomes all the more urgent as recent

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[15] Export statistics for certain branches of industry of the manufacturing sector in 1965 as a percentage of total exports show that these industries exports are negligible. Food industries for example share of total exports was only 3.57%, Beverage 0.05%, Chemical Products 6.76%, Products of Petroleum and Coal 1.9%. Rubber Products alone, share is 46.33% (Source: Joint ECAFE/UNCTAD Survey of Export Possibilities, Table 5, p.21).

indications are that the primary products-based exports are increasingly losing their export earnings.

Under existing conditions, however, the process of transforming a narrow base of industries into one in which the importance and efficiency of export industries is to rise, is bound to be slow and gradual. Properly conceived and directed incentives can certainly speed up the country's industrialization process. It would seem, however, that much more than incentives alone is required to break away from the current trend and venture into export manufacturing industries. Public investment in human resources must be expanded also. In general it seems most desirable that at the present stage of industrial development the Government should assume a greater entrepreneurial function rather than confine its role to promotional activities alone, if exports of manufactured products is to be of significant quantities and value.

Control of Open-economy

Malaysian economy is one of 'open economy' allowing free exports and imports of goods and capital, long-term as well as short-term. The free flow of capital is closely linked with the idea of attracting direct private foreign investment. But due to the present political situation in South-east Asia, can Malaysia afford to continue as an 'open economy' and rely on the inflow of direct private foreign investment for.development. The open economy concept was valid in the[16] era of the gold standard and in the era of free international trade. According to Lewis, 'the great era of private international lending ended in 1929. Before this, foreign Government could borrow in the capital markets from private lenders, but now if Government are to borrow, they have mainly to borrow from other Governments'.[17]

Today, even the richer and developed countries do not accept the policy of free entry of imports to avoid balance of payment problems. Malaysia, on the other hand, allows free imports not only of necessities but also of luxuries which only a small majority of the population can afford at the expense of basic items necessary for industrialization. What Malaysia should do is to have a planned pattern of imports relevant to establish priorities and basic needs which could save foreign exchange for importing capital equipment for industrial development and the training of personnel overseas.[18] Malaysia also promises unrestricted repatriation of profits and capital. According to Wheelwright, this outflow of capital and profits is quite large. "The net outflow for the five years 1957-1961, \$3,018 millions was only slightly less than the total public investment under both the first and second 5 year plans (\$1,007 millions + \$2,150 millions = \$3,157 millions). If the Government has been able to tap only one-third of the private outflow and its

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[16] Syed Waseem Ahmed, op.cit.,p.S19.

[17] W.A. Lewis, 'Theory of Economic Development', p.262.

[18] Syed Waseem Ahmed, op.cit., p.S21.

own outflow it would have been able to marshall $1,358 million for internal investment which would have increased domestic capital formation by 50% over the period 1957-1961."[19] So what Malaysia should do is not nationalisation or a complete close economy without any free repatriation of capital and profits but some sort of control on the outflow of capital by making the economy less open. Foreign capital should be encouraged through Government sources by raising loans in the international market while at the same time the outflow of profits and flight of long-term capital should be controlled.

Labour-Intensive Factories

In the I.B.R.D. Report 1955, it advised that "there is no question of the Government itself embarking on direct operation of manufacturing industries nor do we consider that such a policy would be wise."[20] This advice was adopted by the Government and even in the Investment Incentives (Relief from Income Tax) Act 1968, the Government's initiative was limited in offering incentives and assiting in the setting up of pioneer factories. Of course the Government also see to it that a healthy investment climiate is present. Thus private initiative is the key to Malaysia's industrial growth, the result being a slow rate of industrial growth in the pioneer sector and even in the manufacturing sector on the whole.

What is needed is not that the private investors to play the key role but that the Government should play the key role in industrialization. This is especially true for an economy like Malaysia where characteristics of a developing nation is still present. For example, the features of unemployment, under-employment and disguised unemployment are present in this country. Hence the Government's role in encouraging the establishment of labour-intensive factories is well credited. But does this actually work out? For a factory to be labour-intensive or capital-intensive in Malaysia is up to the private initiative of the industrialists and hence Government has little choice in influencing it. Most modern industries are capital-intensive especially when established by overseas enterprises from advanced countries which are used to high labour cost. In many cases there is no choice as the capital-intensive equipment is dictated by the nature of the technology. Another reason why industries today in Malaysia is generally capital-intensive other than labour-intensive is because of the relatively higher wages in Malaysia as compared to other Asian countries. Thus labour-intensive techniques on a large-scale is not possible as in India, Pakistan or Indonesia.[21] The Government has to give serious consideration to the deliberate establishment of labour-intensive industries in certain appropriate sectors protecting them by suitable fiscal devices. Such

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[19] E.L. Wheelwright, op.cit., p.106.

[20] I.B.R.D. Report 1955, 'Economic Development of Malaya', p.122.

[21] Syed Waseem Ahmed, op.cit., p.S19.

sectors need not necessarily be regarded as permanent features of the economy but could, under a suitably arranged plan, gradually give way to more capital-intensive production as opportunities offer.

Selectivity of Industries

Earlier it was mentioned that there was no inter-industrial relations so that the output of one was not the input of another. It may be concluded here that the incentive measures which have been introduced so far have not lend themselves to the application with a sufficient degree of selectivity. It would appear that not only is the size of the local market for various products but also the justification for certain industries eligible for certification as pioneer industries as highly questionable. For one thing, the 146 pioneer firms operating in 1968 were engaged in productive activities spread out over a wide variety of more than 400 items, the inter-relation of which was insignificant. Another fault is the indiscriminate granting of pioneer certificates. In certain industries there are many pioneer firms manufacturing the same products mostly for the purpose of capturing the domestic market even when the domestic market is small. Wheelwright in this aspect pointed out that "In almost every case one firm could produce sufficient for the entire internal market, working on a three-shift basis, so maximizing the productivity of expensive capital equipment and minimizing unit cost of production. Instead of this the result is too often that each firm has considerable excess capacity produces at a higher unit cost and dissipates much of its energy and resource in wasteful advertising."[22] It can easily be visualized that production of many items necessarily took place much below the minimum economic value which made it difficult for the industries concerned to reap the benefit of mass production and standardization. For another thing, companies engaged in such minor items as ice-cream, brushes and mops, paper bags, to mention only a few, receiving pioneer status are the most obvious illustration of the weakness of the selective application of investment criteria.

Slow Growth Industries

There are some coincidental circumstances that led to the development of slow growth rate industries. In the first place, as mentioned earlier, most of the present industries are in the urban areas or near urban areas where the labour force is. New industries benefitted from this by establishing more labour-intensive methods of production they so desire. Incidentally this development was also very much in line with the Government's policy of favouring industries which are labour-intensive so as to alleviate the existing under-employment and unemployment pressure. On the other hand, the motivation underlying the domestic market orientation of almost all new foreign companies formed another important element towards the growing importance of slow growth industries. Without under-rating the tremendous benefits provided by foreign undertakings, particularly in terms of technical and managerial skills which Malaysia could not have acquired quickly otherwise, it appears that the establishment of foreign firms was generally based on consideration

[22] E.L. Wheelwright, op.cit. pp.113-114.

of conserving the position of the parent company and the like in the domestic market or to forestall competition from other countries rather than to venture into manufacturing which could have helped towards greater and substantial diversification. To remedy this, the Government should again encourage them not only to cater for the limited domestic market but to encourage or influence them to have export-orientation in their minds rather the just import-substitution.

Export Processing Zone

With the export incentives incorporated into the latest Investment Incentives Act 1968, the Government should go one step further in order to promote more export-orientated industries. The setting up of an 'Export Processing Zone' (E.P.Z.), a bounded area, should be able to fulfill this aim. In other words, only factories with the capacity to export all or most of its products are entitled to establish a factory in this Zone. Any movement of its goods out of this Zone into the domestic market will have to go through the normal import restrictions, duties and taxes.

The benefits offered by this Zone include no import duties for machinery and equipment. Raw materials, parts and semi-finished goods are also free of import restrictions, duties and taxes. If the company is declared a pioneer company, the incentives allowed will also be given. In other words, all the incentives offered by the Investment Incentives Act 1968 will be given if the company has met the conditions. Additional incentives will be offered to those who establish their factories in the E.P.Z. Other benefits to be derived include those that are being offered by industrial estates. The difference is that this E.P.Z. should be in an area near the main ports where transportation and warehousing facilities will be available. The E.P.Z. like a satellite town, will have its own bank, post office, telecommunication office, employment centre and a shipping and airline offices. All these are catered for export purposes.

By setting up such a Zone, Malaysia's raw materials if needed by these factories will be demanded. The employment capacity of these factories is also an important benefit to be derived. Although there is no export duties, there is the normal company tax and development tax unless the company concerned is a pioneer company. Those who establish factories in this Zone will be mostly foreign concern with an already established Asian market for their products. Their main aim in establishing their factories in this Zone is because of the facilities offered by this Zone and Malaysia, which will result in them producing goods of a much lower cost than producing the same product in their home country.

Industrial Development Corporation (I.D.C.)

Finally, the Government should establish an I.D.C. as soon as possible. Though the I.D.C. is responsible to the Government, this body should operate independently without the interference of the Government as much as possible in all matters. This Corporation should be separated and distinct from MIDF as MIDF is primarily a financial institution considering applications for laons and other assistance. The I.D.C. is different from FIDA only in the sense that FIDA is essentially a co-ordinating body which can make recommendations but cannot act directly and undertake projects. The Corporation should be in a position to initiate and establish projects and support industries which have not attracted private interest. This could later be thrown open to local private interest. The Corporation should also act as a management agency to assist those industries that lack such management and technical expertise as much as possible.

A project the Corporation decides to undertake should automatically receive pioneer status and all the other facilities and investment available if the conditions necessary for becoming a pioneer industry are satisfied. This will save valuable time and frustration. The I.D.C. should also have first priority in obtaining sites for its projects and need not go through the various time-wasting channels like the State departments. The Corporation should actually canvass for foreign investment abroad and especially when the Corporation has the full backing of the Government. In other words, what the I.D.C. should be is that as a catalyst in launching industrial projects at a faster pace than what are being done by FIDA.

Conclusion

Though much have been mentioned about the industrialization process in Malaysia, one must not forget that agriculture is still the most important sector in Malaysia. Agriculture is the greatest source of employment, production and income. The agriculture sector is not only a source of food but also a source of investment capital and raw materials required by part of the industrial sector. Industries have to rely on the export of agricultural products in exchange for the needed equipment and supplies and also must look in the rural population in marketing of their products. Nevertheless the agricultural sector has its problems. Population and land pressures in the rural areas result in low productivity and surplus labour. The reliance on one or two crops have resulted in the Government in initiating an 'agricultural diversification' drive. Apparently, since Malaysia had neither the extreme wealth of natural resources nor the large domestic market needed for the development of domestic industries earlier, the planners seemed to be faced with no other choice but to develop the economy via export expansion of the existing primary products. The result was a concentrated drive between the public and private sector to create the necessary capital formation of achieving this purpose.

Meanwhile, another method of easing the land and unemployment problem in the rural areas and to help the balance of payment difficulties is by the industrialization process and hence the establishment of the industrial pioneer sector. There is one big danger however, which happened in many a developing nation like Malaysia having the usual agricultural problems and like Malaysia, resorting to industrialization as a tool to higher economic and social welfare. These developing nations, impatient for economic progress and social well-being, have tended to over emphasize the role of industrialization at the expense of its agricultural sector. This resulted in the forgotten role of the

Government to its agricultural sectors. Hence when the industrialization process failed due to faulty and hasty planning, the agricultural sectors were not able to back up the nations as before due to the neglect of these sectors by the Government. Consequently, these nations were worst off than before the industrialization programme started. So far, this has not happened in Malaysia as the Government is developing the industrial and agricultural sector in a well-co-ordinated manner. Industrialization and agricultural diversification are the present two main efforts of the Government.

However, the industrial process in the past has been slow and was not what it was desired to be. This new sector has haredly brought about any marked improvement in the industrial base on the whole. So far most of the industries especially pioneer industries have been concentrated in production of small quantities of light non-durable consumers' products for the doemstic market only. In other words, the industrial development has been mainly orientated towards import-replacement only and geared largely to the final stages of the production process. Inter-industrial relationship are very weak so that the industrial entity cannot exert much dynamic impact on the economy. The dependency on imports of industrial goods instead of lessening has been growing.

Meanwhile, the industrial entrepreneur class has been growing apace and there is a growing tendency for more capital to be shifted from small trading activities or even large trading activities into industrial manufacturing. There are some clear indications of the changing pattern of industrial development. The domestic industrial base will be substantially broadened now that Malaysia first integrated iron and steel plant has been completed. Other relatively large plants are either nearing completion and under construction or the preparatory work for them is at an advanced stage. These include plants for manufacturing of caustic soda, chlorine and insecticides, sulphuric acid, electrical appliances and various metal and engineering products. The day will come when Malaysia's pioneer and non-pioneer sectors will manufacture capital equipment for industries and hence the import of capital equipment will decrease.

At present Malaysia's most light industries, for example, agricultural product processing, textiles, plastic, simple machinery and electrical appliances and other consumer goods, initially intended for import-replacement now emerge themselves to gradually become export industries as they grow and expand. The cement industry is an excellent example. Initially it was established just to cater for the domestic market but now they export to the nearby Asian countries. It is not until that the Government move forward and planned for the development of more sophisticated heavy industries like heavy machinery that the industrial sector will continue to be slow.

With this brief analysis of the industrial sector, the important question is, should the pioneer industries programme be continued or terminated can be answered. In other words, what are the future prospect and possibilities of the pioneer sector? To answer this question, the inevitable controversy arises regarding the pioneer status programme: Should the tax exemption incentive be scrapped? We shall see the pros and cons of this 'tax holiday' system first and then go on to see if the pioneer sector should be continued.

One of the arguments against the 'tax holiday' treatment is that this system will result in a loss of vital revenue for the Government especially when the economy depends greatly in this revenue to develop its economy. This may be true in the short-run but in the long-run the reverse is ture. In the long-run these pioneer firms when solidly established, generate more revenue than that lost through the exemption. Even when during the tax exemption period revenue can be collected through secondary means such as taxes paid by workers who would otherwise be unemployed. Hence this argument is only valid if we think in terms of the short-run but not in the long-run when the 'tax holiday' period expires. Some say that this incentive is unfair to certain industries. This system will enable the pioneer industries to have a stronger position in the market as the income tax or company tax has always been one of the main concern of profit making enterprises. This is however quite true. Another objection expressed by the Rueff Report[23] is that the establishment of pioneer industries tends to introduce a bias in favour of manufacture of new products rather than the expansion of existing production. This is not the case with Malaysia as pioneer status is granted not only to new industries but also to existing ones which are considered important enough to the economy to be given the pioneer status and hence helping them to develop further.[24]

Whereas one can argue that the income tax exemption acts as an incentive because it reduces the risks involved and hence getting a quicker return of their investment. Or it can be argued that this tax exemption is a reward to those industrialists who risk their investment in Malaysia, a developing nation in an area (South-east Asia) full of unpredicted troubles, both internal as well as external. If the tax exemption is not offered, it won't be surprising if there are much fewer pioneer firms set up than at present because of the risks involved and moreover most developing nations in Asia do offer this incentive and hence Malaysia needs to do the same. It has been considered that this incentive itself is an incentive for pioneer companies to invest in long-term projects where the return of capital invested takes a long time. With the tax exemption, it also enables the pioneer firm to re-invests its profits into the company and hence expands the size of its production capacity.

Having seen the pros and cons of the tax exemption incentive, should the pioneer industries programme be continued can be answered because those who are against the pioneer industries programme are mainly because they are against the introduction of the tax exemption to pioneer companies. The writer here feels that there is no doubt that the programme should be continued and no question of stopping it as far as in the present and in the near future is concerned. But the writer feels

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[23] Rueff Report, <u>op.cit.</u>, p.3.

[24] <u>Investment Incentives Act 1968</u> - Part 2 (Section 3(1)).

that several actions of the Government needs changes in order to bring about a greater and faster rate of industrial development. These changes or recommendations are those mentioned in the earlier part of this chapter.

As far as the present stage of economic development is concerned there is no doubt that the pioneer incentives are needed to accelerate a faster rate of expansion in the pioneer and non-pioneer sector. Malaysia has yet to reach the stage of self-sustained economic growth and as long as this is yet to be reached there is every reason for the continuation of the pioneer investment programme.

It is appropriate to summarise the whole study with a heed to Silcock's warning regarding the industrial development of Malaya. He said:

"The major obstacles to accelerate industrialization are political, social and ideological. The major requirements for such a programme are the willingness and ability to devise and implement industrial planning technique suitable to the Malayan environment, the willingness to provide as large an internal market as possible for industrial products by various fiscal and other devices and the creation and organization of appropriate units of industrial production which may be public, private and a mixture of both. The biggest single scarce resource is the all-important managerial cadre in Government, private and public enterprise and in its selection, training and development, the Government cannot afford to discriminate on any grounds other than ability if it is to meet the challenge it faces in the years ahead."[25]

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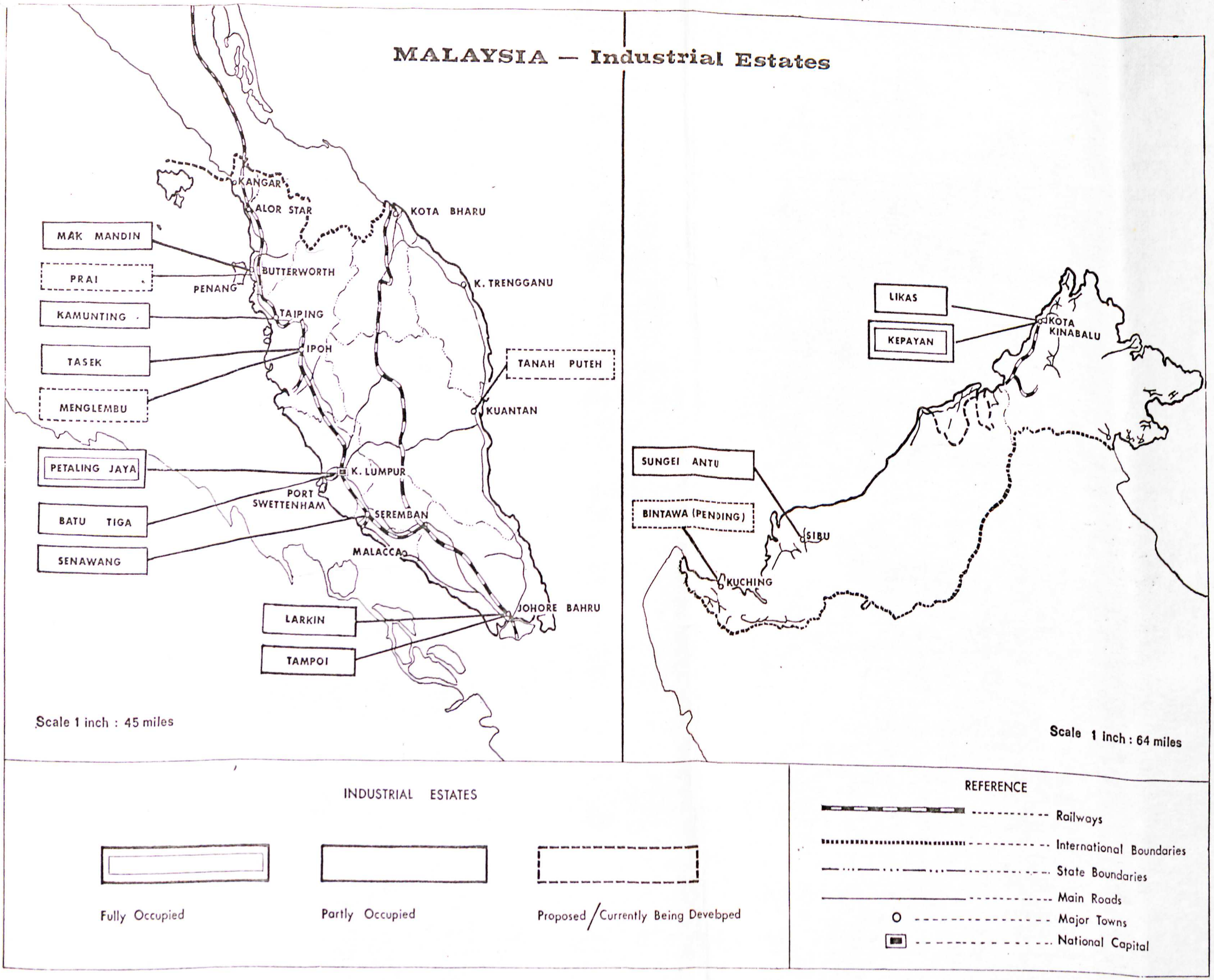
[25] T.H. Silcock and E.K. Fisk, Political Economy of Independent Malaya, p.241.

Appendix I

IMFORMATION ON INDUSTRAIL ESTATES:



APPENDIX II

MALAYSIA: TAXATION

1. The Company Tax	- Companies are liable for income tax at the flat rate of 40% on their gross profits.
2. Development Tax	- 5% of development income from any trade, business, profession or vocation including rent from the letting of properties situated in Malaysia. Salaries, wages, pensions, dividends and interests are not liable to development tax if they do not form an integral part of the income of any trade, business, profession or vocation.
3. Payroll Tax	- 2% of the payroll of the employer per month where such payroll exceeds $500 in total.
4. Surtax	- Surtax of 2% payable for most goods imported into the Federation. Some imported goods are however exempted from the tax.
5. Personal Income Tax	- At a minimum rate of 6% for the first $2,500 of chargeable income to a maximum of 50% in excess of $50,000 of chargeable income. An abatement of 30% in respect of each rate shall be allowed for individuals resident in East Malaysia.
6. Depreciation Allowances	- Deductions in respect of capital expenditure are given:
a) Buildings used as factories and for certain other industrial or commercial purposes.	- initial allowance - 10% - annual allowance - 2%
b) Plant and machinery	- initial allowance - 20% of cost. Annual allowances at prescribed rates on a reduction value of the asset.

APPENDIX III

SCHEDULE SHOWING THE INVESTMENT OF PIONEER COMPANIES (AS AT 31st DECEMBER 1968)

Types of Industries / Types of Capital	Nominal Capital	Called-up Capital	Local Called-up Capital	Foreign Called-up Capital	Loan Capital	Local Loan Capital	Foreign Loan Capital	Total Capital Invested	Total Local Capital Invested	Total Foreign Capital Invested
1. Food Manufacturing Industries										
Manufacture of Dairy Products (3)	$ 43.0M	$14,500,002.00	$ 3,000,001.00	$11,500,001.00	-	-	-	$14,500,002.00	$ 3,000,001.00	$11,500,001.00
Canning and Preserving of Food Preparations (3)	$ 2.5M	$ 700,000.00	$ 455,000.00	$ 245,000.00	$ 1,219,457.08	-	$ 1,219,457.08	$ 1,919,457.08	$ 455,000.00	$ 1,464,457.08
Grain Milling (3)	$ 20.0M	$15,500,000.00	$ 2,337,000.00	$13,163,000.00	$ 7,369,714.00	$3,017,143.00	$ 4,352,571.00	$22,869,714.06	$ 5,354,143.00	$17,515,571.00
Sugar Manufacturing and Refinery (2)	$ 35.0M	$ 7,060,000.00	$ 4,660,000.00	$ 2,400,000.00	$ 4,124,287.00	-	$ 4,124,287.00	$11,184,287.00	$ 4,660,000.00	$ 6,524,287.00
Manufacture of Miscellaneous Food Preparations (7)	$ 25.5M	$ 5,050,204.00	$ 982,204.00	$ 4,068,000.00	$ 3,370,424.00	$1,846,535.00	$ 1,523,889.00	$ 8,420,628.00	$ 2,828,739.00	$ 5,591,889.00
	$134.0M	$42,810,206.00	$11,434,205.00	$31,376,001.00	$16,083,882.08	$4,863,678.00	$ 11,220,204.08	$58,894,088.00	$16,297,883.00	$42,596,205.08
2. Beverage Industries										
Distilling, Refining and Blending of Spirits (1)	$ 5.0M	$ 865,000.00	$ 865,000.00	-	-	-	-	$ 865,000.00	$ 865,000.00	-
Brewing and Malting (2)	$ 90.0M	$20,000,000.00	$15,959,000.00	$ 4,041,000.00	--	-	-	$20,000,000.00	$15,959,000.00	$ 4,041,000.00
	$ 95.0M	$20,865,000.00	$16,824,000.00	$ 4,041,000.00	-	-	-	$20,865,000.00	$16,824,000.00	$ 4,041,000.00
3. Manufacture of Textiles										
Spinning, Weaving and Finishing of Textiles (4)	$ 20.0M	$12,900,005.00	$ 1,566,670.00	$11,333,335.00	$ 4,441,565.30	$3,980,769.30	$ 460,796.00	$17,341,570.30	$ 5,547,439.30	$11,794,131.00
Knitted Textile Goods (2)	$ 2.0M	$ 1,167,150.00	$ 317,000.00	$ 850,150.00	$ 131,153.66	$ 131,153.66	-	$ 1,298,303.66	$ 448,153.66	$ 850,150.00
Manufacture of Textiles (1)	$ 10.0M	$ 1,150,000.00	$ 110,000.00	$ 1,040,000.00	-	-	-	$ 1,150,000.00	$ 110,000.00	$ 1,040,000.00
	$ 42.0M	$15,217,155.00	$ 1,993,670.00	$13,223,485.00	$ 4,572,718.96	$4,111,922.96	$ 460,796.00	$19,789,873.96	$ 6,104,592.96	$13,685,281.00
4. Manufacture of Footwear, Other Wearing Apparel and Made-up Textile Goods										
Manufacture of Wearing Apparel other than Footwear (3)	$ 3.0M	$ 20,000.00	$ 17,000.00	$ 3,000.00	-	-	-	$ 20,000.00	$ 17,000.00	$ 3,000.00
Manufacture of Made-up Textile Goods other than Wearing Apparel (1)	$ 8.0M	-	-	-	-	-	-	-	-	-
	$ 11.0M	$ 20,000.00	$ 17,000.00	$ 3,000.00	-	-	-	$ 20,000.00	$ 17,000.00	$ 3,000.00
5. Manufacture of Wood, Rattan, Timber and Cork Product Except Furniture and Fixture										
Saw-milling, Plane Milling and other Wood Product Manufacturing (8)	$ 34.0M	$ 5,288,970.00	$ 5,243,220.00	$ 45,750.00	$ 3,302,541.75	$ 2,902,541.76	$ 400,000.00	$ 8,591,511.78.	$ 8,145,761.78	$ 445,750.00
6. Manufacture of Furniture and Fixture										
Manufacture of Household, Office and	$ 2.8M	$ 166,000.00	$ 20,000.00	$ 146,000.00	$ 130,797.50	$ 125,000.00	$ 7,297.50	$ 296,797.50	$ 143,500.00	$ 153,297.50
								$ 2,400,000.00	$ 2,400,000.00	-

Types of Industries \ Types of Capital	Nominal Capital	Called-up Capital	Local Called-up Capital	Foreign Called-up Capital	Loan Capital	Local Loan Capital	Foreign Loan Capital	Total Capital Invested	Total Local Capital Invested	Total Foreign Capital Invested
8. Printing, Publishing and Allied Industries										
Job Printing, Book Binding and Printing Services (1)	$ 750,000.00	$ 750,000.00	$ 750,000.00	-	$ 422,876.86	$ 384,375.00	$ 38,501.86	$ 1,172,876.86	$ 1,134,375.00	$ 38,501.86
9. Manufacture of Leather and Fur Products Except Footwear and Wearing Apparel (1)	$ 1,000,000.00	$ 747,600.00	-	-	-	-	-	$ 747,600.00	$ 747,600.00	-
Processing of Hairs, Bristles and Fibre (1)	$ 1,000,000.00	$ 500,200.00	$ 500,200.00	-	-	-	-	$ 500,200.00	$ 500,200.00	-
	$ 2,000,000.00	$ 1,247,800.00	$ 1,247,800.00	-	-	-	-	$ 1,247,800.00	$ 1,247,800.00	-
10. Manufacture of Rubber Products										
Manufacture of Retreading and Vulcanising of Tyres and Tubes (3)	$112,000,000.00	$12,000,000.00	$ 5,880,000.00	$ 6,120,000.00	$ 7,000,000.00	$ 7,000,000.00	-	$19,000,000.00	$12,880,000.00	-
11. Manufacture of Chemical and Chemical and Chemical Products										
Manufacture of Industrial Chemicals (6)	$129,600,000.00	$38,550,000.00	$15,907,000.00	$22,643,000.00	$14,995,982.00	$ 9,853,125.00	$ 5,142,857.00	$53,545,982.00	$25,760,125.00	$27,785,857.00
Manufacture of Paints and Lacquer (6)	$ 29,000,000.00	$ 8,015,440.00	$ 1,284,540.00	$ 6,730,900.00	$ 395,870.00	$ -	$ 395,870.00	$ 8,411,310.00	$ 1,284,540.00	$ 7,126,770.00
Miscellaneous Chemical Products (20)	$ 38,800,000.00	$12,572,412.00	$ 4,879,422.00	$ 7,692,990.00	$ 3,904,625.03	$ 824,796.40	$ 3,079,828.63	$16,477,037.03	$ 5,704,218.40	$10,772,818.63
	$197,400,000.00	$59,137,852.00	$22,060,962.00	$37,076,890.00	$19,296,477.03	$10,677,921.40	$ 8,618,553.63	$78,434,329.03	$32,738,883.40	$45,695,445.63
12. Manufacture of Production of Petroleum and Coal										
Petroleum Refining Industry (2)	$200,000,000.00	$92,000,000.00	$30,254,428.00	$61,745,572.00	$45,121,366.00	$17,500,000.00	$27,621,366.00	$137,121,366.00	$47,754,428.00	$85,366,938.00
Manufacture of Miscellaneous Production of Petroleum (and Coal) (3)	$ 5,300,000.00	$ 1,284,929.00	$ 168,001.00	$ 168,001.00	$ 40,000.00	$ 40,000.00	-	$ 1,324,929.00	$ 1,158,928.00	$ 168,001.00
	$205,300,000.00	$93,284,929.00	$31,371,356.00	$61,933,573.00	$45,161,366.00	$17,540,000.00	$27,621,366.00	$138,446,253.00	$48,911,356.00	$85,534,939.00
13. Manufacture of Non-metallic Mineral Production Except Petroleum Production										
Manufacture of Structural Clay Product (2)	$ 6,000,000.00	$ 1,000,000.00	$ 1,000,000.00	-	$ 500,000.00	$ 500,000.00	-	$ 1,500,000.00	$ 1,500,000.00	-
Manufacture of Glass and Glass Product (1)	$ 2,000,000.00	$ 250,000.00	$ 250,000.00	-	-	-	-	$ 250,000.00	$ 250,000.00	-
Manufacture of Concrete and Cement Products (3)	$ 16,000,000.00	$ 7,000,000.00	$ 6,317,000.00	$ 683,000.00	-	-	-	$ 7,000,000.00	$ 6,317,000.00	$ 683,000.00
Miscellaneous Non-metallic Products (1)	$ 1,000,000.00	$ 361,600.00	$ 178,800.00	$ 183,000.00	-	-	-	$ 361,600.00	$ 178,600.00	$ 183,000.00
	$ 25,000,000.00	$ 8,611,600.00	$ 7,745,600.00	$ 866,000.00	$ 500,000.00	$ 500,000.00	-	$ 99,111,600.00	$ 8,245,600.00	$ 866,000.00
14. Basic Metallic Industries										
Manufacture of Primary Iron and Steel (1)	$250,000,000.00	$21,741,500.00	$ 6,502,500.00	$15,239,000.00	$24,012,323.00	-	$24,012,323.00	$ 45,753,823.00	$ 6,502,500.00	$39,251,323.00
Manufacture of Other Iron and Steel Basic Industries (3)	$ 6,500,000.00	$ 900,000.00	$ -	-	$ 175,000.00	$ 175,000.00	-	$ 1,075,000.00	$ 1,075,000.00	-
	$ 10,000,000.00	$ 3,401,574.00	-	$ 2,801,574.00	$ 2,752,229.00	$ 1,700,000.00	$ 1,052,229.00	$ 6,153,803.00	$ 1,700,000.00	$ 4,453,803.00
Non-Ferrous Metal Rolling and Casting					[illegible]	$ 1,875,000.00	$25,864,552.00	$ 53,582,862.00	$ 9,877,736.00	$43,705,126.00

Types of Industries \ Types of Capital	Nominal Capital	Called-up Capital	Local Called-up Capital	Foreign Called-up Capital	Loan Capital	Local Loan Capital	Foreign Loan Capital	Total Capital Invested	Total Local Capital Invested	Total Foreign Capital Invested
15. Manufacture of Metal Products Except Machinery and Transport Equipment										
Manufacture of Agricultural Metal Products (4)	$ 11,250,000.00	$ 1,260,000.00	$ 1,015,000.00	$ 245,000.00	-	-	-	$ 1,260,000.00	$ 1,015,000.00	$ 245,000.00
Manufacture of Wire and Wire Products (2)	$ 750,000.00	$ 366,000.00	$ 366,000.00	-	-	-	-	$ 366,000.00	$ 366,000.00	-
Manufacture of Stamped, Pressed and Coated Metal Products (9)	$ 25,700,000.00	$ 7,457,300.00	$ 6,878,300.00	$ 579,000.00	$ 10,000.00	$ 10,000.00	-	$ 7,467,300.00	$ 6,888,300.00	$ 579,000.00
Manufacture of Metal Product Services (1)	$ 2,000,000.00	$ 1,000,000.00	$ 510,000.00	$ 490,000.00	$ 200,000.00	$ -	$ 200,000.00	$ 1,200,000.00	$ 510,000.00	$ 690,000.00
	$ 39,700,000.00	$ 10,083,300.00	$ 8,769,300.00	$ 1,314,000.00	$ 210,000.00	$ 10,000.00	$ 200,000.00	$ 10,293,300.00	$ 8,779,300.00	$ 1,514,000.00
16. Manufacture of Machinery Except Electrical Machinery										
Manufacture of Office, Commercial and Household Machinery (1)	$ 3,000,000.00	$ 810,000.00	$ 180,000.00	$ 630,000.00	-	-	-	$ 810,000.00	$ 180,000.00	$ 630,000.00
Manufacture of Refrigerating, Exhaust, Ventilating & Air Conditioning Machinery (2)	$ 5,500,000.00	$ 1,800,000.00	$ 650,000.00	$ 1,150,000.00	-	-	-	$ 1,800,000.00	$ 650,000.00	$ 1,150,000.00
	$ 8,500,000.00	$ 2,610,000.00	$ 830,000.00	$ 1,780,000.00	-	-	-	$ 2,610,000.00	$ 830,000.00	$ 1,780,000.00
17. Manufacture of Electrical Machinery, Apparatus, Appliances and Supplies										
Manufacture of Dry Cells Batteries and related articles (2)	$ 6,500,000.00	$ 3,100,000.00	$ 768,000.00	$ 2,332,000.00	-	-	-	$ 3,100,000.00	$ 768,000.00	$ 2,332,000.00
Manufacture of Repair of Electrical Appliances (3)	$ 22,000,000.00	$ 3,975,000.00	$ 2,164,600.00	$ 1,810,400.00	$ 1,334,409.00	$ 150,000.00	$ 1,184,409.00	$ 5,309,409.00	$ 2,314,600.00	$ 2,994,809.00
Manufacture of Miscellaneous Electrical Apparatus (3)	$ 20,000,000.00	$ 5,684,990.00	$ 1,429,227.00	$ 4,255,763.00	$ 1,076,797.00	$ 303,754.00	$ 773,043.00	$ 6,761,787.00	$ 726,981.00	$ 5,028,806.00
	$ 48,500,000.00	$ 12,759,990.00	$ 4,351,827.00	$ 8,408,163.00	$ 2,410,206.00	$ 453,754.00	$ 1,956,452.00	$ 15,170,196.00	$ 4,805,581.00	$ 10,364,615.00
18. Manufacture of Transport Equipment										
Manufacture of Motor-cycles and Bicycles (1)	$ 2,000,000.00	$ 400,000.00	$ 400,000.00	$ -	$ 370,691.19	$ 370,691.19	-	$ 770,691.19	$ 770,691.19	-
19. Miscellaneous Manufacturing Industries										
Manufacture of Plastic Products (8)	$ 7,900,000.00	$ 2,066,500.00	$ 1,977,100.00	$ 89,400.00	$ 671,014.46	$ 635,382.73	$ 35,631.63	$ 2,737,514.46	$ 2,612,482.93	$ 125,031.53
Manufacture of Professional, Scientific (Engineering and Controlling) Equipment and Surplus (2)	$ 1,310,000.00	$ 310,000.00	$ -	$ 310,000.00	-	-	-	$ 310,000.00	$ -	$ 310,000.00
Other Miscellaneous Manufacturing Industries (2)	$ 2,000,000.00	$ 640,000.00	$ 366,000.00	$ 280,000.00	$ 160,000.00	$ 160,000.00	-	$ 800,000.00	$ 520,000.00	$ 280,000.00
	$ 11,210,000.00	$ 3,016,500.00	$ 2,343,100.00	$ 679,400.00	$ 831,014.46	$ 795,382.73	$ 35,631.63	$ 3,847,514.46	$ 3,132,482.93	$ 715,031.53
20. Recreation Services, Motion Picture Production (Distribution and Projection) (1)	$ 500,000.00	$ 500,000.00	$ 500,000.00	$ -	-	-	-	$ 500,000.00	$ 500,000.00	-
21. Theatres and Other Related Services (1)	$ 2,000,000.00	$ 300,000.00	$ 300,000.00	-	$ 122,883.43	$ 122,883.43	-	$ 422,883.43	$ 422,883.43	-
Grand Total (142 companies)	$1,232,160,000.00	$317,512,376.00	$131,888,540.00	$185,613,836.00	$127,356,003.96	$ 52,200,936.30	$ 75,155,067.60	$444,868,379.96	$184,099,476.30	$260,768,903.60

Source: Extracted from FIDA's Monthly Investment Report.

Note: 1. One company ceased production but the figures are retained for several purposes.

2. Some of the investment figures are not available, thus total figure is underestimated.

indicate number of companies under that industry.

APPENDIX IV

ALPHABETICAL INDEX OF PIONEER COMPANIES
(AS AT 31ST DECEMBER 1968)

Name of Company	Sources of Capital	Industrial Groupings
Ajinomoto (M) Ltd.	Japan	1
Alcan M'yan Aluminium Co. Ltd.	Canada, Switzerland, Malaysia	14
Allied Malayan Development Sdn. Bhd.	(no data available)	4
Asia Chemical Corporation Ltd.	Malaysia	1
Asphalts and Allied Products (M) Ltd.	Malaysia	12
A.S. Watson Co. Ltd.	United States, Malaysia	11
Beecham (Manufacturing) Ltd.	Hong Kong	11
Brady's (M) Ltd.	Australia, Malaysia	13
Boon and Cheah Steel Pipes Ltd.	Malaysia	14
Blood Protection Co. (M) Ltd.	Hong Kong, Malaysia	11
Carrier International (M) Ltd.	United States	16
Cement Aids Ltd.	Australia, Malaysia	11
Century Batteries (M) Ltd.	Australia, Malaysia	17
Chemical Company of Malaysia Ltd.	United Kingdom, Malaysia	11
Chemical Industries (M) Ltd.	Malaysia	2
Colgate Palmolive (Asia) Co. Ltd.	Canada, United States, United Kingdom	11
Colgate Palmolive (F.E.) Ltd.	Canada, United States	11
Coloreem Ltd.	Hong Kong, Malaysia	11
Crittall Malaya Ltd.	United Kingdom, Malaysia	15
C.E. Clements (SEA) Sdn. Bhd.	Australia, Malaysia	1

Name of Company	Sources of Capital	Industrial Groupings
Din Wai Electrical Manufacturing Co. Ltd.	Hong Kong, Malaysia	17
Dumex Ltd.	Denmark	11
Dunlop Malayan Industries Ltd.	United Kingdom, Malaysia	10
Dunlop Malayan Industries Ltd.	(no data available)	10
Dunlop Earthmowers Tyres Ltd.	(no data available)	10
Eastern Gourmet Manufacturing Co, Ltd.	(no data available)	4
Electrical and Allied Industries Ltd.	United Kingdom, Malaysia	16
Esso Standard (M) Ltd.	(no data available)	11
Esso Standard (M) Ltd.	United States, Malaysia	12
Far East Metal Works Ltd.	Malaysia	18
Federal Flour Mills Ltd.	Australia, Malaysia	1
Federal Industries Ltd.	United Kingdom, Hong Kong, Malaysia	3
Federal Iron Works Ltd.	Japan, Malaysia	15
Federal Metal Printing Ltd.	Malaysia	15
Federal Paints Factory Ltd.	Indonesia, Malaysia	11
Federal Plastics Industries Ltd.	Malaysia	19
Federal Tile Manufacture Ltd.	Malaysia	13
Ferranti Ltd.	United Kingdom	19
Food Specialities Malaya Ltd.	Bahamas	1
Franco-Malayan Manufacturing Co. Ltd.	Malaysia	11
Freezinghot Bottle Co. (M) Ltd.	Hong Kong, Malaysia	15
General Container Co. Ltd.	Malaysia	15
Glaxo-Allenburys (M) Ltd.	United Kingdom	11
Goodhill Ltd.	Hong Kong, Malaysia	3
Goodmeal Biochemical Manufacturing Ltd.	United Kingdom	1

Name of Company	Sources of Capital	Industrial Groupings
Gilani Jute and Textile Mills (M) Ltd.	(no data available)	4
Guinness Malaysia Ltd.	U.K., Brunei, Australia, Gibraltar, Malaysia	2
Hock Joo (Bolts and Nuts) Factory Ltd.	Malaysia	15
Hume Industries (M) Ltd.	Malaysia	13
I.C.I. Paints (M) Ltd.	United Kingdom	11
Insulations Malaya Ltd.	Malaysia	5
J. & J. Ho (Malaya) Ltd.	Thailand, Malaysia	11
Job & Henshaw Ltd.	Hong Kong, Thailand, Malaysia	17
Johnson & Johnson (M) Ltd.	Hong Kong, Malaysia	11
Kayar (M) Ltd.	Malaysia	9
Kelantan Match Factory Ltd.	Malaysia	11
Khinco Ltd.	(no data available)	6
K.L. Metal Printing Factory Ltd.	Malaysia	15
King Musical Industries Ltd.	Malaysia	21
Lam Soon Corporation Co. Ltd.	Malaysia	11
Lion Dentifrice (M) Ltd.	Japan, Malaysia	11
Lison Co. Ltd.	Malaysia	19
Liton Industries (M) Ltd.	Malaysia	19
Malaya Acids Works (Alum) Ltd.	Malaysia	11
Malaya Acid Works Ltd.	United Kingdom, Malaysia	11
Malaya Acid Works (Formic) Ltd.	Hong Kong, Malaysia	11
Malaya Glass Factory Ltd.	Malaysia	13
Malaya Leather Co. Ltd.	Malaysia	9
Malaya Plywood & Veneer Factory Ltd.	Malaysia	5
Malayan Aluminiumware Manufacturing Co.Ltd.	Hong Kong	15

Name of Company	Sources of Capital	Industrial Groupings
Malayan Bitumen Products (M) Ltd.	Malaysia	12
Malayan Breweries (M) Ltd.	Malaysia	2
Malayan Cables Ltd.	Hong Kong, Malaysia	17
Malayan Ceramic Industries Ltd.	Hong Kong, Malaysia	15
Malayan Consumer Industries (Fed.) Ltd.	Malaysia	11
Malayan Fibre Containers Ltd.	Malaysia	7
Malayan Flour Mills Ltd.	Formosa, Hong Kong, Malaysia	1
Malayan Frozen Foods Ltd.	Malaysia	1
Malayan Industrial & Engineering Co. Ltd.	Germany, Malaysia	5
Malayan Industrial Plastics Ltd.	Malaysia	19
Malayan Marine Industries Ltd.	Japan, Malaysia	1
Malayan Mosaics Ltd.	(no data available)	13
Malayan N.S.D. Ltd.	United Kingdom	11
Malayan Nozawa Asbestos Cement Co. Ltd.	Japan, Malaysia	13
Malayan Pharmaceutical Factory Ltd.	Malaysia	11
Malayan Polythene & Cellulose Ltd.	United Kingdom, South Africa, Malaysia	19
Malayan Steel Products Ltd.	Malaysia	15
Malayan Sugar Manufacturing Co. Ltd.	Japan, Malaysia	1
Malayan Refining Corporation Ltd.	Malaysia	1
Malayan Umbrella Factory Ltd.	Hong Kong, Malaysia	4
Malayan United Industrial Co. Ltd.	Malaysia, Hong Kong	15
Malayan Veneers Ltd.	Malaysia	5
Malayan Weaving Mills Ltd.	Hong Kong	3
Malayan Welding Products Ltd.	United Kingdom	17
Malayan Zips Ltd.	Japan, Malaysia	19
Malayawata Steel Ltd.	Japan, Malaysia	14

Name of Company	Sources of Capital	Industrial Groupings
Malaysia Lamps Ltd.	Holland	17
Malaysia Casting Co. Ltd.	(no data available)	14
Malaysia Galvanised Iron Pipes Ltd.	(no data available)	14
Malaysia Pencil Co.	(no data available)	19
Malaysia Sanju Plywood Co. Ltd.	Malaysia	5
Merdeka Film Production Ltd.	Malaysia	20
Metal Box Company of Malaya (Fed.) Ltd.	Malaysia	15
Matsuhita Electric Co. (M) Ltd.	Japan, Malaysia	17
Min Ngai Knitting Factory (M) Ltd.	Hong Kong, Malaysia	3
Naarden (M) Pty. Ltd.	Curacao, Holland	1
National Lacquer and Paint Products Co. (M) Ltd.	Hong Kong, Malaysia	11
New Era Lubricants Ltd.	United States, United Kingdom, Malaysia	12
Office Equipment Manufacturers Ltd.	Indonesia, Malaysia	6
P.A.R. Malayan Paintworks (F) Ltd.	Holland, United Kingdom	11
Pacific Milk Industries (M) Ltd.	Holland, Hong Kong, Malaysia	1
Perak Match Factory Ltd.	Malaysia	11
Peony Blanket Industrial Co. (M) Ltd.	Japan, Malaysia, Thailand	3
Pokong Industries Ltd.	Malaysia	11
Poly Paks Sdn. Bhd.	(no data available)	19
Poly Plastics (M) Ltd.	United Kingdom, Malaysia	19
Prefabricated Timber Houses Ltd.	Malaysia	5
Premier Milk (M) Ltd.	United States, Malaysia	1
Seng Chong Metal Works Ltd.	Malaysia	15
Sentosa Veneer Lumber Ltd.	(no data available)	5
Shell Refining Co. (Fed. of Malaya) Ltd.	United States, Malaysia	12

Name of Company	Sources of Capital	Industrial Groupings
Sin Heng Chan (M) Ltd.	Malaysia	1
Sin Kheng Lee (M) Industrial Co. Ltd.	Malaysia	11
Sincere Match & Tobacco Factory Ltd.	United Kingdom, Malaysia	11
Sincere Rolling Mills Ltd.	Hong Kong, Malaysia	15
Singer Industries (M) Ltd.	United States, Malaysia	16
Scissons Paints (East) Ltd.	United Kingdom	11
S.E.A. Lumber Corporation Ltd.	United States, Malaysia	5
South Pacific Textile Industries Ltd.	Malaysia	3
S.E.A. Marine Production Ltd.	(no data available)	1
Stamford Chemical Industries Ltd.	(no data available)	11
Tacam Ltd.	Malaysia	15
Textile Corporation of Malaya Ltd.	Hong Kong, Japan	3
Tien Wah Press Ltd.	United Kingdom, Malaysia	8
Taiping Chemical Industries (M) Ltd.	Malaysia	7
Tong Meng Co. (M) Ltd.	Malaysia	15
Union Carbide Sdn. Bhd.	United States, Malaysia	17
United Plastics (M) Ltd.	Malaysia	19
United Asbestos Cement Ltd.	(no data available)	13
Zephyr Chemical Feedstuffs Ltd.	Malaysia	1
Zuelling Feedmills (M) Ltd.	Switzerland, Malaysia	1

Note: 'Industrial Groupings' refer to classification of manufactured products done in Appendix III.

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