

INTRODUCTION

Case for Industrialization

To day industrial progress is a measure of national strength and prosperity. The industrial nations are the greatest nations, and with few exceptions, their people enjoy the highest levels of living. In fact, no nation requires to achieve world leadership without strong and diversified industries and the bases for supporting them.

Coming to the Malaysian scene, the Pioneer Industries (Relief from Income Tax) Ordinance, 1953, ushered in modern manufacturing industries. The needs for rapid industrialization are many and varied. First of all, the nation desires to diversify the economy thereby avoiding the precarious dependence on the tin and rubber industries for its prime source of sustenance. The fluctuations that these industries experience have rendered the national economy unstable, they being the major source of revenue for the nation's coffers, the major source of employment, and constituting the major part of the Gross National Product.

Another argument for industrialization is the high rate of population growth. Table 1 gives the population figures for the years 1957 to 1964, and we can see that there has been a rapid increase at the average rate of 3.125% per annum. Further Table 2 gives medium projections of population for the states of Malaya up to the year 1982. Indications are that in about 11 years time the population of Malaya will be twice the figure of the 1957 Population Census, and in another 16 years, the population will be more than twice the 1957 figure. This expected rapid increase of population clearly necessitates a broader base for the Malaysian Economy. It must be noted that the table only gives population figures for the states of Malaya, due to lack of amalgamated information; when considering the Borneo States as well, the future population of Malaysia will be even higher, the rate of increase for the Borneo States being almost the same as that of Malaya.

Further, there is comparatively limited opportunities available to absorb all manpower resources by the agricultural sector. Land reserves in Malaya are limited. It has been estimated that about 350 square miles of new land have to be developed annually to keep pace with population increase. There is

¹U.M.B.C. Economic Review, Vol. No. 2, 1955 - V. Kanapathy.

sufficient land for about 25 - 30 years of expansion. But, it is probable, cost considerations may stand in the way of full exploitation of the available 6 - 7 million acres of cultivable land. Furthermore, techniques in agricultural production are daily advancing, and when agricultural productivity per man increases with the introduction of more scientific methods and equipment, fewer hands would be needed to produce a given output. Experience in other countries provide examples of the working of this phenomenon.

Finally, mention must be made of the fact that the Malaysian national income is steadily rising and this has raised the demand for the goods - mainly manufactured items - that are traditionally imported. As the Malaysian industrial base is narrow, it is not possible to siphon off a substantial portion of this demand to local manufacturing industries. This situation is partly responsible for the balance of payments problems that the nation is at present experiencing. In the course of her economic development, Malaysia has developed an unfavourable balance of trade since 1961, with a deficit of M\$257.6 million which rose progressively to M\$487.7 million in 1964. In terms of balance of payments on current account, the deficit amounted to M\$651.2 million in 1964 as against M\$242.6 million in 1961. To face this new challenge, a new commercial policy is being framed in the light of development programming, pursuing a twin objective of import substitution and export promotion. Table 3 gives figures of Malaysian imports and exports for the years 1961 - 64 to show how the nation suffered deficits in those years.

These are the major factors which motivated the Malaysian Government to step up the industrialization process. The government is aware that industrialization must be the cornerstone of this country's future economic structure, as it provides unlimited opportunities for absorbing surplus manpower, and as it also provides a solution to the nation's long-term balance of payments problems. The Malaysian Government is also aware that industrialization holds the key to the country's economic, social and political progress and is the main hope of satisfying the "revolution of rising expectations" of the people. In our times, no country, unless it has a developed industry, can enjoy complete independence.

There is no doubt that industrialization should be implemented from the long term view of Malaysia's economic development, but this subsequently gives rise to the question as to what type of industrialization should be pursued. Apparently plausible arguments have been advanced by the proponents of two different schools on the subject of the determination of the balance between heavy and light industries, between capital intensive and labour-intensive methods of production, between producer and consumer goods industries, and so on. One school of thought thinks developing countries should concentrate on light industries - mainly import-substituting industries - as "they bring with them powerful development stimuli". The other school of thought maintains light

industry is no solution to the problem of industrialization and that capital or producer good industries are the only possible foundation for effective industrial development. The achievements of Soviet Russia is cited to prove this point.

Motor Vehicle Assembly Industry

The manufacture of motor vehicles is characterized by assembly techniques, including standardized interchangeable parts, and mass production. It involves the putting together of some 15,000 semi-finished and finished materials into completed units. In so far as it is possible, assembly-line techniques are utilized in such manufacture - techniques aided increasingly by automatic or semi-automatic devices and equipment. At one time the various processes were intergrated as far as possible, so that all or nearly all production of a given vehicle occurred under a single roof. To a degree this is still true. However, there has been a trend toward locating the final stage of assembly in proximity to the markets.

Richard S. Thoman² says that the cost of shipping a finished automobile by rail is at least twelve times as high as that of shipping the various parts in knocked down form, ready for final assembly. Increasingly, therefore, the final assembly operations are being performed in special plants situated not far from the markets e.g. Volkswagen plants in South Africa, Brazil, Canada and United States. This decentralization, however, is not entirely due to market considerations and lower transport costs; it is as well a shift toward large numbers of people to provide market, labour, some raw materials, and still other advantages. Whether local assembly plants will actually reduce cost of the final product will be discussed later in Chapter IV.

Returning to the Malaysian scene, during the last few years, the import of cars has steadily climbed, though the rate of increase in the last two confrontation years has been somewhat less than anticipated.

Table 4 lays out detailed figures of imports of motor vehicles for the years 1960 to 1965. These include both new and used passenger and commercial vehicles. The combined total indicates a steady increase in imports though 1965 shows a slight decrease over 1964 as far as quantity goes. However, we can notice the increase from 15,308 units (\$72,617,457) in 1960 to 20,348 units (\$97,480,813) in 1965 - an increase of 35% over a period of five years.

Inevitably, with industrialization being increasingly advocated, it has only been natural that car or lorry assembly

²Richard S. Thoman - "The Geography of Economic Activity, 1962.

would be soon as a means to this end. The import figures quoted above, however only covers the states of Malaya. The consensus of trade sources put the Pan-Malaysian (including Singapore) market at around 55,000 motor vehicles per year, 64% of them for Malaya, 26% for Singapore, and the rest, 10% for Borneo.

1963 saw the initial moves for a vehicle industry. It started with the report from a Colombo Plan expert early in the year, recommending motor vehicle assembly as a worthwhile industry for Malaya. The report predated the London Agreement on Malaysia and the decision for a common market. Further discussion on the Government's implementation policy will follow in Chapter II.

In this paper, references and comparisons will be made to the Indian Motor Industry and the Spanish Motor Industry, which are classed as 'under-developed' country and 'developing' country respectively. These comparisons, I hope, will serve to illustrate certain points or implications where necessary.

The development of the automobile industry in India can be traced through three successive stages, viz. :

- i) importation in built-up form,
- ii) assembly from imported components,
- iii) progressive indigenous manufacture.

Development of our motor industry is anticipated along the same lines. The first stage being prevalent over a good many years, the nation is ready to embark upon the next stage of local assembly with the hope that this will act as a transition stage to final local manufacture of parts, components and accessories, which would be assembled locally.

However, there were certain difficulties that I faced in preparing this exercise.

First of all, it's on a new feature in the economy, with no long record to rely on for information, and therefore, most of the materials had to be based on conjectural and speculative grounds. The only sources of information had to be Government institutions, commercial firms, involved in the industry, and literature on the industry from other countries.

The Government institutions, apart from giving a very superficial account, are committed to be silent over these "top secret" matters. The commercial firms, on the one hand are unwilling to part with trade secrets, and on the other are reluctant to spend their time with anyone, unless some benefit is to be derived for their business. Therefore, within these limitations, I have strived to touch upon this new feature in our economy.

I would like the reader to look upon this industry as one of the arms reaching out for industrial development in our economic development programmes.

TABLE 1

ESTIMATED POPULATION (MALAYA) 1957 - 1964

Year (1)	Population (2)	Absolute Increase (3)	Rate of Increase (4)
1957	6,404,781	-	3.5
1958	6,595,875	191,092	3.0
1959	6,815,451	219,578	3.3
1960	7,017,533	202,082	3.0
1961	7,250,289	232,756	3.3
1962	7,491,325	241,036	3.3
1963	7,703,520	212,195	2.8
1964	7,919,055	215,535	2.8

Source : 1957 Population Census Report No. 14.

TABLE 2

POPULATION PROJECTIONS (MALAYA)

1967 - 82

Year (1)	Population (millions) (2)	Increase as Percentage of 1957 (3)
1967	8.831	40.4
1972	10.450	66.2
1977	12.404	97.2
1982	14.703	135.8

Source : 1957 Population Census Report No. 14.

TABLE 3**BALANCE OF TRADE OF MALAYSIA****(M \$ Million)**

(1)	1961 (2)	1962 (3)	1963 (4)	1964 (5)
Exports (F.O.B.)	4,598.5	4,695.9	4,700.4	4,025.5
Imports (C.I.F.)	4,836.3	5,106.6	5,359.5	4,513.2
Balance	- 237.8	- 410.7	1 659.1	- 487.7

Source : U.M.B.C. Economic Review Vol. No. 2, 1965

TABLE 4

NUMBER OF MOTOR VEHICLES IN THE STATES OF MALAYA, 1960-65

Description	1960		1961		1962		1963		1964		1965	
	Qty. No.	Value \$	Qty. No.	Value \$	Qty. No.	Value \$	Qty. No.	Value \$	Qty. No.	Value \$	Qty. No.	Value \$
Passenger Vehicles (New)	12,296	55,631,657	13,198	56,826,643	13,856	60,002,990	17,202	75,845,315	18,602	81,603,460	18,093	83,238,542
Passenger Vehicles (Used)	439	1,982,459	519	2,416,297	586	2,599,047	667	2,195,865	629	2,648,539	744	2,976,687
Total	12,735	57,614,096	13,717	59,242,940	14,442	62,602,037	17,869	79,041,180	19,231	84,251,999	18,837	86,215,229
Commercial Vehicles (New)	1,924	13,604,677	2,484	18,638,680	1,674	11,707,460	2,086	11,928,352	1,800	10,547,402	1,507	9,675,966
Commercial Vehicles (Used)	649	1,398,648	443	1,238,059	374	1,195,405	518	2,102,209	601	2,105,628	509	1,589,618
Total	2,573	15,003,361	2,927	19,876,739	2,048	12,902,865	2,604	14,030,561	2,401	12,652,730	2,001	11,265,584
Combined Total	15,308	72,617,457	16,644	79,119,679	16,490	75,504,902	20,473	93,074,741	21,635	96,904,729	20,848	97,480,813

Source : States of Malaya, 'External Trade Statistics', Department of Statistics.