CHAPTER 8

MANUFACTURING EXPANSION IN MALAYSIA

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8.1 Introduction

Although the management style of national economy is different between Thailand and Malaysia, both countries have succeeded in rapid economic growth owing to foreign capital inflow and export expansion. Achieving the sustained growth, they are preparing to be NIES countries by grading up thier industrial structure. For both countries, foreign knowledge and technology are essential source of productivity change. Under the circumstances of fierce competition of foreign investors, it is easy for them to access to the new technology. In case of Malaysia, the role of government should be noted. As Professor Anuwar Ali mentioned, the launching of the Industrial Master Plan in 1986 was a reflection of the Malaysian government's concern regarding the state of industrial development, and the future role of the manufacturing sector. One of the constraints which IMP identified relates to the dearth of technological capability within domestic industries. Thus, the Action Plan for Industrial Technology Development was launched in 1990. Even though these plans were implemented, the industrial structure was relatively dependent on both direct foreign investment and imported technologies. Professor Anuwar Ali stressed that technology enhancement plan has to be implemented effectively.

8.2 Robust Economic Growth

In 1994, Malaysia has attained the seventh consecutive year of sustained, rapid economic growth rate of over 8 percent. Balance of payment is in surplus due to the continuing inflows of long term capital. Inflation rate is at the level of 3.8 percent which is lower than Thailand. Manufacturing sector is one of the leading growth sector, contributing

48.5 percent of the growth of GDP in 1994. The share of manufacturing sector in GDP is 30 percent in 1993 and 32 percent in 1994. In Thailand, this share was 28 percent in 1992. The expansion of manufacturing sector is seen at the domestic market-oriented industries such as fabricated metal products, chemical and chemical products and the non- metallic mineral industries. In the case of the export-oriented industries, electronics and electrical, non-electrical machinery, textiles, wood products and rubber products. Production index for electrical and electronics products and machinery has gone up from 100 in 1988 to around 200 in 1991 and 300 in 1994.

The tightening of the labour market has put pressure on the wage determination, resulting in wage increases outpacing labour productivity. The problem of the shortage of man-power has been one of the obstacles for the sustained growth.

Table 8.1 Key Economic Indicators

	Malaysia		Thailand	
	93	94	93	94
Population(million p.)	19.0	19.5	58.3	59.1
Employed person(million p.)	7.4	7.6	32.0	32.7
Growth rate (%)	8.7	8.5	8.2	8.4
Per capita income(US$)	3,230	3,406	2,050	2,400
Inflation(%)	3.6	3.8	3.3	5.0
Export(billion US$)	47.2	56.9	36.4	42.6
Import(billion US$)	45.7	56.9	45.2	52.3
Trade balance as % of GDP	8.7		-7.0	-6.8
Current account deficit as % of GDP	-5.4		-5.6	-5.0

Table 8.2 GNP Demand Side: Value and Growth

	1993		1994(estimate)	
	RM Million	%	RM Million	%
GNP(78 prices)	95,518	8.7	103,701	8.6
Public Expenditure	14,891	10.6	16,460	10.5
Private Expenditure	47,788	5.3	51,517	7.8
Public Gross Capital Form.	12,283	10.4	15,171	23.5
Private Gross Cap.Form.	25,629	12.7	28,624	11.7
Export	87,426	14.6	105,581	20.8
Import	87,012	15.8	108,321	24.5

Source: Economic Report 1994/95, Ministry of Finance.

Table 8.3 GDP Supply Side: Value and Growth Rate

	1993		1994	
	RM Million	%	RM Million	%
GDP(78 prices)	100,838	8.3	109,368	8.5
Agriculture	16,077	3.9	16,155	0.5
Mining	8,031	-0.5	8,175	1.8
Manufacturing	30,324	12.9	34,458	13.6
Construction	4,023	11.2	4,545	13.0
Service	44,751	10.0	48,791	9.0

Source: Economic Report 1994/5, Ministry of Finance.

The employed person in manufacturing (1.7 million persons) shares 23 percent in total employed in 1993. In Thailand, this share is 12 percent. The share of employed person of agricultural sector in total employed is 21 percent in 1993 and the absolute number is decreasing. But in Thailand, this share is 57 percent and the number is slightly increasing. Thus the wage pushing force is stronger in Malaysia than in Thailand. Especially, the wages for professionals have spiralled by between 50 to 150 percent in the past three years.

8.3 State-led Industrialization

A key objective of New Economic Policy was to create and expand the Malays of Bumiputra capitalist and middle classes by higher education, public sector employment, business licences and government contracts. The NEP called for an increase in the Malay share of corporate ownership and management from 1.5 percent to 30 percent within decades. When the NEP ended in 1990, government statistics showed an overall decrease in the incidence of poverty but put Malay ownership of corporate equity at 19 percent, short of its 30 percent target, while placing non-Malay and foreign ownership at 35 and 25 percent respectively.

According to the World Bank report on East Asian Miracle, average investment ratio as a percentage of GDP is high for both private and public. Private investment share in GDP is 22 percent in Malaysia and public one is 11 percent in 1993. In Thailand, private one is 31 percent and public one is 8 percent in 1992.

The ratio of public investment in Thailand is estimated to be going up after 1994 because Thai government has intention to invest more in infrasturcture. Anyway, from Table 4, we can see the high public investment ratio in Malaysia.

Table 8.4 Investment Ratio

(%)

	Malaysia		Thailand	
	1988~90	1991~93	1988~90	1991~1992
Investment Ratio	28.9	34.6	36.7	41.0
Public investment as % of total	36.1	32.8	15.3	19.3

Note:share of public investment is as percent of fixed capital formation.
Source:Economic Report of Ministry of Finance, Malaysia. National Income of Thailand, NESDB.

The typical case of investment in Malaysia is a project of national car. Perusahaan Otomobil Nasiona Berhad (or "Proton") was established in 1985 as a joint venture between Mitsubishi of Japan and the state owned Heavy Industries Corp. of Malaysia (HICOM). Now, two Malaysian government agencies own 45.1 percent of PROTON, with Mitsubishi holding 17 percent and the rest in the hands of local and foreign investors. The government's ownership has brought many benefits for the company. Tariffs on imported parts that are drastically lower than competitors result in cheaper selling price than raivals.

Local content of the Proton has increased from less than 20 percent in 1985 to about 60 percent. The number of Malaysian suppliers has grown from 17 in 1985 to 128. Proton parts vendors are preparing to supply for Japan. About 10 of the 128 existing Proton vendors have achieved the required standards to manufacture the parts for Japan. Proton also expects to conclude the agreement for its vendors to supply 20 different parts to a Thai car maker under the Asean brand-to-brand complementation programme. About 20 Proton vendors are eligible for the programme.The 128 vendors produce more than 3,000 parts for the existing four Proton models.

In 1994, Proton has produced 127,177 units and captured more than 70 percent of the domestic market. More than 70,000 Proton have been sold in Britain and Ireland.

Proton is now working with Diversified Resources Berhad (DRB) to develop hatchback "Wira" sedans for European market. And another Malaysian company Perodua, a joint venture with Daihatsu of Japan, has started operations on a second national car.

Economic Report of MOF indicates that the manufacturing sector continues to be narrowly based with a few industries, that is the electrical and electronic, textiles, rubber products and wood products. This Report suggests that there is a need to further diversify the industrial base such as the chemical and chemical products, the fabricated metal, the transport and the machinery industries.

8.4 Export Growth

Malaysia has increased the export value of manufatured goods whose share of total export value exceeded 50 percent in 1989. Major commodities are seen in Table 5. In 1993, the largest export market is Singapore and the second is USA. The US imported 20 percent of Malaysia's exports. The items are electronics, wood products, textiles and garments which are the main contributing sectors to industrial growth. The electronics sector employs 200,000 workers and is dominated by US companies which pioneered the industry in 1969, before Japanese giants came in. Now the recovery of US economy pushed the export of electronics to US. Compared to US, Japanese market did not increase the import from Malaysia so much. But, Japanese investers who came in Singapore in 70's faced the wage increase and also Yen evaluation and were forced to shift their factories to Malaysia and Thailand. Now, Malaysia is the world biggest supplier of FDD. For VTR and air- conditioner, also, Malaysia is the main exporter in the world. One Japanese company has set up R&D facilities for air-conditioner. It is expected that Malaysia will surpass Taiwan and Korea as a supplier of parts.

Table 8.5 Main Export Items

(RM Million, %)

	1993		1994	
Total	121,214	16.9	148,011	22.1
Rubber	2,132	-9.6	2,295	7.7
Palm Oil	5,772	6.7	7,800	35.1
Sawn Logs & Sawn Timber	7,459	1.6	7,102	-4.8
Crude Oil	7,996	-12.3	6,210	-22.3
LNG	2,597	-4.2	2,320	-10.7
Tin	489	-32.2	458	-6.3
Manufactures	89,666	26.1	114,773	28.0

Source: Economic Report 1994/5, Ministry of Finance.

Table 8.6 Malaysia's Trade

(RM billion)

	1985		1990		1993	
	Export	Import	Export	Import	Export	Import
Singapore	7.36	4.83	18.14	11.86	26.31	17.89
(%)	(19.4)	(15.9)	(22.8)	(15.0)	(21.7)	(15.2)
Thailand	1.30	1.08	2.79	1.90	4.36	2.92
(%)	(3.4)	(3.5)	(3.5)	(2.4)	(3.6)	(2.5)
ASEAN	9.81	6.82	23.15	15.65	33.78	23.22
(%)	(25.8)	(22.4)	(29.1)	(19.0)	(27.9)	(9.8)
USA	4.89	4.63	13.49	13.23	24.63	19.85
(%)	(12.9)	(15.2)	(16.9)	(16.7)	(20.3)	(16.9)
Japan	9.27	7.01	12.59	18.97	15.73	32.23
(%)	(24.4)	(23.0)	(15.8)	(24.0)	(13.0)	(27.4)
Total	38.02	30.44	79.65	79.12	121.24	117.42

Source: Department of Statistics, Malaysia.

8.5 Foreign Investment

According to MITI of Malaysia, the direct foreign investment to manufacturing has increased 44.2 percent in 1994, compared to previous year. Proposed foreign investment in 1994 is RM 11.1 billion (US$ 4.44 billion), that of 1993 was RM 7.7 billion(US$ 3.08 billion). Main investors are Taiwan(double), Japan(32.4 percent up), Singapore (107.6 percent up) and Hongkong(five times).

In 1993, foreign investment declined 37.6 percent and Malaysian government has launched new strategies to encourage more local capital growth. In 1994, total investment in manufacturing approved soared 64.8 percent to RM 22.67 billion(US$ 9 billion). Among this, domestic investment rose by 53.3 percent to RM 11.4 billion and foreign capital by 78.5 percent to RM 11.2 billion.

The boost of total approved investments in the first four years of 1991-1995 Sixth Malaysia Plan, reached to RM 95.01 billion, surpassing the plan's RM 80 billion target by 18 percent. But the problems worried among economists is that Malaysia is no longer a competitive location for labour-intensive industries. MITI Minister claimed that Malaysia have undertaken efforts of more capital- intensive technology and skill-intensive industries which have a competitiveness in global market.

From the figures of Japanese investment, it is noted that among 392 companies have invested in manufacturing sector of Malaysia until 1993, 32 percent of companies are engaged in electrical appliances. Since 1980, Japanese firms have invested about US$ 2.8 billion, or more than a third of total Japanese investment in the electronics sector.

According to the survey on the Japanese company, done by Japanese Chamber of Commerce in Malaysia(JACTIM), Japan has an idea to make this country as a source base of parts. Among 45 items of finished goods in 1994, 71 percent has local contents of over 31 percent, 51 percent of goods has local contents of over 44 percent. This report recommends that it is essential to foster the subcontracting firms network. In this country, most of the Japanese managers listed the problem of lack of skilled workers as top concern.

In June 1994, Prime Minister Mahathir said he was concerned with low level of Malaysian input in electronic component and goods made in Malaysia. He said the problem could be overcome if small and medium-sized Malaysian industries supplied raw materials to giant US, Japanese and Taiwanese electronics firms in Malaysia.

Government also plans to set up the national institute to develop the own technology for micro-electronics and launch the production of integrated circuits for use of automobiles and electronics.

8.6 Regional Cooperation

Malaysia and Thailand have launched to develop jointly along the common border areas namely the Indonesia-Malaysia- Thailand growth Triangle (IMT-GT) and the Joint Development Areas (JDA) for oil and gas exploration in the Gulf of Siam. In April 1994, the production-sharing contracts covering the JDA are awarded. Three contractors began to prove the existence of rich gas reserves in the area. The governments of Thailand and Malaysia will each receive a royalty of 5 percent of gross production. The contractors are allowed to claim a maximum of 50 percent of their gross production as cost recovery. Profit will be split 50:50 between the contractors and the Malaysia-

Thailand Joint Authority (MTJA) the two-country government body which asuumes rights over the JDA, after deduction of royalty and cost recovery. Both countries have signed a protocol amending the agreement of avoidance of double taxation and prevention of fiscal avasion with respect to taxes on income. this protocol would help ease the tax burden on investors engaged in business in the JDA.

For IMT Growth Triangle. February 15, 1994, the contract of factory construction in Smatra was signed between the companies of Malaysia and Indonesia. This is the first joint venture under the Northern Triangle Plan. In December, the joint Business Council of three countries decided to submit their proposals to senior officials meeting. The proposed measures are the extension of opening time of check points, the establishment of a free trade zone, set-up of one-stop agency to facilitate business activities, the opening of wooden furniture fair, removal of the exit tax by Indonesia, the three-month visa-free entry for business purposes within ASEAN, promotion of co-productive processing and the establishing of an inland port at Songkhla.

Various attempts for regional cooperation will reveal the busines potentiality in remote areas.

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