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Whither Industrialization in Malaysia?

K. S. Jomo and H. Ling Khong

I. INTRODUCTION

Economic development is usually associated with industrialization, and the relative expansion of manufacturing. This emphasis on industry in development is often seen in terms of generating additional employment to absorb the rapidly expanding labour force without reducing per capita gross national product (GNP), as increased employment in agriculture is more likely to do. Industrialization is often seen as generally raising productivity in the economy.

Perhaps more than any previous prime minister of Malaysia, Dr. Mahathir Mohamad, Prime Minister of Malaysia and president of UMNO since 1981, has a vision of transforming Malaysia into a newly industrializing country (NIC) under Malay capitalist entrepreneurial leadership. In a limited sense at least, Mahathir is a economic nationalist, albeit a bourgeois one. Though inspired by the Japanese economic miracle, his real model for emulation is probably Park Chung Hee's South Korea. Yet, to be fair, Mahathir's development strategy is not merely imitative. Incoherent and faulty as they may be, the various economic developments in recent years nevertheless represent a serious effort, in circumstances not of his own choosing, to transform Malaysia into a NIC. Mahathir's economic policies appear somewhat incoherent, are circumscribed by NEP (especially wealth restructuring) considerations, contain some ideas formulated in his controversial *Malay Dilemma* and may reflect the interests of the influential businessmen said to surround him. Nevertheless, Mahathir can be credited with the major policy innovations since 1981, which have elements best characterized as anti-labour, authoritarian, nationalist and capitalist. These were after all important ingredients in South Korea's industrialization under the late General Park.

The essential industrializing or NIC vision was first captured by Mahathir's exhortation to look East, specifically towards Japan and South

Korea. While many believe that of the four East Asian NICs, only South Korea was explicitly identified because it is not Chinese (unlike Taiwan, Hongkong and Singapore), in fact, the very special nature of the Hongkong and Singapore economies disqualify them as candidates for emulation. Hence, the real choices for emulation have only been Taiwan and South Korea. The Taiwan, model is complicated by diplomatic as well as ethnic considerations, and many would argue that Taiwan's industrialization has been somewhat less impressive than South Korea's. Nevertheless, it has been mentioned in some limited circles as a model for Malaysia.

Central to any NIC vision, of course, is the question of industrialization strategy. The NIC development strategy has not involved any major departure from the export-led industrialization strategy practised by Malaysia since the late sixties. Mahathir's explicit commitment to develop heavy industries has distinguished his leadership. This commitment to heavy industrialization has involved expensive investments as well as burdensome protectionist measures. As a result, there is less capital for other uses and foreign borrowings have been mounting, as product prices rise. There are, of course, those opposed to heavy industry in principle because of opposition to its high capital-intensity and low employment generation because they dogmatically believe that "small is beautiful".

While it may be necessary to support certain heavy industries to achieve a more balanced, integrated and coherent national economy and industrial sector, most of the heavy industries chosen by the Malaysian government for development, e.g., steel, cement, petrochemicals and shipbuilding face especially stiff competition internationally due to excessive global production capacity, and require heavy protection since they are hardly viable otherwise. The question is not whether or not to develop heavy industries, but rather, which ones to develop and under what conditions.

2. THE INDUSTRIAL MASTER PLAN

The Industrial Master Plan (IMP) published by the government in early 1986 was the first master plan of its kind in Malaysia's history. The IMP documents embody a remarkable combination of sober — even critical — analysis of Malaysia's industrial heritage and current problems on the one hand, and what has best been described as "enlightend wishful thinking" in the form of industrial policy proposals on the other. The IMP offers a useful analysis of the structural problem associated with Malaysia's manufacturing sector, but then goes on to propose industrial policies to improve Malaysian industry without getting to the root of most of the structural problems it identifies earlier.

The IMP points out that despite or rather because of its growth and development record, Malaysia has been a relative latecomer to industrialization. The IMP attributes Malaysia's "delayed industrialization" to its successful specialization in primary exports. Malaysia has lagged behind the so-called "normal pattern" apparently because successful expansion of primary export production has adequately financed import needs, thus weakening the commitment to industrialize. Similarly, the availability of other, more profitable, alternative investment opportunities also discouraged industrial investments. The IMP seems to suggest that as a result, "industry will develop only after income levels and investment rates have risen as a consequence of the growth of primary production".¹

The IMP also acknowledges that Malaysia's industrial structure is characterized by various imbalances. The IMP contends that the manufacturing sector is narrowly based on a few labour-intensive and resource-based industries. Yet, despite the official emphasis, since the late sixties, on export-oriented industries, manufactured exports account for less than 20 per cent of total manufacturing output. These industries produce low-skilled labour-intensive exports, requiring relatively simple final assembly-work. Meanwhile, the relative share of resource-based products has declined, accounting for only 19.7 per cent of all manufactured exports in 1983.² The IMP also correctly argues that the debate on heavy industries should not be on whether or not to develop heavy industries, but rather which heavy industries to develop. Unfortunately, most of the heavy industries developed so far — including the Malaysian project, three motorcycle engine plants, a petroleum refining and petrochemical project, a sponge iron and steel billet plant, two additional cement factories and even a paper mill — will have had to face gluts on the world market, e.g. in steel, cement, cars, petrochemicals, ship-building and repairs. With little export potential, they require significant protection, which in turn, pushes up production costs and final prices. Often involving sophisticated foreign technology, heavy industrialization has involved massive government borrowings from abroad, huge imports of capital goods, deepening technological dependence and large government subsidies for unprofitable projects.

By 1987, it was found that Malaysia's cement production capacity of 7.2 million metric tonnes annually was double the domestic consumption in the mid-eighties. Surcharges on imported cement to protect the domestic market now exceed 50 per cent. After investing, over \$1.2 billion Malaysian ringgit (over US\$500 million) in the Perwaja steel plant in Terengganu,

¹ Cf. MIDA, *The Industrial Master Plan 1986*, Kuala Lumpur, 1986, p. 11.

² Cf. MIDA, *op. cit.*, p. 13.

it has been discovered that the prototype direct reduction industrial process used is not viable, the supplier of the technology has agreed to pay only \$467 million ringgit in compensation. Since the ringgit has depreciated by about 70 per cent against the yen in the interim (after September 1985), the actual rate of compensation in yen terms is considerably lower.

The burden of the car project has been estimated to be at least 1.6 billion ringgit.³ The project was originally based on estimates of annual car sales rising by 8 per cent annually from 110,000 in 1982. Instead, total sales are expected to drop to about 30,000 in 1987 (sales amounted only to 14,335 in the first half), due to the recession and increased car prices owing to the appreciation of the yen and higher import tariffs to protect the car (taxes on completed cars are on a rising scale beginning from 150 per cent, while taxes on CKD kits are only slightly lower). It has been estimated that subsidies on car exports to the USA will be in the region of M\$5,000 per vehicle, on about 40 per cent of the expected retail price of US\$5,000. This will be over and above the 4,500 ringgit per vehicle believed to be required as subsidy for cars produced for the local market. And, for all intents and purposes, the Proton Saga remains very much a Mitsubishi product; about 60 per cent of the parts are imported, with at least half the balance produced by the Proton plant in Shah Alam under licence and with equipment and technical personnel from Mitsubishi.

While acknowledging the impressive growth of the electronics industry, the IMP also recognizes the limited and lopsided nature of its development to date:

Structurally, it has a heavy dependence on production of components, accounting for 80 to 85 per cent of the industry's total output; and within this sector, semiconductor assembly and testing activities have predominated, contributing 83 to 92 per cent of total component output. The consumer and industrial electronics, which normally account for more than 55 to 70 per cent of total output in other NICs and advanced countries, only contribute 15 to 20 per cent in Malaysia. This lopsided structure makes the Malaysian electronics industry very precarious, particularly because components manufacturing is limited to relatively simple assembly and testing activities based on imported materials, and is dominated by foreign transnational corporations whose main motivations to operate in Malaysia are low wages and attractive tax incentives available in the country. The side effect of this extreme structural skewness is the lack of linkages within the industry, especially between the companies in FTZs and non-FTZs.⁴

While claiming that foreign investment has made a positive contribution to manufacturing growth, the IMP acknowledges that the heavy and

³ Cf. P. L. CHEE, "Small Enterprises: Their Relative Contributions to Consumers and the Economy", paper presented at the Seminar on Economics, Development and the Consumer, Consumers' Association of Penang, 1980.

⁴ MIDA, *op. cit.*, p. 49.

sustained dependency on foreign investment in some important industries in the key areas of technology, marketing, management and components supply jeopardises the development of an indigenous industrial base.⁵ The plan also acknowledges that the manufacturing sector is dominated by large, often foreign dominated, firms. However, the IMP documents do not mention the massive outflow of the economic surplus in various forms as a consequence of foreign ownership and control of the manufacturing sector.

As the IMP acknowledges, the Malaysian manufacturing sector's technological dependence is excessive. Such dependence has resulted in the outflow of royalty payments, fees and other charges to the parent TNCs, ostensibly in connection with technology transfer. As many TNCs actually prefer to get into joint-ventures with local firms, especially in industry and the services, such outflows have increased in significance compared to simple profit repatriation. It has been found that most joint ventures with local majority holdings have actually been controlled by the foreign partner, especially in technology-related matters.⁶

There is very little evidence of any significant and meaningful transfer of technology. This should not be surprising since, in the present context, technology is transferred only in so far as it is necessary and desirable for the foreign firm's profit maximization. Obviously, transnationals will not transfer technology so that the recipient can eventually threaten their domination. In their study of electronics and electrical firms in Malaysia in 1980, Cheong & Lim⁷ found that the transnationals retained research and development activities with the parent firm in the home country and controlled equipment and parts supply, key personnel and marketing. Productive activities mainly involved assembly, processing and testing, requiring little skill and training — which were generally irrelevant to other manufacturing sector activities in any case. With weak linkages to the rest of the economy, other industries could hardly benefit from whatever technology transfer might have taken place.

In summary, the IMP claims that the following five major problems have adversely affected Malaysian industrialization:

- 1) technological dependence and lack of an indigenous industrial technology capacity;

⁵ Cf. MIDA, *op. cit.*, p. 13.

⁶ Cf. A. ABDUL RAZAK, "Joint Ventures between Malaysian Public Corporations and Foreign Enterprises: An Evaluation", in L. L. LIM and P. L. CHEE (ed.s), *The Malaysian Economy at the Crossroads: Policy Adjustment or Structural Transformation*, Malaysian Economic Association, Kuala Lumpur, 1984.

⁷ Cf. K. C. CHEONG and K. C. LIM, "Implications of the Transfer of Technology and Primary Ancillary Linkages: A Case Study of the Electronics and Electrical Industries in Malaysia", in H. OSMAN RANI *et. al.* (ed.s), *Development in the Eighties*, University Kebangsaan Malaysia, Bangi, 1981.

- 2) shortages of engineers and technicians;
- 3) deficiencies in existing industrial incentive schemes including:
 - ad hoc and excessive domestic market protection;
 - large firm and capital-intensive biases as associated with the pioneer status incentive;
 - neglect of small industry problems and requirements;
 - rigidities and inflexibility in the existing incentive scheme;
 - biases in export incentives;
 - few incentives for technological development;
 - some major incentives not automatically available.
- 4) lack of private sector initiative;
- 5) constraints imposed by NEP restructuring efforts.

Unfortunately, although the IMP has provided much information and many useful insights into the problems of Malaysian industrialization, its overall analysis and policy recommendations have been severely constrained by the IMP's basic perspective. Lacking deeper appreciation of the overall character of the Malaysian economy and its history, and ignoring the class and state interests involved, the IMP is likely to remain very much a dead letter, despite its bold vision and noble intentions. The following discussion will try to provide this perspective, before considering the IMP proposals in a more critical light.

Industrialization was not very important in the Malaysian economy during the colonial era, when rubber agriculture and tin mining dominated. British colonial economic policies shaped the nature and extent of industrial development in the colonies. By emphasizing export-oriented raw material production and favouring British manufactured imports during the colonial era, local industry was largely confined to processing raw materials for export and producing certain items for local consumption. Thus, the growth of other local industries was effectively discouraged by colonial policy. In contrast to colonial policy, post-colonial Malayan and Malaysian governments have actively sought to promote industrialization. While early industrialization efforts were sometimes erratic and haphazard, government policies from the late fifties favoured import-substitution industrialization, government intervention being largely limited to provision of infrastructure facilities and other incentives. The strategy sought to encourage foreign investors to set up production, assembly and packaging plants in the country to supply finished goods previously imported from abroad. To promote such import-substituting industries, the government directly and indirectly subsidized the establishment of new factories and protected the domestic market.

Industrial investments were quite responsive to government efforts. After independence, industrial growth proceeded rapidly from its modest

beginnings, with manufacturing output rising at an average annual rate of 17.4 per cent between 1959 and 1968. Manufacturing's share of the GNP rose from 8.5 per cent in 1960 to 12.7 per cent in 1968, while employment in the sector rose from 6.4 per cent of the labour force in 1957 to 8.4 per cent in 1965, involving an increase in the number of workers from 135,700 to 214,800. However, the sector's labour absorptive capacity was comparatively low. The number of workers employed in the manufacturing sector was still only about a third of that in agriculture. With the growth of big industry outpacing small-scale enterprise, and capital-intensive industries expanding much faster than labour-intensive ones, employment creation lagged considerably behind investment growth during the period of import substitution.

While the average annual growth rate of the manufacturing sector did not rise significantly between 1959 and 1968, the real output growth rate of industries qualifying for pioneer status from the government actually dropped quite dramatically, probably reflecting the inherent limits of import substituting industrialization in a small open capitalist economy. The small domestic market constraint not only reflected the country's relatively small population and its relatively low average income level, but perhaps more importantly, its skewed distribution of income. Also, the basically external orientation of both production and consumption in the Malaysian economy continued to limit domestic industrial production for the national market. Without a more self-reliant and equitable development strategy which might transform this economic structure (and the pattern of effective demand), domestic industrial production for mass consumption needs could not expand very much.

By the mid-sixties, the inherent contradictions of the Malaysian import substitution strategy were becoming clear. The raja Mohar committee was established to recommend measures to accelerate industrial growth. It proposed several measures, including diversification into new industries. Its proposals resulted in the 1968 Investment Incentives Act to encourage the expansion of manufactured exports. The 1968 legislation reflected a strategic switch in emphasis from import substitution to export-oriented industrialization. Meanwhile, the Federal Industrial Development Authority (FIDA), established in 1965 was activated in 1967 to attract and develop such industries. The labour laws were also amended to more effectively control labour in the new, mainly-intensive, export-oriented industries, e.g. by preventing electronics factory workers from forming a union, restricting the right to strike, and otherwise limiting trade union activities and rights.

Confronted by the limits of import substitution, the switch to an export-oriented industrialization strategy gave fresh impetus to industrial growth.

The new emphasis was supported by the New Economic Policy's commitment to an open industrialising capitalist economy. Increasing local (including state) ownership of productive assets, especially in primary production, and even reduced foreign ownership of industry (with actual foreign control ensured) were no longer considered incompatible with further integration and profitable participation in the world economy. By the early seventies, government efforts to attract and encourage export-oriented industries were in full swing. Various new measures — notably the establishment of free trade zones — were introduced to facilitate Malaysia's integration into the emerging new international division of labour, with transnational enterprises globally relocating various production, assembly and testing processes to secure locations offering reduced wage and other costs.

Two main types of export-oriented industries have developed. Resource-based industries involved the increased processing of older (e.g. rubber, tin) and newer (e.g. palm oil, timber) primary commodities for export. Processing of natural resource-based exports has continued to grow for some time. By 1981, off-estate processing and wood products together still accounted for 22 per cent of manufacturing output. While there may still be considerable scope for expansion in this area from a technical point of view, this has been severely constrained by existing tariff, transport and other trade barriers, which continue to favour the export of raw materials rather than final products.

Non-resource based export industries have been far more successful in terms of growth and employment generation. Many involve the relocation of certain labour-intensive aspects of industrial processes in stable low wage environments, such as those offered by Malaysian free trade zones. The most dramatic growth has involved electrical and electronic components, which accounted for 15 per cent of manufacturing output in 1981, but slightly more than half of total manufactured exports.

Despite some deepening of the industrial structure, both import substituting and export-oriented manufacturing remain heavily import-dependent. Thirty per cent of the import bill in 1985 comprised intermediate manufacturing inputs, which amounted to \$9 million, compared to total value added in manufacturing of about \$12 million. Manufactured exports probably account for about 30 per cent of value added in the manufacturing sector. Assuming value added (at current prices) in manufacturing was \$13.5 billion in 1983 (20 per cent of GDP at current prices) and export of manufactures came to \$9.8 billion, with value-added in the export industries ranging from 30-40 per cent, then value added in export manufacturing would account for between 22 and 29 per cent of value added in the

manufacturing sector. Manufacturing growth rose to 12 per cent during 1983-84, with the recovery in external demand and a number of industrial and petrochemical plants coming on stream. A major contribution to growth came from electronics and electrical products, which expanded more than 25 per cent in these two years. However, industrial production declined by three per cent in 1985, reflecting a weakening in both external as well as domestic demand. Capacity utilization fell sharply with less than two-thirds of manufacturing companies operating more than 70 per cent of installed capacity. Production of electronics and electrical products fell by 23 per cent in 1985 as a result of excess world supply and stiff competition. There were sharp reductions in the output of integrated circuits (by 36 per cent) and semiconductors (by 26 per cent). According to the Labour Ministry, the number of manufacturing sector workers retrenched in recent years has been 5,244 in 1983, 4,452 in 1984, 27,598 in 1985 and 11,028 in 1986.⁸

The rather shallow industrial structure and high import propensities suggest many possibilities for more import substituting industrialization. Meanwhile, export-oriented industrial production has so far failed to develop deep roots and to make a decisive impact on the Malaysian economic structure. Such industrialization has further integrated Malaysia into the world capitalist economy. While import substitution remains shallow and dependent on foreign technology, machinery and inputs under the auspices of foreign manufacturers trying to consolidate virtual monopolies in the protected domestic market, most export manufacturing has been developed by foreign firms for export markets, with their own technology and utilizing relatively cheap and easily managed Malaysian labour, and sometimes natural resources as well.

The Malaysian manufacturing sector has become increasingly important since independence in 1957, especially in the seventies. As shown in Table 1, manufacturing's share of the gross domestic product (GDP) rose from only 5.7 per cent in 1947 and 6.3 per cent in 1957 to 8.7 per cent in 1960, 13.4 per cent in 1970 and 20.5 per cent in 1980, before declining slightly to 19.6 per cent in 1985, and 20.0 per cent in 1986. The average annual growth rate of manufacturing output in the GDP consistently exceeded 10 per cent in the decade 1970-80, averaging 11.6 per cent during 1971-75 and 13.5 per cent during 1976-80, before declining to an average of 4.9 per cent during 1981-85.

Manufacturing has come to play a bigger role as a revenue earner in line with the government's intention of reducing Malaysia's dependence

⁸ Cf. S. T. SUNDARAM and A. SIVANATHIRAN, "Dynamics of the Malaysian Labour Markets, Trends and Prospects", *Ilmu Masyarakat*, XII, July-September 1987.

on primary exports. Its share of Malaysia's gross commodity exports rose rapidly from just 11.1 per cent in 1970 to 20.9 per cent in 1975, 20.6 per cent in 1980 and a phenomenal 42.3 per cent in 1986, then exaggerated by the general decline in primary commodity export prices. The average annual growth rate of manufactured exports has been impressive, averaging 27.5 per cent during 1971-75 and 24.9 per cent during 1976-80, before declining to 14.3 per cent during 1981-85. The decline during the early eighties can be attributed to the global recession and the nature of Malaysia's manufactured exports, which have been particularly susceptible to the vagaries of demand in the developed market economies. However, manufactured exports have not been as badly affected as primary agricultural commodities, as suggested by the much higher share of manufactures in gross commodity exports in the mid-eighties.

With manufacturing's greater contribution to the GDP and to export earnings, it has accounted for an expanding share of employment. Prior to independence, manufacturing was just a minor source of employment, accounting for 6.7 per cent of the country's labour force in 1947 and 6.4 per cent in 1957. However, by 1965, the manufacturing sector was employing 8.4 per cent of the work force. With the advent of more labour-intensive industries in the late sixties, manufacturing employed 11.4 per cent of the total labour force in 1970, increasing to 15.8 per cent in 1980, before the wave of work redundancies in the manufacturing sector in the eighties brought about a decline to 15.1 per cent in 1985 (see Table 2). The average annual growth rate of manufacturing employment of 7.6 per cent during the decade 1970-80 was considerably higher than the 4.1 per cent recorded for the economy as a whole.

3. INDUSTRIAL EMPLOYMENT AND WAGES

The growth in industry over the past thirty years has substantially affected the structure of the labour force. As shown in Table 2, the manufacturing labour force jumped from 135,700 in 1957 to 828,000 in 1985, an increase of about 510 per cent! Within the manufacturing industry itself, employment patterns have also changed, particularly in terms of ethnic and gender participation.

Malay manufacturing labour force participation has grown rapidly from just 19.6 per cent in 1957 to 28.9 per cent in 1970 and to 53.5 per cent in 1980, while the Chinese share of the manufacturing labour force has fallen from 72.0 per cent (1957) to 65.2 per cent (1970) and finally to 45.4 per cent (1980) over the same period (Table 3). This is not surprising in view of shrinking employment opportunities in peasant agriculture where

Malays have traditionally been concentrated, relatively faster Malay population and labour force growth rates, rising female labour force participation and government NEP efforts in raising Malay employment in the modern capitalist sector generally. Since manufacturing and services have been heavily concentrated in major urban centres on the West Coast, despite government efforts to disperse new industries⁹, Malay urbanisation has risen considerably, especially since the seventies. The proportion of Malays living in urban areas grew from 21 per cent in 1957 to 38 per cent in 1980.¹⁰ Hence, the growth of industry and services coupled with NEP restructuring stipulations have somewhat reduced the identification of ethnicity with economic function and urbanisation.

The tremendous rise in manufacturing employment has not been evenly distributed between the sexes either. Table 4 clearly suggests rising female participation in manufacturing employment, notably among Malay women. Female labour constituted almost two-thirds of the increase in the Malay manufacturing labour force between 1970 and 1980.¹¹ As shown in Table 5, the proportion of female labour in manufacturing increased substantially from only 10.7 per cent in 1957 to 29.0 per cent in 1970 and to 41.4 per cent in 1980, with the increase being most prominent in the electronics, textile and clothing sub-sectors. 46.7 per cent of all female workers in the manufacturing sector were in these sub-sectors in 1983, compared to only 6.5 per cent for male workers. This phenomenon of "crowding in certain jobs" is related to employer preferences and "job discrimination", also reflecting the nature of female socialization in Malaysian society. Women are presumed to be more proficient in routine tasks, requiring finger dexterity and patience (qualities desired by management for electronic assembly work and garment-making), and more likely to remain unorganized or poorly organized, docile and willing to accept low wages and inferior work conditions. Although women formed about a third of Malaysia's total work force in 1984, they accounted for only 26 per cent of the trade union membership.

The greater emphasis on export-oriented industries since the late sixties has also changed the distribution of the manufacturing work force. Employment shares in the export-oriented electronics, textile and clothing sub-sectors rose sharply from 7.7 per cent, 10.9 per cent and 4.9 per cent respectively in 1973 to 25.3 per cent, 10.1 per cent and 6.6 per cent respectively ten years later.

⁹ Cf., D. SPINANGER, *Industrialisation Policies and Regional Economic Development in Malaysia*, Singapore, Oxford University Press, 1986.

¹⁰ Cf. T. G. MCGEE, "Joining the Global Assembly Line: Malaysia's Role in the International Semiconductor Industry", in T. G. MCGEE *et. al.*, *Industrialisation and Labour Force Processes: A Case Study of Peninsular Malaysia*, Canberra, Australian National University, 1986.

¹¹ Cf. T. G. MCGEE, *op. cit.*

Import substitution in Malaysia has generally involved domestic assembly, packaging and final processing of finished goods — previously imported from abroad — by domestic labour, using machines and material still largely imported from abroad. The employment-generating capacity of such industrialization was limited by the typically capital-intensive foreign technology utilized, the weak linkages of these industries with the rest of the national economy, and also by the small domestic market available due to the limited and skewed purchasing capacity of the population. Using capital-intensive technologies, employers in import-substituting industries have generally been more capable of conceding real wage increases to labour since their wage bill accounts for a relatively small proportion of production costs.

In contrast, the success of export-oriented industrialization has been contingent on the government's ability to attract foreign investors seeking to lower production costs (especially labour costs) and thus to be more competitive in the international market. Precisely because of their use of labour-intensive production techniques, these industries tend to generate more employment directly, while being more sensitive to changes in wage costs. Since many such industries are considered to be "footloose" — i.e. easily capable of relocating if sufficiently attracted by circumstances elsewhere — the government tries to ensure that the investment climate remains attractive to the investors concerned, for fear of losing them to competing host governments.

In so far as an export-oriented industrialization strategy is primarily concerned with attracting and retaining such industries, its proponents have necessarily been committed to maintaining a relatively low wage policy, a "disciplined" labour force and other aspects of a "stable and attractive investment climate". Although a low wage policy does not completely preclude all possibility of real wage increases, it tends to keep wages down and may even depress real wage levels. In view of the government's continuing commitment to an export-oriented industrialization strategy, there is little likelihood of any rise in real wages not preceded by at least a commensurate increase in labour productivity. (It should be noted that in the past, increasing capital intensity in relation to labour productivity, as measured by the ratio of fixed assets to value added per worker, in itself, did not ensure real wage increase).

Table 6 shows the average monthly wage rates of all full-time paid employees for the years 1963, 1968, 1973, 1978 and 1983 — in current and 1968 prices respectively. Factory workers directly involved in the production process are distinguished from non-factory workers in the manufacturing sector. The average real wages of factory workers —

expressed in 1968 prices — rose from \$125 in 1963 to \$132 in 1968, then declined to \$111 in 1973, before rising again to \$124 in 1978 and \$177 in 1983. Meanwhile, average real wages (in 1968 prices) of non-factory employees in the manufacturing sector rose from \$305 in 1963 to \$346 in 1968, before declining to \$336 in 1973, and then rising again to \$367 in 1978 and \$434 in 1983. Average monthly wages (in 1968 prices) for all paid (including part-time) workers in the manufacturing sector similarly rose from \$161 in 1963 to \$176 in 1968, before declining to \$152 in 1973, and then rising again to \$180 in 1978 and \$246 in 1983. It is clear then that manufacturing sector wage rates generally rose between 1963 and 1968, then declined between 1968 and 1973, before rising again between 1973 and 1983. Also, non-factory workers appear to have fared relatively better than factory workers. Factory workers' share of wages declined relative to non-factory workers, especially between 1963 and 1978.

These wage trends reflect trends in industrialization policy and manufacturing sector employment. The 1963-68 period represents the mature phase of Malaysian import substitution. With relatively capital-intensive import-substituting industries employing relatively little labour in a heavily protected domestic market, industrial capital could afford to concede real wage increases since the wage bill typically comprised a relatively small proportion of production costs. With the advent of more labour-intensive export-oriented industrialization, in the late sixties, capital successfully depressed real wage levels, though not necessarily money wages.

Meanwhile, the wage share of value added declined from 0.37 in 1963 to 0.31 in 1968, and 0.25 in 1973, before rising again to 0.26 in 1978 and 0.30 in 1983. Table 7 which compares this in relation to the number of full-time paid employees in an enterprise, suggests a tendency for the wage share of value added to decline with increasing numbers of employees in medium-sized industrial enterprises (i.e. those employing more than four and less than 500). The decline in the wage share of value added between 1963 and 1978 suggests a probable increase in the profit rate over the period. The findings from Table 7 then suggest that, for medium-sized industrial enterprises — and probably for small ones as well, if we take unpaid and part-time family labour into account — there is a tendency for the profit rate to increase with the number of employees in the enterprise concerned. However, it is possible that the presence of relatively strong unions in large firms employing 500 or more employees has reversed this trend at that end of the scale. The declining wage share of value added has been accompanied by a rising ratio of value added to fixed assets per worker, from 0.98 in 1968 to 1.01 in 1973 (Table 6).

Real wage levels in the manufacturing sector in Peninsular Malaysia rose between 1963 and 1968, and then declined over the next half-decade.

With declining unemployment and a corresponding improvement in the bargaining position of labour in the following decade, wage levels improved in the manufacturing sector until the early eighties. Recent government policies affecting labour, and growing unemployment since 1982 have adversely affected manufacturing sector wage earnings once again.

Labour-intensive export-oriented industries have a tendency to be low-wage industries.¹² Besides the very nature of labour-intensive industries, the feminization of the labour force in many such industries (Tables 4 and 5) has helped maintain lower wages in this sector since women have generally been paid lower wages.

The electronics industry in Malaysia is now widely regarded as symbolic of Malaysian industrialization. And in many ways, it does symbolize the nature of Malaysia's industrial development. During 1973-81, employment growth in the electronics industry, by an average of 15.7 per cent per annum, was more than double the manufacturing sector average of 7.6 per cent. In the meantime, value added in the electronics industry grew by an average of 24.2 per cent, compared to 18.3 per cent for the entire manufacturing sector. By 1984, the electronics industry's gross output was estimated at \$5,924.8 million, employing 83,021 full-time workers who were paid \$531.8 million in salaries and wages. The Industrial Master Plan (IMP) provides a more detailed picture of the state of the Malaysian electronics industry in 1981. Gross output was valued at \$3896.9 million, of which inputs cost \$2704.4 million, while value added came to \$1,192.4 million, of which \$326.9 million consisted of wages and salaries accruing to 70,658 full-time workers. Hence, value added accounted for only 30.6 per cent of gross output value, with almost 70 per cent consisting of imported inputs, while the wages share of value-added came to only 27.4 per cent.

The IMP's comparison of labour costs and productivities in semiconductors/electronic components found the remuneration of the Malaysian worker to be absolutely much lower than their counterparts abroad: on average, it was only 11.7 per cent of a US worker's remuneration, 19.0 per cent of a Japanese worker's, 42.0 per cent of a Singaporean worker's and 71.0 per cent of a South Korean worker's. In contrast, value-added per Malaysian employee was 65.6 per cent of the Singapore average and 93.0 per cent of the South Korean average. Hence, not surprisingly, Malaysia had the highest ratio of value added to remuneration, exceeding the US by 56 per cent, Japan by 26 per cent, Singapore by 56 per cent and South

¹² Cf. O. MEMET, *Development in Malaysia*, London, Croom Helm; H. L. KHONG, "Export-Oriented Industrialization, Employment and Real Wages in Malaysia", *Kajian Ekonomi Malaysia*, XXIII, n. 2, December 1986.

Korea by 31 per cent. The IMP also found that in 1982, the components (as opposed to industrial and consumer electronics) share of electronics output was 85.6 per cent for Malaysia, compared to 31.9 per cent in Japan, 51.9 per cent in Singapore and 45.4 per cent in South Korea.

Malaysian labour laws have undergone various amendments in reaction to political and labour unrest, becoming increasingly restrictive and repressive in the process. Employers have been aided by government in securing a virtually unilateral wage determination process. Trade unions are supposed to exist to agitate for better wages, working conditions and security of employment through collective bargaining. One of the strongest weapons of a trade union is its ability or potential ability to impose substantial costs on employers through disruptive industrial actions. But in Malaysia, this weapon is subject to all kinds of constraints, thus losing most of its effectiveness. It should come as no surprise then that there is little incentive to form unions in Malaysia. In 1984, only 19 per cent of the 495,809 manufacturing employees were unionized.¹³ Of the 93,112 electrical and electronics workers in 1984, only 8 per cent were union members (none of whom were electronics workers), while the level of unionization in the textile sector was about 44 per cent in 1981. The level of unionization in the electrical and electronics sector is probably overstated since the trade union membership figures were for 1985, while the manufacturing employment figures were for 1984.¹⁴

The position of unorganized workers is especially precarious because they can be easily retrenched in case of a downturn in the economy. Women workers are even more vulnerable: owing to their social indoctrination, women tend to be more apathetic; the small minority who are union members are usually not active in their unions. For instance, less than 5 per cent of trade union principal officers in 1985 were women although women accounted for almost 27 per cent of trade union membership in Malaysia then. This places them in an unfavourable position, particularly if the trade union leadership is male dominated, and tends to neglect the plight of women workers. Women workers are often seen as a reserve army of labour: a flexible supply of workers who can be absorbed in an expansionary phase and thrown out when crisis sets in. Moreover, in Malaysia, non-unionized workers are often deprived of the redundancy compensation as provided for in the law, when they actually lose their jobs.

¹³ Cf. Ministry of Labour, *Labour and Manpower Report 1985-86*, Kuala Lumpur, 1987.

¹⁴ Figures were from Ministry of Labour, *Labour Indicators 1986*, Kuala Lumpur, 1986 and from Malaysia Department of Statistics, "Survey of the Manufacturing Industry" (1984), Kuala Lumpur (unpublished data), respectively.

Low wages and insecure employment in the manufacturing sector are portrayed as some of the sacrifices to be made in attempting to industrialize in the face of stiff international competition for investments and markets. In 1979, wages of directly employed workers in manufacturing were only \$2,811, compared to \$3,570 in construction, \$3,868 in bus transport, \$6,858 in stevedoring, \$4,816 in stone quarrying and \$4,117 in hotels. But the manufacturing sector was the most rapidly expanding sector in the seventies, and such low wages minimize indirect growth stimulation via the consumption effect. Under-consumption, arising from such low wages and skewed income distribution at the national level, contributes to low effective demand domestically and continued reliance on foreign demand, which leads to low multiplier effects. Moreover, the nature of international competition based on competitive social repression is inherently unstable, for the greater the reliance on labour-intensive, export-oriented industrialization for economic development and unemployment reduction, the greater the competition to impose repressive controls over labour in order to enhance productivity, discipline and the attractiveness of low wages to potential investors.

4. TECHNOLOGY TRANSFER

The kind of technology used in the industrial sector reflects enterprise choices in response to official policies, which generally favour imported capital-intensive technology. For instance, the Pioneer Industries Ordinance of 1958 granted tax relief on profits of pioneering firms depending on the size of capital investments. This principle was extended in the Investment Incentives Act of 1968 with import duty exemptions for capital equipment, investment tax credits and accelerated depreciation allowances, thus strengthening the official bias in favour of large capital-intensive industries as opposed to small-scale local industries. Chee¹⁵ has found that small-scale industries — crucial in developing local technology within existing domestic constraints — have been discriminated against in terms of fiscal incentives, credit allocation, technological support, access to industrial land and other facilities.

As a result of such industrial policies favouring capital-intensive industries utilizing foreign technology, Malaysia has become increasingly dependent on imported investment goods. Table 8 clearly shows that imports have consistently exceeded 40 per cent of gross capital formation since 1970. Between 1971 and 1985, Malaysia imported \$28 billion worth of machinery, \$10 billion worth of transport equipment, \$17 billion worth of metal

¹⁵ Cf. P. L. CHEE, *op. cit.*

products; total imported investment goods amounted to \$79 billion for 1971-85 or 43 per cent of gross investment in that period. Although massive, these figures probably still understate actual imports since domestically produced investment goods contain significant imported intermediate components. A continuing high import content in gross capital formation over the past 15 years casts serious doubts about the efficacy of the policy of technology transfer, one of the main official arguments for its policy of encouraging direct foreign investment.

Contrary to common presumption, direct foreign investments does not necessarily facilitate technology transfers. For instance, formal training programmes for local staff working in the electronic sub-sector — one of the fastest growing sectors under almost total foreign domination — are rare.¹⁶ Technological transfer at top management level is slow, and there have only been minor changes in production techniques, mostly assembly-type processes.¹⁷ According to O'Connor,¹⁸ there is an increasingly prevalent, but misguided view among policymakers that the establishment of an indigenous electronics industry is a prerequisite for industrialization. Most developing countries lack both a large potential market for advanced electronics goods and a technical base to support cost-efficient electronic manufacture. He further argues that the technological and industrial competencies necessary to support a fully integrated and internationally competitive electronics industry presuppose prior industrial development, whereas electronics production cannot be expected to provide the principal motor for such development.

4.1. TECHNOLOGICAL DEPENDENCE

Malaysia's continued dependence on foreign technology and the lack of serious and sustained official encouragement to develop indigenous technology has bred technological dependence. Stewart¹⁹ has described technological dependence as a situation where the country's technology comes mainly from abroad. Acknowledging Malaysia's technological dependence, the Coordinating Council for Industrial Technology Transfer (CCITT) was established in 1982 to facilitate technological transfer. Table 9 shows that the main technological transfer agreements approved by the

¹⁶ Cf. C. O. FONG, *Technological Leap: Malaysian Industry in Transition*, Singapore, Oxford University Press.

¹⁷ Cf. M. ANAZAWA, "Free Trade Zones in Malaysia", *Hokudai Economic Papers*, XV, 1985.

¹⁸ Cf. D. O'CONNOR, "Global Trends in Electronics: Implications for Developing Countries", World Bank paper, Washington D.C., 1985.

¹⁹ Cf. F. STEWART, *Technology and Underdevelopment*, London, Macmillan, 1978.

Ministry of Trade and Industry between 1970 and 1985 were technical and licensing agreements (52.6 per cent), followed by management contracts (11.6 per cent) and joint-venture agreements (11.0 per cent).

Generally, technical and licensing agreements, management contracts and joint-venture agreements recognize the continued control of the relevant technology by foreign companies. Under such agreements, hefty fees are paid for use of the foreign-owned technology even though actual technological transfers may not be very significant, e.g. in assembly type operations which form the largest industry group involved in technological transfer agreements. It is naive to believe that sufficient technology transfer will be allowed to enable the recipient to develop independent technological capacity and challenge and compete with the source of that technology. Firms are unlikely to allow the loss of their own monopolistic control over technology, by thus encouraging potential rivals. Technology is transferred in order to maximise profits, including those derived in the form of payments for technology.

Overdependence on imported technology often involves high costs, loss of control over crucial decisions, unsuitability of technology obtained, and the lack of effective indigenous, innovative and scientific technological capacity.

4.2. HIGH COSTS

Technology is supposed to enable "late comers" to avoid having to go through the difficult and costly process of developing technology from scratch. However, the costs of such technology transfer are considerable. Explicit financial costs include payments for the use of trademarks, patented products or processes, blueprints, technical data, trade secrets, management fees, technical advice, imports of plant and machinery and other intermediate capital equipment, etc. Implicit costs, on the other hand, include the range of restrictions and prohibitions on recipients, e.g. export restrictions, restrictions on sourcing of inputs (e.g. raw materials, equipment), technological lock-ins (e.g. obligatory purchase of equipment, spare parts and components from a particular source) which is often more expensive than alternative sources. Such provisions augment the long-run gains for the technology source, restrict competition and weaken development of indigenous technical capacity.

4.3. LOSS OF CONTROL

The quality and nature of investment, price levels, quantities produced, suppliers and purchasers, allocation of profits, etc., are divisions normally within the firm's control. Technological dependence removes many such decisions from local control, varying, of course, with the extent, nature and form of technological dependence. Direct foreign investments generally involve the most complete loss of control. In the case of foreign subsidiaries, the major decisions are made by the international head office consistent with the firm's global strategy, leaving only minor decisions in local hands. The situation is only slightly different in the case of joint venture agreements, which have been gradually displacing foreign branches and subsidiaries. Abdul Razak's survey²⁰ of 34 joint venture companies in Malaysia reported that the foreign partner controlled the key areas of research (88 per cent), manufacturing (85 per cent) and production (56 per cent), while the local partner only had full control over staff matters (recruitment and industrial relations) and public relations. Even though their equity holdings usually only provide them with a minority of voting rights, foreign firms still exercise effective control over ventures through their control over technology and markets. The local partner's dependence on the foreign partner for access to technology and markets weakens the former's bargaining position, usually resulting in terms highly favourable to the foreign partner. And since the technology market is powerful and developing country firms have a weak bargaining power at best, the use of foreign technology often leads to control of the relevant field by a few firms.

4.4. PROFITS

The government is a powerful ally of capital in undermining labour rights and bargaining power. In an effort to boost Malaysian industrialization drive, foreign investment has been actively encouraged. Malaysia regularly sends "investment missions" abroad to court potential investors. Official fiscal, monetary and physical incentive are numerous, and other indirect ways of earning profits and repatriating them abroad abound.

According to Mann,²¹ foreign investors in Malaysia earn higher rates of profit than anywhere else in the world. Between 1961 and 1970, foreign firms brought in about \$2,290 million, and repatriated \$4,000 million in the form of dividends and profits. Such huge profit outflows can have a

²⁰ Cf. A. ABDUL RAZAK, *op. cit.*

²¹ Cf. L. MANN, "Some Effects of Foreign Investment: The Case of Malaysia", *Bulletin of Concerned Asian Scholars*, October-December 1977.

devastating effect on a country's balance of payments position. Industrial profits are high in Malaysia for a variety of reasons: especially important are the industrial incentives offered and relatively low wage rates prevailing. Edwards²² distinguished four main types of industrial incentives:

- a) protection through tariff and non-tariff controls on imports, duty exemptions on imported inputs and duty drawbacks on exports;
- b) tax incentives;
- c) controls on entry;
- and d) provision of service on industrial estates and of finance at below market price.

4.5. PROTECTION

Edwards²³ found that investors in import-substituting industries valued protective barriers, while those in export-oriented industries regarded tax incentives as more important for increasing profits. His study showed that the effective rate of protection (ERP) for the whole manufacturing sector (excluding off-estate processing activities) in Malaysia increased from 25 per cent in 1962 to 50 per cent in 1966, 65 per cent in 1969 and 70 per cent in 1972. In some selected industries, the ERP increased especially rapidly; clothing recorded a rise from 25 per cent in 1962 to 400 per cent in 1972; electrical products from 35 per cent to 440 per cent in the same period. These highly protected industries enjoyed large monopoly profits. Without protection, 14 of the 39 industries surveyed by Edward would have incurred losses; the profits of \$346 million at the 1969/70 rates of protection would have dwindled to only \$25 million without protection.²⁴ Similarly, in a later study, Lee²⁵ found that ERPs for the whole manufacturing sector in 1978 were not much lower than in 1973 in spite of the proclaimed policy of reducing ERPs, as first enunciated in the Third Malaysia Plan in 1976.

Besides boosting profits, high levels of protection also hampered efforts to develop greater efficiency and international competitiveness among Malaysia's import-substituting industries. For instance, after the rise in 1978 of the import duty per bicycle from \$18 to \$60, retail prices of the

²² See C. EDWARDS, "Protection, Profit and Policy: An Analysis of Industrialization in Malaysia", Ph.D. thesis, University of East Anglia, 1975.

²³ Cf. C. EDWARDS, "Protection, Profits and Policy", *op. cit.*

²⁴ Cf. C. EDWARDS, "Protection, Profits and Policy", *op. cit.*, p. 108.

²⁵ See K. H. LEE, "Malaysia: The Structure and Causes of Manufacturing Sector Protection", in C. FINDLAY and R. GARNAUT (ed.s), *The Political Economy of Manufacturing Protection: Experiences of ASEAN and Australia*, Sidney, Allen and Unwin, 1986.

cheapest bicycle jumped from \$80 to \$140.²⁶ A similar situation exists in the cement industry — in 1984, the government slapped a fivefold tariff increase on imported cement to protect cement manufacturers, especially two new government-owned plants (in Kedah and Perak) commissioned in the early eighties. (The birth of the latter raised Malaysia's cement production capacity to 7.2 million metric tonnes, i.e. to double average annual domestic Malaysian demand in the mid-eighties). Sometimes, complete embargoes have been imposed by the government, e.g. on steel bars.²⁷

4.6. FISCAL INCETIVES

To encourage foreign investments, particularly in labour-intensive export-oriented industries, the 1968 Investment Incentives Act was promulgated, offering numerous fiscal incentives, mostly in the form of reductions in, or complete exemptions from, various taxes levied by the Malaysian government. Such incentives come in various forms — including pioneer status, investment tax credit, accelerated depreciation allowance, labour utilization relief, export incentives, locational incentives, local content concessions, etc. — and often seem to be contradictory in intent and practice. They are usually biased in favour of foreign companies with large investments, modern technology and sophisticated international marketing connections.

Tax relief ensures greater profits. Khor²⁸ has calculated that pioneer companies, formed about 9 per cent of all manufacturing firms, owned about half of the fixed assets, in manufacturing produced 34 per cent of the net output and obtained 33 per cent of the total operating surplus of the sector. The 36 per cent of pioneer companies which were foreign-owned, produced 65 per cent of pioneer companies value added and 67 per cent of the operating surplus. (Their \$446 million operating surplus was non-taxable, resulting in a loss of \$202 million in tax revenue calculated on the basis of the recently reduced corporation tax rate of 45 per cent). If other industrial incentives are added the true operating surplus and forgone tax revenue would be larger.

Several studies have shown that Malaysia's industrial incentives are excessive, being based on a misapprehension of investors' motives, who may in fact prefer greater freedom from bureaucratic red tape, easy

²⁶ See K. P. KHOR, "Industrial Policy in Malaysia: Problems and Prospects", *Kajian Ekonomi Malaysia*, XXIII, n. 1, June 1986, p. 43.

²⁷ Cf. K. P. KHOR, "Industrial Policy", *op. cit.*, p. 14.

²⁸ See K. P. KHOR, *The Malaysian Economy: Structure and Dependence*, Kuala Lumpur, Maricans, 1983.

repatriation of profits and cheap, abundant and disciplined labour to the vast array of incentives now available. It is not surprising then that new foreign investments have fallen far short of government expectations in response to its latest array of industrial investment incentives offered since the mid-eighties.

The growing technological dependence in Malaysian industry has resulted in growing royalty and other technology payments. Even if the technology supplied is of an inferior quality and/or obsolete, royalties are still payable. Such 'rents' on technology payments boost the profits of foreign investors or foreign partners (in joint ventures); such payments also reduce the taxes payable to the host government. A variety of arrangements prevail for the payment of royalty, including lump-sum once-and-for-all payments, fixed annual payments, initial payments plus running royalties based on output, gross or net sales, ex-factory value of sales (often subject to fixed minimum royalties), etc. In an extensive study of MNCs operating in six developing countries, Lall and Streeten²⁹ found that although royalty payments averaged only 2.1 per cent of sales, they served as an important channel for profit remittance. Using Lall's and Streeten's estimate of 2.1 per cent, Table 10 extends the analysis for Malaysian manufacturing to 1983. The reported gross profit of foreign companies in 1983 was \$1,110 million, and declared after-tax profits came to \$755 million. Royalty payments were estimated at \$351 million — 2.1 per cent of sales of \$16,701 million — at 32 per cent of gross profits or 46 per cent of after-tax profits. Had royalties been accounted for as a part of profits, instead of as a cost, after-tax profits would have risen by 46 per cent to \$1,106 million, instead of \$755 million. With royalties regarded as a cost, considerable tax revenue forgone, e.g. in 1983, tax on gross revenue was \$355 million instead of the \$467 million obtainable if royalties were considered profits — a difference of \$112 million, or 15 per cent of net profits and 32 per cent of actual tax collected. If royalties are classified as profits, then the after-tax rate of return on assets employed would have been 15 per cent, instead of 11 per cent, while the actual net income (net profits plus royalties) to assets ratio would have been 17 per cent.

Besides using royalty payments for indirectly remitting profits, foreign firms practise transfer pricing, whereby the exports or imports between branches/subsidiaries of a transnational firm are understated or overstated so as to maximise profits by minimising total tax payments. Transfer pricing occurs in inter-country transactions involving capital goods, payments for technical services and technology, and payment for goods. It is more

²⁹ See S. LALL and P. STREETEN, *Foreign Investment, Transnationals and Developing Countries*, London, Macmillan, 1977.

difficult to detect in case of the first two processes and therefore probably more wide-spread.³⁰

Suppose in Malaysia, with transfer pricing, export prices are undervalued by only 10 per cent and import prices are over valued by only 10 per cent, while other values and prices are correctly reported. Table 11 shows that with such transfer pricing, the rate of profit before tax more than doubled from 17 per cent to 39 per cent, or 135 per cent higher than reported. Expressed as a percentage of capital employed, the rate of pre-tax profit jumped from 17 per cent to 39 per cent.

With so many different ways of obtaining higher profits for foreign firms, it is surprising that in 1984, foreign manufacturing companies enjoyed higher returns of only 10.8 per cent, compared to 8.3 per cent for local manufacturing companies (Table 12). Also, the foreign companies share of net profits exceeded their share of assets employed by 6 percentage points. The discrepancy between foreign companies and local companies is greater where gross profit rates are concerned, while tax exemptions have increased the discrepancy in the performances of the foreign sector vis-a-vis the local sector.

Apart from taxes paid to the Malaysian government (barring pioneer status and other tax reliefs), the better returns enjoyed by foreign companies have been less utilized for reinvestments. In imperfect capital markets, profits are an especially important source of internal funds for further investments. Table 13 shows that foreign companies generally had far lower reinvestment rates than local companies, during the period 1975 to 1984 (except in 1981 and 1982). Though foreign companies obtained 36.2 per cent of total net profits in 1975-84, they were responsible for only 33.9 per cent of total net investments. The apparently lower rate of reinvestment by foreign companies can be attributed to their tendency to distribute their profits as dividends to shareholders or as investment income to their head offices abroad. From Table 14, it is clear that local companies have a far greater retention rate than foreign companies. Between 1979 and 1984, the difference between local companies' and foreign companies' profit retention rates consistently exceeded 30 percentage points, except in 1981 and 1983. The high degree of profit repatriation by foreign companies constitutes a substantial leakage from the economy, limits the multiplier effect, and depresses capital accumulation.

³⁰ Cf. S. LALL, "Transfer Pricing in Assembly Industries" in *Industrial Cooperation*, Commonwealth Economic Paper n. 11, London, Commonwealth Secretariat, 1978; C. EDWARDS, *Fragmented World*, London, Methuen, 1985; K. P. KHOR, *The Malaysian Economy*, *op. cit.*.

The profit and reinvestment trends of foreign companies have contributed to rising investment income paid to non-residents. Investment income encompasses profits, dividends and interest accruing to overseas shareholders (including their share of undistributed profits) plus other interest earned (from the company's investments). It is evident from Table 15 that there has been a substantial outflow of investment income from the manufacturing sector. In 1981, manufacturing investment income to non-residents amounted to \$680 million, while new foreign investment totalled \$745 million. By 1984, however, there was a net capital outflow — investment income accruing to non-residents exceeded new foreign investments. Also, although local manufacturing firms obtained 62 per cent of profits in 1984, they accounted for 91 per cent of the increase in net fixed assets, a pattern similar to that in 1981.

Together with other service payments (such as royalties, consultancy fees, payments for technical assistance, salaries to expatriate staff), investment income outflow contributes increasingly towards Malaysia's mounting invisible trade deficit (Table 16). Investment income outflows have escalated from \$355 million in 1970 to \$5101 million in 1986, while payments for other services have risen from \$145 million to \$1,702 million over the same period. With increasing technology dependence, technology-related payments will grow faster than the older form of profit repatriation.

5. INTER-INDUSTRY LINKAGES

Malaysia's industrial development has favoured capital over labour, as well as foreign firms and technology over local ones; this unbalanced industrial growth is reflected in weak inter-industry and inter-sectoral linkages.³¹ The expansion of an industry not only generates demand for inputs used, but also induces the expansion of other industries which use the commodities produced as inputs. The connections with supplier industries are known as 'backward linkages', while those with user industries are called 'forward linkages'.

Table 17 shows the interdependence of the Malaysian manufacturing sector in 1978. Clearly, in most industries, a substantial proportion of the forward and backward linkages are international, resulting in weak domestic linkages. Leakage ratios for both backward and forward linkage effects were particularly high (over 40 per cent) for transport equipment, machinery (including electrical/electronics), chemicals, petroleum products, textiles, iron and steel and shipbuilding sectors — all officially-encouraged industrial growth sectors.

³¹ Cf. MIDA, *The Industrial Master Plan*, *op. cit.*, p. 11.

These weak inter-industry linkages can be attributed to the peculiar nature of Malaysian manufacturing, where an extremely high proportion of total manufactured output originates from FTZs, which are industrial enclaves within the national economy. In 1983, exports from various FTZs accounted for 57 per cent of total manufactured exports and 14 per cent of total merchandise exports from Malaysia.³² This heavy concentration of Malaysian manufactured exports on FTZs, is exceptional even among countries which have FTZs.³³ To achieve more integrated industrial development, establishment of stronger linkages — especially backward linkages between the FTZs and the domestic economy — should be an important objective. The Malaysian government has been unsuccessfully trying to raise the level of local content of raw materials and intermediate goods in manufactured output to more than 50 per cent with the help of fiscal incentives.

A 1978 survey of Penang FTZs³⁴ found that 87.2 per cent of raw materials were imported, 9.6 per cent came from within the FTZs and 3.2 per cent were supplied by the domestic economy outside the zones. By 1983, the situation had actually deteriorated slightly, with the corresponding percentages being 87.8 per cent, 9.6 per cent and 2.7 per cent respectively. Local content also varies considerably among sectors, being particularly low for the electronics/electrical (2.3 per cent), textiles/clothing (1.4 per cent), plastics (6.8 per cent) and scientific equipment (4.1 per cent), subsectors in 1983. In a survey of 32 electronic firms in Malaysia, Cheong and Lim³⁵ found that 24 firms imported all their components; only eight obtained some parts from local ancillary firms, while those parts supplied did not require a high level of technology. The high import content of FTZ production is reflected in the small net export surplus between 1972 and 1983; total exports from the Penang FTZs amounted to \$11,854 million compared to total imports of \$9,823 million, yielding a domestic value added of only \$2,031 million, before taking into account profit repatriation, royalty and other fee payments.

Several reasons have been advanced for the reluctance of FTZ firms to buy local supplies despite attractive fiscal incentives. Import-intensive FTZ firms enjoy the advantage of importing raw materials and intermediate goods free from import duties, thus reducing the incentive to use local suppliers. Moreover, in order for FTZ firms to sell their goods in the

³² Cf. P. WARR, "Export Processing Zones: The Economics of Offshore Manufacturing", ASEAN-Australia Working Papers n. 17, Kuala Lumpur and Canberra, 1986, p. 184.

³³ See M. ANAZAWA, *op. cit.*, p. 100.

³⁴ See R. MAEX, *Employment and Multinationals in Asian Export Processing Zones*, Geneva, International Labour Organisation, 1983.

³⁵ Cf. K. C. CHEONG and K. C. LIM, *op. cit.*.

competitive world market, high quality goods at competitive prices are required, implying the necessity for cheap high quality inputs. The inability of local suppliers to compete with importers is partly due to the grafting of a rapidly growing enclave sector, largely situated in FTZs, on-to relatively inefficient and internationally uncompetitive import-substituting industries. Tariff protection and fiscal incentives for import-substituting industries, have unwittingly discouraged the emphasis on export competitiveness outside FTZs. Naturally, domestic firms are unable to supply raw materials and intermediate goods to FTZ firms at internationally competitive prices. This dualistic industrialization pattern — involving the coexistence, without integration, of protected import-substituting industries and grafted export-oriented industries (mainly found in FTZs) — has aggravated the problem of weak inter-industry linkages in the manufacturing sector.

The benefits from FTZs are limited. For countries in the early stages of industrial development, the zones can provide a means of absorbing surplus labour,³⁶ but they provide a temporary and modest solution to the unemployment problems of developing countries. Nor do they solve other problems, such as foreign exchange generation, underdevelopment of appropriate indigenous technology, industrial inefficiency and low productivity.

6. CONCLUDING REMARKS

The success or failure of the government's current economic strategy, as articulated in the IMP and the Fifth Malaysia Plan, hinges crucially upon the performance of the industrial sector. The government's policy instruments to promote industrial growth include a battery of incentives, aimed to liberalise industrial investment and reduce market distortions. Some of the major policy instruments to this end include:

- i) liberalisation of foreign investment;
- ii) reduction of public sector service charges for electricity, water, international telephone calls, telex services. etc.;
- iii) greater incentives for using local material as inputs;
- iv) reduction in protectionism and greater encouragement of export-oriented incentives;
- v) greater export promotion efforts;
- vi) concentration on a few selected industries with high potential;
- and vii) acceptance of the economics of location, i.e. virtual abandonment of regional dispersal efforts.

³⁶ See P. WARR, "Malaysia's Industrial Enclaves: Benefits and Costs", in T. G. McGEE *et al.*, *op. cit.*.

The IMP stresses the need to further develop natural resource-based industries as well as to upgrade indigenous technology and external competitiveness. This would require policy measures such as:

- a) reduction and rationalisation of tariff structure to limit excessive protection and promote efficiency;
- b) reduction of income tax on export earnings and strengthening the export credit scheme to encourage exports;
- c) relaxation of regulations, including licensing requirements and foreign equity ownership.

In line with this, foreign equity ownership conditions in the manufacturing sector were liberalized in July 1985, by linking the share of foreign equity ownership to the export share of total output. This was followed by further relaxation of the 1975 Industrial Coordination Act in 1985 and legislation of the Promotion of Investments Act in 1986. Additional incentives were also introduced in the 1986 and 1987 budgets while subsequently the government has introduced yet more incentives.

While the IMP acknowledges the incapability of Malaysia's industrial entrepreneurs (especially in terms of technology and organization) and the problems arising from the kind of state intervention that has taken place, it makes fairly predictable proposals focussing on technology, manpower and incentives. By ignoring the main reasons for the skewed character of the existing Malaysian market structure — largely attributable to the inequitable distribution of wealth, income and power, as well as the economic and ideological influence of transnational corporations — the IMP planners are left with little choice but to advocate yet more export-led industrialization.

In the process, they make crucial but unrealistic assumptions (e.g., an average GDP growth of 6.4 per cent yearly during 1986-95) and wishfully set arbitrary ten-year targets such as a billion ringgit worth of tyre exports and another billion ringgit worth of industrial electrical equipment in 1995 (from zero and \$ 87 million ringgit in 1981 respectively).

For years, one of the main arguments advanced by the Malaysian government in defence of foreign investment has been the need for technology transfer. However, this argument is faulty even in conception. It is implausible that trans-nationals reliant on their technological edge to ensure profitability will voluntarily surrender their special technological capacities to anyone else, especially potential competitors. This does not mean that no technology transfer will take place, but rather that such transfers are planned to maximize TNC profitability, not to lose it. Hence, it is naive to expect that such technology transfer can eventually develop an internationally competitive technological capacity in the host country.

Perhaps, the most welcome IMP proposal is for reducing of excessive protectionism, which has inequitably protected profits and inefficiency among the usually foreign-dominated local factories at the expense of Malaysian consumers.

It is increasingly acknowledged that achievement of the IMP goals will depend very much on progress in the first couple of years. Yet, it is also acknowledged that such progress depends heavily on reform of the related bureaucracy, legislation and policies, which is unlikely to be achieved in the near future, especially in view of the entrenched vested interests involved.

The twists and turns of official Malaysian industrialization efforts have also given rise to criticisms that the government lacked consistent and systematic long-term industrial planning, at least until the advent of the IMP. Even the IMP offers no programme to develop a coherent and integrated industrial base with strong linkages between specific industrial sectors.

Private sector interests also complain of lack of consultation and participation in the formulation of industrial policies. Medium and small local industrialists feel especially ignored and neglected by the relevant government authorities, which are often accused of being more concerned with the interests of big, especially foreign capital.

It has often been alleged that several major industrial decision have been made on political, rather than economic considerations, especially in case of efforts in the early eighties to promote heavy industries. It is beleived that several such projects were launched without adequate feasibility studies. Often, politicians and bureaucrats made crucial decisions and were put in charge of implementing such projects even though they lacked an adequate understanding or any competence in the issues involved. Usually, such projects involved joint-ventures, often with foreign firms, on terms unfavourable to the Malaysian government or the agency concerned — political interference, incompetence and corruption are alleged as the sources of such developments.

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Table 1a

MALAYSIA: SHARE OF MANUFACTURING IN THE GROSS DOMESTIC PRODUCT AND GROSS EXPORTS (IN CONSTANT 1970 PRICES)

Sector	1947	1957	1960	1965	1970	1975	1980	1985	1986
Manufacturing's share of GDP (%)	5.7 ^a	6.3 ^a	8.7 ^a	10.5 ^a	13.4	16.4	20.5	19.6	20.0
Manufacturing's share of gross commodity export (%)	n.a	n.a	n.a	n.a	11.1	20.9	20.6	32.1	42.3 ^b

Table 1b

MALAYSIA: GROWTH OF MANUFACTURING AND MANUFACTURED EXPORTS

Average Annual Growth Rate of Manufacturing in the GDP		Average Annual Growth Rate of Manufactured Exports	
Year	Percentage	Year	Percentage
1971-75	11.6	1971-75	27.5
1976-80	13.5	1976-80	24.9
1981-85	4.9	1981-85	14.3

Source: V. V. BHANOJI RAO, *National Accounts of West Malaysia, 1947-71*, 1976; Malaysia, *First Malaysia Plan 1966-70*, Kuala Lumpur, Gov. Printer, 1965; *Mid-Term Review of the First Malaysia Plan*; *Fourth Malaysia Plan 1981-1985*, Kuala Lumpur, National Printing Dept., 1981; *Mid-Term Review of the Fourth Malaysia Plan*, Kuala Lumpur, Nat. Printing Dept., 1984; *Fifth Malaysia Plan 1986-1990*, Kuala Lumpur, Nat. Printing Dept., 1986.

Notes:

^a Refers to Peninsular Malaysia only.

^b Estimate.

^c Average annual growth rates before 1970 are not calculated because the system of calculating National Accounts were changed as from 1969 onward.

Table 2

MALAYSIA: EMPLOYMENT IN THE MANUFACTURING SECTOR, 1947-85

Industry	1947 ^a	1957 ^a	1965 ^a	1970 ^a	1980 ^a	1985 ^a
Manufacturing's share of total employment (%)	6.7	6.4	8.4	11.4	15.8	15.1
Total employment in manufacturing sector	126.2	135.7	217.0	386.5	803.1	828.0

Source:

^a L. HOFFMAN and S. E. TAN, *Industrial Growth, Employment and Foreign Investment in Peninsular Malaysia*, 1980, Appendix AII.1^b Malaysia, *Fourth Malaysia Plan, 1981-1985*, *op. cit.*, Table 4-6.^c Malaysia, *Fifth Malaysia Plan, 1986-1990*, *op. cit.*, Table 3-5.

Note: Figures for 1947, 1957 and 1965 refer to Peninsular Malaysia only.

Table 3

PENINSULAR MALAYSIA: PERCENTAGE OF MALAYS AND CHINESE IN THE MANUFACTURING LABOUR FORCE, 1957, 1970, 1980

	Malays	Chinese	Total
1957	19.6	72.0	100.0
1970	28.9	65.2	100.0
1980	53.5	45.4	100.0

Source: T. G. McGEE, *op. cit.*, Table 2.5.

Table 4

PENINSULAR MALAYSIA: PERCENTAGE OF LABOUR FORCE IN MANUFACTURING, BY RACE AND GENDER, 1957, 1970, 1980 (%)

	Malays			Chinese			Total Population		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1957	2.2	3.5	2.5	14.4	7.1	12.6	6.9	4.2	6.2
1970	4.4	5.6	4.8	17.0	12.3	15.8	9.1	8.0	8.7
1980	9.1	24.5	14.2	17.0	22.3	18.7	12.4	18.1	14.3

Source: T. G. McGEE, *op. cit.*, Table 2.4.

Table 5

DISTRIBUTION OF MANUFACTURING EMPLOYMENT

	1957		1970		1980	
	Male	Female	Male	Female	Male	Female
All Manufacturing	89.3	10.7	71.0	29.0	58.6	41.4
Textiels and Clothing	59.0	41.0	39.2	60.8	27.3	72.7
Electronics	98.7	1.3	85.0	15.0	26.6	73.4

PROPORTION OF FULL-TIME FEMALE FACTORY WORKERS
IN MANUFACTURING, 1973, 1983

	1973		1983		
	Skilled	Unskilled	Skilled	Semi-skilled	Unskilled
All Manufacturing	42.0	46.0	52.4	49.3	56.4
Textiles	65.0	56.0	71.0	75.4	78.9
Clothing	95.0	95.0	99.6	94.8	93.0
Electronics	85.0	82.0	86.5	94.4	88.4

DISTRIBUTION OF MANUFACTURING EMPLOYMENT

	1968		1973		1983	
	Male	Female	Male	Female	Male	Female
All Manufacturing	100.0	100.0	100.0	100.0	100.0	100.0
Textiels	3.0	6.6	5.0	11.2	2.8	9.1
Clothing	0.3	6.6	0.6	8.6	0.4	9.3
Electronics	0.4	0.4	3.5	18.5	3.3	28.3
Others	96.3	86.4	90.9	61.7	93.5	53.3

Source:

Department of Statistics, *Population Census*, 1957, 1970, 1980;Department of Statistics, *Census of Manufacturing Industries*, 1968, 1973;

Department of Statistics, "Survey of Manufacturing Industries" (unpublished data).

Table 6

AVERAGE WAGES, VALUE ADDED AND FIXED ASSETS PER WORKER
IN THE PENINSULAR MALAYSIAN MANUFACTURING SECTOR

1963, 1968, 1973, 1978, 1983

		1963	1968	1973	1978	1983
Av. monthly wage of all full-time paid factory workers	(current prices)	119	132	131	202	383
	(1968 prices)	125	132	111	124	177
Av. monthly wages of all full-time and part-time non-factory workers	(current prices)	290	346	395	598	940
	(1968 prices)	305	346	336	367	434
Av. monthly wages of all paid (full-time and part-time workers	(current prices)	153	176	179	293	539
	(1968 prices)	161	176	152	180	249
Av. wages per worker		0.370	0.305	0.252	0.256	0.301
Av. value added per worker		—	0.98	1.01	—	—
Av. fixed assets per worker						

Source: Osman Rani Hassan and Jomo Sundaram, 1984 derived from

i) *Census of Manufacturing Industries*, 1963, 1968, 1973

ii) Khoo Khay Jin and Ikmal Mohd Said, 1979; Statistics Department, *Annual Survey of Industries*, 1978; Statistic Department, "Survey of Manufacturing Industries" (1983 unpublished data).

Table 7

WAGES AND SALARIES AS A PERCENTAGE OF VALUE ADDED
BY NUMBER OF EMPLOYEES, PENINSULAR MALAYSIA,
1963, 1968, 1973, 1981

Paid Full-time Employees	1963	1968	1973	1981
1-4	34	32	29	34
5-9	40	36	29	38
10-19	42	40	33	37
20-29	43	42	30	37
30-49	43	37	30	35
50-99	37	35	26	30
100-199	36	26	24	26
200-499	31	27	23	25
500 and above	35	28	24	30

Source: Department of Statistics, *Census of Manufacturing Industries*, 1963, 1968, 1973, 1981.

Note: Unpaid and part-time labour has not been considered. This is an important qualification especially relevant to family-type enterprises, which tend to employ relatively few full-time paid employees. This may partly explain the apparently lower wage share of value added for firms with the smallest number of employees.

Table 8

MALAYSIA'S DEPENDENCE ON IMPORTED
INVESTMENT GOODS, 1971-85 (\$ MILLION)

Year	GROSS IMPORTS OF INVESTMENT GOODS					Gross Capital Formation (Investment)	Imports as % of Investment
	Machinery	Transport Equipment	Metal Products	Other	Total		
1971	524	99	254	326	1,203	2,688	45
1972	534	239	272	339	1,384	3,061	45
1973	691	138	467	500	1,796	4,197	43
1974	1,274	244	794	989	3,301	6,615	50
1975	965	163	485	1,093	2,706	5,581	48
1976	966	282	597	1,216	3,061	6,342	48
1977	1,126	246	694	1,385	3,450	7,512	46
1978	1,374	354	948	1,367	4,043	9,048	45
1979	1,781	640	1,331	1,378	5,129	12,000	43
1980	2,579	919	1,767	1,766	7,030	15,090	47
1981	3,126	892	1,732	1,959	7,709	18,066	43
1982	3,157	1,597	2,068	2,217	9,038	22,745	40
1983	3,289	1,666	2,083	2,773	9,810	24,534	40
1984	3,625	1,340	2,099	3,707	10,771	25,391	42
1985	3,291	1,313	1,721	3,155	9,481	23,124	41
Total	28,302	10,132	17,312	24,170	79,912	185,994	43

Source: Data for 1971 to 1980 are from K. P. KHOR *The Malaysian Economy, op. cit.*, Table 10.1. Those for 1982 to 1985 are from Bank Negara Malaysia, *Quarterly Economic Bulletin*, December 1986.

Table 9

TYPES OF AGREEMENTS 1970-1985

Types of Agreements	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Total	(%)
1. Technical Assistance & Know-How	9	15	33	34	28	27	30	21	48	54	57	64	48	61	54	51	634	(52.6)
2. Management	—	1	13	5	3	12	7	7	11	13	13	6	10	13	17	9	140	(11.6)
3. Joint-Venture	—	2	7	6	7	6	6	4	7	8	14	22	14	14	10	6	133	(11.0)
4. Service	4	2	9	5	12	5	1	12	3	6	6	7	2	7	18	5	108	(9.0)
5. Trademarks/ Patents	3	2	4	3	6	1	5	—	4	4	4	8	8	7	2	1	62	(5.1)
6. Basic Engineering	—	—	—	—	—	—	—	—	—	—	5	5	4	4	6	—	24	(2.0)
7. Others	—	—	—	—	—	—	—	—	—	—	15	19	8	25	12	24	103	(8.6)

Source: T. G. McGEE, *op. cit.*

Table 10

EFFECT OF ROYALTY PAYMENTS ON PROFITS AND TAXES,
FOREIGN COMPANIES, MANUFACTURING SECTOR, MALAYSIA, 1983

	mil.	% assets
1. Sales	16,701	253
2. Gross Profit A	1,110	17
3. Royalty payments	351	5
4. Gross Profit B (with royalty)	1,461	22
5. Tax on Profit A	355	5
6. Tax on Profit B	467	7
7. After-tax Profit A	755	11
8. After-tax Profit B	994	15
9. After-tax Profit A plus Royalty payments	1,106	17
10. Assets employed	100	6,598

Notes and Source:

Row:

1. Obtained from Malaysia, Dept. of Statistics, *Financial Survey 1983*, Table 1.2, 1.3
2. Dept. of Statistics, *Financial Survey, 1983*, Tables 1.2, 1.3
3. Assumed at 2.1% of sales (See Text)
4. Row (2) plus Row (3)
5. Dept of Statistics, *Financial Survey 1983*, Table 1.2, 1.3
6. Assumed to be 32.0% of Row (4), the same tax ratio as Row (5) on Row (2)
7. Row (2) minus Row (5)
8. Row (4) minus Row (6)
9. Row (7) plus Row (3)
10. The average of assets employed (i.e. fixed assets plus stocks and stores) at 31.12.82 and 31.12.83 (obtained from Dept. of Statistics, *Financial Survey 1978*, Tables 2.2, 2.3, 3.2, 3.3)

Table 11

POSSIBLE EFFECTS OF TRANSFER PRICING ON PROFITS OF FOREIGN
AND MALAYSIA MANUFACTURING COMPANIES, 1984

	Reported Values		Indipendent	"True Values"	
	(\$ mil)	(% of capital employed)	Prices as % of Reported Prices	(\$ mil)	(% of capital employed)
	(1)	(2)	(3)	(4)	(5)
<i>Revenue</i>					
Direct Exports	8,553	129	110	9,408	141
Others	9,339	140	100	9,339	140
Total	17,892	269		18,747	282
<i>Material Purchases</i>					
Direct Imports	6,462	97	90	5,816	87
Others	7,474	112	100	7,474	112
Total	13,936	210		13,290	200
Other Costs	2,846	43		2,846	43
Profits Before Tax	1,110	17		2,611	39
Capital Employed	6,650	100		6,650	100

Notes and Source:

Column 1: Obtained from Department of Statistics, *Financial Survey of Limited Companies Malaysia 1984*, Tables 1.2, 1.3, 2.2, 2.3, 6.2, 6.3.

Column 3: Assuming an incidence of 10% of 'transfer pricing' on both exports and imports.
Profit Before Tax = Revenue less material purchases less other costs

Capital Employed = Average of values of next fixed assets and stocks and stores as at 31.12.1983 and 31.12.1984

See K. P. KHOR, *The Malaysian Economy, op. cit.*, Table 14.6.

Table 12

PROFITS AND PROFIT RATES OF LOCAL AND FOREIGN COMPANIES,
MALAYSIA 1984 (\$ MIL)

	Manufacturing	All Industries
1. Assets Employed:		
All firms	21,077	54,721
Local Companies	14,244	38,394
Foreign Companies	6,833	16,327
2. Gross Profits;		
All firms	2,679	18,079
Local Companies	1,569	12,952
Foreign Companies	1,110	5,127
3. Net Profits:		
All firms	1,923	10,696
Local Companies	1,184	7,575
Foreign Companies	739	3,121
4. Foreign Co. Share (%) in:		
Assets Employed	32.4	29.8
Gross Profits	41.4	28.4
Net Profits	38.4	29.2
5. Gross Profit Rate:		
All Firms	12.7	33.0
Local Companies	8.3	19.7
Foreign Companies	10.8	19.1
6. Net Profit Rate:		
All Firms	9.1	19.5
Local Companies	8.3	19.7
Foreign Companies	10.8	19.1

Source: Department of Statistics, *Financial Survey of Limited Companies, Malaysia 1984*, Tables E, G, 2, 2.1, 2.2., 2.3

Table 13

RATES OF REINVESTMENT OF LOCAL AND FOREIGN COMPANIES,
MALAYSIA 1974-84 (%)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1975-84
Local	131	96	70	73	42	48	59	57	38	45	54
Foreign subsidiary	99	18	16	41	32	41	82	82	45	51	52
Foreign branen	53	17	41	34	41	29	75	152	29	5	46
All foreign companies	81	17	29	37	37	35	79	119	36	24	49

Source: Data for 1975 to 1978 from K. P KHOR, *The Malaysian Economy, op. cit.*, Table 11.6
Data for 1979 to 1984 are from
Department of Statistics, *Financial Survey of limited Companies* (various years).

Table 14

DIVIDENDS AND UNDISTRIBUTED PROFITS, LOCAL
AND FOREIGN COMPANIES, MALAYSIA, 1979-84

		Net Profits (1)	Dividends Paid-Out (2)	Undistributed Profits (3)	(%)
1979	Foreign	2,353	1,537	816	35
	Local	3,941	820	3,121	79
1980	Foreign	2,316	1,596	720	31
	Local	4,632	1,126	3,506	76
1981	Foreign	2,320	1,057	1,263	54
	Local	4,637	2,131	2,506	54
1982	Foreign	2,382	1,900	482	20
	Local	4,955	2,867	2,088	42
1983	Foreign	3,007	2,646	361	12
	Local	4,966	3,042	1,924	39
1984	Foreign	3,121	2,771	350	11
	Local	7,575	3,783	3,792	50

Source: Department of Statistics, *Financial Survey of Limited Companies, Malaysia*, 1979 to 1984, Table C.

Table 15

INVESTMENT INCOME AND NEW FOREIGN INVESTMENT IN MALAYSIA
MANUFACTURING, 1981 AND 1984

	1981	1984
Investment Income Accruing to Non-residents from Manufacturing (\$ million)	680	1,116
New Foreign Investment in Manufacturing (\$ million)	745	871
Percentage of Net Profit Accruing to local Manufacturing Firms	35	62
Percentage of Increase in Net Fixed Assets Accounted for by local Manufacturing Firms	57	91

Source: Department of Statistics, *Financial Survey of Limited Companies, Malaysia*, 1981 and 1984, Tables 1, 1.1, 2, 2.1, 7 and 8.

Table 16

MALAYSIA: SERVICES ACCOUNT, NET PAYMENTS, 1961-85
(million ringgit)

	Freight and Insurance	Other Transportation	Travel	Investment Income	Government Transactions	Other Services	Total
1961	-133	4	-67	-231	145	-54	-336
1962	-145	3	-70	-177	131	-49	-307
1963	-156	3	-69	-195	151	-55	-321
1964	-154	25	-74	-230	197	-79	-365
1965	-162	-25	-80	-255	225	-83	-380
1966	-165	2	-78	-313	185	-78	-453
1967	-170	9	-69	-144	132	-91	-351
1968	-186	-12	-73	-154	125	-100	-400
1969	-247	-14	-96	-334	105	-116	-702
1970	-304	-21	-105	-355	68	-145	-862
1971	-322	-34	-106	-363	52	-105	-878
1972	-309	-35	-101	-378	25	-108	-906
1973	-420	49	-94	-659	29	-102	-1197
1974	-714	82	-39	-997	43	-118	-1743
1975	-621	98	-105	-727	47	-414	-1722
1976	-726	94	-151	-1097	36	-304	-2148
1977	-883	158	-196	-1276	22	-411	-2586
1978	-1061	143	-324	-1716	5	-384	-337
1979	-1318	21	-553	-1991	-13	-1004	-4858
1980	-1781	-56	-885	-1820	-7	-1264	-5813
1981	-2008	7	-672	-1836	7	-810	-5312
1982	-2154	154	-775	-2679	29	-1151	-6576
1983	-2132	53	-1104	-4208	35	-1742	-9098
1984	-2120	-99	-1249	-5255	23	-2113	-10813
1985	-1732	-28	-1392	-5665	27	-1806	-10596
1986	-1393	n.a.	-1345	-5101	n.a.	-1702	-9541

Source: Bank Negara Malaysia, *Quarterly Economic Bulletin*, various issues.
Bank Negara Malaysia, *Annual Report 1986*.

Note:
n.a. Not available

Table 17

MALAYSIA: GROWTH OF EXPORTS AND IMPORTS
OF MANUFACTURED PRODUCTS, BY INDUSTRY GROUP, 1973-81

Industry Group	Exports in current prices (\$ mil)		Average annual growth rate (%)	Imports in current prices (\$ mil)		Average annual growth rate (%)	Share of export (%)		Share of Import (%)		Export Ratio (%) Export/Output		Import Ratio (%) Import/Output	
	1973	1981		1973	1981		1973	1981	1973	1981	1973	1981	1973	1981
Food products	129.9	569.4	20.3	551.9	1549.7	13.8	11.7	9.1	11.2	7.1	6.9	6.3	29.2	17.1
Beverages and tobacco	20.6	29.8	4.7	67.2	200.0	14.6	1.9	0.5	1.4	0.9	4.4	2.4	14.4	15.8
Textiles	119.6	784.2	26.5	156.7	786.8	10.4	10.8	12.5	7.2	3.6	28.8	38.4	85.9	38.5
Wood products	277.3	512.5	6.0	14.8	57.3	18.4	25.0	8.1	0.3	0.3	31.1	21.5	1.6	2.4
Paper & pulp printing & pub.	9.8	48.4	22.1	165.6	525.8	15.5	0.9	0.8	3.4	2.4	15.6	15.6	261.7	169.0
Chemical products	78.1	216.2	14.8	537.1	2172.1	19.1	7.0	3.8	10.9	10.0	14.0	11.5	96.2	105.5
Petroleum products	102.1	225.4	10.4	384.2	2481.9	26.3	9.2	3.6	7.8	11.4	43.0	6.3	162.0	69.4
Rubber products	21.1	82.7	18.6	27.0	99.3	17.7	1.9	1.3	0.5	0.5	1.8	2.1	2.3	3.7
Non-metallic	14.6	50.9	16.9	92.8	403.7	20.2	1.3	0.8	1.9	1.9	6.0	3.8	37.9	30.3
Basic metal	11.8	61.9	23.0	473.2	1980.6	19.6	1.1	1.0	9.6	9.1	4.8	6.5	191.6	208.7
Fabricated metal	37.4	149.7	18.9	162.2	621.2	18.3	3.4	2.4	3.3	2.9	10.2	12.5	44.5	52.0
Machinery	79.3	182.9	11.0	881.0	3744.6	19.8	7.1	2.9	17.9	17.3	38.5	20.0	428.1	410.2
Electrical/Electronics	25.9	1059.2	31.6	262.6	3774.6	39.5	2.3	48.6	5.3	17.4	6.3	70.1	63.8	86.5
Transport equipment	14.9	81.0	10.7	642.6	2364.9	17.7	3.3	1.3	13.1	10.9	15.8	7.3	274.6	207.6
Other														
Manufacturing	147.0	208.4	4.5	304.1	927.5	15.0	13.1	1.3	6.2	4.3	50.4	58.0	518.1	258.1
Total														
Manufacturing	1111.9	6284.6	24.2	4923.0	21690.4	20.4	100.0	100.0	100.0	100.0	14.5	18.2	64.1	62.9

Source: MIDA, *op. cit.*