



INSTITUTE OF SOUTHEAST ASIAN STUDIES, SINGAPORE

# LOCATION FACTORS AND LINKAGES AT THE INDUSTRIAL ESTATES OF MALACCA TOWN

Anton van Naerssen

## CONTENTS

	Page
<b>PREFACE</b>	i
<b>LIST OF TABLES AND FIGURES</b>	iii
<b>I: INTRODUCTION</b>	1
<b>II: LOCATIONAL FACTORS</b>	8
<b>III: LINKAGES</b>	19
<b>IV: SUMMARY</b>	30

## I: INTRODUCTION

Malacca is a town of about 110,000 inhabitants. Its function is mainly confined to the State of Malacca, one of the smallest states in Peninsular Malaysia with a land area of about 640 square miles (1.2% of the whole). Apart from Malacca town, the state only has smaller places like Jasin and Alor Gajah which do not exceed 10,000 inhabitants. About 75% of the population of the State, which in 1970 numbered about 400,000, live in rural areas. Malacca is the urban focus of the State and shows a concentration of commercial and services activities. It gives off the breath of a provincial town but it has two conspicuous characteristics in contrast with most other towns of comparable size in Peninsular Malaysia. It has a great past recognizable in the centre, which still preserves its surprising peculiar identity, adding a special flavour to the town. Moreover, considerable industrialization has taken place.<sup>1</sup> In 1970 there were over 3,100 workers in manufacturing industries,<sup>2</sup> and in 1978 their number had risen to an estimated 12,500. Reasons for this increase in the number of jobs were several industrial estates where, particularly in 1974-75, new firms started production.

An important impetus to the founding of these estates was given by the withdrawal of the Commonwealth Forces from their Training Centre at Terendak, not far from Malacca town. The impetus to the founding of these estates was given by the retrenchment of civilian employees which also affected the retail and services sector of Malacca town. The Commonwealth Forces Training Centre was "... the most important generator of income outside agriculture and the government sector" in the State.<sup>3</sup> After the withdrawal of the Forces in 1970, unemployment rose sharply and at one stage amounted to 25% of the existing labour force.

---

1 Compared with other towns of about the same size, see pages 6 and 7.

2 Malaysia, Department of Statistics, "Key Statistical Indicators for Malacca," 1974, Table 2.1, excluding those engaged in cottage industries.

3 Jean Currie, "The Economy of Melaka Today and Tomorrow," in *Melaka: The Transformation of a Malay Capital*, ed. K.S. Sandhu and Paul Wheatley (Oxford University Press, forthcoming).

Given the lack of natural resources within the State, these circumstances forced the government of Malacca to look for possibilities to attract manufacturing industries.

### The New Industrialization in Malaysia

At the same time a change took place in Peninsular Malaysia's industrialization process. The previous decade had already seen a high industrial production growth rate, the average yearly growth at the time being 10% and the share of industry in Malaysia's Gross National Product (GNP) rising from 8.5% in 1960 to 13% in 1970. This high growth rate was to be maintained, but the nature of the industrialization process started changing. It was felt that the import-substitution phase in Malaysia had reached its limits and it had been decided at the Federal level that future industrialization should take place by attracting foreign capital and by producing for overseas markets. Coincidentally, at the international level, many multinational firms were looking for opportunities to relocate factories in low wage countries producing for markets in the industrialized world, a process known as export-oriented industrialization. Countries like South Korea, Taiwan and Singapore had already put their development strategy on this basis.<sup>4</sup> Malaysia followed their example.

Industrial export was traditionally based on processed raw materials of Peninsular origin, especially rubber and wood. Although exports of these types of products have grown and their range has expanded through the rapid increase in palm oil production and fruit canning, most of the increase in industrial exports nowadays is due to the establishment of assemblage industries attracted by the availability of cheap labour. They caused an increase in industrial exports which in 1978 already amounted to 20% of the total export value. The share of the manufacturing industry in the GNP reached the figure of 19%.

This "new industrialization" was greatly encouraged by the adoption of several incentives formulated in the 1968 "Investment Incentives Act". Its most important elements are the "pioneer status" under which relief from

---

<sup>4</sup> See also F. Fröbel, J. Heinrichs, O. Kreye, "Tendency Towards a New International Division of Labour," *Economic and Political Weekly*, Vol. XI (1976), pp. 159-170; and N. Vitral, ed., *Export Processing Zones in Asia: Some Dimensions* (Tokyo: Asian Productivity Organization, 1977).