



INSTITUTE OF SOUTHEAST ASIAN STUDIES

TECHNOLOGY AND SKILLS IN MALAYSIA

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Industrialization in Malaysia

Past Trends and Patterns

Prior to Independence in 1957, Malaysia's industrial development was embryonic and geared mainly to the processing of primary commodities. The manufacturing sector was characterized by a preponderance of small establishments and low capitalization (Wheelwright 1963). It was only after the promulgation of the Pioneer Industries Ordinance of 1958 that industrialization became a firmly-based policy objective for Malaysia's national development. Since then and up to 1980, the manufacturing sector has become the most dynamic and the fastest growing sector in Malaysia. On average, the annual rate of growth was 11.5 per cent in the 1960s and 12.5 per cent in the 1970s or about twice the growth rate of real GDP. With this, the share of manufacturing in GDP rose from 8.7 per cent in 1960 to 12.2 per cent in 1970 and 20.5 per cent in 1980. The rapid growth achieved in this sector appears to hold out the promise that the obstacles to economic development can be effectively reduced. This promise has, however, been punctuated by the slower growth in the early eighties (4.9 per cent per annum during the period 1980-83) which is a reflection of the sector's vulnerability to the overall slowdown of the world economy.

In terms of employment, the share of manufacturing increased from less than 9 per cent in the 1960s to about 15.5 per cent in the early 1980s. The growth of employment in the manufacturing sector not only surpassed the population growth rate but also that of total employment in the country. In the 1970s, the growth rate of manufacturing employment was about triple that of population growth and double that of total experienced labour force (Aziz Othman and Tee 1984).

The rapid growth of the manufacturing sector in the 1960s and 1970s was accompanied by rapid structural changes in products, exports, and size as well as in ownership and employment. It was initially based on the processing and/or packaging of domestic resource-based products, mainly rubber and wood products and food. But over the years rapid shifts in the structure have been evident. As shown in Table 1, in 1963, 56.0 per cent of value added or 60.3 per cent of employment in the manufacturing sector was accounted for jointly by four major sub-sectors: food products, timber-based products, rubber products, and beverages and tobacco. By 1982, the combined shares of these sub-sectors of manufacturing had declined considerably to less than 40 per cent