

INDUSTRIAL GROWTH,
EMPLOYMENT, AND
FOREIGN INVESTMENT
IN PENINSULAR MALAYSIA

LUTZ HOFFMANN

Regensburg University

and

TAN SIEW EE

Universiti Sains Malaysia

*Published for the Institut für
Weltwirtschaft, Kiel*

KUALA LUMPUR

OXFORD UNIVERSITY PRESS

OXFORD NEW YORK MELBOURNE

1980

Oxford University Press
OXFORD LONDON GLASGOW
NEW YORK TORONTO MELBOURNE WELLINGTON
KUALA LUMPUR SINGAPORE HONG KONG TOKYO
DELHI BOMBAY CALCUTTA MADRAS KARACHI
NAIROBI DAR ES SALAAM CAPE TOWN

©Oxford University Press 1980

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of Oxford University Press

ISBN 0 19 580415 5 (boards)

ISBN 0 19 580416 3 (hmp)

M
335. 095951
HOF

132995

*Printed in Singapore by Dainippon Tien Wah Printing (Pte) Ltd.
Published by Oxford University Press, 3, Jalan 13/3,
Petaling Jaya, Selangor, Malaysia*

26 MAY 1980
Perpustakaan Negara
Malaysia

Foreword

THIS book is part of a series of fifteen country studies on 'Import Substitution and Export Diversification in the Industrialization of Selected Developing Countries', carried out by the Kiel Institut für Weltwirtschaft under the direction of Juergen B. Donges and Herbert Giersch, with financial support provided by the German Research Foundation (Deutsche Forschungsgemeinschaft, Sonderforschungsbereich 86/IA). The other fourteen country studies are published by the Kiel Institute. They cover Brazil, Colombia, Egypt, Hong Kong, India, Israel, Mexico, Pakistan, Singapore, South Korea, Spain, Taiwan, Turkey, and Yugoslavia.

The basic idea behind the common framework for these studies was to compare and contrast the industrialization experience of developing countries with different policy combinations, to derive and evaluate the conditions for both the need and the success of a spill-over from import substitution to export expansion, and to assess the potential for future flows of manufactures from developing to developed countries. As the countries differ in their industrialization and trade policies as well as in their size, location, and culture, each study must speak for itself.

Like the other studies, it is hoped that this volume on Malaysia by Lutz Hoffmann and Tan Siew Ee will provide a useful source of information for academic development economists and help to stimulate discussion on industrialization and trade policies in Malaysia and elsewhere.

*President of the
Institut für Weltwirtschaft
and Chairman of the
Sonderforschungsbereich*

HERBERT GIERSCH

Acknowledgements

IN undertaking the research for this book the authors have, as usual, received substantial support from various institutions and individuals. We are indebted to the members of the Kiel Institute of World Economics who are in charge of the other country studies¹ and particularly to Juergen Donges, who co-directs the project, and Helmut Reisen for their helpful comments on an earlier draft. We have also benefited from recommendations made by an anonymous reader. Chapter III, Section 2, draws heavily on a study of effective protection in Malaysia by Kurt von Rabenau, while Bernhard Weber was a co-author in Chapter IV, Sections 1-3. Chapter VII could not have been written without the thorough investigations made by Thilo Bode and Thomas Müller-Debus.

On the technical side we profited enormously from the excellent programming and data-handling capabilities of Dietmar Achter, Jürgen Bielka, and Reimar Kaeding. Our colleague Walter Oberhofer was always available for advice whenever we encountered problems with our regressions. Mrs. Ingeborg Kolodie, who typed the entire manuscript including the vast number of tables with much skill and accuracy, deserves our special thanks and appreciation.

The draft manuscript originally included a rather voluminous appendix of tables which has been omitted here. These contained mainly the detailed results of a survey (HEX) of 338 manufacturing establishments in West Malaysia which the authors carried out in 1974 with the collaboration and support of the Economic Planning Unit (EPU), Federal Industrial Development Authority (FIDA), Ministry of Trade and Industry, and the Statistics Department. The invaluable assistance rendered by officials in these departments is highly appreciated. We are also grateful to David Lim for his help in selecting interviewers for our Survey. For those interested, a limited number of copies of the Appendix-Tables of the HEX are available from the authors.

*Universität Regensburg,
West Germany,
February 1978*

LUTZ HOFFMANN
TAN SIEW EE

¹A list of the other country studies of the Kieler Studien series is given at the end of this book.

Contents

<i>Foreword</i>	v
<i>Acknowledgements</i>	vii
<i>Tables</i>	xiii
<i>Appendix Tables</i>	xvii
<i>Abbreviations</i>	xviii
I INTRODUCTION	1
1. Background Information on Malaysia	1
2. Outline and Summary of Major Findings	2
II THE GROWTH OF MANUFACTURING	11
1. Industrial Growth in West Malaysia—An Overview	11
2. The Emergence of a Manufacturing Nucleus	12
3. Structural Characteristics of the Early Manufacturing Industries	15
A. Size Distribution	15
B. Legal Organization	18
C. Regional Distribution	21
D. Major Industry Groups	24
4. Competitive versus Complementary Growth	25
III GOVERNMENT POLICY TOWARDS INDUSTRY AND ITS IMPACT	35
1. Tax Incentives	35
A. Pioneer Legislation	36
B. Growth and Structure of the Pioneer Sector	36
C. The Opportunity Costs of Pioneer Status	39
D. Benefits versus Redundancy of the Pioneer System	44
E. Pioneer Status as Compared to Other Tax Incentives	49
F. Some General Considerations Concerning Tax Incentives	50
2. Protection from Foreign Competition	52
A. From Revenue Tariffs to Tariff Protection	52
B. Nominal Tariff Protection of Domestic Sales	57