

The Meeting With Members Of The Industrial And Power Committee Of The Egyptian Senate

Cairo, Egypt 18 June 2000

" MALAYSIA'S EXPERIENCE IN INDUSTRIALISATION"

During the colonial period Malaysia, or rather Malaya, was the biggest producer of tin and rubber in the world. There was hardly any manufacturing industry. Practically all manufactured goods had to be imported.

2. After independence in 1957 the problem of unemployment became more serious as the tin and rubber industries provided few job opportunities. The only way to create jobs was to go into manufacturing.

3. But Malaysians had no experience in manufacturing, no technology, no capital and no management know-how or marketing skills. In those days countries wishing to industrialise had to depend on local entrepreneurs willing to risk the little capital they had and buy or steal technology or pay prohibitive royalty. There was no way for them to produce and compete in the international market.

4. Japan was about the only country which successfully industrialised on its own. But Japan had indigenous skills in various crafts and was familiar with metals. Most countries, and certainly Malaysia, had no such background. Besides the colonial masters ensured that we were limited to producing commodities. Over time we believed that producing manufactured goods required some kind of extraordinary skills and even some magic which was beyond us.

5. But early after independence we realised that unless we could create jobs for our people we would be faced with serious social and political problems. We would in fact become poorer and poorer and be worse off than when we were colonies.

6. The little industrialisation that we managed by ourselves was in import substitute products. But what we produced with our primitive factories were inferior to imports and invariably cost more. We had to impose high import duties in order to protect our products. This only deprived our people of much needed manufactured goods to improve their standard of living. Wages and incomes could not rise, so that the local market could not absorb local products in sufficient volumes to increase production efficiency. There was no way to export our inferior goods as they could compete neither in quality nor in price.

7. It seemed that Malaysia was doomed to remain a producer of natural commodities and to remain backward and poor. But we decided to change our mindset and to invite foreigners to use Malaysia as an industrial base for their products for the world market. However we were not too confident that our workers could master the skills of manufacturing.

8. At that time the Japanese were producing and marketing superior and cheap goods for world markets. The Europeans with their high cost of labour etc could

not compete with the Japanese. To lower their cost they had to move to low labour cost countries. And so Malaysia's offer of a cheap manufacturing base was hesitantly accepted.

9. To make manufacturing in Malaysia more attractive the Government offered a ten years tax holiday during which time there would be no corporate tax or tax on products exported to foreign markets. Bureaucratic hassles were minimised and illegal gratification of any kind was strictly dealt with.

10. The foreign investors soon found that the skillful, low-paid and disciplined Malaysian work force enabled them to reduce their cost and make their products competitive. The investments increased tremendously and soon Malaysian exports of manufactured goods exceeded exports of rubber, tin and even petroleum. Today 80 per cent of Malaysia's exports are made up of high-value electronic and electrical goods.

11. Initially Malaysia encouraged labour intensive industries so as to reduce unemployment. The policy was so successful that today we have almost two million foreign workers, a large number of whom work in foreign manufacturing companies.

12. But the benefits to Malaysia go beyond that. Malaysians acquired skills in manufacturing, in the management of sophisticated manufacturing facilities and systems and in marketing. Soon local companies began to produce the component parts and finally complete products of Malaysian designs and brands. The spin-off is not limited to the industries which were introduced by foreign investors. Malaysians began to venture into many new industries as Malaysian entrepreneurs feel more confident in their own ability and in the skills of the Malaysian work force. Today locals produce a wide range of quality products which are marketed worldwide. Few now question Malaysian skills or the quality of Malaysian products.

13. The Government plays a very big role in the Malaysian industrialisation process. Industrial Master Plans were drawn up to give direction to the overall process. Certain industries are targeted and given special incentives and help. Funds were set up and banks are urged to be supportive of certain industries during each plan period.

14. Marketing teams were sent out by the Government headed by the Minister of International Trade and Industry to persuade foreign industrialists to invest in Malaysia. Malaysian entrepreneurs were put into contact with foreign partners during these promotional trips. As a result there were many joint ventures.

15. For 100 per cent export oriented industries 100 per cent foreign ownership is allowed. If the goods are to be sold in the local market the usual import duty has to be paid. Alternatively Malaysians should hold shares in the company.

16. The Malaysian Government is business friendly. We practice the concept of Malaysia Incorporated in which Malaysian civil servants and political leaders are required to be as helpful to the private sector as possible. We recognise that the

private sector, whether local or foreign is contributing to our economic development. Besides many of them pay corporate and other taxes and the more profit they have the more taxes will the Government collect. And of course the salaries of the Government servants are paid from these taxes. In fact even Government development for the people comes from these taxes. So it pays for us to help the companies make profits.

17. The result of this business friendly attitude of the Government is that the country is able to attract a lot of investments, both local and foreign. And this naturally contributes towards the industrialisation process and the growth of the GDP.

18. But as you are aware industrialisation is not a static process. Technologies and products change very quickly. Some products have a shelf-life of only a few months. Every now and again a radically new technology changes the industries completely. The advent of the transistor and the microchip changed production methods completely making robots and automation possible. With these changes new skills must be acquired by both the workers and the engineers.

19. Today Information Technology (I.T.) has totally changed both the products and the methods of production. Instead of manually skilled labour we now need knowledge workers.

20. Malaysia decided to embrace I.T. because our workers cannot get high wages from the old industries and besides we no longer have enough workers, having to rely on a huge number of foreign workers.

21. We created the Multimedia Super Corridor (MSC), an area measuring 15Kmx50Km which include the cities of Kuala Lumpur, the new administrative capital, Putrajaya, the new Cybercity and the Kuala Lumpur International Airport. Within the MSC new cyber laws, policies and practices, together with state of the art communication infrastructure have been provided. Special incentives for world class international companies involve in I.T. and Multimedia to locate their R&D, operations, content production, field experiments and high tech manufacturing in the MSC have resulted in considerable investments. Local I.T. companies also locate themselves in this Corridor. Interaction between locals and foreigners enabled a lot of knowledge and technology to be absorbed, thus enhancing Malaysia industrial capability in I.T.

22. A Multimedia University has been set up to train the knowledge workers needed for the I.T. firms operating in the area. A large body of foreign students have been admitted and the graduates can expect good jobs anywhere since the demand for such knowledge workers is going to increase considerably.

23. With the MSC Malaysia is ready to face the challenges of the I.T. Age. Still Malaysia is not fully industrialised although it is no longer dependent on agricultural or mining products. We are still a developing country and with globalisation there is a danger that we may lose control over our industrialisation program.

24. We have as you know recovered from the foreign induced economic turmoil. We are very vigilant. Our experience in industrialisation has been very wide. I think I can say we succeeded in our industrialisation plan. But I cannot say whether the next attack will destroy us or not.