

Holloway, R. G.

Article — Digitized Version

Thorny way towards growth: Comment on the development process in Malaysia

Intereconomics

Suggested Citation: Holloway, R. G. (1969) : Thorny way towards growth: Comment on the development process in Malaysia, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 04, Iss. 1, pp. 25-27,
<https://doi.org/10.1007/BF02930075>

This Version is available at:

<https://hdl.handle.net/10419/138107>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Thorny Way Towards Growth

Comment on the Development Process in Malaysia

by R. G. Holloway, London

Malaysia with its rapid pace of economic growth represents one of the major successful examples in the developing world. A marked feature in the achievement of economic development has been the encouraging response of foreign enterprise to pioneer industry legislation, investment guarantees, tariff protection, and the provision of industrial estates. Coupled with improvements in the institutional structure, this response has been particularly important in mobilising internal savings which in the past have tended to be hoarded, used for the transfer of existing assets, or invested outside the country as the result of lacking large-scale organisations able to afford the investor reasonable expectations of dependable and fairly high profits from liquid securities.

The rate of investment over the past decade had been high and there have been very definite gains in physical production. But adverse trends in the terms of trade, coupled with the high rate of population growth, have reduced the effect on per capita income (which declined slightly in 1967 to about US \$ 324). The gross national product is now about US \$ 3,400 mn. The gross domestic product rose by only 5.8 per cent in 1967 in terms of constant prices, compared with 6.5 per cent in 1966 and an average annual rate of 6.1 per cent in the first six years of this decade. The decline in the volume rate of growth of output in 1967 was caused by a significant fall in the growth rate for exports.

While private investment is dominant, an acceleration of capital formation has been particularly evident in the public sector, where a high degree of self-financing is worth mentioning. This reflects the sound financial position of the country whose total gold and foreign exchange reserves amount to over US \$ 500 mn.

Programmes to Improve Infrastructure

The role of government in economic development is to provide the necessary infrastructure, including hospitals and schools, to combat the dire

consequences on productivity of tropical diseases and widespread illiteracy, to provide subsidies for development linked with supervision and technical assistance, and to maintain and improve the favourable climate for private investment, both domestic and foreign, especially in new manufacturing activities.

Compared with those of other tropical countries, Malaysia's communications are good. They are not, however, of uniform standard throughout the country. Roads are the most important means of transportation but the present technical conditions of the major routes require severe restrictions of loads while the mileage of feeder roads is inadequate in the context of rural development where it is essential to build in anticipation of traffic rather than in response to it. The road development programme has therefore placed emphasis not on the construction of new trunk routes but on the improvement of existing mileages to provide faster and safer transportation with more economic loads, and on the construction of rural roads. The road programme has been particularly rapid in Sarawak where two-thirds of the rural mileage has been constructed since 1960.

Malaysia's energy resources are wood, petroleum, waterfall and coal. Wood is generally used as a domestic fuel and not for industrial purposes; the petroleum output is small and even shows a declining trend; the hydro potential is largely inaccessible; and coal mining has ceased. Consequently the country is almost entirely dependent on imported liquid fuels for its energy requirements.

General Survey on Problems in Agriculture

Agriculture is the mainstay of the Malaysian economy and, together with forestry and fishing, employs more than half the economically-active population. Except in certain regions, however, the soil is not inherently fertile and rapidly loses its nutrient properties when cleared for ground crops.

In addition to soil deficiencies, the mountainous and rugged nature of much of the terrain is a serious limiting factor in agricultural expansion. These factors have favoured the development of tree crops of which rubber is by far the most important, accounting for two-thirds of the cultivated area, one-seventh of the domestic product, one-third of export earnings and a substantial part of government revenue. The secular fall in the price of rubber, which is now evident, is the central fact of economic life for the country. Its effects are being mitigated, however, by massive schemes for planting higher-yielding sorts, by a switch to oil palms, and by diversification generally.

In common with those of other countries of the tropical world, Malaysia's peasants occupy the lowest rungs on the income ladder. Many factors are responsible for their poverty. Some of these are inherent in the physical environment which affords a long growing season but is marred by monotonously high temperature and humidity, tropical diseases, insects and other pests as well as poor soils, rugged terrain and tenacious jungle. Added to these physical difficulties there are problems of widespread indebtedness, poor marketing and rural transport facilities, wide price fluctuations, fragmentation of holdings, co-ownership, and insecurity of tenure. Moreover, there are defects in production techniques.

The techniques used by the estates (which account for nearly two-fifths of the cultivated area) are of the highest order; but the estates face their own set of problems. They bear a heavy burden of taxes and have been beset by rising wage rates; and since most of the estates are creations of the colonial era, expatriate-managed and sending their profits out of the country, they are subject to an adverse public opinion. The sub-division of purchased European estates has proceeded apace, encouraged by speculators and by a government subsidy for replanting which is higher in the case of smallholdings—a development which has done less to encourage worker-ownership than to result in the rack-renting of small plots by absentee landlords. Unfortunately, the Asian landlord is not usually an agrarian improver and the growth of landlordism in Western Malaysia has exacerbated social dissension, particularly since the landlords are generally Chinese and the tenants Malay.

Ways towards a Modern Agriculture

The Government's agricultural policy in recent years has been to extend the cultivated area by clearing jungle for resettlement; to increase output from existing acreages by subsidising replanting with better strains, by drainage and irrigation, by the subsidised provision of machinery

and fertilisers, and by the inculcation of improved techniques; and to diversify the rural economy. Malaysia is the largest producer and exporter of natural rubber in the world, accounting for two-fifths of total world output and combining high quality with low cost. Instability in the tyre and tube industry, the main user of rubber, has resulted in instability in the total demand for rubber while technical improvements in the production of rubber-like substances have widened the field of competition between natural and synthetic rubber. The consumption of synthetic rubber now exceeds that of the natural product though, with the increased use of radial ply tyres requiring natural rubber, the introduction of standardised Malaysian rubber and more aggressive marketing, this relative displacement is slowing down. The importance of the rubber rehabilitation programme lies not in the expansion of production (which has the effect of depressing the total value) but in the reduction of costs by planting higher-yielding material.

Rice, grown by about half the peasant population, is the second most important crop. Unlike rubber, it is not a crop which can be widely grown in Malaysia under conditions of comparative advantage but, in view of the vulnerability of supplies, agricultural policy aims at moving towards self-sufficiency.

In addition to price support and specific seed selection and fertiliser subsidisation schemes, the drainage and irrigation programmes and the subsidised mechanisation schemes mainly benefit the padi cultivator. In view of the need for speedy work to fit in with the tight schedule of double-cropping and of the shortage of fodder for buffaloes, mechanised cultivation has proved particularly useful in the rice-growing areas and since it has also proved cheaper than the traditional methods there has been a rapid increase in the number of tractors and rotary cultivators used. Rural co-operative societies have been of particular importance in freeing padi planters from the share cropping system of borrowing.

Of the diversification developments, the switch from rubber to oil palm cultivation has been the most important. Palm oil is already Malaysia's second most important agricultural export and large newly-planted and replanted areas have yet to come into bearing. Production is mainly from estates but the provision of expressing facilities by Commonwealth Development Corporation subsidiaries has enabled smallholders to enter the industry.

The coconut industry has been declining in recent years. Production is mainly in the hands of smallholders who have had to face difficulties arising from poor management, uneconomic holdings, the high proportion of over-aged and damaged trees, and land deterioration. Coconut plant-

ing schemes have, however, been of major importance in East Malaysia as a means of diversification and as a means of encouraging settled cultivation, while in West Malaysia drainage programmes have established the basis for the rehabilitation which is now proceeding.

The acreage under fruit is expanding. Pineapple exports have shown an upward trend following a period of low prices and consequent smallholding neglect. Other fruits are usually planted in small mixed stands but these are slowly giving way to intensive orchard cultivation.

With the exception of pigs and poultry, livestock production is severely limited by climate and vegetation but a slow increase in numbers has been apparent while emphasis has been laid on breed improvement. Attempts to develop a simple type of mixed farming have met with considerable success in pilot areas, mainly due to the establishment of a fodder introduced from Northern Australia. Poultry production has more than doubled since 1960 and egg production has roughly trebled.

Forestry and Fishing

Exploitation of the dense tropical rain-forest, which covers the greater part of Malaysia, has

increased markedly in recent years, largely as a result of the rapid growth in Japanese demand and, on the supply side, the mechanisation of felling and logging and the rapid construction of rural roads. Timber is now the country's third most important export; but the difficulty of access over swampy and mountainous terrain and the low average quality of the timber restrict the further expansion of the area of productive forest.

The process of mechanisation has brought about a change in fishing methods and the catch landed has doubled over the last ten years. Landing facilities have been improved and the use of refrigeration has played an important part in regulating marketing. Due to the inadequacy of transport facilities, however, these developments have done little to meet the demand for fish inland and the stocking of padi fields, ponds and abandoned dredging pools provides a cheap source of protein which is otherwise usually deficient.

Mining: Important Source of Export Earnings

While the mining industry is not a major contributor to the gross domestic product, it is a very important source of export earnings and government revenue.

Continued on page 30

P. KRUSE

**GRAIN
FEEDING-STUFFS
SEEDS
IMPORT
WHOLESALE
GRAIN TRANSHIPMENT**

**HAMBURG 36
NEUER WALL 31/33
PHONE: 36 33 51
TELEX: 02 11320
and 02 12615**

**GRAIN TRANSHIPMENT FACILITIES
AT WILHELMSBURG**

Continued from page 27

Malaysia is the world's largest producer and exporter of tin, accounting for over two-fifths of total world production outside the Soviet bloc and China. Malaysia's tin is of generally high quality and is produced at a relatively low cost. But nevertheless the increased costs of production resulting from the working out of the richer deposits have been accompanied by rising labour costs which have not been entirely offset by economies arising from technical improvements. Production has been at record levels but demand is subject to technological changes and stockpiling and an extended period of record prices has come to an end.

Financed principally by Malaysian interests, iron ore production more than doubled between 1958 and 1963, but has since declined. This is partly due to the exhaustion of some deposits but there are substantial reserves which could be brought into use if prices recover. The industry's real problem is on the demand side with a pressure for lower prices and a decline in purchases by Japan, the sole export market.

Bauxite is the only other mineral of major importance, the bulk of the output being exported to Japan. Production has increased strongly but has been accompanied by a fall in price.

Favourable Prospects for Manufacturing

Secondary industries are limited in extent with manufacturing mainly confined to export processing or to the few fields where there is a particular advantage of location for serving the comparatively small domestic market, there being little indigenous knowledge of modern organisation or production methods and a widespread shortage of skilled labour. The rate of growth in manufacturing, however, has been high—the net value of output from this sector increasing by about 13 per cent annually. Manufacturing now contributes about 11 per cent of the gross domestic product compared with the 8 per cent contributed by mining.

Most of the factories using power-driven machinery are small and there are no plants which are large by international standards. A strong trend towards more highly-capitalised units is, however, evident and some of these units are among the most technologically advanced in the world.

The rubber industry has lost its former predominant importance, both in terms of value added and employment provided, but an important addition to the industry has been a US \$ 8 mn tyre factory, opened in 1963, which meets domestic demand and provides a surplus for export. Growth in the chemical industry has been particularly rapid and two oil refineries have been built in the last ten years at a total cost of US \$ 32 mn. The most important units added, however, have been two steel mills (opened in 1964 and 1967) together costing US \$ 43 mn and financed as joint Malaysian-Japanese ventures. A further venture making use of local material resources is the aluminium rolling mill opened in 1963, a project which has been accompanied by the manufacture of finished aluminium products.

The bulk of the materials produced in Malaysia pass through one or more stages of manufacture within the country and there is therefore less scope for further development in this direction than might at first be supposed. A further factor limiting development has been the growth of protected production in the other countries of the region though there is now new hope for regional co-operation in industrial development. There is clear scope, moreover, for substantial import substitution over an extended period of time and it appears that there is also scope for the exploitation of local materials not previously considered marketable.

Main Problem: Growth of Population

While the prospects for manufacturing appear favourable, the years ahead are likely to be difficult for the country as a whole. Not only are there signs of increasing racial tension but the rapidly-increasing population will demand rising standards of consumption while, at the same time, the needs of government are expanding. With the evident decline in rubber and tin prices the country has to face a deteriorating balance-of-payments and growing deficits in its budget.

The growth of population also presents problems regarding employment. The expansion of manufacturing cannot be expected to absorb any but a small part of the increased labour force and the bulk must continue to be absorbed in peasant agriculture which needs further heavy subsidisation and the continued radical improvement of rural transport, education and health to bring it to adequate economic levels.



H. Schuldt

Shipowners — Shippingagents

Established 1868

HAMBURG 1 — BALLINDAMM 8 — CABLE: "SEESCHULD"