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Article — Digitized Version

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Intereconomics

*Suggested Citation:* Rudolph, Heinz (1969) : Prospects for private investment, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 04, Iss. 7, pp. 225-230, <https://doi.org/10.1007/BF02927212>

This Version is available at:

<https://hdl.handle.net/10419/138229>

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# Prospects for Private Investment

by Dr Heinz Rudolph, Kuala Lumpur \*

**M**alaysia is giving top priority to measures designed to strengthen the economy thus ensuring prosperity and a rising standard of living. The country is a traditionally export-orientated economy, being one of the world's major producers of rubber, tin, palm-oil and timber. The Government has launched a programme of industrial development and agricultural diversification to shift the dependence of the economy from these traditional export sectors. Rapid industrialisation has been seen as a key factor in maintaining the economic buoyancy that Malaysia has enjoyed for the past decade.

## **Stability of Malaysian Dollar**

One of the most remarkable cornerstones in the stability of the Malaysian economy is the Malaysian Dollar. The internal and external value of the Malaysian Dollar has remained stable even after the devaluation of the Pound Sterling in November 1967. Malaysia will continue to maintain the parity of the new Malaysian Dollar at 0.299 grms. of fine gold. In the last 10 years (from 1956 to 1966) the Malaysian Dollar lost only 4.2 p.c. purchasing power; by comparison the US Dollar lost 19.1 p.c. For the last two years the Malaysian Dollar continued to maintain its stability.

The strength of the Malaysian Dollar is further underlined in the International Monetary Fund's confidence in making the Malaysian Dollar one of the first Asian currencies to be used for their loan purposes.

## **Government Infrastructure Policy**

The Malaysian Government does not involve itself in direct investment in the private sector. Government's policy has been to create the necessary infra-structure facilities and to invest in the public sector activities so as to strengthen the base of the economy on which private investments are to build on, and to create the necessary preconditions for industrial take-off.

A brief outline of the efforts undertaken by the Government will display the extent of develop-

ment which the Malaysian infrastructure has experienced. There are more than 11,000 miles of first-class roads, and more than 4,440 miles of railway tracks. Fast and efficient air transport systems link Malaysia to all parts of the world, further facilitated by the construction of a new \$52 mn International Airport near the Federal Capital (Kuala Lumpur) to accommodate international jet airlines. To cope with the increasing volume of sea trade extensive developments of port facilities are being undertaken involving millions of dollars. Telephone, water and electricity facilities are also being increased and improved to meet the demands of a growing nation. It is the Government's intention that no shortcomings should occur in the provision of basic facilities not only to Malaysian citizens but also to industrial enterprises in Malaysia.

In respect of financial facilities Malaysia is adequately served by a sophisticated network of banks. At the end of 1967 there were 37 licensed banks, of which 16 are incorporated in Malaysia and 21 in foreign countries. These banks with extensive trading connections with the major financial and trading centres of the world operate a total of 314 banking offices all over the country.

## **Market Potential**

The increasing living standard and purchasing power that is accruing into the hands of the Malaysian citizens is bringing about rapid increases in demand for consumer and other manufacturing items. During the 10 years after Independence in 1957 the national income grew by about 63.5 p.c. This figure which gives the average yearly growth rate of approximately 6.35 p.c. per annum is remarkable for a newly independent country. With a total population of 10 million and a Gross National Product of about \$952 mn, Malaysia's per capita GNP of about \$950 is one of the highest in Asia.

The great demand for industrial products in Malaysia is evident from the fact that the merchandise import expenditure constitutes about 47 p.c. of the Gross National Expenditure. A very large part of the merchandise import is in the form of manufactured, producer and consumer goods.

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The rising trend in imports of industrial products is likely to continue consequent to a rapid rate of population growth (about 3 p.c. per annum) and the continued development of the economy. However, it is the aim of the Malaysian Government to reduce this trend in imports by encouraging development of import-substitution industries and to, in fact, reverse this trend by encouraging the exports of locally manufactured goods from Malaysia.

### Compositions of the Estimated Imports of Malaysia (1967)

Items	\$ mn
Food, and live animals	762.2
Beverages and tobacco	90.2
Crude materials inedible, except fuels	166.7
Mineral fuels, lubricant & related materials	446.3
Animal and vegetable oils and fats	14.9
Chemicals and products of chemical industries	247.3
Manufactured goods classified chiefly by materials	593.5
Machinery and transport equipment	736.5
Miscellaneous manufactured articles	192.3
Transitions & commodities not elsewhere specified	76.9
Total Merchandise Import	3,326.8

### Investment Incentives offered

In its endeavour to achieve the above objectives the Government is offering a broad range of investment incentives designed not only to encourage investments in Malaysia but also to encourage the export of locally manufactured goods. The incentives offered by the Government are embodied in a legislation that came into effect on 1st of January 1968. This is the Investment Incentives Act, that broadly provides for 2 types of investment incentives:

☐ Incentives for initial setting up of manufacturing establishments in Malaysia. These that can be termed as primary incentives are: Pioneer Status and Investment Tax Credit.

☐ Incentives for existing and new Malaysian manufacturers to export their manufactured goods. These export incentives include: Deductions for promotion overseas; accelerated depreciation allowances; export allowance; payroll tax refund.

### Pioneer Status

The new Act provides that a company or persons proposing to manufacture a pioneer product may apply to the Minister of Commerce and Industry for pioneer status. Pioneer status entitles the company to the following benefits:

☐ Relief from company and development tax for a period not exceeding 5 years, depending on the amount of capital investments made: Less than \$ 250,000 — 2 years; more than \$ 250,000 but less than \$ 500,000 — 3 years; more than \$ 500,000 but less than \$ 1 million — 4 years; exceeding \$ 1 mn — 5 years.

☐ In addition subsequent extensions of an additional year of tax relief for each of the following conditions satisfied: establishment of a factory in a development area; production of a priority product; use of a specified local content.

Pioneer companies satisfying the above conditions will thus be entitled to a maximum of 8 years tax relief.

☐ Where a pioneer company incurs losses throughout its tax relief period, capital allowances will be notionally aggregated, as if it is not a pioneer company, and the total carried forward and allowed as deduction in the post-pioneer period.

☐ Dividends from pioneer companies are exempted from tax.

☐ Pioneer companies are exempted from payment of payroll tax.

☐ A pioneer company which incurs losses during its tax relief period is allowed to offset the net loss incurred against profits in the post pioneer period.

### Investment Tax Credit

This Credit is to be given to a company not qualifying for pioneer status or to a company not applying for pioneer status as a matter of choice. It takes the form of deductions from taxable income. The rate of Investment Tax Credit given will not be less than 25 p.c. of the capital expenditure incurred on a factory, plant or machinery for approved projects. The Credit is given only once for the year of assessment in the basis period in which expenditure is incurred and such capital expenditure must be incurred within 5 years from the beginning of the basis period in which the project is approved, i.e. if the capital expenditure is incurred in the sixth year, it will not qualify for the Investment Tax Credit. The amount of Credit tax-exempt during the first 5 years, however, can be carried forward in case of loss or insufficiency of income until fully utilised against subsequent profits.

If the approved company establishes its factory in a development area, produces priority product or products, or uses specified percentage of Malaysian content, an additional tax credit of 5 p.c. will be given for each of the three conditions fulfilled.

### Export Incentives

The expenses for promotion of exports qualifying for deductions under this Act include:

☐ Overseas advertising expenses,

☐ Cost of supplying and delivering free samples,

☐ Expenses of carrying out market research or obtaining export market information,

- ☐ Expenses incurred in the preparation of overseas tenders,
- ☐ Expenses incurred in the negotiation and conclusion of contracts,
- ☐ Expenses for supplying technical information overseas.

Pioneer companies will have a special privilege under this provision. All deductions which would have been allowed and which are incurred during a pioneer company's tax relief period can be carried forward and the aggregate of this will be allowed as deductions in the post tax relief period.

Accelerated Depreciation Allowance is granted to approved resident companies which have incurred capital expenditure in acquiring plant or equipment to modernise production techniques in existing newly set-up factories. To qualify for this incentive a company must export more than 20 p.c. in terms of value of its total production. The rate of accelerated depreciation is 40 p.c. per annum. Under this concession more than 90 p.c. of eligible capital expenditure can be written off in approximately 5 years as against about 20 years under the normal rates.

Export allowance is intended to:

- ☐ encourage exports of Malaysian manufactured products;
- ☐ induce more liberal use of Malaysian materials and thereby maximising net foreign exchange savings;
- ☐ encourage maximum employment of abundantly available labour.

The scheme allows an extra deduction for income tax purpose of 20 cents for every dollar incurred in wages and purchases of Malaysian materials during the basic period.

A formula has been worked out whereby a firm can increase its export allowance by either increasing its export sales or by making use of a greater amount of local content or both.

Provision is also made for tax exemption of the 2 p.c. on payroll if registered companies export more than 20 p.c. (in terms of value) of their total production.

In addition to the above, other direct and indirect incentives and facilities are offered by the Government.

#### **Complementary Measures**

It is the Government's declared policy that tariff protection against foreign competition would be used as a tool to encourage local industries. For this purpose the Tariff Advisory Board was established by the Government in 1963, and its recommendations have provided protection for more than 293 locally manufactured items.

## **Kali-Transport-Gesellschaft**

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The Customs (Dumping & Subsidies) Ordinance 1959 provides the Government with the power to protect local industries from dumping tactics adopted by other countries.

The Malaysian Government's policy "ipso facto" guarantees foreign investments in Malaysia against any expropriation. However, as a further assurance, the Malaysian Government has signed Investment Guarantee Agreements with the Governments of the United States and West Germany under which Malaysia gives a specific guarantee that it will not nationalise the assets of the investors of these 2 countries. Malaysia is prepared to sign similar Investment Guarantee Agreements with any other country. Malaysia is also a member of the Convention on the Settlement of Investment Disputes. This gives additional protection to foreign investments in Malaysia.

Manufacturing industries may also apply to the Government for total or partial exemption from import duties on capital equipment for initial installation or expansion. Raw materials imported for manufacture are also exempted from import duties.

All Government Ministries, Departments and semi-government bodies are required to purchase local-

*Continued on page 230*

ly manufactured products provided their quality is acceptable and their prices do not exceed equivalent imported prices by 10 p.c. Extensive "Malaysian goods campaigns" have been and will continue to be launched to encourage more purchases of locally manufactured goods.

As a member of the sterling area, Malaysia's Exchange Control Regulations generally follow the pattern of sterling area countries after World War II. There is no restriction on repatriation of profits, dividends and capital to a country in the sterling area. Repatriation of capital to a non-sterling area is freely allowed if approval of the Government has been obtained prior to the investment being originally made. Similarly repatriation of profits and dividends outside the sterling area is freely allowed provided certain foreign exchange formalities are complied with (submission of audited balance sheets or an acceptable alternative) at the time of repatriation.

There are 10 industrial estates in West Malaysia of which one is fully occupied and 9 are partly occupied. Five new industrial estates have been proposed or are currently being developed. The individual State Governments who are responsible for the industrial estates have prepared the land and have made available all the basic facilities like water, electricity, roads, drainage, telephone, etc.

#### **Promotion of the Industrial Sector**

The Federal Industrial Development Authority was set up to spearhead industrial development in the country. Its main objective is to promote and coordinate industrial development in Malaysia. Since it became operational in early 1968, it has undertaken studies on products that lend themselves to local manufacture, received and considered applications for investment incentives, undertaken investment promotion activities, set up an "Industrial Marriage Bureau", as it were, for introducing people with money (local) to people with know-how (foreign) for the establishment of joint ventures, undertaken the dissemination of general and specific industrial information to both local and foreign investors and the promotion of specific industrial projects.

In addition other bodies that are involved in the industrialisation effort include:

- ☐ The Malaysian Industrial Development Finance which offers medium and long-term loans to industry and also underwrites share issues.
- ☐ The Malaysian Industrial Estates Ltd. which undertakes the building of standard factory units in developed industrial estates for sale to investors.
- ☐ The Standards Institution of Malaysia which has been established to test and advise on the quality of locally produced goods and to see that

local goods matching international standards are given a "seal" of quality.

- ☐ The National Productivity Centre which aims to assist private, industrial, commercial and other organisations in the training of technical personnel to raise productivity.
- ☐ The Central Apprenticeship Board set up to administer the national apprenticeship scheme which has as its objective the upgrading of skilled tradesmen in various employment.
- ☐ The Malaysia Institute of Management whose primary object is to promote education and training for management personnel at all levels.

#### **Remarkable Results**

The Malaysian Government has during the past decade practised a policy designed to encourage the establishment of viable ventures in Malaysia. A brief indication of its success can be seen in the fact that up to date more than 134 pioneer companies have been established in Malaysia. These pioneer companies involve a total local investment amounting to more than \$ 176 mn and a total foreign investment amounting to more than \$ 231 mn. 91 other companies have been given approval in principle for pioneer status. The total called-up capital involved approximates more than \$ 108 mn. These pioneer companies manufacture a range of consumer items but also include multi-million-dollar projects for the manufacture of tyres, paints, chemical fertilisers, flour, the refining of sugar and two oil refineries.

The strength of the Malaysian economy and the confidence of overseas investors is also shown in the fact that several multi-million-dollar industries have been established on a non-pioneer basis i.e. without government incentives or tax subsidy. These include six motor vehicle assembly plants involving a total capital expenditure exceeding \$ 40 mn, the three plants for the assembly of motorised two-wheelers, several cement factories and a multi-million-dollar glass bottle factory.

The above are past trends in the development of the Malaysian industrial sector. The Government in its effort to increase further the tempo of industrial activity in Malaysia established the Federal Industrial Development Authority and introduced the Investment Incentives Act in 1968. The urgent need now is to provide employment opportunities for Malaysia's growing population and bring about savings and further earnings of foreign exchange. An accelerated process of import-substitution and the development of export-orientated industries are seen as inevitable developments in the Malaysian industrial sector. To this extent foreign investors are needed in order to contribute to the further growth of the Malaysian industrial sector.