Malaysia's Industrial Evolution

FROM pre-independence till the late 60's, the Malaysian economy was already exposed to international trade and commerce. Situated at the cross-roads of the East and West trade routes, the country was a principal exporter of primary commodities such as rubber, tin, pepper and tropical timber which were the mainstay of the economy. However, with the limited scope for growth and coupled with the prevailing high unemployment, the country had to look for ways to diversify her economic base. The manufacturing sector was identified as the key sector for the diversification of the Malaysian economy.

Today, Malaysia stands as a dynamic and vibrant industrialising nation and the success story of the country's manufacturing sector is attributed to the following major factors:

- political and economic stability which has withstood the test of time;
- cost efficient labour and a harmonious industrial relations climate;
- availability of raw materials;
- strategic location within the Asia-Pacific region;
- good infrastructure facilities and
- investment incentives which have evolved over time to meet investor needs.

The success is exemplified by the contribution of the manufacturing sector to the Gross Domestic Product (GDP), from a mere 13.9 per cent in 1970, this figure rose to 30.1 per cent last year. Manufactured exports vis-a-vis total exports also increased during this period, chalking up a resounding growth, from 14.1 per cent to 84.6 per cent. The value of manufactured exports in 1999 was RM 265.5 billion.

Malaysia has from the early years recognised the importance of foreign direct investment (FDI) and its potential contribution to her economic growth and development. Over the last three decades, much of Malaysia's manufacturing output and export dynamism were attributed to the activities of multinational corporations (MNCs), their subsidiaries and affiliates. Malaysia's success recipe was not only in attracting these MNCs to invest in the early years, but also in providing the necessary environment and facilities for them to expand and diversify their operations as they increased their presence in the country.

Trends in FDI

Approved investments in the manufacturing sector have grown considerably over the years. For the period 1980-1999, 14,008 projects were approved involving capital investments totalling RM 302.0 billion. Of these approvals 51.3 per cent were from foreign sources and 48.7 per cent were from domestic sources. These approvals generated nearly 2.0 million jobs. The major sources of FDI during these period were Japan, United States of America, Taiwan, Singapore, United Kingdom and Korea.

Over the last six years there has been a growing trend towards investments in capital intensive and high-technology based industries. From 1994-1999 the total proposed capital investment in the manufacturing sector amounted to RM 160.5 billion. The bulk of the investments were in the electrical and electronics sector.

Transformation of the Electrical and Electronics Industry

The electrical and electronics industry is currently the largest contributor in the manufacturing sector in terms of output, exports and employment. In 1999, gross output of the industry was valued at RM 129.8 billion. Exports totalled RM 178.2 billion, representing 65.7 per cent of the total exports of manufactured products. The industry also employed 381,000 persons or 15 per cent of the total manufacturing employment.

The industry has undergone significant transformation since the early 70's. With the changing pattern of comparative advantages towards the late 80s, Malaysia emerged as an attractive offshore location for foreign companies to produce high value added industrial consumer electronic goods such as computer and computer peripherals, telecommunication equipment and high and audio-video equipment for the regional and global markets.

The semiconductor subsector, which remains the mainstay of Malaysia's electronics export, has also begun the process of shifting from labour intensive assembly activities to capital intensive and automated operations, in tandem with the latest development in microchip technology. Some MNCs which were previously confined to the assembly and test activities had upgraded their operations further into incorporating R&D and product design activities.

The electronics industry today comprises a broader mix of electronic components, consumer and industrial electronic products, unlike the 1970s when the electronic components sector constituted about 85 per cent of the sector's output. This was particularly attributed to the strong inflow of FDI and domestic investments from the second half of the 1980s. There are currently more than 900 companies with exports totalling RM 178.4 billion. Malaysia is currently the world's largest exporters of semiconductor devices and audio-video equipment.

Among the early multinationals to have established their operations in Malaysia was Matshushita. The company, first established its operations in 1966 and has over the last 33 years invested more than RM 6.0 billion in the country. Today, there are 21 Matshushita companies operating in Malaysia including 14 manufacturing operations and two R&D centres. The group employs 28,400 employees and has an output of about RM 7.7 billion of which 74 per cent is exported. Malaysia is Matshushita's leading manufacturing base outside Japan.

Growth of the Resource-Based Industries

Following an impressive decade of industrialisation in the 70's, further measures were initiated by the government in the 80's to deepen the country's industrial base through a two-prong strategy of encouraging resource-based industries, engineering and supporting industries as well as heavy industries. This period was marked by investments into rubber, palm oil and wood based industries, as well as the engineering and support industries. Industry based on the natural resources of Malaysia were encouraged to go further downstream, rather than exporting these primary commodities.

The growth of the Malaysia's rubber products industry began in the 80's when the government encouraged companies to invest in a broad spectrum of latex-based, industrial and general rubber products. As a result of the encouragement by the government, there was an influx of investments in a variety of rubber-based products. The growth in output of the industry was largely led by the latex products. In terms of value, sales of all rubber products had tripled from RM 2.1 billion in 1990 to RM 6.5 billion in 1999. Malaysia is currently a major world producer and exporter of a number of resource-based products viz rubber gloves, catheters, rubber threads and rubber gloves.

Being the world's largest producer of palm oil, the government had also encouraged the growth and development of speciality fat products and oleochemical industries in the country. The manufacture of fat products, such as vanaspati and margarine is both for the domestic and export markets. Malaysia is currently the world's largest producer and exporter of basic oleochemicals, accounting for 17 per cent of the world's output. Total export value of oleochemicals amounted to RM 1.5 billion as at end of last year.

Among the resource-based industries the furniture industry is one of the success stories. Exports of wooden furniture increased from RM 171.3 million in 1989 to RM 3.332.2 million in 1998. Of the 3,000 companies manufacturing furniture and furniture parts in Malaysia, about 10 per cent of these companies are large scale operations, using automation and specialising in the manufacture of a small range of products catered mainly for the export market.

In order to give a boost to Malaysia's resource-based and export-oriented industrialisation strategy, the government launched the First Industrial Master Plan, IMP1, (1986-1995). The IMP1 underlined the need for the continuance of this strategy through the intensive development of resource-based industries and the diversification and upgrading of non resource-based industries, also to cater for the export market.

Development of the Petrochemical Industry

The petrochemical industry which is capital and technology intensive is highly dependent on foreign direct investment. Concurrently, Petronas as the custodian of the nation's oil and gas reserves, has made substantial investments in the sector.

In Malaysia, the industry was initially developed with the production of synthetic/plastics resins such as polyvinyl chloride (PVC) and polystyrene (PS) resins in 1972/73 from imported monomers. There was little development until 1985 when methanol production and urea/ammonia production from natural gas commenced. Next came the production of polyethylene (PE) and polypropylene (PP) resins in 1992/93 from imported naphtha. Today, the industry is diversified with new plants of world-scale capacities and the state-of-the-art technologies producing methane, ethane, propane, butane and aromatics based products.

Multinationals such as BASF has made major invest-

Continued on page 16

Global Performance of Palm Oil in 1999

by AKM Fakhrul Alam

IN pace with the increasing trend of production of world's oils and fats, palm oil, the 2 largest oil produced globally, also witnessed a substantial increase of production in 1999 compared to 1998. World production of oils and fats in 1999 was estimated at 108.5 million tones compared to 102.5 million tones in 1999. This translates to a growth of 5.66 per cent. The said increase in output can be mainly attributed to substantial increase in palm oil production to 20.25 million tones from 16.7 million tones in 1998. The favourable weather and good demand added to set new highs in production, exports and consumption as well.

Production: With the increase of production in 1999, share of palm oil in global oils and fats production, jumped to 18.8 per cent from 16.3 per cent in 1998. Malaysia continued to lead the world as the largest single producer and exporter of palm oil in 1999 followed by Indonesia. Malaysia's output of palm oil in 1999 was estimated at 10.55 million tonnes against 8.32 million tonnes in 1998, which translates to a growth of 26.9 per cent compared to previous year. Indonesia also experienced an increase in production in 1999 compared to 1998, which were respectively 6.06 million tones and 5.01 million tonnes.

Exports: Export of oils and fats in 1999 increased to 34.2 million tones compared to 32.6 million tones in 1998, which could translate to a growth of about 5 per cent. This was again mainly due to an increase in palm oil exports, which escalated by 24 per cent compared to 1998. A record quantity of about 14 million tonnes of palm oil entered into the world market in 1999 against about 7.6 million tonnes of soyabean oil. This escalation enabled palm oil to recapture a 41 per cent share of world export trade of oils and fats and this has widened its lead as the world's most traded oil.

The demand for Malaysian palm oil was well sustained in 1999 and in terms of trade, Malaysian palm oil continued to dominate the market. In 1999 Malaysia exported a record quantity of 9.2 million tonnes, or 65 per cent of global palm oil exports. Indonesia, with its larger domestic consumption, exported only 3.3 million tones, or 24 per cent of global exports.

The oil palm fruit

Global Production of Palm Oil, 1995-99 ('000 tonnes)					
Country	1995	1996	1997	1998	1999
Malaysia	7,811	8,386	9,057	8,315	10,553
Indonesia	4,220	4,540	5,380	5,006	6,250
Others	3,187	3,358	3,407	3,385	3,674
World	15,218	16,284	17,844	16,706	20,477

Forecast of Major Edible Oils and Fats Production and Exports 2000-2005 ('000 tonnes)						
Edible Oil	2000	2001	2002	2003	2004	2005
Production						
Palm	20,945	22,418	22,891	23,622	24,868	26,187
Soyabean	24,583	25,211	25,855	26,516	27,194	27,888
Rapeseed	13,924	14,366	14,822	15,293	15,779	16,280
Sunflower	9,546	9,939	10,347	10,773	11,216	11,677
All	111,606	114,643	118,108	121,895	126,018	129,309
Exports						
Palm	13,820	15,881	16,610	16,781	16,920	18,108
Soyabean	7,330	7,657	7,999	8,356	8,729	9,119
Rapeseed	2,210	2,298	2,390	2,486	2,585	2,689
Sunflower	3,203	3,308	3,417	3,530	3,646	3,799
All	35,483	37.180	38.957	40,820	42.772	44,817

Consuming Countries: Most of the major importing countries recorded an increase in palm oil import in 1999. The Big-4 (India, EU-15, Pakistan and PR China) consumers scaled new heights in their intakes. The Big-4 consumers together accounted for 40 per cent of global palm oil consumption.

Import by India in 1999 reached to an all time record quantity of 3.2 million tones. It took 2.4 million tonnes from Malaysia, a staggering 26.9 per cent of Malaysian exports. Liberal oil import policy, increasing domestic consumption and the competitive price of palm oil were the contributing factors to the huge imports by India.

As Malaysia exported largely refined palm oil, it supplied most of the developing markets. Indonesia, which sells mainly crude palm oil, was an important supplier to the EU-15, which often prefers to refine its own oils.

Prices: The greater supply of palm and other oils as well in 1999 dampened the price of oils internationally. The FOB Malaysian price per tonne of refined, bleached and deodorised (RBD) palm oil declined from US$654 in 1998 to US$398 in 1999. Similarly, RBD palm olein, which is mainly used as cooking oil, fell from US$688 to US$514 and RBD stearin from US$431 to US$283.

Outlook: 2000—2005

Palm oil production is expected to grow (4.57 per cent annually) over the next five years to 26.2 million tonnes by 2005. It will then supply 20 per cent of the global oils and fats requirements. Exports are expected to grow at 5.6 per cent to reach 18.1 million tonnes by 2005, capturing 41 per cent of the global oils and fats market. Malaysia is expected to continue as the leading contributor in the lion's share of the production growth. Malaysian production is likely to reach 12.2 million tonnes by 2005 followed by Indonesian at 9.4 million tonnes. Nigeria, the next largest producer, will be a distant third.

Malaysia and Indonesia are also expected to grow as exporters. Exports from Malaysia and Indonesia are expected to reach 10.0 and 6.1 million tones respectively in 2005.

The Big-4 importers – India, EU-15, Pakistan and the People's Republic of China – will continue to be key markets for palm oil and account for a significant share of the world trade.

Sources: MPOPC's Annual Report, 1999 and Palm Oil Technical Bulletin, Volume 6, No. 2 March-April, 2000 of MPOB.