



TOGETHER
for a sustainable future

OCCASION

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Introduction

Malaysia in the past was basically an agricultural country. Her economy was dependent wholly upon the agricultural products such as rice, and rubber and mineral products such as tin ores and iron ores.

The scope of employment in the agricultural field was rather limited and stagnant. Jobs opportunities had to be created and found for the growing population. At the same time, Malaysia also realized that she could not depend entirely on her agricultural and mineral products as sources of foreign exchange earnings. New means had to be sought towards achieving and increasing her foreign earnings. This situation had therefore led the Government to introduce its industrialization policy.

Objective of Industrialization

Malaysia's industrialization policy, among other things, was aimed at the following objectives:

1. To provide employment opportunities.
2. To increase foreign exchange earnings.
3. To encourage foreign investment.
4. To develop skilled labour.

Incentives Offered to Achieve the Objectives

To achieve her objectives, Malaysia had to create an industrial climate. Situation must be made attractive enough to effectively attract foreign investment. Entrepreneurs must be made known of what advantages, facilities and incentives, both fiscal and physical, they would enjoy in setting up their investment in the country. The incentives that Malaysia offered were:

1. Pioneer Status: This incentive offered an income tax relief for a total period of 5 years.
2. Investment Tax Credit: As an alternative to the above, this incentive offered a limited income tax relief for an unlimited period. This incentive is suitable for heavily mechanized industry.

3. Tariff Protection: Tariff protections offered were in two forms:
 - (a) Tariff rate
 - (b) Temporary import restriction by way of quota restriction
5. Tariff Exemptions: Accorded import duty exemptions on raw materials and machineries.

Infra-Structure

In addition to the above fiscal incentives, Malaysia also provided the infra-structure for the investors. Industrial Estates were developed, where every facilities, such as water, electricity, roads, telecommunication, etc. were made easily available to the investors.

Statutory Bodies

Various statutory bodies were formed by the Government in order to regulate, promote, encourage and assist entrepreneurs who were interested in investing in the country. Two of such bodies were:

1. Federal Industrial Development Authority (F.I.D.A.)

The functions of this Authority were many and varied in nature, among which were to assist investors in making feasibility study of products or industry suitable for investment in the country, to supply information and give assistance on various government procedures, regulations, laws, etc., advise on how to obtain the various incentives offered, to guide investors to the most suitable areas for their establishment, to even find interested party in any joint-venture, project, etc.
2. Malaysian Industrial Development Finance Ltd. (MIDFL)

This body assisted investors in providing loan facilities for their project.

Effect

(a) Industrial Sector

Malaysia has been reasonably successful in her industrialization programme. A large number of firms were established bringing in a substantial foreign capital and at the same time providing satisfactory number of employment in the country. However, the investment so far had been characterized as import substitution industries. It was noted also that the industries were concentrated at only certain centralized areas. There was a need, therefore, to introduce further measures to encourage:

1. Greater utilization of local raw materials;
2. Establishment of labour intensive industries;
3. Dispersal of industries to rural areas;
4. Establishment of export-oriented industries.

To achieve these new objectives, further incentives were offered. An investor who satisfied any one of the above factors (1) to (3), qualified for an additional year each of the income tax relief period. The total tax relief period was therefore increased from 5 years to 8 years, if all the factors (1) to (3) above were satisfied by an investor.

In the case of export-oriented industries, besides getting the various incentives mentioned earlier, Malaysia also offered total exemptions of customs duty on their imported raw materials used in the manufacture of their products.

(b) Agricultural Sector

Parallel to her efforts on industrialization, Malaysia had also been developing her agricultural sector. Replanting schemes were introduced in the rubber industry. New techniques were also introduced in the rice planting sector. At the same time, new drives for the planting of oil palms were carried out. Today Malaysia is one of the world's main source of supply of palm oil.

Free Trade Zone

In her further drive for export-oriented industry, Malaysia had recently introduced a Bill for the establishment of a Free Trade Zone. The Bill came

into effect on 20 January 1972. The first area to be declared as a Free Trade Zone is located at a place called Bayan Lepas in Penang.

Under the Bill, named Free Trade Zone Act, 1971, the administration, operation and maintenance of Free Trade Zone shall be carried out by a statutory body appointed by the Minister of Finance. An Advisory Committee called Free Trade Zone Advisory Committee, will also be appointed by the Minister to advise him on all matters connected with free trade zones.

It is too early to know the effect of this new effort but it is hoped, however, that Malaysia will achieve her aim towards promoting export-oriented industry, given the same vigour and drive as she had done in the past. In fact, plans are being studied for the establishment of other areas, especially for the purpose of attracting electronic industry.