

Rethinking the Strategy for the Manufacturing Sector

Industrial policy has played an important role in transforming Malaysia's economy from one dependent on the primary sector to one driven by the manufacturing sector. The transformation in the economic structure and composition was achieved in just over two decades after independence in 1957.

In the early years after independence, Malaysia's economy was largely focused on the production of primary commodities. Primary commodities continued to be the main revenue generators until the late-1970s, after which the primary sector's relative importance began to diminish. By the mid-1980s, manufacturing became the engine of Malaysia's economic growth.

Malaysia's move from an economy dependent on primary commodities to an industrialising one was accelerated with the inflow of foreign direct investment (FDI) in the late-1960s and early-1970s. The government saw the important role of FDI in developing and shaping the country's industrial base via the technology (embodied in machinery and production processes) and technical expertise that it brought in. Technologies from industrial countries were relatively dominant when Malaysia adopted import-substitution policies in the 1960s. During that period, foreign capital and know-how provided an important avenue for Malaysia to search for new products and processes.

In the 1970s, when the industrial base was enlarged and export-promotion encouraged, a more selective approach was adopted for importing technologies (based on the promoted industrial sectors). The growth industries during that era were electrical and electronics, textile and apparel, and processed agricultural products. Although much of the production activity was related to product and process adaptation at that time, some amount of indigenous technology was encouraged, especially for the established sub-sectors.

In the 1980s, when heavy industries were promoted to encourage greater inter-industry linkages, the development of indigenous technological capability and supporting industries was emphasised.

The First Industrial Master Plan (IMP1) was launched in 1986. This document provided the framework for the development of a broad-based manufacturing sector. The IMP1 outlines the transition from an agriculture and primary product-based economy to one that was to be led by the manufacturing sector. The IMP1 identified 12 industrial sub-sectors that were to be developed over the Plan period. The sub-sectors that were identified are Rubber, Palm oil, Food, Wood-based, Chemical and petrochemical, Non-ferrous metals, Non-metallic minerals, Electrical and electronics, Transport equipment, Machinery and engineering, Iron and steel and Textiles and apparel.

After the successful completion of the IMP1, the IMP2 was launched in 1996 to be implemented over a 10-year period until 2005. Unlike the IMP1, the IMP2 had broader goals. One key aspect of the IMP2 that was different from IMP1 was that in the IMP2 there was more stress on business support services. There was also emphasis on the cluster-based approach. In addition, the IMP2 lay great emphasis on deepening industrial linkages, increasing productivity and improving on competitiveness. Finally, the IMP2 was deeply concerned with increasing Malaysia's contribution to the value-added. The whole focus of the IMP2 strategy was to move up the value added chain. In other words, IMP2 was directed at rectifying some of the flaws in the IMP1.

As the world entered the new millennium, the shift to a knowledge-driven economy or K-economy got already under way, especially among the advanced countries. The transition to a K-economy is forcing Malaysia to re-think its strategy for the manufacturing sector. In the k-economy, the industries that will thrive are those that embrace innovation, develop new ideas, employ new processes, create new products or deliver new services. Thus, apart from building on their core capabilities in assembly and production, manufacturers will rely, more on related services and ICT to enhance the value-added of their products. In order to achieve the goal of ushering Malaysia into the K-economy, the K-Economy Master Plan, was introduced in 2003. The attempt to make the transition into a k-economy will put Malaysia at the forefront of development

because, K-economy is one in which knowledge, creativity, and innovation play a significant role in generating and sustaining growth.

As Malaysia advances toward a developed nation status, there is much to be done to prepare the nation over the next 15 years. The world in the new millennium, which Malaysian economy is currently facing is quite different from the one it had faced in the mid-1990s. It is understatement to say that the world has turned around nearly 180 degrees. Now that the parameters have shifted and the variables have changes so dramatically, the old equations no longer hold. Now that the Second Industrial Master Plan (IMP2) has ended in 2005, the government is undertaking initiatives to prepare for the Third Industrial Master Plan (IMP3), covering a 15-year period (2006-2020) to dovetail into Vision 2020. The IMP3, scheduled to be launched this year, is expected to reposition Malaysia, not only to ward off the threats and risks that the challenges have brought about, but also to take advantage of the new opportunities that are emerging in the new world order.

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