

**INDUSTRIAL MASTER PLAN: ITS CONTRIBUTIONS AND
SIGNIFICANCE TO DEVELOPMENT - AN ISLAMIC APPROACH**

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INDUSTRIAL MASTER PLAN: ITS CONTRIBUTIONS AND
SIGNIFICANCE TO DEVELOPMENT - AN ISLAMIC APPROACH

BY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR AN HONOURS DEGREE IN
ECONOMICS IN THE DEPARTMENT OF ECONOMICS,
INTERNATIONAL ISLAMIC UNIVERSITY,
PETALING JAYA,
SELANGOR,
MALAYSIA.

APRIL 1987/SH'ABAN 1407

ACKNOWLEDGEMENT

Praise be to Allah for endowing me with patience and conviction to write this dissertation successfully.

I would like also to record my thanks to those who have contributed to my work in terms of prayers and encouragement, especially my parents. To Br. Aidit Ghazali, who was an adviser to this dissertation, many thanks to him for his various assistance. May Allah s.w.t. reward him and shower him with His Blessings. And also my thanks are due to Mr. Ahmad Hazir Hj. Mahfuz at Economic Planning Unit, who has given his cooperation during interview.

My special thanks to my friends like Farhanah Abd. ^CAziz who has helped me in making this dissertation possible. Lastly, my thanks to my sister in Islam, Sister Azizah A. Rahman, who has typed this dissertation flawlessly.

Allah alone is able to reward all the help and assistance and cooperation that all of you have rendered to me. May Allah accept our prayers and worships.

In syā Allāh.

SYNOPSIS

It has been proven that, the industrial sector has played an important role in providing employments and income earnings. The efforts of government in accelerating the growth of industrial sector shows that, the government really needs to make this sector as one of the important sector in economy in achieving the development's target. It is proven through the implementation of IMP in the early February, 1986, whereby under this plan, the industrial sector hope to play a crucial role more significantly. This dissertation will examine how far IMP will play its role in development process. An Islamic evaluation has been done in order to see how far this plan is in line with Islamic injunction. The research shows there is nothing unIslamic about IMP, but it needs some modifications such as in terms of priority given, both in terms of industries and products chosen. For this, we aim on how to Islamize the industrial sector.

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GLOSSARY

CIC	: Capital Investment Council
EPU	: Economic Planning Unit
EEC	: Europe Economic Cooperation
FRI	: Forest Research Institute
FTZs	: Free Trade Zones
FIDA	: Federal Industrial Development Authority
GDP	: Gross Domestic Product
HICOM	: Heavy Industries Cooperation of Malaysia Berhad
IMP	: Industrial Master Plan
IDB	: Islamic Development Bank
LMWs	: Licenced Manufacturing Warehouse
MIPS	: Malaysia Industrial Policies Studies
MIDA	: Malaysia Industrial Development Authority
MIDF	: Malaysia Industrial Development Finance
MARA	: The Council of Trust for Indigenou People
MMC	: Mitsubishi Motor Corporation
MARDI	: Malaysian Agriculture Research and Development Institute
MRPKA	: Malaysia Rubber Producers Research Association
NEP	: New Economy Policy
NISIR	: National Institute of Scientific and Industrial Research
NIC	: New Industrial Country
PERNAS	: Perbadanan Kemajuan Nasional/The National Cooperation
RRIM	: Rubber Research Institute of Malaysia
RTC	: Rubber Technology Centre
SEDCs	: The State Economic Development Cooperations
SIRIM	: The Standard and Industrial Research Institute of Malaysia
2MP	: Second Malaysia Plan
3MP	: Third Malaysia Plan

4MP : Fourth Malaysia Plan

5MP : Fifth Malaysia Plan

Chapter 1

INTRODUCTION

A. Statement of Study

Malaysia is entering a new phase in economic development. The progress during the last two decades was achieved amidst a global economic environment, characterized by relatively lower growth rate of the industrialized countries and a slower growth in world trade. Domestically, however, growth and structural changes proceeded with minimum dislocations, and resource constraints. All these have changed. The prolonged global economic recession since the end of 1970s has adversely affected the performance of the economy and also revealed structural weaknesses.

The structural weaknesses within the industrial system such as delayed industrialization, heavy dependence in key areas of foreign investment among others were considered as the main barriers to the acceleration of industrial growth. It was mentioned that,

"An assessment of the performance of the (manufacturing) sector during the period 1981 - 1983 showed that the prolonged recession and slow growth in external demand had severely affected the manufacturing sector. In addition it is recognized that its underlying structural weaknesses had further contributed to the sluggish growth of the sector."¹

¹ Malaysia, Mid-Term Review Fourth Malaysia Plan, Kuala Lumpur, Government Printer, 1975, p. 251.

This factor, together with the world recession caused a significant decline in the rate of growth of the Malaysian economy since the end of the 1970s. It was postulated that, the Gross Domestic Product (GDP) during the period 1981 - 1983 was only 6.2%. In fact, it was expected to be 7.6% during the end of 1985. Due to these factors, the current system was not expected to achieve the target since the world economic situation did not give any indication that it was recovering. The negative effects of these two factors, were reflected in the major sector such as the manufacturing sector.

It has been stated that, the manufacturing sector failed to achieve the expected rate of 11.0% and instead only managed a rate of growth of 4.9%. As a result, the manufacturing sector was considered as the weakest sector in terms of growth. This is illustrated in the table below.

Table 1.1

MALAYSIA: AVERAGE ANNUAL GROWTH
BY INDUSTRY, 1971 - 1983
(PERCENTAGE)

Industry	1971-75	1976-80	1981-83	4MP Target (1981-85)
Agriculture	4.8	3.9	4.0	3.0
Mining	0.4	8.9	5.4	5.8
Manufacturing	11.6	13.9	4.9	11.0
Construction	6.6	12.6	13.1	9.0
Electricity, gas, water	9.8	10.2	8.4	10.0
Transport	13.0	9.6	11.6	8.0
Wholesale & retail trade	6.3	8.2	6.3	8.0
Finance & business services	7.2	8.0	7.2	7.4
Government services	10.1	9.0	9.4	9.0
Others	9.3	6.6	4.1	7.6
GDP at purchases value	7.1	8.6	6.2	7.6

Source: Malaysia, Fourth Malaysia Plan, 1981 - 1985, Mid-Term Review of the Fourth Malaysia Plan, 1981 - 1985.

Notes : 4MP = Fourth Malaysia Plan

In the light of the weaknesses such as inadequacy of current incentives system, multiplicity of objectives in industrial development among others and inefficiencies of the current system, the Malaysia government has devised a new strategy for the next ten years. For this purpose government initiated two major studies in 1983. They are the Industrial Master Plan (IMP) and The Malaysia Industrial Policies Studies (MIPS). The MIPS was set-up in order to provide a basis for the rationalization of existing industrial policies. On the contrary, the IMP which was launched in the early February, 1986, was formulated to provide the general industrial development objectives and framework of development strategies as well as to identify the strategies for subsectors with promising growth potential. This changes in the thrust and direction of past policies are needed in order to accelerate growth in manufacturing sector. Hence, the IMP was introduced to guide the implementation of such changes.

The IMP stresses high expectations for the manufacturing sector to achieve a high growth rate. This sector is expected to remain a vital sector to assist in achieving the objectives of the New Economic Policy (NEP).² Those objectives are:

- (i) To reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysian irrespectives of race.
- (ii) Re-structuring the Malaysian society which is to correct economic imbalances so as to reduce and eventually eliminate the

² New Straits Times, 4 February, 1986, p. 1, col. 1.

identification of race with economic
function.

The reason why manufacturing sector was chosen to play an important role is because it is considered as a strategic sector. The government view it as an important industry in employment creation which can be led to a greater participation of Malays and other indigeneous people in modern sector activities with expected employment created by 7.5% per year. Thus, in short, the process of industrialization is considered as a vehicle to achieve the restructuring of employment and ownership of assets as well as the alleviation of poverty.³

It has been estimated that, during the period of IMP, 1986 - 1995, the prospects for growth for the Malaysian economy will be more positive. The target growth of GDP is expected to be 6.4% per annum (1981 constant prices). It is in fact 1% higher than the expected average growth rate of other developing countries. However, 6.4% will not be the annual focus of the GDP growth rate from this year until 1995. It is rather one of the targets which the Malaysian government aims to achieve. This is clear as mentioned by the Minister for Trade and Industry, Tengku Razaleigh Hamzah:

"I would like to remind to all parties, that, the 6.4% which was stated in the IMP report is not an annual focus of national economy, but it is only a target which we aim to reach."⁴

³ Malaysia, Mid-Term Review of Second Malaysia Plan, Kuala Lumpur Government Printer, 1981, p. 72.

⁴ Utusan Malaysia, 19 March 1986, p. 19, col. 1.

In order to achieve this target, the total investment for the economy should increase at the rate of 5.7% yearly during the plan period. The implementation of IMP is important for:

- (i) Identifying the weaknesses which exist in the current system and recommending proposals of how to overcome those problems.
- (ii) Identifying the twelve major industries which are going to be developed in future in order to accelerate the process of industrialization.

These two factors highlight the vital role that the IMP is expected to play in the next ten years. However, some questions may be posed:

- (i) What is the IMP itself?
- (ii) Is it a new policy or is it only a continuation of the past system?
- (iii) What will be expected challenge to be forced in view of the contemporary world economic crises?
- (iv) Is it commensurate with Islamic aspirations?

All of these questions are not easy for us to answer without understanding the IMP itself. Therefore, it is important to note that, in order to know the answer of all those questions we have to know what is IMP itself in detail. This will be discussed in subsequent chapters.

B. Objectives of Study

Malaysian economy is expected to be bright under IMP with an expected rate of growth at 6.4% per annum. This expected rate of growth under the IMP may be due to the influence of certain special

factors existing in this plan. Thus, it is vital for us to know these factors as IMP has been given the role to further develop the industrial sector up to the expected growth rate. However, before that, certain studies must be discussed in the following chapters. Those chapters include:

- (i) Analyse and evaluate the work of all four Malaysia Plans in developing the industrial sector. Observes its success and weaknesses.
- (ii) To evaluate the position of IMP. The factors bring about the establishment of IMP. At the same time, to look at the differences and similarities between IMP and objectives of the past industrilization efforts for example looking from the aspects of priority, strategy and aims.
- (iii) What are the kind of contributions by IMP to development and its importance. Without IMP can we achieve the goal that we hope for?
- (iv) Evaluation of the IMP from the Islamic perspective.
- (v) To provide constructive criticisms and proposals on the IMP.

C. Research Methodology

Most of the research are based on library research. It includes utilising some reports in the mass media as well as some seminar papers. Beside utilising those relevant materials, a few libraries will be utilised including that of various government departments for example Economic Planning Unit (EPU). A visit has been made to the Economic Planning Unit for a dialogue session with one of its officials. There is not much problem during data collection since full cooperation is given by those librarians.

D. Expected Contribution of the Study Made

In discussing the above matters, it is hope that this paper would give a clear idea towards the meaning of IMP, its importance in the country's development especially in the aspect of promoting the industrial sector.

In addition, it is the utmost desire that the ideas and suggestions brought forward in this paper especially from the Islamic point of view will be considered and if possible to be inculcated into the working of Malaysia industrialization in future.

E. Outline of Chapters

This paper commences with an introduction. In this chapter an approximate idea on the previous industrial performance has been provided. It has also highlighted to the reader the underlying reason behind the implementation of the IMP.

Under this chapter it is explained how resources of data and information on IMP are collected, the problems faced during the data collection and its solutions.

The second chapter will discuss the literature review. It will analyse some literatures which have been written on the effort taken by government to develop the industrial sector during all four Malaysia Plans. It will also discuss the articles on IMP itself.

In the third chapter, it will focus on the IMP itself. In this chapter it is expected to give a clear explanation on the IMP. This chapter will be followed by a chapter on the evaluation of the IMP from the Islamic perspective.

Finally, it will be ended with a concluding chapter. Also, there will be in this chapter some comments and suggestions to be made.

Chapter II
LITERATURE REVIEW

A. Introduction

There are some literature available today on the industrial sector in Malaysia. These includes literature on the strategies, policies, performance and difficulties, faced by this sector. This chapter, reviewed some literature which were written regarding this subject. For this purpose, I will group them under sub-topics that are as follows:-

- (i) New Economic Policy in general.
- (ii) The industrial policies which were enunciated during the Second Malaysia Plan up to the fifth Malaysia Plan.
- (iii) What is the pattern or direction of industrial sector under each plan? What are the programmes formulated by the government to achieve the NEP objectives through industrial sector.
- (iv) How are the performances of industrial sector under each plan.
- (v) What are the problems of current industrial system which leads to the implementation of IMP.

B. The New Economy Policy (NEP) in General

According to the Second Malaysia Plan, unemployment and poverty were considered as among factors which are an affront to human dignity. Both of them are inimical to development which try to

integrate the value system and socio-economic environment. Based on these factors, the government launched the NEP in 1971.

There are several objectives of the NEP which were targetted to be achieved within twenty years beginning from 1971 - 1990. Among the targets are to:

- (i) Generate employment opportunities at a rate sufficient to reduce current levels of unemployment and eventually bring about full employment of the whole labour force.
- (ii) Increase the productivity and income of all those engaged in low productivity rural and urban occupations by increasing their access to opportunities to acquire skills, land, capital and other necessary inputs and by eliminating unemployment.
- (iii) Expand opportunities for those engaged in low productivity activities to move to more productive endeavours in agriculture, forestry, fisheries, mining, construction, transportation, manufacturing, commerce and service industries.
- (iv) Reduce the existing inequitable distribution of income between income classes and races.
- (v) Modernise rural life and improve the living conditions of the poor in urban areas through the provision of a wide range of social services including public housing, electricity, water supplies, sanitation, transporta-

tion, health and medical services and recreational and community facilities.

- (vi) Promote the creation of a commercial and industrial community among Malays and other indigenous people in order that, within one generation they will own and manage at least 30% of the total commercial and industrial activities of the country in all categories and scales of operation.
- (vii) Ensure that employment in the various sector of the economy and employment by occupational levels will reflect the racial composition of the country.
- (viii) Expand education and training facilities, other social services and the physical infrastructure of the country to effectively support the attainment of those above objectives.

By looking at these objectives, it is clear that they are projected in order to bring about full employment and redistribution of wealth among all races in Malaysia.

According to the Second Malaysia Plan under the topic of "The Outline Perspective Plan",⁵ the government looks to the manufacturing industry to play leading role in employment generation, bring about greater participation by Malays and other indigenous people in the modern sector activities.

⁵ Malaysia, Mid-Term Review Second Malaysia Plan, Kuala Lumpur,

From this, it shows that there are relationship between NEP and IMP whereby both of them emphasis on the industrial sector particularly the manufacturing sector. Therefore, for the purpose of this paper, emphasis will be given on manufacturing sector.

In order to show there are some relations between NEP and IMP we can see from the example below.

From the previous four Malaysia Plans and now coming to the Fifth Malaysia Plan, we realise that government still give great emphasis on the development of industrial sector, in which the industrial sector, especially the manufacturing sector was proved to have a potential to be an important sector in future in term of exports, jobs creation, increasing the income of people, among others. There are in fact part of the NEP's objectives.

Now, under the Fifth Malaysia Plan, government become more serious to maintain the growth of industrial sector. It is proven through the implementation of IMP in last February. Through the implementation of IMP, directly we understand that government still put a higher hope on industrial sector to be a vital sector to achieve most of the NEP's objectives.

To clear the point above, we can take an example, for instance one of the objectives of IMP is to promote the growth of resource-based and non-resource based industry. In this case we take the rubber-based and rubber product industries as an example

Those two industries are considered as resource-based industries whereby the supply of raw material which is rubber is

is coming from domestic resources. By putting this industry under the IMP, this sector will contribute more towards achieving the NEP's objectives. This efforts will give advantages to those who are involved as the users. In other words, the industries will more or less improve the income of the rural people since natural rubber will be widely used domestically especially in the Malaysian car industries. Although this is simplistic we still can see that there is a relationship between the IMP and the NEP whereby we can say that, the programme carried out by the IMP is actually driven to achieve the NEP's target.

C. Policies, prospects, programmes and progress of industrialization sector under second to fifth Malaysia Plan

1. Policies, prospects, programmes and progress of industrial sector under Second Malaysia Plan:-

Under the Second Malaysia Plan, manufacturing was directed to play a vital role in achieving the objectives of the NEP. Values added is targetted to grow by at least 12.5% per year, from \$1,118m in 1970 to \$2,014m in 1985. To achieve this target, government provided \$330m for investment in manufacturing sector. They were channeled through the National Cooperation (PERNAS), the Malaysia Industrial Development Finance (MIDF), the Council of Trust for Indigenous People (MARA) and the State Economic Development Cooperations (SEDC's).

According to the Second Malaysia Plan, the output target represents a 20% increase over the annual growth rate achieved under the First Malaysia Plan. During this period, the industrial development will be based largely on the processing of primary