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Investment Incentives and Regional Differentials In The Malaysian States

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Various investment incentives were seen to encourage industries to locate to the less developed areas so as to increase economic opportunity as well as monthly income, decrease poverty and unemployment. This strategy however has not been very successful and regional concentration tended to favour the more developed parts of the country and therefore most firms were still located in the more developed states. This is because of the high comparative advantages and economies of scale such as the establishment of manufacturing activities in those areas with easy access to infrastructure, service industries and large labor and consumer markets. This caused slow TFP growth and made convergent process in the less developed states remain problematic. This paper hopes to explore the investment incentives to encourage industries to be located to the less developed regions and analyses the extent of regional differentials and disparities in the regions and the need for regional development policy. The policy-makers need to think of ways and means to distribute the limited resources and increase the comparative advantage of the less developed states. References to secondary data and statistical analysis was used in the study

Field of Research: Regional Economics, Regional Development Policy

1. Introduction

Regional differential has been a particularly important issue especially for developing countries. Many developing countries suffered from the problem of regional differentials since the colonial rule until today. After independence, their governments have expressed the need to reduce the unbalanced patterns of spatial development (Gilbert and Gugler, 1992). Whether regional disparities decline or increase is currently a central question in both academic and policy communities. In the academic community, new endogenous growth theories suggest cumulative advantage and increasing disparities over time, while neoclassical theories suggest that diminishing returns tend to produce convergence.

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The issues are important to policy makers as a process of cumulative advantage suggests the need to bolster lagging regions for reasons of social integration as well as equity. Malaysia is no exception. The problem of unequal spatial distribution of income, economic activities and opportunities continues to be an important theoretical and practical issue, despite the progress of the Malaysian economy. Since independence and especially after 1970, the Malaysian government has tried to promote a balance of economic activities through major efforts to expand modern sector activities, particularly in the less developed states, shifting the emphasis from the agricultural sector to the manufacturing sector. It is hoped that the manufacturing sector will increase economic opportunity as well as monthly income, decrease poverty and unemployment through diversification of economic activities in the less-developed states. This paper explores the various investment incentives to attract industries to the less developed areas and go on to analyse whether the regional differentials and disparities have been reduced following the industrial dispersal strategy. Section 2 touches on the literature review and Section 3 presents briefly the methodology. Section 4 presents the investment incentives.The discussions, conclusions, and policy recommendations are found in section 5 and 6.

2. Literature Review

Foreign direct investment had contributed much to the development of many developing countries (Athukorala and Menon 1996, Aoki 1992). Many developing countries are growing rapidly and at the same time regional inequalities too increase. The problem of unequal spatial distribution of income, economic opportunities and activities at a national and international level continues to be an important theoretical and practical issue, despite the progress of the international economy during the last five post war decades. It was shown that overall growth figures of most underdeveloped countries were good but studies also showed that there has been a growing inequalities among the regions and people (Karvis 1960, Kaldor 1970, Mera 1975). Ideas regarding inequalities had been written by many (e.g. Mandel 1968, Clark 1980 and Soja 1980). Although a large number of articles and studies contributing to the debate on the causes and consequences of regional differentials have appeared throughout recent decades, renewed interest is evident in recent literature. These can be seen in for example series of studies attempting to evaluate tendencies of convergence or divergence between countries (Barro and Sala-i-Martin1991, 1995; Levine and Renelt 1992; Sala-i-Martin 1994; Quah 1996) as well as studies focusing on regions in a unified economic space such as the European Union (Armstrong 1995; Molle and Boeckhout 1995). Along with these studies, there is also attempt to evaluate the positions of the neo-classical model concerning balanced development. The conclusion of most studies is that there is a reduction in the level of inequalities especially for developed countries as can be seen within the European Union (Abraham and Van Rompuy 1995). However it is believed that balanced development could be achieved in the long run with government intervention (Hirschman 1958, Myrdal 1957, Perroux 1950 and Friedman 1966).

Of course regions do not grow at the same rate. Some regions are doing better than others depending on the spatial distribution of economic activity, both in terms of urban systems and regional development (see e.g. Krugman 1991; Fugita et al. 1995). More empirical studies proposed and used a variety of inequality measurements such as Williamson Index, Atkinson Index, Hoover and Coulter coefficients (Williamson 1965, Atkinson 1983, Coulter 1987, Sala-i-Martin 1996, Kluge 1999). In spite of the high GNP per capita of RM17,687 in 2005 (Malaysia 2006) by the standards of developing countries, the regional distribution of both population and incomes in Malaysia is characterized by great variations. There are several characteristics of regional structure and differentials in Malaysia. The most fundamental and promising attack on such disparities is in efforts to redress the regional bias in development strategies and consequently to diffuse industrial activities more equitably throughout the nation. Since the manufacturing industry and industrialization in almost all developing countries can be regarded as the driving force and catalyst for growth, attempts to formulate policies aimed at production and employment growth on a macro and regional level need to place particular stress on this sector (Spinanger 1986:2).

The development of the industrial sector in Malaysia has depended heavily on two closely related factors, direct investment (1=DI) and the industrial estates (IEs) inclusive of the Free Trade Zones (FTZs). The FDI and transnational corporations (TNCs) are not a new phenomenon in Malaysia. Today, foreign investments in Malaysia originate from all over the world, but the main ones being Singapore, Japan, United Kingdom, United States and Hong Kong. The second factor, industrial estates, is crucial as a policy instrument not only for attracting FDI and ensuring economic growth but also for enhancing regional development. Industrial estates are designed to provide a package of physical facilities necessary for a group of industrial firms, not only in terms of organized land space and location for factories but also other important supporting facilities in adequate quantity such as water, electricity. telecommunications and transportation (UNIDO 1978b).

3. Methodology

Since 1981, states in Peninsular Malaysia have been aggregated into six regions (Malaysia 1981). In general, these regions share similarities in resources and in term of economic activities, and have been dominated by single metropolitan area (growth centre). Peninsular Malaysia consists of four regions while East Malaysia consists of two regions. Regions in Peninsular Malaysia (West Malaysia):

1. *Northern region:* consists of four states – Perlis, Kedah, Pulau Pinang, Perak with Georgetown as the growth centre.
2. *Central region:* consists of four states – Selangor, Federal Territory of Kuala Lumpur, Negeri Sembilan, Melaka with Kuala Lumpur as the growth centre.
3. *Eastern region*: consists of three states – Kelantan, Terengganu, Pahang with Kuantan as the growth centre.

4. *Southern region*: consists of one state, Johor with Johor Baharu as the growth centre.

Starting in 2001, the composite development index has been used and states in Malaysia have been divided into two categories based on level of development (Malaysia 2001a:116).

1. *More developed states*; Johor, Melaka, Negeri Sembilan, Perak, Penang, Selangor and Federal Territory of Kuala Lumpur.
2. *Less developed states*; Kedah, Kelantan, Pahang, Perlis, Sabah, Sarawak and Terengganu.

The major sources of data for this paper are from the Malaysian Statistics Department, Central Bank and the Malaysian Industrial and Development Authority. A number of indexes can be used for the analysis of regional differentials. However coefficient of variation (CV), one of the commonly used indexes, is used in this paper to measure the regional differentials. The analyses covers data from 1970 until 2005. SPSS package is used in the analyses.

4. Investment Incentives

Besides incentives under the Investment Incentive Act, since 1971, the State Economic Development Council (SEDC) also provided some incentives to promote investors especially FDI to set-up factories in those particular states. All these incentives provided under the Investment Incentive Act (Federal government) and under the State Economic Development Council (state government) can be summarised in Table 1. Besides the huge incentives in manufacturing industries especially in the less developed states, the government also took further steps to promote manufacturing industries by developing industrial estates. The strategy seeks to encourage new manufacturing industries to move to the less developed parts of the country especially in the east coast states from the congested areas in state of Selangor (Klang Valley) and other major urban centres in the west coast.

Table 1: Incentives Provided Under the Investment Incentive Act and Under State Economic Development Council

	Incentive under Investment Incentive Act			Incentive under State Economic Development Council				
State/ REGION	Act, 1968, under Development Area	Act, 1972, under Location Incentive Scheme	Act, 1986, under East-Coast corridor	Reduction in land price instalment payments	Reduction in quit rent	Reduction in assessment rate	Discounts on purchase of industrial land	Discount in rentals of ready built factory
- Perlis	*	*						
- Kedah	*[1]	*[1]					*[a]	*[a]
- P.Pinang								
- Perak	*[2]					*[b]		
NORTHERN								
- Pahang	*[3]	*[3]	*	*[f]	*[f]	*[f]		
- Kelantan			*	*[d]				*[d]
- Terengganu	*	*	*	*[e]		*[e]		
EASTERN								
- Selangor								
- N.Sembilan	*[4]							
- Melaka	*	*		*[c]	*[c]		*[c]	
- K.Lumpur								
CENTRAL								
-Johor*/	*[5]	*[5]	*[5]					
SOUTHERN								

[1] excluding Kuala Muda and Kulim District;
[2] industrial estates of Kamunting only;
[3] excluding Kuantan district (other than Gobeng Industries Area and Bentong District;
[4] industrial estates of Senawang only;
[5] southeast (Mersing district) of Johor only.

[a] Bumiputera investors in the state of Kedah are provided a discount of 5% on purchases of industrial land and ready built workshops/factories.

[b] The Perak State Economic Development Council (SEDC) has lowered the assessment rates for factory sites within Ipoh City from 16% to 10% and provides a 30% reduction in the land premium.

[c] Investors in Melaka are allowed to purchase industrial land through an extended payment scheme over a period of 5 to 10 years. Industrial land in industrial estates in Melaka enjoy concessionary quit rent and water rates. Melaka also gives a discount of 7% on all payments made within 6 months from the date of offer; a further 3% is given on completion of factories within 12 months from the same date.

[d] Kelantan's instalment plan is 10% payable on signing of agreement, 10% one month later, 30% two months later 50% payable within three months of signing of agreement. Kelantan's rental rate for ready built factories allow discount based on number of workers and floor space.

[e] Terengganu SEDC operates a Special Incentives Scheme. Under this scheme, investors creating total employment for more than 200 staff obtain industrial land prices at M$0.50 per square metre to a maximum of 4 hectares and a 50% lowering in the annual assessment rate. Quit rent is also negotiable.

[f] Pahang SEDC operates a progressive payment scheme with the 20% down payment into two instalments of 10% each with a grace period of 6 months. Investors are given a grace period of 6 and 9 months after the first and second down payment respectively and the balance is paid in 4 instalments equally distributed over the next 9 month period. Quit rent for industrial land lowered by 50% to 15% per 100 metres for the first two hectares.

Sources: Malaysia, Ministry of International Trade and Industry office
Malaysia; Economic Planning Unit 1990: 4-9
Young Poh Chey, 1988: 4

5. Discussions

With regards to Foreign Direct Investment (FDI), the environment in a developing country which most attracts FDI seems to be the one in which the host country is able to integrate with the international capitalist economy on terms favorable to private enterprise. These mainly include offering stable economic, social and political conditions for growth of private investment and free markets; by minimum interference with activities of the firm; and generally by not tampering too much with the pattern of income and regional distribution (e.g. Lall 1977; Weigel 1988). FDI played a significantly important role in Malaysia's manufacturing activities. The importance of British investors before the 1970s has been overtaken by investors from Japan, USA, Singapore, Taiwan and Switzerland.[i] In 1983, about 17 percent of the total capital investment came from Japanese investors and increased rapidly to about 30 percent in the mid 1990s.[ii]

Since 1970 (NEP), the government has started to promote the manufacturing sector as one of the instruments to diversify the economic base and at the same time, to decrease poverty, unemployment and restructure society. However, the states' economic structure shift towards industrialisation did not happen at the same time for all states. In states that were more urbanised, with the establishment of the transportation system and public utilities, concentration of commercial sector (tin and rubber products) enabled them to grow faster compared to states that depended on the traditional agriculture sector. The percentage contribution to GDP by the agriculture industry decreased rapidly in all states (and regions) especially in the more developed states. Consequently, the importance of the agriculture and mineral sectors as the main contributor to GDP and employment was over taken by the manufacturing sector. In these states, the urbanisation process and infrastructural amenities have been well developed and attracted a greater share of investment in the manufacturing sector. Most of the comparative advantage was located in developed regions and this led to the widening gap between states. Besides, domestic investors (DI), FDI especially from Japan were also widely distributed in the more developed states. Among 330 Japanese firms in Peninsular Malaysia, 57.9 percent of them were located in Selangor and 22.4 percent in Penang. Overall, 95.8 percent were located in the more developed states and the rest in less developed states. This matched Chunlai's (1997:8) study in China which shows that location determination of FDI inflow into developing countries was influenced by a large domestic market. This is seen in the case of Peninsular Malaysia where the concentration of population are in Selangor and Penang. With regards to fast economic growth and higher per capita income, example is Selangor, including Kuala Lumpur which have recorded per capita GDP about 63 per cent higher than Malaysian average in 1970 (Malaysia, 1976: 200).

Although the number of existing industrial estates in the less developed states increased, the size (hectare) of the industrial estates was rather small. This is because most of the industries located in the less developed states were Small Medium Industry (SMI) and labour intensive. About 41 percent of the industrial estates in less developed states were less than 25

hectares compared with 26 percent in more developed states. Only three percent of industrial estates in less developed states were more than 200 hectares, while 11 percent industrial estates in more developed states were more than 200 hectares. Furthermore, all of the industrial estates in the less developed states were developed by the public sector (government), while in the more developed states; some of the industrial estates were developed by the private sector. For example, until 2002, from 28 industrial estates in Perak, ten of them were developed by the private sector, while in Kelantan and Terengganu, all the industrial estates were developed by the public sector. Although the industrial area developed by the private sector was generally 30 per cent higher than the industrial area developed by the public sector (depending on location), the demand for the industrial area in the more developed states was relatively high and the private sector (property sector) took this opportunity to create marginal profit.

Although the industrial dispersal strategy has brought about some economic activities to the less developed states and it is hoped that regional differentials should be reduced, results from this study maintained that the existence of regional disparities could not be avoided. The idea of convergence do not seem to support these findings. Various disparities that have existed since under the colonial rule, went further into the seventies and eighties and these have been documented elsewhere (Ali 1992). Nevertheless Tables 4, 5 and 6 show some regional disparities of the nineties and twenties.

Table 4: Some Development Indicators By States 1990-2005

	1995			2000			2005		2004
Peninsular State	(A) RM	(B) `000	Manuf/cap (RM)	(A) RM	(B) `000	Manuf/cap (RM)	(A) RM	(B) `000	Manuf/cap (RM)
Johor	10007	2422	1970	13954	2721.9	2888	18733	3020	3450
Kedah	6391	1501	640	8918	1652	1228	12132	1791	1348
Kelantan	4484	1286	97	6241	1314.9	111	8638	1348	151
Kuala Lumpur	22799	1239	533	30727	1370.3	466	39283	1581	1054
Melaka	11305	600	1547	15723	634.1	3754	21410	681	6354
N.Sembilan	9034	804	1571	12791	858.9	3239	17555	907.7	3704
Pahang	7548	1200	308	10370	1290	775	14549	1365.1	1294
Perak	9290	2036	495	13183	2109.7	869	18616	2182	891
Perlis	7634	197	340	10802	204.5	418	15166	213.2	457
Penang	15054	1179	3320	21469	1307.6	6310	28581	1452.2	6889
Sabah	7206	2267	334	9123	2656.4	437	11323	3112.5	628
Sarawak	9287	1908	569	12755	2071.8	1314	16861	2300.1	1638
Selangor	14168	3210	2617	17363	4175	2897	21286	5069	3120
Terengganu	16553	835	329	22994	899	1053	29516	1013	2259
Malaysia	10756	20684	1194	14584	23266.1	1891	19189	26035.8	2311

The different states showed different level of development and the ranking clearly shows that Wilayah Persekutuan Kuala Lumpur is very developed compared to the others.

Table 5: Development Composite Index By State, 2005

State	Economic Index	Social Index	Development Composite Index	Rank
Northern Region				
Kedah	95.5	100.2	97.8	9
Perak	99.7	101.2	100.4	7
Perlis	95.00	104.9	99.9	8
Pulau Pinang	109.01	102.4	105.7	2
Central Region				
Melaka	106.4	102.1	104.2	3
Negeri Sembilan	101.8	102.9	102.3	5
Selangor	108.4	98.0	103.2	4
Wilayah Persekutuan KL	114.4	104.8	109.6	1
Southern Region				
Johor	102.9	98.1	100.5	6
Eastern Region				
Kelantan	91.9	94.4	93.1	13
Pahang	96.3	99.0	97.6	10
Terengganu	91.5	100.8	96.2	12
Sabah	82.8	97.2	90.0	14
Sarawak	94.8	98.4	96.6	11
Malaysia	**100.00**	**100.0**	**100.0**	

Source: Malaysia 2006

Besides the Development Composite Index, the development gaps between regions can be seen in Table 6 which shows mean monthly household income and incidence of poverty by state. The average mean monthly household income increased from RM2,472 in 1999 to RM3,429 in 2004, growing at 5.6 per cent per annum. The highest mean monthly income was recorded in Selangor and the lowest was recorded by Kelantan. With regards to the incidence of poverty, the statistics remained high in the less developed states of Sabah, Terengganu and Kelantan.

Table 6: Mean Monthly Household Income and Incidence of Poverty By State, 1999 and 2004

State	Mean Monthly Household			Incidence of Poverty	
	RM		Average Annual Growth Rates (%)		
	1999	2004	2000-2004	1999	2004
Northern Region					
Kedah	1612	2126	5.7	14.2	7.0
Perak	1743	2207	4.8	6.8	4.9
Perlis	1431	2046	7.4	13.6	6.3
Pulau Pinang	3128	3,531	2.5	0.7	0.3
Central Region					
Melaka	2260	2792	4.3	2.9	1.8
Negeri Sembilan	2335	2886	4.3	4.1	1.4
Selangor	3702	5175	6.9	1.9	1.0
Wilayah Persekutuan KL	4105	5011	4.1	0.4	1.5
Southern Region					
Johor	2646	3076	3.1	3.1	2.0
Eastern Region					
Kelantan	1314	1829	6.8	25.2	10.6
Pahang	1482	2410	10.2	9.8	4.0
Terengganu	1599	1984	4.4	22.7	15.4
Sabah	1905	2487	5.5	23.4	23.0
Sarawak	2276	2725	3.7	10.9	7.5
Malaysia	**2472**	**3249**	**5.6**	**8.5**	**5.7**

Source: Malaysia 2006

The coefficient of variation analyses which provide measure of relative regional differential (standard deviation divided by the mean value, Cunningham 1982), strengthens the persistence of the regional differentials. It will be observed that the coefficient of variation (CV) for GDP among states in Malaysia has increased from 79.10 in 1970 to 87.47 in 1980 and 90.91 in 1990, thus indicating that the differential of state incomes has widened over the last two decades. As expected, the CV based on the manufacturing output has always been higher than the GDP. But this CV declined between 1970 and 1980 from 145.53 to 136.03. This may indicate the success of the policies to reduce regional differentials during the first I0 years of the NEP period. The situation during the 1980-90 periods has been the reverse. The CV increased back to the situation in 1970. However these figures have been reduced to 134.29 in 1995, 115.34 in 2000 and further reduced to 106.31 in 2005 implying that some of the policies have been successful.

Table 7: Coefficient Of Variation (Cv) Among States 1970-1990

	1970	1980	1990
Manufacturing Output	145.53	136.03	145.10
Population	50.48	51.89	54.42
GDP per capita	32.26	32.48	38.04
Manufacturing output per capita	91.79	88.30	77.57

Similarly, if we look at the population distribution, the concentration was less severe but there was also an increase in regional concentration over the same period especially in the twenties. This is mainly because of the migration pattern which tends to move from the less to the more developed regions and also due to the influx of foreign workers to these areas. If we were to take into account the regional population differentials and the inter-state migration, thus measuring the differential in terms of per capita we would notice that the CV is much lower than the corresponding figures in terms of the manufacturing output. Nevertheless, the GDP per capita among states has been getting more skewed, particularly between 1980 and 1990 where the CV increased from 32.48 to 38.04 and further increased to 45.19 in 1995. However the figure managed to be reduced to 44.51 in 2000 and down to 41.98 in 2005 implying that there is some improvement in the differentials of GDP per capita between states.

Table 8: Coefficient Of Variation (Cv) Among States 1995-2005

	1995	2000	2005
Manufacturing Output	134.29	115.34	106.31
Population	54.89	61.71	66.68
GDP per capita	45.19	44.51	41.98
Manufacturing output per capita	95.22	95.37	89.03

On the other hand, the CV for manufacturing per capita declined during the earlier two decades, implying an improvement in the regional distribution of manufacturing output. However after the 1990s, these figures were seen to be rising. There are two major factors for this. Firstly, the lopsided regional economic development has caused population movement from less developed areas to the more developed areas. Studies have revealed that more developed areas, like the Federal Territory of Kuala Lumpur, Selangor, Penang, with high levels of industrial activities, have had a high proportion of their workforce originating from other areas. In the case of Kuala Lumpur, for example, the "migrant workers account for about 70 per cent of total industrial labor force; and in Selangor, about 50 per cent. Secondly, related to the first, the movement of industry towards the less developed areas is slower than the movement of labor towards the more developed areas.

There are several reasons why FDI tends to favor the more developed areas. Firstly. the Western Corridor areas have attracted the export-oriented, high growth electronics and textile/clothing industries, reflecting increasing international division of labor. These industries not only exploited the location advantages of the Western Corridor areas (especially the available port and FTZ facilities)'. but also influenced localization of industrial activity through regionally differentiated location choices. On the other hand, the less developed areas (Eastern Corridor. Sabah and Sarawak) with their less attractive infrastructure are only capable of attracting industries which are tied locationally to the exploitation of local resources and markets, and with below average growth characteristics.

Secondly, although the decentralization of industry has been encouraged by government policies the main forces at work are still based on the free-market system. Under this system the industrial core regions (particularly in Kuala Lumpur, Selangor, Penang and Johore) remain the main locations for large and capital-intensive industries, which characteristic of foreign firms (except the electronics and textile firms), by virtue of their absolute growth and agglomeration advantages. The “deepening” and “linkaging” process of the industrial structure, with smaller industries supplying parts and components for the main industries, has created a greater tendency towards spatial concentration of industry

Thirdly, the expansion of industrial estates has been successful in attracting investments into the country but not in spreading the industries towards the less fortunate regions. Apart from the industry-mix which tends to favor Free Trade Zones, industrial estates in the less developed regions tend to have lower rates of occupancy (although smaller in size) despite satisfactory sales. The land price differentials among industrial estates (lower price in the. less developed regions) have been found to be a significant factor in buying decisions, but not necessarily for location decisions (some bought for speculative Purposes). The purchases of land were found to be made to a significant extent by companies for the purpose of relocation of firms from within the same regions. Whatever advantages tile price differential has, it is still insufficient to offset the location disadvantages suffered by the less developed regions. Even other location factors not directly associated with the intrinsic advantages of industrial estates, such as an informal network of business contacts between individuals and firms, availability of social services, and other socio-psychological factors, were not found to be in favor of the poorer regions.

The manufacturing sector contribution to total GDP increased rapidly from only 17.7 percent in year 1970 to 30.5 in 1990 leading to a declining share of primary commodity exports and continuously increased to 33.4 percent in year 2000. It then increased to 37 percent in year 2007. In terms of export manufacturing goods, it increased from 58.8 in 1990 to 85.2 percent in 2000.However in 2005 the figure has gone down to 80.5 percent and it is

expected to rise to 83.4 percent in 2010 (Malaysia 2006). Since the 1970s, the source of growth for manufacturing sector came from export expansion of labor-intensive industries such as textiles and especially electronics industry, in which the electronics industry recorded a remarkable rate of growth in exports of about 69 percent per annum. The later part of the 1980s saw a shift towards the development of heavy industry (capital-intensive). Table 9 shows the ten most important export sector of manufacturing goods for the year 1985, 1995 and 2005. In 1995, it shows the increasing importance of electrical electronics and machinery goods; wood products; iron and steel and metal products; and rubber products to the total export of manufacturing goods. Non-resources based products were the important export of the manufacturing sector. It increased from 75.9 percent in 1985 to 81.5 percent in 1995 and down again to 69.7 percent in 2005.

Table 9: Export of Manufacturing Goods, 1985, 1995 and 2005 (M$ Million)

	1985 M$	% Share	1995 M$	% Share	2005 M$	% Share
Electrical, electronics & machinery (382, 383)(NRB)*	6,493	52.1	96,748	65.6	230,429.3	53.6
Textiles, apparel and footwear (321, 322, 323, 324) (NRB)	1,289	10.3	6,712	4.6	10,520.3	2.4
Chemicals & plastic products (351, 352, 356)(NRB)	610	4.9	6,702	4.5	34,773.80	8.1
Wood products (331, 332)(RB)	365	2.9	6,265	4.2	18,599.60	4.3
Transport equipment (384)(NRB)	566	4.5	5,247	3.6	6,992.90	1.6
Iron & steel & metal products (371, 372, 381)(NRB)	357	2.9	4,819	3.3	17,157.40	4.0
Food, beverages and tobacco (311-312, 313, 314)[a](RB)	781	6.3	3,676	2.5	10,188.70	2.4
Rubber products (355)(RB)	113	0.9	3,218	2.2	6,776.60	1.6
Petroleum products (353, 354)(RB)	1,041	8.3	3,127	2.1	16,729.30	3.9
Non-metallic mineral products (361, 362, 363)(RB)	150	1.2	1,678	1.1	2,934.30	0.7
Other manufactured goods[b]	706	5.7	9,315	6.3	74,770.80	17.4
Total Non-Resources Based	9,315	75.9	120,228	81.5	299,873.70	69.75867
Total Resources Based	2,450	20.0	17,964	12.2	55,228.50	12.84763
Total[c]	12,274 (0.03)	100	147,507 (22.9)	100	429,873.0	100

* NRB = Non-Resources Based; RB = Resources Based
[a]Figures in parentheses are related to 3 digit industry code
[b]Includes others export of manufactured goods besides above
[c]Figures in parentheses are annual percentage of total export of manufacturing goods

Sources: Malaysia, 1999, Economic Report 1988/99, p.xxx
Malaysia, 2001c, Economic Report 2000/01, p.xvii

Malaysia, 2001b, Eight Malaysia Plan, p.238
Bank Negara Malaysia, 2007, Monthly Statistical Bulletin August 2007, p.viii.6

6. Conclusions and Policy Recommendations

It has shown that the location incentives were not very effective in encouraging industries to be located in the less developed areas. Most industries are still located in the more developed states mainly due to established manufacturing activities in those areas with easy access to infrastructure, services industries and large labour and consumer market. Although the cost of land (industrial area, especially developed by the private sector) in the more developed states was relatively high, the investors were still willing to locate their firms in the more developed states after taking into consideration the deduction of production cost from the location incentives if the firm was located in the less developed states. The advantage from positioning the firm in the more developed states was greater than the advantage from the location incentive.

Even though the total manufacturing output in Peninsular Malaysia experienced rapid annual growth, its distribution remained unchanged. In other words, there is no tendency towards convergence between the more developed states and the less developed states. Regional differentials still persist between the states and between regions in Malaysia. In conclusion, industrial dispersion has to be seen as the main instrument for the achievement of development goals. Further incentives to develop the less developed states not only have to be given to the manufacturing companies (to increase job opportunities) but also have to be given to the workers (to make job opportunities more attractive) and to the services companies (as a complement to the manufacturing companies and population growth). During the Ninth Malaysia Plan, measures will be undertaken to accelerate the development of the less fortunate states. These among others call for the development of the Southern Johor Economic Region (SJER) specifically the Wilayah Pembangunan Iskandar (WPI) in the south, the Northern Corridor Economic Region (NCER) in the north , the Eastern Corridor Economic Region (ECER) in the east and of course the Regional Development Authorities in Sabah and Sarawak. These bold plans would help to accelerate the development of all those regions undertaken by government link agencies namely Khazanah Nasional, Sime Darby and Petronas.

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End-Notes

[i] Before the 1970s, British investment contributed significant to Malaysia's FDIs. Initially British investment was channelled into agricultural (rubber estates) and mining (tin) sector, and later (late 1950s) diversified into light industries (end consumer's products). In the 1950s as well, more than 70% of FDI came from Britain and 90% of its concentration in plantation and mining sector. However, the percentages decreased in 1970 to about 45% and to 16% in 1983 (Mohmmad Ariff and Chee Peng Lim, 1987:101,104). In the early 1980s, under 'Look East' campaign, the government welcomed FDI from Japan and South Korea, to emulate and learn from those countries' economic development experience (Brewer et.al., 1986:96). In terms of exports and imports, in 1957 14.6% of export was to United Kingdom and 17.7% of import was from UK. However in 1985, Malaysian export to UK decreased to only 2.6% and inport from UK decreased to 4.0%. In 1957, 10.1% of export was to Japan and 6.1% of import was from Japan. However in, 1985, Malaysian export to Japan increase to 24.3% and import from Japan increased to 23.0% (Khong, 1987:1096). Malaysia was recorded as being in the top 50 countries with most active FDI inflow in the World and among the top 10 developing countries in this respect (UNCTAD, 2002).

[ii] Japan is the single most dominant economic power in Malaysia (Khong, 1987: 1095).