BOOK REVIEW

Review of Industrial Growth, Employment, and Foreign Investment in Peninsular Malaysia. By Lutz Hoffmann and Tan Siew Ee. Kuala Lumpur: Oxford University Press for the Institut für Weltwirtschaft, Kiel, 1980. Pp. xviii, 322.

The book under review is a very detailed empirical study of the industrial sector of West Malaysia. The period of coverage, however, is largely limited to the years between 1963 and 1971, and in some cases 1974, although there is an introductory discussion of industrial development and policy prior to these years.

The authors demonstrate that manufacturing has recently been a leading sector of the economy, increasing its share of gross domestic product from 8.5 per cent in 1960 to 19 per cent in 1974 (p. 11). There has been an increasing diversification of manufacturing and a growing importance of large-sized firms. The share of manufacturing output of those establishments employing over 100 workers, for example, has increased from 39 per cent in 1957 to 66 per cent in 1971 (pp. 16–17). However, employment growth has been rather less, with the share in manufacturing only increasing from 6.4 per cent in 1957 to 10.5 per cent in 1970 (p. 276). In addition, industrial development has been geographically concentrated, with four states accounting for 75 per cent of both employment and output in manufacturing (p. 21).

The use of incentives by the government is examined. The authors conclude that high opportunity costs were involved, with benefits being limited to a few large firms (pp. 3, 50). On the other hand, Hoffmann and Tan feel that the encouragement of manufacturing has led to a growth pattern of manufacturing that is described as "complementary" rather than "competitive" with the other sectors of the economy. The latter term is defined as growth of one sector that retards the growth of other sectors; "complementary", however, is left undefined. The issue is approached by comparing West Malaysia's sectoral growth pattern with "what may be called a normal pattern". The point of the exercise is unclear since the authors claim that "financial capital is not a scarce resource" and that "skilled as well as unskilled labour was not scarce for the country as a whole" (pp. 28–30). More discussion of the concepts of "competitive" and "complementary" might have clarified the importance of their efforts on this topic.

In other areas, too, less description and elaboration of the data and more discussion of the importance of the particular material to the understanding of the industrial development of West Malaysia would have been appropriate. For example, the authors devote 23 pages (pp. 91–113) to the discussion of scale economies, elasticity of substitution and capital intensity. They go through a tedious attempt to reconcile three measures of capital intensity, concluding that the low correlation among the measures can, in most cases, be explained by "the employment of too little labour on [*sic.*] too much capital." To this reviewer, the problem is simply that the marginal productivities of labour and capital (or, the wage and profit rates) are not equal (pp. 98, 100; see also p. 140, note 15).

Hoffmann and Tan conclude from their discussion that manufacturing is characterized by widespread economies of scale and low elasticities of substitution, with the latter increasing with rising capital intensity. Unfortunately there is no discussion of whether the increasing returns to scale is a disequilibrium situation or results from, or implies a tendency toward, monopoly, and what consequences hold for the growth of the economy.

The authors then shift to a discussion of a questionnaire one of them had administered, among other things, raising the issue of the importance of price in the choice of technology. They argue that the usefulness of scale and substitution elasticities rests on the dominance of relative prices and the constancy of other factors in the choice of technology. Their results show that, particularly for larger firms, relative prices of labour and capital are not of importance. This leads them to question the efficacy of policies based on "getting factor prices right" (pp. 113, 117). After reading this rather interesting section, one wonders why they spend so much space on discussing the estimation, size, and consistency of the various elasticities to begin with.

To understand the pattern of industrial development more fully, the authors investigate the source of growth of the manufacturing sector: domestic demand, import substitution, and export expansion. They find for non-primary processing manufacturing that in the period 1963–68 import substitution was the primary source of growth, while in the 1968–71 period, domestic demand was more important. The equation used in this exercise is presented (pp. 143–44) with little discussion. It is not evident that the designated terms reasonably measure the sources of growth with which they are identified. A bit of algebraic manipulation on the part of this reviewer put his mind more at ease on the matter, but not entirely. For example, why is it that only export growth in excess of growth of the internal market is worthy of being identified as export expansion?

There is an interesting discussion of foreign investment, or the importance of what the authors call foreign controlled companies (FCC). A majority of the capital stock (apart from land) in the West Malaysian economy, as well as in the manufacturing sector, is owned by foreigners. Hoffmann and Tan find that FCC made substantial contributions to growth of output (21 per cent of GDP and 67 per cent of manufacturing) during the 1968–71 period, but their contribution to growth of employment was only about one-half of this amount (pp. 215–16, 223). The resource effect of foreign investment (net capital flows minus related income remittances) was decidedly negative, leading the authors to conclude that "foreign investment did not prevent growth but acted as an effective brake on the pace of growth". But, there was a considerable trade surplus that outweighed the negative resource flows (pp. 235–40). It would have been interesting to see the net trade impact of FCC other than those in the traditional export industries. The authors do mention (on p. 242) that the trade balance of FCC in manufacturing was strongly negative, but the data in the table on the preceding page shows a positive trade balance.

Several comments are made in the book that deserve fuller treatment than they were given. One example of this is the following quote that was taken from a paragraph in which West Malaysia's development is compared with that of Singapore.

> It is quite obvious that in a capitalistic economy a distribution policy aiming at raising the rural population to the level of economic well-being of its urban counterpart has its price in terms of growth. This is probably even more true if the urban-rural imbalance has a racial connotation, as is the case in Malaysia (p. 4).

Although such a comment is fraught with implications, there is nothing in the book under review to substantiate it either theoretically or empirically.

Another example is drawn from the authors' discussion of technology choice and transfer. They claim that restrictions on exports, sourcing of inputs, pricing, etc., for firms with foreign-owned equity or licensing or technical co-operation agreements with foreigners, "were on average not very important" (p. 119). They go on to say that "domestic firms undertake considerable efforts to modify or to adapt imported technologies" and that "some of the industries known to be research intensive in industrialized countries also spend relatively much on research and development in Malaysia" (pp. 120–21). Elsewhere, Hoffmann and Tan argue that "capital utilization in Malaysian manufacturing is high, and substantially higher than in many other developing countries for which data is available" (p. 126). Inasmuch as the opposite of these comments is the norm in much of the developing world, it would have been pertinent to their study for the authors to investigate why Malaysia is so fortunate.

In closing, there is a minor point. This reviewer's attention to the book was unfortunately distracted by such editorial lapses as the omission of a phrase crucial to the argument (p. 47), the use of the term "growth" when, presumably, "gross output" is meant (p. 47), the leaving of a minus sign out of an equation (p. 94; cf. p. 140, note 8), and the lack of definitions for terms such as value-added ratio (for examples, p. 25), and variables in equations and tables (pp. 61–63, 94, and 101).

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