

BOOK REVIEWS

Technological Leap: Malaysian Industry in Transition. By Fong Chan Onn. Oxford University Press, Singapore, 1986. Pp. 230 + xx.

Technological Leap is a book for its time. In the very first page, the reader is given a provocative quotation from the Deputy Prime Minister of Malaysia that “Malaysia now realises that a serious move towards industrialization requires going straight into the technological era as the step-by-step approach of yesterday will not do”. In the last few years, the Malaysian Government has been engaged in a major rethink of its industrial strategy. The manufacturing sector is, certainly, in transition. This book, by one of Malaysia’s most prolific and senior academic economists, examines perhaps the most critical economic policy issues facing the country in the 1980s.

Malaysian industry grew very rapidly in the 1970s. Like its neighbours, it began to take manufactured exports seriously. Drawing on the country’s good basic infrastructure and established entrepreneurial base, a range of policy initiatives — principally, but not only, the establishment of Free Trade Zones — resulted in spectacular export growth. In just over a decade, the export sector was transformed from one which relied predominantly on primary commodity exports to a situation where Malaysia emerged as a significant exporter of manufactures. After a decade or so of rapid growth, it was recognized that this strategy had made a major contribution to employment generation. But rising real wages, and the expiry of attractive fiscal incentive packages for several large firms, prompted a reevaluation of manufacturing policy. In important respects, these labour-absorbing manufacturing activities did not provide the basis for sustained industrialization. By the early 1980s, it was clear that the country had to begin to move “up-market”, but it was less clear how and in what direction the new policy initiatives should foster continuing rapid industrial growth.

This book is divided into three main parts. The first consists of a brief introductory chapter, followed by an essentially methodological chapter examining the concept and measurement of “technology”, and a useful overview of Malaysian industrialization (chapters 2 and 3). Next, in chapters 4 to 8, are a series of industry case studies, analysing electronics and electrical appliances, textiles, petrochemicals and plastics, iron and steel, and veneer and plywood. The final part, chapter 9, summarizes the main findings and considers the “prospects for the technologised leap”.

The core of the book is contained in the second part dealing with the industry case studies. Although the focus of these chapters inevitably varies somewhat, depending upon the importance of industry-specific factors, the underlying theme is clear. The author is concerned about technology levels in Malaysian industry and, in order to demonstrate the importance of technology progress, provides detailed comparisons between Malaysian and Japanese firms, based on an extensive survey of firms in Peninsular Malaysia. The results of

this comparison are informative, although perhaps not altogether surprising. Total factor productivity of Japanese firms exceeds that of Malaysian firms by a factor of from two (in the case of electronics) to ten (iron and steel). Capital-labour ratios are between three times (electronics, petrochemicals) and five times (garments, plastics) higher in Japan. In the case of labour productivity, the order of magnitude ranges from $2\frac{1}{2}$ (downstream petrochemicals) to 16 (garments).

These very substantial differences, and the fact that Malaysia is now moving out of labour-intensive activities, lie at the heart of Dr Fong's analysis. Thus far, he argues, Malaysian industrial progress has not been seriously impeded by competition from industrially more advanced nations. But, to quote him, ". . . by the end of the decade, as it progresses further along the path of industrialization, it will have to compete directly with the NICs and Japan. If its technology is not dramatically upgraded, it will be unable to compete against these countries" (p. 187).

In addition to the main theme of technology differences, the author raises other interesting issues in Malaysia's industrialization. In the case of textiles, for example, he observes that export quotas (in OECD countries) for Malaysia have rarely been a binding constraint, since in many cases local firms have failed to fill their quotas. The author's examination of technology transfer issues is also instructive, especially in the chapter on electronics, where details on costs and channels are provided. Moreover, in each of the industry chapters there is useful background information on the evolution and structure of various manufacturing activities.

This book is therefore both timely and informative. But it — or any other single volume — cannot be the last word on the subject. What Dr Fong has done, very successfully, is to place these issues on the policy agenda. As the policy debate unfolds, the reader might require firmer guidance from the author and other Malaysian economists. Dr Fong assembles all the standard tools of economic analysis in this study, but one senses a certain ambivalence in his attitude towards the desirability of a strong push for heavy industry. Frequently, he refers to the strategy as "bold but risky". Understandably, he has no wish to walk into a political mine-field, but one wonders what his view of the controversial Proton Saga is, not to mention other large, capital-intensive projects. In the past, Malaysia's open economic policies have served the country well. The country's second round of import substitution threatens to fundamentally change this, and to have repercussions for the downstream user industries of the new projects being emphasized. Although the author, in his concluding chapter, has a sub-heading entitled "Caution on domestic protection", it might have been useful to draw more attention to the issue of protection policy.

One wonders also whether such a compressed time frame, as envisaged by policy-makers, is feasible. This book discusses the case for Malaysia catching up with, and competing against, the advanced NICs (newly industrialising countries) — and even Japan — by 1990. It is clear that Malaysia is rapidly losing its comparative advantage in labour-intensive activities, and it is hardly evident that it should follow and catch up with the NICs in the space of less than a decade. For one thing, Malaysia's resource base differs substantially from the resource-poor NICs, and therefore its comparative advantage will lie in different activities. For another, establishing the necessary human, physical and commercial infrastructure is a complex, time-consuming task, which could not be easily undertaken in such a short period.

Methodologically, also, the book raises some interesting questions. The author employs revealed comparative advantage (RCA) indices to examine the changing pattern of export specialization. Although these are useful as broad indicators of changing

comparative advantage, they need to be interpreted with caution because they reflect not only underlying economic changes but also the effects of policy interventions. Another issue concerns the use of capital-labour (K/L) ratios as a proxy for “technology”. Admittedly, technology is a notoriously difficult concept to measure, but the K/L ratio may not always be appropriate, especially for (physical) capital-intensive but low-skill industries. Finally, one wonders whether the Malaysia-Japan comparisons are always relevant, because in many cases superficially similar industry categories conceal substantial differences in product mix across countries.

These are all relatively minor quibbles, however, and the book will be of great assistance for those with an interest in the subject.

Hal Hill
Australian National University

13 May 1969: A Historical Survey of Sino-Malay Relations. By Leon Comber. Kuala Lumpur: Heinemann Asia, 1983. Pp. 134 (including plates and appendices).

In this thin and simple book, Comber traces the problematic relationship between the Malays and Chinese in Malaysia (specifically in Peninsular Malaysia) over the last century which culminated in an open, bloody conflict on 13 May 1969, at Kuala Lumpur, Malaysia’s capital city.

The first five chapters of Comber’s book present a brief chronological survey of the historical context within which the problematic Malay-Chinese relations must be understood. The attempt is very descriptive but at times sketchy. In the last three chapters the book presents a stage-by-stage report of what occurred before, during, and after 13 May. Again, the presentation is very descriptive, with little analysis, and, to a certain extent, journalistic.

At the empirical level, what Comber offers is nothing new not only to Malaysianists but also to those who are interested in Malaysian affairs in general. This is owing to the fact that his sources have been solely secondary materials — newspaper reports, published government reports, textbooks on Malaysian politics, and so forth — the very materials used by high school students in Malaysia and the business community, local and abroad. Except for one Malay book, which happens to be a popular historical account of the Chinese in Malaysia, the rest of his sources are in English. Comber’s analysis of the May 13 incident perhaps could have been more interesting and informative, if, for example, he had used Malay and Chinese sources — books, newspapers and journals — as well.

One glaring omission by Comber of an important historical fact is the violent racial clashes between the Malays and the Chinese from 1945 to 1948, which arguably, historically and sociologically, are as significant as the 13 May 1969 incident, if not more. The failure to mention these clashes seems to have exaggerated the historical and sociological importance of the 13 May incident in the history of Malay-Chinese relations. This has rendered Comber’s treatment of the 13 May incident as a sensationalized journalistic piece, overdramatizing the unfortunate, tragic event.

At the theoretical level, Comber’s analysis of Malaysia’s Malay-Chinese relations is based upon the now over-flogged, hence rejected, “integrationist model”. This is clearly