

EASTERN UNIVERSITY SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

Final Year First Semester Examination in BBA

2014/2015 (May 2017)

ECN 4013 Industrial Development

All Questions

Time: - 03 Hours

Industrial Development in Malaysia

During the period from the 1950s until about 1970, Import Substitution Strategy was dominant in Malaysia. Nevertheless, trade barriers were significantly lower than in other developing countries. One reason for the relatively mild protection was the colonial tradition of a liberal stance to trade and industry. The political structure of the country was also an important determinant. The majority ethnic Malays dominated politics but had relatively little economic power, whereas the Chinese controlled most modern sector activities but had little political power. The bias against agriculture was also less serious than in many other countries, because of the economic and political importance of the mining and plantation

Although the overall economic performance during the 1960s was respectable, it failed to close the gaps in economic and political power between the different ethnic groups. The majority of the majority Malay population did not fall much. In 1971 Malaysia reappraised the country's development strategy and established New Economic Policy (NEP). The main objectives of the NEP were to eradicate poverty through employment generation and to increase the economic power of Ethnic Malays. Trade policies were instrumental in achieving the first objective and were designed to promote exports of natural resources and labour-intensive light manufacturing goods, such as textiles, footwear, and garments. The policies included the usual tax allowances and preferential credits, but the most significant export promotion measures were the establishment of several Export Processing Zones and Free Trade Zones during the 1970s, mainly to attract foreign investors.

To achieve the second objective, Malay's participation in business was promoted in two ways. First there was a drive to expand the state-owned industrial sector through the acquisitions of foreign firms and establishment of new companies, where Malays would hold the key positions. Second, ownership and employment quotas favoring Malays were introduced. Manufacturing firms with more than 25 employees were required to get a business license, which was not granted unless NEP ownership and employment guidelines were followed. Malays were also granted privileged access to subsidized credit, share ownership, and business opportunities in the private sector.

The impact of the NEP was notable. Foreign investment inflows on the export processing zones grew rapidly and manufactured exports expanded at a rate of nearly 29% per year between 1971 and 1980. By 1980, around 70% manufactured exports originated in the export processing zones. Yet, Malaysia remained primarily a raw material exporter: manufactures only accounted for 19% of total exports. The slow structural changes in industry and export composition were seen as a reason to promote state-owned heavy industry. The first step in this direction was the establishment of the Heavy Industries Corporation of Malaysia in 1980. The government provided the corporation's initial capital and guaranteed subsequent credits at subsidized rates, as well as protection from imports and favorable government procurement.

Over the following years, the Heavy Industries Corporation set up several joint ventures with foreign firms in areas like petrochemicals, iron and steel, cement, paper and paper products, machinery, building materials and transport equipment. However, a large number of substituting industries were inefficient. Even with cheap credits and protection, the state owned enterprise sector was running at a loss. A dualistic industry structure had emerged with a largely foreign owned export sector concentrated to the Export Promotion zones and an inefficient domestic market sector operating in a protected environment. The annual GDP growth rate fell.

Hence, by the mid-1980s, it was clear that the economic advances of the previous decade had come to an end. The increases in public expenditure caused by the promotion of heavy industry had led to growing budget and current account deficits, as well as mounting foreign debt. The necessary cuts in public expenditure had a contractionary effect on the economy, and both domestic and foreign private investments were stagnating. Consequently, the NEP was abandoned in 1986, and subsequent policies aimed to promote private investment and exports. State owned enterprises were gradually privatized – the revenues from privatization increased, and trade liberalization accelerated significantly.

As a result of these more market oriented policies, merchandise exports grew. The average annual GDP growth rate also increased in this period. A stronger emphasis in education and training in public policy also made it possible to gradually upgrade production into sectors with higher value added. This impressive performance was tempered mainly by a persistent current account deficit.

Answer the following questions.

- a) What is meant by "Import Substitution Strategy"? (04 Marks)
- b) Explain the term "Labour intensive light manufacturing goods." State some examples. (04 Marks)
- c) Differentiate between "Export Processing Zones" and "Free Trade Zones". (04 Marks)

How do you describe "Heavy industries"? Give some examples. **(04 Marks)**

Briefly state the nature of dualistic industry structure emerged in Malaysia during mid 1980s. **(04 Marks)**

Explain how cuts in public expenditures would have affected both domestic and foreign private investments in Malaysia during 1980s. **(04 Marks)**

What would be the objectives of giving stronger emphasis on education and training in Malaysia after 1985? **(04 marks)**

(Total 28 Marks)

Explain the most usual classification of industry. **(06 Marks)**

What is meant by "Raw Material Oriented Industry"? Explain with examples. **(06 Marks)**

Why high-tech companies now have been located in the areas of advanced educational or training facilities. Explain the reasons with the examples of such areas. **(06 Marks)**
(Total 18 Marks)

What is meant by "Industrial Policy"? Explain with some examples of different types of industrial policies. **(06 Marks)**

Briefly explain the factors which facilitate the industrialization of a country. **(06 Marks)**

What the Meiji government did through the formulation of industrial policy, towards the industrial development of Japan? Explain the main activities. **(06 Marks)**
(Total 18 Marks)

"As far as industrial development was concerned, Sri Lankan governments' activities were very poor in the period between 1950 and 1959". Explain the above statement with reasons. **(06 Marks)**

Briefly explain the liberalization policy of Sri Lanka (1978) and its impact on Industrialisation. **(06 Marks)**

List out some major activities /divisions included in the Factory Industry Production Index of Sri Lanka. **(06 Marks)**
(Total 18 Marks)

5)

a) Briefly explain the present status of industrial development of South Korea. List out some impacts of the above development on the recent economic and social achievements of South Korea. (06 Marks)

b) Briefly explain why third world countries are committed to industrialization (06 Marks)

c) Briefly state the industrial policy changes in Taiwan during the recent decades. (06 Marks)

(Total 18 Marks)

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