

History of Industrial Development Strategies in Penang since Independence: A Study of the SMEs

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Abstract

The aim of this paper is to examine the history of industrial development strategies with respect to small and medium enterprises (SMEs). The history of economic development in Penang provides a backdrop for subsequent development. In Penang, the structural transformation of the state was enabled by the leadership of four State Chief Ministers. Firstly, under the leadership of Wong Pow Nee, we saw the establishment of Mak Mandin and the Perai Industrial area. Secondly, under Lim Chong Eu there was the transformation of Penang into an industrialized entity. The rapid economic transformation during this period using the Penang Development Corporation as a facilitating mechanism made a big impact on the Industrial Free Trade Zone, especially in terms of utilizing the industrial policy to improve employment opportunities. Thirdly, efforts were made by Koh Tsu Koon, the third State Chief Minister who took initiative to uplift SMEs in the 1990s through global supplier programs in PDC. Koh Ksu Koon improved the framework that was inherited from Lim Chong Eu. Finally, from 2008 onwards, under the leadership of Lim Guan Eng, the secretary-general of DAP, the national opposition party that is currently ruling the state of Penang, the state has changed its direction of development whereby besides concentrating on the electronic sector, it has also promoted Penang as a centre for medical tourism industry. This shift in development and sectoral paradigm is due to the challenges faced by Penang from global competitors, namely Malaysia's neighboring countries such as Vietnam, Indonesia, Thailand, the Philippines, and Cambodia as well as the influence of China.

Keyword: institutional regimes, small and medium enterprises (SMEs)

1. Introduction

Penang is one of the states in Malaysia, and it is located in the north-western part of the country. Even though it is a provincial state in Malaysia, it does not share the same governance structure as those of the federal government in terms of economic policies, rules and regulations. Penang is particularly well known as a pillar of industrial development (Lim, 2009). The state's GDP increased from RM1.3 billion in 1970 to RM21 billion in 2009, of which 39 percent was contributed by the manufacturing industry and a substantial 57 percent from the services sector (Lim, 2009).

The historical development strategies in Penang have had both positive and negative impacts on SMEs. These effects can be attributed to how the structure of the industries developed (Hutchinson, 2010). The positive impacts for SMEs can be traced back to the time of Lim Chong Eu's effort to transform the state to an industrialized state, where the focus was on attracting export oriented foreign direct investment in the electronic sector. During this period, Penang registered the highest growth in the electronics export sector. After his retirement, Koh Ksu Koon, who was formerly the political Secretary of Lim Chong Eu was appointed the third Chief Minister of Penang. Koh Tsu Koon was chosen by the Prime Minister to realign the policy of economic development in Penang towards fulfilling Vision 2020. Under Koh Tsu Koon, the state government realized the importance of backward linkages with MNCs. A Global Supplier programme was introduced under the state agency, Penang State Development Corporation (PSDC). After 18 years of administration, the then ruling party, Barisan Nasional, lost in the 2008 election to the Democratic Action Party (DAP). As a result, Lim Guan Eng was elected to hold the post of State Chief Minister of Penang.

Unfortunately, the SMEs at this time were facing global economic and financial crisis (SME Annual Report, 2008). The challenges for the current State Chief Minister are to ensure that the local SMEs are developed towards greater innovation, productivity and efficiency. This of course required the SMEs to explore new opportunities and invest in new areas of product development.

Industrial development strategies are not a short term strategic goal. Industrial development strategies are an ongoing and long term development process. The ultimate success of any country pursuing industrial development is dependent on various factors: international political economic climate, ideas, arrangement of institutional regimes between the federal and state governments, and finally, the transformation of linkages from MNCs to local SMEs. Thus, the industrial strategies in Malaysia, particularly in Penang, have changed according to political demands and are also structured under the New Economic Policy (NEP) which aims to alleviate poverty in Malaysia. The transformation into an effective industrial policy with regards to the development of the local SMEs in Penang is without a doubt a critical agenda for the state.

The general issues relating to industrial development strategies are dealt with as a backdrop in this paper. This paper probes into the questions of how should we understand the industrial development strategies in Penang over the last five decades? How has the relationship between the state of Penang and the federal government of Malaysia evolved? And finally how, especially in a broader context, has this relationship impacted the policy of SMEs in Penang?

This paper attempts to create an understanding of the industrial development strategies in Penang from the period of the first Chief Minister, Wong Pow Nee, to the present State Chief Minister, Lim Guan Eng, through a critical analysis of the perspective of industrial development strategies and its policy implication for the SMEs under these varying regimes. The first section of this paper provides a literature review of industrial development strategies and SME development. The second section provides a macro view of the Malaysian political economy and discourse of industrial development. The final section on findings examines the micro perspectives of the industrial development strategies in Penang and some policy implications for the SMEs in Penang.

2. Literature Review

A key aspect of development is the social organization and participation of people defined as 'a process of enlarging people's choices; of enhancing participatory democratic processes and the ability of the people to have a say in the decisions that shape their lives; of providing human beings with the opportunity to develop their fullest potential; of enabling the poor, women, and 'free independent peasants' to organize for themselves and work together' (Cowen & Shenton, 1996:3). Development starts with people and their education, organization and discipline. Without these three elements, all resources remain latent, untapped potential (Schumacher, 1973:157). Development could also mean renewal, expansion, contraction, and decomposition which follow each other sequentially according to a perpetually recurrent cycle. Development then, has increasingly come to refer to a discontinuous process in which destruction and renewal are simultaneous, as much as sequential (Cowen & Shenton, 1996: viii). As Schumacher states, development should start with people and education. This definition is in line with the endogenous growth theory where education plays an important role for economic development to flourish. As different countries adopt different development goals, development can be very costly if the state or government leadership is wrongly advised for unnecessary public or societal spending. This is evident in most of the Sub-Saharan Africa development process.

The concept of industrial development strategies in Malaysia cannot be understood in isolation without taking into account issues such as ethnicity, political institution and social well being. According to Junid (1980:2), the term 'industrialization' denotes at least three elements associated with the development process i.e. the growth of manufacturing which often, but not invariably, accompanies certain stages of material advancement; the modernizing of attitudes, institutions, economic processes; and the subsidization of manufacturing by governments. The definition above is unclear. First, it could perhaps be argued that the growth of manufacturing often accompanies certain stages of material advancement from the local indigenous SMEs. Second, the growth of manufacturing often accompanies the modernizing of attitudes, institutions and economic processes should be rephrased as the growth of manufacturing often accompanies the modernizing of human capital attitudes. Human capital attitudes here refer to the right skills and expertise of the human capital. Policy formulation for industrial development provides the guide for delegation of actions which are taken up in varying strategies by the lower level authorities.

Critics argue that Malaysia has changed its development strategy several times in the past half a century since attaining independence. Its development strategy has been shaped and influenced by the political interests of the ruling parties and their respective views of what would secure their legitimacy and support (Jomo, 2007).

Changes in the development strategy can create disstability in terms of garnering political support, especially when attempting to balance the interests of the NEP, which will have ramifications at the state and local level. This development strategy also overlooked the importance of the SMEs at the inception stage of attracting FDI in the 1970's. It was believed that the transformation policy from Import Substitution to Export Oriented Strategies was intended to create equity and growth, but was not a long term development goal. The basic premise here is that strong relations by means of coherence of policies (for example innovation policy, strategies, duties, funding and investment) at the federal and local government will enhance growth in industrial development, in particular SME development. Hutchinson (2008) revealed four critical factors in the relationship between the federal government and state government policies that will affect economic development. First, with the current leadership under the opposition party in Penang, the state government is limited in terms of funding and responsibilities. Second, the key success factor for an innovation policy is a collective autonomy. A collective autonomy means that the federal government must be able to work with the current Penang government despite political differences. It is evident that a strong relationship between the state government in Penang and the federal government existed in the 1970's and 1980's. Even with the current limited collaboration, the federal government must acknowledge that 25% of export contribution in the electronic industry comes from the state of Penang. Further growth in this industry is possible if the relationship between the national and state government achieves a mutual understanding. Third, the state government plays a role in R&D to upgrade SMEs. Besides R&D, the state government has an important role in creating a conducive environment for technological activities between MNCs and SMEs (Mohd Noor, 1999). Nevertheless, whether the local SME is able to catch up with the innovation policy is another issue (Tham, 2011; Yusuf & Nabeshima, 2009). Finally, the strategy of attracting FDI based on cheap labor incentive is no longer relevant in Malaysia. Malaysia must work on another model of attracting FDI based on skilled labor so that local employees could benefit from the knowledge transfer. However, Stephen et al. (1998) argued that the State government in Penang in the 1990's played a more active role in discouraging labor investment, matching foreign firms with local suppliers and developing innovative public – private partnerships with respect to the labor market. Development plans of attracting foreign direct investment overlooked the changes in labor market expectation. As a result, the number of foreign workers increased in the Penang Free Trade Zone. In response, foreign capitals utilize the existing low cost labour.

Whah (2006) argued that the future of Penang SMEs lies in the hands of the entrepreneurs themselves. Since many of the SMEs in Penang are Chinese family-oriented businesses, Whah suggested that changing the mentality of protecting the family businesses to that of the mentality of expanding their businesses into share holding companies which focus upon long term goals to become more professional and innovative. The wave of globalization from China is a threat to Malaysian SMEs. SMEs in Penang must move forward by employing skilled engineers, and upgrading their equipment into robotic and automation instead of depending upon cheap labor. Penang is no longer a preferred location for FDI as many other states in Malaysia can offer more attractive incentives for FDI. Therefore, the state government of Penang must play an important role to attract more FDI and improve the existing infrastructure.

As in the case of Penang, taking into consideration the SMEs' development, Tham (2011) noted that industrial development strategies are at the crossroads. Since the government is pursuing the same FDI leveraging model as the main strategies, it is very important for the government to examine the hindrance factors that have hampered the country from fully utilizing FDI for industrial upgrading and technology deepening. Furthermore, according to Tham, the number of successful SMEs are too small. The successful SMEs are those who have established their businesses in the 1970's and 1980's with the assistance of the Penang Development Corporation.

3. Malaysian Political Economy and Discourse of Industrial Development

Before Malaysia's independence, tin and rubber were its primary export commodities. The international trade of tin and rubber represented the highest export growth under the full control of British foreign firms, and to some extent, with the support of the Chinese traders.

The formation of an alliance between UMNO, MCA, and MIC and the negotiation with the British to gain independence led to the outcome of an understanding that British investment in Malaya was essential for economic development (Gomez & Jomo, 1999:14). This early development showed that ethnicization played an important role in the economic development of Malaysia. The World Bank in 1955 revealed that the Malayan government had limited intervention in the economy and it was primarily led by the private sector. This suggested that the emphasis placed by the Malayan government in providing infrastructure to agriculture-led development was to achieve steady income growth and to attract foreign and local investment through fiscal and monetary policies.

After independence in 1957, Malaysia maintained its agricultural development for an export oriented economy and at the same time encouraged import substitution industrialization (ISI) process by offering infrastructure and credit facilities as well as tariff protection to foreign manufacturers who wanted to increase their market share. It was during this period that the Old International of Labor was replaced by the New International of Labor which had strengthened global trade in the 1960s. The changes could be seen in the form of the transformation from primary commodity to industrializing economy towards a much more complex multilateral network in which countries around the globe have sought to industrialize both as a means of import substitution and to exploit comparative advantage in export markets (Drabble, 2000). Malaysia is no exception in attracting British foreign investors from the capital intensive industries to relocate by utilizing the tariff protection incentive. However, ISI failed to offer employment opportunities to the Malays, particularly in the domestic market. In 1969, the size of the domestic economy was too small to cope with the overall population of 10.5 million (Tham, 2011). The British worked closely with the Chinese traders because of their resilient and hardworking attitude, and most of them lived in the urban areas. On the other hand, the majority of the Malays lived in the rural areas, mainly working as fishermen and farmers. The differences in the economic and social composition of the Malays and the Chinese were obvious and this led to the riot of May 13, 1969.

The world economic crisis in the 1960's coincided with the development of Malaysia's Export Oriented Industrialization Strategies. The crisis forced many transnational corporations to look for sites in developing countries that could offer low cost labour incentives. This strategy was to raise productivity and expand their scale of production. Among the earlier MNCs in Malaysia were Robert Bosch, Motorola, and Intel. As a result, these corporations spread "branch circuits", especially low value added industries or parts of industries, to certain developing countries where they would benefit from higher rates of exploitation and possibly new markets. Their task was greatly facilitated by technological advances in communication, transportation and production. Moreover, the development goal of Third World 'host' states, each with their own distinctive agendas, offered attractive packages to welcome foreign capital to their countries. Malaysia was among the most popular sites for the relocation of electronic production, especially for semiconductor devices.

Malaysia faced two world economic crises. The first world oil crisis in 1985 forced Malaysia to change her strategy towards import substitution policy, focusing on heavy industrialization. In contrast, the then Prime Minister, Mahathir Mohamad adopted the Look East Policy from Japan. A case in point is the South Korean experience which was one of the poorest countries in the world in 1950 but became one of the most developed nations in Asia. After that, the Malaysian GDP rose for 16 years before it was hit again in 1997 by the Asian Economic Crisis. At the same time, the internal political conditions within Malaysia were not stable because of the issue of the then Prime Minister, Mahathir Mohamad dismissing his Deputy Prime Minister, Anwar Ibrahim. To overcome his waning popularity and to gain support from the non-Malay voters, Mahathir built up a strong foreign relationship with China and Taiwan. Although in the beginning Mahathir was against China's policy of supporting communism in Malaysia, he had to change his perception after China transformed its own economy towards modernization. Critics argued that as a small country with a relatively weak economy vis-a-vis rising China, Mahathir's China policy has been constrained by the lack of economy of scale when competing with China (Shee Poon, 2004:12). With a cheaper Chinese Yuan, challenges of globalization, the European Union protectionism and an economic hegemony in the US, Malaysia needed to revamp the overall structure of the local SMEs to position them in this new economic landscape. The market for local SMEs needed an expansion and bigger economies of scale.

Globalization is a complex and multifaceted phenomenon (Embong, 2004:19). It should be seen as a historical process, a system of conditions, as well as an ideology. Historical process itself can also be a solution for an institution in developing countries by helping it to avoid the mistakes of the past. As we have witnessed, the beneficiaries of neoliberal globalization are the bigger foreign firms from developed countries. The owners of these foreign firms have a strong relationship with the federal and state governments. Local SMEs are always in the losing position because of this unfair treatment, and are often forced to close down their businesses if they cannot meet the expectation of cost, delivery, and quality of these foreign firms. In the name of globalization, the federal government faced a dilemma between a trade-off to foreign firms and local SMEs. The government stands to lose if the foreign firms relocate their operations to other countries.

Small and medium enterprises (SMEs) are the engine of growth in developed and developing countries. Ninety-nine point two percent of the businesses operating in Malaysia are SMEs (SME Annual Report, 2008). In 2004, the Malaysian government made a serious effort under the former Prime Minister Abdullah Badawi to establish Small Medium Industries and Development Corporation. Later, the name was changed to SME Corporation. Although the government had already established an institution for SMEs, according to Moha Asri

(1999), the majority of SMEs received little assistance from the government i.e. access to financial assistance. Moha further argued that SMEs in Malaysia are still low in productivity when compared to foreign SMEs. Foreign SMEs are far more advanced in terms of product quality and standardization, technological equipment i.e. automation using robotics, advances in terms of information technology, and strong and resilient entrepreneurial capability.

4. Method

The research design involve narrative and content analysis. We conducted several research trips to Penang State Development Corporation, key state agencies and private business organizations to interview key informants. Key representatives were interviewed in November 2010 to March 2011. These narrative interviews were analyzed into themes in line with the evolution of the industrialization process in Penang. We also managed to profile sources from various documentary sources as well as leading Malaysian newspaper and magazines such as the New Straits Times, The Star, Utusan Malaysia and Malaysian Business . A content analysis of these sources provided themes to depict the evolution industrialization process in Penang. Both the narrative and content analysis were coherently utilized to explain the phases of the different regimes.

5. Results and Discussion

Penang is a constituent state in Malaysia and has been under the leadership of four State Chief Ministers since Independence. The first State Chief Minister was Wong Pow Nee (1957-1969), followed by Lim Chong Eu (1969-1990), then Koh Tsu Koon (1990-2008), while the current State Chief Minister is Lim Guan Eng (2008 till the present). Each of the following regimes will be analyzed by examining the policy at the federal and state level, followed by an analysis of its implications on the SMEs.

5.1 Wong Pow Nee (1957-1969)

At the macro level, the colonial British policy in Malaya suffered from having two diverse and incompatible goals. The primary goal was the creation of political stability and a modern government which would permit rapid economic and commercial development of the country. A secondary goal to this was providing a moral rationale, with an expressed concern for the welfare and advancement of the Malay people within the framework of traditional Malay society (Oliver, 1970:132).

There were three levels of economic activity during the colonial period in Malaysia: the peasant economy of rice cultivation, fishing and mixed farming, the free trade economy that revolved around the entrepot trade of Penang and Singapore, and the economy associated with the production of rubber and tin (Saham, 1980:7). These were for export growth, domestic consumption, and domestic markets. Colonial economic activities were concentrated on the production of rubber and tin for export, the output of a variety of food crops, and small scale manufactured goods for domestic consumption, and entrepot trade and commercial and financial services for the domestic market (Leete, 2007:42). There was not much manufacturing activity, and the economic activity followed a strict colonial division of labor rule under British policies. The free trade economy was used to supply raw materials and provide the market for manufactured imports from Britain (Gomez & Jomo, 1993:1).

The policy of economic development in Penang was very much influenced by the laissez faire policies following Tunku Abdul Rahman's strategies at the federal level. These policies were complemented by some "mild" import substituting industrialization, a little agriculture diversification, greater rural development efforts in order to secure electoral support and modest ethnic affirmative action policies (Jomo, 2007).

At the state level, Wong Pow Nee was the first State Chief Minister in Penang. He held the position of the Chief Minister of Penang for almost 12 years. As a former teacher and a strong believer in Christianity, Wong Pow Nee believed in solidarity. He was also appointed ambassador to Italy for a special mission. Wong Pow Nee, in his capacity as a Penang State Chief Minister, made a strong case for special consideration of Penang's future in his meeting with Abdul Razak in Penang (NST, 2nd Nov 1964).

As for industrialization, Wong Pow Nee left the decision to the Federal Development Authority. The New Straits Times newspaper printed his statement, "Malaysia is a single economic unit, there must be a coordination, balance and harmonization in the expansion of the industries" (NST, 2nd Nov 1964). Although he established industrial estates in Mak Mandin and Prai as the first industrial estates in the 1960's, the employment issue was considered a hindrance to the development of Penang (Whah, 2006). The rate of unemployment increased substantially when compared with the other states in Malaysia. As a result, the Munro Report was created at this time to improve economic development in Penang. His position in the Penang state government ended in 1969, when Parti Gerakan Malaysia under Lim Chong Eu took a dynamic approach to revamp the structure of the economic policies in Penang.

The implication for SME activities at this time was small. Most of the industrialization activities were dominated by foreign firms and a small number of Chinese SMEs were involved in trading activities in the tin and rubber sub-sectors. This was clearly stated in Poponoe's (1970) Ph.D thesis which says, "There is a small but growing industrial sector, helped along by the government which is very favorable to free enterprise and foreign investment. It has provided tax and customs incentives for pioneer industries, and encouraged development of industrial estates, construction of factory to rent. The industrial sector is almost entirely controlled either by foreigners or by Malaysian Chinese" (Poponoe, 1970:112). The Malay SMEs at this time was almost non-existent.

5.2 Lim Chong Eu (1969 - 1990)

After the tragic riots in 1969, the federal government introduced the New Economic Policy. The main objective of the New Economic Policy (NEP) in 1970 was to achieve national unity by eradicating poverty irrespective of race, and to restructure the society to reduce the income gap between the Malays and the Chinese. Under this objective, the government also made a target to increase the ownership of shares among the Malays. In the context of the NEP, the attraction of the electronics industry to the Malaysian government in the early 1970's was two-fold: "first, it was perceived as a sophisticated and growing industry likely to impart technology know-how; and second, the remaining parts of it was 'on offer' assembly and later testing were extremely labor intensive and required little in skill" (Grace, 1990).

In 1976, Hussein Onn became the third Prime Minister. The policy of the NEP was more explicitly following the Industrial Co-Ordination Act 1975. The quota system for employment was extended to foreign MNCs which were required to employ at least 30 percent of Malays. The Act also proposed that foreign MNCs and the Chinese must have joint ownership with a Malay entrepreneur. In 1982, Mahathir openly criticized China's continued links with the Malaysian communist insurgency and implied that Beijing could pose a security threat to Malaysia (Shee Poon, 2004:6). However, with the collapse of the communist insurgency movement in Malaysia in the late 1980's, the collapse of East European communism in 1989, the collapse of Soviet union in 1989, and Deng Xiao Ping's policy of economic modernization, Malaysia's perception of China changed, particularly under Mahathir's leadership.

When Mahathir became the fourth Prime Minister of Malaysia, it was also recognized that during this period, heavy industrialization constituted a second round of import substitution. At that time, Mahathir introduced the Look East Policy and the Malaysian government started joint ventures with Japanese firms to develop heavy industries. One of the companies that had a joint venture at that time was Globetronic and Sumitomo Japan. The number of foreign MNCs from Japan increased from 1980 to 1990.

At the state level, Lim Chong Eu took the position of the State Chief Minister of Penang from Wong Pow Nee in 1969. He was a medical graduate from Scotland, active in politics, and a visionary leader. He formed a new party called "Gerakan", a social and democratic party. He won the election in 1969 after getting full support from Syed Hussein Al-Attas and Penang voters. From 1969 to 1990, he worked under three different Prime Ministers of Malaysia (Abdul Razak, Hussein Onn, and Mahathir Mohamed). After a mutual understanding with Abdul Razak, Lim Chong Eu agreed that his party would be instated into the National Coalition. Abdul Razak, the Prime Minister after Abdul Rahman formed a coalition government to get a consensus from UMNO, MCA, and MIC. Penang faced intense competition and rising unemployment restrictions when Singapore gained independence from Malaysia in 1965. The Penang Free Trade Zone idea was formulated by Abdul Razak (the head of the National Council) during that period. As a result of the May 13, 1969 riots, the rising unemployment levels demanded that immediate action be taken. Taking this into consideration, Abdul Razak made a spontaneous decision and agreed to establish Penang as a Free Trade Zone. The new direction was meant to focus on export oriented industrialization strategy instead of import substitution approach. Under the administration of Lim Chong Eu in 1970, the Robert Nathan Report was introduced. This report demanded an overall transformation of Penang's economic structure. The direction in this report contained the establishment of manufacturing industries, tourism, fisheries, education, health and research facilities. This report argued that the Munro Report had not explicitly identified the linkage of economic activities with other developed countries. Thus, a call for foreign direct investment was urgently needed to boost economic growth. The report suggested that Penang should establish market linkages, from a macro view, taking into consideration its interaction with local, national and international markets. Development in Penang was restricted to traditional goods and services, thus the need to create export industries that can create employment was urgently felt.

This model was successfully adopted in other Asian countries such as Japan, Hong Kong, South Korea and Singapore which were largely based on labor intensive industries and these countries had limited resources.

It was understandable that during his era, the development of the Penang Free Zone was meant to generate growth in employment. This development was also part of the New Economic Policy (NEP) which was introduced in 1970. The national agenda at that time, while Abdul Razak was the Prime Minister of Malaysia, was to eradicate poverty and to balance the income gap between the Chinese and the Malays, and to increase the equity share of 30 percent Bumiputera entrepreneur ownership, of whom the majority were Malays. However, not many Bumiputera entrepreneurs were able to forge a linkage with foreign MNCs, and the survivability of Bumiputera entrepreneurs depended mainly on government link contracts which were primarily developing out of the informal SME sector. Although the overall SME performance in Malaysia was still low in value added activities, the progress of Chinese SMEs had steadily improved in the mid-1980s where MNCs created some backward linkages to buy parts and materials.

The Malaysian government also introduced the Investment Incentives Act to attract foreign direct investment. The two attractive platforms were for export oriented firms to emerge and these were the FTZs and licensed manufacturing warehouses (LMWs). In 1972, the Penang Free Trade Zone was established in Bayan Lepas. Lim Chong Eu chose the right man from the Federal government, Dato Chet Singh, as the main architect to set up Penang Development Corporation. Chet Singh, an economist, was appointed as the first general manager of PSDC. With his direct involvement in PDC, Lim Chong Eu also established QDOS flexcircuit, a local SME. At present, the company has expanded into China and India.

Lim Chong Eu also established the Penang Skill Development Corporation (PSDC) in 1989. As foreign direct investment flowed rapidly since 1970, the MNCs faced difficulties to obtain skilled labor force that could improve the production flow. The PSDC's funding was supported by both the state and federal government. The state provided the land and the building which were located at the centre of Bayan Lepas Industrial Park while the federal government provided the set-up grant which was US\$15,800 per year from 1989 to 1991 (Mori, 2005).

5.3 Koh Tsu Koon (1990 - 2008)

The attention given by the federal government at this time was on the Look East Policy under the leadership of the then Prime Minister, Mahathir Mohamad. A lot of joint ventures between Malaysian heavy industries with Japanese Corporation were established. In line with the demand for skilled labor force, the policy of the higher education industry also changed. As a result, the setting up of a number of technical private colleges and universities were approved.

Mahathir established the Vision 2020 model, a projection of Malaysia's long term development goal. In eyeing the success of Japan and South Korea, Malaysia, according to Mahathir, must be a developed nation economically and socially in line with the other developed countries. After 22 years, Mahathir resigned as the Prime Minister in 2003 and passed the leadership over to Abdullah Ahmad Badawi. In 2004, the government established the National Development Council to provide the policy direction for a cohesive and comprehensive SME development (SME Annual Report, 2008).

Under Prime Minister Abdullah Ahmad Badawi, a different implementation of policy was adopted. Abdullah reduced the number of heavy industrialization projects. During this time, the focus of SMEs was highlighted. In the Ninth Malaysian Plan (2006-2010), the government identified the development of competitive and resilient SMEs that are equipped with strong technical and innovative capacities as well as managerial and business skills as a key strategic priority. It was clearly stated in the plan that SMEs were no longer status quo. SMEs, particularly in the manufacturing sector, must invest to improve their competitiveness i.e. encouraging the R&D to become more innovative.

At the state level, Koh Tsu Koon became the Chief Minister of Penang in October 1990. Koh was formerly a political secretary for Lim Chong Eu. A graduate of Princeton University, Koh believed that human resources, physical infrastructure, environment and administrative machinery were important for the growth of economic development in Penang (Koh Tsu Koon, 1995). In line with Mahathir Mohamad's Vision 2020 policy approach, a strategic development plan called "Penang: into the 21st Century" was established. The framework for this plan was on capital, skill and technology. Linkage between supporting SMEs and MNCs was important. SMEs in the servicing industry could play a role either as a subcontractor or to upgrade the SMEs as a vendor in the services sector. For instance, how could SMEs in tourism play a bigger role in preserving the cultural heritage of Penang? SMEs in agriculture were advised to follow the success of agriculture in New Zealand and Thailand where the use of traditional and old equipment was no longer relevant. Thus, it was expected that these SMEs upgrade their equipment and manpower in order to increase production.

At that time, the development plan was based on the Nathan Report and two strategic plans were formulated.

First, the Penang Strategic Development Plan (PSDP) was established in 1991, followed by the Second Penang Strategic Development Plan (PSDP2) in 2001. However, the first plan did not work according to the original plan as it faced objections from the federal government. The mismatch between plans led the federal government to establish agencies such as MIDA and SIRIM to promote investment, conduct audit inspections, and take responsibility for overall economic development. These agencies reported directly to the headquarters in Kuala Lumpur.

Realizing the importance of technological development, the PSDC established the Global Suppliers Programs (GSP) in 1998. Its aims were to develop backward linkages through the upgrading of the domestic supplier technology as well as reducing information failures between the MNCs and local suppliers (Mori, 2005). The PSDC changed its name to Penang Invest and a different platform of consultation was introduced to the Penang Economic Council, Penang Industrial Council, and Penang Competitiveness Committee. Here, Penang Invest acted as a medium of consultation with the SME owners. A concept of network clustering was introduced between the MNCs and the SMEs. The SMEs were advised to upgrade their technological capability by using Rosettanet (an e-commerce platform) for an international standard. However, despite all the programs introduced by Penang Invest, an increasing number of SMEs withdrew their membership. Many of these SMEs found that the programs offered were not related to their businesses, were focused on short term profit and lacked interest in ICT.

According to Whah (2004), most of the SMEs faced challenges because of the World Trade Organization (WTO) when China opened their market. Although several programs were introduced by the PDC, they were not translated into value added activities for SMEs in Penang. Overall, the Penang Invest program was less successful in reaching the SMEs in Penang. It appears that most of the SMEs were not aware of the program introduced by the federal government and Penang Invest. As one study discovered: "local entrepreneurs did not adequately understand the aims of various initiatives, as there was an overlap between the federal and state government programs, and these initiatives were too oriented in high technology ventures such as Information Technology and biotechnology instead of dealing with basic technical production issues" (JICA, 2001). This study shows just how important it is for the government to have a basic program to assist SMEs to understand basic technical production, as many of the SMEs did not possess technical competencies.

5.4 Lim Guan Eng

At the federal level, Dato Seri Najib was appointed as the sixth Prime Minister of Malaysia in April 2009. Najib introduced the concept of One Malaysia and the New Economic Model. These two models are a mechanism of continuation for the Vision 2020 model. Under his leadership, SME Corporation was established to serve as a central reference point for all SME matters and to provide more loans to qualified SMEs (SME Annual Report, 2008). At that time, the government also established two economic stimulus packages totaling RM67 billion, which was equivalent to 9.5 percent of the GDP. The government hopes these efforts will support the private sector demand, create more employment opportunities, and in the short term, help sectors that were affected by the economic crisis to recover more quickly.

At the state level, Lim Guan Eng became the State Chief Minister of Penang in 2008. An accountant by profession, Lim graduated from Monash University in Australia. Lim was the Secretary for DAP, a political party under the leadership of his father Lim Kit Siang. Under Lim Guan Eng's leadership, Penang introduced a more rigorous policy to curb corruption and to empower the peoples' voice. According to SERI Penang Economic Outlook 2011 Report, the driving factor for economic growth was not investment capital alone; the driver for economic growth is actually cities. The report emphasized that it is important to make cities more people oriented, aesthetically pleasing, environmentally friendly, and livable. In Lim Guan Eng's administration, policies such as Competencies, Accountability, and Transparency were introduced. The hope was that this policy could manage subsidies and national resources in Penang productively. Lim was also aware of the challenges for the SMEs in Penang, so he introduced a three pronged strategy to make a difference for the SMEs in Penang. The SME initiatives are the SMART advisory centre, SME Centre and the SME Village.

Critics argued that the new Penang State government has shifted focus and attention to other matters which are totally unrelated to the economic and spatial development (National Higher Education Research Institute 2010). According to this report, the changes in governance structure will directly impact the overall development of SMEs. Although backward linkages have evolved over time, especially within the electronic sub sector, the number of local SME suppliers that have benefited from these linkages is small (Tham, 2011). Local SMEs also face strong competition from foreign SMEs. This situation suggests that foreign SMEs from the United States and Taiwan have dominated the domestic market in Malaysia.

6. Conclusion

The role of Penang in the economic development process has changed frequently, beginning with import substitution industrialization strategies, encouraging foreign firms, and offering tariff protection. The policy failed to reduce the number of employments as the size of the population in Malaysia was too small. Apart from the Chinese traders, local industrialization was also small. Thus, the overall transformation was undertaken utilizing the established export-oriented industrialization strategy. Under Lim Chong Eu, the second Chief Minister of Penang, the Penang Development Corporation was established to spearhead the investment arm and promote foreign direct investment of the Penang government. Several government officers were given the major task in Penang Development Corporation. The SMEs at this time were closely linked with the Penang state government. However, there were redundant programs and policies between the federal government and the state government of Penang. Over time, the Penang state government lost some of its autonomy when the federal government established a branch office of the investment agency (MIDA) and quality audit agency (SIRIM) in Penang.

The emergence of political consensus at the initial stage of the industrialization process in 1970 has been an important factor in the effectiveness of the overall economic development in Malaysia. This situation contrasts to the current model of attracting FDIs, which had led to greater challenges in terms of employees' availability, technological demands, macro level economic conditions, and the relationship of institutional regimes. In 1970, it was also likely that the government wanted to solve the unemployment problem which was one of the two prong strategies in the NEP. It was the combination of the strong relationship between the state government of Penang and the federal government which made the difference on the industrial development strategies in Penang. The federal government's strong relationship with the Penang state government led by Lim Chong Eu was the starting point of the overall economic transformation in Penang.

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