Industrial Cluster as Business Strategy to Improve Rural Economy in Malaysia

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Abstract. South East Asia has played a major role in the world-economy now, and The ASEAN states have become a major focus for international capitalism, with a population of over 300 millions and some of the higher per capita incomes in the Third World, they have market potential; possibilities for investment given low labour costs and comparative political stability; strategic position between the Indian and Pacific oceans; and the 'openness' of the economies to trade, foreign investment and the activities of multinational corporations. However, the welfare of the community in Southeast Asia is still not over and the poverty rate is still relatively high. One way this is applied at the time of industrial clusters in small and medium enterprises in the village. Small and medium enterprises in the village have a great opportunity to be promoted, but this time the company in this village received less attention and they are not serious in handling the various parties involved. An industry cluster is different from the classic definition of industry sectors because it represents the entire value chain of a broadly defined industry from suppliers to end products, including supporting services and specialized infrastructure. Cluster industries are geographically concentrated and inter-connected by the flow of goods and services, which is stronger than the flow linking them to the rest of the economy. Clusters include both high and low-value added employment. The purpose of this paper is to explain and analyse apllied industrial clusters in the Tumpat rural community, Kelantan, Malaysia. The Industries involved in this project are the traditional cake and industrial catfish industries. There were 17 participants joining this programme and working together with rural industry. The concept of industrial clusters in this project is developing industries related with developing primary industries, which are aimed at supporting the industry to advance the economy in the community. The industrial clusters created for catfish industry are pellet industry, catfish crackers industry, catfish breeder, etc. From the traditional cake industry, the industrial clusters created are pineapple jam industry, printing industry, peanut farming, cake industry hub, etc. If the main business and their industrial clusters grow, the community welfare is also increased. The limitations of the industrial clusters project are financial problem (lack capital business), entrepreneur motivation, lack of interest among the rural community, lack of strategic management, marketing, and finance management knowledge and also lack of networking.

Keywords: Industrial Clusters, Rural Industry, Uplifting of rural economy, Enhancement of Entrepreneurship Knowledge

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1. Introduction

South East Asia has played a major role in the world-economy. It has supplied key raw materials, provided markets for developed world goods, received investment and, most recently, multinational manufacturing. To a certain degree, these roles have been sequential, reflecting the evolution of imperialism, the progressive incorporation of the region into the world-economy and the accompanying development of capitalist relations of production (Dixon, 1991). Production networks, comprising a number of nodes and links, have been and will continue to be the key device to transform globalizing forces into the forces to deepen economic integration and to narrow development gaps in East Asia (Eria, 2010). Southeast Asia forms the southern and eastern corner of the Asian continent, which includes the great adjacent Philippine and Indonesian archipelagos. For one thing, the modern country of Indonesia includes the eastern half of the great island of New Guinea (second only to Greenland in size) that, along with various adjacent islands, is considered a part of the Melanesian culture area of Oceania. And for another, various essentially Southeast Asian peoples and languages extend well beyond the named Southeast Asian countries, especially in northern Southeast Asia (Winzeler, 2011).

2. Industrial Cluster

Industrial clusters are groups of inter-related industries that drive wealth creation in a region, primarily through export of goods and services. The use of clusters as a descriptive tool for regional economic relationships provides a richer, more meaningful representation of local industry drivers and regional dynamics than do traditional methods. Cluster industries are geographically concentrated and inter-connected by the flow of goods and services, which is stronger than the flow linking them to the rest of the economy. Clusters include both high and low-value added employment. A business cluster is a geographic concentration of interconnected businesses, suppliers, and associated institutions in a particular field. Clusters are considered to increase the productivity with which companies can compete, nationally and globally.[1] In urban studies, the term agglomeration is used. Clusters are also very important aspects of strategic management. (Wikipedia, 2011).

This term business cluster, also known as an industry cluster, competitive cluster, or Porterian cluster, was introduced and popularized by Michael Porter in *The Competitive Advantage of Nations* (Porter, 1990). Cluster development has since become a focus for

many government programs. Porter (1990) claims that clusters have the potential to affect competition in three ways: by increasing the productivity of the companies in the cluster, by driving innovation in the field, and by stimulating new businesses in the field.

The industrial clustering as a development strategy that is the formation and strengthening of industrial bases are one of the conditions for developing countries to achieve economic development and poverty reduction. But even after virtuous cycles for industrial agglomeration are provoked in an industrial region, the region can face serious cost competition with other regions that have ample supplies of low-wage labour. To remain competitive, it is necessary for the region to fully seize the prospective benefits from ongoing regional integration and to upgrade its industrial structure to an innovative industrial cluster where companies conduct a range of research and development (R&D) activities, or collaborate to transfer knowledge and technologies (Eria, 2010). The industrial cluster concept purposes to reduce competitions among business partners in village or district, and give the variety of products in village or district. The other reason is the industrial cluster gives job or business opportunity for villager.

3. **Industrial Cluster in Malaysia: A Case Study in Tumpat, Kelantan**

The industrial cluster is not something new in Malaysia; however this concept is not very familiar, especially in rural area. In this paper, we would like to explain the industrial cluster concept that we have been implementing in a traditional cake industry in Tumpat, Kelantan since August 2011. The industrial cluster concept for this industry can be explained based on Diagram I below.
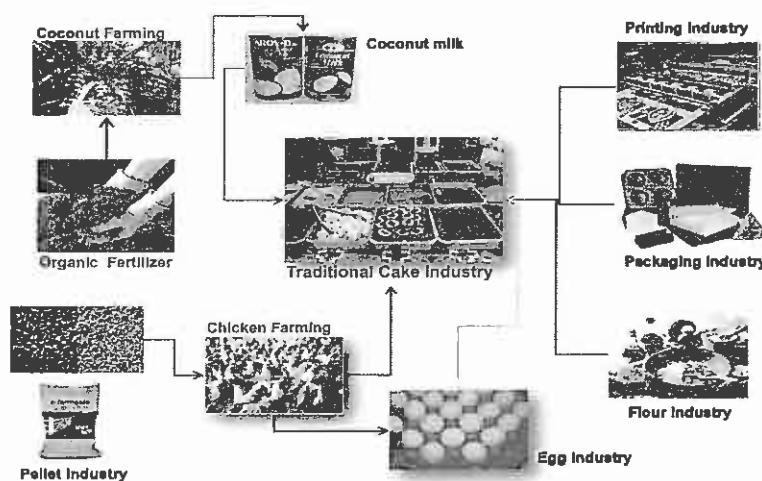
Figure 1: Industrial cluster concept in Kelantan, Malaysia

What did we initially do in this project? We started by helping them to improve the management system, product packaging, marketing system, and management strategies. This assistance has been on-going and when we find the industry is stable and ready, we will create some new products and new industries, which are related to traditional cake industry (the main industry). Consequently, from this traditional cake industry, other industries such as chicken farm, coconut farm, flour industry, corn farm, printing industry, and packaging industry can be created and developed. However, this development process does not end here. For instance, the chicken farm and the flour industry which have been developed to support the traditional cake industry can further create and develop other industries such as pellet industry and rice or corn industry respectively.

Based on the description above, we could obviously see the close connection between the flour and egg industry with the noodle industry and the relationship between the coconut drinks industry with industries involving in packaging of this product. In addition to the above, this industrial cluster concept in rural area can also create opportunities for investments. Thus, if investors can come to rural area, it means job and business opportunities for the rural community. The explanation about industrial clusters above proves that the industrial cluster concept can assist to foster the growth of the rural economy. However, the success of this concept depends greatly on high commitment and dedication, great faith, and the spirit of working as a team among those involved. Although the industrial cluster concept is a wonderful concept, there are some problems that will have to be faced in materialising it. These problems are related to skills, knowledge, finance, government support (the country's policy and concept for industrial cluster will also influence the industrial cluster development) and the existing scenario of the global industry.

4. Strategies for Cluster Development

The most important element in this concept is to provide training programmes to strengthen the managerial human capital of enterprise managers with a view to introducing advanced technological and managerial knowledge from advanced countries. The imported technology and management practices must be appropriate because this can avoid excessive capital-using and in addition to this, encourage knowledge-intensive

production systems, in which low-wage developing countries do not have a comparative advantage. It is also advisable to institutionalize the training system by setting up training centres and by inviting foreign experts in the required fields. Every programme has its risk, and in order to minimize this risk, a possible option is to provide training programme to the stagnant clusters, where many enterprises are eager to introduce innovations to increase the profitability of their businesses (Sonobe & Otska, 2011). Apart from that, constructing marketplaces to facilitate market transactions, demarcating industrial areas, offering favourable income tax treatment, and providing basic infrastructures such as roads and electricity are the major steps to support the formation of industrial clusters. The construction of industrial zones for innovative enterprises is a critically important policy to assist the development of the industrial cluster in the quality improvement phase (Sonobe & Otska, 2011).

The industrial cluster is a good concept in fostering economic growth and development in rural community. This concept is compatible with the economic situations in Kelantan, Malaysia. Undeniably, it can give high impact to rural people if those involved posses the right attitudes and want to change their lives for the better.

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