

## CHAPTER V

### ESTABLISHMENT OF A MALAYSIAN COMMON MARKET

#### Advantages of a Common Market for Industrial Expansion

"The wide range of models of the latest cars on the Malaysian and Singapore roads might lead a visitor to assume that the motor trade story here was one of expansion. Unfortunately, this is not the case. The confrontation issue has a regressive effect on the automobile trade and industrial expansion and, although it may be highly relevant in economic terms to speak of a common market for cars and motor vehicle assembly, such a possibility now seems very remote; political factors are decisive, while economic common sense only plays a secondary role."

1963 saw the initial moves for a vehicle industry. It started with the report from a Colombo Plan expert early in the year, recommending motor vehicle assembly as a worthwhile industry for Malaya. Later came the Reuff Mission Report (organized by the International Bank for Reconstruction and Development) spelling out what had previously been assumed about the advantages and implementation of such a common market for motor vehicle assembly as well as for other industries.

Now we can have a brief look at this import report. The Mission came to the conclusion that two fundamental conditions for achieving rapid industrialization are :

- a) the creation of a common Malaysian market for domestic products;
- b) the judicious use of tariffs to protect this market.

The firms in the manufacturing sector of the Malaysian economy, producing partly or wholly for the domestic market, will of course benefit most directly. In the Federation at present most manufacturing firms which have been established are concerned primarily with the domestic market. The export trade, although predominant in a few cases, would not, in itself, be sufficient to ensure their success. A large export trade already exists, however, and about a third of manufacturing output is exported; almost two-thirds of these exports are to Singapore, where most are

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<sup>1</sup>Harvey Stockwin, Far Eastern Economic Review, April 28th, 1966.

retained. Export to the Borneo Territories are minor. Singapore is thus already an important market for Federation manufacturers, who have at present to compete with duty-free imports from the rest of the world. Moreover, if Singapore were to continue to follow an independent industrialization policy and introduce protective tariffs of her own, Malayan access to the Singapore market would be limited. By creating a Malaysian Common Market, the Federation thus would retain the valuable Singapore market and moreover for all protected goods, would increase the size of its protected market by over 50%. This would allow the establishment in the Federation of a number of industries for which the size of the domestic market was hitherto inadequate for economic production.

The same is true in Singapore. In recent years industrialization has not made rapid progress, and there is no doubt that the gradual adoption of protective tariffs by the Federation has contributed to this slowdown. The existence of a tariff barrier has been an important factor in persuading a number of firms to establish plants in the Federation rather than in Singapore, and tariffs such as those on paints, soap and wire mesh have restricted Singapore access to the Federation market. The strategic advantages which led to Singapore's becoming an appropriate site for such firms - many of which are foreign - are becoming less important. The growth of self-sufficiency in neighbouring developing countries, often behind tariff walls, has reduced the size of the market and made competition more severe. These changed circumstances have obliged many firms to reorient their selling patterns and to think more in terms of supplying a protected domestic market, as is shown by the number of applications for the introduction of tariffs in Singapore.

Singapore by itself is however not a sufficient market to serve as a base for large-scale industries, even if the market were adequately protected. The level of protection required might be so high as to deprive the entrepot trade of one of its main assets, which is the comparative cheapness of the services rendered to foreign countries. For Singapore, therefore, the benefits offered by the larger domestic market are very substantial and the need for a common market is probably even more imperative than it is for the Federation.

In the case of the Borneo States, the advent of a common market should substantially enlarge the opportunities for industrial production in the long run. Although the basis for industrialization is narrow in the Borneo States, it would appear more advantageous to start the establishment of new industries in the context of a market of 10½ million people rather than in the context of small, separate units.

If the Federation, Singapore and the Borneo States were to continue to carry out their industrialization programmes on the basis of separate protected markets, duplication of production

facilities, which already exists, would rapidly become more serious. This would lead to the defective use of available resources which would adversely affect economic growth and the standard of living of all concerned.

The progress towards agreed policy was slow. While applications were sent in for a "sound and speedy development" of the motor vehicle assembly industry, there was no such progress. The only firm going ahead was Cycle and Carriage Co. (Malaysia) Ltd. in conjunction with Mercedes Benz, although they probably regret it now. Dr. Lim Swee Ann laid the foundation stone for a lorry assembly unit in Petaling Jaya, while Dr. Goh Keng Swee did the same for a passenger unit in Jurong. But now their two plants are separated by growing tariff barriers.

The Malaysian Government statement claiming that "before a final decision on the applications could be made, there was a constitutional change" (separation) conceals a wealth of precastination. The fact that agreement with Singapore could have been reached and a 'common car market' could have been in operation before August 9, 1965 had the desire for a motor vehicle assembly industry been the paramount concern, has also been left unsaid by the Malaysian Government. It is more than just an interesting speculation to wonder how different the course of Malaysia - Singapore relations would have been since August 9, had this link been forged prior to that date. It may even be a fair question to ask whether progress towards a 'common market' would have made much headway against the current conviction in Malaysia that nearly all the benefits of industrialization would have gone to Singapore, without paying her share for it.

### Conflict in Interests

"Un-integrated" thinking in Malaysia and Singapore about economic relations long predated the separation itself. Certainly this factor has been, and remains, crucial with regard to car assembly. Undoubtedly a major factor in the long delay before August 1965 was the realisation, once the applications were in, that a majority of the assembly plants would be in Singapore or Jurong, for reasons of cost, convenience, better infrastructure, an efficient port, etc. The developing countries cannot afford to be 'choosers'; they must make the best out of their own conditions and circumstances. To a large extent, Malaysian and Singaporean policy has taken cognizance of this unpalatable truth, especially in relation to one another. It seems inevitable that economic nationalism being what it is, Singapore should have made allowances for Malaysian narrow-mindedness. What ratio of location of plants Malaysia was willing to offer and what slice of the cake Kuala Lumpur demanded is unknown. The question of distribution of the industry was almost certainly the key factor in the fatal delay, but who was most to blame remains an open question.

All that can be said is that on the one hand the frenetic

pace of P.A.P. politics seemed conditioned by the belief that there could be no common market until they attained power, while the Alliance Government's delays seem retrospect to suggest that they were expecting separation all along.

### Common Market?

The main question on most minds concerned with the issue is a simple one: Should there be and can there be a 'Common Market' between Malaysia and Singapore for motor vehicles? The 10-member Malayan Motor Vehicle Assemblers' Association strongly advocated that some form of agreement be found to link the two local assembly programmes of Malaysia and Singapore. "If the two assembly programmes could be linked on a reciprocal basis to provide for a free flow of vehicles between the two countries, then we would have the largest possible volume market in which to assemble," Mr. I.G. Hopworth, the Association's Chairman told a public hearing of the Tariff Advisory Board.<sup>2</sup> He stressed that the question of volume of production was of paramount importance to the proposed industry, estimated to be worth at least \$50 million in foreign and local investments.

As mentioned in Chapter I, the Pan-Malaysian market is around 33,000 motor vehicles per year, 64% of them in Malaya, 25% in Singapore, and 10% in Borneo. With Malaysia's proposed plans, no assembler in his right mind is going to make concrete plans or final decisions without considering the 25% in Singapore. And in fact, as stated in Chapter III, Singapore has come out with its own proposal for the establishment of a motor vehicle assembly industry. This has been merely a duplication of Malaysia's proposal with slightly better incentives. By and large the Pan-Malaysian would-be assemblers are willing or resigned to being bludgeoned into assembly. But if they are going to be bludgeoned, they believe it should be on a common market basis. While one hopes the politicians will not be misled (as in other Asian countries) by the thought that the business of automobile businessmen is only business, there can be no doubt that the Pan-Malaysian motor-trades' hopes for a free flow of vehicles across the causeway is as much in the self-interest of both countries as is the free flow of money in the form of one currency.

"Whichever way one turns, the economics of the situation are beyond dispute. The separated markets are both too small, the options of meaningful industrialisation too narrow, the technical complications too great, and the likely alternatives too inflationary to allow for any other conclusion, a united approach."<sup>3</sup>

There is also the question of the feasibility survey, made by the well-known American consultants 'Arthur D. Little Inc., on which the Malaysian decision to go it along supposedly

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<sup>2</sup> Straits Times, May, 1966.

<sup>3</sup> Harvey Stockwin, Far Eastern Economic Review, April, 28th

was based being a well-reputed firm, and being conversant with all the complications, it is scarcely conceivable that the firm's experts could avoid stressing the need and desirability for a free flow of vehicles across the causeway. However that may be, the Malaysian Government's refusal to publish the report, or even allow those who must act according to its findings (the assemblers') to see it, leads one to think that the economics of the situation were somewhat twisted to suit political convictions. The Malaysian Government's conviction is that by going it alone, while loosing a market of 8,000 odd, it could at the same time be made up in a number of years through population increase, rising C.N.P. which stands at about 4% rate of growth, and the gradual rise in standard of living. The Government would rather loose this particular market than give it advantage in a common market set up for which she (Singapore) pays no share.

### Politics VS Economy

This leads to the ultimate question : Will politics permit a sane solution to an intricate economic and technological problem, the full ramifications of which are not appreciated, politically? Dr. Lim stoutly maintained at his February 24th, press conference that the motor vehicle assembly was merely an economic issue. But observation of events has shown that he consistently avoided showing, as he had done previously, any enthusiasm for talks or agreement with Singapore, and that he linked any agreement on automobiles with agreement on all the other Malaysia - Singapore contentions. He insisted on the urgent need for Malaysia to further this industry in search of the 450,000 employment target of the Malaysian Five Year Plan.

A greater sense of urgency in Kuala Lumpur prior to August 9, might well have been more productive in this regard. Having waited three years for action, no one would regret another three months spent searching for the Pan-Malaysian solution which is in the political as much as the economic self-interest of both countries and parties. Neither the P.A.P. nor the Alliance wishes to alienate the middle class they are helping to create, but which will be feeling the heavy pinch of steeply rising car prices if the market remains bifurcated. Neither the Alliance nor the P.A.P. will gain from the groundswell of discontent which will emerge as the price of bifurcated industrialisation is paid for by an unprepared electorate. Neither Singapore nor Malaysia can afford to win, at a pinch, the assembly 'battle' but loose 'the war' in terms of diminished foreign interest, confidence and investment as a result of economic irrationality. The automobile issue is even not without communal implications. Neither the M.C.A. nor the P.A.P. can prosper if the 75 - 85% non-Malay vehicle purchasers are landed with cost-choice situations they neither want nor expect.

In the last analysis, neither Malaysia nor Singapore can afford in any way to make the path to economic development more

tortuous than it already is. This luxury is, however, being indulged, but it is not too late for self-discipline to be once again exercised. The development of the automobile trade and industry in Malaysia and Singapore need not, continuously follow a tragic path, provided there is a further reassessment of the position with regard to motor vehicle assembly, based on a clear estimate of what interests are worth preserving. A common market not only should be, but still can be .....

