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REPORT ON THE
ECONOMIC ASPECTS OF
MALAYSIA

by a Mission of the
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

July 1963

Price: \$2.50

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24 SEP 1963

REPORT ON THE
ECONOMIC ASPECTS OF
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by a Mission of the
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Under the Chairmanship of
MR JACQUES RUEFF

July 1963

PRINTED AT THE GOVERNMENT PRESS
BY MOHAMED BIN ABDULLAH, ACTING GOVERNMENT PRINTER
FEDERATION OF MALAYA
1963

STATEMENT BY THE GOVERNMENT OF THE FEDERATION OF MALAYA

The Federation and Singapore Governments jointly requested the World Bank to provide a Mission to report and make recommendations on the economic aspects of merger. The Mission under the chairmanship of Mr J. Rueff has completed its report which was submitted to the Governments concerned in the first week of July.

The Report is divided into two parts: Part I sets out the major economic effects of merger while Part II contains the recommendations for action. The Federal Government, in consultation with the other Governments concerned, will give careful consideration to the recommendations presented in the Report and where feasible and practicable they will be adopted.

Attention is invited to the fact that common market and entrepot trade arrangements with Singapore have already been agreed upon and the terms of the agreement are being published separately. Other recommendations regarding the co-ordination of public development and the implementation of industrialisation programmes will be given immediate consideration.

In publishing this Report the Government of the Federation of Malaya wishes to record its appreciation of the valuable assistance of the World Bank and members of the Mission for undertaking the assignment.

FOREWORD

1. The present Federation of Malaya, the State of Singapore and the colonies of Sarawak and North Borneo plan to form a new Federation, to be known as "The Federation of Malaysia," by 31st August, 1963.* The proposed Federation will arise when constitutional links are established between the Federation of Malaya and the State of Singapore on the one hand, and between the Federation of Malaya and the new States of Sarawak and North Borneo on the other.
2. The constitutional framework to effect the merger of Singapore with the Federation of Malaya was established in November 1961 with the publication of the "Heads of Agreement" prefaced by an exchange of letters between the two Prime Ministers.† The exchange of letters points out that the memorandum contains an agreement laying down the "State and Federal responsibilities, whereby Singapore will retain responsibility over Education and Labour, and enjoy local autonomy in certain agreed matters as set out therein, without prejudice to the basic principle that there should be a strong Central Government for the Federation of Malaysia as a whole." Discussions between the Federation and Singapore Governments on the constitutional details of merger are still proceeding at the time of writing.
3. Regarding the Colonies of Sarawak and North Borneo, a Commission under the chairmanship of Lord Cobbold visited the territories between February and April 1962 and heard the views of representative groups. All members of the Commission came to the conclusion that a Federation of Malaysia would be in the best interests of North Borneo and Sarawak, and that a decision in principle should be reached as soon as possible.‡
4. The report of the Cobbold Commission was considered in detail by British and Malayan Ministers in a series of meetings in London in July 1962. A joint public statement issued by the United Kingdom and Malayan Governments on the 1st August 1962 announced that "subject

* If agreement is reached on the admission of Brunei, this Federation will also include that State. At the time of writing this report, the IBRD Mission has not been informed that agreement has been reached. As a result, no discussion on the State of Brunei is included here.

† "Memorandum Setting out Heads of Agreement for a Merger between the Federation of Malaya and Singapore," published in Singapore as a White Paper—Cmd. 33 of 1961.

‡ "Report of the Commission of Enquiry, North Borneo and Sarawak, 1962" Cmd. 1794. London H.M.S.O., August 1962.

to the necessary legislation, the proposed Federation of Malaysia should be brought into being by 31st August 1963."

5. The two Governments then established an Inter-Governmental Committee, on which the British, Malayan, North Borneo and Sarawak Governments were represented. Its task was to work out the future constitutional arrangements, including safeguards for the special interests of North Borneo and Sarawak, to cover such matters as religious freedom, education, representation in the Federal Parliament, the position of the indigenous races, control of immigration, citizenship and the State constitutions. Its conclusions, including the proposed constitutional arrangements, were published in Malaya under the title of "Malaysia: Report of the Inter-Governmental Committee, 1962", on 27th February, 1963.

The World Bank Mission

6. The economic unification of territories which were formerly independent from one another both politically and economically raises some complicated problems, and in order to assist in their solution the International Bank for Reconstruction and Development, at the request of the Governments of Malaya and Singapore, organized a Mission under the chairmanship of Mr Jacques Rueff.

7. In order to consult with the Governments on the terms of reference and to prepare the groundwork for the Mission, Mr Jacques Rueff, assisted by Mr William M. Gilmartin, Economic Adviser of the Far East Department of the IBRD, paid an initial visit to Malaya and Singapore from October 23rd to November 1st, 1962.

8. The task of the Mission was defined in the following agreed "Terms of Reference":

"1. To examine and report on the feasibility of, and problems inherent in, closer economic coordination among the prospective Malaysia territories with special reference to:

(a) the feasibility of common market arrangements among the territories of Malaysia, taking into account the importance of preserving the entrepot trade of Singapore, Penang and Labuan, and the public revenue implications of such arrangements;

(b) the impact of present differences in tariff and trade policies among the territories;

(c) differences in competitive position and the industrial promotion aims and policies of the territories;

(d) other economic areas of possible conflicts or overlapping interests.

2. To recommend concrete steps which should be taken in the fields of economic policy to effect such economic coordination so as to produce the maximum advantage to all territories.

3. To recommend administrative arrangements for coordinating and integrating development planning including industrial development.”
9. In addition to Mr Jacques Rueff, the Mission consisted of a vice-chairman, Mr Leonard Rist, the Bank's Special Adviser, who was responsible for coordinating the Mission's work in the absence of Mr Rueff, and of Messrs John A. Edelman, Economic Adviser of the Far East Department of the Bank, Thomas R. McHale, an American economist specializing in industrial development, Jean Royer, a French expert on trade and tariffs and former Deputy Secretary General of GATT, Marcel L. E. Schmidlin, an official of the General Customs Administration at the French Ministry of Finance, B. S. van Deirse, a Dutch expert on ports and transportation, E. Bevan Waide, an economist in the Far East Department of the Bank, and Arthur C. Wigan, an Australian expert on problems of industrialisation. The Mission was assisted by a secretariat consisting of Miss M. Major and Miss A. Turner.
10. The members of the Mission arrived in Kuala Lumpur on the 7th of February 1963 and were joined by their chairman on March 31st. They stayed until the 16th of April. During that period members of the Mission visited the Federation of Malaya, North Borneo, Sarawak and Singapore, and were able to gather information upon which to base their recommendations. In carrying out their task they have the benefit of advice and assistance from members of the Governments concerned, their officials, and representatives of private interests. They wish to take this opportunity of expressing to them their deep appreciation.

The Mission's Approach

11. In order to obtain perspective on the specific issues raised by the terms of reference, the Mission first took a broad look at the economies of the various territories and at their key development problems. This examination confirmed the conclusion—which is already reflected in government policies—that greater economic diversification is essential in the territories of Malaysia. Merger in itself will help achieve this goal by significantly broadening the economic base. But, equally important, the establishment of a common market within Malaysia for domestically produced goods would be a major stimulus to diversification and economic growth.
12. The Mission then considered the first specific point (1 *a*) in the terms of reference, namely “to advise on the feasibility of common market arrangements taking into account the importance of preserving the entrepot trade” Its conclusion was that common market arrangements can be worked out in a manner which will preserve the

entrepot trade, provided that a clear distinction is made between the treatment of import duties designed to protect domestically produced goods and the treatment of non-protective duties which would not affect such goods directly.

13. The terms of reference also request the Mission to examine "the public revenue implications of (common market) arrangements." The Mission is convinced that the stimulus which a common market will provide to economic activity will result in a significant increase in public revenue. Public revenue should also increase to the extent that it is possible to extend and harmonize non-protective duties, say at the Malayan level, without disrupting the entrepot trade. This does imply that, in time, there should be a considerable reduction in the "present differences in tariff and trade policies among the territories" (point 1 *b*). After the transition period necessary to get the common market arrangements started, we suggest a review be carried out to determine whether complete harmonization of tariffs would be possible, and if not, to decide on means for offsetting the impact of remaining differences.

14. The Mission found no significant differences in the industrial promotion aims and policies of the territories (point 1 *c*). It has suggested federalization of various aspects of industrial promotion, and federal coordination of those promotion techniques which would remain state matters, so as to discourage undue competition for industrial investment among the territories. In other economic areas, it found no important instances of possible conflicts or overlapping interests (point 1 *d*).

15. Finally, the Mission has made recommendations, as requested in point 3, on administrative arrangements for coordinating and integrating development planning, including industrial development planning. The main suggestion here is, in effect, to build up stronger Federal institutions for these purposes on the basis of existing agencies which have already developed particular effectiveness in their respective fields.

16. In short, the recommendations of the Mission have tended to conform to the second point of the terms of reference, namely "to recommend concrete steps which should be taken in the field of economic policy to effect such economic coordination so as to produce the maximum advantage to all territories." In the course of its work the Mission became convinced that this could and should be interpreted to mean "so as to produce the maximum advantage to Malaysia." This the Mission has taken as its basic guide, bearing in mind that this objective involves taking due account of the particular needs and problems of the various territories.

17. The President of the International Bank transmitted the report to the governments of the Federation of Malaya, North Borneo, Sarawak and

Singapore in July 1963. The letter of transmittal noted that since the report had not been discussed by the Executive Directors or reviewed by the Management of the Bank, the report as transmitted represented the views of the Mission rather than positive recommendations of the Bank. The letter added, however, that the Bank believed that the findings of the report deserve careful consideration and discussion.

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