

ECONOMIC DEVELOPMENT OF MALAYA

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This book is the result of a joint study conducted by the following research group headed by Hiroshi Matsuo under the auspices of the Institute of Asian Economic Affairs: Shigeo Shimizugawa, Assistant Professor of Meiji University (Chapter I); Hiroshi Matsuo, Professor of Meiji University (Chapters II & IV); Kikuo Yamaoka, Professor of Chiba University (Chapter III); Yasuaki Yoshimura, chief of the research department of the Overseas Mineral Resources Development Company (Chapter V); and Yasushi Ōiwa, Yawata Iron and Steel Co., Ltd. (Chapter VI).

This comprehensive study examines the problems of economic development of the Federation of Malaya and the State of Singapore based on data obtained through on-the-spot surveys of the two countries. The study analyses the economic structure of the two countries, and other matters related to their economic development. This study does not purport to be the kind of theoretical analysis which makes use of the models and hypotheses of modern economics.

The writers have discussed the following points: recognition of the peculiar characteristics of Malayan politics, economy and society; study of the historical process of economic development; outline and characteristics of economic development plan; examination of problems during the process of economic development; role of foreign investments; and status and future prospects of development of mineral resources.

Economic development in any nation should be built on political, economic and social foundations. The goal of economic development is to elevate the people's standard of living through the larger-scale and more effective utilization of human and material resources. If the industries of a country are to be developed smoothly, it is necessary for persons concerned first to know its political, economic and social structure. Generally, political and social problems are not included in the study of economic problems. However, economic development exerts a tremendous influence on a nation's political and social structure and vice-versa. Therefore, in such a developing country as Malaya, it becomes necessary to lay down new laws, to formulate new economic systems and often to take measures and policies calling for alteration of traditions and customs.

In the case of Malaya, it is particularly important to know such prerequisites before carrying out economic development projects. The reason is that the Federation of Malaya has peculiar political, economic and social characteristics, because it has a plural society. Chapter I deals with these peculiarities and discusses the country's recent historical background.

1 Background of Economic Development

Chapter I is divided into three parts discussing respectively political, economic and social factors. The writer first explains the situation surrounding the Federation of Malaya and the State of Singapore. Both gained independence after World War II amid the postwar break-up of colonial societies.

He then outlines the postwar recovery of the Malayan economy including the efforts expended for its further development. He also clarifies the peculiarity of the Malayan economy by analysing her industrial and national income structures.

Finally, he outlines the racial constitution of Malaya, clarifying the social and economic status of various races. He concludes by stressing the necessity of Malaya to further develop her economy in order to cope with the increasing population.

2 Characteristics of Economic Development

Chapter II clarifies the characteristics of the Malayan economy by making a historical study of the country's economic development plans.

The preface in Part I deals with the first 10-year plan (1947-1956) and explains the difficulty in carrying it out when law and order in the country were in chaos. It details the series of strikes conducted by the Malayan Communist Party; the attempts to overthrow the Government through terrorism and plans to establish a Communist regime; the suppressive measures taken by the British Administration against such attempts and plans; the turning of Communist Party members into bands of guerrillas; and the outlawing of the Communist Party and the declaration of the state of emergency by the Government.

Because of the unduly long delay in the drafting of the 10-year plan, the Government was forced to change it into a 6-year plan (1950-1955). It was the first concrete development plan ever drafted by Malaya.

However, as soon as the plan was drafted, it had to be modified again, due to the Colombo Plan, into a programme covering the 1951-1957 period. The 6-year Malaya economic development plan was drafted without any basic surveys, complete information or data, and, what is worse, under the shortage of expert planners. Therefore the plan resulted in too broad and vague a reckoning of resources and capital.

Additional factors also made the execution of the 6-year plan difficult. Expenditures amounting to approximately 350,000 Malayan Dollars a day were needed to carry on the battle with the communist guerrillas. Also, although the price of rubber and tin soared with the unexpected outbreak of the Korean War, bringing about a great increase in revenue for the Government, prices tumbled at the end of the war and resulted in a tremendous drop in revenues. Finally, the plan itself had many defective points, some of which have been explained above.

Recognizing the necessity of inviting experts to conduct basic surveys

and draw up a new plan of economic and social development, the governments of the Federation of Malaya, the Crown Colony of Singapore and the United Kingdom requested the World Bank to undertake the work. The report of the World Bank is treated in Part 2 of this chapter under the title "Preparations for the Full Execution of an Economic Development Plan."

The report compiled and submitted by the World Bank mission consisting of thirteen highly qualified experts and one secretary will probably be one of the most authoritative reports on Malaya ever to be compiled. Based on this report, the "First Five-Year Plan for the Federation of Malaya", covering the period from 1956 to 1960, was put into effect. The outline of this plan is given in Part 3. In Part 4, concerning departmental schemes of the plan, the Rural and Industrial Development Authority (RIDA), Cooperatives, and the Employees' Provident Fund are analysed. The Economic Development Plan of Singapore is treated in Part 5.

Since Singapore, the greatest entrepôt (transit port) in Southeast Asia, is located near the Federation of Malaya, and the Federation forms the background of the economy of Singapore, these two countries should originally be united into one country. But because they are separate political entities they each have different problems, and various difficulties have arisen from this situation.

In Singapore, the population problem is paramount. The population is increasing every year at the rate of 4.3 per cent, with a natural increase 3.6 per cent and a social increase 0.7 per cent. There are also hitches in the industrial development plan of Singapore aimed at solving the population issue. They include the lack of capital, technology and markets and are complicated by the governing Peoples Action Party.

After these problems are explained, the "Jurong District Industrial Development Plan" put into practice in 1961, is taken up. In Part 5 under the heading, "Characteristics of Development Plans," the following points are explained: It is unavoidable that the development plan of the Federation of Malaya is based principally on the rubber industry. The plan's formula is liberal, unlike that of the mixed economy formula of the Indian development plan. Singapore has to maintain its position as an entrepôt because of her geographical location, and at the same time it should carry out its industrial development plan more actively. For both these purposes, Malaya must rely upon assistance by foreign countries for its economic development. Because Malaya's economy is based on capitalism, her development formula should be the so-called indirect formula (where the aiding nation provides funds for economic development but takes no direct voice in the political aspect of the government).

3 State of Progress of Economic Development

Chapter III is divided into five parts. Part 1 is entitled "General Survey of the Progress of the First Five-Year Plan." This survey discusses

several events which occurred during the five-year plan period from 1956 to 1960 including the achievement of complete independence by the Federation of Malaya (August 31, 1957) and the declaration of the end of the state of emergency after the successful suppression of communist guerrillas (July 31, 1960). It also touches on the success of the Federation Government in realizing 85 per cent of the plan during the stormy five-year period and outlines departmental progress in the fields of agriculture, forestry, fishery, transportation, communication, mining and industry education, housing and others.

Part 2 is a detailed survey on Malaya's development plan for rubber trees. Rubber constitutes 60 per cent of the total exports of the Federation of Malaya and is its principal source of revenue. However, both the ruling party and nongovernment parties criticize the excessive support of and investments in the industry by the Government. The reason why so much money is being invested is the necessity of preparing for the future competition of synthetic rubber. The quality of natural rubber must be improved, production increased and production costs reduced if natural rubber is to compete successfully with synthetic rubber. The principal methods in the plan to increase production are replacing old trees with high-yielding strains of rubber trees as well as developing new planting areas. A detailed explanation of the plan for the Malayan rubber industry as well as the outline of related plan is given.

The next subject taken up is the industrial development plan. Introduced are: the reason why industrial development is necessary; the outline of recommendations submitted to the Government by the Industrial Development Working Party as well as future prospects of industrial development plan; the Government's industrial development policies, which are based on the recommendations, and a detailed explanation of the Pioneer Industries (Relief from Income Tax) Ordinance, which is one of the reflections of the Government's policies.

Part 3 explains the Second Five-Year Plan started in 1961, and why it was revised to emphasize the development of agriculture. Part 3 also comments on the Government's basic policies on public investments, distribution plans of expenditure and sources of revenue. The disputes in the Federation Parliament over the results of the just completed First Five-Year Plan and parliamentary opinions about the new Second Five-Year Plan are discussed in Part 4.

The fifth and final part of this chapter tells of the introduction of the Four-Year Plan for the State of Singapore (1961-1964). It summarizes briefly the problems and the aim of the four-year plan and the distribution of investments.

A short commentary on the plan of the Federation of Malaysia is contained in the appendix to Part 5.

4 Problems in the Process of Economic Development

Chapter IV examines Malaya's problems in the process of economic development.

As mentioned previously, Malaya has a multiracial society and economy. Malaya's economic structure, therefore, is a product of its multiracial population. Part 1 and Part 2 in this chapter are titled respectively, "How the Problems are Handled," and "A Country of Multiracial Society and Economy." They analyse the economic activities of the various races to see how they differ. Through these analyses, the writer tries to clarify the process of economic development in Malaya.

The writer of this chapter, following T. H. Silcock,¹ says that Malaya has a three-fold economy—(1) Large-scale capital economy controlled by Europeans, (2) pre-modern small-scale capital economy controlled by Overseas Chinese and (3) an economy controlled by the Malays. The writer says that the coexistence of these three different types of economies and their mutual relationships cause Malaya's peculiar colonial-type of economic structure.

The first subject in Part 3 is the problems in titles, "The Traditional Malayan Society and its 'Take-off'." The section discusses the Malays, who are trying to break away from their traditional society during the execution of the development plan.

Because it would be practically impossible to take up all the individual points which seem to be major obstacles to the development of the Malayan economy, only two are discussed. One is land tenure and the other is the Islamic religion of the Malays.

The reason why Malayan farmers are poor is analysed based on works of Prof. Ungku A. Aziz of the University of Malaya.² The necessity of reforming the land tenure system is emphasized by the writer. It is pointed out that although the question of land development is taken up in Malaya's five-year plan, there are no positive measures for land "reformation."

Part 3 also says that daily lives of the Malays are so strongly influenced by the Islamic religion that rational economic activities are obstructed. This is the reason why, it is explained, there are practically no entrepreneurs among Malays. A central problem of the country, therefore, is how to educate capable Malays to develop resources and accumulate capital on their own initiative. Another problem is how to create a political, social and economic environment to effectively use those capable men. The author states that before the traditional society

¹ T. H. Silcock (Prof. of Economics, Univ. of Chicago). *The Economy of Malaya*, Singapore, Donald Moore, 1954, p. 1.

² "Land Disintegration and Land Policy in Malaya," *The Malayan Economic Review*, Vol. III, No. 1, April 1958; "The Causes of Poverty in Malayan Agriculture," *Problems of the Malayan Economy* edited by Lim Jay Boh, Background to Malaya Series, No. 10, Singapore, 1960.

of the Malayan people is to achieve the "take-off" it is necessary "to cultivate the people's mind before cultivating the land."

Part 4 deals with the economy of the Overseas Chinese who are the leaders of the domestic economy in Malaya. Practically all enterprises managed by Overseas Chinese are small or medium-sized. The Chinese do not have a social background to enable them to accumulate their own capital so that their enterprises can grow into modern, large-scale capitalistic organizations. This is so despite the fact that the aggregate total capital of all Overseas Chinese is very large, is discussed by the same writer in his article titled "Overseas Chinese and Indians in Malaya" (Chapter III, the Institute of Asian Economic Affairs, *Research Report Series* No. 8). Only a brief outline of this question is explained here. Part 4 also stresses the necessity for Overseas Chinese to establish an effective cooperative system among themselves and create basic conditions that would enable them to be trained for economic activities.

Part 5 gives an outline of the large-scale capital economy by Europeans. In particular, the domination of the Malayan economy by the so-called Managing Agency System is discussed, including the questions of who receives the fruits of the Malayan economy, how and where they are used, and whether they are adequately reinvested in Malaya. In Part 5, the writer concludes that the fact that the Malayan economy, if developed under the principle of free economy, will tend only to make richer those who are already the owners of capital. It is pointed out therefore, that the establishment of a society in which all races in Malaya can exist in amity and cooperation must be the basic aim of its economic development plan.

The appendix explains the circumstances leading to the establishment of the Federation of Malaysia in 1963 and outlines the great significance of this new federation's economic development.

5 Overseas Relations in Economic Development

Chapter V is divided into four parts. Part 1 deals with the history of Malaya. Starting with the pre-Christian era, it touches on the invasion of the Malayan peninsular by the Javanese, the coming of Europeans and Americans, the history of British colonialization and the immigration of the Chinese and Indians. A summary of the development of Malaya's tin and rubber industries follows. Also discussed are post-World War II independence of the Federation of Malaya and the establishment of the State of Singapore.

Part 2, titled "Relations with the Europeans in Economic Development," tells the difficulty of estimating the amount of foreign capital investments in Malaya and surveys the amount of private foreign capital invested in various industries of Malaya. Next, a study of the ownership and control of wealth in Malaya including agriculture, tin, commerce and secondary industries is presented. The study is based on Industrial De-

velopment Board Manager J. J. Puthucheary's book, *Ownership and Control in the Malayan Economy*, published 1960 in Singapore. It is pointed out that it is not the Overseas Chinese capital that is dominating the Malayan economy but European capital. Particularly it is British capital in the form of the Managing Agency System, which controls most of the major industries in Malaya.

In Part 3 titled "Relations with Japan in Economic Development," the activities of Japanese capital in Malaya are introduced in detail. Before the war, the Japanese were engaged in such fields of Malaya's economy as commerce, trade, banking, management of rubber plantations, development of iron ore mines, and service industries. The war, however, ended all these activities. After the war, with the restoration of diplomatic relations between Japan and Malaya, Japanese began to co-operate with Malaya in the development of the latter's economy. Part 3 outlines Japanese capital investments in various industries of Malaya.

Concluding Part 4 is titled "Foreign Policies in Economic Development." It explains the basic policies of the Malayan Government toward economic development, the Pioneer Industry Ordinance and foreign aid provided for the development plan. Part 4 stresses that nations of the Free World should help Malaya's economic development plan to guard against Communist infiltration.

6. *On the Development of Mineral Resources in Malaya*

Malaya is considered rich in mineral resources. However, only about 20 per cent of the country has been scientifically surveyed. Therefore, it is difficult to estimate the exact extent of Malaya's mineral resources. Malaya is the biggest producer of tin in the world. Next in importance to the Malayan economy is iron ore. The Japanese developed iron ore mines before the war and more mines have been opened after the war. As a result, the output of iron ore which had been only 820,000 tons in 1930, increased to 5,640,000 tons in 1960. All iron ore produced in Malaya is exported to Japan.

In comparison with tin, production of which is restricted to a certain volume under the International Tin Agreement, the output of iron ore is steadily increasing and contributing greatly to the economies of both Malaya and Japan. Therefore, the Japanese see the development of iron ore mines in Malaya as much more important than that of tin mines. Oiwa's study deals mostly with this subject.

Chapter VI is divided into six parts. In Part 1, the preface, the writer declares that his study deals with possibilities of future development and policies concerning such development of mineral resources.

The writer outlines the principal literature on Malaya's mineral resources and discusses his career. Oiwa majored in metallurgy when he was a student and, while employed in the Ministry of International Trade and Industry, did research on iron ore.

He was sent to Singapore by the Japan External Trade Organization (JETRO) and stayed there from 1956 to 1959. Ōiwa travelled extensively throughout Malaya and compiled a report titled "Malaya in Transition", which was published in 1959. He also studied at the Colorado Mining College in the U.S.A. for about a year from 1959. During his stay in the U.S.A. he wrote the article "Theory on the Development of Mineral Resources in Southeast Asia." An expert in his field, Ōiwa has great hopes about the future development of Malaya's mineral resources.

Part 2, titled "Outline of Malaya's Mining Industry," discusses the prewar and postwar history of the Malayan mining industry. Malaya's principal mineral resources are explained here. In Part 3, titled "Postwar Changes in Objective and Basic Conditions," the writer deals with the three changes in the post-war mining conditions—*i.e.* in the political environment; in the economic environment, and in the social environment. Part 4 explains the importance of the development of mining resources in Malaya's long-range economic development plan. This is based on the "Report of the Second Five-Year Plan" announced by the Malayan Government. The Government's mining policies are also explained here. Part 5 deals with theories on the development of iron ore resources. Among the subjects mentioned are: the history of the development of iron ore mines, the role played by Malayan iron ore in the Japanese steel industry, the distribution of iron ore and the operation of iron ore mines, the problems that should be considered by the Japanese in regard to the development of the mines and future prospects.

In the concluding Part 6, it is stressed that the Malayan mineral resources should be developed by excellent planning and techniques for the following reasons: The development of iron ore resources will contribute much to the securing of foreign exchange for Malaya; Malaya is a stabilized supplier of iron ore to the Japanese steel industry; and development conditions are excellent. It concludes that future prospects of such development are exceedingly bright.

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