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# *The Economy of Malaya*

T. H. SILCOCK

BACKGROUND TO  
MALAYA SERIES

No. 2





# The Economy of Malaya

An Essay in the  
Political Economy of Development

T. H. Silcock, M.A., D. Phil.

*A Background to Malaya Book*



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## INTRODUCTION TO THE THIRD EDITION

This little essay, written some years before Independence, appears to have met a need for a simple account of Malaya's economy. But it had become seriously out of date and has been almost completely rewritten. Independence has, so far, made only relatively minor changes in the structure of the economy, but it has changed the policy for dealing with it a good deal. Many of the problems of pre-war and immediate post-war policy seem no longer relevant. Moreover, we now have much more factual information about the economy. The International Bank Mission's Report appeared shortly after the first edition. A much more careful survey of the Federation's national income has been made. There has been a Census of Agriculture and a Census of Manufacturing Industry. Though the essay's original plan of avoiding statistics and tables has again been followed, this additional information has had some effect on the balance of what should be covered in an elementary survey.

Three important changes in the structure of the economy have also required attention. The first is the changed position of synthetic rubber. The first edition expressed the point of view that, at the end of the Second World War, the synthetic product was such a costly and unsatisfactory substitute that it might well have been abandoned, except for a strategic minimum, if the industry had not built up a great hostility to itself in the United States by its pre-war restrictive practices. It is still important that Malaysians should understand that rubber is generally regarded abroad not as the innocent livelihood of millions of peasants, but as "the weeping wood", a raw material whose history has been stained by cruelty, indenture, exploitation, and an unscrupulous world monopoly. This is a part of Malaya's basic insecurity, and unnecessary secrecy still aggravates it. But this is no longer important in relation to the synthetic rubber industry. Research, originally undertaken for strategic reasons, and continued because of commercial hostility to rubber, has now produced a fully competitive product, and this from now on is a permanent feature of Malaya's economy.

The second important change is the great expansion of deliberate Government planning. Two five-year development plans have appeared, the second including a considerable programme of rural development. Malaya's economy is still

a very free one, and Government intervention is, by Asian standards, very mild; but the plans merit some attention, even in a simple account of the economy.

Finally a Central Bank has been established and has tried to exert a deliberate influence on the short-term and long-term capital markets, even though, at the time of writing, it has not yet taken over the issue of Malaya's currency.

The scope of the book remains pan-Malayan. There have been times, during the circulation of the first two editions, when it seemed as if any revision must emphasise the breaking up of the economy into two parts. With the advent of Malaysia this is no longer true, and it is appropriate to discuss Malaya as a single economy. But it is unfortunately still too soon to discuss the way in which Federation with the territories in Borneo will influence the economy. Restrictions on movement of private citizens, on transfer of civil servants, and on tariff coordination, are included in the agreements; but the nature of the economy will be profoundly affected by the (as yet unknown) way in which these restrictions will be operated.

Apart from the changes indicated above the new edition follows the original plan of the book. The first edition was designed for citizens expecting self-government in the fairly near future. The present edition is for citizens of an independent state. This has involved many changes of detail in the wording; but the chief changes of substance arise from the changes in the economy, and in what we know about it, that have been discussed briefly in this introduction.

T. H. S.

## 1. THREE ECONOMIES

Malaya's economy is not one economy but three. Cutting across the other divisions of race and class and political allegiance, sometimes accentuating, sometimes blurring them, this threefold division dominates Malaya's life and livelihood. First there is the modified subsistence economy of rice and fish and squatter, mixed farms, situated mainly in the north and east, and around the "New Villages"; an economy of poverty and chronic debt, relieved only in years of exceptional prosperity like 1951, and normally at levels not much above the appalling poverty of most of Asia.

Next there is the mercantile economy of Penang and Singapore, the free trade economy of Light and Raffles, but a free trade economy with a difference. Here is no orderly holding of the ring by Government, with merchants competing in serving the public, and keeping the rules of the game. Rather it is an economy of enduring and profitable tension between the framework of order itself, public or private, and the restless and pervasive quest of profit: an economy organising monopolistic agency agreements, rings of distributors and contractors, monopolies in distribution linked by a chain of credit; but an economy quick also to bore lucrative holes in the framework of Dutch Colonial policy, the Stevenson Rubber Regulation scheme, the pepper corner, the Japanese authoritarian controls, the International Emergency Food Committee's rice distribution scheme, the sterling area's exchange controls, Indonesian trade regulations, and the United Nations control of opium. Here is an economy of business within business and of highly profitable evasion, a rackets, ebullient, versatile economy prospering greatly from the controls it has both contrived and outwitted, in its century of dominance of Southeast Asia's trade.

Yet it is the third economy on which Malaya's wealth is chiefly based: the plantation and mining economy that produces in this one small area a third of the world's rubber and tin, and holds thereby an important place in the framework of the

world economy. This is Malaya's chief Wealth but it is vulnerable wealth. The demands for both rubber and tin are highly sensitive to prosperity and insecurity, for they are raw materials mainly for luxury goods and defence industries. Yet they lack one of the normal economic properties of luxury goods, the sensitiveness of demand to price changes. The reason for this is that each of them makes up only a small part of the total cost of the chief products in which it is used; and to substitute anything else, such as synthetic rubber or aluminium, involves technical changes that may be expensive. Moreover supply is also extremely insensitive. A rubber tree takes seven years to produce anything; and estates and specialised smallholders are virtually compelled to produce, whatever the price. Abandoned one, an estate deteriorates rapidly and rehabilitation is costly. A tin dredge is expensive, and once started will not be closed down by any probable fall in price; the Chinese mines, where labour is a more important part of cost, have flexible wage arrangements which protect them at least until prices are very low.

Hence, with both supply and demand for both its chief products extremely insensitive to price changes, a very large fall or rise in price may be needed to correct quite a minor fall or rise in demand, such as might result from quite trivial changes in prosperity or security elsewhere. Malaya's third economy is a highly unstable one, leading to great variations in the country's national income and public revenue.

## 2. THE PEASANT ECONOMY

### *Rice*

Rice has never been a profitable crop for Malayan peasants. It is not generally grown for profit, but rather because it is a tradition to grow it. The methods are traditional too: each individual plant transplanted by hand, each separate ear often cut by a small hand-knife. The yield of rice per acre has improved a good deal since the Second World War, and is now about half a ton, at 63 per cent conversion. This is still not as good as in China and Japan; but these countries are short of land, and Malaya is not.

Waste of labour is more important than waste of land. It is this, more than anything, that has kept Malayan rice-growers

poor. But Government policy was not until recently so much concerned with making labour more productive as with seeing that Malaya grew as much as possible of the rice it ate. Peasants were discouraged from leaving their land, or from changing to other crops away from rice. Those who changed from rice to other crops had to pay increased rents. Those who had rice lands were required by local government regulations to do their work at set times. Rural education was designed to fit the peasant for a peasant's life, not to encourage him to look for other opportunities.

The reason for this policy was a feeling of anxiety about Malaya's food supply. There were rice riots in the First World War. There was much malnutrition during the Japanese Occupation. Government officials felt, as many others have felt, that if Malaya grew all its own rice these hardships could not happen.

Yet if peasants grow rice when it is unprofitable, they are kept poor. If Malaya becomes self-sufficient merely by settling increasing numbers of peasants on the land, Malaya will be poorer. Since about 1956, just before Independence, the Government attitude to rice growing has changed. It is now recognised as important that the yield of rice per man must rise until rice-growers can earn a good living. This can only happen if one man cultivates more acres than in the past, as well as growing more rice per acre. Most of Asia's rice-growing peasants are very poor, because they grow rice on small farms, using wasteful and laborious methods. These methods need to be changed.

Another thing that has kept Malayan rice-growers poor is indebtedness. Particularly in the Malay villages, tradition required that those who could afford it would entertain generously on certain occasions. In return their fellow villagers helped in cooperative tasks which maintained the houses, fields, fishing nets and other permanent equipment in good condition. This system worked well, so long as not much could be stored, so that entertainment could only use up a small surplus. Not much money circulated, and Malays were forbidden by their religion to lend at interest, so that credit was not available.

The whole pattern changed when shopkeepers and traders appeared. It was possible now to hire specialists to do much of the necessary skilled work so that cooperative efforts became

less important; but the same feelings of obligation still led the peasants to compete in generous entertainment; they could now do this on credit, which shopkeepers and contractors were willing to give, on the security of the peasant's produce. The traditions of generosity, that used to hold the villagers together and keep their equipment in working order, now led them into debt. Sometimes they lost their land. More often they had to sell part of their crop at a low price to their creditor, which obliged them to buy again on credit next year, to live; so that they permanently lost much of their previous standard of living.

Rice is also a crop in which work is irregular. Work is very heavy at times of transplanting and harvesting; but at other times there is little to do, and the peasant loses some earning power. It is not economical to keep labour idle the rest of the year, and therefore some other profitable work is needed. In some parts of Malaya this problem can be solved by having mixed farms, growing rubber and fruit, and rearing livestock as well as growing rice; in others the only way to get good rice yields is by large-scale irrigation, so that there are fairly large areas growing only rice. In these rice areas some of the people have to try to earn money elsewhere when there is not enough work in rice; but when other work is easy to get, the farmers cannot pay workers enough to get them back, so that when rubber prices are high and other areas are prosperous, the rice is neglected.

It is important that rice-growers should learn new methods so that one man can cultivate more land, as well as getting more rice per acre. This means that very much more land must be brought under cultivation; and even if this is done, some peasants should probably be encouraged to leave the rice-fields, so that each rice-grower will have enough land to let him earn, on the average, as much as a rubber grower.

### *Fishing*

Malayan fishing is also largely a traditional occupation, particularly among the Malays who, in 1957, made up two-thirds of the total number of fishermen. Chinese fishermen are accustomed to fishing mainly for sale in distant markets. They often have credit from wealthy merchants, and use expensive gear like the *kelongs* which trap large numbers of fish in

western and southern Malaya. But the Malays, especially in the northeast, still work as teams, sharing the catch according to elaborate systems and helping one another to maintain their boats and gear.

Much effort has gone into persuading them to use motor power in their boats, and in the last decade the number of powered boats in the Federation of Malaya has increased more than tenfold, and is now more than a third of the total. This means that they can catch their fish in less time; but if they are to catch more fish they need both to improve their market and to reach new supplies of fish further away. Until very recently the increase in powered boats had not led to any increased landings, but in the last year or two there has been some improvement.

Like the Malay peasants, Malay fishermen, in spite of their skill at sea, are no match commercially for the Chinese dealers, with their close commercial relationships and long experience of organising transport and credit. Until the Second World War they were getting more and more heavily into debt. Various forms of Government help since the war may have prevented their position from worsening further.

### *Market Gardening*

The market gardeners of Malaya are mainly Chinese. They are small-scale food producers, like the Malay rice-growers and fishermen. We can call them subsistence farmers, because they grow part of their crop for their own consumption. But their methods are not quite so traditional, and are certainly not wasteful. Their standard of living is 'a good deal higher than that of the rice-growers and fishermen, but they work much harder, for longer hours.

Often they manage, by mixed cultivation, using animal and human manure, to make a living out of land that no one else can use. Where they have really good conditions, as in some farms in Singapore, their yields — for certain types of vegetable — are believed to be the highest in the world. Their farming methods are based on traditional methods developed in China, but have been adapted to the different climatic conditions in Malaya.

Many of them began farming during the unsettled period of the Japanese Occupation. Between the 1931 and 1947 censuses the numbers engaged in market gardening almost doubled, though the total number of the working population changed very little. Large numbers settled on the fringes of the jungle, often without any legal right to their land. During the Emergency of 1948 - 1960 the terrorists derived supplies of food from them; and the Government therefore made them move to "New Villages" where they could be protected and also prevented from supplying this food. The quality and amount of the land allotted to them was often inferior to what they had before; but they had a legal right to farm it, and most of them have stayed there even after the Emergency ended.

The concentration of Chinese, Indians and Malays in separate rural villages was one of the harmful effects of the Emergency. It makes it more difficult to bring the different races together into one nation.

### *Rural Development*

It is now widely recognised in Malaya that the fishermen and peasants are the poorest section of the economy. Self-government has made their votes important and their difficulties are no longer neglected, even though it may be difficult to improve their conditions very quickly. Even before independence was achieved rural development had become an important problem for the Federation Government.

One means of promoting rural development was the Rural and Industrial Development Authority (generally known as RIDA), established in 1950 to improve the economic condition of country people, especially of Malays. It was originally responsible for both spending public money on improvements that would benefit country people and lending them money on private developments, on which they could earn enough to repay with interest. Soon after Independence its functions were limited to training, giving technical advice and help, and lending Government money for suitable economic ventures.

The cooperative movement has also been developed a great deal since the Second World War, and has helped many of the rice-growers to escape from debt. There are still many more who are indebted to shopkeepers, but an important beginning has been made in freeing the rice-growing community of this burden.

A new Ministry of Rural Development has taken over the main work of improving the economy of the rural areas. Each District Officer has been required to prepare a Red Book, setting out the district's development plans, based on discussions with local development committees; and the progress of all these different plans is supervised through local and central Operations Rooms, as if development were a military operation. This has certainly stimulated activity. Indeed, the main danger is that, since so little research has been done, funds and effort and enthusiasm may be poured into work that will turn out to have been wasted, if forecasts prove mistaken.

### 3. THE FREE TRADE ECONOMY

#### *Setbacks*

The free trade economy of the two great entrepot ports, Singapore and Penang, is far more prosperous than the subsistence economy. Yet it has difficulties of its own. In some ways Singapore's position differs from that of Penang economically, because Singapore has a separate Government. But for the present we shall consider them together.

Perhaps the greatest threat to the free trade economy is that of a further narrowing of its scope. Its prosperity always depended on being the centre of processing, grading, trans-shipment and credit for trade covering a wide area. Penang for its first few years was a refitting station for warships, but its role as a trading centre for the eastern shore of the Bay of Bengal soon surpassed its military importance. Singapore enjoyed a few brief years before its fall in 1942 as the impregnable fortress of the East, but it too has spent most of its life as a centre of commerce and nothing more — as the gateway to a trade that stretched from South China to the furthest islands of the Indies.

The volume and value of Singapore's trade have shown a steady upward trend (interrupted only by two great wars and one major depression) over nearly a century and a half; but the area which it serves has (in at least one sense) contracted. Neither in Singapore nor in Penang, however, is the change entirely simple.

Before the founding of Hongkong the British trade with South China was at least partly carried on by way of Singapore; and by its free-trade and free-port policy it also captured, within a few years of its foundation, trade that had formerly gone to Batavia, Malacca, Penang and other ports. It became a natural centre for collecting and grading miscellaneous spices, forest products and other raw materials — known collectively as Straits Produce — from Siam and even further north, and from all the islands stretching from New Guinea to Sumatra. This produce was collected and shipped mainly by local Chinese traders, in local ships, the operators of which were either controlled by Singapore Chinese merchants or at least bound, either to them or to European merchants, by credit ties. Highly skilled grading, properly conducted auctions and markets, banking and insurance facilities and bulk shipping were provided in Singapore; and these reinforced the pull of the free-port policy.

The establishment of Hongkong provided an alternative, and much superior entrepot, for the trade of South China, through which direct shipment of goods to and from Europe could take place. Similarly the encouragement of direct shipment to Europe from Indo-China by the French and from their own ports by the Dutch took away as much of the entrepot trade as these powers could control.

In the twentieth century came, first, the fixing by the Eastern Shipping Conference of uniform rates to Europe for shipment whether from Singapore or from ports further East, where costs had formerly made rates higher. Imperial Preference was introduced, undermining Singapore's free trade position, and denying Empire origin to most Straits Produce because of difficulties of identification. Quotas on Japanese goods hampered a growing re-export trade. Finally exchange control, first by the sterling area and later by the Dutch and the Indonesians, struck a serious blow at trans-shipment and barter trade.

Since the Second World War people in both Singapore and Penang have felt less confident about the entrepot trade. While they do not wish to see it disappear, they have little hope that it can give employment to their rapidly growing populations. They have watched Hongkong making up for its lost entrepot trade by becoming an important industrial centre; and they feel that perhaps they should do the same.

### *Four Positive Factors*

Neither port, however, has yet lost its international position. Four fields of activity have been opened up for the merchants of Singapore, and these, together with the growth of local industry, have more than offset the losses.

First, the opening of the Suez Canal in 1869 lowered the cost and greatly increased the speed of trade with the East, so adding considerably and rapidly to its volume. Singapore became an important port of call on a more regular trade route, carrying much heavier traffic.

Next the development of tin mining and of the rubber industry added far more to Singapore's profits than the contraction of its field of entrepot trade could take away. Not only did the great agency houses collect fees for managing estates and mines, and commissions on supplying their needs, and on marketing rubber: a more commercial economy spread throughout Malaya, Sumatra, the Rhiau archipelago and Borneo, and wherever the profits of Chinese tin mines or Malay rubber smallholdings, or the wages of estate workers generated centres of trade, Chinese shopkeepers, mainly financed and supplied from Penang and Singapore, would establish and build up retail businesses. Nor was even this all, for both Singapore and Penang became important centres of rubber milling and tin smelting, serving not only Malaya but neighbouring countries as well.

Unlike the mainland of Malaya, Singapore and Penang have important other sources of wealth in addition to rubber and tin; but they have greatly benefited from the development of these two industries.

The third development is one that is not shown directly in trade figures, though indirect evidence can sometimes be derived from them. To put it no more delicately, Singapore has done very well out of commercial irregularities.

Irregularity, of course, is an elastic term in relation to trade. At the one extreme it can include the outwitting of over-ambitious schemes to control the export of rubber, the import of rice, or the earning of foreign exchange. This may involve no more than false valuations on permits, transfer of cargoes or alteration of destinations, or may extend to various

degrees of smuggling or corruption of government officials. More serious irregularities that have been organised from Singapore include the import of opium and arms, and illegal immigration particularly of women; though probably only the first of these is at all comparable in scale with the less serious irregularities. Singapore merchants would of course differ about which controls were fair game for outwitting; but many even of those who would not participate in these practices would probably argue that the city's prosperity has not been built on restriction of trade, and that governments, wherever they are, which try to impose controls have only themselves to blame if these are evaded.

It would be a mistake to suppose that the sums involved in irregular kinds of trade are small. We can get some evidence of price margins (over 100%) and total values (over \$200 million) in the black market rice trade. The price of opium in 1947 was seven times the pre-war price, and police and social workers did not believe addiction was any less. Before the Second World War opium was a Government monopoly bringing in some \$15 million a year. Rubber smuggling can be roughly estimated by comparing Indonesian official exports to Singapore with Singapore official imports from Indonesia. All this evidence suggests that each one of these three activities contributed some \$100 million or more to Singapore's invisible trade in the immediate post-war years. In 1949 profits of at least this amount were believed to have been made, in or through Singapore, at the expense of the sterling area exchange control. More recently Chinese, struggling desperately to remove their capital from Indonesia, have smuggled out large quantities of Indonesian produce; and the Indonesian government claims to have evidence that nearly all this is organised from Singapore.

Now, \$100 million is a very large sum of money. It was probably (at the time) about one-tenth of Singapore's whole national income. Trades of this kind do not make accurate statistical returns, or pay much income tax, but it would be foolish to ignore them.

The fourth factor that has assisted Singapore has been its development as an international centre for the Far East. With the great growth in the scale of individual businesses and also in the total trade of the Far East, many firms have branches throughout the Far East and tend to establish head offices in

Singapore. Oil is perhaps the most important, partly because of the trans-shipment trade; but the sale of many types of goods and services is organised through Singapore. It is also an important air-centre, both civilian and military, and a British base for both the Army and the Navy. It is generally recognised that these activities are not merely a direct source of wealth but an important magnet for commerce.

Most of the influences which have favoured Singapore have favoured Penang also. Penang like Singapore was enriched by the opening of the Suez Canal, by the development of tin and rubber, and by illicit trade of various kinds, notably with Siam and northern Sumatra. But in spite of being the largest port in the Federation Penang has none of the attributes of even a local capital city.

#### 4. PRIMARY PRODUCTION

##### *Comparison of Tin and Rubber*

Subsistence production and the entrepot trade of the ports may take priority in time in Malaya's economy, but it is as a producer of rubber and tin that it is chiefly known.

There is some similarity in organisation and structure between the rubber plantation industry and the tin mining industry in Malaya, because in introducing European capital both used a system of management devised much earlier in the entrepot trade of Singapore and Penang. But in one respect they are notably different. Tin was first mined by local enterprise, and later on an increasing scale by immigrant Chinese long before European capital had any success in mining it. Rubber was introduced as an exclusively European crop, and only later produced by different and in some ways superior methods, by the local population.

It is common to describe the Malayan economy as supported by rubber and tin as if these were more or less equally important, with no other products of even approximately similar significance. This is a distorted picture of the facts, which results from an excessive concentration on the international aspects of the economy. Rubber is of overwhelming importance by any criterion, whether we concentrate on the numbers employed, the contribution to national income, the contribution to Government revenue, the effect on the balance of payments, or the profits

earned for investors. Tin, however, is of comparatively trivial importance by the first two criteria, and increases in relative importance as we pass through the list. Tin employs not merely fewer people than rubber, but fewer than rice, or vegetable gardening, or even fishing. It contributes to the national income about a quarter of what rubber does; and though it produces more income than the other chief earners — rice, vegetables and fruit, fish; coconut products — it is probably only when tin prices are very high (as in 1950-1) that it exceeds any two of these in importance. Most of these other big income earners are partly or wholly consumed in Malaya, so that tin has a more important place in Malaya's exports than in its total income, though its position in comparison to rubber here is much the same. As a taxable product tin stands even nearer to rubber in importance. Finally because it is highly capitalised, and because about half the capital is owned abroad, its contribution to the profits remitted out of Malaya, taking good years with bad, is a reasonably close rival to that of rubber.

The relative importance of tin has been overestimated partly because until Dr. Benham's study of the National Income, the statistics most readily available were those of overseas trade and public finance, and partly because those most interested in the economy of Malaya were administrators and overseas investors. But the most important reason is that tin has declined in its relative importance to the economy, as a result of general development in which the early tin revenues played no small part.

Although the relative position of these two products had changed, the two of them together have played a dominant role in Malaya's economy for half a century. At present they make up some three-quarters of Malaya's export trade, and nearly a third of the whole national income is derived from these two products. An economy so dependent on a limited range of products is often called a "colonial economy"; such dependence makes an economy sensitive to market forces beyond its control, and one aim of government policy is therefore to find a range of other products for the country to produce in so far as this can be done without making it poorer.

Before we discuss the development of the tin and rubber industries, it is as well to look at other primary products, actual or possible, to see what can be done.

### *Prospects for Other Raw Materials*

Malaya produces no other raw materials for the world market that are anything like as important as rubber and tin. Its soil is neither very fertile nor rich in any other minerals than tin. It has the advantage of one of the best transport systems in the tropics, and the great expansion in education since the war gives it a labour force that should be able to learn new skills easily. But the opportunities are limited.

At present the most important other export crops are oil palms, coconuts and pineapples. Timber is also an important export. In addition tea and cocoa show possibilities of development. The only other minerals of any importance are iron and a little gold.

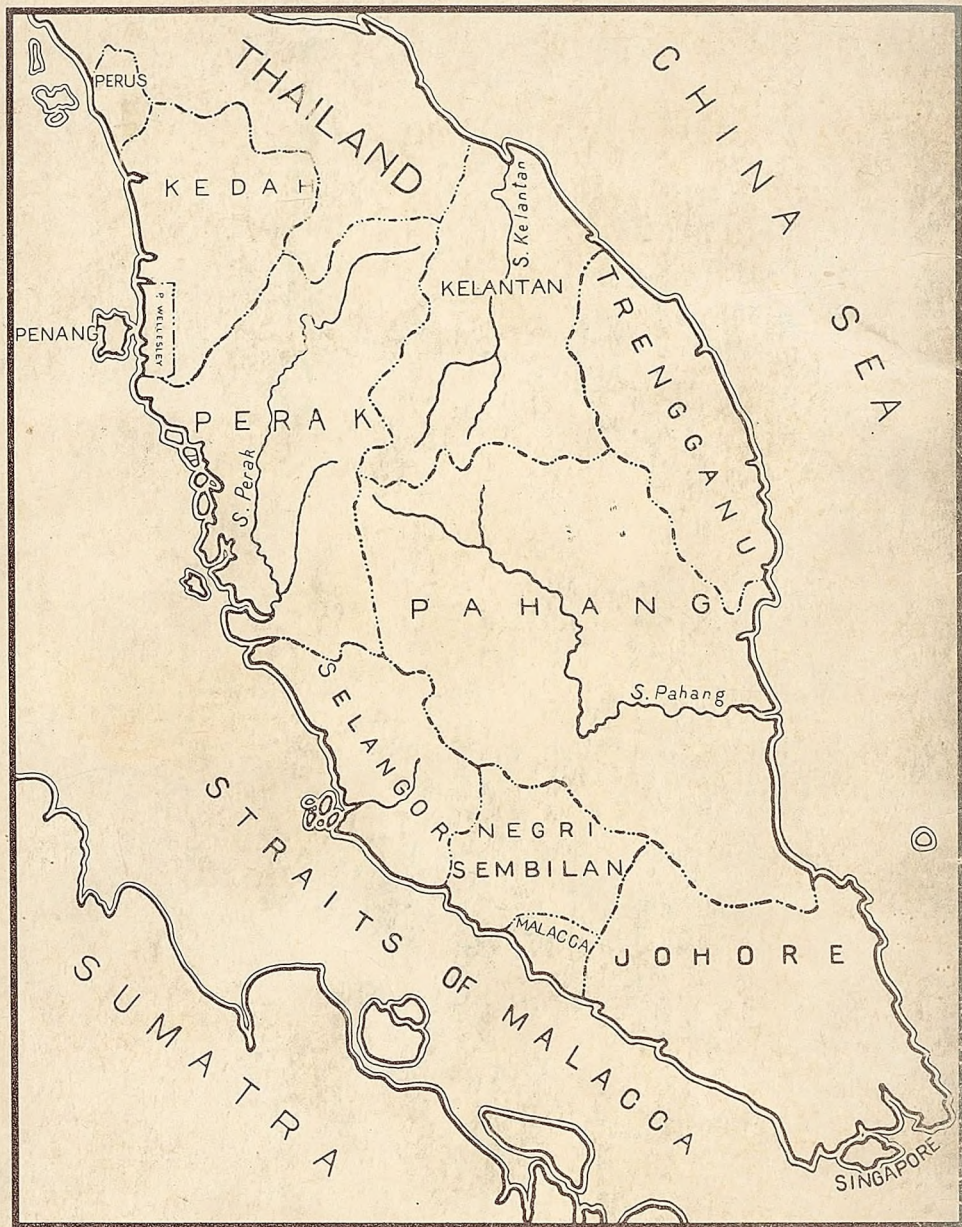
The long-run future of the vegetable oil industry is likely to be adversely affected by the growth of the new African states, which will probably enjoy special trading advantages in the expanding European market. But as an estate crop, the oil palm is gradually displacing rubber in some parts of Malaya.

It is a crop for which rapid and efficient factory-processing is important, and this has made it difficult for small farmers to grow it. A beginning has been made at Kulai in Johore, with help from the Colonial Development Corporation, which has its own factory near the small farmers' development scheme.

Coconuts are grown by peasants for home consumption, as well as for export in the form of copra or coconut oil. The coconut smallholdings have been declining in productivity, due to neglect both by the government and by the smallholders themselves, during the Japanese Occupation and the Emergency. If the industry is to survive, let alone expand, it will need considerable help. Under the Second Development Plan \$15 million is to be spent on coconut replanting.

Pineapples are canned mainly in Singapore and South Johore, but also in Selangor. The pineapple canning industry has stimulated the growth of an industry producing metal cans in Malaya, which in turn has encouraged the canning of other fruits and of other products using Malayan spices and Chinese culinary skill. The pineapples are grown partly by small growers and partly by estates controlled by the canning factories.

Originally Malayan pineapples had important advantages in cost over their competitors in Hawaii and elsewhere; but



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