

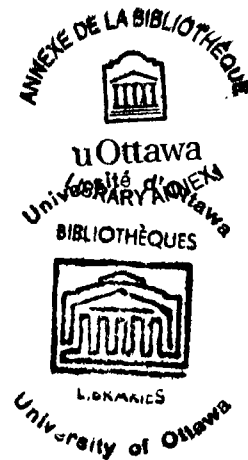
UNIVERSITÉ D'OTTAWA - ÉCOLE DES GRADUÉS

SOME ASPECTS OF THE ECONOMIC DEVELOPMENT
OF THE FEDERATION OF MALAYA

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of the University of Ottawa

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Master of Arts

by
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INTRODUCTION

During the second world war when the country was under three and half years of Japanese occupation, rubber plantations were abandoned to weeds; tin mines were badly damaged; plants and machinery, roads and bridges, ports and installations were destroyed; railway tracks and rolling stock were removed. After the war these disasters brought about widespread unemployment and destitution, and a major task of reconstruction and rehabilitation of mines, plantations and other productive facilities lay ahead.

The subsequent rapid restoration and recovery of the economy was striking achievement and a tribute to the energy and efficiency of the Government and private enterprises. By 1947 and 1948 the immense task of rehabilitation had in large measure been completed.

Just as Malay was about to get back on her own feet, she was struck with another staggering blow--the armed internal insurrection, commonly referred to as the Emergency. Measures which are required to maintain law and order are a heavy drain upon the resources of the Government. An expenditure of some \$138 million¹ a year has been involved.

¹ Unless otherwise designated, the \$ sign means Malayan dollar throughout this thesis. One Malayan dollar is equivalent to U.S. \$0.326.

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Despite the outbreak of the Emergency, economic rehabilitation continued, and by 1950 the country was able to turn from its preoccupation with reconstruction to the problems of further economic expansion. However, economic development will not be in full swing until the Emergency has ended, when labour and resources will be set free for accelerating the schemes.

The economy of the country depends largely on the production of primary raw materials for export and of a thriving entrepot commerce. The principal products include rubber, rice, coconuts and lumber, while mineral resources consist mainly of tin. The price of rubber, which had been around 1s. a lb during the period from 1947 to 1949 rose to 5s. 6d. in 1951. Since the economy's dependence on world markets subjected it to wide fluctuations, ways and means must be found to place it on a sounder basis, so that a progressive and continuous improvement in their economic and social well-being may become possible.

Raw material exports, agricultural output for domestic consumption and the entrepot trade will, of course, continue to be among the mainstays of the economy. But the pattern and problems of economic expansions in the years ahead are likely to differ markedly from those of the past. Every effort will have to be made under the development plans to broaden and diversify the economy by increasing the production

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of agricultural products and by stimulating manufacturing industries. While the main investment in rubber, tin and manufacturing industries will be by private enterprise, it will be necessary for the Government to help to improve and expand the productions of these industries, especially those of the small-scale enterprises, who cannot command the finance available to the large businesses.

The economy, in the foreseeable future, will have to remain primarily dependent on rubber and tin, which, therefore, will have the top priorities in the development programs. It is clear that only by placing special emphasis on the need for replanting rubber with high-yielding varieties could natural rubber be able to compete successfully with the synthetic product, which, with the help of technological development, is now enjoying a good share of the market. For many years prospecting has been severely restricted. The consequences are now apparent in a deterioration of the average grade of ground worked. To expand tin production or to prevent it from declining, suitable tin-bearing lands will have to be acquired. Research into the new uses of tin will have to be continued with renewed effort, so as to offset the diminishing demand for tin.

The Federation cannot carry out a significant program of economic and social development at the present level of

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revenue. It is essential that steps be taken to increase public revenues, encourage private savings, and to stimulate the flow of foreign capital into the country.

CHAPTER I

A GENERAL SURVEY OF THE FEDERATION

I. GEOGRAPHY AND CLIMATE

The Federation, which stands between latitudes 1° and 6° North and longitudes 100° and 106° East, lies to the South of Thailand in the long narrow peninsula, which reaches out southward from the southeastern corner of Asia to near the equator. The country has an area of approximately 51,000 square miles, nearly four-fifths of which is covered by dense tropical jungle.¹ The coast line extends for over 1,000 miles. Along the west coast, wide plains only slightly above sea level extend inland almost to the foot of the mountain range. The west coast is more thickly populated. On the east, the coast for the most part is flat, palm-lined beach. The main mountain range runs approximately parallel to and about 50 miles from the west coast.² There are many rivers, some of which are fast flowing with dangerous rapids.

The climate is equatorial, its characteristic features being uniform and fairly high temperature throughout the year.

¹ The Malay Mail Press, Federation of Malaya Year Book, 1957-58, Kuala Lumpur, (no publication date), p. 30.

² International Bank for Reconstruction and Development, The Economic Development of Malaya, Singapore, Government Publications Bureau, 1955, p. 1.

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The average maximum temperature in the plains is about 90°F. the minimum about 70°F. Over most of the country, rainfall is heaviest during the months of October to December or January, and lightest in February or July. In total it varies substantially from year to year and place to place, but averages around 100 inches annually.

II. THE POLITICAL BACKGROUND

In 1945 the British Government fused the Federated and Unfederated Malay States³ to form a Malayan Union in order to promote a sense of unity and common citizenship among the people of Malaya. The British Settlements of Penang and Malacca were included in the Union, but Singapore was constituted a separate Colony. The British Government met with strong opposition from the Malays, and on 1st February, 1948, the Malayan Union was succeeded by the Federation. On 27th July, 1955, the Federation's first elections to the Federal Legislature Council were held, and the Alliance⁴ was swept into power. On 5th August, 1957, the Federation of Malaya became an independent state, ending the British rule of the

³ The Federated Malay States included Perak, Selangor, Negri Sembilan and Pahang; the Unfederated Malay State included Johore, Kedah, Kelantan, Trengganu and Perlis.

⁴ Composed of three communal parties: The Malays National Organization; the Malayan Chinese Association; the Malayan Indian Congress.

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Straits Settlements and the Malay States for periods varying between 48 and 150 years.

III. THE EMERGENCY

A state of Emergency was declared on 18th June, 1948. The Malayan Communist Party issued a manifesto calling on all former comrades to take arms against the British. On 20th June, 45,000 guerillas were reported to be massing in the jungle, and insurrection began in earnest. Their principal attacks were against the unprotected rubber estates and tin mines. Their activities reached its peak in 1951, when major and minor incidents averaged 600 a month. However, prompt and effective counter-measures by the Government, strongly supported by British forces, confined their operations to a few places and prevented any consolidation of their gains. On September 9, 1955, an amnesty offered by the Chief Minister was declared. The Communist Leader Chin Peng requested a meeting with the Chief Minister; but no settlement was reached at the meeting. The amnesty offer was withdrawn on February 8, 1956.⁵

IV. THE ECONOMY

The Federation is a raw material producing country,

⁵ The Malay Mail Press, Federation of Malaya Year Book, 1957-58, p. 94.

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the economy of which is heavily dependent upon exports of rubber and tin. Although there are other export commodities produced, notably iron ore, bauxite and pineapples, the returns from rubber and tin are the major determinants of prosperity.

The degree of specialization in the Malayan economy on rubber and tin and trading operations should not, however, obscure the importance of other lines of economic activity, which contribute in total far more to the national income than do the rubber and tin industries. In 1953, the gross national income was \$5,395 million, of which \$2,925 million was contributed by the other lines of economic activity.⁶

AGRICULTURE

The Federation, primarily agricultural, is a classical example of a monoculture economy. Rubber predominates, with acreage devoted to this crop totalling about 3.7 million acres, or well over half the cultivated area. Total production in 1955 was 637,463 tons and net exports were 631,876 tons.⁷

Rice, which is the staple food of the vast majority of the people of the country, is the second crop. By the end of

⁶ International Bank for Reconstruction and Development, The Economic Development of Malaya, p. 9.

⁷ The Malay Mail Press, Federation of Malaya Year Book, 1957-58, p. 79.

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the 1954-55 season, about 879,890 acres were planted, yielding 856,070 tons of padi.⁸ In spite of the fact that rice yields are relatively high by Southeast Asian standards the country depends on imports for about half its total rice requirements.

Coconut comes next in importance to rubber and rice as a smallholders' crop, and is grown on about 500,000 acres. About 103,989 piculs of coconut oil were produced in 1955 by 69 oil mills.⁹ In the same year exports yielded \$56.2 million.¹⁰

Oil palm occupies about 100,000 acres. By the end of 1955, a total of 54 estates were producing 56,491 tons of palm oil and 14,889 tons of palm kernels.¹¹

In addition to these major crops, a variety of fruits, vegetables and food crops, such as tapioca, groundnuts, maize, spices, and many miscellaneous agricultural commodities are produced.

FISHERIES

Despite its long coastline, Malaya's fishing industry has not been fully exploited. This is due largely to the

⁸ Ibid., p. 104.

⁹ Ibid.

¹⁰ Central Office of Information, Malaya the Making of a Nation, London, 1957, p. 17.

¹¹ Ibid.

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lack of modern equipment, a factor which in turn is related to the small demand and to competition from other producing areas. Fishing is largely by means of hand-operated drift nets, fish traps etc.

FORESTRY

It is estimated that 37,500 square miles of the country is still under forest, of this area 12,484 square miles are reserved forest, demarcated for soil conservation and to conserve water supplies by building up catchment areas or set aside for regeneration and the development of valuable timbers. Total exports of sawn timbers from Malaya (including Singapore) in 1955 were 142,259 tons and were valued at \$26 million.¹²

MINING

Production of tin is the most important primary industry outside the agricultural sector. Other minerals, such as coal, iron ore, aluminium, gold, tungsten, titanium, bauxite, columbite, and china clay are produced on a relatively small scale.

SECONDARY INDUSTRIES

The Federation has no large-scale manufacturing industries, but has many secondary industries which play a minor but growing role in the economy. The most important industries

¹² Ibid., p. 18.

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are the processing of minor agricultural products, rubber milling and refining, tin smelting, rice milling, oil (coconut and palm) milling and refining, pineapple canning. Some annual production figures of secondary industries are given in Table I.

HIGHWAYS

The road system covers nearly 6,500 miles, of which over 4,000 miles are hard surfaced. The main road system connects the more productive west coast area and links it to Singapore in the south and Thailand in the north.

RAILWAYS

Malayan Railway, owned by the Federation Government, is a vital factor in the communications of the country. There are 913 miles of meter-gage track at the end of 1952. The main line runs from Singapore to Prai (opposite the island of Penang), from Bukit Mertayam, seven miles north of Prai, a branch line runs to the Thai border, where it links up with the State Railways of Thailand.

PORTS AND HARBOURS

The Federation is well served by shipping lines connecting with the United Kingdom and western Europe, South and East Africa, North and South Americas, and the neighbouring countries. The most important ports are Penang, Port Swettenham, Port Dickson on the west coast and Kota Bahru and Dungun on the east coast.

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TABLE I

Production Figures of Secondary Industries in the
Federation of Malaya from 1953 to 1956

Industry	Unit	1953	1954	1955	1956
Cement	Tons	31,317	85,061	107,010	102,261
Soap	Tons	10,735	13,205	14,358	14,900
Rubber	Million				
footwear	pairs	9.1	10.47	11.43	9.83
Bricks	Million	28.5	31.9	44.7	67.4
Biscuits	Tons	2,845	3,187	5,220	7,200
Soft Drinks	Million				
gallons	gallons	9.5	7.2	8.3	9.3

Source: Central Office of Information, Malaya the Making of a Nation, p. 20.

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FOREIGN TRADE

The Federation is primarily an importer of food and manufactured goods and an exporter of raw materials, the most important of which are rubber and tin. Imports for consumption consist mainly of foodstuffs, textiles, iron and steel, machinery, petroleum products, chemicals and pharmaceuticals. Rubber, copra, tin ore and spices are imported from Indonesia and other nearby countries for processing or refining and re-export.

The United Kingdom is Malay's best customer, taking chiefly rubber and tin. Exporting to the United States consists almost entirely of rubber and tin. Shipments to the United States amounted to 16 percent of total exports in 1953.¹³ Malaya is one of the largest dollar earners for the sterling area's "dollar pool". The merchandise trade of Malaya for the years 1949 to 1953 is shown in Table II.

CURRENCY

The basic unit of currency is the Malayan dollar¹⁴, which is pegged to the pound sterling at the rate of \$1 to 2s. 4d. The United States dollar equivalent of the Malayan

¹³ United States Department of Commerce, Business Information Service, "Malaya--Summary of Basic Economic Information," in World Trade Series, No. 597, June 1954, p. 5.

¹⁴ The Malayan dollar is legal tender in Singapore, North Borneo, Sarawak and the State of Brunei; it also circulates unofficially in parts of Indonesia.

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TABLE II

Merchandise Trade of Malaya, 1949-1953
(Million \$)

Trade	1949	1950	1951	1952	1953
Export of Domestic Products.....	943	2,129	3,051	1,973	1,486
Re-exports.....	779	1,887	3,025	1,946	1,534
Total Exports.....	<u>1,722</u>	<u>4,016</u>	<u>6,076</u>	<u>3,919</u>	<u>3,020</u>
Imports for Domes- tic Consumption...	1,191	1,449	2,312	2,175	1,864
Imports for Re-exports.....	660	1,466	2,443	1,698	1,374
Total Imports.....	<u>1,851</u>	<u>2,915</u>	<u>4,755</u>	<u>3,873</u>	<u>3,238</u>
Merchandise Trade Balance.....	<u>-129</u>	<u>+1,101</u>	<u>+1,321</u>	<u>+ 46</u>	<u>-218</u>

Source: Register of Malayan Statistics, Singapore.

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dollar is computed at the official London-New York cross rate at \$1 to U.S. \$0.326. The Board of Currency Commission is the sole authority for the issue of currency notes and coins. It must supply Malayan dollars in exchange for pound sterling, and similarly sterling exchange for dollars. If in a boom year Malaya's export earnings greatly increase, whilst her imports do not increase quite so much, a substantial part of this excess sterling will be offered to the Currency Commission for exchange into dollars. In accordance with the normal British colonial practice, the sterling received by the currency board in exchange for the issue of currency is held in London. Malayan currency is thus on a sterling exchange standard with 100 percent reserve in the form of sterling assets held in London. The effect is exactly as if the United Kingdom currency circulates in Malaya. This system, together with the exchange rate of 2s. 4d. per dollar, is a continuation, with no modification of principle, of arrangements first instituted in the Straits Settlements in 1906.¹⁵

¹⁴ International Bank for Reconstruction and Development, The Economic Development of Malaya, p. 472.

CHAPTER II

DEVELOPMENT OF THE AGRICULTURAL INDUSTRY

I. DEVELOPMENT OF RUBBER PRODUCTION

It is most likely that in the foreseeable future agricultural resources of the Federation will offer one of the largest potentials for the economic welfare of this young independent state. It is estimated that at least another ten million acres of land in Malaya can be put under cultivation.¹ If some of this new land can be utilized, output and employment will undoubtedly be increased, and future generations will have higher income levels. With higher incomes greater savings will be created, which will reduce the country's dependence upon foreign capital.

There has been much talk about broadening the economy by diversification of agriculture, and some have prescribed it as the cure for the instability of the economy. Certainly there are physical and economic potentialities for a continuing and substantial increase in the production of a variety of other crops, however, none of these crops, or any combination of them, promises possibilities for expansion on a scale

¹ Lim Tay Bod, Problems of the Malayan Economy, Singapore, Donald Moore, 1957, p. 32.

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and at a rate which could compensate for a major decline in rubber production. 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. The highest development priority, therefore, should be given to maintaining the position of the rubber industry in its outstanding place in the Malayan economy.

1. RUBBER AS AN EXPERIMENTAL CROP

Rubber was developed as an experimental crop in the late 1880's and 1890's after experiments had been conducted in the Botanic Gardens and elsewhere on strains imported, by way of Kew Gardens in the United Kingdom, from Brazil. In those days coffee was Malay's main crop. It was tried out by sugar and coffee planters, and shown to be capable of yielding a profitable crop, but barely 5,000 acres had been planted in 1900. By 1905 the acreage was about 50,000 and 200 tons of rubber was exported.²

At the turn of the century, the Malayan Governments, in order to encourage capitalists to invest in rubber, adopted a very liberal policy in regard to granting land for cultivation. It was provided that there would be no limit to the

² Central Office of Information, Malaya the Making of a Nation, p. 15.

amount of land that could be held, and that the land would be sold at a very low price to encourage cultivation. In case the granted land was more than 100 acres in extent, it was decreed that a bona fide beginning must be made at cultivating the land within twelve months and that one fourth of the land must be in cultivation within five years. There was to be no land taxation, but all rights to minerals underneath the land were vested in the State.³

At first, it was an estate⁴ crop only, merchants from China, and Singapore and adventurous individuals from the United Kingdom and elsewhere, many of whom had never seen a mature rubber tree, entered the new industry, which was promising such high profits. A good many of the estates were planted at the owner's expense with such little credit as he could raise, and were then floated as companies in London or elsewhere with the aid of the secretarial firms and agency houses that acted as local managers.

Perhaps equally significant was the growth of the smallholding side of the industry. The greatest numbers of small holdings were planted in the first two decades of the century. Chinese merchants, probably using some pressure

³ Dun J. Li, British Malaya, An Economic Analysis, New York, The American Press, 1955, p. 60.

⁴ An estate was considered to be a holding of 100 acres or more in size, as compared with a smallholding, which was less than 100 acres in size.

through goods supplied on credit encouraged Malays and some other smallholders to plant rubber, in the face of apathy, and in some cases active discouragement, from administrators.⁵ More than half of the smallholders' rubber now standing in Malaya was planted during these two decades.

The acreage devoted to rubber continued to increase through the 1910's and 1920's. At the end of 1926 the total Malayan rubber-planting acreage was about 2,250,000 acres, more than half of the total world acreage.⁶ By the 1930's rubber had become one of the world's leading raw materials.

Malayan rubber depended entirely upon foreign countries for its market. Its sensational rise as one of the most important raw materials in the world was closely linked with the rapid growth of the automobile industry. Since the United States was the most advanced center of that industry, it naturally follows that she became the largest consumer of rubber in the world.

2. THE STEVENSON SCHEME

In the early 1920's, the rubber industry had developed so fast that production exceeded demand, which resulted in a falling of prices. The reduction was strong enough for the

⁵ The Government did not encourage the Malays to change from padi planting to rubber.

⁶ Dun J. Li, British Malaya, An Economic Analysis, p. 60.

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producers to urge for government action, which led to the creation of the Stevenson Scheme. The scheme restricted exports in accordance with a rigid formula based on the previous quarter's average price. The scheme brought a short period of prosperity to Malaya, but its long-run consequences had been utterly disastrous. The Dutch rubber interests who did not agree to a restriction benefitted tremendously by the scheme. Perhaps the most important consequence was the effect on the attitude of Malays' chief customers, the car and tire manufacturers of the United States. Feeling that they were being compelled to pay an artificially raised price they turned to methods of reclaiming old rubber as a substitute, and later to the production of synthetic rubber instead of the natural rubber.

The scheme was a complete failure and had to be abandoned in 1928.

During the Great Depression the demand for rubber declined sharply and the price fell to levels lower than ever before. The average price was far below the cost of production even of the most efficient estates. The result was widespread distress in Malaya among planters, estates labourers and smallholders. Eventually a new restriction scheme was worked out. From June 1934 until the outbreak of war all the British colonies and protectorates concerned, together with Netherlands India, Indo-China and Siam were under agree-

ment to restrict output, the basic quotas for 1934 being 504,000 tons for Malaya and 352,000 tons for Netherlands India. Consumers, American and British, as well as planters, were interested in the survival of estates and in a stable price for their produce, and all took part in the administration of the scheme.⁷

3. POST-WAR RUBBER PRODUCTION

Rubber made a very rapid recovery after the war, because of the fact that estates and smallholdings had suffered less damage than other productive assets in Malaya. The following⁸ is a list of the post-war production:

Year	Production (in tons)
1948	696,978
1949	670,257
1950	692,585
1951	603,880
1952	582,469
1953	572,792
1954	583,036
1955	637,463

4. SMALLHOLDERS' REPLANTING SCHEME

The greatest problem confronting the rubber industry in Malaya today is that of competing successfully with the

⁷ Richard Winstedt, Malaya and Its History, London, Hutchinson, 1948, p. 116.

⁸ Federation of Malaya Year Book 1957-58, p. 83.

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synthetic product, which since the second world war has been controlled by the United States. If the bulk of American synthetic capacity had been held merely as a strategic reserve without any serious effort to use it except in times of scarcity and high prices then it would not be a menace to the industry, but there are indications that the United States is trying to reduce the cost of the synthetic product and use it as a substitute for natural rubber. It is, therefore, imperative to improve the yields so that in spite of the enormously increased costs of today, production can be maintained at a competitive price.

The Federation has some 385,000 rubber smallholdings, which are officially defined as holdings under 100 acres. However only a small proportion of these are over 25 acres. The great majority are less than 10 acres and a large proportion are less than three acres. Smallholdings occupy a total area of about 1.5 million acres, and are estimated to account for about 40 percent of the 1953 production. Only about 10 percent of the smallholding area is of fairly recent planting. About two-thirds of the rest is in trees of over 25 years of age and more than half over 33 years old.⁹ The decline in yield on smallholdings (from 508 lbs per acre in 1950 to 306

⁹ International Bank for Reconstruction and Development, Economic Development of Malaya, p, 184.

DEVELOPMENT OF THE AGRICULTURAL INDUSTRY

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in 1953)¹⁰ cannot but be viewed with concern. According to an independent Mission of Enquiry into the Rubber Industry of Malaya, the yield, mainly because of advanced age, is expected to decline steadily probably from 20-25 percent in the next decade. This tendency may have been accentuated by overtapping and excessive bark consumption during the boom period. Only a replanting program could check this deterioration.

Some of the planters are aware of the fact that replanting would result in a much higher increase in yield of rubber per acre, but they cannot afford to replace the old trees with high yielding types. Apart from the technical difficulties of replanting, they cannot afford to lose part of their present income by destroying some of their existing trees, as the new ones will take six or seven years before beginning to yield.

Financial Aid

Since fear of loss of income during the maturing period of the new trees is the greatest obstacle to the replanting program, this obstacle must be removed without delay. To encourage and speed the process of replanting, the Federation Government in 1951 introduced a plan for the creation, with

¹⁰ The Colombo Plan for Co-operative Economic Development in South and South-East Asia, Third Annual Report of the Consultative Committee, Ottawa, 1954, p. 76.

the assent of the industry, of a fund for that purpose. This is being built up by means of a special replanting cess which is in two forms: (1) a sliding scale cess; (2) a fixed rate cess of 4 1/2 cents a lb. The estates share of the funds produced by (1) are returnable to them against actual expenditure on replanting, while (2) is returnable unconditionally to them. In the case of smallholders, their share of the revenue from both cases is put into a central fund from which grants are made for the replanting of their holdings.¹¹

This fund is administered by a Rubber Industry (Replanting) Board. The smallholders' scheme came into operation at the beginning of 1953, and the target set for this program is 500,000 acres by the end of 1959, by which time the areas now being dealt with will be coming into fruition. This would bring the area planted in new rubber trees to about one-third of the present smallholder acreage.¹²

To compensate for their loss of income from the part of the holding occupied by immature trees the Government gave the smallholders replanting allowance of \$400 (or about half of the total cost) for each acre. Later it was raised to \$500. Payment is made in installments as the steps necessary to

¹¹ Federation of Malaya Year Book 1957-58, p. 80-81.

¹² Ibid.

bring the new trees to maturity are satisfactorily completed. Smallholders are eligible for the allowance up to one-third of their area or up to five acres where they hold less than 15.¹³ However, since April 1956, some changes have been made: smallholders' owing less than 30 acres who have replanted under the smallholders' scheme are also given assistance at the rate of about \$590 an acre up to a maximum of five acres.¹⁴

According to The Colombo Plan--Fourth Annual Report, 1955, the new replanting scheme is estimated to cost \$280 million over the next eleven years (from 1956 to 1966).

In its first two years the program has been behind in its objectives. First installments were paid or approved on 27,000 acres as compared with a target of 40,000 acres in 1953, and on 33,000 acres compared to a target of 50,000 acres in 1954.¹⁵ At the end of 1955 some 80,000 acres had been replanted as compared with the original target of 150,000 for the period.¹⁶

It is disappointing to see that the replanting scheme has not been satisfactorily carried out, and what has been

¹³ International Bank for Reconstruction and Development, Economic Development of Malaya, p. 184.

¹⁴ United Nations, Economic Survey of Asia and the Far East 1956, New York, 1957, p. 137.

¹⁵ The annual targets increase from 40,000 in 1953 to 90,000 in 1959.

¹⁶ United Nations, Economic Survey of Asia and the Far East 1956, p. 137.

achieved is far from the goal. Undoubtedly there are many obstacles in the way, the greatest of which is the insufficient replanting allowance. Evidently, the allowance is not attractive enough to induce replanting on a scale commensurate with the target.

The Rubber Enquiry estimated that at a rubber price of 70 cents¹⁷ the smallholder's net loss of income per replanted acre over the seven-year maturing period is about \$650, after deducting the saving in labour resulting from the fact that the replanted acre is no longer tapped; where the tapping would have been done in any case by unpaid family labour, the loss in cash income would be considerably larger. In addition, the direct cash outlays for replanting one acre are estimated at about \$160, assuming no need for fencing, no other difficulties requiring outside labour. Actually, both outside hired labour and fencing may often be necessary.

According to the Chief Officer of the Replanting Program, a large part of the applicants have come from those most intensely keen to replant and who have few disabilities to hamper them. He has noted that the former allowance of \$400 per acre was far from commensurate with the sacrifices involved, especially on the part of the small operator in the

¹⁷ According to Malayan Statistics, Digest of Economic and Social Statistics, No. 4, 1958, price of rubber per lb. standard quality ribbed smoked sheet, in 1955 was \$1.14.73, in 1956 was \$0.97.11, in 1957 was \$0.88.35.

actual replanting and bringing to maturity of the new trees and in the loss in the income while the trees mature.

It is no exaggeration to say that the replanting allowance is not attractive enough to induce the smallholders to take a strong interest in the program. To them the long-run benefits of higher yielding trees are less important than their present production. They have to live. If the Government does not want the program to be a failure, it must see to it that the smallholders get sufficient compensation. The increase of subsidies would correspondingly increase the burden of the Government. Nevertheless it should assume this additional responsibility. It must be remembered that rubber is not only the country's most important estate crop, it is also the smallholders' principal commercial crop. In 1953, agriculture, forestry and mining contributed about 46 percent of the national income. Rubber alone contributed about 13 percent; it also accounted for 60 percent of the domestic exports in 1953.¹⁸ And as no other crops, or any combination of them promise possibilities for expansion on a scale and at a rate which could compensate for a major decline in rubber production, development of the rubber industry must have the overriding priority. There is still a long way to go, and

¹⁸ Lim Tay Boh, Problems of the Malayan Economy, Singapore, Donald Moore, 1957, p. 1.

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much time has been wasted. It is disturbing to see that each year the achievement is far behind the target. To make up for loss of time, the Government must double its efforts and revise the program on a more realistic basis.

Technical Aid

The Government should not limit itself to extending financial help to the rubber growers, it must also give them technical help in the form of controlling infestation of replanted areas by lalang, a noxious grass which spreads rapidly and deprives the young rubber plant of nutrients. Lalang is difficult to control; it poses technical and financial problems, which the smallholders, without outside help, are unable to cope with. Although there are known means of effective control, they are so expensive that they are beyond the reach of the smallholders. The authorities concerned, such as the Department of Agriculture, the Replanting Board, the Rubber Research Institute must make efforts to find a remedy so as to enable the Government to carry out the program without serious interference.

Apart from financial and technical aid the Government should send the junior staff of the Replanting Board to the kampongs (villages) to explain to smallholders the advantages of replanting and the help they can expect from the program, because replanting from the smallholder's point of view

requires difficult decisions to be made. The Replanting Board must also find ways and means of making the task easy and the cost less.

However, instead of further increasing the allowance it may be preferable to use the added subsidy for financing additional services to assist smallholders' replanting, such as providing fences in order to prevent the livestock from damaging the young trees, and specialized services for eradication and control of lalang, for tree poisoning on a more extensive scale, for transporting felled trees to markets where they may be sold for firewood, etc.

Replanting With Alternative Crop

In some cases the land is more suitable for other kinds of crops than rubber, and should this be the case then every encouragement must be given to the smallholders to replant with alternative crops, such as coconuts, padi, coffee, fruit etc. It is not easy to make them replant with alternative crops, because they are usually obsessed with the idea that rubber brings wealth, and that even in the most difficult times when the prices of rubber are extremely low they are better off than the producers of other crops. Under the circumstances patience must be exercised on the part of the Replanting Board in carrying out the program, and encouragement in the form of financial aid must be given to them, so that they would not have to suffer heavy losses in the process of

replanting. This is also an important program because land will be wasted if it is used to grow a crop for which it is not suitable. The peasants do not consider this, and the Board must try to make them understand.

There is another way of helping them and that is to clear new land for them, plant it with high-yielding rubber and possibly with other crops, and eventually settle them there. Another method is to group a number of smallholders together and replant part of the area. The conditions of one area differs with those of another, and there is no one method which is applicable to all. The Board, therefore, must use its ingenuity to devise various methods for various conditions.

The smallholders are not only reasonably low-cost producers, they are also a stabilizing factor in the industry, because their output can be more responsive to price, and this helps to adjust supply to demand with smaller fluctuations in price and income than would otherwise be needed. It is, therefore, desirable that their interests be given adequate protection and encouragement.

5. ESTATE REPLANTING SCHEME

The need for replanting is urgently recognized by the industry on the estates' side, and a progressive program of replanting is the normal practice of all well-run estates.

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The total estate acreage is about two million acres, and they are classified as: (1) "superior" estates, i.e. those with over 30 percent of their area in high-yielding trees, representing roughly one-half of the total estate area; (2) the intermediate group of estates, those with between 10 percent and 30 percent of their area in high-yielding trees, they account for about one-quarter of the estate area; (3) the "poorer" estates, i.e. those with only about 10 percent of the total acreage.

In addition to the Smallholders' Replanting Scheme, a Government Replanting Scheme was introduced in 1955. It proposed to replant or new-plant some 420,000 acres--about 21 percent of the total acreage, over a period of seven years. Government grants of \$400 per acre are given to estate owners in order to aid them in their replanting programs. Grants payable are subject to a maximum of 21 percent of each owner's planted acreage.¹⁹

Production on the plantations is organized on a commercial basis using modern techniques and geared to a world market. In the 1910's the profits were so enormous that the British shareholders did not consider an annual dividend of 100 percent of capital invested satisfactory. As a rule the plantations are financially sound, and they can pursue their

¹⁹ Federation of Malaya Year Book 1957-58, p. 83.

replanting programs without much difficulties. Since they are in a better financial position they should have a continuous replanting program, fixing a number of acres, say 60,000 acres to be replanted each year, and increasing it in the boom periods.

Evidently, the third group with only 10 percent or less of their area in high-yielding trees has done very little replanting even when prices of rubber were very high. This group of estates are concerned only with their immediate returns giving no consideration to the long-run benefit. This is bad for themselves as well as for the national economy. With only a very small percentage of their area in high-yielding trees they will continue to deteriorate unless they can obtain the necessary funds for the rehabilitation of their plantations. If this proves to be impossible then they will have to be merged with some well established plantations with a strong financial position.

6. NEW PLANTING

As noted by the Rubber Enquiry possibilities for new planting on unoccupied land have received comparatively little attention since the late 1930's. Instead, the acquisition of additional land for rubber is being severely restricted by State and Settlement Governments as a matter of policy, mainly because of concern over the fluctuating and uncertain

fortunes of rubber and a resulting desire to see a more diversified use of land, especially for land which might be suitable for food crops.

New planting has the advantages of better maintenance and more rapid increase in rubber output. It also has other advantages, such as easier lalang control, and in some cases, the possibilities of establishing a stand of high-yielding rubber, while continuing to obtain an income from old trees on present holdings.

A United States agency, the President's Materials Policy Commission (Paley Commission) has forecast a rise in world rubber consumption outside the Communist area to about twice the present level by about the mid 1970's.²⁰ Since there are another 10 million acres of land in Malaya that can be put to agricultural use, it would be a lack of foresight on the part of the Government not to open up a portion of this new land for the development of the rubber industry. Prospective growth in world rubber consumption leave considerable room for new planting. It would be too late to plant new trees when rubber consumption has already increased. We should plan ahead.

From the standpoint of agricultural development as a whole the economic advantages of mature high-yielding rubber

²⁰ International Bank for Reconstruction and Development, Economic Development of Malaya, p. 34.

compare favourably with those of any other smallholder crop for which a substantial expansion is practical.

Unless there is in prospect an increase in the natural rubber production through substantial planting of high-yielding trees within the next years, rising world demand may well stimulate a considerable further development of synthetic rubber capacity to the long-run detriment of the natural rubber industry. The Land Development Authority, which was established in 1956, must, without further delay, undertake development schemes so as to quicken the pace of agricultural development.

7. RUBBER MARKET

To protect the reputation of Malayan rubber shipments, a Malayan Rubber Export Registration Board has been established. The object of which is to prevent non-bona fide shipment, and to permit of action being taken against defaulters. The rubber market in Singapore, which is now recognized as the world's leading market, is efficiently organized for internal dealings in spot and forward contracts. The market operators include dealers, manufacturers' agents, speculators and brokers.

Dealers operate on behalf of agents all over the world, chiefly in the London and New York markets, and in doing so they perform an important distribution function in space and time. Dealers also act as financiers, as they frequently buy

from small village dealers and small producers when consumers are not in the market as buyers. Representatives of the larger American and United Kingdom manufacturers have offices and warehouses in Singapore where they buy a portion of their rubber requirements.

The interests of dealers, manufacturers' agents and brokers are watched over by the Singapore Chamber of Commerce Rubber Association who manage the affairs of the clearing house and who appoint arbitrators to act in all disputes.

The entire rubber market is relatively efficiently organized. The wide and systematic dissemination of market information contributed to greater competition among buyers of rubber than among buyers of other crops. Sample inquiries made by the International Bank for Reconstruction and Development among rubber smallholders indicate that almost 60 percent regularly contact more than one buyer before selling their rubber. They also indicate that for given grades of smoked rubber sheet the price received by the smallholder is usually over 90 percent of the Singapore price (less export duty and cess). Of course, this is possible only when undergrading by dealers is avoided. The practice of undergrading is one of the biggest disadvantages of the present marketing system. The rubber trade is now giving attention to the establishment of objective grading standards, which involves difficulties and complications.

The production of concentrated latex has been highly increased, and in 1955, 17 percent of the total rubber production was being produced in the form of latex. This kind of rubber helps the smallholders to avoid the grading problems.

II. EXPANSION OF RICE PRODUCTION

The economic development of Malaya has been characterized by a lack of balance. The most striking sample of this unbalanced development is the relatively small output of rice, compared with that of rubber. Although it is the staple food of the vast majority of the people, it occupies only some 879,890 acres, compared with 3.5 million acres planted with rubber, consequently she has to depend heavily on imports--as much as half or more than half of the total rice consumption.

Although the per-capita national income of Malaya has been for many years at least three times as great as that of many countries in Asia, the condition of the rice growers has not in general been much better than that of the millions of rice growing peasants of those countries: a life of great poverty, of alternating periods of unhealthy and arduous work and then of idleness. Thirty-five years ago it was reckoned that with rice at 2 1/4d a gantang (about 6 2/3 lb.) the owner of 2 1/2 acres got next to nothing the first year, and after

that about £5 a year. The cost of planting and preparing the fields is made up mainly of the owner's labour, which has risen in value with the rise in the cost of living.²¹

Until the war the Malayan smallholders did not grow rice for money. Part of the crop might be sold under contract to meet a debt, and later bought back at a higher price for consumption, with a profit to the distributor, and a further load of debt. The difficulty has been that growing rice has never been as profitable an occupation as planting rubber or mining tin, and the rice grower has remained poorer than many workers in these industries. As a rice grower has to work for only five or six months in the year, he usually hires himself out as plantation-worker. This is the source of income which has enabled him to buy some of the things which the subsistence crop could not supply.

1. CAUSES OF RURAL POVERTY AND ITS EFFECT ON PRODUCTION

It sounds paradoxical to say that the standard of living in Malaya is the highest among the Asian countries and yet the condition of the rice-planter is no better than that of the millions of other Asian farmers. Now let us examine some of the main causes of poverty of the approximately one

²¹ Richard Winstedt, Malaya and Its History, pp. 113-114.

and one-half million farmers of Malaya. They do not have modern efficient tools that would make their labour more effective by getting them better results from less effort. They are not provided with enough land, so they can only grow enough for their own needs with little surplus, which they use to exchange for cash. The lands they cultivate are often divided into small pieces that are scattered about in different parts of the village. They have to waste lot of time going from one place to another. About half of the farm land in Malaya is worked by farmers who do not own the land.²² In many cases the rent is about half the value of the crops. Nowadays some landlords even charge "tea money"²³ for renting their lands.

Being tenants they do not feel secure on their farms, because they could be turned off the land at short notice by the landlords. Therefore, they do not bother to improve the drainage system and other things that would be beneficial to cultivation. Lack of improvements means smaller production.

²² Fifty-one percent of the padi acreage in Kedah are rented to tenant farmers, forty-nine percent are cultivated by owner-cultivators; in Perlis forty-one percent are rented to tenant farmers, fifty-nine percent farmed by owner-cultivators. These are the great "rice bowl" of Malaya.

²³ Remuneration given to the landlord in consideration of his willingness to rent out the land.

Allowing many farmers to own small pieces of land scattered about the kampongs, the Government is not pursuing a sound policy. Subdivision and fragmentation lead to uneconomic holdings, reduced productivity of land, and concealed unemployment. In some cases the plot is so small that it has to be abandoned, and it becomes a breeding ground for pests.

The merchants who buy the farmers' produce are financially strong, and they create a buyers' monopoly. They arrange their business in such a way that the farmers either sell the produce to them or they do not sell it at all. At the same time, the buying merchants are also money lenders, and they encourage the farmers to borrow money from them. Once they become their creditors the farmers are in no position to bargain with them. The most common form of credit arrangement among rice growers is the so-called padi kuncha²⁴ system in which the cultivators obtain credit from the merchants, in the course of the cultivation cycle, for which they pledge repayment in the form of an agreed quantity of rice at harvest time. The value of the pledged quantity is usually far higher than the credit obtained, the differences representing payment of interest at rates often running up to 100 percent.²⁵

²⁴ The kuncha is a customary unit of volume measure equivalent in weight for padi to around 850 lbs. The terms of credit advances at various stages of the cultivation cycle are commonly expressed as the amount of credit for each kuncha of padi to be turned over to the creditor at harvest time.

²⁵ Such unfavourable arrangements are traditional and probably date back to periods in which cultivation was primarily for subsistence and cultivators borrowed for special needs.

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2. SOME MEASURES FOR THE IMPROVEMENT OF PRODUCTION

Being too dependent upon the outside world for sources of food supply is a big disadvantage. It is urgently needed that the production be increased. However, for technical and Economic reasons complete self-sufficiency in rice is not practicable, because of the fact that Malaya's high ratio of population to rice lands as compared with other Southeast Asian countries and its rapid population growth make self-sufficiency an impracticable goal in the foreseeable future. Greater advantages could be reaped if more attention were to be given to other crops. Technically, self-sufficiency would involve an enormous rate of land development to the detriment of other essential public investment requirements. Nevertheless expansion of output is absolutely necessary so as to enable the country to be less dependent upon the outside world for food supply.

Remedy for the Peasants' Poverty

It is utterly futile to teach the farmers new techniques, give them better seeds and even offer them more land if much of the new income that they would make would be taken away by the merchants, the landlords or the money lenders. The fact that half of the value of the crop is taken away by the landlords is the greatest impediment to improvement. To put a stop to the exploitations of farmers the activities of

the landlords, the merchants, the money lenders must be regulated.

The marketing functions should be taken over by the farmers, which can be done by developing co-operatives like those of the countries of Europe. Any purchase, sale or credit will be made through these co-operatives, and any profits will go back to them.

Much of the land is cultivated under tenancy agreements. Some tenancy also exists, though to a lesser degree, in the rubber areas of Johore and in some districts of Kelantan. As long as the tenant has security of tenure and a fair share of his labour and investment, there is no objection to such agreements. But the charging of "tea money", and in some cases the demanding of the traditional rent in kind to be replaced by advanced payment of rent in cash should be abolished. Security of tenure, given to the rice-planter who observes the terms of his agreements, should be enacted in the legislation. Should the landlord wish to terminate the tenancy he must give one year's notice in advance, so as to give sufficient time for the tenant farmer to look for another piece of land.

It would serve a very useful purpose if rentals of farm lands could be fixed. The lands should be surveyed and classified, and rentals should be fixed in accordance with the fertility of the land. As for the locations, the classification should be made on the basis of suitability, on which

fixing of rent must be based. No doubt this involves many difficulties and much work is yet to be done, but it is an important step towards the expansion of output. No farmer would be willing to work hard without security and a fair reward.

There is disguised unemployment in the kampongs, where a small plot of padi farm is being worked by a family of six or seven members. As a matter of fact, the work can be done by a lesser number of people. So it is safe to presume that a portion of the rural population not only do not add anything to the agricultural output but is a burden to the region. This economically unproductive portion of the labour force could be reduced by them into new areas where they could grow new crops like cocoa or oil palms or pineapples. Or if they are required to remain in their old jobs, that is rice growing, then the existing padi farms should be expanded to many times the present size. In increasing output, opening of new lands is just as important as improvement on the existing areas, and none should be neglected. But there is a difficulty facing the opening and settlement of new lands, that is how to induce the farmers to move from their lands, where they have firmly established themselves and where their forefathers had lived, to newly opened up areas. The authorities concerned should think of ways by which their reluctance could be overcome. There should be a considerable long-run expansion of

the cultivated area, so as to provide employment for the growing population on a larger scale than is possible through improving already cultivated lands.

Price stabilization is one of the factors that could induce greater output. Such a measure, however, would sometimes require the Government to purchase and sell at a loss, and for the time being the Government's financial position does not warrant the assumption of such losses. It would be better to divert this fund to some other uses, such as drainage, irrigation etc.

Technical Changes

Output can be increased from existing productive factors by applying technical changes. Selection and distribution of high-yielding seeds, experimentation and development of improved techniques for sowing, cultivation, diseases and pest control are some of the measures which can contribute to the expansion of the padi production. Of course, these measures must be undertaken by the Government, whose help will give life and blood to the program.

It is desirable that the peasants be encouraged to use fertilizers. In Kelantan and for similar soils in Trengganu programs of subsidized distribution of fertilizer have been conducted. Subsidies amounted to \$8 per 100 lbs. in 1952-53, \$6 in 1953-54 and \$4 in 1954-55.²⁶ Peasants now have become

²⁶ International Bank for Reconstruction and Development, *Economic Development of Malaya*, p. 187.

"fertilizer-minded", which is a good sign. In view of the benefits derived from such programs, it is advisable to continue with them. Other states who have not done so should follow suit. The subsidy is small, and it would not be a burden to the states.

In many countries of Southeast Asia padi farms produce more than one crop per year, and in some parts of China three crops are being produced, but in Malaya very little of the present padi acreage produces more than one crop. The peasants should be encouraged to produce two crops by supplying them with early maturing varieties of padi and by inducements in the form of a tax reduction. The main and seasonal crops must be carefully scheduled. The fields are now only cultivated with padi; off-season crops, such as sweet potatoes, maize, vegetables, ginger, soya, chillies etc. should also be encouraged, so as to introduce rotational crops into padi production.

Drainage and Irrigation

Among the most important activities being carried on for the development of agriculture are the irrigation and drainage programs of the Drainage and Irrigation Department, which is also responsible for river conservation. Irrigation programs account for more than half of all public expenditure for water control purposes. Drainage schemes which are for the improvement and protection of land under rubber, coconut

and other crops, are concentrated in the western coastal areas. Heavy silting of rivers has necessitated flood control, silt retention and other river conservation works.

The Drainage and Irrigation Department in the past six years, 1949-1954, has improved through irrigation an estimated 300,000 acres, mainly in rice, including about 40,000 acres of new land, and large additional areas in rice, rubber, coconut and other crops have been improved, or protected through drainage works. An indication of the contribution of government irrigation programs to the expansion of rice production is the fact that of the total planted padi acreage of 864,000 acres in 1950-1951, about 225,000 acres, or over 25 percent were within areas where irrigation works have been established or improved by the Department, largely during the last 20 years. And the 85,000 planted acres within these irrigated areas in 1950-1951 exceeded by about 60 percent the acreage planted to padi in these same areas prior to the construction of the irrigation works.²⁷

Since 1950, there has been significant increase in programs. This reflects the six-year Draft Development Program (1950-1955) under which the Department undertook to construct 59 irrigation schemes for the improvement of 300,000 acres of new land. In 1953, under an additional program, the Depart-

²⁷ Annual Report of the Drainage and Irrigation Department for the year 1950-1951 Appendix E, pp. 6-9.

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ment submitted plans for 34 irrigation schemes, 10 drainage schemes and six projects for river conservation. Capital expenditures under this program during 1955-1959 are estimated at just over \$50 millions, including about \$2 millions for irrigation, \$7 millions for drainage, \$8 millions for river conservation, \$3 millions for additional plant and equipment and \$1 million for surveys and research purposes.²⁸

Measures to increase rice production, especially the rice improvement and development programs of the Agricultural and Drainage and Irrigation Departments, have been a major factor in the post-war expansion in rice output to about 25 percent above pre-war levels. These efforts should be continued and increased when possible. The efficiency of the technical staff, who have to spend long periods in unhealthy jungle, can be raised to a higher level if higher pay or special allowances are offered to them.

Co-operative Movement

The objective of the Department of Co-operative Movement is the building up of a strong and ultimately self-supporting co-operative movement in Malaya. Progress towards this objective has been as follows:²⁹

²⁸ International Bank for Reconstruction and Development, Economic Development of Malaya, pp. 217-218.

²⁹ Office of the Members for Economic Affairs, Progress Report on the Development Plan of the Federation of Malaya, 1950-1952, Kuala Lumpur, Government Printing Office, 1953, p. 50.

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Since August 1950, 293 rural co-operative credit societies and 19 urban thrift and loan societies have been formed. Constant encouragement is given by all Co-operative Officers for use of the specific deposit system, whereby co-operators deposit sums in their societies for specific future events, e.g., marriage, confinement, sickness, holidays, etc. This system not only encourages thrift but also teaches people to think ahead.

The build up of federations and banking unions, to provide short-term and medium-terms credit to those who are credit-worthy has continued and the number of such institutions has increased from two to ten with two more under formation.

Encourage the producers to form marketing and processing societies so that the middleman could be avoided. The Co-operative movement has promoted consumers' co-operation both in the town and in the country.

The commercial banks lend money on the security of a shipment of rubber insured against loss or damage, but to lend money for agricultural development, especially for the purpose of agricultural credit to small farmers has been considered too risky by the bankers. To assess the credit worthiness of a large number of individual smallholders and to disburse and collect many small loans are not in line with their business. Besides the very low and fluctuating incomes of farmers tend to confirm their belief that their business is not worth considering. These poor farmers would be left to the mercy of

the dealers and shop-keepers had not the co-operative movement come into existence. The unfavourable credit terms would eventually compel them to mortgage or sell their lands, if they have any. The Co-operative Department should establish more credit societies, which should be widespread and far-flung so as to enable all villagers, no matter where they are, to have the opportunity of availing themselves of their services.

These credit societies will not achieve full success, unless they take the pain to educate the farmers regarding loans and their repayment. They must try to explain to them that the proper use of credit is not for consumption but for productive purpose, and even then they are to be used wisely. Until they are trained in this respect, funds borrowed will be wasted.

III. RESEARCH EXTENSION AND SURVEY

The research work in agriculture has been making good progress, but the growing demands for agricultural diversification makes it essential that this activity be expanded. The importance of this work in contributing to agricultural development needs hardly be emphasized. Unfortunately, the sum allotted to is very small³⁰ in relation to agriculture's role

³⁰ According to the Rubber Enquiry an attempt is being made to limit total expenditure to some \$6.2 millions a year.

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in the economy. To ensure that the development program will be carried out satisfactorily, expenditure in research, extension and survey must be greatly expanded.

The Rubber Enquiry recommended an increase in the cess for the improvement of rubber from the present 0.5 cents per pound to 0.7 cents in order to expand research and advisory services to the industry. This constructive recommendation will enable the valuable work of the Rubber Research Institute to expand. The Rubber Enquiry's recommendation for rapid expansion of chemical work on latex, its products and possible derivatives is also significant and should be fully supported. A liaison with the big rubber manufacturers must be established so that their requirements can act as a guide to the research work.

Padi requires further research, which will enable the cultivators to increase their output. Yields per acre can be increased through wider dissemination of more productive and disease resistance strains. Extensive use of fertilizers will be helpful. Two crops will be made possible by wider use of early maturing varieties where seasonal and soil conditions permit. The Government proposes to establish additional experimental facilities and to enlarge the staff as necessary, in order to expand the work on padi breeding, fertilizer experiments, soils, pest control and relationship between soils and water.

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The personnel of the Field Branch of the Department of Agriculture is very small. The results of research can be disseminated only if the personnel, particularly at the junior levels, is greatly increased. There is difficulty in filling posts as rapidly as desirable because not many trained persons are available. Specialists in this field will have to be increased in number, and as they are not available in the country, they have to be employed from overseas as senior officers. The junior staff who look promising should undergo more advanced training either in the country or abroad. The junior officers should come in frequent contact with the cultivators in order to give them proper guidance and encouragement. Some 760,000 acres of swamp jungle scattered through the west and southeast of the peninsula and several hundred square miles in southern Johore could be opened up for farming. Rice potentialities within these areas are known in varying degrees of detail as a result of Agricultural and Drainage and Irrigation Departments' investigations and a detailed survey is now under way on about 180,000 acres included in the proposed Trans-Perak irrigation project. Reconnaissance of other areas and other crop possibilities should be made as a guide both to individual settlement and to the planning of new land development projects.

IV. DIVERSIFICATION WITHIN THE AGRICULTURAL INDUSTRY

Malaya owes her relatively high standard of living, compared with other countries in Asia, to her specialization in the production and processing of rubber and tin for international trade, and it is also the specialization that makes her economy very unstable, because of the fact that the world market for her major exports is liable to violent fluctuations. In order to achieve relative economic stability there must be diversification within the agricultural industry, that is to increase the range of production, and to increase the output of minor crops. Of course, this could only be executed very gradually; any precipitated action would do more harm than good.

In the period 1935-1937, Malaya occupied second position in world production of canned pineapples, supplying an average of 27 percent of the total as against Hawaii's 63 percent. During the war and the occupation, the industry suffered heavy losses of planted areas to lalang growth and destruction or damage to all but one of the 17 pre-war canneries. After the war rehabilitation was brought to the industry. Exports of canned pineapples rose from 15,000 tons, valued at \$12,204,000 in 1950 to 22,000 tons, valued at \$25,273,000 in 1955.³¹ This is a sure sign of recovery. Being an export

³¹ Federation of Malaya Year Book 1957-1958, p. 104.

commodity, it will contribute to the country's balance of payment.

Too much emphasis has been put on low cost production rather than quality, which should receive equal attention, so as to enable it to compare favourably with those of other countries, and obtain a greater share of the world market. To expand this industry, particular attention should be given to the extensive peat lands, which offer promising possibilities for pineapples. Pineapple growing is largely a Chinese enterprise, and most of the acreage is farmed by smallholders, whose production is not of uniform quality. This problem can only be solved with the help of the Department of Agriculture, who advocates the spraying of growth-promoting substance into the crop.

The cocoa crop ^{has} is now little significance in Malaya, but the extensive research and experimentation of the Agricultural Department have been most promising and indicate that cocoa cultivation can probably be greatly expanded in time. Therefore, survey of land suitable for this crop must be made as soon as possible. Experimentation should be carried out, with due consideration for the problems of smallholder cultivation.

There are other crops, such as coconut, oil palm etc., which can also be expanded if proper attention is given to them.

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With thousands and thousands of acres of virgin land suitable for cultivation and a tremendous surplus of labour in the villages, broadening the range of agricultural development objectives can be put into effect. Perhaps a word of caution is necessary in this connection: the project, which will take a long time to realize, must be carried out at a very slow tempo, so as to avoid improper and untimely dispersion of effort and a waste of personnel and resources. For the time being and also for the near future overriding priority to rubber, tin and rice will have to be continued.

CHAPTER III

TIN MINING

The introduction to the Economic Survey of Asia and the Far East, 1957 says that if Asia is to attain the road to progress and if her current economic strains are to be eased, new natural resources must be brought into play. Of these, it mentions the area's important mineral resources, its vast and untapped hydroelectric potential and other resources applicable to the atomic age. In order to ease the economic strains of the Federation it is necessary to bring her hidden mineral resources into play. This cannot be accomplished without resolving difficult problems and issues of policy relating to prospecting and development of new deposits on a scale adequate to compensate for the depletion of old ones.

I. HIGH-GRADE GROUND MUST BE FOUND AND EARMARKED FOR MINING

Many states produce tin, but the chief mining areas are in Perak and Selangor, and they account for about 90 per cent of output and employment. The labour employed is about 40,000. Though there is increase of output from year to year, the progress in production is slight, and it can be seen

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in the following list:¹

1950	57,537 tons
1951	57,167 "
1952	56,838 "
1953	56,254 "
1954	60,691 "
1955	61,245 "
1956	62,295 "

This is due to the fact that prospecting has been severely restricted for a great number of years by various factors, one of which is the Emergency. The consequences are now apparent in a deterioration of the average grade of ground worked and in the fact that many dredges are reported idle for lack of suitable ground.² Perhaps the chief obstacle to prospecting arises from a conflict between the interest of mining and the interests of agriculture and forestry. The Federation's tin is alluvial, and in alluvial mining, the surface of the ground has to be stripped and large volumes of water are to be drained off with the consequences that the land after being used for mining is not suitable for cultivation, and that the nearby irrigation project is endangered.

But from the standpoint of the national economy it is worthwhile to extract valuable mineral deposits, even though land is thereby made unavailable for agriculture for a long

¹ Wang Chung-hou, "Ma-Lai-Ya tze Kwung Yeh" (Malaya's Mining Industry) in The China Press, Ma-Lai-Ya Hsin Tze (New Born Malaya) Kuala Lumpur, 1957, p. 184.

² Ibid., p. 182.

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period. However, measures must be taken to prevent mining operations from causing damages to the surrounding agricultural areas. Tin-bearing land should not be alienated for other purposes, and moreover land that possesses tin should be requisitioned, and alternative land plus some compensation be given to the dispossessed owners.

To bring the hidden resources into play, every encouragement must be given to prospecting. The rights of prospecting and opening mines should be granted to bona fide applicants after a minimum of investigation. It should be refused only when it is clear that any mining operations within the proposed prospecting area would be detrimental to the national economy.

Knowledge of the extent of resources is essential to the development of the mineral resources. To acquire this knowledge geological mapping, and exploration must be carried out.

It was suggested many years ago that a part of the revenue from tin should be set aside for investment, because tin will be exhausted one day.³ It is not late to carry out the proposal now.

The Government should collect a small cess⁴ on all tin

³ Siew Nim Chee, "The Tin Mining Industry in Malaya", in Problems of the Malayan Economy, p. 36.

⁴ At present the industry pays a cess of 80 cents per picul for the maintenance of the Tin Research Institute and for publicity.

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exported for measures to reduce the risks of the tin mines, and to rehabilitate mining land. Safety measures in tin mines is an important factor in raising the efficiency of the workers, who will stop worrying if they know that their mines are safe. Measures for rehabilitation on the termination of a lease should be prescribed so that the mine operators could help to rehabilitate the land after their operations had come to an end.

II. TAXATION

Anyone extracting tin is, in fact, taking away from the country an irreplaceable ~~capital~~ asset, so it is usual for the government to levy a royalty on their exploitation. In Malaya this royalty is in the form of an export duty plus income tax. The duty is calculated by a formula which in practice results in the duty being 10-15 percent of the price of tin. The industry has been subject for over 50 years to a duty within this range of rates. From 1948 it has paid income tax (now 30 percent) on its profits, after allowances for the duty, depreciation of plant, machinery, etc., and for the writing-off of capital expenditure incurred in acquiring and developing the mine.

The duty on concentrates is \$2.40 per picul when the Singapore price of tin metal does not exceed \$11 a picul; the duty increases 12 cents for every dollar by which the price

exceeds \$41. The duty on tin metal is on the same scale, plus one-third of the duty on tin concentrates. Since the concentrates have only 75 percent tin content, the duties are equivalent.⁵ In computing profits of mining companies upon which a tax of 30 percent is paid, no allowance is made for depletion of the mine. Deduction may be claimed in certain circumstances in respect of expenditure incurred on "abortive mining operations."⁶

The tin industry is always complaining against the heavy royalty imposed upon it. It points out that rates in other countries are lower, and appeals to the Government for reduction of export duty on the ground that heavy export duty discourages the full working-out of poorer ground, and deters production and investment in marginal mines.

It is undeniable that the local rate is heavy, but Malaya's tin is alluvial and it can be extracted more cheaply than in other countries. In spite of the rate, many European companies manage to make large profits, and the Chinese mines are not so well off. If it is still profitable to mine as much tin as the market will take there is no cause for complaint. The Federation is in difficult financial position; any tax concession would only increase her burden and constitute

⁵ International Bank's Report, p. 250.

⁶ This new amendment came into effect in early 1956.

a barrier to the development of other resources.

It is the small miners whose conditions require sympathetic consideration. They produce only when there is a large world demand, but when times are bad they often have to let their equipment lie idle and deteriorate. But instead of reducing the export duty, it would be better if the Government would allow more liberal depreciation allowances, and would spend more of its tin revenue on expanding the industry.

III. MINING ENACTMENT

A mining lease is valid for 21 years and may be renewed upon expiration, and as long as the mine has not been depleted, there remains the option for renewal. The lease will only be granted when it is clear that mining operations in the applied area will not cause damage to the adjacent Malay reservations and agricultural areas. To ensure that the mining, employment, and safety regulations have been complied with, the operator is required to submit a plan of proposed operation to the Mines Department.

The annual rental for mining land varies from \$2 per acre to \$7, and in some cases it reaches as high as \$10. In most states it is \$2; in Kedah and Perlis, it is \$7. Premiums range from \$25 per acre in certain areas of Pahang and in Johore, to as much as \$100 per acre for a lease of 10 years or less plus \$10 per acre for each year over 10 in

Selangor,⁷ which accounted for 29.3 percent of the total output in 1954.

The Mining Enactment recognizes four separate and simultaneous interests in mining land: leases, subleases, sub-subleases, and haptongs.⁸ The States laws of Kelantan and Malacca make subleasing subject to permission of the authorities.

The leaseholder being unable to operate, because of financial or other reasons, may sublease it on a tribute basis, the operator paying the sublessor a portion of his output. How the output is to be shared is no concern of the authorities. Tribute is usually within the range of 10-20 percent, but may go up to 30 percent. In such dealings the sublessor will decide how big a portion he will have and what degree of security of tenure the operator is to enjoy.

In 1950 there were 261 Chinese gravel pump miners operating on subleased ground and paying an average tribute of 14.5 percent.⁹ Sublessees are usually gravel pump miners, who exploit small or inaccessible deposits that cannot be

⁷ International Bank for Reconstruction and Development, The Economic Development of Malaya, p. 249.

⁸ A Chinese term for contract. In Malaya it is an unregistered sublease for period not exceeding a year.

⁹ Wang Chung-hou, "Ma-Lai-Ya Tze Kwung Yeh", (Malaya's Mining Industry), in Ma-Lai-Ya Hsin Tze, p. 181.

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worked economically by other methods, and thus a more complete recovery of the country's tin resources become possible.

The sublessor may sub-sublease the mine to another operator, this unduly increases the tribute payable by the latter. Since the operating cost is high the operator has no alternative but to work only higher grade ground, which is not in the best interest of conservation of resources, and since his operation is of short duration he will not try to improve his methods of mining or to observe the regulations closely, especially the safety regulation. In the long-run such an attitude is harmful to the industry. Sub-sublease should not be allowed to exist. It lend itself to abuse. The intermediary sublessee is nothing but a parasite living on the labour of the operator, who has to share his output with two other parties. If the authorities think that there is justification for the existence of this system, immediate action must be taken to limit the share of the intermediary sublessee, and to ensure that the regulations are closely observed by the operators.

The practice of subleasing has its advantage as well as disadvantage: the advantage being that even small or inaccessible deposits can be exploited, if the area is not subleased it would have to be abandoned or worked by uneconomical methods; on the other hand, the tribute demanded by the leaseholder in some cases is exorbitantly high, narrowing the

operator's margin of profit, which being small leaves him not much opportunity to make improvement on the equipment or on the operations. Though the terms and conditions in respect of the lease are agreed upon by the sublessee, this does not imply that he is entirely satisfied with the degree of security of tenure he enjoys; in most cases the security is far from satisfaction.

It is necessary that the security of tenure should be increased by introducing a longer term of lease, and provided the operator observes the stipulations of the lease he cannot be turned off the mine at short notice. All subleases should be registered at the Mines Department; this will add some degree of security to the tenure. Only under conditions of financial difficulties on the part of the leaseholder, or when the area is so small or so difficult of access that a sublease is necessary, should sublease be permitted.

IV. THE FUTURE MARKET

The price of tin during this century has varied from £144 in 1930 a ton to £1600 during the Korean War. The international tin market is extremely sensitive to changes in supply and demand. In the course of the Korean War, the price of tin was more than doubled, by the second half of 1953, it has fallen back to £600 per ton, almost exactly the level which had prevailed in 1949 and the first half of 1950. During

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1949-1953, world tin production averaged about 163,000 tons and consumption 134,000 tons--an average excess production of about 29,000 tons annually. In 1953, the excess was 40,000 tons. In 1954, there was a surplus of 29,000 tons.¹⁰ In the succeeding years the surplus was much less. The excess production of these years was absorbed by the United States for strategic stockpiling purposes, which accounted for the fact that in spite of the huge surplus each year, prices remained relatively stable.

United States stockpiling has now come to an end, and her only smelter, Texas Smelter, was sold last year,¹¹ and hereafter the market will no longer be able to support excess production. If tin is used for commercial purposes only, the price would certainly fall. To add to the darkness of the picture, the commercial consumption of tin today is falling. Technological development has reduced the need for tin in the manufacturing of containers and other uses. Aluminium or lead has replaced tin in tubes and foil. Plastics and cellophane have replaced tin in containers and wrapping to some extent. Improvements in the process of electro-plating will be able to use the same amount of tin metal to plate two cans instead of one. According to the International Bank, can companies in

¹⁰ International Bank for Reconstruction and Development, The Economic Development of Malaya, p. 67.

¹¹ Wang Chung-hou, "Ma-Lai-Ya Tze Kwung Yeh" (Malaya's Mining Industry), in Ma-Lai-Ya Hsin Tze, (New Born Malaya), p. 181.

the United States have a long range research program aimed at the eventual elimination of tin in the container industry.

The high post-war price of tin has led to the increasing use of secondary tin, that is, tin recovered from used cans. This has also cut down the consumption of virgin tin.

On the other hand, the food processing industries may require a thicker coating of tin on cans they use, or wider commercial uses for thinly coated plates may be developed. The Tin Research Institute and the International Tin Study Group have encouraged research into new uses for tin, and some degree of success is being achieved, particularly in the plating and chemical fields. The high level of industrial activity of tin-consuming countries after the war has resulted in a slight increase in demand for other uses which has compensated to some extent for the fall in demand for plating. The United States soft drink industry is using tin cans to replace bottles. The British tinplate industry has increased its production. Japan has also increased her tin consumption. In 1954, she imported from Malaya 3,722 tons of tin, in 1955, 4,324 tons were imported, in 1956, her imports increased to 6,888 tons.¹²

Except for minor consumption in the making of pewter and tins, Malaya exported all her refined tin. United States is the biggest customer buying half or more of her production.

¹² Ibid., p. 183

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Britain, Canada, Japan, France, and a few other countries consume varying amounts. These are highly industrialized countries, whose economies are subject to violent fluctuations, so their demand for tin will have to depend upon their business activities.

In order to enjoy a stable price with a small range of fluctuation, yielding a reasonable profit, outside help, especially those of the highly industrialized countries, is required. International consultations and commodity agreements, together with anti-cyclical policies at home, can largely save Asian primary exporting countries from the unsettling effects of violent fluctuations in the world price of their exports. The aid-rendering countries and the industrialized countries as a whole, should seek full employment at home, in order to be reliable customers for the primary products of Asia.¹³

With the ending of the United States stockpiling, the International Tin Agreement will undoubtedly attempt to stabilize production at somewhere near actual levels of consumption, in which case Malaya will have a quota much lower than her productive capacity. Once the buffer stock of 25,000 tons has been formed it would do much to solve the surplus problem and give stabilization to the price.¹⁴

¹³ United Nations, Economic Survey of Asia and the Far East, 1957, Press Release Ec-1783, p. 14.

¹⁴ In 1953, the International Tin Agreement proposed to set up a buffer stock of 25,000 tons of tin, and under the buffer stock arrangement Malaya's share was 36 percent.

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Fortunately, Malaya is a low-cost producer. If the high cost producers are unable to operate within the price limits fixed by the Agreement, then Malaya will have a chance to increase its share of world consumption.

Development of the mineral resources of a country must be carried out by the government working hand in hand with the industry. It is the duty of the government to create conditions that will attract private capital for their development; on the part of the industry it must provide the capital and technical skills necessary for efficient mining operations. The knowledge of the extent of resources must be acquired through geological mapping, exploration and prospecting in order that the resources could be located and explored. Research on the new uses of tin must be continued with greater effort. Only by the help of new uses of tin could diminishing demand for the product be offset.

CHAPTER IV

INDUSTRIAL DEVELOPMENT

If living standards are not to be lowered by the growing population, which is increasing at the rate of three per cent per annum, and the standards of social services are to be maintained, it is essential that secondary industries be established. With increasing employment, at least part of the increasing labour force will be absorbed. Increasing employment opportunities will also help to solve the problem of surplus rural population. It is frequently found that substantial technical progress in agriculture is not possible without reducing the numbers engaged in agriculture. In this case, a program of agricultural improvement has to start by developing manufacturing industries which will absorb the surplus population of agriculture.¹

I. POSSIBILITIES OF EXTENDING THE SECONDARY INDUSTRIES

The Federation is not suitable for advanced industrial development, because it lacks the basic raw material, such as cheap power, large deposits of iron ore and fuel supplies.

¹ United Nations, Department of Economic Affairs, Measures for the Economic Development of Under-developed Countries, New York, 1951, p. 59.

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The future secondary industries, therefore, must take the form of fairly small advances along a very wide front. For such development the country is suitable. She has a stable government, adequate social overhead capitals, industrial experience, skill, labour, and entrepreneurs with imagination and the willingness to take risks (especially the Chinese, who have made a great contribution to the country's economy).²

The country can build up small-scale industries catering chiefly to the domestic and nearby markets. Large quantities of foodstuffs, such as vermicelli, noodles, preserved vegetables are imported annually. Such items are also produced locally but in limited quantity. This industry provides a considerable scope for expansion.

The building industry has been very active after the second world war. Building materials are in great demand, and most of them have to be imported, some from Hongkong. This industry should be expanded, so that local production will be sufficient to meet the requirements of the entire country.

The country is not a natural center for a large rubber-manufacturing industry, exporting to the markets of the world, but the manufacturing of rubber goods for the domestic market and the neighbouring countries can greatly be expanded. Household articles, such as foam rubber mattress and foam

² P. T. Bauer, Economic Analysis and Policy in Underdeveloped Countries, Duke University Press, North Carolina, 1957, p. 73.

rubber cushion should be manufactured in sizeable quantity, so as to enable the country to capture some of the nearby markets. A few of the existing rubber goods manufactories should extend their activities to the manufacturing of tires and tubes. The great number of motor vehicles in the country justify such expansion. In 1955, the country's production was 103,500 tires and 743,000 tubes, while required imports totalled 1,314,000 tires and tubes respectively,³ leaving much room for expansion.

From 1955-57 more than \$11 million worth of cotton piece goods were imported each year, and in 1955, about \$9 million worth of fabrics of synthetic fibres were imported.⁴ Though the country lacks the raw materials for this industry it should not preclude the establishment of such industry just because there is a lack of raw materials. Hongkong has no raw materials, yet she enjoys a prosperous export trade in textile and cotton manufactured goods.

The canning industry is already one of the major secondary industries, and provides a steady and profitable market for various kinds of agricultural produce. So far pineapples are the only important item to be processed successfully in large quantities. It is capable of expanding if fruits of

³ The Government of Federation of Malaya, Report of the Industrial Development Working Party, Kuala Lumpur, Government Press, 1957, p. 24.

⁴ Singapore Government, Malayan Statistics, Digest of Economic and Social Statistics, 1958, p. 32.

improved quality can be developed.

With the great number of foundries, forges, and repair work plus the available supply of skill labour, light engineering and other metal-working industries probably offer most scope for expansion. There is much possibilities for developing the manufacture of farming implements, spare parts, simple machines, and perhaps motor bodies.

It would be extremely beneficial if cottage industry could, wherever possible, be encouraged in rural areas and new villages. This would lead to multiple benefits in that it would help to arrest the drift to the towns and relieve congestion there; it would provide additional opportunities for employment for the families of agricultural workers.

In the line of cottage industry, much can be learned from Indonesia and Japan. In Indonesia successive governments have put considerable effort into improving and organizing the handicraft trades, through agencies especially created for the purpose.⁵ The success of this policy is indicated by the increase in the number of mechanical looms between 1930 and 1941 from almost none to about 10,000, while the number of modern hand looms perfected by the government's Textile Institute increased from around 500 to 49,000.⁶

⁵ W. Arthur Lewis, The Theory of Economic Growth, London, George Allen & Unwin, 1955, p. 139.

⁶ Norman S. Buchanan and Howard S. Ellis, Approaches to Economic Development, New York, The Twenty Century Fund, 1955, p. 269.

Japan excels in organizing new trades on a cottage industry basis, without the government having much to do with the matter. Private merchants supply materials to craftsmen to be worked up at their homes or in small workshops. The "putting out" system has taken a firm root in the industry.⁷

II. FORMS OF GOVERNMENT ASSISTANCE

Certain types of economic activity, especially industrial activity, may need government assistance in the early stages of their development, but when developed, they may be completely viable, and require no continuing assistance.⁸ It would seem logical that as a first step towards the encouragement of local industry, raw materials and partly processed materials for local manufacture should be permitted to be imported free of duty by approved factories. However, in deciding the types of local industries to which duty free concession should be given, it will be necessary to ensure that they are not abused and that general revenue will not be affected. Such a concession must be confined to organizations which can provide the necessary storage and accounting facilities to satisfy Customs Department requirements.

Tariff protection is perhaps the most common form of

⁷ W. Arthur Lewis, The Theory of Economic Growth, p.139.

⁸ Peter T. Bauer and Basil S. Yamey, The Economics of Underdeveloped Countries, Chicago, The University of Chicago Press, 1957, p. 243.

assistance which secondary industries seek from governments. For the infant industry some degree of tariff protection may be suitable and desirable. But this has disadvantages as well as advantages. Protective measures which merely exclude cheaper foreign products and forced Malayan purchasers to buy more costly home manufactures would result in an absorption of capital and resources which might better be employed in other lines. They would also tend to depress standards of living and to force up working costs. It is, therefore, desirable that the matter should be approached with some caution in order to prevent its abuse.

Land tenure is an important factor to be taken into account when deciding on the establishment of a new industry; it may considerably affect the ability and willingness of established industry to expand its activities. It is, therefore, desirable that the Government should encourage the establishment of secondary industries by offering the inducement of generous terms in respect of land tenure. Moreover, it should assume the responsibility for acquiring and laying out areas for industrial operations in suitable urban areas in various parts of the country. In this respect, Hongkong provides a good example. The price of land in Hongkong⁹ is the highest or among the highest in the Far East, yet factories

⁹ In the heart of the town it costs about \$85 U.S. per square foot.

have been set up, not because they can afford to buy or rent the land at high prices, but because there are zones set aside for industrial development, and the price or rental of land in these zones is relatively low.

III. FINANCIAL INDUCEMENTS FOR THE ESTABLISHMENT OF SECONDARY INDUSTRIES

To encourage new investment and to induce industrialists and businessmen to reinvest the profits into new undertakings, or the existing enterprises, financial inducements must be given. Generally speaking, fluctuating tax rates are more disconcerting and discouraging to investors than higher but more stable rates. If the income tax system is stable, the taxpayer knows where he stands, and that he may have reasonable faith in the future.

In the Federation, companies, whether resident or non-resident are chargeable at a flat rate of 30 percent. In computing the tax liability of trades and industries generally, initial allowances of 20 percent are deducted in respect of capital expenditures incurred on machinery and plant, and 10 percent of capital expended on the provision of industrial buildings and structures. Annual allowances for depreciation of buildings, machinery and plant may also be claimed.¹⁰ The

¹⁰ The Government of Federation of Malaya, Report of the Industrial Development Working Party, p. 16.

income tax has been generous to the industries, and it would assist them greatly if assurance could be given that capital allowances would remain unchanged over a long period.

Though it is desirable that the new industries should mostly grow out of the wide range of existing enterprises, oversea investments are, nevertheless, welcomed. In most countries at a low level of development it is the foreigner who brings new techniques, and it is the spread of these new techniques among the people which carries development along.¹¹ The country has a stable government and good economic prospects, but these are not sufficient to attract foreign capital or to prevent withdrawal of foreign capital. There is reluctance among capital-exporting countries at the present moment to export capital, unless the rewards are unusually high and guarantees are given for equitable treatment. The rise of nationalism in the Asian countries has put to flight much foreign capital, which is a bad thing for the underdeveloped countries. To remedy the situation, greater confidence must be given to foreign capital. Guarantees should be given regarding the payment of appropriate compensation in the event of nationalisation of local industries.

In the charter proposed for the International Trade Organization, there are provisions intended to deal with

¹¹ W. Arthur Lewis, The Theory of Economic Growth, p. 258.

arbitrary acts by governments of capital-importing countries. In the meantime, the Government of the United States has begun to make treaties with other governments, providing for the protection of foreign investments.¹² This development would be heartily welcomed by the underdeveloped countries, many of which depend to a great extent on foreign capital to break through their vicious circle of poverty.

In some cases the government of the capital-importing country might be well-intentioned, but it could not absolutely guarantee that foreign investors would be permitted to remit their profits home in foreign currency, or to retire their investments, because it had not the power to ensure that the necessary foreign exchange would always be available. To deal with this situation, the United States has proposed that the Export-Import Bank should be prepared to insure such transfers in return for a fee.¹³ The foreign exchange position of capital-importing countries has always been a source of worry for the foreign investors; if such arrangements could be made by the Export-Import Bank it would surely ease the flow of capital from capital-exporting countries to underdeveloped regions.

It is not irrelevant at this point to briefly discuss industrial finance. The commercial banks are willing to

¹² United Nations, Department of Economic Affairs, Measures for the Economic Development of Underdeveloped Countries, p. 81.

¹³ Ibid.

finance industrial enterprise for a short period against collateral or security of goods, if the borrower enjoys a good financial reputation. But the small manufacturers are not able to meet the terms of the banking system, which is not designed to finance medium or long-term economic development. These small borrowers then approach the Chinese and Indian money-lenders, which have become their only source of financial help. The Chinese and Indian money lending plays a considerable role in small enterprises. The rate of interest, which is very high, varies with the standing of the borrower. The Chinese money-lenders are willing to make medium-term or long-term loans, but it is usually done in a private transaction through the introduction of friends or relatives.

The high rate of interest is too much of a burden for the small enterprises. No development is possible without adequate institutional arrangements for financing private industrial enterprises. In the United States the commercial banks regard two-and-three-year loans for equipment as consistent with good banking practice, provided the aggregate is not excessive, and that the borrowers are good credit risks.¹⁴ It would be desirable if the local banks would adjust their policies along this line. The Rural and Industrial Development Authority has mainly supported schemes and projects

¹⁴ International Monetary Fund, Economic Development with Stability, Washington, (unpublished manuscript), 1953, p. 46.

in the fields of agriculture, fisheries and animal husbandry; arts and crafts; transport and communications etc.¹⁵ It should extend its activities by making funds available for industrial development.

IV. VOCATIONAL EDUCATION

Industrial development depends to a great extent on the availability of training facilities. Technological progress involves necessarily the investment of capital in human beings and in training and instructing them in the new technology.¹⁶ Before the second world war the country did not pay much attention to the training of an industrial labour force; most of the skilled workers immigrated from China. On account of the need to restrict immigration for political reasons Malay must now train her own workers.

The Technical College in Kuala Lumpur is the only one in the Federation and has been regarded as being principally a government pre-service training center, since almost all its students have been government sponsored and aided. It should broaden the scope of technical education in order to admit private students, and should be brought into line with

¹⁵ Federation of Malaya, Government, Progress Report on the Development Plan of the Federation of Malaya, 1950-1952, p. 76.

¹⁶ United Nations, Department of Economic Affairs, Measures for the Economic Development of Underdeveloped Countries, p. 30.

similar institutions of other countries. The hope of extending industrialization rests with an ever increasing supply of technicians in the near future.

There are four Junior Technical (Trade) Schools, which, apart from making available regular courses also provide evening classes to assist apprentices and other persons employed in trade who wish to improve their technical skill and gain theoretical knowledge. The available courses are in Radio Mechanics, Electrical Installation, Machine Shop Practice, Carpentry and Building, Plumbing and Tailoring.¹⁷ A great many more trade schools should be established, at least two in a state, in order to meet the demand of the growing young population. It is a well-known fact that most of the parents cannot afford to send their children to universities or colleges for higher education; it is beneficial for the country as a whole, and to the industries in particular, to train the students, who cannot afford to proceed to higher institutions after they have finished their high schools, in the trade schools. High school graduates without any kind of special training will look for office work, which will tend to make more "white collars" workers than jobs.

The workshops and foundries operated by the Chinese provide on-the-job training; such training is merely a passing

¹⁷ Federation of Malaya Government, Report of the Industrial Development Working Party, p. 62.

of skill from one worker to another, and usually the apprenticeship takes several years. During the training the apprentice is given a small salary plus free boarding. This provides opportunities for young people who cannot afford to have even secondary education. Such training facilities should be utilized by the Government, because on-the-job training is important to technical students.

Higher forms of technical and professional education are equally important, and since the country now lacks such training facilities the only alternative is to send some of her graduates, who also have experience, to receive training abroad under the Technical Co-operative Scheme of the Colombo Plan.

Industrial development is essential in the sense that it has the ability to absorb a part of the annually increasing labour, and that it will help the nation to reduce the risk of depending too much on her primary products. With the existing social overhead capital coupled with the spirit of enterprise among the people the outlook is promising. Research and imaginative enterprise could, undoubtedly, reveal many minor possibilities of industrial development at present unknown or neglected. In the foreseeable future there is no national advantage in nationalising industry, therefore foreign investors can rest assured that their capital will be safe in the country. The program of vocational education must

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be kept ahead of the industrial development so to ensure that there is no lack of skilled workers.

CHAPTER V

FINANCING ECONOMIC DEVELOPMENT

In 1903, the Resident-General reported proudly that "the Federation¹ has no public debt and has never raised a loan." The surplus accumulated year after year until it reached more than \$35,000,000 in 1923. The prosperity of the twenties brought it up to \$80,000,000 by the end of 1939. The revenues sharply dropped in the depression period and there were deficits in the years 1930-1933. These deficits were met out of surplus. At the end of 1937, the surplus again reached a new peak of \$85,900,000.²

The situation in the Straits Settlements, as far as revenue was concerned, ran parallel to that in Federated Malay States.

In the Unfederated Malay States, with the exception of Johore, the revenue was small, but it made steady advances.

After the second world war, the picture changed. The Federation's public finances deteriorated in the face of declining revenues; this can be seen in Table III. Excluding grants from the United Kingdom, the Federation had a surplus

¹ Before the second world war, the Federation was the Federated Malay States. For further explanation, see Chapter I.

² Dun J. Li, British Malaya, An Economic Analysis, p. 27.

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TABLE III

Consolidated Public Finance of the Federation of Malaya
(Million \$)

Revenue & Expenditure	1949	1950	1951	1952	1953 (budget estimates)	1954
Revenue.....	327	469	796	784	665	593
Recurrent Expendi- ture (Defence, Social Service etc.).....	<u>328</u>	<u>351</u>	<u>536</u>	<u>679</u>	<u>742</u>	<u>703</u>
Revenue less Re- current Expendi- ture.....	-1	+118	+260	+105	-77	-110
Capital Expendi- ture.....	<u>71</u>	<u>59</u>	<u>111</u>	<u>167</u>	<u>156</u>	<u>249</u>
	-72	+ 59	+149	-62	-233	-359
Contributions & Grants from U.K..	<u>44</u>	<u>28</u>	<u>2</u>	<u>7</u>	<u>6</u>	<u>68</u>
Over-all surplus(+) or Deficit (-) excluding borrow- ing.....	-28	+87	+151	- 55	-227	-291

Source: International Bank for Reconstruction and
Development, The Economic Development of
Malaya, p. 140.

³ According to The Colombo Plan, Fifth Annual Report
of the Consultative Committee, the deficit in 1954 was \$151
million.

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on current account of some \$18 million in 1955 as compared with a deficit of \$151 million in 1954. This was due to an increase in the yields of the rubber export duties and the customs duties.⁴ Revenues in 1956 declined substantially below the 1955 level mainly, because of the fall in rubber prices. The estimated deficit of 1957 is \$108.7 million.⁵

The financial burden of the Emergency and the mounting expenditures in other fields, especially for social services have put the Federation in a difficult financial position for the past few years. The expenditure on the Emergency alone for the last ten years has amounted to approximately \$1.06 billion. The deficits have been met in part by grants from the United Kingdom, but mainly by domestic and foreign borrowing.⁶

I. LONDON FINANCIAL TALKS

The total outlay of the Development Plan 1956-60 has been put at \$1,358 million of which \$231 million is yet uncovered by any resources. The annually recurrent expenditure

⁴ The Colombo Plan, Fifth Annual Report of the Consultative Committee, Wellington, New Zealand, 1956, p. 83.

⁵ Lee Yen Pin, "Lien Ha Pang ti Tsai Chang chi Chin Yung Chung Kwung," (The Federation's Financial Conditions), in New Born Malaya, p. 85.

⁶ The public debt stood at \$506.6 million in 1957.

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is about \$90 million for the period 1956-60.⁷ The Plan envisaged that this should be financed largely by long term and short term borrowing both locally and overseas, and it was discussed fully at the London Financial Talks, which took place between December 1956 and January 1957.

As a result of these talks, the United Kingdom Government agreed, subject to Parliamentary approval, to offer the Federation substantial help up to a possible maximum of approximately \$285 million due to the cost of the expansion of the Armed Forces and of the Emergency.

In connection with the Development Plan the United Kingdom Government has expressed her willingness to support the Federation in raising \$85 million by way of long-term loans on the London Market. The former explained to the latter that the Colonial Development Corporation would be in a position to continue with schemes initiated before independence but not to embark on new ones thereafter. The U.K. also expressed her regret in her inability to offer direct government-to-government help for development.

The outcome of the London Financial Talks has made the Federation Government decide to explore to the utmost the possibility of raising more funds than previously envisaged in the local market, both long-term and short-term borrowing, and

⁷ Federation of Malaya, Government, Report on Economic Planning in the Federation of Malaya in 1956, Kuala Lumpur, Government Press, 1957, p. 23.

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also to seek the maximum of external help from such sources as the Commonwealth Development Finance company, the International Bank and Colombo Plan.

The Government plans to make use of the two principal immediately available sources which are: Employees Provident Fund and the Post Office Savings Bank. According to their estimate these two sources alone may well be capable of subscribing the full \$500 million budgeted for during this period. The Government also plans to develop the use of floating debt as a temporary instrument for financing Government requirements. It is estimated that \$120 million can be raised.

II. MEASURES TO INCREASE PUBLIC REVENUES

There is a gap of \$231 million to be filled, but it should not be an impediment to the launching of the Plan. The figures are only estimates, and besides the fortunes of the revenue are dominated by unforeseeable fluctuations in the prices of rubber and tin. Expenditures are liable to be influenced by the course of the Emergency and by movements in world prices which are quite outside the control of the Government. Perhaps it would be advisable to put more emphasis on its flexibility, and a readiness to adapt it to meet unforeseen changes in the availability of men, money and materials, and if necessary it can be extended for a longer period, say a year or two.

At the present moment the prospect of obtaining external financial assistance from the United Kingdom is not bright; thus it becomes essential that additional revenue be raised and that expenditures be carefully allocated and strictly controlled. Adequate taxation is especially important in securing resources for development in view of the difficulty of obtaining outside help. Taxation is a direct method of assuring that the required portion of any increase in national product is diverted from consumption and made available for development. Taxes levied to finance economic development are likely to be less burdensome than taxes that cover expenditures for defense, administration and other ordinary government functions, if the development outlays yield a prompt return in the form of increase output and income.

INCOME TAX

Income tax and death duties of the Federation give a low yield, and the tax burden is light compared with the neighbouring countries. In 1953, the revenue for income tax for the whole Malaya was less than five percent of the national income.⁸ The Government can no longer afford its present relatively low rates of tax on individual incomes.

In the case of resident individuals, the chargeable income is arrived at by deducting from the assessable income

⁸ Lim Tay Boh (Editor) Problems of the Malayan Economy, p. 98.

personal allowances: personal allowance \$3,000; wife allowance \$2,000; first child \$750; second child and third child \$500 each, etc.⁹ A married man with two children and an income of \$6,250 will be tax free. It can be seen that the system of personal allowances has had the effect of limiting the scope of income taxation by exempting a large number of people from taxation. On the first \$1,500 of chargeable income, the tax rate is only five percent; for every dollar exceeding \$55,000 the rate is 40 percent.¹⁰ Taxation should be raised as much as is reasonably possible, so as to bring substantially more revenue than is yielded by the present rate. But the Government must bear in mind that the tax rate can be no high as to affect the incentive to save. A well-trained staff can also help to raise the yield of taxation.

The International Bank estimated roughly that a 10 per cent profit tax on companies (which would not be deductible from dividends for purposes of individual income taxes paid by shareholders), apart from the present income tax of 30 percent would yield between \$20 million and \$25 million a year in additional revenue. It recommended that any additional tax be applicable only to a company's taxable income above a certain minimum level, say \$50,000, and that the tax on profits between \$50,000 and \$100,000 be at a lower rate than profits above

⁹ The Malay Mail Press, Federation of Malaya Year Book, 1957-58, p. 86.

¹⁰ Ibid.

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\$100,000. They said that this would reduce the yield below the \$20 million to \$25 million a year which they estimated could be realized from a flat tax of 10 percent on all companies.¹¹

This recommendation is worthy of consideration, because it would help to yield much additional revenue, it would not affect the small businesses, and its effect on large enterprises would be slight. The latter could make larger profits and would not mind paying a higher profit tax, especially if the taxes were to be used for development purposes.

IMPORT TARIFFS

In a good year, that is when the prices of rubber and tin are high, the people of the Federation are likely to increase their consumption of imported goods,¹² as a result, the volume of imports for domestic consumption reaches a level higher than can be sustained after the accumulated savings made during the boom years are run down. To check excessive demand for imported goods, the Government in 1957 increased the duties of some imports, such as motor vehicles, other than trucks and motor cycles, gasoline, cotton wears, manufactured goods, etc. These changes are estimated to yield about

¹¹ International Bank for Reconstruction and Development, The Economic Development of Malaya, p. 145.

¹² In 1954, \$93.87 million worth of tobacco, cigarettes and cigars were imported, in 1955 it rose to \$99.85 millions.

\$29.2 million each year.¹³ It is not enough to check excessive consumption of imported goods by introducing higher tariffs, it can only be done by selective import controls. In view of the recent financial deficits it is desirable that this step be taken. It will help to raise private savings, and to avoid the adverse balance of trade. If the Government does not think that this is an appropriate measure, then they should impose a much higher tariff on luxury goods and impose import duties on a number of new items. This will bring in a bigger annual increase.

GOVERNMENT EXPENDITURE

Every government expenditure must be carefully scrutinized so as to avoid duplication of staff and administrative inefficiency. At present the Government is planning to construct several government buildings involving a considerable sum of money. She cannot afford it now; and as these buildings are not part of the Plan and can be dispensed with for the time being, it is advisable to shelve the building plan until the financial position has improved. Putting up new buildings out of increased taxation will certainly produce a demoralizing effect on the people, whose enthusiasm in the development program will be dampened.

¹³ Lee Yen Pin, "Lien Ha Pang ti Tsai Chang chi Chin Yung Chwung Kwung", (The Federation's Financial Conditions), in New Born Malaya, p. 85.

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III. PRIVATE SAVINGS FOR DEVELOPMENT

Savings of individuals will be an important part of the financial resources for the program. The Government should place great stress on encouraging small savings and mobilizing them for investment by the public sector. Although the immediate increase in savings might be small, the campaign could be used as a means of fostering thrift. The existing postal saving facilities should be extended into the villages and remote places, so as to absorb the small savings of the peasants. Perhaps higher rates of interest would be able to induce the people to save more. In places where there is only a post office within a radius of three or four miles, mobile saving units should be set up to visit the villages every day. No farmer likes to walk several miles just to deposit a few dollars in the postal savings bank. Such units should also be made available in towns, because they are likely to attract the school boys, who will be delighted with such a novel idea.

The farmers are accustomed to keeping their savings in the form of gold ornaments, such as rings, necklace etc., or when they have more money they buy buffalos or a small plot of land. It would be a great waste if the Government does not make use of their savings. In order to do so saving institutions must be extended to small communities, and encouragement

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to save be given to the people. It is suggested that in order to economize on overhead and personnel the post offices or any existing system of federal local offices be utilized.¹⁴

Reinvestment of business profits has been and continues to be a major source of capital formation in the industrialized countries.¹⁵ The enterprises in the country should be able to do a substantial amount of saving by reinvesting earnings. As far as the small-scale and medium-size enterprises are concerned, they have already done their part in this respect; it is the reinvestment that has helped them to expand their businesses. But the large-scale enterprises, especially those operated with foreign capital, need encouragement in this matter. Since they have large capital, they do not deem it necessary to reinvest their earnings, as a result profits are distributed and are remitted to foreign countries. It would be a perverse way of encouraging development by forcing them to reinvest all their earnings. This would kill the golden goose. Foreign capital which is already in the country would be withdrawn, let alone stimulate new overseas investment. Perhaps it would be feasible to arrange with foreign investors that a small percentage of their earnings be ploughed back into their businesses. This, however, should not be made compulsory. The country cannot afford

¹⁴ Norman S. Buchanan and Howard S. Ellis, Approaches to Economic Development, p. 306.

¹⁵ International Monetary Fund, Economic Development with Stability, p. 56.

to lose all the foreign capital which is now here.

Substantial idle capital has flowed out of the country to Hongkong to be invested in the construction business, which brings quick returns.¹⁶ The building boom continues to attract oversea Chinese investment. Measures should be taken to stop this outflow of capital, which should be mobilized and put to use. It is far better to use indigenous capital for development than imported capital, because any profit made by foreign firms will have to be remitted out of the country.

IV. FOREIGN RESOURCES FOR DEVELOPMENT

Whatever shortcomings there are in foreign capital, it also has its merits, which are already discussed in Chapter III. Since there is no likelihood of obtaining substantial financial help from the United Kingdom, and since domestic savings alone are not likely to be sufficient to meet the financial requirements of the economic development, then the Government should try to stimulate the flow of foreign capital into the country, particularly the private foreign capital, by creating attractive political and economic conditions. Private capital investment brings with it managerial and technical talents not usually associated with public capital, and

¹⁶ In a number of cases owners of large buildings have been able to sell or let their flats in the blue print stage.

it moves on a sound business basis of mutual profit.¹⁷ Foreign resources have contributed materially to the development program of India. She has received aid from the United States, the United Kingdom, Canada, Australia, New Zealand and Norway.¹⁸

There is another source which the Government should tap, and that is the country's sterling reserves held by the Malayan Board of Currency Commissioners. The present 100 percent reserve system is a wasteful locking up of sterling assets. It has been suggested that two-thirds of the currency issue be backed by sterling, the remainder by Malayan Government bonds. This change would make available more than \$300 million for additional development expenditure.¹⁹ The Federation is now an independent state, she could set up a central bank to take care of her currency issue and revise the present 100 percent reserve system.

The development program must be carried out notwithstanding the declining revenues and the meagre financial assistance from the United Kingdom, but it is essential that steps be taken to increase public revenues. Taxation and

¹⁷ Norman S. Buchanan and Howard S. Ellis, Approaches to Economic Development, p. 351.

¹⁸ International Monetary Fund, Economic Development with Stability, p. 71.

¹⁹ Lim Tay Boh (Editor) Problems of Malayan Economy, p. 55.

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domestic savings should be raised as much as is reasonably possible toward meeting the cost of the development programs. It is also necessary to stimulate the flow of foreign capital into the country.

CONCLUSIONS

The programs described in the previous chapters demonstrate the opportunities which exist for raising the standard of living of the people through economic development. They also show that the country's resources of capital and trained men are insufficient to make full use of these opportunities.

The economy of the country is highly specialized in the production of certain agricultural and mineral products for export; it is, therefore, necessary to concentrate on opening up new areas for their expansion, and to emphasize research projects for their improvement.

In order to free the economy from depending heavily on the export of a few products and on entrepot trade, steps should be taken towards greater diversification of the economy. A program for industrial development can be executed only when there is adequate supply of skilled labour and technicians, but, because of political reasons, these people have great difficulties in immigrating into the country. It is, therefore, necessary to set up adequate vocational training facilities to train her own men.

In the past the business boom and external help have enabled the Federation to carry out her projects smoothly. But it is very unlikely that there will be another boom

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within a few years. On the contrary, the International Bank has forecasted that the prices of rubber and tin will fall. External aid in the past partly came from the United Kingdom. Owing to the latter's specific policies the Federation is now no longer entitled to receive financial aid from her. The Federation must seek financial help elsewhere.

Unless government revenue can be increased, implementation of the programs will meet with great difficulties. The Federation cannot afford its present relatively low rates of tax on individual incomes. Tax on individuals should be raised, so as to bring substantially more revenue than is yielded by the present rates. The scale should be made steeper in the higher income brackets. Import tariffs should also be raised; and import duties imposed on new items. Private savings are an important part of the financial resources for the program. They should, therefore, be mobilized for investment.

The development programs are framed on a realistic basis, and are designed to provide the foundations for future progress rather than early dramatic results. To embark in these circumstances on far reaching and comprehensive programs requires great courage and effort, and the Government and the people have responded to the spur and challenge which those difficulties presented. The task that lies ahead is arduous, and the main burden must be borne on the country's

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own resources. It is hoped that the capital and technical knowledge of the advanced countries will be extended to the Federation in order to smooth and to accelerate the progress towards a higher standard of living.

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