

THE GROWTH AND STRUCTURE OF THE MALAYSIAN ECONOMY  
- AN OVERVIEW

by

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## Chapter I

### INTRODUCTION

This study attempts to present an overview of the growth and structure of the Malaysian economy since the time of British intervention in 1874. The year of the beginning of British intervention was selected to be a starting point of this report, since historians have made available a fuller account of events since that date.

The growth and structure of the economy of Malaysia needs to be viewed within a broad historical, political as well as social perspective. It should be viewed in such a manner because of the fact that Malaysia has special and unique characteristics that have never been confronted by other developing nations before. First, the country has a complex multi-racial society where economic classifications run along racial lines. Secondly, the Malaysian Government is pursuing development objectives such as economic growth, employment creation and equitable distribution of income and wealth which may not be completely complementary. Thirdly, the role of the Malaysian Government in the economic development of the country has been undergoing very rapid change. For a very long period of time the government adopted the laissez-faire philosophy with only limited intervention to the extent of providing law and order and infrastructural facilities. Recently, and in particular since the acceptance

of the New Economic Policy, the government has decided to play a more active and direct part in the development process. The analysis of development problems therefore must be judged on an overall basis.

The early development of the economy of the country began sometime in the second half of the nineteenth century and was closely connected to the discovery of tin ore and the introduction of rubber. Rubber and tin were much needed natural resources of the western world at that time. Since then rubber and tin industries have become leading export sectors of the economy.

The export sector has always played an important part in the development of the Malaysia economy. In the colonial era Malaysia specialized in the production and processing of rubber and tin for export in return for the import of essential foods and manufactured goods.

The effect that development through trade had on the economic structure of the Malaysian economy can be seen from the fact that in 1957, the year of independence, the primary sector accounted for over 45% of the gross domestic product (GDP). The tertiary sector, which consisted mainly of supporting activities for the primary sector, accounted for about 44% while manufacturing activities made up the other 11%.

In the same year gross export proceeds constituted nearly 47% of the GDP, which was dominated by the rubber and

the tin industries. Earnings from these two industries accounted for 85% of the gross export earnings or 40% of the GDP.<sup>1</sup>

The composition of the country's imports also demonstrates the essential nature of the economy. In 1955 consumer goods made up no less than 66% of the total imports while capital goods accounted for only 8%. The overall picture then of Malaysia before 1957 was of a highly trade-oriented economy exporting mainly rubber and tin and dependent on outside sources for essentials foodstuffs and manufactured products.

One of the economic consequences of such a structure is a high degree of economic instability and the adverse great effect that this may have on the rate of growth of the economy. The supply and demand of rubber and tin are subjected to fluctuation as are their prices. The result is a fluctuating export sector which may cause instability to the rest of the economy.

To remedy this instability Malaysia needs to diversify the economy. Moreover, since the introduction of synthetic rubber, the future prospects of natural rubber industry have become bleak so that further reliance on it as a source of economic growth is no longer warranted. The difficulty of tin, on the other hand, lies in the rapid depletion of known

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<sup>1</sup>David Lim, ed., Readings on Malaysian Economic Development (Kuala Lumpur: Oxford University Press, 1975), pp. 1-11.

tin deposits. Thus as far as Malaysia is concerned there has been a need to look for other sources of growth.

Malaysia's rice policy has evolved naturally out of the role rice plays in the national economy as a staple food and source of employment. The average Malaysian spends 21.5% of his income on rice. Rice production employs 20% of the total economically active population in Malaysia and 32% of those in the agricultural sector. 14% of all acreage under crops is devoted to rice, second only to rubber.<sup>2</sup> Malaysia is placing a great deal of emphasis on developing the padi economy through World Bank-financed irrigation schemes which will permit double-cropping. An effort also has been made in all padi growing areas to improve the techniques of production.

In the drive to diversify the economy, Malaysia has undertaken to emphasize both the industrial and agricultural sectors of the economy. The commonly accepted reason for the choice of an agricultural strategy of development is the political influence of the rural population. The emphasis is on raising the standard of living and eradicating poverty in the rural areas, where most of the poor live. In line with the government approach to rural development, the direct involvement of government in agriculture under the First and Second Five-Year Malaya Plans (1956-1960 and 1961-1965)<sup>3</sup> was

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<sup>2</sup> Ibid., p. 97.

<sup>3</sup> "Malaya" is used instead of "Malaysia" because the Plans were formulated before the formation of Malaysia (1963).

limited to the extension of economic infrastructure, especially roads and irrigation, and community development. The government's involvement in rural development was more direct and deeper in subsequent Five-Year Malaysia Economic Plans.

The formulation of the First Malaysia Plan 1966-70, the first Five-Year Development Plan after the formation of Malaysia in 1963, marked a shift of concentration towards more industrialization especially manufacturing sector. This was evidenced from the fact that by 1970 the manufacturing sector's share in the GDP increased to 13% from 8% in 1957. The type of industries had also expanded considerably. For example, in 1957 the manufacturing sector consisted largely of the processing of estate-type agricultural products in factories off estates and wood and rattan products. But by 1970 newer industries such as chemical products, printing and publishing and non-metallic mineral products were beginning to play an important part.<sup>4</sup>

Like most other developing countries with an unemployment problem, Malaysia should primarily look at labor-intensive lines of production and make sure that labor costs remain competitively low. Malaysia has comparative advantages in processing the country's natural resources (e.g., timber processing and export of wood products, rather than exporting

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<sup>4</sup>Lim, p. 132.



the raw materials; rubber processing). Another promising avenue for industrialization seems to be in labor-intensive, intermediate industrial products such as electronics or specific car parts. Labor cost in Malaysia was rather stable throughout the 1960s. This had made Malaysia an internationally very attractive location for investors.

There is much interest in and concern for the distribution of income and wealth in Malaysia today among politicians and planners. This distribution in Malaysia is no more uneven than that in many other less developed countries. However, it has greater political significance because of ethnic aspect of the problem. It so happens that the least economically advanced group is also the group with the most political influence. The Malaysian Government has been concerned with rural development since the year of its independence, with its land development schemes and programmes for improving rural infrastructural facilities. However, it would be true to say that the problem did not emerge as an issue that would occupy the full attention of politicians and planners until after the 1969 General Elections. The racial disturbances which broke out in the wake of the elections were a reminder that things were not what they seemed. Thus, the Second Malaysia Plan 1971-75, had as its main objectives, therefore, the creation of greater employment opportunities and a more equitable distribution of income and wealth.

When the term of the Second Malaysia Plan expired in 1975, the unemployment problem and the problem of distribution of income still remained the national issues of the country. When the Third Malaysia Plan 1976-80 was first formulated in 1976, it aimed at accelerating the goals of the previous Second Malaysia Plan. Today, the Third Malaysia Plan is in its final year of implementation.

## Chapter II

### SOME FACTS ABOUT MALAYSIA

#### 1. Position

Peninsular Malaysia is situated in Southeast Asia on the southern most part of the peninsula below Thailand and Burma, bounded on the east by the South China Sea and on the west by the Straits of Malacca. The country is less than 500 miles north-south and 200 miles east-west at its widest point, the southern tip is only a degree of latitude north of the equator. (see figure 1)

#### 2. Country

Malaysia is an independent country within the British Commonwealth, with its own King, the Yang di-Pertuan Agong. The country is a federation of eleven states in Peninsular Malaysia, while Sabah and Sarawak on the island of Borneo are the two states of Malaysia. The Peninsular Malaysian states are (from north to south) Perlis, Kedah, Penang, Perak, Selangor, Negeri Sembilan and Malacca on west coast; and Kelantan, Trengganu and Pahang on the east coast. (see figure 2). Individual states have their own rulers and certain rights.

From its early development to its independence in 1957, the country was under the influence of the British. British control began as early as in 1874.

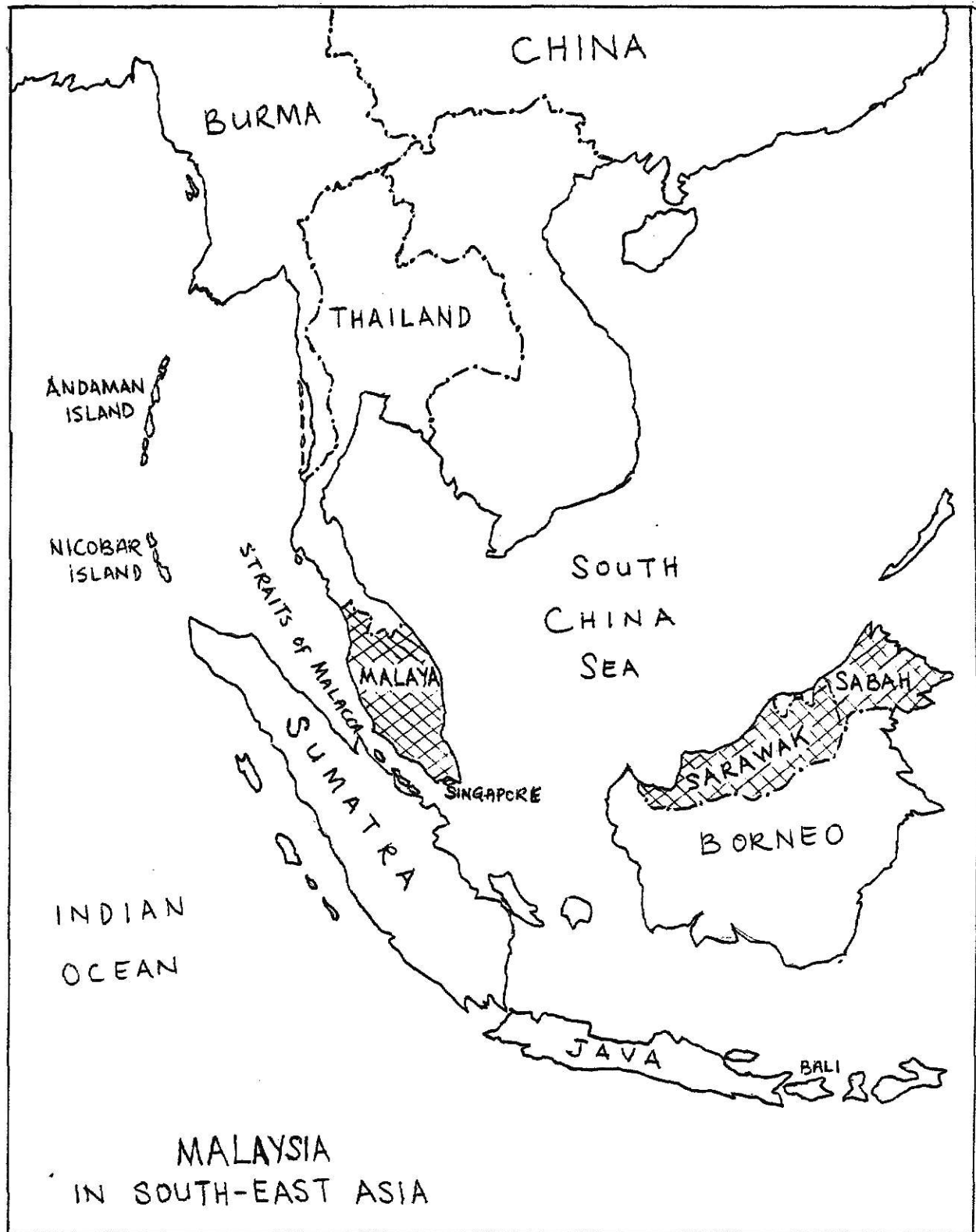
Figure 1

Figure 2



### 3. Climate

Average daily temperature is 70° to 90°F with little seasonal variation, and rainfall is heavy - 100" per year on average. The east coast is subject to monsoon rains from November to March, while rainfall on the west coast is relatively even.

### 4. Formation of Malaysia

Malaysia was formed in 1963 out of the federation of eleven states of Peninsular Malaysia with Singapore, Sabah and Sarawak (the two Borneo states). Singapore left in 1965.

### 5. Population

The estimated population of Malaysia grew from 12.3 million in 1975 to 14 million in 1980, an average annual rate of growth of 2.6%. Of the total population, about 85% resided in Peninsular Malaysia, 6% in Sabah and 9% in Sarawak. By 1980, the ethnic composition of the population in Malaysia will be about 54% indigenous (Malays in Peninsular Malaysia and other tribal groups of Sabah and Sarawak), 35% Chinese, 10% Indians and 1% others.<sup>1</sup>

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<sup>1</sup>The Government of Malaysia, Mid-term Review of the Third Malaysia Plan 1976-1980, (Kuala Lumpur: Government Printers, 1979), p. 59.

### Chapter III

#### THE DEVELOPMENT OF THE ECONOMY PRIOR TO 1920s

##### 1. Mining

###### a) The Growth of the Tin Industry

At the time of British intervention in 1874 the country was almost entirely covered by jungle, with agricultural activity still confined to shifting cultivation of such crop as rice, pepper, gambier and tapioca.

The early development of the economy, in the second half of the nineteenth century, was closely connected with tin. Tin had been produced in Malaya (as it was called before the formation of Malaysia) since the ninth century, but its large-scale exploitation dates from the discovery of the Larut tin field (named after the district where tin was found; it is one of the district in the State of Perak) in 1848 and an accompanying influx of Chinese immigrants from China. By 1870, 40,000 Chinese were mining tin in the district. Exports of tin from Larut reached a peak of approximately three-quarters of Perak's output in 1884. In Selangor tin was also mined around Kuala Lumpur (Malaysia's capital) in 1874.<sup>1</sup>

The Kinta Valley around Ipoh (the capital of the State of Perak), the center of the present-day tin industry,

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<sup>1</sup>John T. Thoburn, Primary Commodity Exports and Economic Development; Theory, Evidence and a Study of Malaysia. (New York: John Wiley and Sons, 1977), p. 58.

began to rival Larut as the main tin area in the mid-1800s. In 1885 the residents of Perak noted an extensive migration of Chinese miners from Larut to other parts of the state which would have been mainly to Kinta. By 1889 Kinta's output surpassed that of Larut, and in 1910 its output was nearly seven times that of Larut.<sup>2</sup> Indeed, this was the start of a strong regional bias in tin mining which continues to the present day, with the bulk of output coming from Perak and Selangor. See table 1.

Table 1

Exports of Tin from Malaya 1875-1915, Selected Years

|      | (tons)       |                 |                   |               |
|------|--------------|-----------------|-------------------|---------------|
|      | <u>Perak</u> | <u>Selangor</u> | <u>N.Sembilan</u> | <u>Pahang</u> |
| 1875 | 1,762        | N.A.            | N.A.              | N.A.          |
| 1880 | 5,247        | 3,007           | N.A.              | N.A.          |
| 1885 | 9,680        | 4,935           | 1,264             | N.A.          |
| 1890 | 14,117       | 10,389          | 2,142             | 327           |
| 1895 | 23,960       | 21,515          | 2,332             | 407           |
| 1900 | 21,166       | 16,041          | 4,301             | 936           |
| 1905 | 26,594       | 17,254          | 5,067             | 2,077         |
| 1910 | 25,080       | 14,297          | 2,065             | 2,421         |
| 1915 | 27,771       | 13,938          | 1,244             | 3,808         |

Sources:

- (1) All 1915 figures from Fermor (1939, p. 58)
- (2) All other figures from Wang (1965, p. 249)

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<sup>2</sup>Ibid., p. 59.



The labor force of Chinese miners was drawn directly from China. Immigrants first came mainly under indenture system, whereby their passage was paid by prospective employers, with whom they had to work off their debt. Later, workers were drawn from a pool of people who had paid off their indentures or who came from China under their own finance. By 1914 the indenture system was officially prohibited. Participation by Malays and other indigenous groups as either owners or workers was practically non-existent.

At the turn of the century, when Malaya was already supplying over half of world tin output, European firms were beginning to show interest in industries not dominated by Chinese. In the early stages of their intervention in this industry Western firms had not been successful in their attempts to establish themselves in Malaya. While easily accessible high-grade ground was being mined by labor-intensive Chinese methods, Western firms proved unable to compete, being encumbered by a top-heavy administrative structure and inappropriate equipment. Moreover secret society pressures made it difficult for them to hire Chinese labor. It was only in the 1890s onwards that the Western firms managed to operate quite successfully.<sup>3</sup> Their success was much attributed to the subsequent suppression of secret societies by the government coupled with the drainage problems. The difficulties

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<sup>3</sup> Ibid., p. 60.

of raising ore-bearing earth to the surface from deep mines made the use of foreign mechanical equipment more appropriate. It was European experimentation in Malaya first with hydraulic methods, and then with dredging, which formed the basis for the growth of Western firms. Dredges required large capital outlays which the Chinese could not finance. By the late 1930's the European dredging firms were producing half of Malaya's tin output.

b) Other Mining Industries

Gold had been worked in Pahang from at least the sixteenth century, and it may have been worked near Malacca in neolithic times. The quantities were not large, and extraction of the gold was a slow and laborious process. Many efforts were made to expand the industry but ended in failure due to poor management and lacked of large capital equipment.

Early in the twentieth century coal-mining began at Batu Arang in Selangor through western enterprise. The coal mined here was not for export but its main uses were for railways, power stations, and dredges. For various reasons, notably the increasing competition of fuel-oil, coal production was a failure.<sup>4</sup>

Iron-ore had been worked by Japanese enterprise in Johore, Trengganu, and Kelantan, since shortly after the First World War, for export to Japan, where it was smelted. The

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<sup>4</sup>J. Kennedy, A History of Malaya A.D. 1400-1959 (London: St. Martin's Press, 1962), p. 191.

industry has never expanded into large scale operation.

A number of other mining operations had their origins in the early twentieth century. Of these, the mining of bauxite (aluminum) had the largest output, and it was, like iron-ore, originally in Japanese hands. The mines were in Johore, and nearly all production was for the Japanese market. Bauxite mining continues on an expanding scale at the present time.

## 2. Agriculture

### a) The Introduction of Rubber

The first commercial planting of rubber in Malaya as a separate crop was thought to date from 1896, when five acres of rubber were planted on a European coffee estate in Selangor. By 1922, the estate sector had already swelled to considerable size.

Experimental work pre-dated commercial planting by twenty years. In 1877 rubber seeds sent from the Kew Gardens, England were planted at Botanical Gardens and at the experimental gardens at the Residency at Kuala Kangsar, Perak, started by Sir Hugh Low in that year. By 1896 seeds of the trees at Kuala Kangsar were being planted experimentally at a number of sites in Malaya which yielded a good crop of seeds for further cultivation. By 1897 the so-called herring-bone tapping was devised, an important technological innovation which greatly facilitated the development of commercial growing.<sup>5</sup>

The year 1896 saw the falling of coffee prices

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<sup>5</sup>Thoburn, p. 62.

**THIS BOOK  
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accompanied by rises in the price of rubber. By 1897 many small planters had abandoned their coffee holdings and in 1898 a plague of caterpillars ravaged the industry in Selangor. By 1900 coffee prices were so low that only the best estates could cover working costs. By 1902, almost every coffee estate in Malaya had been interplanted with rubber, and in some cases even mature intercrops such as coconuts were being cut out to make room for the new crop.<sup>6</sup> An indication of the rate of new plantings of rubber is given in table 2.

Table 2

Annual New Plantings of Rubber in Malaya, 1898-1922

| <u>Year</u> | <u>(000 acres)</u> | <u>Year</u> | <u>(000 acres)</u> | <u>Year</u> | <u>(000 acres)</u> |
|-------------|--------------------|-------------|--------------------|-------------|--------------------|
| 1898        | 2                  | 1907        | 73                 | 1915        | 122                |
| 1899        | 2                  | 1908        | 85                 | 1916        | 140                |
| 1900        | 2                  | 1909        | 79                 | 1917        | 228                |
| 1901        | 5                  | 1910        | 207                | 1918        | 228                |
| 1902        | 4                  | 1911        | 209                | 1919        | 175                |
| 1903        | 5                  | 1912        | 192                | 1920        | 120                |
| 1904        | 8                  | 1913        | 132                | 1921        | 59                 |
| 1905        | 18                 | 1914        | 94                 | 1922        | 20                 |
| 1906        | 51                 |             |                    |             |                    |

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(Total planted acreage 1900:6,000 acres 1922:2,260,000 acres)

Sources and Notes

1. Figures are from Figart (1925, p. 279)

The labor supply problem was met by large-scale immigration of Tamils from South India. Various measures had

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<sup>6</sup> Ibid.

been taken by the government to help foreign recruitment of laborers by planters, but 1907 marks the start of large-scale immigration, with government aid.

The rubber tree fitted well into the Malay economy. It involved little essential work during the immature period, so that the owner could devote himself to other activities. Tapping and processing equipment involved minimal capital outlays. Also rubber, unlike rice or fruit, provides regular yields and income.

By 1911, employment in rubber was of a similar size to that in tin, and by 1915 the value of rubber exports exceeded those of tin ore.<sup>7</sup>

#### b) Other Plantation Agriculture

Early examples in Malaya of plantation agriculture, both for export and local consumption, would include pepper in Kedah in the seventeenth century, spices in Penang in the late eighteenth and first half of the nineteenth century. Chinese agriculturists introduced pepper plantations into Johore after 1840. Pepper was the most important Malayan export crop until about 1850, and nutmeg and cloves had some importance until the advent of plant diseases after 1860.<sup>8</sup>

In the first half of nineteenth century a few European

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<sup>7</sup>Chandriah Appa Rao, et. al., Issues in Contemporary Malaysia (K.L: Heinemann Educational Books (ASIA) Ltd. '77), p.53

<sup>8</sup>Kennedy, p. 202.

merchants planted sugar-cane in Penang; Province Wellesley, and Malacca. It was in Malacca that most cultivation took place. For about fifty years sugar had been an important product but after 1910 the industry declined due to subsequent crop failures and difficulties of recruiting laborers who preferred to work in other areas of less tedious jobs.

In the 1880s coffee planters arrived from Ceylon, where their crops had failed through the outbreak of a plant disease. They planted estates with Liberian coffee in Perak, Selangor, and Negri Sembilan, and for a time they prospered. At the end of the century, coffee prices dropped very sharply owing to an increased output of Arabian coffee from Brazil, and a few years later the estates in Malaya were seriously damaged by pests.

c) Food-Producing Agriculture

i) Rice:

Rice is the basic foodstuff in Malaya. Rice cultivation began when men first knew how to produce their own food instead of relying on wild vegetation. Even though the exact date is not known it is estimated that rice was first cultivated in Malaysia several centuries before rubber was first introduced.

ii) Other food production:

Fruits and vegetables have been important in the village mixed-garden produce of Malaya for centuries. Among the important fruit trees were the durian,

custard apple, soursop, papaya, rambutan, guava, mangosteen, and various citrus fruits - oranges, limes and pomelos.

Within the village, starchy tubers and supplementary grain foods were also raised in the mixed gardens. Yams, tapioca, sweet potatoes, corn, soybeans, peas and beans, and peanuts were among the chief crops. Tea, coffee, and pepper were of modest importance grown primarily as cash crops and mostly by smallholders.

Though the value of these food production in Malaya was quite considerable, relatively little is known about its economics.

### 3. Remarks on Other Industries

Little change took place in the economic patterns in Malaya from the early years of nineteenth century up to the 1920s or even up to the Second World War. Almost all attention was concentrated on tin and rubber. As a result of this concentration, the development of the country was largely confined to those areas which had facilities for these two industries. Road and railways and other amenities like water, light, education, and hospitals were established in places where there were tin and rubber.

It was for these reasons that pre-war economic development in Malaya was unbalanced. There was little over-all planning, and attention was paid mainly to these two extractive



industries. No attention or very little if at all, were paid to manufacturing or processing and other related industries. Industrialization attained only very slow growth. To some extent this explains why so much attention was given to develop the manufacturing and processing industries during the post-Second World War development in Malaya.

## Chapter IV

## THE PROBLEMS OF 1920s UP TO THE SECOND WORLD WAR

1. The Economy, 1920-41a) The export commodities

Table 3 shows the course of tin and rubber exports during the inter-war period. Apart from a rise in rubber export earnings, and in tin earnings to a lesser extent, in the mid-1920's, there were little expansion in the two industries, tin output being relatively stagnant and rises in rubber output being outweighed by lower prices.

Table 3

Exports of Tin and Rubber from Malaya  
1920-35, Selected Years

|      | <u>Tin</u>       |                  | <u>Rubber</u>    |                  |
|------|------------------|------------------|------------------|------------------|
|      | <u>Tons(000)</u> | <u>M\$mill.*</u> | <u>Tons(000)</u> | <u>M\$mill.*</u> |
| 1920 | 37               | 128              | 174              | 269              |
| 1925 | 49               | 175              | 210              | 757              |
| 1930 | 64               | 124              | 452              | 241              |
| 1935 | 42               | 117              | 377              | 259              |

Sources and Notes:

(1) Tin tonnages 1920-35 are exports, all from Fernor (1939, p. 61).

(2) All other figures from Lim Chong Yah, (1967, pp.325 and 328).

(i) Rubber

Sharply falling prices from 1920 marked the end of expansion of Malaya rubber. In 1922 the

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\*M\$1.00 = U.S. \$0.50 Approximate.

London rubber price reached one of its lowest points. From November 1922 to September 1928 exports of rubber from Malaya were restricted under the so-called Stevenson Scheme.\* From June 1934 exports from virtually all rubber producing countries were restricted under the International Rubber Regulation Scheme (IRRS).\*\* This scheme, having been renewed in 1938, was still in force when Malaya was occupied by the Japanese in 1941.

The alienation of land for rubber was forbidden under the Stevenson Scheme and from August 1930 to December 1938. It was discouraged from 1928 to 1930 by high alienation premiums and by administrative discouragement of alienation to smallholders. New Planting, allowed during Stevenson, was banned from 1934 to 1938. Re-

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\*Stevenson Scheme restricted output on the basis of a set formula in relation to a standard tonnage based on actual 1920 output, in order to achieve a pivotal price of 1/3d a lb (raised to 1/9d in 1926). For all but nine months of the restriction period production was restricted to 85% or less of standard tonnage, and for half the period to 60% (Lim, 1967, p.77)

\*\*The IRRS, introduced after the Great Depression, restricted output to a percentage of a quota based on 1929-32 output, the releases being determined by an International Rubber Regulation Committee. For the first two years of operation quota releases averaged 60%, rising to a peak of 90% in the last quarter of 1937 to a low of 45% in the third and fourth quarters of 1938. The 1939 quotas averaged slightly under 60% (Agriculture Department, AR, 1934-40).

planting under the IRRS was allowed up to 20% of planted acreage during the whole restriction period (1934-8), with a maximum of 10% in any one year.<sup>1</sup> Thus the size of the industry and the distribution of acreage between estates and smallholders were effectively 'frozen' from 1922 to the Second World War although some increases in planted acreage occurred as new plantings took place on land already alienated, and limited new planting on newly alienated land occurred from 1939. Smallholdings seem to have been particularly hard hit by restriction. Both under Stevenson and the IRRS their quotas were determined on the assumptions of yields per acre far below their actual capabilities. The restriction on replanting to 20% of total acreage in the 1930s combined with the overall restriction of new planting during the whole period meant that the smallholders sectors were unable to expand to the acreage already reached by estates and were unable to replant.

ii) Tin

Following the fall in the tin plate price in the late 1920s due mainly to vastly increased world production, a voluntary Tin Producer

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<sup>1</sup>Wang Gungwu, Malaysia: A Survey (New York: Frederick A. Praeger, Inc., Publisher, 1964), p. 297.

Association was formed in 1929, controlling 20% of world output, to restrict production on a voluntary basis. But the scheme was a failure as stocks continued to accumulate and prices decline. A wider scheme of control was agreed to in February 1932 between Malaysia, the Netherlands, East Indies, Bolivia and Nigeria. Export quotas were determined on the basis of the standard tonnage based on its share of 1929 world output. A second agreement was set up in 1934 and extended in 1937 so that control continued throughout the pre-1940 period.<sup>2</sup>

The early 1930s also saw a slump in the world tin industry, caused by a temporary fall in world demand as a result of the Great Depression. This pressed the price lower than ever before. From 1931 further decline in the tin price was prevented by drastic export control among the principal producers in the world in the form of the International Tin Agreement.<sup>3</sup> An artificial tin price was thus maintained until the outbreak of the Second World War.

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<sup>2</sup>The Government of Malaysia, Malaysia Year Book 1969 (Kuala Lumpur, Malaysia: The Government Press, 1971), p. 205.

<sup>3</sup>Gungwu, p. 297.

b) Non-Export and Cash Crop Commodities:

i) Rice

Rice has been the staple food of the population of the country, yet it accounted for only 16% of the total cultivated area in the country at the time of Second World War.<sup>4</sup> Its production was entirely in the hands of smallholders. The Malayan padi cultivation was not like that of large-scale commercialized farming practical in the Irrawaddy delta and in Southern Thailand and Indonesia. Padi culture was important in every state of the Federation, but was of greatest significance in the so-called rice bowls of Kedah, Perlis, Perak, Kelantan and Trengganu, where over two-thirds of Malaya's rice was produced. The distribution of rice acreage in the immediate post war period is shown in table 4. The greatest concentrations were in the northwest and north east. The three most important rice-producing provinces were Kedah, Kelantan, and Perak, which together account for 64% of the country's rice acreage.

Even though rice was produced in considerable quantities, the country was still not self-reliance. Rice cultivation: Rice technology in Malaya may be divided into "wet" cultivation, in which the crop

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<sup>4</sup>Norton Ginsburg and Chester F. Roberts, Malaya (Seattle: University of Washington Press, 1958), p. 379.

Table 4

## Agricultural Land Uses, 1949\*

| State Settlement        | Total Acreage | Rubber    | % of Malaysian rubber acreage | Padi+   | % of Malaysian Padi acreage | Coconut Palm | % of Malaysian Coconut acreage | Oil Palm |          |
|-------------------------|---------------|-----------|-------------------------------|---------|-----------------------------|--------------|--------------------------------|----------|----------|
| Perlis                  | 198,400       | 5,370     | 0.1                           | 43,430  | 5.1                         | 3,218        | 0.6                            | -        | -        |
| Kedah                   | 2,342,400     | 351,405   | 10.4                          | 273,200 | 32.7                        | 31,538       | 6.2                            | -        | -        |
| K'tan                   | 3,677,440     | 113,814   | 3.4                           | 141,550 | 16.9                        | 41,152       | 8.1                            | 550      | -        |
| T'ganu                  | 3,232,000     | 42,111    | 1.2                           | 44,110  | 5.3                         | 20,486       | 4.0                            | -        | -        |
| Penang & P.W.           | 256,000       | 66,730    | 2.0                           | 39,400  | 4.7                         | 42,397       | 8.3                            | 503      | -        |
| Perak                   | 5,107,200     | 555,164   | 16.4                          | 119,370 | 14.3                        | 112,304      | 22.1                           | 22,120   | -        |
| S'gor                   | 2,026,880     | 511,479   | 15.1                          | 40,850  | 4.8                         | 101,104      | 19.9                           | 17,585   | -        |
| Pahang                  | 8,878,720     | 194,979   | 5.7                           | 46,740  | 5.6                         | 13,513       | 2.6                            | 5,830    | -        |
| N.Sembilan              | 1,632,000     | 388,213   | 11.5                          | 34,290  | 4.1                         | 4,768        | 0.9                            | 2,841    | -        |
| Malacca                 | 405,120       | 215,179   | 6.4                           | 31,810  | 3.8                         | 11,165       | 2.2                            | -        | -        |
| Johore                  | 4,685,440     | 920,016   | 27.8                          | 20,710  | 2.5                         | 117,965      | 24.7                           | 41,078   | 16,000** |
| Total                   | 32,441,600    | 3,364,460 | 100.0                         | 835,460 | 99.8                        | 499,610      | 99.6                           | 90,507   | 16,000   |
| % of cultivated acreage |               | 64.6      |                               | 16.0    |                             | 9.7          |                                | 1.7      | 0.3      |

\*From Heath, Malaysian Agricultural Statistics, 1949.

\*\*1954.

+Area Planted.

grew in a partially controlled water environment at least part of the time, and "dry" or "upland" cultivation. Wet rice cultivation was the most important of the two systems and was associated with permanent rural settlement.<sup>5</sup>

ii) Pineapples

Pineapples were grown widely in 1940s but account for less than 1% of the total cultivated acreage in the country. Much of the crop was raised as a cash crop, with Johore the center of production. Before the war much of the area under pineapples was cultivated under a system of modified shifting agriculture by Chinese croppers, and Malaya became the second largest pineapple exporter in the world, next to Hawaii.<sup>6</sup> But post World War II production declined markedly.

iii) Tea, Coffee, Pepper

Tea was of modest importance as a cash crop grown primarily on estates for both local consumption and export. Coffee, formerly of considerable importance, was primarily a smallholder's crop, grown as a cash crop. Pepper was a secondary crop of less importance than ever before.

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<sup>5</sup>In the postwar years of 1946-9, the average planted acreage of wet paddy per annum was 782,600, as compared to 76,431 of dry paddy. See Heath, Malayan Agricultural Statistics, 1949.

<sup>6</sup>Ginsburg and Roberts, p. 390.



(iv) Fruits and Vegetables

The rural area was virtually self-sufficient in its fruits and vegetables production. The mixed-garden supply a substantial portion of the caloric intake among the villagers as well as the greater proportion of the protein and protective elements in their diet.

2. Period of Japanese Occupation, 1942-45

Malaya came under the Japanese occupation between 1942 and 1945. Under the Japanese occupation, economically, there was very great hardship. The standard of living in Malaya was linked with the production for export, especially rubber and tin. During this period tin-mining equipment and rubber-processing plants were heavily damaged. This, in itself, might only have had limited effects on Malaya's two main industries; more significant was the fact that Malaya was cut off from the normal export markets and production could now only be measured by Japanese requirements. Although both tin and rubber were important materials in war-time, transport was also a vital factor and the needs of Japanese industry could often be met in controlled territories nearer to Japan than Malaya. The loss of markets for tin and rubber also meant to Malaya a loss of consumer goods of all kinds, which were normally imported. More serious still was the shortage of imported foodstuffs, including rice, much of which came from Japanese-controlled areas but for which the Japanese were incapable of providing adequate transport or marketing arrangements.

The Japanese occupation also brought about a destruction of the long-established administrative mechanism that governed the country. The destruction did not only confined to physical machinery but also to the organization and planning processes which were vital for economic development. Economic growth during 1942-45 was halted.

### 3. Manufacturing and Processing Industries, 1920-45

Remarks have already been made in Chapter III that little change took place in the economic patterns of Malaya from the nineteenth century to the Second World War era other than development of rubber and tin. Little or no attention at all was given to the manufacturing and processing sectors. Most of these sectors were at the cottage level catering for individual localities. The government was never involved in promoting the manufacturing and processing sectors.

The Japanese occupation of Malaya 1942-45 marked a devastating blow to the already weak manufacturing and processing industries. Most of the traditional machinery was destroyed and if not destroyed was abandoned for fear of the war and Japanese harassment.

## Chapter V

## THE POST-WAR DEVELOPMENT

1. The Position of the Primary Industrya) Export commodities

Despite severe disruption to the tin mining industry under the Japanese occupation the recovery of tin production in Malaya in the immediate post-war years was remarkable. By 1948 production had almost reached the 1939 level and by 1956, the industry returned to its pre-control productive capacity of the late 1920s.

To some extent, the rapid progress of the industry in the post-war years was the result of the financial assistance offered by the Malayan government for the rehabilitation of the mines immediately after the war. But more important was the encouragement given to the industry in the form of a continuous high tin price which culminated in the Korean War boom of 1951-52.

An important influence on the post-war world tin market was the United States strategic stockpiling policy. The United States, which has no tin resources of its own, began stockpiling tin for strategic purposes in 1939 but continued with the policy even after the war. As early as the end of 1947 the post-war recovery of tin production in Malaya had been so rapid that world production had caught up with world commercial consumption. After 1956, the United States reduced

substantially its strategic stockpile purchase of tin. As soon as the United States had achieved its stockpile target a world tin surplus similar to that of the 1930s emerged.<sup>1</sup>

Unlike tin mining industry, the rubber industry did not suffer as bad. By 1947-8 the rubber production was higher than before the war. The industry also benefitted considerably from the boom in prices following the outbreak of the Korean War. The boom had led to more acreage being planted in rubber trees. Areas where coffee originally dominated were cleared and planted with rubber. When the boom period ended followed by falling prices, rubber again entered a new era where old, low-yielding rubber trees were replanted with high-yielding trees with the establishment of a Rubber Replanting Scheme in 1952.

#### b) Non-Export Commodities

During the post-war period, the output of a number of other commodities within the field of primary industry did increase substantially, notably rice, copra, tea, pineapple, forestry products, fish, iron ore, and various minor minerals. Their importance in Malaya agriculture however, was limited to catering for local needs and very little was known to reach overseas market.

### 2. The Problem of Export Instability

As export commodities, tin and rubber were subjected

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<sup>1</sup>Chandriah Appa Rao, et. al., Issues in Contemporary Malaysia (Kuala Lumpur: Heinemann Educational Books (ASIA) Ltd., 1977), p. 53.

to extreme price instability which presented a serious problem for the Malayan economy. This price instability was mainly due to the fluctuation in world tin and rubber demand and supply. The world consumption and production of these two commodities often fluctuates following the trend of the world political situation. For example consumption and price rose during war-time and declined after the war. Demand and prices were also heavily affected by the presence of substitutes as in the case of the introduction of synthetic rubber after the Second World War.

This export instability was all the more significant because in Malaya tin and rubber exports form a considerable proportion of the total exports of the country (30-40%) as well as represent a fairly important share of its gross domestic product.

All this presents special difficulties to Malaya in terms of financing its economic development. With its high marginal and average propensity to import (and consume) at that time, any reduction in its export receipts during a recession must therefore be borne at the expense of its economic development program.

### 3. The Realization of the Need for Diversification

No one can predict with certainty to what level the rubber and tin prices will eventually rise or fall in Malaysia. On the basis of the prices which prevailed in the 1950s (after the Korean War), there was not much doubt that an alternative

has to be sought.

a) The need to diversify into other forms of export agriculture

i) Oil Palm

Oil Palm, a newly introduced experimental agricultural product in the country which has a quite steady price in the world market, was a real economic alternative to rubber. The price of palm oil on the world market, unlike that of rubber, has not been subject to turbulent fluctuations and if the downward trend of rubber price continues, then the financial return from oil palm will substantially greater.

There were considerable potential areas for the expansion of oil palm in Malaysia. The oil palm flourishes in the marine clays on the west coast of the Malaya peninsular. In these areas therefore, old rubber plantings could give way to oil palm. There were other areas as yet underdeveloped where oil palm should grow well, e.g., the soils of volcanic origin in Sabah and Pahang in Malaya. Considerable areas for oil palm also existed in Trengganu and elsewhere.<sup>2</sup>

A substantial acreage in Malaya was devoted to the cultivation of coconuts mainly concentrated in the coastal areas of west Johore and Perak. Coconut was predominantly a smallholder crop even though there

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<sup>2</sup>Gungwu, p. 279.

were some estates. From an economic point of view, however, there was much evidence to indicate that even with fairly good yields, the income from coconut per acre per annum was very much lower than that from oil palm (as shown in table 5).

Table 5

Returns from Oil Palm and Coconut

| <u>Crop</u> | <u>Expected<br/>Yield<br/>per acre<br/>per annum</u> | <u>Price</u>     | <u>Gross<br/>Income<br/>per acre<br/>per annum</u> |
|-------------|------------------------------------------------------|------------------|----------------------------------------------------|
| Coconut     | 8 pikuls copra                                       | \$M 25 per pikul | \$M 200                                            |
| Oil Palm    | 5 tons fresh<br>fruit bunches.                       | 4cts. per lb.    | \$M 448                                            |

In view of the fact that most of the soils in areas where coconuts were planted are marine clays, it would be rational to switch over to oil palm. Naturally, a number of problems<sup>3</sup> will be encountered in any move to change the smallholders' crop. The first problem was the smallholders' reluctance to alter their rhythm of life by changing to the more exacting culture of oil palms. However, given financial backing and the force of economic considerations the smallholders may be won over to this new crop. The second

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<sup>3</sup>Gungwu, p. 280.

problem was technical since the smallholders will have to be shown how to grow and manage the crop. Perhaps the experience of the oil palm estates can be drawn upon for designing a program of technical aid to potential oil palm smallholders. There is still the problem of providing oil palm factories for the extraction of palm oil. The capital outlay is heavy and some form of a government-aided co-operative factory will be needed. Notwithstanding all these difficulties, there is no doubt that oil palm expansion must take place in Malaysia as an integral part of diversification.

ii) Pineapples:

The potentialities for expansion in pineapple cultivation cannot be disregarded. The availability of large suitable areas provides opportunities for expansion. However, viewed purely as an export crop there are problems of competition in world markets, chiefly from Australia, Hawaii, Philippines and Taiwan.

b) The Need to Expand Secondary Industry

Most developing countries regard industrialization as necessary for development and modernization. Malaya is no exception. This notion has probably become firmly rooted because the affluent countries of the developed world all



have substantial industrial sectors. It was more convincing to Malaya when it flipped through the past records of bitter experience it had had with the tin and rubber prices in international trade. The conclusion was drawn that industrialization (particularly expansion of secondary industry) was a means to affluence and to escape low income levels and poverty. To assume that industrialization is the solution for all economic problem facing developing countries is, however, mistaken. If the pursuit of industrialization leads to an exclusive concentration of resources on manufacturing activities and to the neglect of agriculture, it can be disastrous, especially an agricultural country like Malaya. Moreover, the experience of such countries as Argentina, New Zealand, and Holland demonstrates that even predominantly agricultural countries can achieve a certain level of affluence.

One reason Malaya wanted to industrialize was to curtail imports by producing substitutes itself. Import-substituting industries can save on foreign exchange and create employment. The other types of industries were those that produce goods for export for which Malaya possessed the raw materials. But with all these ideas, it was not until after independence in 1957 that industrialization became officially a policy objective for Malaya's national development.

## Chapter VI

NATURE AND EXTENT OF INDUSTRY AT  
THE TIME OF INDEPENDENCE (1957)

The year of independence in 1957 marked the end of the British intervention in Malaya and the beginning of the process of self-government. The end of the colonial rule saw the birth of a new nation that looked forward to new challenges ahead. The withdrawal of the British left the country in the midst of economic war-chaos with scores of development programs half done. One duty of the new government to see that these programs were completed with success.

One aspect of the development projects that needs serious consideration was the industrialization process - the area that had been neglected during the colonial time. But before lengthy discussion is engaged, a review of the extent of the existence of the industrialization at the time of independence - the period of transition - will be presented.

One important measure of the extent of industrialization of a country is the proportion of the work force in secondary industry - manufacturing, building and construction. The 1957 Census of Population shows that 9.6 per cent of the total working population of the Federation of Malaya was employed in secondary industry. The changes in the distribution of the work force between 1947 and 1957 are shown in table 6. Care is needed in interpreting these changes because of different classification, seasonal work, and the fact that many workers have two or three different jobs, so that a great deal of difference can be made according to which job they

Table 6

Malaya: Working Population, 1947 and 1957

| Industry                                                                  | 1947           |       | 1957           |       | Increase       |       |
|---------------------------------------------------------------------------|----------------|-------|----------------|-------|----------------|-------|
|                                                                           | Number<br>'000 | %     | Number<br>'000 | %     | Number<br>'000 | %     |
| Agriculture                                                               | 1,240.5        | 66.2  | 1,244.8        | 58.5  | 4.3            | 0.3   |
| Mining &<br>Quarrying                                                     | 47.7           | 2.5   | 58.5           | 2.8   | 10.8           | 22.6  |
| Manufacturers                                                             | 126.2          | 6.7   | 135.7          | 6.4   | 9.5            | 7.5   |
| Building and<br>Construction                                              | 13.5           | 0.7   | 67.8           | 3.2   | 54.3           | 402.5 |
| Electricity,<br>Water etc.                                                | 4.6            | 0.2   | 11.6           | 0.6   | 7.0            | 152.2 |
| Commerce                                                                  | 173.1          | 9.2   | 195.2          | 9.2   | 22.1           | 12.8  |
| Transport and<br>Communications                                           | 65.9           | 3.5   | 74.8           | 3.5   | 8.9            | 11.4  |
| Government admin-<br>istration & Co-<br>mmunity & Busi-<br>ness services. | 76.7           | 4.1   | 116.1          | 5.5   | 39.4           | 51.4  |
| Recreational and<br>Personal<br>Services                                  | 97.5           | 5.2   | 104.9          | 4.9   | 7.4            | 7.6   |
| Police and armed<br>Forces                                                | 23.4           | 1.3   | 98.7           | 4.6   | 75.3           | 321.8 |
| Unallocated                                                               | 6.1            | 0.4   | 18.1           | 0.8   | 12.0           | -     |
| Total Working<br>Population                                               | 1,875.2        | 100.0 | 2,126.2        | 100.0 | 251.0          | 13.4  |
| Urban Population                                                          | 1,301.4        |       | 2,668.0        |       | 1,366.6        | 105.0 |
| Total Population                                                          | 4,908.1        |       | 6,278.8        |       | 1,370.7        | 27.9  |

Source: 1957 Census Report, Vol. 14.

hold when the census was taken.

It appears that there was a decline in the proportion of the work force employed in primary industry, from 68.7 to 61.3 per cent; an increase in secondary industry from 7.4 to 9.6 per cent; and a more substantial increase in the tertiary industry proportion, from 23.9 to 29.1 per cent. The proportion in manufacturing actually declined slightly over the decade, from 6.7 to 6.4 per cent, but this was more than offset by a very large increase in the numbers employed in building and construction, which absorbed over one-fifth of the absolute increase in the work force.<sup>1</sup>

Table 7 shows the changes in the various sectors of manufacturing industry. The decline in the handicraft industries - textiles, ropes, nets, rattan, attap and basketware - was due to the structural change from handicraft to factory-type employment; however, a more probable explanation is the effect of the Japanese occupation, still in evidence in 1947.

The International Bank of Reconstruction and Development (I.B.R.D) report (1955) emphasized that, in the nature of the Malaya economy, secondary industry had to meet a severe test before it could become established. With few exceptions those secondary industries which met the test have been those with a decisive margin of 'natural' protection, that is, those associated directly or indirectly with primary production and

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<sup>1</sup>E.L. Wheelwright, Industrialization in Malaysia (New York: Cambridge University Press), p. 1.

Table 7

Malaya: Employment in Secondary  
Industry, 1947 and 1957

|                                                  | 1947    |       | 1957    |       | Change |
|--------------------------------------------------|---------|-------|---------|-------|--------|
|                                                  | Number  | %     | Number  | %     | %      |
| Food                                             | 17,983  | 14.3  | 17,596  | 13.0  | -2.2   |
| Beverages                                        | 1,143   | 0.9   | 1,773   | 1.3   | 55.1   |
| Tobacco                                          | 2,791   | 2.2   | 3,147   | 2.3   | 12.8   |
| Textiles, ropes,<br>nets.                        | 4,121   | 3.3   | 2,779   | 2.0   | -32.6  |
| Footwear, wearing<br>apparel etc.                | 14,764  | 11.7  | 22,788  | 16.8  | 54.3   |
| Wood (excluding<br>furniture & clogs)            | 17,135  | 13.6  | 19,998  | 14.7  | 16.7   |
| Furniture                                        | 3,417   | 2.7   | 6,583   | 4.9   | 92.7   |
| Paper Products                                   | 305     | 0.2   | 316     | 0.2   | 3.6    |
| Printing & Pub.                                  | 2,723   | 2.2   | 4,319   | 3.2   | 58.6   |
| Rattan, attap<br>(basketware) etc.               | 21,010  | 16.7  | 8,800   | 6.5   | -58.1  |
| Rubber products                                  | 2,334   | 1.9   | 2,102   | 1.6   | -9.9   |
| Chemicals                                        | 1,393   | 1.1   | 1,958   | 1.4   | 40.1   |
| Non-metallic<br>mineral products.                | 2,361   | 1.9   | 4,252   | 3.1   | 80.1   |
| Basic Metals                                     | 2,701   | 2.1   | 873     | 0.6   | -67.7  |
| Metal products                                   | 3,223   | 2.6   | 2,738   | 2.0   | -15.0  |
| Gen. engineering,<br>machinery and<br>equipment. | 16,934  | 13.4  | 23,577  | 17.4  | 38.2   |
| Electrical<br>machinery & repairs                | 1,223   | 1.0   | 2,180   | 1.6   | 78.3   |
| Miscellaneous                                    | 10,600  | 8.4   | 9,930   | 7.3   | -6.3   |
| Total Manu-<br>facturing                         | 126,161 | 100.0 | 135,709 | 100.0 | 7.6    |
| Tot. Manufacturing<br>Building<br>& construction | 126,161 | 90.4  | 135,709 | 66.7  | 7.6    |
|                                                  | 13,458  | 9.6   | 67,807  | 33.3  | 403.8  |
| Total secondary<br>industry                      | 139,619 | 100.0 | 203,516 | 100.0 | 45.8   |

Source: 1957 Census Report, No. 14.

trade, where the processing needs to be performed on the spot, those which are sheltered by high transport costs, and service industries, such as repair and maintenance. The I.B.R.D. Report (1955), accordingly, classified industry on the basis of the kind of natural protection afforded, as follows:

i) Handicrafts

Handicraft industries include attap making, rattan ware, goldsmithing, hand loom weaving, tailoring, dressmaking, etc. Attap making (a kind of Malayan thatch), rattan ware and goldsmithing make use of local materials and local skills; weaving, tailoring and dressmaking involved the use of local skills on imported material. Most of the workers involved were workers on their own account, and unpaid family helpers.

ii) Processing

Rubber, tin, wood, fish, coconut and palm processing involves the conversion of local materials into less heavy, more transportable forms. Such processing occurred both on and off the estates, and was not included under secondary industry in the census returns, but appeared under the heading of agriculture.

iii) Food, drink and tobacco

Tobacco manufacture had developed as a result of a form of protection - a lower duty on imported tobacco for manufacturing, compared with the high duty on imported cigarettes. Food and beverages also received the same type of protection.

iv) Engineering

This term covers a wide range of activities from blacksmith's shops and foundries, to railway workshops capable of major engineering tasks. The majority of engineering enterprises were small engaged mainly in repair and replacement of parts. A number of firms produced equipment for the tin mining industry. In addition there were also a few factories producing barbed wire and wire netting, and a substantial small boat building industry.

v) Miscellaneous

Such bulky and heavy products as bricks, cement, metal containers and glass bottles were naturally protected by transport costs; simple rubber products such as footwear, hose, belting, cycle tires and tubes involve very little transformation of natural rubber, and little capital equipment.

This state of industrial development, described in terms of the foregoing classification, had been reached almost entirely without tariffs or other forms of protection, as the I.B.R.D. Report (1955) noted. There was little change by 1957, the year of independence.

1. Special Features of Industrial Enterprise

a) Scale of Industry

Numerically, small scale business dominated. The 1957

population census shows that of the 135,000 people in manufacturing, 34% (45,600) were self-employed; in footwear and textiles the proportion of self-employed was about half, and in handicraft industries over three-quarters. On the other hand, general engineering industry showed only one quarter as self-employed, and for building and construction the proportion was less than one-eighth.<sup>2</sup>

This preponderance of very small scale business means that statistical coverage of manufacturing industry was very difficult. The first Census of Manufacturing Industries undertaken in the Federation was conducted in 1959, but had to be mainly confined to establishments using machinery and having five or more employees. For the rest only partial coverage was obtained; certain industries such as charcoal burning and fish processing had to be omitted altogether, and industries such as tailoring, dressmaking, weaving, dyeing, rattan and cane furniture, mattresses and household furniture, were very inadequately covered.<sup>3</sup>

b) Ownership, Management and Work Force

The I.B.R.D. Report (1955) observed that the capital and management in manufacturing industry appeared to be mostly under the hands of Chinese; between 80% and 90% of employers were Chinese, the remainder Indians and Malays.

Almost two-thirds of wage-earners in secondary industry

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<sup>2</sup>Ibid., p. 5.

<sup>3</sup>Ibid.



were Chinese, and in manufacturing the proportion was almost three quarters; Malays and Indians accounted for a higher proportion of the labor force in the outdoor occupations of building and construction work than in manufacturing, where their numbers were relatively small. (See table 8)

The relatively small numbers of Malays and Indians in manufacturing stemmed from the fact that they were reluctant to commit themselves into investments that required heavy financing. The majority of them also lacked entrepreneurs skills.

Table 8

Malaya: Distribution of Labor Force in Secondary Industry by Ethnic Group, 1957

|         | <u>Total</u>          |          | <u>Manufacturing</u>  |          | <u>Building and Construction</u> |          |
|---------|-----------------------|----------|-----------------------|----------|----------------------------------|----------|
|         | <u>No. of persons</u> | <u>%</u> | <u>No. of persons</u> | <u>%</u> | <u>No. of persons</u>            | <u>%</u> |
| Malay   | 48,418                | 23.7     | 26,588                | 19.6     | 21,830                           | 32.0     |
| Chinese | 130,091               | 63.9     | 97,502                | 72.0     | 32,589                           | 47.9     |
| Indian  | 22,388                | 11.0     | 10,086                | 7.5      | 12,302                           | 18.0     |
| Other   | 2,619                 | 1.3      | 1,206                 | 0.8      | 1,413                            | 2.0      |
| Total   | 203,516               | 100.0    | 135,382               | 100.0    | 68,134                           | 100.0    |

Source: Census of Population 1957, Report No. 14 (Table 11)

c) Geographical Concentration of Industry

Table 9 shows a heavy concentration of industry in four states, the first three being the most populous, and three of the four being the most highly urbanized. Selangor has the widest range of relatively large industries of any state, most

of it being concentrated in and around Kuala Lumpur. It also has the largest average size of establishment in any state, with a figure of seventeen full time paid workers per establishment.

Table 9

Malaya : Distribution of Industry by States, 1959  
(excluding Manufacturing on Estates)

| State       | No. of<br>establishment |      | Gross Value<br>of Sales<br>\$ million |      | Paid Employees |      |
|-------------|-------------------------|------|---------------------------------------|------|----------------|------|
| Selangor    | 1,077                   | (22) | 326.5                                 | (26) | 18,979         | (30) |
| Perak       | 1,113                   | (22) | 238.2                                 | (19) | 10,785         | (18) |
| Johore      | 610                     | (12) | 238.8                                 | (19) | 10,405         | (17) |
| Penang      | 724                     | (14) | 158.3                                 | (13) | 7,333          | (12) |
| Sub-total   | 3,524                   | (70) | 961.8                                 | (77) | 47,502         | (77) |
| Kedah       | 517                     | (10) | 126.2                                 | (10) | 4,990          | (8)  |
| Kelantan    | 194                     | (4)  | 18.8                                  | (1)  | 2,211          | (4)  |
| Malacca     | 178                     | (4)  | 55.2                                  | (4)  | 1,786          | (3)  |
| N. Sembilan | 237                     | (5)  | 69.5                                  | (6)  | 2,809          | (5)  |
| Pahang      | 259                     | (5)  | 17.6                                  | (1)  | 1,393          | (2)  |
| Perlis      | 44                      | (-)  | 7.1                                   | (-)  | 353            | (-)  |
| Trengganu   | 51                      | (1)  | 3.8                                   | (-)  | 553            | (-)  |
| Total       | 5,004                   |      | 1,260.1                               |      | 61,597         |      |

(Percentages in brackets)

(-) indicates less than 1%

Source: Census of Manufacturing Industries, 1959.

## Chapter VII

## POST-INDEPENDENCE DEVELOPMENT

1. Policy Recommendations

Most of the early policy recommendations for Malayan industrialization and agricultural development (including forestry, fisheries and mining) are to be found in the I.B.R.D. Report (1955) and the Industrial Development Working Party Report (or Working Party Report) set by the Federation government in 1957.

a) Industrialization Policy:

Two main reasons why such a predominantly primary exporting country as Malaya should industrialize were stressed by both reports - population growth (the need to create greater employment opportunities) and diversification.

With population increase in excess of 3% per annum, it is extremely unlikely that the previous staple activities of rubber, tin and trade can absorb all the resultant increase in the labor force, even if an all-out effort of land clearance and settlement were pursued.

The necessity for diversification was argued on the basis of the fluctuating nature of primary produce prices. As long as net export income accounts for about 30% of Gross National Produce (GNP), fluctuations in export prices will obviously be a major cause of instability of the national income. An expanded secondary industry relative to GNP will clearly reduce this effect.

Although the manufacturing sector after the war and at Independence was small by present-day Western industrial standards, and confined to industries producing for primary sector and for local consumption, the World Bank mission of 1955 had been impressed by the degree of labor and entrepreneurial skills, industrial experience and servicing facilities available locally, and had felt that a good base existed for further industrial development. It also recommended the development of improved sources of finance and further industrial training, and the use of tariffs to attract new industry.

b) Agricultural Development

For the foreseeable future it seems clear that the agricultural resources of the federation offer one of the largest potentials, among the various sectors of the economy, for increased output and employment.

The problem of the rubber industry was simply that about three-quarters of the rubber area was still planted to trees of an advanced age with poor and declining yields and uncertain competitive prospects in relation to the synthetic rubber industry.

Because of the uncertainties surrounding the future of natural rubber and of the instability of the Malayan economy, arising from its heavy dependance on the fluctuating fortunes of rubber in world markets, there has been considerable interest in greater diversification of agriculture. Certainly there were physical and economic potentialities for a continuing and

substantial increase in the production of a variety of other crops notably oil palm, coconut, pineapples cocoa and others. But the I.B.R.D. was convinced, however, that none of these crops, or any combination of them; promised possibilities for expansion on a scale and at a rate to fully compensate for a major decline in rubber production. I.B.R.D. believed that within the agricultural sector the highest development priority should be given to maintaining the position of the rubber industry in the Malayan economy.<sup>1</sup>

c) Fisheries and Forestry Development

The fisheries of Malaya contribute significantly to the national income; they give employment to a large number of the working population, particularly Malaysians, and provide a major item of diet for people of all races and creeds. Measures to increase production, improve marketing and better the lot of fishermen accordingly deserve emphasis in the development program.

Fresh water fish culture in padi fields, irrigation canals and drains and in ponds, often integrated with pig-rearing, poultry-keeping and vegetable production, was becoming increasingly important in the rural economy. To stimulate and guide this development, the Department of Fisheries had included in its program a fry and fish culture demonstration

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<sup>1</sup>The International Bank for Reconstruction and Development (I.B.R.D.) Report: The Economic Development of Malaya (Baltimore: The Johns Hopkins Press, 1955), p. 47.

and training centers.

As far as sea fishing was concerned the I.B.R.D. recommended improvement of the approaches to a number of minor ports and the provision of additional facilities at ports used by fishing vessels.<sup>2</sup>

The estimated value of Malaya's timber and other forest products in 1952 was almost M\$140 millions. The area of commercially exploited forests, however, represents only a very small fraction of the total forest area, due to the low average quality of Malaya timber and the inaccessibility of a very large proportion of the forests.

Because of the low average quality, problems of conservation, cost and accessibility, and the competition in world markets from cheap coniferous timber, the prospects were not encouraging for large or rapid expansion in present lines of forestry production. Notwithstanding the problems, the World Bank mission recommended that regeneration expenditures be increased.

d) Mining Development

Tin was second only to rubber in commercial and financial significances in the Malayan economy. For the last-century, Malayan tin production has been practically stationary over the long run, although it has fluctuated widely from year to year. As new methods of mining were introduced and mechanization

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<sup>2</sup> Ibid.

increased, employment in the industry fell sharply.

Expansion of tin production could not be looked to as an important element in the future development of Malaya. On the contrary, the immediate problem was a threat of actual decline, arising from the economic circumstances facing the industry - its market prospects - and from the difficulty of funding and acquiring suitable tin bearing lands to replace worked-out mines. Nevertheless, rehabilitation programs were recommended and the expenses of rehabilitation to be met from a Mining Land Rehabilitation Fund.

Following the foregoing reports of an Industrial Development Working Party and the I.B.R.D. which reported to the New Federal Government in 1957, many of these proposals were turned into policy under the First and Second Malayan Plan (1956-60 and 1961-65).

## 2. Development under the First and Second Malaya Plan (1956-60 and 1961-65)

### a) Implementation of Industrialization Policy

#### i) Provision of Services for Industry:

Utilities: This had already begun under the First Five-Year Plan 1956-60, under which the government spent M\$142.0 million on electricity supply, and M\$16.0 million on sewerage, totalling M\$238.6 million on utilities. Another M\$206.5 million, was spent on transport and M\$151.6 million on communication.<sup>3</sup>

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<sup>3</sup>Wheelwright, p. 29.

The Second Five-Year Plan committed much larger expenditures for the period 1961-65<sup>4</sup> (see table 10).

Table 10

Government's Expenditures for Services for the Period 1961-65

| <u>Transport</u> |                  | <u>Utilities</u> |                  | <u>Communication</u> |                  |
|------------------|------------------|------------------|------------------|----------------------|------------------|
|                  | <u>M\$ mill.</u> |                  | <u>M\$ mill.</u> |                      | <u>M\$ mill.</u> |
| Roads & bridges  | 190.0            | Electricity      | 254.0            | Telecommunication    | 50.0             |
| Railways         | 65.0             | Water            | 140.0            | Broadcasting         | 5.0              |
| Posts            | 55.0             | Sewerage         | 8.0              | Posts                | 17.9             |
| Civil Aviation   | 52.0             |                  |                  |                      |                  |
| <u>Total</u>     | <u>362.0</u>     | <u>Total</u>     | <u>402.0</u>     | <u>Total</u>         | <u>72.9</u>      |

Industrial Estates: The provision of sites for industrial development is a key element in the program.

Trust funds were established by Federal government to enable the state government to develop such estates with access roads, water, sewerage and electric power.

Research Facilities: During these periods, many research centers were set up under the aid of the United Nations Organizations. Such research agencies, which until today have played a prominent role in nation development, are a National Chemical Laboratory, and Institute of Industrial Technology, a Malayan Standards Institution, and a National Testing Establishment.

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<sup>4</sup> Ibid.



Finance: As a result of the I.B.R.D. Report, a new industrial credit institution called Malayan Industrial Development Finance Ltd. (M.I.D.F.L.) was incorporated in March 1960.

The primary function of M.I.D.F.L. has been to make loans for fixed capital, and in some cases for working capital to industrialists. Loans have been to newcomers as well as those who needed capital for expansion.

ii) Financial Inducements

Legislation on Pioneer Industries was passed on 28 August 1958, and under it 'pioneer status' is granted to a company which can satisfy the following conditions of the Ministry of Commerce and Industry <sup>5</sup>

- that the industry is being carried out on a commercial scale suitable to the economic requirements or development of the Federation;
- that there are favorable prospects for the future development of the industry; and
- that it is expedient in the public interest to encourage its development or establishment.

Fulfillment of these conditions entitles a firm, once production begins, to total relief from the existing 40% company tax, for a period determined by the amount of fixed capital investment. With investment less than \$100,000, the relief period is two years,<sup>5</sup> between

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<sup>5</sup> Wheelwright, p. 34.

\$1000,000 and \$250,000, three years, and for an investment of not less than \$250,000, five years.

Further tax advantages are that losses incurred during the period of pioneer status may be carried over into the period when such status ceases, and also that when the pioneer status period is over, firms can treat all their existing assets as new for the purposes of depreciation.

iii) Inducements to Foreign Capital.<sup>6</sup>

Apart from tax relief for pioneer industries which applies equally to local industries, there are several other inducements specific to foreign capital.

- The government guarantees to pay fair compensation in case of nationalization. Formal agreements have been signed with the U.S.A. and West Germany.
- Double taxation agreements were signed with several countries. The general principle underlaying such treaties is that income should not be taxed both in the territory in which it arises, and in the territory in which the recipient resides. Such comprehensive agreements in force between Malaysia and the U.K. and members of the British Commonwealth.
- Repatriation of capital and profits. Within the sterling area there is complete freedom to transfer capital, profits and dividends. Investment from outside the sterling area must seek government approval for free repatriation of capital and profits.

iv) Tariff Protection

A Tariff Advisory Committee was set up within the

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<sup>6</sup>N.D. Karunaratne and M.B. Abdullah, 'Incentive Schemes and Foreign Investment in the Industrialization of Malaysia: Asian Survey - A Monthly Review of Contemporary Asian Affairs (March 78' Vol.XVII, No.3, University of California Press), pp. 261-274.

Industrial Development Division of the Ministry of Commerce and Industry. Its purpose to investigate and advise the Ministry of Commerce and Industry on matters pertaining to tariff protection for particular industries.

### 3. The First Malaysia Plan (1966-70)

The First Malaysia Plan 1966-70 was the first economic development plan formulated after the establishment of the Federation of Malaysia in 1963. Though the plan assumed under a different name it was a plan that carried the similar objectives as that of the previous Malayan development plans. But there was exception in that the First Malaysia Plan placed heavier emphasis on the development of the industrial sector of the nation's economy in order that this sector would contribute a greater share to the Gross National Product. In order to reach this goal, the following main objectives would have to be realized.

- Fuller and more efficient use of the country's natural resources, together with a greater degree of local processing/manufacturing of local agricultural materials.
- Expansion of the economic base of the country and introduction of new lines of activity to reduce the country's dependence on raw-material exports.
- Generation of higher income through expanding production for domestic consumption as well as for export of manufactured products.
- Creation of employment opportunities for a rapidly growing labor force.

Specifically, as an integral part of the overall basic objectives, priorities of the plan were given to

improvements in the standard of living of the rural population, land settlement schemes to provide the landless with economically sized forms; and the provision of a wide-scale rural infrastructure.<sup>7</sup>

a) Industries Division

The Industries Division of the Ministry of Commerce and Industry and Federal Industrial Development Authority (FIDA) are delegated the responsibilities for attaining the above objectives. Whilst FIDA is responsible for the technical aspects of the operation (such as promotion, development and provision of technical advice), the Industries Division is given the task of formulation of policies pertaining to the industrial sector in the whole of Malaysia, their implementation. This includes:<sup>8</sup>

- the provision and enforcement of incentives provided for under the Investment Incentives Act, 1968;
- the provision of tariff protection for domestic industries;
- the location of a preference for local manufacturers;
- the creation and provision of incentives for a free inflow of technical know-how and skills;
- the creation of confidence amongst foreign investors to invest in the country;
- the creation and provision of incentives for expansion of production lines;

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<sup>7</sup>The Government of Malaysia, First Malaysia Plan 1966-70 (Kuala Lumpur: Government Printer, 1966), p. 23.

<sup>8</sup>The Government of Malaysia, Malaysia Official Year Books 1977 (Kuala Lumpur: Government Printer, 1977), p. 195.

- the creation of job opportunities for Malaysian;
- the creation and provision of a greater participation by Malaysians in industries; and
- the creation of inducements for growth in selected industries of the manufacturing sector.

b) Progress of Industrialization

There has been a noticeable increase in the number of companies approved both as pioneer and non-pioneer during the plan period. For example, 148 companies have been approved during 1969 alone, either with or without tax incentives involving a total called-up capital of \$241.3 million with an employment potential for approximately 24,425 Malaysians.<sup>9</sup> FIDA received a total of 296 application for investment incentives in 1969, as compared to 87 in 1968.<sup>10</sup> This was a healthy indication of the confidence that investors have in the economy of the country.

The type of industries which pioneer companies were involved in were varied and include petroleum, refining, chemical products, food processing, production of iron steel or other metal products brewing and melting, manufacture of textiles, assembly and manufacture of television sets, radios and other electrical appliances and paper products.

The sources of investment come from Australia, Canada, Denmark, Formosa, West Germany, Netherlands, Hong Kong, Japan,

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<sup>9</sup> Ibid., p. 196.

<sup>10</sup> Ibid.

Switzerland, the United States and Britain.

c) Export Commodities Division<sup>11</sup>

The Export Commodities Division is concerned with the over-all economic aspects of all primary commodities, the export of which the Malaysian economy is largely dependent upon. These are predominantly agricultural (rubber, palm oil, pineapple, timber, copra and the like) and mineral (tin, iron-ore and bauxite).

Officials of the Export Commodities Division were represented in all the statutory boards set up to deal with the commodities mentioned above such as, the Malayan Rubber Fund Board, the Malayan Pineapple Industry Board, the Malaysian Timber Export Industry Board, the Tin Industry (Research and Development) Board, etc.

i) Rubber

Malaysia is the world's largest producer of natural rubber. In 1969, the fourth year of the First Malaysia Plan's implementation, it produced about 1,259,532 tons which constituted about 44.7% of the world's supply. With the introduction of the Second Malaysia Plan (1971-75) Malaysia's production was expected to reach about 1.35 million tons.

Structure of the Industry: The following organization and associations are responsible for various

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<sup>11</sup> Ibid., pp. 200-211.

aspects of the industry:

- The Rubber Research Institute of Malaya, Kuala Lumpur;
- The Natural Rubber Producers' Research Association, Newlyn Garden City, England, and
- The Natural Rubber Bureau, with offices in the United Kingdom, the United States of America, Australia, New Zealand, Germany, Austria and India.

The main function of the Malayan Fund Board is to finance research, development and publicity for increasing and stimulating the production and consumption of natural rubber throughout the world. It provides technical advisory service to consumers of natural rubber.

Research for the Producer: The Rubber Research Institute of Malaya carries out research to aid the rubber planting industry in its growth. It is the biggest research organization in the tropics diverted to the study of a single crop. Research work by the Institute has always been aimed at increasing efficiency and productivity reducing costs of production and improving the uniformity and quality of product, including the development of new types of rubber processing.

Standard Malaysian Rubber: Early in 1965 the Standard Malaysian Rubber (S.M.R.) Scheme was introduced after an extensive investigation of the various grades of rubber currently produced in Malaysia and after

consultation with the producers and consumers of Malaysian natural rubber.

The S.M.R. Scheme is designed to eliminate malpractices, to define good Malaysian rubber, and to represent a uniform and satisfactory rubber for all manufacturing purposes.

Market: The Malaysia Rubber Exchange was established in West Malaysia in 1962, to promote and regulate market practices so as to ensure international confidence in the operation of the rubber market.

ii) Tin

Since the rehabilitation of the tin mining industry after the Second World War, Malaysia has consistently maintained her position as the leading world producer of tin. In 1969 the tin industry accounted for about 23 per cent of the total export earnings of the country. It is an important source of revenue to the Government, as export duty collected from tin exports alone amounted to over \$120 million in 1969. Figures on production of tin for the year 1960-69 are shown in Table 11.<sup>12</sup>

The year of 1970s, however, saw a different outlook for this industry. The production of tin declined to the figures below that of the 1960s due to the

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<sup>12</sup>The Government of Malaysia, Malaysia Year Book 1969 (Kuala Lumpur, Malaysia: The Government Press, 1979), p. 205.



continuing depletion of ore deposit on available mining land and the mining of lower grade tin bearing ground. As a result, the production of tin declined from 64,400 tonnes in 1975 to 60,000 tonnes in 1978.<sup>13</sup>

Table 11  
Malaysian Tin Production

| <u>Year</u> | <u>Production<br/>of Tin in<br/>concentrates<br/>(tons)</u> | <u>Export<br/>(tons)</u> | <u>Value of<br/>Export<br/>(mil.M\$)</u> | <u>Export<br/>Duty Paid<br/>(mil.M\$)</u> |
|-------------|-------------------------------------------------------------|--------------------------|------------------------------------------|-------------------------------------------|
| 1960        | 51,979                                                      | 76,352                   | 505.7                                    | 54.8                                      |
| 1961        | 56,028                                                      | 74,233                   | 550.1                                    | 65.4                                      |
| 1962        | 58,603                                                      | 81,359                   | 616.3                                    | 66.9                                      |
| 1963        | 59,947                                                      | 84,551                   | 638.1                                    | 71.3                                      |
| 1964        | 60,004                                                      | 77,147                   | 722.8                                    | 96.0                                      |
| 1965        | 63,670                                                      | 73,286                   | 864.8                                    | 117.9                                     |
| 1966        | 68,886                                                      | 71,424                   | 779.4                                    | 114.0                                     |
| 1967        | 72,120                                                      | 73,529                   | 755.6                                    | 114.4                                     |
| 1968        | 75,069                                                      | 86,763                   | 829.7                                    | 112.3                                     |
| 1969        | 72,167                                                      | 90,352                   | 939.7                                    | 121.6                                     |

Organization of the Industry: The tin mining industry was completely in the hands of the private sector. The Government has, however, set up a body, known as the Tin Advisory Committee, to advise the Government on all important matters relating to this industry. Malaysia is a participant in the International Tin Agreement, designed for International Cooperation among the World's leading producers and consumers of tin.

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<sup>13</sup>The Government of Malaysia; Midterm Review of the Second Malaysia Plan (Kuala Lumpur Government Press, 1975), p. 159.

One of the primary objectives of the International Tin Agreement is to secure stable prices over the short and long term.

Research: Research into new uses of tin and improvements to existing uses is being conducted by the International Tin Research Institute, based in London. Research into new and improved methods of mining and processing is also being undertaken by the Department of Mines, to supplement the research activities of the various private mining organization. The Department has also been active in the field of prospecting for new deposits, in collaboration with the Department of Geological Survey.

Mining methods in existence during this period were Dredging, Gravel Pumping, Hydraulic, open cast, underground mining and dulang washing.

Dredging generally involves a large scale mining and can be regarded as a 'foreign' sector. A dredge is a structure which floats on a pond (or 'paddock') largely of its own making and is moved by means of lines fixed to the shore and attached to winches on the dredge. A continuous line of steel buckets at the front of the dredge digs the tin-bearing ground from the bottom. The buckets are attached to a chain mounted in a metal ladder, which can be raised or lowered to vary digging depth. Ground from the buckets

is delivered to a primary treatment plant on the dredge where ore is treated to about 15% purity, and the waste material is pumped over the back of the dredge. Ore is taken from the dredge to a dressing shed on shore where it undergoes further treatment to a purity of about 75%, before shipment to the smelter.

Gravel pumping: Gravel pumping involves breaking down of the tin bearing ground by means of strong jets of water played against the walls of an open pit. The water is directed by rigid metal hose nozzles, or 'monitors,' each operated by one or two men. The liquid ore-bearing material washed down by the monitor flows through crudely cut channels to a hollow, whence it is elevated by means of a pump - the gravel pump to the primary treatment plant.

Hydraulic: Hydraulic is more or less similar to gravel pumping, but with the difference that hydraulic elevators were used instead of the gravel pump. Again under this method the cut ground was recovered from artificial ditches by manual labor.

Open Cast: Open cast has a general usage to include all gravel pump and in a sense dredging too.

Underground Mining: The methods used are essentially similar to those used to mine coal underground in Western countries.

Dulang Washing: Dulang washing is so named after the 'dulang' or pan with which the miners work.

Dulang washers pan for tin in rivers and streams in a similar fashion to gold miners in U.S.

The production of tin in Malaya for the period 1960-1969 has already been shown in table 11 earlier in the chapter.

The number of mines in operation in Malaysia for the period 1960-69 is depicted in table 12.

Table 12

Malaysia: Mines in Operation

| <u>Year</u> | <u>Dredge</u> | <u>Gravel<br/>pumping</u> | <u>Hydra-<br/>ulic</u> | <u>Open<br/>cast</u> | <u>Under<br/>ground</u> | <u>Other</u> | <u>Total</u> |
|-------------|---------------|---------------------------|------------------------|----------------------|-------------------------|--------------|--------------|
| 1960        | 67            | 472                       | 10                     | 3                    | 18                      | 17           | 587          |
| 1961        | 70            | 559                       | 10                     | 5                    | 21                      | 17           | 682          |
| 1962        | 66            | 582                       | 10                     | 7                    | 22                      | 17           | 704          |
| 1963        | 66            | 593                       | 5                      | 5                    | 22                      | 18           | 709          |
| 1964        | 69            | 768                       | 6                      | 5                    | 29                      | 23           | 900          |
| 1965        | 65            | 957                       | 4                      | 5                    | 27                      | 22           | 1080         |
| 1966        | 64            | 1021                      | 3                      | 7                    | 26                      | 16           | 1137         |
| 1967        | 66            | 960                       | 2                      | 6                    | 25                      | 13           | 1072         |
| 1968        | 65            | 994                       | 3                      | 8                    | 28                      | 12           | 1110         |
| 1969        | 65            | 955                       | 3                      | 8                    | 25                      | 11           | 1067         |

iii) Timber:

At the time of the implementation of the First Malaysia Plan, timber had already become the third largest foreign exchange earner for the country, (next to rubber and tin).

Production of round timber in 1969 amounted to 8,869,000 tons and of sawn timber amounted to 1,746,000 tons. Growing world demand for Malaysian timber

recently has given an impetus for increasing the exports of both exported over 6.2 million tons of round timber valued at \$619.8 million. The principal export markets for Malaysian round timber are Singapore, Japan, South Korea, Taiwan and Hong Kong, while those for sawn timber are Australia, Western Europe and the U.S.A.<sup>14</sup>

Recognizing the importance of this industry to the country's economy, the government took steps to set up the Malaysian Timber Export Industry Board in 1967 to be responsible for promoting, regulating and controlling the export of both round and sawn timber.

iv) Palm Oil

The importance of the oil palm industry in the Malaysian economy has grown in recent decade. It had by 1969 become the fourth largest foreign exchange earner for the country. In 1969, exports of palm oil amounted to M\$152 million, and roughly constituted about 3% of 1969 gross export receipts of M\$5,100 million. This export volume represented nearly 30% of the world's total export of palm oil.<sup>15</sup> The major markets for Malaysian palm oil were the United Kingdom,

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<sup>14</sup>The Government of Malaysia: Malaysia Official Year Books, 1970 (Kuala Lumpur: Malaysia Government Press, 1971), p. 208.

<sup>15</sup>Ibid.

Iraq, Canada and the E.E.C. countries. Except for a small quantity of palm oil consumed locally in the manufacture of margarine and soap, virtually all the palm oil now produced in the country is for export.

There has also been a tremendous expansion in acreage and production during the plan period. This has been the result of rubber estates diversifying into oil palm, and (since 1960) of the development of FELDA and other official land development schemes. Estates diversification accelerated in the 1960's following falls in the price of rubber.

v) Pineapple

The pineapple industry had shown a steady and continuous rate of growth over the past decade. It enjoys relatively stable conditions and is almost entirely oriented for the export market.

The production of fresh pineapples has been on an upward trend over the years, increasing from a total of 121,000 tons in 1956 to a total of 301,400 tons in 1969.<sup>16</sup>

In 1966, the Pineapple Industry Marketing Corporation was established to promote, manage and control the overall marketing of canned pineapples. In addition a private marketing company, the Consolidated Pineapple

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<sup>16</sup>Ibid., p. 301.

Sales (Pte) Ltd., was formed to take charge of the marketing of canned pineapples from Malaysia and Singapore to the United Kingdom market.

vi) Tourism

A sum of M\$2 million was provided in the 1st Malaysian Plan for tourism projects. The development of tourist facilities and amenities will further enhance the economic and social benefits which can be obtained through the tourist industry.

The most significant event towards the promotion of tourism during the period was the Malaysia's success in her bid to host the 1972 Pacific Area Travel Association (PATA) Workshop and Conference.

Malaysia has a visa abolition agreement with all commonwealth countries, U.S. and 15 other nations. Since April 1969, all tourists both transit and non-transit from countries friendly to Malaysia can visit Malaysia for 7 days without visa.

d) Non-export Agricultural Commodities

Malaysia is primarily an agricultural country. The economic development of the country depends much on the agricultural diversification policy. With this in view, the Ministry of Agriculture and Cooperatives was making every effort to pursue self-sufficiency in essential foodstuffs, particularly rice.

The Government has set up a Malaysian Agricultural

Research and Development Institute (Mardi) to carry out research on production, processing and utilization of agricultural products. Besides, the implementation of new Drainage and Irrigation Department (D.I.D) schemes, during the period has speeded up the development in the field of agriculture.

i) Rice

Padi comes next in significance to rubber in the economy of the country but unlike rubber, padi is entirely cultivated for internal consumption (at the period of implementation of First Malaysia Plan, padi production was still far from sufficient for Malaysia even to be self-sufficient in food). The total production in the 1968/69 season was 1,573,645 tons, whereas the volume consumed much exceeded by estimated 20 - 30%.

According to the revised statistics, the total area under wet padi in West Malaysia in 1968/69 season increased by 4% to 945,970 acres over the previous season. The area double-cropped increased by 6% to 238,130 acres in 1969. The area under dry padi increased by 12% to 57,180 acres. In the same period there were about 103,000 acres under padi in Sabah. 72% of this area was under wet padi and the remaining land was planted with dry padi. The area under padi in Sarawak was estimated to be 303,000 acres and two-thirds consists of dry padi.<sup>17</sup>

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<sup>17</sup> John T. Purcal, Rice Economy: Employment and Income in Malaysia (Honolulu: The University Press of Hawaii '72), pp. 3-5.



Padi production in the next few years will rise very rapidly as two of the largest irrigation schemes in the country will be ready soon. The first phase of the Muda Irrigation Project scheduled for 1970 will enable 130,000 acres to be double-cropped. Construction works on the Kemubu Project in the East Coast of West Malaysia commenced officially in August 1968 and when completed in 1971 will enable nearly 50,000 acres to be double-cropped. These irrigation project were partly financed through loans from the World Bank.

To ensure the supply of farm credit particularly to padi farmers, an Act to establish the Agriculture Development Bank was passed in 1968. To facilitate efficient marketing and ensure reasonable prices to farmers, the Federal Agricultural Marketing Authority has taken various measures to solve the marketing problem of padi planters and the main emphasis was on the establishment of trading and marketing schemes in the principal padi producing areas of the country.

ii) Coconut

The coconut industry in this country was shrinking both in respect of the acreage and yields. Sometime in the middle of 1960s there were about half a million acres of coconut and 85% under smallholdings. The country has also a large oil milling industry; furthermore, fresh coconuts are widely used in the preparation

of the daily meals of the local population.

Because of the importance of the crop to the economy of the country, steps have been taken by the Government to rehabilitate the industry. A sum of \$11.2 million had been allotted to replant or rehabilitate 36,000 acres of old coconut land under the first Malaysia Plan. The response from the small-holdings had been very encouraging.

iii) Pineapple

The subject of pineapple had been sufficiently discussed previously.

iv) Other crops

The production of other crops has been considered to be negligible to the economy of the country. To some extent crops like pepper, sago and tea have been planted in Malaysia but due to the unfavorable soil condition and climate, they have had little success.

## Chapter VIII

## GROWTH UNDER THE GOVERNMENT'S NEW ECONOMIC POLICY

Progress over the last decade shows that Malaysia has achieved much progress in many fields since Independence in 1957. There has been for instance impressive economic growth and financial stability. By comparison with other developing countries in Southeast Asia, Malaysia has reached an advanced stage in per capital production and standard of living.

1. The New Economic Policy

During the time of the implementation of the First Malaysia Plan (1966-70), or before 1969 specifically, the aim of the government was to push ahead with extensive rural development by providing greater rural infrastructure and land development schemes primarily for landless and unemployed Malays as well as slowly develop the mechanisms to enable Malays to participate more effectively in the economic life of the country. This would bring about the greater modernization of the rural areas, the reduction of poverty, and the gradual movement of Malays who comprise 45 - 50 percent of the population, into the Chinese-dominated economy. However, the racial riots that broke out after the 1969 elections in which the Alliance Party (the ruling party that was under the majority control of the Malays) suffered unexpected election losses dramatically underlined that there existed a growing and dangerous ethnic friction in the country and that the Malays in particular felt that they should be given a

greater share in the economy of the country immediately.<sup>1</sup>

The result was the New Economic Policy formulated and published in the Second Malaysia Plan (1971-75). Essentially its aims are those of the previous plans, but the focus and the rate of development are drastically changed. As a result, the New Economic Policy had two main aims:<sup>2</sup> eradicating poverty, and restructuring Malaysian society to give Malays a greater participation (30% by 1990) in the economy of the country.

## 2. The Second Malaysia Plan (1971-75)

The Second Malaysia Plan 1971-75, had as its main objectives, therefore, the creation of greater employment opportunities and a more equitable distribution of income and wealth. These two objectives are often mentioned together as the provision of employment is one of the most effective ways of dealing with inequality. In specific terms, the Plan aims at a much faster rate of land development and at greater Malay participation in commerce and industry through the establishment of public enterprises such as the Urban Development Authority (UDA), National Trading Corporation (Pernas) and Majlis Amanah Rakyat (MARA). Increased emphasis was also

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<sup>1</sup>Colin MacAndrews, "The Politics of Planning: Malaysia and the New Third Malaysia Plan (1976-80)." Asian Survey: A Monthly Review of Contemporary Asian Affairs, March '77, Vol. XVII, No. 3, p. 297.

<sup>2</sup>The Government of Malaysia, 2nd. Malaysia Plan 1971-75 (Kuala Lumpur: Government Printers, 1971), p. 4.

placed on the building up of university and technical training for Malays, and both the old and new universities and institutions created were given increased funding to enable Malays in particular, to obtain advanced training, especially in the scientific and technical fields.<sup>3</sup> Thus the Second Malaysia Plan represented massive government intervention in an already developed and planned society in order to meet strong political pressures and needs, and it was surprisingly effective in the short run.

But as the country moved towards the Third Malaysia Plan period in 1974, it was becoming clear that the Second Malaysia Plan, although it had been successful, had also created certain problems. One of these was the growing aspirations and expectations of the younger generation of Malays that had led to student demonstrations in December 1974 in Kuala Lumpur and Penang. The second was the awareness that while massive government intervention was, on the one hand, producing a class of well-educated Malays, the economy lacked the ability to provide matching job opportunities. It was forecasted in 1973 that would be graduate unemployment by 1975.<sup>4</sup> At the same time it was becoming clear by 1974

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<sup>3</sup>While overall university enrollment of Malays, Chinese and Indians was proportionate to national ethnic groupings, Malays were enrolled predominantly in liberal arts courses. In 1970, 88% of all Malays at the University in contrast to 45% of all Chinese were enrolled in liberal arts courses. Midterm Review of the Second Malaysia Plan (K.Lumpur Govt. Printers, 1973), p. 197.

<sup>4</sup>The Government of Malaysia, Midterm Review of the Second Malaysia Plan (K. Lumpur: Government Printer, 1975), p. 63.

that there was no marked return to the government for the vast amounts of money it had been pouring into special bodies and agencies set up specifically to help Malays move into the business sector and become entrepreneurs. It had seemed to the government planners in 1970 that the key to greater Malay involvement in the economy lay in the provision of extensive organizational structures to help Malays compete with non-Malays in the economic life of Malaysia. But in 1974, it was becoming clear that, due to faulty plan implementation, the problem was not just organizational. Thus when the Third Malaysia Plan was drafted it was aimed both at reassessing and reorienting the mechanisms and goals of the previous plans.

### 3. The Third Malaysia Plan (1976-80)

The Third Malaysia Plan (1976-80), represents the second development plan designed to implement the objectives of the New Economic Policy within a long-term (1971-90) development framework. The attainment of the two plan objectives of poverty eradication and restructuring of the Malaysian society depends crucially upon the nation's ability to maintain a rapid pace of economic expansion and to initiate changes in the structure of the economy. In view of this, the plan sets an ambitious target of 8.4%<sup>5</sup> per annum real growth - Gross Domestic Product (GDP), well above the 7.4% annual growth rate

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<sup>5</sup> The Government of Malaysia, The Third Malaysia Plan, 1976-1980 (Kuala Lumpur: Government Press, 1976), p. 29.

achieved in the Second Malaysia Plan period.

a) Eradication of Poverty:

During 1976-78, various programmes and projects have improved the economic and social welfare of the poor and other lower income groups. They benefitted from these projects at a time when the economy was enjoying relatively strong commodity prices, particularly rubber and palm oil.

Development Policy: The policy for accelerated eradication of poverty,\* irrespective of race, in the rural areas was implemented primarily through programmes oriented towards greater in situ development in existing agricultural areas and villages during the period under review.<sup>6</sup> This development also embraces the land development schemes to bring about greater resettlement and absorption of rural families who are either landless or with small and uneconomic holdings. In addition, the Government provided public services and amenities to meet the basic social needs of the masses in both rural and urban areas, through programmes such as education, health and medical services, roads, water and

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<sup>6</sup> Ibid.

\* There is no one generally accepted definition of poverty. One view is that poverty constitutes an income level below some minimum standard which society establishes. Such a standard is not absolute but differs among countries and rises through time with the average level of income. There is no such sophisticated concept of the poverty line which can be implemented using the data now available for Malaysia. However, a much crude concept can be applied. The Household Budget Survey, 1957-58 gives average consumption in 1957-58 of the income group earning less than M\$150 per month as approximately M\$100 a month, of which nearly M\$70 went for food. So it is quite safe to say that a slightly higher figure, M\$120, constitutes the poverty lines. M\$1.00=US\$0.50.



electricity supply.

i) Rural Poverty

During the period under review, some M\$991 million have been spent on in situ development programmes, such as drainage and irrigation, for rehabilitation and replanting to improve farm productivity. Programmes such as credit, extension and marketing were also undertaken to improve farm productivity and to increase on-farm employment opportunities. In addition, agencies such as the Rubber Industry Smallholders Development Authority (RISDA), Farmers Organization Authority (FOA), Department of Agriculture and Federal Agricultural Marketing Authority (FAMA) have been active in promoting better techniques of production and in improving the marketing and processing of farm produce. Agencies like Federal Land Development Authority (FELDA) and Federal Land Consolidation and Rehabilitation Authority (FELCRA) are also active in land development.

As far as fishermen were concerned, the Fisheries Development Corporation (MAJUIKAN) and the Department of Fisheries, built trawlers, purse-seiners and multi-purpose boats to assist them.

ii) Urban Poverty

The provision of public facilities and amenities has contributed to the improvement in the quality of



life in urban areas. Low-cost housing projects have been undertaken to meet the demand for housing, especially in the key urban centers. The Government has constructed low-cost flats and houses particularly in or near urban centers for the benefit of the lower income groups. Some 12,900 low-cost houses in Peninsular Malaysia and 1,090 in Sabah and Sarawak have been completed during 1976-78 while over 36,900 units are in various stages of construction.<sup>7</sup>

iii) Progress, 1976-78

As shown in Table 13, the overall incidence of poverty in Peninsular Malaysia declined from about 43.9% in 1975 to about 36.6% in 1978. The incidence for agriculture declined from about 63.0% to about 54.6% whereas that for the non-agricultural sectors the incidence declined by four percent. In the rural areas, considerable improvement in the poverty situation occurred among rubber smallholders and estate workers due to favorable rubber and palm oil prices. The decline in poverty incidence in urban areas took place in the manufacturing and construction sectors, which experienced substantial increases in output and employment.<sup>8</sup>

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<sup>7</sup>Ibid., p. 31.

<sup>8</sup>Ibid.

Table 13  
 Peninsular Malaysia: Number of Poor Households<sup>1</sup>  
 by Sector, 1975, 1978 and 1980

|                                | 1975                              |                                           |                                     | 1978                              |                                           |                                     |
|--------------------------------|-----------------------------------|-------------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------------|-------------------------------------|
|                                | Total<br>house-<br>holds<br>(000) | Total<br>poor<br>house-<br>holds<br>(000) | Incidence<br>of po-<br>verty<br>(%) | Total<br>house-<br>holds<br>(000) | Total<br>poor<br>house-<br>holds<br>(000) | Incidence<br>of po-<br>verty<br>(%) |
| <b>AGRICULTURE</b>             |                                   |                                           |                                     |                                   |                                           |                                     |
| Rubber smallholders            | 396.3                             | 233.8                                     | 59.0                                | 412.6                             | 198.0                                     | 48.0                                |
| Oil Palm smallholders          | 9.9                               | 0.9                                       | 9.1                                 | 18.7                              | 1.0                                       | 5.4                                 |
| Coconut smallholders           | 34.4                              | 17.5                                      | 50.9                                | 34.2                              | 15.0                                      | 43.9                                |
| Padi farmers <sup>2</sup>      | 148.5                             | 114.3                                     | 77.0                                | 149.5                             | 110.6                                     | 74.0                                |
| Other agriculture <sup>3</sup> | 157.4                             | 124.1                                     | 78.8                                | 165.9                             | 121.1                                     | 73.0                                |
| Fishermen                      | 41.6                              | 26.2                                      | 63.0                                | 42.1                              | 23.2                                      | 55.1                                |
| Estate workers                 | 127.0                             | 59.7                                      | 47.0                                | 117.7                             | 44.7                                      | 38.0                                |
| Agricultural Total             | 915.1                             | 576.5                                     | 63.0                                | 940.7                             | 513.6                                     | 54.6                                |
| <b>NON-AGRICULTURE</b>         |                                   |                                           |                                     |                                   |                                           |                                     |
| Mining                         | 31.8                              | 10.1                                      | 31.8                                | 32.2                              | 9.1                                       | 28.3                                |
| Manufacturing                  | 206.9                             | 59.6                                      | 28.8                                | 262.3                             | 62.4                                      | 23.8                                |
| Construction                   | 44.0                              | 13.4                                      | 30.5                                | 51.2                              | 12.5                                      | 24.4                                |
| Utilities                      | 16.4                              | 4.8                                       | 29.3                                | 18.9                              | 5.0                                       | 26.5                                |
| Commerce                       | 209.4                             | 55.6                                      | 26.6                                | 242.8                             | 55.6                                      | 22.9                                |
| Transport                      | 91.7                              | 24.2                                      | 26.4                                | 106.2                             | 22.0                                      | 20.7                                |
| Services                       | 386.1                             | 90.0                                      | 23.5                                | 468.7                             | 96.1                                      | 20.5                                |
| Non-agricultural Total         | 986.4                             | 258.6                                     | 26.2                                | 1,182.3                           | 262.7                                     | 22.2                                |
| TOTAL                          | 1,901.5                           | 835.1                                     | 43.9                                | 2,123.0                           | 776.3                                     | 36.6                                |
|                                |                                   |                                           |                                     |                                   |                                           | 100.0                               |

1. Two target groups namely residents of New Villages and agricultural labourers are included among these households, especially in other agriculture, rubber smallholders & padi farmers
2. The incidence for 1978 is based on the conditions prevailing in 1977.
3. The category includes agricultural households in urban areas, agricultural labour and mixed farmers.

b) Restructuring of Society

The second aim of the New Economic Policy seeks to restructure the Malaysian society so as to achieve by 1990 a community where all racial groups will participate as partners in the socio-economic development of the nation in line with the multiracial composition of the population.

i) Creating a Commercial and Industrial Community Among the Malays and other Indigenous People:

As part of its effort to remove the identification of race with economic function, the Government has assisted an increasing number of Malays and other indigenous people in their various business ventures and enterprises to promote their full participation in commerce and industry (Chinese-dominated). These efforts were undertaken through programmes and schemes for credit assistance, training, consultancy and technical services as well as administrative support and direct Government participation.<sup>9</sup>

The Malays and other indigenous people continued an increasing share of credit provided by financial institutions such as commercial banks, finance companies and insurance companies. Government agencies that are active in this line are Bank Pembangunan (Malaysia Development Bank) and Majlis Amanah Rakyat (MARA).

Advisory and consultancy services as well as training

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<sup>9</sup>Ibid.

in specific areas of business operation continued to be provided by MARA, National Productivity Center (NPC), MIDF, Industrial Consultants Bhd. (MIDFIC), Institut Teknologi MARA (ITM), Malaysian Industrial Development Authority (MIDA), Standards and Industrial Research Institute of Malaysia (SIRIM), Bank Pembangunan and PERNAS Edar.

ii) Ownership of Assets

Ownership and control of assets, is a major determinant of income opportunities of individuals. Government policy is therefore aimed at increasing access to education and training and a more even distribution of wealth in order to achieve a more equitable distribution of income.

c) Economic Performance,<sup>10</sup> 1976-1978

During the period 1976-78, the economy achieved an average growth rate of 8.7% per annum in real terms compared with the plan target rate of 8.4% per annum.

Although the economy showed a strong recovery in 1976 achieving a growth rate of 11.1%, the growth rates in 1977 and 1978 were 7.6% and 7.4%, respectively. A primary factor in the outcome for 1977 and 1978 was the poor performance of the agricultural sector, due, among others, to adverse weather

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<sup>10</sup>The Government of Malaysia, Mid-term Review of the Third Malaysia Plan 1976-1980 (Kuala Lumpur: Government Press 1979), pp. 2-5.

conditions which affected the production of rubber, padi and palm oil.

As indicated in table 14, the manufacturing sector, which grew at 14.3% per annum showed the fastest growth rate followed by construction growing at 11.1% per annum, mining and quarrying at 11.0% per annum and utilities at 10.2% per annum. However, in terms of its relative contribution to output, agriculture still predominates, accounting for 24.8% of GDP with manufacturing rising from 16.4% in 1975 to 19.1% in 1978.

Table 14

Malaysia: Gross Domestic Product by  
Industry of Origin, 1975-1978  
(M\$ millions in 1970 prices)

| <u>Sector</u>                                   | 1975<br>(total) | 1978<br>(total) |
|-------------------------------------------------|-----------------|-----------------|
| Agriculture, forestry,<br>Livestock and Fishing | 4,804           | 5,531           |
| Mining and Quarrying                            | 792             | 1,083           |
| Manufacturing                                   | 2,850           | 4,258           |
| Construction                                    | 654             | 896             |
| Services*                                       | 8,265           | 10,516          |
| Gross Domestic Product                          | 17,365          | 22,284          |
| Population (ooo)                                | 12,298          | 13,294          |
| Per capita (GDP) (\$)                           | 1,412.0         | 1,676.3         |
| Ratio to Malaysia Average                       | 1.00            | 1.00            |

\* Includes: (a) Utilities  
(b) Transport, storage & communication  
(c) Wholesale and retail trade  
(d) Banking  
(e) Public administration and defence  
(f) Ownership of dwellings and real estate  
(g) Other services.

Sources: Mid-term Review: Third Malaysian Plan 1976-1980.

#### 4. Sources of Growth

Economic development during the first three years of the Third Malaysia Plan was largely stimulated by private sector expenditures for investment and consumption.<sup>11</sup> GNP by expenditure category as shown in table 15, indicate that in 1976 and 1977 private investment and consumption constituted the main sources of growth and provided a reversed impact on the economy which was marked by relatively slow growth in public investment in 1976 and by weak growth in 1977.

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<sup>11</sup>Ibid.

Table 15

MALAYSIA: GROSS NATIONAL PRODUCT BY EXPENDITURE  
CATEGORY, 1975-78 (M\$ million)

|                                  | 1975   | 1976   | 1977   | 1978   | Average<br>annual<br>growth<br>rate(%)<br>1976-78 |
|----------------------------------|--------|--------|--------|--------|---------------------------------------------------|
| Consumption . . . . .            | 17,010 | 18,895 | 22,043 | 25,592 | 14.6                                              |
| Private . . . . .                | 13,086 | 14,594 | 16,655 | 19,492 | 14.2                                              |
| Public . . . . .                 | 3,924  | 4,301  | 5,388  | 6,100  | 15.8                                              |
| + Total investment . . . . .     | 5,602  | 6,206  | 7,343  | 8,671  | 15.7                                              |
| Private . . . . .                | 3,492  | 3,701  | 4,265  | 5,451  | 16.0                                              |
| Public . . . . .                 | 2,110  | 2,505  | 3,078  | 3,220  | 15.1                                              |
| + Change in stocks . . . . .     | -381   | -71    | +168   | +283   | -                                                 |
| + Exports of goods and services  | 10,172 | 14,554 | 16,216 | 18,016 | 21.0                                              |
| - Import of goods and services   | 10,071 | 11,620 | 13,507 | 16,729 | 18.4                                              |
| = GDP at purchasers' value . . . | 22,332 | 27,964 | 32,263 | 35,833 | 17.1                                              |
| - Net factor payments abroad. .  | 726    | 931    | 1,189  | 1,225  | -                                                 |
| = GDP at purchasers' value . . . | 21,606 | 27,033 | 31,074 | 34,608 | 17.0                                              |

Source: Mid-term Review of the Third Malaysia Plan 1976-1980.

M\$1.00 = US\$0.50 (Approximate)

## Chapter IX

## CONCLUSION

It has been shown in this paper that the economic development had taken place primarily with the introduction of wide-scale tin-mining from around the second half of nineteenth century and the introduction of extensive rubber planting from the beginning of the twentieth century.

An important feature of this development was that it was uneven in nature both in terms of the geographic areas developed and in the participation of the various ethnic groups in Malaysia in the process. For Malaysia had, with its growth in the 19th and 20th centuries, developed into a strongly ethnically mixed country with massive inflow first of the Chinese from the middle of the 19th century and then of the Indians at the beginning of the 20th century. The result was that Malaysia, which had been populated almost entirely by indigenous Malays at the beginning of the 19th century, was at independence in 1957 a distinctly ethnically mixed society. Just as important as this ethnic mixture of Malaysia's population was the geographic location of the ethnic groups, with the Malays living in the rural and less developed northern and eastern areas of the country and the other groups, notably the Chinese, living in the more developed western and urban areas.

While the development of primary products, notably tin and rubber, is the basis for economic development of



Malaysia, however, the need for support from secondary sector for further economic development became more apparent in the later period especially after independence following series of downfall in tin and rubber prices in world market.

As a step towards developing secondary sectors and at the same time not forgetting agriculture as a lifeline of the Malaysian people, diversification into manufacturing and processing sectors as well as into other export agriculture was pursued. In line with the government's effort to create equal opportunities for all ethnic groups in the participation in the economy of country, diversification efforts were carried out through various five-year economic development plans with greater emphasis in the development of the rural and mainly poorer areas of the country in which 82% of the indigenous population lived. As a result, the first two major plans after independence, the First and Second Malaya Five-Year Plan (1956-60 and 1961-65), reflected the strong demand for better facilities and the need for large-scale government policies to help the rural people. Thus it focused on the extensive provision of rural amenities and trying to deal with the problem of rural poverty.

The provision laid under the First Malaysia Plan (1965-70), the first Plan formulated after the formation of Malaysia, in 1963, saw a more balanced step by the government to promote industrialization process while not neglecting the agricultural sector. However, its role has been underplayed

by the government because of the political commitment to rural development. This includes improvements in the standard of living of the rural population; the provision of employment opportunities and reduction on the existing level of unemployment and underemployment; land settlement schemes to provide the landless with economically-sized farms; and the provision of a wide-scale rural infrastructure. And if we look at the pattern of governmental development expenditure over the total planning period covered by the four plans between 1956-'75, we can see there has been little alteration in the overall commitment throughout to modernize the rural sector. What has changed in the period, however, is the emphasis of the plans - an emphasis reflecting the existence of changing priorities on the planning process at different times. Thus within this twenty year framework (1956-75) we can see two distinct periods in Malaysia's planning, the first from 1956- to 1969, and the second from 1969 to the present day.

Before 1969 the aim of the government was to push ahead with extensive rural development specifically in the area of agriculture, by providing greater rural infrastructure and land development schemes primarily for landless and unemployed as well as slowly developing mechanisms to enable the deprived group to participate more effectively in the economic life of the country. This was a slow process but it would, it was felt, eventually bring about the greater modernization of the rural areas, and elimination of poverty. However, the racial

crisis that broke out after the 1969 election dramatically underlined that there existed a growing and dangerous ethnic friction in the country.

The result was the New Economic Policy formulated and published in the Second Malaysia Plan (1971-75). Essentially its aims were those of the previous plans, but the focus and the rate of development were drastically changed. The New Economic Policy had two main aims: eradicating poverty and restructuring Malaysian society to give the poorer a greater participation (30% by 1990) in the economy of the country. Since the industrial development program has been given a central role in the country's overall development programme, greater encouragement was given to the rural population to take part and participate in commerce and industry - the role that coincide with both the overall industrialization policy as well as restructuring the society.

The complexities of the goals of the Second Plan such as restructuring society and eradication of poverty made it difficult to achieve within a span of five-year period. The formulation of the Third Malaysia Plan (1976-80), thus carried the same basic objectives of the previous plan with even greater emphasis in industrialization.

Despite the complexities of economic, political, and social phenomena gone through over the years since the colonial rule, Malaysia has emerged as one of the most developed country in the Southeast Asia region.

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THE GROWTH AND STRUCTURE OF MALAYSIAN ECONOMY  
- AN OVERVIEW

by

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AN ABSTRACT OF A MASTER'S REPORT

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The growth and structure of the Malaysian economy evolved through a complex and multiplicity of economic, political, and social phenomena. The aim of this report is to give an insight into the development process that has taken place since the beginning of the British colonial rule in 1874 through the present time. It is a process that has changed Malaysia from that of an underdeveloped, unorganized and low-productivity traditional agriculture-based economy to a country which has relatively impressive economic growth, high productivity per capita and financial stability.

The success of the economy of Malaysia built upon the foundation of the earlier success of the agricultural sector. It can be traced back as early as the second half of the nineteenth century with the discovery of tin ore and subsequently the introduction of rubber by the British. Since then, Malaysia has become the world number one exporter of these products.

The role of other agricultural products in the economy at that time such as rice, pineapples, and coconuts was limited to providing food for local consumption and source of employment. The extent of industrialization was negligible.

The one-sided economy of total dependence on rubber and tin export industry was not without problems. This was obvious in 1920s and 1930s when there was a temporary slump in world tin demand and falling rubber prices attributed to the Great Depression in Europe. Again the trouble escalated

with the introduction of synthetic rubber immediately after the Second World War. This mounting problem subsequently pressured the government into changing its economic policy from one of a "lop-sided" economy to one of a diversified economy.

The diversification policy was first taken into serious consideration in the second half of the 1950s with the drafting of the First Malaya Five-Year Plan 1955-60. This coincided with the year of independence from British rule in 1957 (at that time the country was still called Malaya). By the time the Second Malaya Plan 1961-65 was underway, some of results of economic diversification could already be seen.

Diversification into other forms of export agriculture and into manufacturing were the main themes of the overall policy of the development plan. The introduction of oil palm in 1960s was the most successful in the agricultural diversification efforts. Before that time manufacturing industry was primarily confined to processing raw materials from primary sector. Now, different types of manufacturing, such as production of auto and television spare parts were added.

The First Malaysia Five-Year Plan (1966-70) was the first economic plan, after the formation of Malaysia in 1963, to fully emphasize the development of industrial sector.

The racial riots that broke out in 1969, due to imbalance of participation among racial groups in politics and economy, brought about a new dimension in the subsequent government's policy towards economic development. The result



was the formulation of the New Economic Policy upon which the Second Malaysia Plan's (1971-75) objectives were based. The New Economic Policy had, among others, two main aims: eradicating poverty and restructuring Malaysian society to give some deprived ethnic groups greater economic participation in the country.

The complexities of the objectives of the Second Malaysia Plan such as eradicating poverty and restructuring society made the attainment of its goals overnight impossible and not without additional problems. When the term of the Second Malaysia Plan expired, the goals were still not met with clear success. The latest plan, the Third Malaysia Plan 1976-1980 thus seeks primarily to accelerate the process of attainment of the goals of the previous plan.