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## Communal Implications of Economic Development in Malaya

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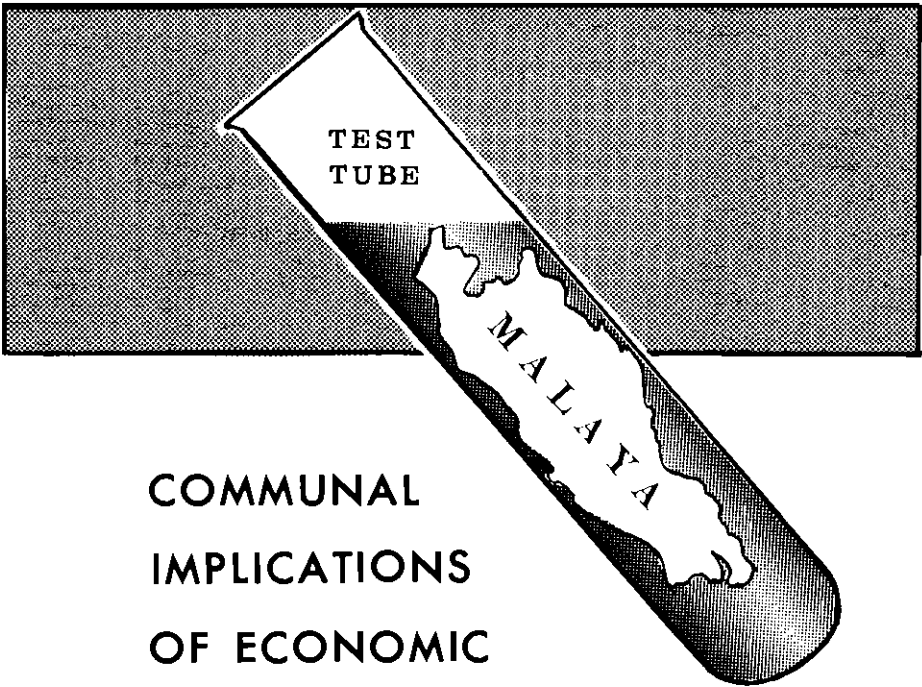
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# COMMUNAL IMPLICATIONS OF ECONOMIC DEVELOPMENT IN MALAYA

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## INTRODUCTION

Economic development, unlike world peace, is not a particularly exciting concept, yet great expectations have been promoted for it in terms of world peace. The foreign aid policies of great nations, the writings of prominent scholars, and the public pronouncements of distinguished statesmen convey the impression that some sort of causality exists between economic development and political stability. An example of this sentiment is as follows:

"It is generally accepted that if and as people in the low income countries are successful in achieving economic development, there will be a lessening of chronic social and political unrest . . ."<sup>1</sup> The implication is that economic development could somehow bring peace to the Cypriot Greeks and Turks, the Hausa-Fulani and Ibo tribes in Nigeria, or the Protestants and the Catholics in Northern Ireland.

There is scant satisfaction that this generality may be perfectly true in some specific situation, such as Lebanon, but

on the other hand, it does pay slight tribute to factors other than economic. Guy Hunter, editor of the race relations study sponsored by UNESCO, links politics and communal relations. "What emerges from these studies is, therefore, the formidable strength of a once established racial order, which must be ranked, unfortunately, among the most powerful and obdurate political passions of mankind."<sup>2</sup> In amplification, one must recognize that Hunter does not use the term "race" in its narrow biological sense, but rather from the viewpoint of sociopsychological differentiations involving among other things divergent value systems.<sup>3</sup> Hunter's general view then would be that these established communal differentiations are of ultimate importance.

It is with these two concepts, the general preeminence of economic development and the ultimate importance of racial or communal differentiation to political stability, that I approach this study of Malaya. My object is to determine how these two factors interact on the political scene and what effect one might have upon the other in terms of social and political stability.

Within the boundaries of this study Malaya is outwardly as close to a test tube situation as a political scientist may ever find because of the isolation of the factors under investigation. The elements of economic power and political power appear to reside on a communal basis, with the Malays controlling the political side, and the Chinese dominating the economic sector. An example of the isolation of factors can also be found in the relationship between Singapore and Malaya. Singapore is primarily of Chinese population and handles a large portion of Malaya's economic activity through entrepôt trade. The political relationship has been unique and is of an instructive quality for the purposes of this study.

A certain semantic artificiality has been introduced in terms of the political

unit under investigation. That unit to which this study is primarily directed is the polity located upon the Malay Peninsula. It was known as the Federation of Malaya until 1963 when it became part of the Federation of Malaysia. It is known as West Malaysia today. In effect I have excluded the Borneo states of Sabah and Sarawak, a part of the new state, in an effort to simplify the analysis and to direct the study toward a relatively more mature political system. Thus, the terms "Federation of Malaya," "West Malaysia," or simply "Malaya" should be considered synonymous in terms of this study.

## I—HISTORICAL DEVELOPMENT

The historical development of West Malaysia is of great importance to an understanding of the Chinese and Malay communal attitudes and relationships of today. This area of the study is a description of the situation as it exists today, followed by the events which led to the present.

On 16 September 1963 the Federation of Malaysia came into being after several years of concentrated effort on the part of the Governments of Great Britain, the Federation of Malaya, and local government officials of Singapore. Malaysia included the old Federation of Malaya, that is, the nine territories on the Malay Peninsula, Singapore, and the Crown Colonies of Sabah and Sarawak which are located on the northern coast of Borneo. Brunei, another British colony in Northern Borneo, did not join the federation due to disagreements over ownership and control of oil resources and the precedence of the Sultan of Brunei as an Islamic ruler in the federation.<sup>1</sup>

Malaysia had a combined area of 127,149 square miles, about the size of the British Isles, with a population estimated at 9,135,000. Forty percent were Malays, 43 percent were Chinese,

10 percent Indian and Pakistani, and the remaining 7 percent were peoples indigenous to Northern Borneo and the Malay Peninsula.

The Federation was not a particularly popular evolution among its neighbors. One day before the Federation came into being, the Ambassadors of the Philippines and Indonesia departed for their home countries and were not due to return until the political situation had undergone some basic changes.<sup>2</sup> The Philippines, who had earlier laid claim to Sabah from the British, were openly opposed to the Federation.<sup>3</sup> Indonesia commented vociferously about Malaysia being a neo-colonial creation to suit the British interests in rubber and tin. The Indonesians were ostensibly opposed to Malaysia for at least three reasons: Great Britain was attempting to solidify her economic position in the area; a competition with Malaya for the Borneo territories which, after all, disturbed the political continuity of an island almost wholly Indonesian; and the spectre of a Chinese nation in close proximity.<sup>4</sup> The Indonesian policy of military and economic confrontation ensued and resulted in protracted military conflict in the Borneo territories and the cessation of a highly profitable entrepôt trade between Singapore and Indonesia.

August 9, 1965, marked the expulsion of Singapore from the Federation of Malaysia. Except for brief periods, Lee Kuan Yew, Prime Minister of Singapore, had been in conflict with the Federal Government since the formation of Malaysia in 1963. The Malaysian Government was and still is under the leadership of Tunku Abdul Rahman, who is the Prime Minister of Malaysia and the leader of the Alliance Party which is composed of three communal parties in coalition, with the Indian, Chinese, and Malay Parties in that order of strength. The circumstances preceding the departure of Singapore involved communal riots in Singapore and

political competition in Singapore and Malaya between the Alliance Party and Lee's People's Action Party. Finally, in the spring of 1965, Lee Kuan Yew formed an interracial political party, the Malaysia Solidarity Convention. The MSC was to be the articulation of Chinese political aspirations and had sufficient strength and vitality to challenge the Alliance Party. After deep consideration and considerable pressure from right-wing elements, Prime Minister Tunku Abdul Rahman delivered the ultimatum which forced Singapore from the Federation of Malaysia.<sup>5</sup>

British interest in the Malay Peninsula began about 80 years after the Portuguese occupied Malacca. The first British trading vessel arrived in Penang in 1592. In 1790 Penang was ceded to the British East India Company by the Sultan of Kedah. The next acquisition by the British East India Company was Singapore in 1824. 1867 brought the incorporation of Penang, Malacca, and Singapore into a British crown colony called the Straits Settlements. Two years later the Suez Canal was opened and trade flourished between the Far East and Europe.

The Borneo territories were also gained through private business ventures. The British presence in Borneo as a whole was formalized in 1888 when North Borneo, Brunei, and Sarawak became British protectorates. "As early as 1887, Lord Brassey, a director of the British North Borneo Company had proposed a scheme by which the British Government would amalgamate its territories in Borneo and Malaya with the Straits Settlements into one large colony."<sup>6</sup> This idea was not acted upon, however, until the end of World War II.

The Japanese captured Singapore on 15 February 1942 after overrunning the Malay Peninsula. Underground resistance was organized by the Chinese and this resistance later became the core of Communist insurgency as it did in Indonesia after the War. After an abortive

attempt to overthrow the Government in 1946, the Communists went underground for two years. In May of 1948 the Communist terrorists caused a state of emergency to be proclaimed by the British High Commissioner. This proclamation was rescinded 12 years later on 31 July 1960. To implement the "emergency" nearly 500,000 Chinese squatters were relocated in 550 new villages. The squatters were isolated farmers living in remote jungle areas and were the main source of supplies and recruits for the Communist guerrillas. Most of the guerrillas were Chinese as were most of their civilian victims.<sup>7</sup>

In the latter months of World War II the British Government set itself to the task of preparing the colonial peoples for self-government. This preparation took the form of a constitutional experiment in Malaya. Thus on 1 April 1946 the Malay Union was formed of all the states on the Malay Peninsula. Singapore, excluded from this arrangement, was designated a Crown Colony. The British had ruled for many years in Malaya through the Islamic Malay rulers. The system was called indirect rule and was not unique to Malaya; however, the system was modified under the provisions of the Malay Union and the Malaysians lost some of their power. In addition, new citizenship provisions gave many non-Malays equal political rights to the Malays who had enjoyed a favored position over all non-Malays in the past. The Malays organized themselves and campaigned so effectively that when the Union was replaced by the Federation of Malaya, in February 1948, the Malays had regained their favored position under its provisions. The Chinese, on the other hand, did not vigorously defend their interests and thus accepted the favored Malayan political position.<sup>8</sup>

On 7 February 1952 the British Government made formal declaration of its policy to make Malaya a fully self-governing nation, as soon as order could

be established. One of the principles of the declaration was that Malays would play a more important role in the economy. This principle was followed up by the initiation of a governmental agency dedicated to the improvement of the economic position of the predominantly rural Malays. The first federal elections were held for unofficial seats in July 1955. Of the 52 seats in the council, the Alliance gained 51. The Alliance was formed at that time by the United Malay Nationalist Organization and the Malaysian Chinese Association. The coalition was to become known as the Alliance Party in 1956 when its communal roster was filled out by the Malaysian Indian Congress.<sup>9</sup>

The Federation of Malaya became an independent monarchy within the British Commonwealth on 31 August 1957. The Federation was composed of nine princely Islamic states on the Malayan Peninsula and the two former Straits Settlements of Malacca and Penang. Singapore retained its status as a crown colony but gained internal self-government on 3 June 1959. The Federation was somewhat larger than New York state with an area of 50,690 square miles. The population was 50 percent Malay, 37 percent Chinese, and 11 percent Indian.

The first federation-wide election after independence occurred in August 1959. The Alliance Party again demonstrated its strength by winning 74 of the 104 seats. The lustre of this success was dampened to some extent by two events. The Pan Malayan Islamic Party, a right-wing party advocating a union of all Malay peoples in Indonesia and Malaya, won a block of 13 seats in the northern states. Secondly, the Alliance Party had faced a crisis in Chinese representation. The MCA was apportioned 27 seats to contest, which was a good many less than it should have had in view of the size of the Chinese community. A compromise was reached by allowing the MCA 31 seats.

The malcontents were impatient of the continued inequality of the races, however modified by law, and the resolution of the MCA to accept the compromise solution was agreed to only by a narrow majority. A number of members resigned from the MCA (including the President) in consequence of this dispute . . .<sup>10</sup>

It has been remarked that "for a long time Malaya has been considered the dollar arsenal of Great Britain."<sup>11</sup> Thus, the Malayan raw materials, such as rubber and tin, provided a favorable balance of trade with the United States, which earned Great Britain valuable dollar reserves. This, of course, is only one of many trade relationships which had grown up through the years of British rule. There existed a line of command, finance, and trade relationships which passed from London through Singapore and into Malaya. "The seat of British power was Singapore, and from there all the British territories of the region were administered . . . In other words, the area which today constitutes Malaysia was directly governed from Singapore, although the true seat of power was London."<sup>12</sup>

The Federation of Malaya cast about for new and direct relationships after independence. A trade agreement was signed with Japan in 1960 which covered tin, rubber, timber, pineapple, and Japanese textiles, a favorite export of Great Britain. On 30 June of that year, the remaining restrictions on dollar area trade were removed, and in November Prime Minister Tunku visited the United States and invited American private investment. It must be emphasized that this offer was not limited to the United States, however. In demonstration of the Tunku's objectivity a 1961 trade agreement with New Zealand was consummated which discriminated against United States synthetic rubber. At any rate, many other agreements have been made with nations which had not previously traded directly with Malaya.

The history of the Chinese community in Malaya is at least 400 years old. When the British took over Penang in 1786 it was noted that the Chinese had long been active traders. Chinese had emigrated to Singapore in great numbers. After that city was ceded to the British, these same Chinese, in turn, went into the Malay interior. It was not, however, until the last quarter of the 19th century that the Chinese began to arrive in substantial numbers. Within the Federation of Malaya in 1921 there were 856,000 Chinese of a population total of 2,907,000. This had increased to 2,334,000 Chinese of a total population of 6,279,000 by 1957.<sup>13</sup>

The Chinese provided most of the labor for tin mining and figured prominently as labor on the rubber estates, although the Indians outnumbered them on the estates. Like many of the secondary pursuits, the pineapple industry Chinese.

In Singapore, Penang, Kuala Lumpur, Klang, Ipoh, and elsewhere the Chinese owned oilmills, biscuit factories, rubber works for the manufacture of shoes, tires, etc., iron foundries, sawmills, and sauce factories; there were Chinese shipping companies; they ran motor agencies and repair shops; the bulk of the retail trade everywhere was in their hands.<sup>14</sup>

Thus the lines of communal differentiation were drawn. The Malays envied the Chinese their wealth while the Chinese grew to envy the political power of the Malay, as in September 1967, when Malay became the official language and the Chinese found themselves without the power to build a sanctuary for their culture. This must have seemed to them most unfair, for the spoils had gone to the least industrious. The literature is replete with statements like this:

The fact is that without them, Malaya would still be more or less as it was over most of its extent 80 years ago—a few clearings along the coasts and up the rivers, in the midst of jungle and swamp with no roads, no bridges, no

public buildings, no hospitals, no schools, and no courts of law. Modern Malaya is, in the main, the joint creation of British and Chinese enterprise.<sup>15</sup>

## II—POLITICAL DEVELOPMENT

Malayan politics are dominated by communal interests. Any attempt to introduce political parties which tend to cut across communal lines has ended in dismal failure. Two examples are to the point.

The first attempt occurred in 1951, when the President of the United Malay Nationalist Organization, Dato Onn bin Ja'afar, resigned to organize the Independence of Malaya Party (IMP). He had obtained a promise of support from the Chinese party (MCA) and from the Trade Union Council. It was evident that this new party, founded on the premise of racial equality, caused the Malays to fear loss of the "special position" which they enjoyed under British rule.<sup>1</sup> The new President of UMNO, Tunku Abdul Rahman, described IMP as a destructive move and promptly expelled all members of IMP from his organization. Mr. Tan Cheng-Lock, leader of the MCA, must have appreciated the wisdom in this, as he turned his back on IMP and took the Chinese party into a coalition with the UMNO. Needless to say IMP was never much of a success and won only two seats in the 1952 elections.<sup>2</sup>

The second experiment in non-communal politics proved more disastrous than the first and had ramifications of a far-reaching nature. Lee Kuan Yew's battle for a "Malaysian Malaysia" culminated in the expulsion of Singapore from the Federation. Malaysia, at that time, was engaged in the undeclared war of "confrontation" with Indonesia. The relationships between the Singapore Government under Mr. Lee and the Federal Government under Tunku Abdul Rahman had been strained since the formation of Malaysia

in 1963. Mr. Lee had bargained too hard for concessions in the agreement to join Malaysia. In addition, he had unilaterally declared Singapore free of Great Britain prior to the consummation of the agreement taking Singapore into the Federation of Malaysia. It would appear that Mr. Lee viewed Singapore as equal in status to Malaya, while, on the other hand, the Tunku saw it as like one of the nine states in Malaya. On top of this, when UMNO candidates entered into Singapore elections they were resoundingly beaten.

Mr. Lee took his People's Action Party onto the Peninsula in the Malayan elections of April 1964. Although PAP won only one of the nine seats contested, the one seat personified the Chinese threat to Malay political supremacy. In answer to the threat, Malay leaders began to campaign among Singapore Malays, with the suggestion that they ought to enjoy the same "special position" enjoyed by their brothers on the Peninsula. Communal tension rose on the Island and on 21 July 1964 Singapore had its first race riot since 1950. A second riot occurred a few weeks later.<sup>3</sup>

In April 1965 Mr. Lee joined the PAP and several non-Malay parties, principally from North Borneo, to form the Malaysia Solidarity Convention. This only heightened the apprehensions of the Malays, and the extremists in the UMNO cut off the threat of Chinese dominance, in the form of Lee Kuan Yew, by obtaining the expulsion of Singapore from the Federation.

By encouraging Malaysians to vote on economic rather than communal grounds, the PAP was trying to undermine both UMNO and the MCA. Ostensibly, it was seeking to break down the capitalist Chinese and feudal Malay society of Malaya. But it pushed too hard at a time when communal divisions were the ones that mattered.<sup>4</sup>

It has been argued that Lee Kuan Yew's motive was merely to unseat the

MCA from its position in the Government and the Alliance Party. Chinese party against Chinese party, so to speak. In any event, the apprehensions it caused the Malays bear great application to any thesis of racial assimilation or accommodation. This Malayan sensitiveness was also demonstrated in the abortive Malay Union, which failed in 1948 after Malay protest, because of the fear of Chinese equality under the citizenship provisions. This Malay sensitivity might well be more Islamic in derivation than simply Malay or nationalistic. Most of the Malays are of the Islamic religion. The following quote from a Malay ruler explains, "... according to Islam there is no separation between politics and religion. It is a great sin for Islamic peoples to transfer the Government of the Malay States to non-Islam."<sup>5</sup>

Direct membership in the Alliance Party has been a provision since 1965. Thus, a new member may enter the party without being a member of one of the three communal groups which form it. Is the Alliance Party then a multi-racial effort which melds communal interests into equitable policy, or does it primarily represent the interests of the Malay community? There is argument both ways. The Chinese are represented at cabinet level in two important positions, the Minister of Finance and the Minister of Commerce and Industry. The Chinese have enjoyed an increase, though moderate, as a percentage of the electorate, with 11 percent in 1955 to 36 percent in 1959. The Tunku personally intervened in support of Chinese rice dealers in Perak and Penang when the local governments wanted to end their monopoly by withdrawing their licenses in 1962.<sup>6</sup> Also, the Government extended rural development resources to the Chinese in the "new villages" in 1962, a benefit which had been reserved for the rural Malays.<sup>7</sup>

By the same token, there is argument within the MCA that too much has been given away in the bargain. The urban

Chinese are under-represented in comparison to the rural Malays. This principle was further reinforced by constitutional changes in 1962. Citizenship laws lack equity for the non-Malay. The police and the armed forces are almost completely Malay, as is the civil service. In addition, the Chinese are generally restricted from land ownership.

Victor Purcell, the dean of Malaysian authorities, states, "The Alliance, therefore, was based upon a tacit agreement to maintain the preindependence status quo—the Malays retaining the political and the Chinese the economic ascendancy."<sup>8</sup> While Professor Silcock maintains, "Because the Malay grievance is mainly economic, economic progress might remove it, until no real obstacle to full Chinese participation would remain."<sup>9</sup>

Status quo or progress? It is with this question in mind that an analysis of the economy of Malaya is developed.

### III—ECONOMIC DEVELOPMENT

This section of the inquiry addresses itself to two major parts. First, the economy as a whole involving government policy and goals and the effects of communal politics upon the economy. These effects are illustrated through a series of "dilemmas." Three major policy situations involving alternatives with communal implications will be illustrated: (1) A dilemma involving the alternatives of the invitation of foreign investment for industrial development, and being an Afro/Asian, Muslim nation. (2) A dilemma involving the alternatives of the threat of Chinese political power, and the revenue provided by Singapore. (3) A dilemma involving the alternatives of rural (Malay) development where gains are slow, and urban (Chinese) development where the promise of rapid growth is bright.

Second, the relationship of the Chinese community to the economy. The economic policies and goals of the Government are threefold: (1) An active



campaign has been mounted to attract foreign investment to the economy. It is through foreign investment that the Malays hope to diversify the economy from a broad agricultural base. (2) Malaya seeks to achieve a reasonable level of economic freedom from Singapore. (3) Rural and infrastructure development have the first priority for government-financed ventures.

Thus, capital investment by foreign enterprises and individuals is of top priority in the scheme of Malayan development. "It (Malaya) has been persuaded that the maintenance and increase of its assets depends far more on the willingness of foreign capitalists to invest in Malaya than on almost any other aspect of economic policy."<sup>1</sup> An adjunct to this goal is stability. Occurrences such as the recent riots and the "secession" of Singapore are examples of the things that the Government would have liked to avoid in the interests of presenting a picture of relative stability to the foreign investor. *The New York Times* recently observed that foreign private capital "appeared skittish" because of continuing doubts about the future of Malaysia's relations with Singapore concerning a common currency.<sup>2</sup> In addition, the fear of capital flight is closely related to the objective of stability. When the Prime Minister of Malaya was attempting to gain support for the idea of the Federation of Malaysia, he expressed the need for stability to prevent capital flight as one of the best arguments for the Federation.

Some of the events which uphold the thesis are as follows: in February 1958 it was officially announced in Kuala Lumpur that the Government would grant up to a 5-year tax holiday to pioneer industries in Malaya. This was an effort to offer incentive for investment which would diversify the economy. However, most of the grants and loans which were received in 1958 and 1959 were directed to rural and infra-

structure development. In November of 1960 the Prime Minister made a trip to the United States and invited private investment. In September of 1963 the Minister for Commerce and Industry made the public announcement that diversification was a most pressing problem. The dependence upon rubber for foreign exchange and the competition of synthetic rubber were the salient factors. As of this year (1967) natural rubber accounts for 39 percent of export earnings and tin 23 percent. Thus, two commodities, both of which are highly vulnerable to demand fluctuations, comprise 62 percent of export earnings.<sup>3</sup> In April of 1965 the Minister of Finance sold \$25 million (U.S.) worth of Malaysian bonds on the New York bond market. It was just one month later that Malaysia made application for membership in the Fourth Afro-Asian Solidarity Conference and was refused on the grounds that Malaysia was a capitalist creation. "Indonesia's efforts to discredit Malaysia internationally had many practical consequences, not the least of which was a rude awakening in Malaysia's Ministry of External (now Foreign) Affairs to the fact that Malaysia was being politically isolated by Muslim nations, African states, and the nonaligned countries."<sup>4</sup> The need for foreign investment must have been great indeed.

However, according to the International Bank for Reconstruction and Development, progress has been slow. In 1961 the manufacturing sector produced only 6 percent of the gross national product. Late figures indicate that in 1966 something over 10 percent was produced by the manufacturing sector.<sup>5</sup> This policy dilemma is related to communal issues in that a decision was made to put primary emphasis upon rural development. Both 5-year development plans allocated 1 percent or less to urban industry, and thus it was imperative to diversify through foreign

investment.<sup>6</sup>

The second major goal, economic freedom from Singapore, is not specifically enunciated as a policy, yet it is of significant importance. Arnold C. Brackman, a respected observer of Southeast Asian affairs, states:

In 1949, Indonesia became independent and in the years that followed Djakarta moved increasingly toward a nationalist economic policy. In 1957, the Malay Peninsula became independent and Kuala Lumpur began to plot a similar course. Both Indonesia and Malaya sought to free themselves from economic dependence on Singapore and both moved to establish rival maritime centers.<sup>7</sup>

The distribution of Malaya's entrepôt trade is roughly 85 to 90 percent to Singapore and the remainder to Penang.<sup>8</sup> Recent information indicates that Penang entrepot trade faces a surtax on imports in an effort to generate additional revenue. Penang is fighting a losing battle to remain a free port. Both Singapore and Malaya are casting about for new trading partners.<sup>9</sup>

The phrase "economic freedom" may be too strong, because certainly Malaya was by no means forced to continue the patterns of trade and financial intercourse developed over the years of British control. One would suspect that the motivation to break the economic hegemony of Singapore was an attempt to keep within the Malayan economy the 11 to 30 percent added value which Singapore gains on its re-exports of Malayan raw materials. It is estimated that the value added to Malayan exports going through Singapore is on the order of \$250 million (Malay) per annum. Total value added in Singapore for all entrepot trade is about \$450 million (Malay).<sup>10</sup>

The fact remains, however, that Singapore and Malaya are tied closely together in the area of entrepôt transactions, and despite the initial flurry of protective tariffs which were erected and then taken down again after Singa-

pore left Malaysia, their trade relationships will probably only fade slowly. As the International Bank report of 1963 states:

The existence of an important entrepôt trade is due to the favorable geographic location of the Singapore Harbor and the valuable port facilities which are found in this city. Apart from these advantages, Singapore has a long tradition in trade, shipping and banking, and the skill of its traders and operators, as well as the existence of all necessary low-cost ancillary services which have grown in step with trade, have made that city an essential intermediary in a large number of transactions.<sup>11</sup>

The gist of this is that the only alternative to Singapore is another port just like it. One does not establish this sort of a facility in a short time, in that it involves international trade contacts, large-scale financing and marketing expertise, aside from the physical facilities. As a matter of perspective, Penang handles about one-tenth of Singapore's dollar value each year.

There are signs of Malayan progress toward disengagement. In July 1958 the United States granted a \$10 million (U.S.) loan to assist in the development of international seaport facilities in the Port Swettenham, Kuala Lumpur area. This location is halfway between the existing entrepot ports of Penang and Singapore. Many of the transport projects under development as part of the infrastructure also bear upon economic freedom. In addition, the Government has recently subsidized transport of rubber to Port Swettenham which will have the effect of diverting some of the rubber from Singapore.<sup>12</sup> Recently applied export duties of 10 percent on logs and rubber will encourage processing of these items in Malaya. The goal of economic freedom from Singapore entrepôt trade may be unachievable in the long run; however, the policy direction is quite plain. Malaya plans at least to share some of the

entrepôt earnings.

To be sure, time is the essential factor in the relationship. A comparison of 1966 and 1961 trade figures indicates a slight increase over 1961. 1966 is significant in that the trade data was generated after the "secession" of Singapore. Trends for 1967 are mixed. Some reports indicate a languishing trade while others say it is steady. Despite the recent decision to switch to separate forms of currency, 16 of the 24 banks licensed in the Federation are also operating in Singapore.<sup>13</sup>

Thus, the significance of the expulsion of Singapore lay not in the area of mutual dependence generated by the entrepot trade (it goes on regardless), but in the economic contribution of Singapore to the Federation. *The New York Times* observed, "... but Malaysia must now finance this \$1.5 billion (U.S.) program (5-year development) without Singapore, whose people made up nearly one-fifth of Malaysia's 10.7 million people and provided nearly a fourth of the federation income."<sup>14</sup> The dilemma which the Tunku must have felt can only be appreciated in terms of the \$100 million (Malay) in revenue each year and the projected \$150 million (Malay) in development loans to the backward Borneo states. And this agony was felt in a time of desperate need as the cost of "confrontation" had escalated the defense share of the budget to 25 percent. It was also about this time that the 5-year development plan came into extremis. On 5 October 1965, two months after the eviction of Singapore, the Federation Finance Minister, Tan Siew Sin, was attempting to obtain \$666.4 million (U.S.) in foreign exchange over a 5-year period. The World Bank turned down the request.<sup>15</sup>

Thus, the economic stakes of Singapore's departure were very high, yet the forces of communalism overrode the economic considerations.

The third area of government con-

cern is rural and infrastructure development. E.L. Wheelwright, Senior Lecturer in Economics at the University of Sydney, has observed that: "The overall impression is that although substantial progress has been made, industrialization has not yet been taken very seriously."<sup>16</sup> A study of development plans reveals a marked bias toward rural development.

There has been a waste in the allocation of resources as money is spent on politically useful but economically unjustifiable roads, mosques, community halls, and other physical items. There has been a heightening of ethnic tensions as the rural development program has come to be defined as a program for the Malays, and has come to symbolize many of the frustrations felt by Chinese and Indians at Malay privileges.<sup>17</sup>

Two statutory bodies exist to assist in rural development. The first is the Rural and Industrial Development Authority established in 1954, which concentrates on improving the quality of rural artifacts and marketing and trading techniques. It has been observed that this agency, unofficially at least, favors the Malay peasant and that it supports secondary endeavors which, because of their relative lack of profit potential, do not have Chinese competition.<sup>18</sup> The general rural development functions of RIDA were elevated to cabinet level and taken over by a Ministry of Rural Development in 1962. The intent of this was to centralize and coordinate state and district efforts.

A second agency, the Federal Land Development Authority, has applied itself to the task of creating new lands for agriculture. This is particularly important because the small size of the Malayan farms tends to make them inefficient. Purcell and other authorities on the subject would argue that the inefficiency of the rural Malays has more to do with their value system and outlook. Professor Gayl D. Ness, author of a recent text on the Malaysian

economy, observes that a government program has been devised to correct this.

The cultural goals embodied in Community Development programs were a sustained insult to the Malays. It was only they, the programs argued, who needed to change their values, to learn to work hard, to save and invest. Malays were told to emulate the Chinese, whose industry and achievement orientation were responsible for their rapid rise from poverty to wealth.<sup>19</sup>

A second imperative to open new lands is for rice production.

In the early days rice cultivation was virtually confined to the indigenous population, the Malays. Before the British came, the Malays cultivated what they needed for their own consumption in a primitive economy of self sufficiency. Cash was of little use and there was no incentive to produce surplus rice. Then came large numbers of Chinese and Indians, who, like the Malays had always been using rice as their chief food. It was generally supposed that the resulting increase in demand would stimulate the Malays to produce more. But owing to the long habit of producing for their own use, and also a more important reason (rubber) the expected increase in production failed to materialize.<sup>20</sup>

This observation was based upon the years immediately preceding Malayan independence; however, after 10 years of agricultural development, Malaya still imports about 50 percent of its rice from Indonesia and Thailand. This is particularly onerous due to the balance of payments problem which is presently being encountered.

The 5-year program which will free some 450,000 acres from the jungle and make homesteads for 21,500 family resettlements is now firmly underway. *The New York Times* states: "To implement this program, eager young government officials are stirring drowsy Kompongs villages with news of farmlands being made available to people who, for centuries, have scraped a bare living from fishing and tiny rice plant-

ings hacked from the jungle."<sup>21</sup>

The basic dilemma for the economic planner and the politician is the choice between the rural area and the industrial sector. Although the industrial sector offers the most rapid kind of development the rural area has been selected as the major concern.

#### IV—THE CHINESE AND THE ECONOMY

In a recent *New York Times* article under a headline of "Malaysia Seeking to Combat Communal Friction," the following observation was made. "The Chinese and the Indians control a disproportionate share of Malaysia's wealth and this, rather than race or religion is an important source of communal tension."<sup>1</sup> This sort of sentiment is widespread and generally finds expression in the broad tenet that the Malays control the political scene and the Chinese control the economy. The ascription to the economic imbalance as a source of communal tension makes Chinese wealth worthy of investigation.

Purcell is most cautious in his investigation.<sup>2</sup> Although his book has been revised recently he offers a 1937 estimate on ownership statistics. (Apparently this is not a matter of recent record.) It was estimated that of a total foreign investment at \$654 million (U.S.), the Chinese owned roughly one-third or \$200 million. The British owned another \$200 million. So the British and the Chinese had about equal shares of the capital investment of Malaya. J.J. Puthucherry, author of an extremely well documented investigation of the Malayan economy, stoutly insists the imperialists still owned the economy in 1958, and that although Chinese capital was certainly more important than Indian or Malay capital, it never seriously got to the level of other foreign investment. This would appear to bear out the premise of Purcell, as the \$254 million not accounted for above was

owned by foreign investors other than British.<sup>3</sup>

Puthuchery proceeds upon the thesis that "exploitation and poverty are class problems not communal problems" which suits his Marxist orientation.<sup>4</sup> However, Mr. Puthuchery may be quite right in his observations, notwithstanding his philosophical cant. He demonstrates through some sound statistics that only 2 percent of the Chinese act as employers while the remaining 98 percent fall into the categories of employees (557,098, family helpers (37,880) and (self-employed) own account workers (330,203). He emphasizes that the vast majority of Chinese in Malaya are wage earners or subsistence producers.<sup>5</sup>

Silcock tends to reinforce the picture of a few well-to-do Chinese and a great many poor ones. In his analysis of incomes under \$12,000 (Malay) or \$4,000 (U.S.) annual income per capita is as follows (in Malay dollars).

MALAY		CHINESE		INDIAN	
Urban	Rural	Urban	Rural	Urban	Rural
\$482	\$307	\$561	\$473	\$513	\$499

For those incomes of \$12,000 and over, Silcock assessed tax returns and produced the following estimates of income earned on a communal division.<sup>6</sup>

Malays	\$ 25 million
Indians	25 million
Chinese	150 million
European	100 million

These are 1957 figures, and it can be assumed that a portion of those incomes going to Europeans are now under the Malayan total due to the "Malayanization" of the civil service.

In critique, Puthuchery tends to underestimate the economic potential of the own accounts workers, particularly the 93,837 which are engaged in

commerce, according to the census figures. However, his analysis combined with Silcock's tends to reinforce the idea that the problem of poverty in Malaya is cut on class lines, indeed, not in such stark terms as Puthuchery draws, but enough to state that the communal generalization regarding Chinese wealth should be stated in more precise terms. This is further demonstrated by R. Catley, research scholar in international relations, Australian National University. "Further, while the Malayan government admits to a 6 percent unemployment rate, it concedes youth unemployment in urban areas to be 27 percent. It is at this level that the disaffected Chinese may be found . . ."<sup>7</sup>

Puthuchery made another observation which is invaluable as it projects itself into the facts of modern economic life.

There is a difference in kind rather than degree, between Chinese and European capitalists. Very few Chinese capitalist enterprises are comparable with those of Europeans. The difference in size brings out the fundamental difference in organization. A characteristic of the Chinese part of the plantation economy is fragmentation of ownership and control. This is the result of family enterprise.<sup>8</sup>

#### BIOGRAPHIC SUMMARY



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There is further evidence in this vein concerning the ownership of tin mining facilities. The following table illustrates how this characteristically Chinese type of organization acts regarding capital formation. The Chinese pioneered tin extraction in Malaya in a labor intensive method. The tin dredge, a capital intensive method, was devised and put into operation in the 1930's. The cost of extraction was much less than the Chinese method. Chinese capital could not compete with European capital simply because of Chinese organization, and control slowly passed to the Europeans.

#### CONTROL OF TIN EXTRACTION<sup>9</sup>

	EUROPEAN	CHINESE
1920	36%	64%
1925	44%	56%
1930	63%	37%
1938	67%	33%

One might suspect that it is in the secondary industries, which are not highly capital intensive, that the greatest Chinese economic activity is to be found. In addition, this Chinese style of business organization tends to exclude non-Chinese. It could more aptly be described as a way of life than as a vocation. Labor is recruited on a personal basis, is trained by Chinese employees and provided with food on the premises.<sup>10</sup>

Sukarno has charged that Malaysia is a capitalist creation designed to protect foreign interests in rubber and tin. He bases this upon the fact that it won a freedom by agreement rather than revolution. To be sure, the Federations of Malaya and Malaysia did come into being in a bloodless manner, and the expropriation of foreign investment which occurred under the radical regimes did not occur in Malaya. In fact, as pointed out previously, the acquisition of foreign investment and the prevention of capital flight are major policy goals. One would suspect that

foreign investment is just as prominent as it was in Purcell's 1937 figures.

Thus the myth of Chinese control should be restated. A small percentage of the Chinese control a large proportion of the economy, the extent of which is not precisely known. In addition, foreign investment is still a very prominent factor. But of what significance is this insight? "The Malays envy the Chinese who are often their creditors and the monopolistic suppliers of their essential needs. They envy them their higher incomes and their possession of most of the capital of a country which the Malays regard as their own."<sup>11</sup> This is a Malay perception which regardless of its accuracy is real in terms of its existence as an emotion and, more pointedly, in terms of communal relations.

The Chinese *Towkay* advances money or more often goods, such as rice and cloth, to the fishermen in the slack season against the security of their catches. He lends money for the purchase of boats and nets and may loan without charge. In return he contracts with the fishermen to take their fish at an agreed price of his own setting, usually rather below the free-market price.<sup>12</sup>

The rural scene has much the same activity, as the Chinese padi buyers advance money before the crops are planted. Rural credit is self-perpetuating, and the shopkeepers' hold on the farmers' produce increases with the passage of time.<sup>13</sup> Thus, the attitude of communal envy is reinforced by a widespread debt system. The government is attempting to obliterate this by loaning money to the peasants.

As in the early days at Penang, the Chinese still serve as a source of revenue to the government. "In 1951 5,145 Chinese in the federation paid tax on \$62 million (Malay) in a total of 13,420 taxpayers as compared with only 773 Malays paying tax on \$8 million."<sup>14</sup> Aside from the distribution of taxable income, the figure of \$70 million as a

tax base is revealing. The known tax revenue increases since 1957 have amounted to \$135 million. In addition, the Government expects to collect some \$100 million in revenue from tax evaders. This would bring the personal income tax receipts up to \$235 million or roughly three times the tax base of 1951. This gives some idea of how the wealthier individuals are paying for the progress made.

Silcock, however, points out a problem which would not be unique to a Chinese civil servant a century ago. His analysis of income pointed up under-reporting of some \$800 million or one-fourth of the present tax base. He attributes this to the income of businessmen, a great majority of whom are Chinese. The Government expects to be able to collect the additional \$100 million mentioned above.<sup>15</sup> The latest development is a 5 percent levy on "development income," which is defined as income coming from trade, business, the professions, and the letting of property. Those who make less than \$500 (Malay) per year are exempt.<sup>16</sup>

## V—SUMMARY

Some of the effects of economic policies and usages as related to communal relations are as follows:

- A. The Chinese community provides a valuable revenue. Some of the revenue has its source in Malay endeavors; however, one would suspect that a large proportion of it originates from Chinese labor and enterprise. In any event most of this revenue is put back into the Malayan sector in the form of rural development projects.
- B. There has been little emphasis upon urban and industrial development which is leading to pockets of discontent among urban Chinese.

- C. The nature of small-scale Chinese economic organization leads to a form of communal exclusiveness, expressed in terms of recruiting and training Chinese only, and doing things in such a characteristically Chinese way that one would have difficulty in integrating Malay peoples.
- D. The Government has recognized that those skills which are the basic entity of small-scale industry such as marketing skills, risk-taking, long hours of work, and thrift (the Chinese approach) are not an area for Government intervention. The number of Chinese within the economy would make nationalization of Chinese enterprise an extremely tenuous venture.
- E. The need for political stability in terms of foreign investment is an interest shared by the Chinese and the Malaysians. It is a factor which generates communal co-operation.

## VI—OVERVIEW

The concept of communal differentiation on the basis of political or economic power has some very elemental weaknesses. As seen from the study, it is much too broad to describe the situation adequately as it exists. It would seem that those who control political power also control the economy to a large degree. Thus, it would seem that a more elemental factor or basic driving force must be addressed to achieve an understanding of the Chinese/Malay relationship.

Most of the examples in this study indicate a sort of hierarchy in which the economic values seemed to take last place with the political values in support of a Malay way of life being generally on top. Thus, it seemed, the most important questions evolved from cul-

tural differences rather than economic or political differences.

The touchstone of communal politics and economics is the cultural differences. It would seem that until these differences are in some way bridged and melded into a whole, that a lasting sort of stability will not be achieved.

But, economics can serve a purpose in this objective. Economics can serve as a preoccupation, away from the meaningful question of cultural difference. Economics can provide an arena for accommodation, provided sufficient mutual interests can be found. It is with this thought that the question is posed: How might the economy effect an accommodation of communal interests?

Some of the negative aspects have already been mentioned, such as the exclusiveness of Chinese enterprise re-

inforcing it as a communal enclave and the lack of progress in urban or industrial development. The latter is the more pressing as the former does not automatically preclude accommodation.

There are, on the other hand, some hopeful indications. First of all the mutual concern with political stability brings responsibility to the Government; and this same mutual concern must in the final analysis bring responsibility to the relationship between Singapore and West Malaysia. The second factor is that the Chinese and the Malays work together daily on some very thorny economic issues such as taxation and development policies. It is through these issues that accommodation (although one-sided) is made at the highest level of government and time is bought in which to strike a *modus vivendi* among the common people.

#### FOOTNOTES

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