

From colonial land rights to Malay corporate shares

Entrepreneurship and ethnicity in Malaysia before the New Economic Policy



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Contents

Abbreviations	2
Introduction	3
1. 1920-1941: rubber, rice, and indigenous rights.....	9
Malay Malaysians	13
Other indigenous Malaysians.....	17
Chinese Malaysians	21
Indian Malaysians	25
2. 1945-1957: diversification and rural development	28
Malay Malaysians	32
Other indigenous Malaysians.....	35
Chinese Malaysians	39
Indian Malaysians	42
3. 1957-1970: independence and emergent affirmative action	45
Malay Malaysians	49
Other indigenous Malaysians.....	57
Chinese Malaysians	65
Indian Malaysians	68
Conclusion.....	69
References	73

Abbreviations

BNB	British North Borneo
BNBCC	British North Borneo Chartered Company
CO	Colonial Office
EPU	Economic Planning Unit
FAMA	Federal Agricultural Marketing Authority
FELDA	Federal Land Development Authority
FDoI	Federal Department of Information
FMS	Federated Malay States
GDP	Gross Domestic Product
MARA	<i>Majlis Amanah Rakyat</i> (Indigenous People's Trust Council)
MCA	Malaysian Chinese Association
MIC	Malaysian Indian Council
NEP	New Economic Policy
NLFCS	National Land Finance Cooperative Society
PERNAS	<i>Perbadanan Nasional Berhad</i> (National Corporation)
PFCE	Private Final Consumption Expenditure
RIDA	Rural and Industrial Development Authority
SFDC	Sarawak Finance Development Corporation
SPK	<i>Syarikat Permodalan Kebangsaan Berhad</i> (National Investment Company)
SS	Straits Settlements
UMNO	United Malays National Organisation
UMS	Unfederated Malay States
WDI	World Development Indicators

Introduction

When the ruling Alliance-coalition of Malaysia suffered a painful defeat in the 1969 general elections this led supporters of two opposition parties to organize celebration marches on the streets of Malaysia's capital city, Kuala Lumpur. In response, the country's largest party, the United Malays National Organization (UMNO), rallied its supporters to hit the streets as well. Initially, celebrations elapsed peacefully, but when rumours spread that a number of Malays were attacked by Chinese and Indian Malaysians while wanting to join the main group of UMNO-supporters ethnic riots erupted. As a consequence of these riots, lasting from 13 May until 15 May,¹ approximately 600 Malaysians, the majority of whom were of Chinese origin, lost their life.²

The 13 May Incident proved a watershed moment in the history of Malaysia, since it convinced the country's political leaders that more should be done for Malays in order to prevent similar events from occurring in the future.³ For this reason, the New Economic Policy (NEP) was adopted in 1971. The aims of the NEP were twofold: reducing and eventually eradicating poverty 'by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race'⁴ whilst 'accelerating the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function.'⁵

In theory, *bumiputras*, i.e. Malay Malaysians and other indigenous Malaysians, were to be the beneficiaries of restructuring, but in practice the latter group was largely ignored. Four different mechanisms were deployed for the redistribution of wealth to Malays. First, public enterprises bought shares from, in most cases, foreign-owned companies operating in the country. Subsequently, these shares were either sold on to individual investors or held in a trust fund on behalf of the Malay community. Second, the Industrial Coordination Act, enacted in 1975, required that 30% of equity in manufacturing companies were held by members of this community in 1990, the final year of the NEP. This did not apply to companies exporting more than a fifth of their production.⁶ Third, Malay entrepreneurs could

¹ V. Matheson Hooker, *A short history of Malaysia: linking east and west* (Crows Nest, New South Wales 2003) 230-231.

² *Time*, 23 May 1969. 'World: Race war in Malaysia'.

³ C. M. Turnbull, *A history of Malaysia, Singapore and Brunei* (Revised Edition; Sydney etc. 1989) 268.

⁴ Economic Planning Unit, *Second Malaysia Plan, 1971-1975* (Kuala Lumpur 1970) 1.

⁵ *Idem*.

⁶ E. T. Gomez and Jomo K. S., *Malaysia's political economy: politics, patronage and profits* (Cambridge etc. 1997) 29-32 and 40-43.

obtain business premises and loans under favourable conditions. Fourth, a quota system was set up for the issuing of licenses and government procurement.⁷ As a consequence, Malay ownership in the plantation and tin mining industry constituted 45% and 50%, respectively, during the mid-1980s; in 1990 Malays owned 19.3% of total equity capital in Malaysia.⁸

This master's thesis seeks to analyse whether the favourable competitive position that accrued to Malay Malaysian entrepreneurs under the NEP was historically unique. It addresses the following research question: to what extent did changes in the conditions for the development of entrepreneurship of varying ethnic origin during the period 1920-1970 anticipate the New Economic Policy? A differentiation is made between the four main ethnic groups: the Malay Malaysians, other indigenous Malaysians (primarily Dayaks in East Malaysia), Chinese Malaysians and Indian Malaysians. The term 'Malaysian' refers here to the citizenship granted to these groups since independence, not to ethnic origin.

The definition of 'Malay' is the one given in article 160 of the *Federal Constitution* of Malaysia, namely 'a person who professes the religion of Islam, habitually speaks the Malay language, conforms to Malay custom and was before Merdeka Day born in the Federation or in Singapore or born of parents one of whom was born in the Federation or in Singapore, or is on that day domiciled in the Federation or in Singapore; or is the issue of such a person'.⁹ Consequently, a person belonging to any of the ethnic groups in Malaysia, including the Chinese and Indian groups, may qualify for this status, but they rarely do so in practice.

Malaysia has made a significant transformation between 1920 and 1970, both in economic and political terms. Regarding the latter, the geographical area now covering Malaysia, did not become a single constitutional entity until the establishment of the Federation of Malaysia on September 16, 1963. Anno 1920, it was divided into the Straits Settlements (SS) and nine British sultanates (four Federated Malay States (FMS) and five Unfederated Malay States (UMS)) on the peninsula, and two British protectorates on Borneo, Sarawak and British North Borneo (BNB). Not long after World War II, the SS, excluding Singapore and Labuan, FMS and UMS were merged into the Federation of Malaya which gained independence in 1957.¹⁰ Meanwhile, the territories on Borneo were brought under direct British control when Sarawak and BNB became Crown Colonies in 1946. Both these

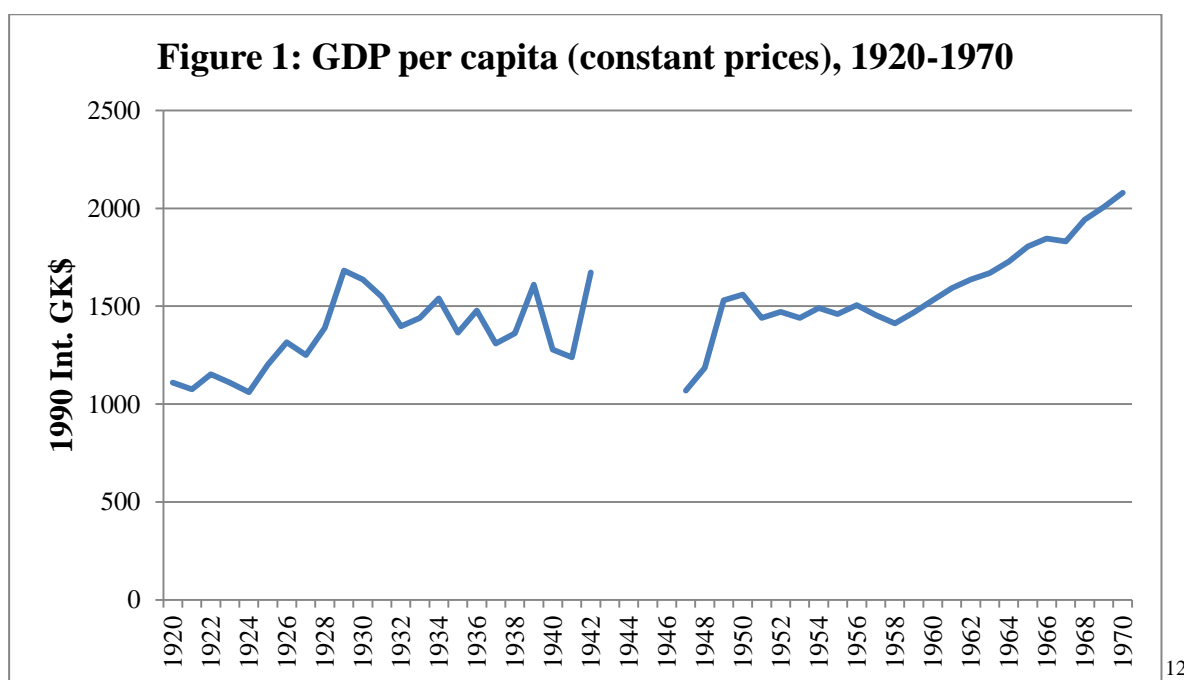
⁷ S. Ratuva, *Politics of preferential treatment: trans-global study of affirmative action and ethnic conflict in Fiji, Malaysia and South Africa* (Canberra 2013) 208.

⁸ Gomez and Jomo, *Malaysia's political economy*, 39 and 168.

⁹ *Federal Constitution* (15th Reprint; Putrajaya 2010) 153; the text of article 160 has remained unchanged from the 1957 Federal Constitution.

¹⁰ Matheson Hooker, *Short history of Malaysia*, 133-137 and 207.

areas remained under British control until 1963 when they first were granted independence, and subsequently were unified with the Federation of Malaya.¹¹



Source: Based on Maddison Project database.

Table 1: Average annual growth, selected periods (constant prices)¹³

	Maddison Project (GDP per capita)	Nazrin (PFCE per capita)	WDI (GDP per capita)
1920-1939	2.1%	2.7%	
1948-1957	3.6%		
1961-1970	3.1%		3.5%

Source: See note 13.

The Gross Domestic Product (GDP) per capita in Malaysia almost doubled in the fifty-year period under review here from \$1,110 in 1920 to \$2,079 in 1970 in constant prices (figure 1). In 1970 GDP per capita was the third highest in Southeast Asia, only exceeded by Singapore and Brunei.¹⁴ The average annual growth rate was highest in 1948-1957, followed by 1961-70 and 1920-1939. Unfortunately, the Maddison Project database is the only source giving GDP per capita data for the period preceding independence, but Nazrin does calculate

¹¹ Turnbull, *History of Malaysia*, 254-257.

¹² GDP per capita is denoted in the 1990 International Geary-Khamis dollar (1990 Int. GK\$), a hypothetical unit of currency that has the same Purchasing Power Parity as the U. S. Dollar had in the United States in 1990.

¹³ Based on Maddison Project database; Raja Nazrin, 'Methodology for deriving the domestic private final consumption expenditure series for Malaya, 1900-1939' (working paper presented at XIV International Economic History Congress, Helsinki 2006, session 103) 33; World Bank, World Databank: World Development Indicators. <<http://databank.worldbank.org/data/views/reports/tableview.aspx>> 21-04-2015.

¹⁴ Maddison Project database (2013).

<<http://www.gdc.net/maddison/maddison-project/data.htm>> 21-04-2015.

the Private Final Consumption Expenditure (PFCE) for the pre-War period. The growth of PFCE per capita was 0.6% higher than that of GDP per capita, thus indicating a slower than average growth in either investment, government spending or net exports (table 1).

Four theoretical factors may be said to determine the conditions for the development of entrepreneurship in different ethnic groups. First, as Acemoglu and Robinson argue, government policies play a role by shaping the economic institutions of a country, and thus determining whether there exists a level playing field for entrepreneurs of all ethnic groups, or a tilted playing field that favours a certain ethnic group.¹⁵ Second, the initial competitive position of an ethnic group is important, since it is easier for those already in possession of capital and experience in business to strengthen their position than for those without this capital or experience. This is particularly relevant in Malaysia given the circumstances under which the country gained independence. By contrast to its neighbour Indonesia, decolonization was associated with negotiations rather than warfare, and therefore signalled a less radical break from the past.¹⁶ Third, and connected to this, the strength of a groups' business network is similarly of potential importance in providing access to capital and markets. While the preceding three factors are of an institutional nature, a fourth factor is purely economic, referring to the features of the Malaysian economy. Economic growth was accompanied by a gradual change in the structure of the economy. Initially this was heavily geared towards the export of primary resources, primarily rubber and tin, but as time went by manufacturing won in importance.¹⁷ In 1970 the manufacturing sector accounted for 13.1% of GDP and 11.4% of total employment in Malaysia, up from 5.7% and 6.7% in 1947.¹⁸ With the changing structure of the economy, new opportunities arose for entrepreneurs to become active in sectors previously unknown to the country.

For the purpose of answering the research question the thesis is divided into three sections, each covering a specific historical period. All sections begin with an overview of the period under review, offering an outline of the structure of government, the size of the population and its ethnic composition and the economy. This is followed by four subsections, one for each ethnic group. The first section focuses on the interwar years, starting in 1920 when the world economy resumed peacetime production after the ending of the First World

¹⁵ D. Acemoglu and J. A. Robinson, *Why nations fail: the origins of power, prosperity, and poverty* (New York 2012) 429-430.

¹⁶ J. van de Kerkhof, 'Colonial' enterprise and the indigenization of management in independent Indonesia and Malaysia' in: J. T. Lindblad and P. Post eds., *Indonesian economic decolonization in regional and international perspective* (Leiden 2009) 175-196, there 175-176.

¹⁷ Jomo K. S., 'Preface' in: Jomo K. S. ed., *Malaysian industrial policy* (Singapore 2007) xiii-xxv, there xv-xvi.

¹⁸ Jomo K. S., 'Industrialization and industrial policy in Malaysia' in: Jomo ed., *Industrial policy*, 1-34, there 2.

War, and ends on 15 February 1942 with the surrender of the Allied forces following the Battle of Singapore. It covers the last years of, what may be called, the traditional period of British colonialism in Malaya and Borneo, since plans for more autonomy and, ultimately, independence were still in the making. This changed in the years between the end of the Pacific War in August 1945 and the independence of the Federation of Malaya on 31 August 1957. Colonial policies were less paternalistic than in the pre-War period.¹⁹ While the first two sections cover entrepreneurship under colonialism, the early independence period running from September 1957 until 1970, forms the main thrust of section three.

The Japanese occupation without doubt had an effect on the process of decolonization,²⁰ but this period is nonetheless excluded from our analysis for both historical and practical reasons. Although the Chinese and Indian Malaysians gained more political power as independence approached, the traditional Malay elite remained the British' closest partner in governing the colony throughout the colonial period. Ultimately, it was their influence that sealed Malaysia's fate as a country with a federal rather than a unitary governmental structure. From April 1946 to February 1948 the peninsula was united in a new colony called the Malayan Union. The Malay elite, however, feared to lose their privileged position and managed to convince the British Colonial Office to restore the federal power structure.²¹ As to entrepreneurship, the surrender of the Japanese mainly worked to the benefit of British business interests. Under the provisions of the 1939 Trading with the Enemy Act, Japanese property in British territories was placed under the auspices of a Custodian of Enemy Property, before being taken over by an Administrator of Japanese Property in 1952, who was in charge of selling the seized property.²² In the case of BNB, the Colonial Development Corporation and agency house Harrisons & Crosfield were the main beneficiaries.²³ The virtual absence of primary source material is an additional reason for excluding the Japanese occupation from the analysis.

The conclusion offers an answer to the research question. In doing so, attention will be paid to policies pursued by the government as well as the results of such policies. The analysis is sensitive to both qualitative and quantitative aspects of entrepreneurship. It may, for example, be the case that the Malay Malaysians had a significantly larger stake in the

¹⁹ T. N. Harper, *The end of empire and the making of Malaya* (Cambridge etc. 1999) 59.

²⁰ Harper, *Making of Malaya*, 59-60.

²¹ Matheson Hooker, *Short history of Malaysia*, 186-188.

²² Foreign & Commonwealth Office historians, *History note no. 13: British policy towards enemy property during and after the Second World War* (no place 1998) 7 and 101.

²³ S. Osman, 'Japanese economic activities in Sabah from the 1890s until 1941', *Journal of Southeast Asian Studies* 29: 1 (1998) 24-43, there 42.

economy in 1970 than in 1920, but still predominantly owned companies in lower value-added sectors.

The research is based on primary sources and secondary literature on the economic and political history of Malaysia. The main primary sources used are annual reports for the SS, FMS, the Unfederated Malay States of Kedah and Perlis, the Federation of Malaya and the crown colonies of Sarawak and BNB published by the Colonial Office, the governmental newspapers *Sarawak Gazette* and *British North Borneo Herald*, the laws of the SS, BNB and Federation of Malaysia, and year books published by the Federal Department of Information of the Malaysian government.

Analysing the changing role of entrepreneurs of different ethnic origin in the fifty-year period preceding the NEP is relevant for a number of reasons. Most importantly, it fills a gap in the literature on the economic history of Malaysia. Currently, only the works of Drabble²⁴ and Tajuddin²⁵ discuss the entire Federation of Malaysia during the period under review here, whereas other works focus on the developments in a certain region during a limited set of years.²⁶ Moreover, entrepreneurship is only of secondary importance in these works. This is not the case in a number of business histories, but they are preoccupied with either British²⁷ or Chinese²⁸ business in Malaysia. Business histories on other ethnic groups, let alone all of them simultaneously, are virtually absent. In addition, the subject is relevant as it sheds light on the background of the NEP, while also highlighting the effect of foreign direct investment (FDI) on domestic entrepreneurship.

²⁴ J. H. Drabble, *An economic history of Malaysia, c. 1800-1990: the transition to modern economic growth* (Basingstoke, Hampshire and New York 2000).

²⁵ A. Tajuddin, *Malaysia in the world economy (1824-2011): capitalism, ethnic divisions, and "managed" democracy* (Plymouth 2012).

²⁶ See for example: K. G. Ooi, *Of free trade and native interests: the Brookes and the economic development of Sarawak, 1841-1941* (Oxford etc. 1997).

²⁷ See for example: N. J. White, *British business in post-colonial Malaysia, 1957-1970: 'neo-colonialism' or 'disengagement'?* (London and New York 2004).

²⁸ See for example: E. T. Gomez, *Chinese business in Malaysia: accumulation, accommodation and ascendance* (Richmond, Surrey 1999).

1. 1920-1941: rubber, rice, and indigenous rights

As was mentioned above, Malaysia was far from a single constitutional unit in 1920. During the period under review in this section, it was divided into one British colony (SS) and nine sultanates (four FMS and five UMS) on the peninsula, and two additional protectorates on the island of Borneo, namely Sarawak and BNB. The SS, consisting of Penang, Malacca and Singapore²⁹ along the Strait of Malacca and the island Labuan off the coast of Borneo, were administered by a Governor directly answerable to the Colonial Office in London. He was aided in his task by two councils; the Executive Council, which wholly consisted of official members, and the Legislative Council containing both official and nominated members, with the former having a slight majority.³⁰ Originally, the group of nominated members was comprised of five Europeans, three Chinese, one Indian, a Malay and an Eurasian, all of whom were appointed by the governor. In 1924 two additional Europeans were added, elected by the British members of the Penang Chamber of Commerce and the Singapore Chamber of Commerce, respectively.³¹

The Governor of the SS simultaneously functioned as the High Commissioner of the FMS, consisting of four sultanates: Pahang, Perak, Negeri Sembilan and Selangor. In this function he presided over a Federal Council, which consisted of a British Resident-General, the four sultans of the respective states, and a number of Chinese and European businessmen.³² The Federal Council was in charge of making laws on the federal level, whereas the making of law on the state level was delegated to State Councils headed by the sultan; the British resident, members of the royal family, leading Malay chiefs and representatives of the Chinese community were the additional members.³³ Similar State Councils were set up in the five Unfederated Malay States of Kedah, Kelantan, Perlis and Terengganu in the north of the peninsula, and Johor in the south. In the UMS, however, there were no common political institutions or Residents. Instead, the United Kingdom was represented by advisors with less authority. According to Matheson Hooker, the UMS

²⁹ In principle, Singapore is excluded from the analysis made here, because it was not part of Malaysia for the whole period covered in this thesis; it was expelled from the Federation in 1965. Hence the Straits Settlements refer to Penang, Malacca and Labuan. References to the city-state will, however, be made occasionally given its importance in local business networks.

³⁰ I. Sugimoto, *Economic growth of Singapore in the twentieth century: historical GDP estimates and empirical investigations* (New Jersey etc. 2011) 6.

³¹ L. A. Mills, *British rule in Eastern Asia: a study of contemporary government and economic development in British Malay and Hong Kong* (London etc. 1942) 29.

³² Tajuddin, *Malaysia in the world economy*, 38.

³³ W. G. Maxwell, *Report for 1921 on the Federated Malay States* (London 1922) 3.

‘enjoyed the best of both worlds’ with sultans retaining a considerable share of autonomy in domestic affairs, while using British advice to innovate their administration.³⁴

Indigenous inhabitants also played a role in the administration of Sarawak, albeit less prominently. From 1917 until the Japanese occupation the Kingdom was ruled by Charles Vyner Brooke, the third and last White Rajah, who possessed absolute power, but nevertheless regularly consulted a Supreme Council consisting of senior officials and Malay leaders. The General Council bringing together the leaders from all indigenous communities, in contrast, only met once every three years, while the role of the British government was limited to maintaining foreign relations.³⁵ This was the same in BNB with the administration being entrusted to a London-based private corporation, the British North Borneo Chartered Company (BNBCC).³⁶ The Company was represented in Borneo by a Governor, who was advised by a Legislative Council comprising nine official members and five members not affiliated to the bureaucracy: two representatives of the planters, two of the Chinese community, and one of the European community.³⁷

The size of the population inhabiting these territories was 3,618,000 in 1921, increasing to 4,130,000 ten years later and 5,786,000 in 1947. In 1931, the large majority of the people (83.5%) lived in Malaya, with 10.4% living in Sarawak and a further 6.1% in British North Borneo.³⁸ Malay Malaysians were the largest group in the SS, FMS, and UMS. In the latter they even formed a clear majority with 76.6% of the population being part of this group (Table 2). Even though the statistics for BNB put Malays and other indigenous Malaysians in the same category, it can be safely assumed that this category mainly encompassed other indigenes. The Kadazans or Dusuns constituted the largest ethnic group, while there were also significant amounts of Bajaus, Muruts and Kedayans living in the protectorate.³⁹ In Sarawak Sea Dayaks or Ibans formed 62.3% of the ‘other indigenous Malaysians’ and the Land Dayaks and Melanaus 13.7% each.⁴⁰

³⁴ Matheson Hooker, *Short history of Malaysia*, 137.

³⁵ Ooi, *Of free trade and native interests*, 2.

³⁶ Matheson Hooker, *Short history of Malaysia*, 134-135.

³⁷ British North Borneo (Chartered) Company, *Handbook of the State of North Borneo* (Torquay 1929) 75-76.

³⁸ Drabble, *Economic history of Malaysia*, 90.

³⁹ A. Kaur, *Economic change in East Malaysia: Sabah and Sarawak since 1850* (Basingstoke, Hampshire and New York 1998) 17.

⁴⁰ Ooi, *Of free trade and native interests*, 10.

Table 2: Population of Malaysia by ethnic group, c. 1930⁴¹

	Straits Settlements (1934)	Federated Malay States (1921)	Unfederated Malay States (1921)	British North Borneo (1921)	Sarawak (1939)	Malaysia (estimate)
Chinese	226,487 (42.6 %)	494,548 (37.3%)	180,259 (16.0%)	39,156 (14.9 %)	123,626 (25.2%)	1,064,076 (28.5%)
Eurasians	4,546 (0.9%)	3,204 (0.2%)	302 (0.0%)	...	...	8052 (0.2%)
Europeans	1,977 (0.4%)	5,686 (0.4%)	1,084 (0.1%)	...	704 (0.1%)	9451 (0.3%)
Indians	67,639 (12.7%)	305,219 (23.0%)	61,781 (5.5%)	...	...	434,639 (11.6%)
Malays	228,017 (42.9%)	510,821 (38.6%)	860,934 (76.6%)	...	92,709 (18.9%)	1,692,481 (45.3%)
Malays and other indigenous Malaysians	...	...	...	203,041 (77.2%)	...	203,041 (5.4%)
Other indigenous Malaysians	...	...	...	...	268,967 (54.8%)	268,967 (7.2%)
Others	3,214 (0.6%)	5,412 (0.4%)	19,584 (1.7%)	20,955 (8.0%)	4,579 (0.9%)	53,744 (1.4%)
Total	531,880 (100%)	1,324,890 (100%)	1,123,944 (100%)	263,152 (100%)	490,585 (100%)	3,734,451 (100%)

Source: See note 41.

The economy was geared towards the production and export of primary commodities, primarily rubber and tin, for the Chinese, Japanese and Western markets.⁴² Tin was confined to peninsular Malaysia⁴³ which also produced most rubber, accounting for 96 per cent of rubber exports in 1929. Sago, timber⁴⁴ and a wide range of jungle products, including edible bird nests were mainly exported from the Borneo territories.⁴⁵ As for imports, these were dominated by food crops and manufactured products with the latter category growing in importance towards the end of the period under review.⁴⁶ The composition of trade resulted in the annual growth of PFCE per capita in Malaya showing high volatility (Figure 2).

⁴¹ Derived from Straits Settlements: A. Caldecott, *Annual report on the social and economic progress of the people of the Straits Settlements, 1934* (London 1935) 6; Federated Malay States and Unfederated Malay States: J. E. Nathan, *The census of British Malaya (the Straits Settlements, Federated Malay States and protected states of Johore, Kedah, Perlis, Kelantan, Trengganu and Brunei) 1921* (London, Dunstable and Watford 1922) 29; British North Borneo: Y. L. Lee, 'The population of British Borneo', *Population Studies* 15: 3 (1962) 226-243, there 230; Sarawak: Ooi, *Of free trade and native interests*, 10.

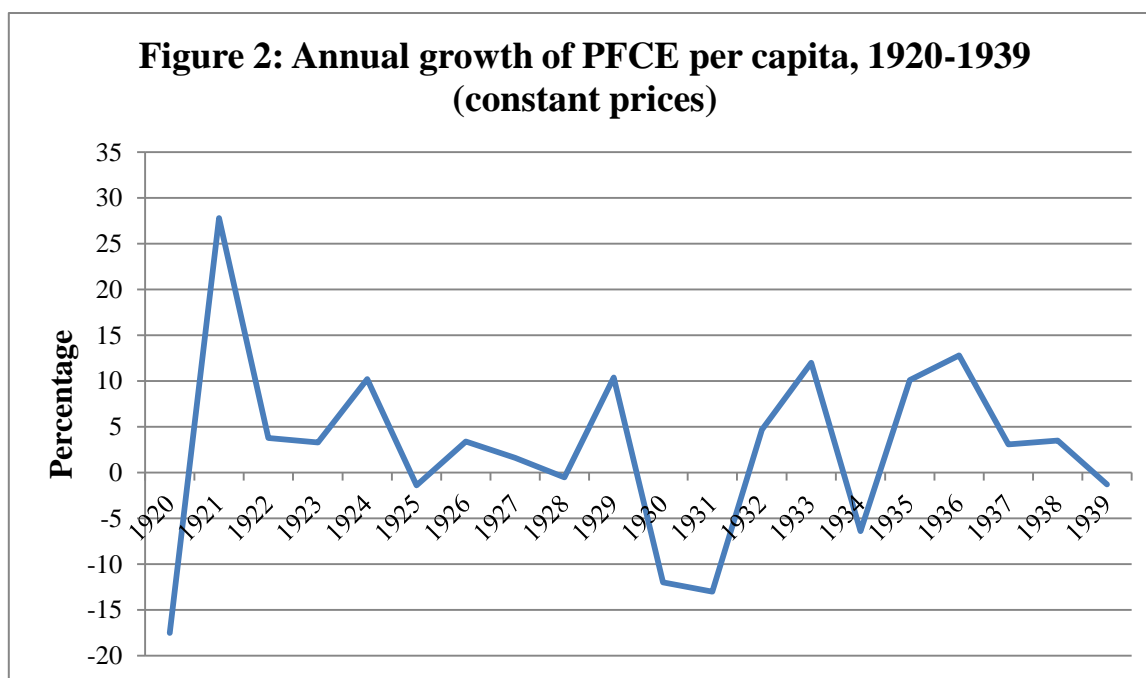
⁴² Drabble, *Economic history of Malaysia*, 121.

⁴³ Ooi, *Of free trade and native interests*, 335.

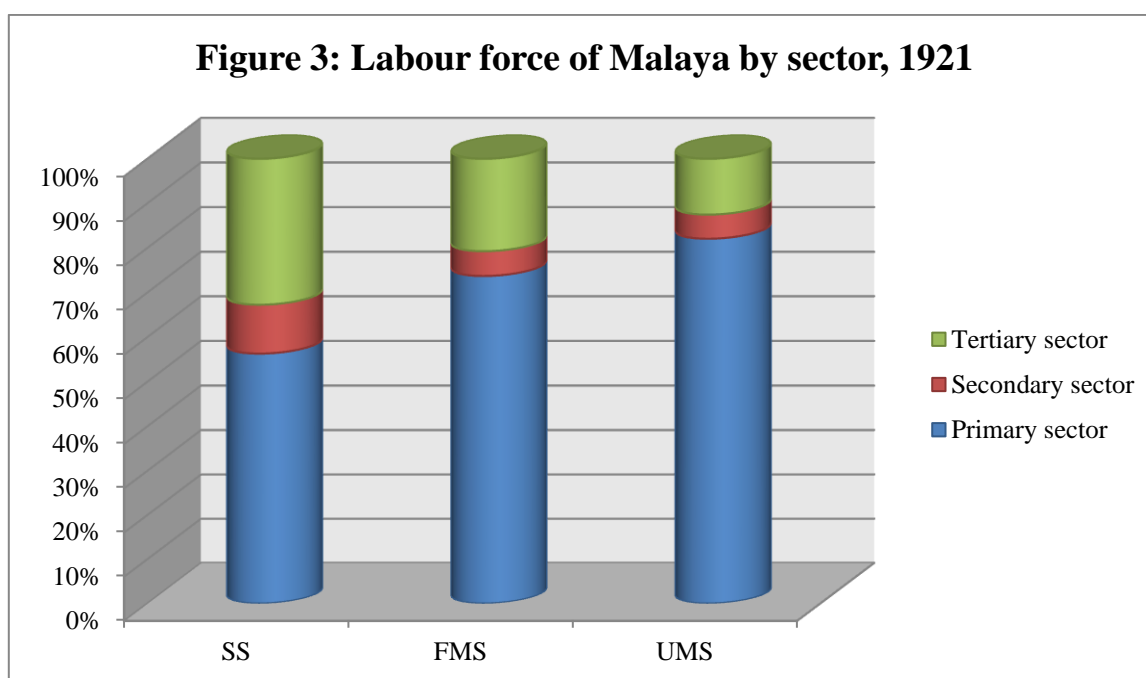
⁴⁴ Drabble, *Economic history of Malaysia*, 129 and 132-133.

⁴⁵ M. C. Cleary, 'Indigenous trade and European economic intervention in North-West Borneo c.1860-1930', *Modern Asian Studies* 30: 2 (1996) 301-324, there 320-321.

⁴⁶ Drabble, *Economic history of Malaysia*, 126.



Source: Based on Nazrin, Domestic private final consumption expenditure Malaya, 33.



Source: Derived from Nathan, *Census of British Malaya*, 236-247.

Given Malaysia's function as a producer of cash crops and minerals, it is not surprising that the primary sector, comprising agriculture, forestry, fishing and mining, employed the largest number of people in Malaya in 1921. The dominance of the primary sector was most pronounced in the UMS where it employed 82.1% of the working population; the tertiary sector employed 12.5% and the secondary sector 5.4%. Corresponding figures were respectively 73.7%, 20.7% and 5.6% for the FMS, and 56.3%, 32.7% and 11.0% for the SS excluding Labuan (Figure 3).

Malay Malaysians

All other things being equal, one would expect Malay Malaysians to fulfil a controlling role in all economic branches on the peninsula, given their numerical dominance. The Malays were fairly well represented in the government councils of the FMS, UMS and Sarawak, especially when compared with the representation of Indian Malaysians and other indigenes. The effectiveness of this representation for the promotion of business interests is, nonetheless, doubtful, since the politically active Malays were aristocrats rather than entrepreneurs. The Chinese, in contrast, were represented by businessmen.⁴⁷

As a consequence, colonial policies regulating Malay Malaysian entrepreneurship were somewhat ambiguous. On the one hand, the Malays could count on a privileged status. As part of the Malay Reservations Enactment of 1913, which came into force a year later, a considerable portion of land in the FMS was set aside for the Malay population.⁴⁸ Judging from annual reports, Malay reservations were not limited to the FMS; the 1938 *annual report* of the Straits Settlements mentions there being one in Tasek Gelugor, Penang.⁴⁹ In Kedah a Malay Reservations Enactment, which also applied to Siamese permanently inhabiting the state, was passed in 1931,⁵⁰ in Kelantan in 1930, in Perlis in 1935, in Johor in 1939 and in Terengganu in 1941.⁵¹ By the latter year the area set aside as reservation in Malaya covered 3.5 million acres^{52,53} At the other hand, Malays could not use this land as they saw fit; the various laws prohibited the sale of land to non-Malays, as well as growing rubber on land suitable for wet-rice cultivation.⁵⁴ These clauses were not always appreciated as a 1920 *annual report* for the FMS tells us that Malays often preferred to take up land outside reservations, because this was readily saleable to people of other nationalities after being brought under cultivation.⁵⁵

In a similar vein, 'any Malay domiciled in the Settlement Malacca'⁵⁶ could apply for a piece of Crown land of under ten acres to become his customary land under the Malacca

⁴⁷ Matheson Hooker, *Short history of Malaysia*, 137; Maxwell, *Federated Malay States: 1921*, 3; Ooi, *Of free trade and native interests*, 2; Tajuddin, *Malaysia in the world economy*, 38.

⁴⁸ S. Arifin, 'Malay reservation land – unleashing a century of trust', *International Surveying Research Journal* 3: 2 (2013) 1-28, there 3.

⁴⁹ A. S. Small, *Annual report on the social and economic progress of the people of the Straits Settlements, 1938* (London 1940) 64.

⁵⁰ J. D. Hall and M.C. Hay, *States of Kedah and Perlis (Unfederated Malay States): reports for the year 1349 A. H. (29th May, 1930, - 18th May, 1931)* (London 1932) 50.

⁵¹ Arifin, 'Malay reservation land', 2.

⁵² 1 acre is 4046.8564224 m².

⁵³ Harper, *Making of Malaya*, 28.

⁵⁴ Drabble, *Economic history of Malaysia*, 64.

⁵⁵ W. G. Maxwell, *Report for 1920 on the Federated Malay States* (London 1921) 3.

⁵⁶ *The laws of the Straits Settlements (edition of 1926): volume I* (London 1926) 457.

Lands Customary Rights Ordinance. A customary landholder in principle possessed ‘a permanent heritable and transferable right of use and occupancy over his land’,⁵⁷ but could be disowned if he failed to fulfil a number of clauses for three consecutive years. Among these was the duty to plant paddy and conform to the directions of the Resident Councillor regulating or prohibiting the growing of crops that could exhaust the soil. In addition, all minerals and buried treasures remained the property of the Crown, with the landholder only receiving compensation in case of damage.⁵⁸

According to Tajuddin these policies sorted two effects. First, with rural Malay Malaysians living in reservations more land became available for European and Chinese plantations. Second, it largely confined the indigenous group to subsistence agriculture, growing rice on small plots for own consumption. The Malay elite was said to be actively collaborating with the British in pursuing these policies, rather than opposing them, since the creation of greater economic opportunities for the masses could threaten their traditional power position.⁵⁹ Given the contrasting interests of the elite and entrepreneurs, then, one can safely say that Malay political representation was not particularly effective in promoting business interests.

That being said, Tajuddin’s judgement is unbalanced. If the system of Malay reservations was aimed at making more land available to non-Malays, it would have been logical to prohibit ownership of land by Malay Malaysians outside these reserves, but there is no evidence for this to be found in the primary sources. Furthermore, even if rice was grown on small holdings with an average size of 2.5 acres, this did not necessarily limit peasants to subsistence agriculture; the average yield on such holdings was sufficient to feed a family of six persons and leave a small surplus available for sale. Moreover, rice was grown as a commercial crop in some regions on holdings two to three times this size.⁶⁰ In the exports of the Unfederated Malay State of Perlis, paddy and rice ranked above rubber; between 20 June, 1928 and 8 June, 1929, 108,008 piculs⁶¹ of the former were exported as against 4,257 piculs

⁵⁷ *Laws of SS: volume I*, 457.

⁵⁸ *Ibidem*, 458 and 467.

⁵⁹ Tajuddin, *Malaysia in the world economy*, 61-62.

⁶⁰ H. Fraser, *Annual report on the social and economic progress of the people of the Federated Malay States, 1938* (London 1939) 28.

⁶¹ 1 picul is approximately 60.48 kilograms.

of rubber.⁶² Due to droughts, exports of rice and paddy were smaller in the following years, but continued to be well above those of rubber.⁶³

Investments in irrigation schemes and experiments with heavy yielding varieties of paddy seed, which were to be distributed among smallholders, similarly do not fit the bill of a colonial government doing everything in its power to keep the bulk of the population on the subsistence level. Among these irrigation schemes were a 2,000-acre scheme in Duyong, Malacca, schemes covering 2,150 acres in Sungei Pinong, Sungei Berong and Pulau Butong, Penang,⁶⁴ and the construction of a ferro-concrete dam across the Pelarit River in Perlis.⁶⁵ In the SS, irrigation works were not entirely paid for by the government; contributions by the proprietors were expected.⁶⁶ The distribution of paddy seed among smallholders was similarly subject to the condition that the authorities received an equal amount of paddy from the peasants in return.⁶⁷ These conditions may have been part of the reason why both the area planted with paddy and the yield per acre only showed small increases during the 1930s.⁶⁸ Similar efforts to raise production were absent in the Borneo territories.

With no limits on the ownership of land outside reservations and the opportunity to unlawfully grow rubber on reservation-land,⁶⁹ rural Malays also ventured into the cultivation of other crops. According to Drabble, they gained a substantial share of Malaya's rubber industry growing the cash crop on smallholdings.⁷⁰ By contrast, very few Malays owned rubber estates; at the end of 1938, estates of over a hundred acres covered a total of 206,858 acres in the Straits Settlements, including Singapore⁷¹, of these 74,693 acres were under Asian ownership, but the Malays only owned 1,646 acres.⁷² Other crops grown by Malay smallholders included coconuts, pineapples and a wide variety of other fruits⁷³ as well as coffee⁷⁴, sago⁷⁵, and to a lesser extent tobacco, which was mainly produced by Chinese

⁶² T. W. Clayton and L. A. Allen, *States of Kedah and Perlis (Unfederated Malay States): reports for the year 1347 A. H. (20th June, 1928, - 8th June, 1929)* (London 1930) 51-52.

⁶³ T. W. Clayton and L. A. Allen, *States of Kedah and Perlis (Unfederated Malay States): reports for the year 1348 A. H. (9th June, 1929, - 28th May, 1930)* (London 1931) 54-55; Hall and Hay, *Kedah and Perlis: 1349 A. H.*, 65.

⁶⁴ Small, *Straits Settlements: 1938*, 65.

⁶⁵ Clayton and Allen, *Kedah and Perlis: 1347 A. H.*, 60.

⁶⁶ *The laws of the Straits Settlements (edition of 1926): volume II* (London 1926) 10-15.

⁶⁷ Maxwell, *Federated Malay States: 1921*, 13.

⁶⁸ J. H. Drabble, 'Some thoughts on the economic development of Malaya under British administration', *Journal of Southeast Asian Studies* 5: 2 (1974) 199-208, there 207.

⁶⁹ C. Barlow, 'Indonesian and Malayan agricultural development, 1870-1940', *Bulletin of Indonesian Economic Studies* 21: 1 (1985) 81-112, there 102.

⁷⁰ Drabble, 'Malaya under British administration', 207.

⁷¹ Singapore accounted for 32,543 acres.

⁷² Small, *Straits Settlements: 1938*, 23.

⁷³ Caldecott, *Straits Settlements: 1934*, 19, 21-22.

⁷⁴ Fraser, *Federated Malay States: 1938*, 26.

Malaysians.⁷⁶ The quality of these products varied considerably; copra produced by coconut smallholders in the Straits Settlements using their own kilns was said to obtain a ‘premium’ on the market,⁷⁷ but the quality of coconuts grown by Malays in Kuching was clearly inferior to those grown by their Chinese counterparts.⁷⁸ This is explained by the fact that intercropping and growing different crops on various parts of their holdings was a common practice amongst Malay smallholders. As a consequence, they tended to concentrate on production of one crop depending on the prevailing market price, causing them to neglect other crops.⁷⁹ Additionally, poultry and eggs were supplied to the local market.⁸⁰

Malay Malaysian entrepreneurial activities were not limited to the agricultural sector. In both 1927, 1929, 1934 and 1938, the years for which data is available, they constituted the largest single group of fishermen in the SS, including Singapore, and the FMS. The colonial administration sought to strengthen the Malays’ position by educating Malay students, mainly sons of fishermen, on various fishing techniques, and the processing and sale of fish.⁸¹ A similar role in the fishing industry was fulfilled by the Malay Malaysians in Sarawak.⁸²

The position of Malay entrepreneurs in the secondary and tertiary sectors of the economy was considerably weaker. Regarding the former, neither the primary sources nor the secondary literature makes any mention of Malays owning manufacturing facilities. The situation was less extreme in the tertiary sector, but they were certainly not the most dominant group in trade and commerce. According to Ooi, the government of Sarawak obstructed the development of a Malay mercantile class, because it considered commerce to be an unsuitable activity for this group.⁸³ In practice, however, Malays were allowed to open shophouses⁸⁴ and even were the only ones, apart from Kedayans, authorized to trade in Kayal villages.⁸⁵

Nor did they play any significant role in the moneylending industry, although Firth does argue that Malay moneylenders were the main source of capital in the fishing industry of

⁷⁵ *Sarawak Gazette*, 1 February 1932. ‘Second Division news, December 1931’, 35.

⁷⁶ Hall and Venable, *Kedah and Perlis: 1352 A. H.*, 20.

⁷⁷ Caldecott, *Straits Settlements: 1934*, 19.

⁷⁸ *Sarawak Gazette*, 1 February 1926. ‘Monthly report November 1925, First Division, Kuching’, 34.

⁷⁹ Caldecott, *Straits Settlements: 1934*, 21; Clayton and Allen, *Kedah and Perlis: 1348 A. H.*, 6; *Sarawak Gazette*, 2 November 1931. ‘Second Division News, September 1931, Saribas District’, 248.

⁸⁰ Small, *Straits Settlements: 1938*, 40.

⁸¹ J. Scott, *Straits Settlements. Report for 1928* (London 1929) 25; Colonial Office, *Review of the affairs of the Colony of the Straits Settlements prepared in the Colonial Secretary’s Office for the information of members of the Legislative Council at a meeting held on the 29th day of September, 1930* (London 1930) 446; Colonial Office, *Review of the affairs of the Colony of the Straits Settlements prepared in the Colonial Secretary’s Office for the information of members of the Legislative Council at a meeting held on the 24th day of September, 1934* (London 1934) 317; Small, *Straits Settlements: 1938*, 31-32.

⁸² Ooi, *Of free trade and native interests*, 257.

⁸³ *Ibidem*, 93.

⁸⁴ *Sarawak Gazette*, 1 June 1920. ‘Monthly report April, Simanggang’, 130.

⁸⁵ *Sarawak Gazette*, 3 January 1922. ‘Monthly report November 1921, Lawas and Trusan’, 25.

Kelantan. Two factors are at the root of the generally weak position in finance. First, Islamic law prohibits the bearing of interest on loans to fellow Muslims, thus strongly limiting the possibility to earn money. In practice, however, Malays were able to circumvent these rules by disguising interest as a form of profit-sharing. Second, in general, Malays lacked the capital to fulfil such a role in the first place. According to Firth, fishermen had an average net income per capita per month of eleven Straits dollars in the early 1940s which was below the average wage of \$12 to \$15 for a Malay estate labourer.⁸⁶ Rather than being able to lend money, then, Malay entrepreneurs were dependent upon moneylenders charging exorbitantly high interest rates; the *Sarawak Gazette* refers to one charging an annual interest rate of 48%.⁸⁷ In Malaya, the government-promoted cooperatives were to offer an alternative source of capital, but proved largely unsuccessful in doing so.⁸⁸

Other indigenous Malaysians

If one would expect Malay Malaysian entrepreneurs to be dominant in Malaya based on the size of their ethnic group, the same should apply to the other indigenous Malaysians in BNB and Sarawak. The other indigenes, however, lacked both the unity and the political representation Malays could benefit from. Nevertheless, they could count on a similar privileged position in Bornean land policies, as the Malays could in Malaya.⁸⁹ As of 1920, agricultural land in Sarawak was divided into three categories: town and suburban lands, country lands, and native holdings. Native holdings could only be utilised by indigenous Malaysians for the production of fruit and paddy. In addition, native land reserves were created and divided into holdings of three acres to be distributed among indigenes. This categorization of land was declared obsolete in 1933, when the new Land Rules made a distinction between mixed zones, in which land could be owned by all ethnic groups, and native areas.⁹⁰

Policies of the Brooke administration were not limited to promoting the production of foodstuffs; the 1 April issue of the *Sarawak Gazette* tells us about ‘new Land Regulations allowing natives of the country to own three acres of land free of charge for the cultivation of rubber, sago, coconuts, or similar produce, in addition to land used for the cultivation of rice

⁸⁶ R. Firth, *Malay fishermen: their peasant economy* (2nd Revised edition; London 1966) 22, 167 and 169-172.

⁸⁷ *Sarawak Gazette*, 1 February 1922. ‘Monthly report December 1921, Sibul’, 49.

⁸⁸ Drabble, ‘Malaya under British administration’, 207.

⁸⁹ M. C. Cleary, ‘Codifying the land: colonial land regulation in early 20th-century British Borneo’, *Landscape Research* 27: 1 (2002) 25-37, there 26.

⁹⁰ Ooi, *Of free trade and native interests*, 53-54.

and vegetables.⁹¹ It is very well possible that these three-acre holdings concerned land that was less well suitable for the cultivation of food crops, as government sought to restrict the growing of rubber on land that could be utilized for the production of paddy, sago, pepper or coconuts.⁹²

In BNB the division between various types of agricultural land was less rigid. In principle, all land in the State was owned by the Chartered Company, and could therefore be allocated to foreign investors, which were to play a central role in its economic development. That being said, land could not be alienated for this purpose if it had already been brought into use by indigenous Malaysians.⁹³ The 1930 Land Ordinance stipulated that indigenes possessed native customary rights enabling them to obtain holdings with a maximum size of fifteen acres. These native rights applied to four types of land: land held on customary tenure, land planted with a minimum of twenty fruit trees per acre, grazing land and burial grounds or land with other spiritual importance. In addition, they applied to isolated plants of economic value, for example durian trees or sago plants.⁹⁴

As was the case in Malaya and Sarawak, privileges were not without constraints on entrepreneurship. Customary tenure conferred ‘a permanent heritable and transferable right of use and occupancy’⁹⁵ to the tenant, but the land could only be used for the commercial cultivation of wet rice, whereas other crops could solely be cultivated ‘on the homestead principle’.⁹⁶ In a similar vein, indigenes were free to access State land to collect timber and jungle products, but not to sell these products. Possibilities to speculate with native land were limited, due to the prohibition of dealings in land between indigenes and ‘aliens’.⁹⁷ An additional advantage was the exemption from paying the so-called road rate, an annual tax levied on owners of land that lay in the vicinity of a road.⁹⁸ Since laws of BNB and Sarawak did not differentiate between Malays and other indigenous Malaysians, above mentioned land policies also applied to the former. They are nonetheless included in this section, because other indigenes were the main beneficiaries.⁹⁹

⁹¹ *Sarawak Gazette*, 1 April 1926. ‘Monthly report February 1926, Third Division, Sibul’, 98.

⁹² *Sarawak Gazette*, 3 January 1922. ‘1921’, 1.

⁹³ Cleary, ‘Codifying the land’, 28.

⁹⁴ Government of the State of North Borneo, *The ordinances and rules of the State of North Borneo, 1881-1936* (Sandakan 1937) 421

⁹⁵ Government of NB, *Rules of NB*, 429.

⁹⁶ *Idem*.

⁹⁷ *Ibidem*, 599.

⁹⁸ *The British North Borneo Herald and Fortnightly Record*, 3 November 1924. ‘Notes Occasional’, 185; Government of NB, *Rules of NB*, 282.

⁹⁹ Government of NB, *Rules of NB*, 419; Ooi, *Of free trade and native interests*, 54.

Given these policies, it is not surprising to find that the majority of indigenous Malaysian entrepreneurs were active in the agricultural sector with some ethnic groups specializing in the cultivation of certain crops. In Sarawak, sago was mainly cultivated by the Melanau, an ethnic group of which most members practise Islam. Traditionally, the industry was characterized by patron-client relationships as ordinary Melanau procured palms from members of the Melanau nobility who owned sago plantations. The profits were equally divided between owners of the plantation, men who fell the palms and extract the pith from it, and women who were responsible for producing the starch.¹⁰⁰ The concentration of sago plantations seems only to have grown during the period under review with people more than willing to sell their ancestral plantations to nobles.¹⁰¹ This development has undoubtedly widened the income gap amongst Melanau, but not to the extent that it created a small group of haves and a large group of have-nots; the continued high price for sago ensured a decent income for all entrepreneurs active in this sector. According to a monthly report from 1920 money had 'never been so plentiful amongst the Melanau', while a 1926 report argues that the sago trade in Matu was poor due to 'Milanau being so well off'.¹⁰²

Fishing was a second entrepreneurial activity commonly practised among Melanau, who, together with Malays, constituted the largest group of fishermen in Sarawak.¹⁰³ In BNB this position was reserved for the Bajau, an Islamic group.¹⁰⁴ To a lesser extent, Melanau entrepreneurs tapped jelutong trees to extract latex,¹⁰⁵ but the collection of jungle produce was mainly carried out by various Dayak tribes,¹⁰⁶ who also acted as primary traders selling the products to tradesmen located at strategic positions in the interior. As locating and collecting these products demanded a particular set of ecological skills and a distinctive social organization, the Dayaks played a strategic role in the industry.¹⁰⁷

The entrepreneurial activities of the predominantly non-Islamic Dayak people were not limited to this industry, however. According to Kaur, Dayaks, most notably Ibans, controlled more than half of Sarawak rubber smallholdings in 1935.¹⁰⁸ With the virtual

¹⁰⁰ Ooi, *Of free trade and native interests*, 229.

¹⁰¹ *Sarawak Gazette*, 1 June 1926. 'Monthly report March 1926, Coast Division, Mukah and Balingian', 149.

¹⁰² *Sarawak Gazette*, 16 March 1920. 'Monthly report January, Oya', 73; *Sarawak Gazette*, 1 October 1926. 'Monthly report July 1926, Third Division, Sibiu', 266; *Sarawak Gazette*, 2 January 1934. '1933', 1; *Sarawak Gazette*, 1 October 1934. 'Third Division news, August 1934, Oya and Dalat', 113; *Sarawak Gazette*, 1 March 1937. 'Third Division news, January 1937', 70.

¹⁰³ Ooi, *Of free trade and native interests*, 257.

¹⁰⁴ Kaur, *Economic change in East Malaysia*, 17.

¹⁰⁵ *Sarawak Gazette*, 16 March 1920. 'Oya', 73; *Sarawak Gazette*, 2 January 1934. 'Third Division news, November 1933, Oya and Dalat', 9.

¹⁰⁶ Kaur, *Economic change in East Malaysia*, 16-17.

¹⁰⁷ Cleary, 'Indigenous trade', 307-308.

¹⁰⁸ Kaur, *Economic change in East Malaysia*, 50.

absence of plantations this gave them a significant stake in the industry.¹⁰⁹ Even though the Brooke administration, in principle, only encouraged ‘the natives to plant up as much rubber as each family could personally look after’,¹¹⁰ it was not uncommon for Dayaks to employ coolies.¹¹¹ As the rubber industry was characterized by booms and busts¹¹² and the quality of rubber produced strongly differed from smallholder to smallholder, it is not easy to make any secure statements on the financial success of these ventures, but a report from 1920 argues that Dayaks could earn as much as fifteen Sarawak dollars¹¹³ a day from their rubber holdings.¹¹⁴ By contrast, a Malay Malaysian estate labourer in Malaya had to work an entire month for a similar wage.¹¹⁵

Three additional activities set this group apart from other indigenes. First, while other groups cultivated paddy as a food crop, Dayaks also used it to trade with Chinese in exchange for other products or cash.¹¹⁶ This mainly concerned hill paddy obtained by shifting cultivation; a practice discouraged by government in Sarawak because it was said to be exhausting the soil, but not prohibited.¹¹⁷ In BNB, by contrast, one was only allowed to fell secondary forest of no more than five or six years old for the purpose of shifting cultivation.¹¹⁸ As was the case for Malay Malaysians, it should be noted that entrepreneurs were often engaged in all three industries with the lucrativeness of an industry determining their focus.¹¹⁹ Second, there were multiple instances of Dayaks owning shophouses in Sarawak.¹²⁰ Ooi argues that these shophouses were generally not operated by the Dayaks themselves, but let to Chinese Malaysians. Third, those Ibans who had earned sufficient capital through other entrepreneurial activities utilized this by lending to Chinese charging

¹⁰⁹ Ooi, *Of free trade and native interests*, 50.

¹¹⁰ *Sarawak Gazette*, 3 January 1922. ‘1921’, 1.

¹¹¹ Ooi, *Of free trade and native interests*, 236.

¹¹² Drabble, *Economic history of Malaysia*, 121-122.

¹¹³ 1 Sarawak dollar = 1 Straits Settlements dollar.

¹¹⁴ *Sarawak Gazette*, 1 May 1920. ‘Monthly report March, Simanggang’, 106; *Sarawak Gazette*, 1 May 1936. ‘Correspondence. Rubber restriction’, 118; *Sarawak Gazette*, 1 March 1937. ‘Third Division news, January 1937’, 71.

¹¹⁵ Firth, *Malay fishermen*, 22.

¹¹⁶ *Sarawak Gazette*, 1 May 1920. ‘Monthly report March, Mukah’, 108; *Sarawak Gazette*, 16 June 1920. ‘Monthly report May, Upper Sarawak, Bau and Paku’, 142.

¹¹⁷ Kaur, *Economic change in East Malaysia*, 34-35; *Sarawak Gazette*, 1 April 1937. ‘Shifting cultivation in Sarawak’, 81-82; *Sarawak Gazette*, 1 May 1941. ‘Fourth Division news, March 1941’, 95.

¹¹⁸ Government of NB, *Rules of NB*, 74.

¹¹⁹ *Sarawak Gazette*, 1 September 1931. ‘Third Division news, June 1931, Kapit’, 196; *Sarawak Gazette*, 2 January 1934. ‘Third Division news, November 1933, Kapit and Song’; *Sarawak Gazette*, 1 May 1937. ‘Second Division news, March’, 116.

¹²⁰ *Sarawak Gazette*, 4 January 1937. ‘Third Division news, November 1936’, 21; *Sarawak Gazette*, 1 February 1941. ‘Fourth Division news, December 1940’, 34; *Sarawak Gazette*, 1 November 1941. ‘Second Division news’, 228.

high interest rates.¹²¹ A 1922 monthly report from Bintulu, Sarawak, makes mention of a Chinese shopkeeper who owed more than \$600 to six different Dayaks, while another owed \$650 to one Dayak alone.¹²²

Chinese Malaysians

Unlike Malay Malaysians in Malaya and other indigenous Malaysians in Borneo, Chinese Malaysian entrepreneurs could not benefit from being part of the largest group in any of the colonies and protectorates. Chinese did, however, constitute the largest ethnic group (48.0%) in the Straits Settlement of Penang in 1934,¹²³ as well as the Federated Malay State of Selangor (42.6%) in 1921.¹²⁴ Additionally, Chinese Malaysian businessmen had the advantage of being represented by members of their own group in administrations of the SS, FMS, UMS, Sarawak and BNB. In BNB they were even the only non-European group with political representation.¹²⁵

This representation did not lead to a position in land policies anywhere close to resembling that enjoyed by indigenous communities. With the colonial administration taking the view that Malays were the only permanent rural population of Malaya, it was only natural to entrust this group with providing local food requirements.¹²⁶ According to Ooi, the government of Sarawak consciously sought to obstruct the expansion of Chinese holdings,¹²⁷ but the primary sources reveal policies to be relatively lenient towards Chinese Malaysians. On multiple occasions during the period under review, land was made available for Chinese to cultivate paddy, even involving holdings which were formerly planted by Dayaks.¹²⁸ The administration was not opposed to dealings in land between Chinese Malaysians and indigenes for other purposes either, with the natural exception of land designated native holding prior to 1933 and native area thereafter.¹²⁹ Tax exemptions for plantations,¹³⁰ making

¹²¹ Ooi, *Of free trade and native interests*, 231.

¹²² *Sarawak Gazette*, 1 June 1922. 'Monthly report March, Bintulu', 155.

¹²³ Based on Caldecott, *Straits Settlements: 1934*, 6.

¹²⁴ Based on Nathan, *Census of British Malaya*, 29.

¹²⁵ Mills, *British rule in Eastern Asia*, 29; Tajuddin, *Malaysia in the world economy*, 38; Maxwell, *Federated Malay States: 1921*, 3; Matheson Hooker, *Short history of Malaysia*, 137; Ooi, *Of free trade and native interests*, 2; BNBCC, *Handbook of NB*, 75-76.

¹²⁶ Drabble, 'Malaya under British administration', 207.

¹²⁷ Ooi, *Of free trade and native interests*, 62-63.

¹²⁸ *Sarawak Gazette*, 1 June 1920. 'Simanggang', 131; *Sarawak Gazette*, 16 June 1920. 'Bau and Paku', 142; *Sarawak Gazette*, 2 September 1922. 'Monthly report July, Sibü', 232.

¹²⁹ *Sarawak Gazette*, 1 December 1931. 'Third Division news, October 1931', 276; *Sarawak Gazette*, 2 January 1932. 'Third Division news, November 1931', 12.

¹³⁰ *Sarawak Gazette*, 1 February 1922. 'Agriculture in Sarawak', 31.

land available for the cultivation of rubber¹³¹ and the subsidization of pepper gardens¹³² similarly do not fit Ooi's description. At the same time, it is telling that Chinese Malaysians constituted 25% of the population in 1939, but only had access to ten percent of the total land area.¹³³

The Chartered Company administration in BNB held the opinion that indigenes were not to be recruited to work on plantations because this would disturb their traditional way of life. Therefore, the protectorate was in need of foreign labour; a requirement it sought to fulfil by attracting immigrants from China.¹³⁴ For this purpose, the fares of settlers were paid; they were supplied with agricultural land and received cash advances.¹³⁵ Aforementioned policies only applied to those Chinese newly settling the state, but the exemption from paying road rate on any agricultural holdings with a maximum size of ten acres applied to all Chinese Malaysians.¹³⁶

The lack of a privileged position in colonial land policies, may actually have worked to the benefit of Chinese Malaysian entrepreneurial interests, because it gave the group more leeway to freely pursue activities other than the cultivation of food crops. Consequently, they came to own over half of the area under rubber smallholdings in Malaya by 1939; the smallholder sector constituted 38.7% of total rubber acreage. Chinese Malaysian interests in the estate sector were particularly smaller at 9.4%. The technologies in use on smallholdings were primitive and similar to those used by Malay Malaysians but Chinese Malaysian entrepreneurs generally managed to produce rubber of higher quality, because they paid more attention to the proper maintenance of trees.¹³⁷ It is more difficult to determine the importance of ethnic Chinese rubber cultivators in Sarawak, with Ooi arguing that they 'maintained a pre-eminent position',¹³⁸ while Kaur writes that the majority of rubber was cultivated on indigenous-owned holdings. It is clear, however, that Chinese-owned holdings were generally larger than those under indigenous ownership averaging 2.5 ha as opposed to 0.6 ha.¹³⁹ In

¹³¹ *Sarawak Gazette*, 2 January 1926. '1925', 2; *Sarawak Gazette*, 1 April 1926. 'Sibu', 98.

¹³² *Sarawak Gazette*, 1 February 1932. 'Second Division', 35.

¹³³ Ooi, *Of free trade and native interests*, 277-278.

¹³⁴ Kaur, *Economic change in East Malaysia*, 102-104.

¹³⁵ *North Borneo Herald*, 17 March 1924. 'North Borneo: a preface to the administration report on the State of North Borneo for 1922 by the Governor, Major-General Sir William Rycroft', 44; *North Borneo Herald*, 16 May 1924. 'Sandakan notes', 83; *North Borneo Herald*, 16 September 1924. 'British North Borneo (Chartered) Co. Ratio of exports to imports. Review of the leading industries', 162.

¹³⁶ *North Borneo Herald*, 3 November 1924. 'Notes Occasional', 185.

¹³⁷ Barlow, 'Indonesian and Malayan development', 98-99, 101 and 107.

¹³⁸ Ooi, *Of free trade and native interests*, 181.

¹³⁹ Kaur, *Economic change in East Malaysia*, 50.

BNB the industry was dominated by British-owned estates, Chinese Malaysian ownership being limited to a few large estates as well as a larger number of smallholdings.¹⁴⁰

The production of cash crops was not limited to rubber; Chinese Malaysians held a virtual monopoly in the cultivation of cloves,¹⁴¹ pepper,¹⁴² tapioca¹⁴³ and tobacco,¹⁴⁴ while also producing coffee,¹⁴⁵ tea,¹⁴⁶ paddy,¹⁴⁷ sago,¹⁴⁸ vegetables¹⁴⁹ and various types of fruit, including coconuts.¹⁵⁰ Additionally, the rearing of pigs and poultry was mainly executed by this group. As was mentioned above, Malay Malaysians also supplied poultry and eggs to the market, but they mainly did so to accumulate additional income; the ownership of large poultry farms was a Chinese preserve.¹⁵¹

Shifting the focus to other entrepreneurial activities in the primary sector, the primary sources tell us that Chinese Malaysians constituted the second largest single group of fishermen in the SS, including Singapore, and the FMS in 1927, 1929, 1934 and 1938.¹⁵² In Sarawak Chinese Malaysian entrepreneurs came to control gold mining operations at Bau after the British agency house Borneo Company Limited had surrendered its exclusive right to mine for gold in 1921. This industry experienced a short boom in the first half of the 1930s but waned thereafter.¹⁵³ In tin mining they held the leading position up until 1928 accounting for two-thirds of tin acreage and 51% of production, down from 57% three years earlier. With the onset of the Great Depression Chinese entrepreneurs gradually lost ground to British business interests. The British generally operated large mines using dredges which enabled them to produce more cost-efficient, than Chinese producers who mostly resorted to lode mining¹⁵⁴ or utilised gravel pumps. The tin industry was already confronted by a slump in 1920-1922, but at this point in time marginal producers were aided by government purchases

¹⁴⁰ A. Kaur, 'Hantu' and highway: transport in Sabah 1881-1963', *Modern Asian Studies* 28: 1 (1994) 1-49, there 11.

¹⁴¹ Caldecott, *Straits Settlements: 1934*, 24.

¹⁴² Ooi, *Of free trade and native interests*, 181.

¹⁴³ Clayton and Allen, *Kedah and Perlis: 1347 A. H.*, 6.

¹⁴⁴ *Sarawak Gazette*, 1 June 1931. 'Third Division news, April 1931, Sibul', 131; *Sarawak Gazette*, 2 January 1934. '1933', 1; Caldecott, *Straits Settlements: 1934*, 23; Hall and Venable, *Kedah and Perlis: 1352 A. H.*, 20.

¹⁴⁵ Clayton and Allen, *Kedah and Perlis: 1346 A. H.*, 11.

¹⁴⁶ Fraser, *Federated Malay States: 1938*, 27.

¹⁴⁷ *Sarawak Gazette*, 2 January 1934. '1933', 1; *North Borneo Herald*, 16 February 1922. 'The British North Borneo Co. The progress report of the British North Borneo (Chartered) Company for the year 1920', 32.

¹⁴⁸ Ooi, *Of free trade and native interests*, 171.

¹⁴⁹ Caldecott, *Straits Settlements: 1934*, 23.

¹⁵⁰ *Sarawak Gazette*, 1 February 1926. 'Kuching', 34; Small, *Straits Settlements: 1938*, 27.

¹⁵¹ Small, *Straits Settlements: 1938*, 28-29 and 40.

¹⁵² Scott, *Straits Settlements: 1928*, 25; CO, *Affairs of the Straits Settlements, 1930*, 446; CO, *Affairs of the Straits Settlements, 1934*, 317; Small, *Straits Settlements: 1938*, 31-32.

¹⁵³ Ooi, *Of free trade and native interests*, 262-263.

¹⁵⁴ S. Fukuda, *With sweat & abacus: economic roles of Southeast Asian Chinese on the eve of World War II*. Translated from Japanese by L. Oates (English edition; Singapore 1995) 63 and 74-75.

of tin against a set price.¹⁵⁵ This relative decline in tin extraction was accompanied by an absolute decline in tin smelting.¹⁵⁶

The timber industry of BNB was characterized by a similar division with European firms utilising logging engines and railways, while Chinese continued to rely on hand logging. In this case, however, the latter production method proved more economical, leading European companies to resort more to this method as well in the 1930s. The timber industry was largely controlled by two British firms, the British Borneo Timber Company and the North Borneo Trading Company, which accounted for 79.3% of exports in 1937. This dominance is explained by the fact that the Timber Company had a monopoly on the protectorate's timber resources, necessitating others to file for a license with the company before being allowed to operate.¹⁵⁷ In Sarawak, by contrast, Chinese interests 'possessed a near-monopoly of the timber industry'.¹⁵⁸

In contrast to Malay Malaysian and other indigenous Malaysians, Chinese Malaysian entrepreneurs did have a stake in local manufacturing, be it predominantly in food processing. According to Fukuda all paddy in Malaya was processed by Chinese-owned rice mills,¹⁵⁹ although primary sources show that there were also a number of government-owned mills in the FMS.¹⁶⁰ The milling of tapioca, production of coconut oil and canning of pineapples on the peninsula were similarly said to be controlled by Chinese businessmen; cans were produced in-house. Towards the end of the period under review Chinese interests expanded to the machine and ironworks industry.¹⁶¹ In Sarawak, sago flour was produced by Chinese factories.¹⁶²

Chinese Malaysian entrepreneurial activities were not limited to the cultivation and processing of goods; the group played a key role in domestic commerce. According to Fukuda virtually all retail trade in Malaya was handled by Chinese middlemen,¹⁶³ this was similarly the case in BNB¹⁶⁴ and Sarawak.¹⁶⁵ Chinese Malaysians had a competitive edge over indigenes because they could rely on a strong business network.¹⁶⁶ In Sarawak, an extensive

¹⁵⁵ Drabble, *Economic history of Malaysia*, 130-131.

¹⁵⁶ Fukuda, *With sweat & abacus*, 75.

¹⁵⁷ D. W. John, 'The timber industry and forest administration in Sabah under Chartered Company rule', *Journal of Southeast Asian Studies* 5: 1 (1974) 55-81, there 69-70, 72-74 and 77.

¹⁵⁸ Ooi, *Of free trade and native interests*, 256.

¹⁵⁹ Fukuda, *With sweat & abacus*, 67 and 78.

¹⁶⁰ Fraser, *Federated Malay States: 1938*, 29.

¹⁶¹ Fukuda, *With sweat & abacus*, 67 and 77-78.

¹⁶² *Sarawak Gazette*, 1 February 1941. 'Third Division News, December 1940', 33.

¹⁶³ Fukuda, *With sweat & abacus*, 68 and 78.

¹⁶⁴ Kaur, 'Transport in Sabah', 46.

¹⁶⁵ Ooi, *Of free trade and native interests*, 83.

¹⁶⁶ Tajuddin, *Malaysia in the world economy*, 58.

trade network connected middlemen in outstations, responsible for buying goods from producers, to merchant houses in Kuching, which forwarded goods to shopkeepers throughout the territory, or alternatively to their counterparts in Singapore. Parallel to this, there ran a credit chain from Singapore banks and merchant houses to merchants in Sarawak.¹⁶⁷ Between 1903 and 1932 fifteen Chinese banks were established in Malaya including Singapore. Credit was not solely used by entrepreneurs to finance investments, but also to lend against higher interest rates to those without access to capital.¹⁶⁸

Indian Malaysians

Neither the benefit of numerical dominance nor that of strong political representation could support Indian Malaysian entrepreneurs in gaining a competitive edge over their compatriots of different ethnic origin. According to Mahajani 86% of the Indians living in Malaya, including Singapore, in 1939 were engaged in unskilled labour and a further 10% in skilled and semi-skilled jobs; only 4% earned their money in trade and commerce or the professions.¹⁶⁹ The majority of Indian Malaysians engaged in manual labour worked for wages on estates.¹⁷⁰

Given the dominance of estate labourers amongst Indian Malaysians, it is not surprising that this group attracted the most attention from government. In 1920 the chairman of the United Planters' Association of Malaya urged government officials that more action should be taken to induce Indian labourers to stay in the colony in order to secure a reliable supply of labour for estates. The colonial administration, however, remained reluctant to make land available for this purpose. That being said, the Labour Code did obligate estate managers to set aside land holdings for their labourers, but this was barely enforced in practice.¹⁷¹

Table 3: Co-operative societies for Indian estate labourers, end of 1938

	Societies	Members	Share capital (Straits dollars)
FMS	267	49,383	\$1,470,348
Malacca	37	6,084	\$198,804
Penang	21	3,269	\$120,483
Singapore	13	2,384	\$112,101

Source: Based on FMS: Fraser, *Federated Malay States: 1938*, 100; SS: Small, *Straits Settlements: 1938*, 87.

¹⁶⁷ Ooi, *Of free trade and native interests*, 93-95.

¹⁶⁸ R. A. Brown, *Capital and entrepreneurship in South-East Asia* (London and New York 1994) 159-160.

¹⁶⁹ U. Mahajani, *The role of Indian minorities in Burma and Malaya* (Bombay 1960) 95.

¹⁷⁰ Tajuddin, *Malaysia in the world economy*, 61.

¹⁷¹ Mahajani, *Role of Indian minorities*, 114.

From the late 1920s, an effort was made to support Indian estate labourers financially through government-promoted cooperative societies. By the end of 1938, 338 of such societies with 61,120 members and a share capital of 1,901,736 Straits dollars existed in the FMS, Malacca, Penang and Singapore (Table 3). As the total amount of Indian labourers in Malaya, including Singapore, was 214,610 one has to conclude that the cooperative movement was only partly successful. Although actual coverage may have been larger; it is unclear whether there were any societies for Indian estate labourers in the UMS.¹⁷²

Government support for the development of entrepreneurship amongst other Indian Malaysians was even more limited, but this did not withhold them from obtaining a prominent position in a number of industries. Rural Indians were the main producers of goat meat and dairy products in the SS, while their urban counterparts excelled in tailoring and the laundry business. According to a 1938 annual report for the SS, government sought to improve the system of dairying used by Indian Malaysian entrepreneurs, but does not specify on the exact actions taken towards this end.¹⁷³ Indian Malaysians were also active in the Malayan fishing industry, be it less prominently; they constituted the third largest single group of fishermen in the SS, including Singapore, and the FMS in 1927. In 1929, 1934 and 1938 they were outnumbered by Japanese fishermen, thus making them the fourth largest group.¹⁷⁴

As was mentioned above, Indian Malaysians were an important source of labour for rubber estates, but they also acted as owners of these estates; at the end of 1938, estates of 100 acres and over covered a total of 206,858 acres in the SS, including Singapore, of which 12,036 acres was under Indian ownership.¹⁷⁵ In Malacca, but this presumably applied to the rest of the peninsula as well, most of these estates were owned by members of the Chettiar caste.¹⁷⁶ This group managed to accumulate agricultural holdings through its moneylending activities with loans being made on the security of land.¹⁷⁷

In 1930 alone Chettiar loans to peasants amounted to 125 million Straits dollars.¹⁷⁸ According to Harper, they were the main source of credit for rural Malays during the interwar period, more so than Chinese moneylenders.¹⁷⁹ This may have been the case in terms of the

¹⁷² Mahajani, *Role of Indian minorities*, 109.

¹⁷³ Fraser, *Federated Malay States: 1938*, 28-29 and 40.

¹⁷⁴ Scott, *Straits Settlements: 1928*, 25; CO, *Affairs of the Straits Settlements, 1930*, 446; CO, *Affairs of the Straits Settlements, 1934*, 317; Small, *Straits Settlements: 1938*, 31-32.

¹⁷⁵ Small, *Straits Settlements: 1938*, 23.

¹⁷⁶ W. Langham Carter, *Administration report, Malacca* (Malacca 1925) 161.

¹⁷⁷ H.-D. Evers, 'Chettiar moneylenders in Southeast Asia' in: D. Lombard and J. Aubin eds., *Asian merchants and businessmen in the Indian Ocean and the China Sea* (Oxford etc. 2000) 197-221, there 208.

¹⁷⁸ Brown, *Capital and entrepreneurship*, 177.

¹⁷⁹ Harper, *Making of Malaya*, 239.

value of capital, but the groups fulfilled two different functions: the Chinese tended to specialize in providing small sums of short-term credit secured by crops, while Chettiars dealt in larger sums. The capital used for lending activities commonly originated from three different sources. First, moneylenders were required to contribute a capital tax to the funds of their local temple, which in turn enabled them to obtain credit at interest rates lower than those at normal banks.¹⁸⁰ Second, since western banks considered Chettiars to be ‘responsible’ lenders they were willing to lend them money. Third, money was earned through other business activities such as the cultivation and processing of crops, and trading. The practice to securitize loans with fixed capital led their interest in these sectors to increase as time went by.¹⁸¹

¹⁸⁰ Evers, ‘Chettiar moneylenders’, 202-203 and 208.

¹⁸¹ Brown, *Capital and entrepreneurship*, 159 and 174.

2. 1945-1957: diversification and rural development

Even though the Japanese occupation did not have such far-reaching consequences for Malaysia as it did for the Netherlands Indies, it certainly stimulated the Colonial Office to make a number of administrative innovations. Roughly speaking, these innovations were aimed at centralizing political power and preparing local inhabitants for independence by gradually increasing the extent of self-government. In Malaya this entailed the merger of the FMS, UMS and Straits Settlements of Penang and Malacca into the Malayan Union in April 1946 and subsequently into the Federation of Malaya on 1 February 1948.¹⁸²

The central government of the Federation comprised an executive branch, the Federal Executive Council and a legislative branch, the Federal Legislative Council, both chaired by the same British High Commissioner. Apart from the High Commissioner, the Federal Executive Council consisted of three *ex officio* members, four official members and seven members not affiliated with the bureaucracy of whom three were Malay Malaysians, two Chinese Malaysians, one Indian Malaysian and one European. The three *ex officio* members were also seated in the Federal Legislative Council where they were accompanied by thirteen officials, sultans from the nine states and fifty members representing various functional and ethnic groups.¹⁸³ Initially, all members were appointed by the High Commissioner, but this changed in July 1955 when representative members were chosen through direct elections. The elections ended in a decisive victory for the Alliance, a coalition that comprised three communally-based political parties: the UMNO, the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC).¹⁸⁴

As was the case prior to the Pacific War, the Malay sultans remained a potent force in national politics. This was not only the case because they were seated in the Federal Legislative Council, but also because the federal constitution delegated powers on matters relating to the Islam and customs of Malays to political institutions on the state-level over which the sultans presided. Moreover, only in case of urgency was the High Commissioner allowed to bring a bill before the Legislative Council without first informing them about the content of this bill.¹⁸⁵

Meanwhile, Sarawak officially became a Crown Colony on 1 July 1946, approximately one year after Rajah Charles Vyner Brooke had ceded the country to Great

¹⁸² Turnbull, *History of Malaysia*, 234 and 239.

¹⁸³ Colonial Office, *Annual report on the Federation of Malaya, 1950* (Kuala Lumpur 1951) 213-214.

¹⁸⁴ Hooker, *Short history of Malaysia*, 204-205.

¹⁸⁵ CO, *Federation of Malaya: 1950*, 214-216.

Britain.¹⁸⁶ Colonial status was accompanied by a larger role for the General Council or Council *Negri* than was the case during the preceding period; the council, comprising fourteen official members from the Sarawak Civil Service and eleven members representing the various communities, became the legislative branch of government. Executive power was vested in the Supreme Council, which consisted of a minimum of five members, the majority of whom concerned officials seated in the Council *Negri*. The government was headed by a British Governor, who was also charged with appointing members for both the Council *Negri* and the Supreme Council.¹⁸⁷

This situation persisted until 3 August 1956 when a new constitution was promulgated in Sarawak. Under the Sarawak (Constitution) Order, 1956, the number of members in the Council *Negri* was expanded to forty-two: fourteen *ex-officio* members, twenty-four elected members and four members appointed by the Governor to represent those interests lacking adequate representation. Elected members were not chosen through direct elections, but indirectly from and by members of twenty-four local assemblies for which elections were held. Ten members of the Council *Negri* also had a seat in the remodelled Supreme Council, namely three *ex-officio* members, five unofficial members, chosen by the elected members of the legislative branch, and two members nominated by the Governor. Since Governors usually chose an unofficial member as one of their nominees, these constituted a majority in both branches. Constitutional reform, then, substantially increased the influence of the local population on policymaking, but simultaneously expanded the power of the Governor enabling him to pursue policies opposed by the Supreme Council.¹⁸⁸

In BNB, which was unified with the former Straits Settlement of Labuan to become the Crown Colony of North Borneo on 18 July 1946, the Governor's power was practically without checks until October 1950 when an Executive and a Legislative Council were instituted. The Executive Council constituted three *ex officio* members, two officials and three unofficial members nominated by the Governor, whereas the Legislative Council consisted of three *ex officio* members, nine officials and ten unofficial nominees.¹⁸⁹

The size of the population inhabiting these territories was 5,786,000 in 1947, increasing to 8,216,000 thirteen years later. A large majority of the population, 84.8% in 1947, continued to live on the peninsula with 9.4% living in Sarawak and a further 5.7% in

¹⁸⁶ V. L. Porritt, *British colonial rule in Sarawak, 1946-1963* (Oxford etc. 1997) 17.

¹⁸⁷ Colonial Office, *Sarawak: annual report, 1953* (London 1954) 177.

¹⁸⁸ Porritt, *Colonial rule in Sarawak*, 22-24, 36 and 44.

¹⁸⁹ Colonial Office, *Colony of North Borneo: annual report, 1951* (Kota Kinabalu 1952) 94; K. G. Tregonning, *A history of Modern Sabah (North Borneo 1881-1963)* (London 1965) 238.

BNB.¹⁹⁰ When comparing the ethnic distribution of the population around 1950 (Table 4) with that twenty years earlier, two observations can be made. First, Malay Malaysians remained the largest ethnic group, followed by Chinese Malaysians, other indigenous Malaysians and Indian Malaysians. Second, only the Chinese Malaysian group grew as a share of the population, while all other groups shrank. In Sarawak Iban people constituted 34.8% of the population, Land Dayaks 7.7% and Melanaus 6.5%. In BNB, Dusuns continued to be the largest indigenous group with 35.3%, followed by the Bajau people with 13.4% and Muruts with 5.6%; other indigenes, including Malay Malaysians, comprised 18.5%.¹⁹¹

Table 4: Population of Malaysia by ethnic group, c. 1950¹⁹²

	Federation of Malaya (1947)	Sarawak (1947)	British North Borneo (1951)	Malaysia (estimate)
Chinese	1,884,534 (38.4%)	145,158 (26.6%)	74,374 (22.3%)	2,104,066 (36.3%)
Europeans	...	691 (0.1%)	...	691 (0.0%)
Europeans and Eurasians	...	...	1,213 (0.4%)	1,213 (0.0%)
Indians	530,638 (10.8%)	...	...	530,638 (9.2%)
Malays	2,427,834 (49.5%)	97,469 (17.8%)	...	2,525,303 (43.6%)
Malays and other indigenous Malaysians	...	...	243,009 (72.7%)	243,009 (4.2%)
Other indigenous Malaysians	...	297,948 (54.5%)	...	297,948 (5.1%)
Others	65,080 (1.3%)	5,119 (0.9%)	15,545 (4.7%)	85,744 (1.5%)
Total	4,908,086 (100%)	546,385 (100%)	334,141 (100%)	5,788,612 (100%)

Source: See note 192.

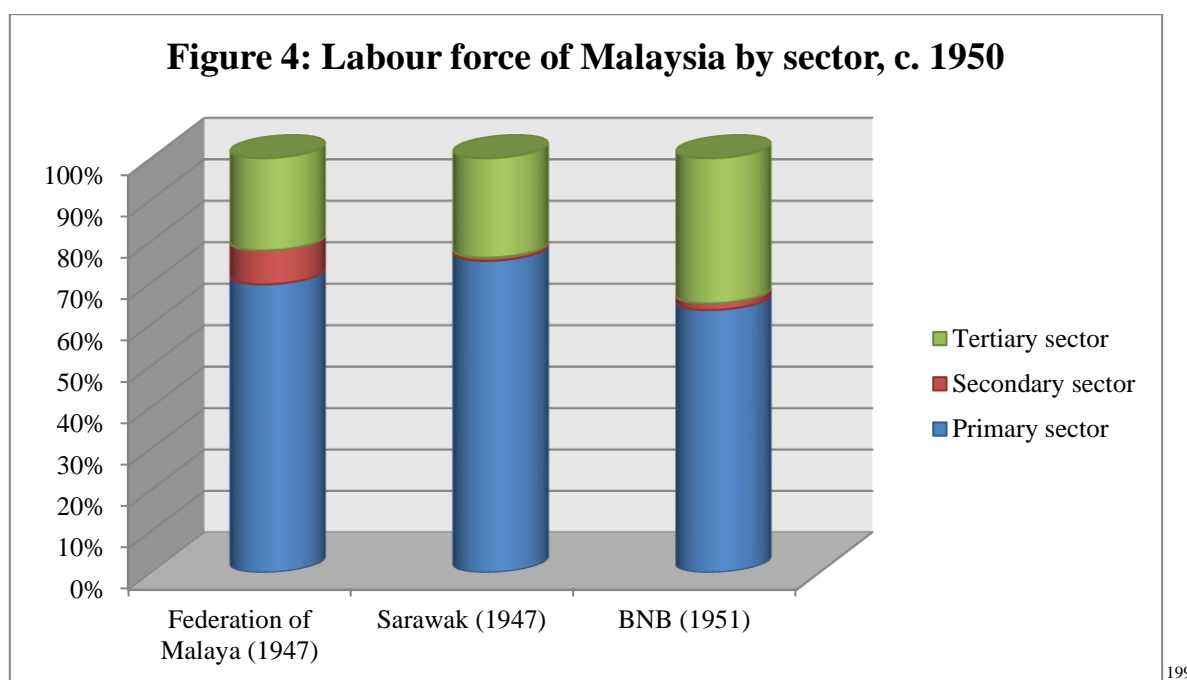
While the ending of the Pacific War signalled a break with the past in political terms, its impact on Malaysia's place in the world economy was less pronounced. Trade statistics for the Federation of Malaya show that exports of rubber and tin accounted for 76.0% of the

¹⁹⁰ Drabble, *Economic history of Malaysia*, 90.

¹⁹¹ Colonial Office, *An economic survey of the colonial territories: the Far Eastern territories: the Federation of Malaya, Singapore, Hong Kong, Brunei, North Borneo and Sarawak* (London 1955) 111 and 130.

¹⁹² Derived from Federation of Malaya: CO, *Federation of Malaya: 1950*, 16; British North Borneo and Sarawak: CO, *Economic survey*, 111 and 130.

value of total exports in 1950; rubber alone accounted for 69.4%.¹⁹³ This was almost exactly the same three years later when the two products constituted 76.1%, although the share of tin rose to 22% and that of rubber fell to 54%.¹⁹⁴ Crude and refined oil remained Sarawak's principal export products throughout the period under review.¹⁹⁵ This industry was foreign-controlled by Royal Dutch Shell and had only limited significance for the development of local entrepreneurship. Crude oil was also the colony's principal import product, being imported from neighbouring Brunei.¹⁹⁶ Leaving oil out of the equation, rubber was the most important export product between 1949 and 1952 and again in 1956 and 1957, while the value of pepper exports was higher in 1953; the other year for which data is available.¹⁹⁷ Rubber similarly ranked first in BNB's exports with copra ranking second until 1952 and timber in the period thereafter.¹⁹⁸



Source: See note 199.

Malaysia's role in the world economy is reflected in the continued dominance of the unprocessed primary sector in the domestic economy (Figure 4). This was most pronounced in Sarawak where it employed 75.1% of the working population; the tertiary sector employed

¹⁹³ CO, *Federation of Malaya: 1950*, 63 and 68-69.

¹⁹⁴ CO, *Economic survey*, 41.

¹⁹⁵ Ibidem, 150; Colonial Office, *Sarawak: annual report, 1957* (London and Kuching 1958) 25.

¹⁹⁶ Porritt, *Colonial rule in Sarawak*, 234-236.

¹⁹⁷ CO, *Economic survey*, 151; CO, *Sarawak: 1957*, 25.

¹⁹⁸ CO, *Economic survey*, 128; Colonial Office, *Colony of North Borneo: annual report, 1957* (Kota Kinabalu 1958) 35.

¹⁹⁹ Derived from Federation of Malaya: CO, *Federation of Malaya: 1950*, 28; British North Borneo: CO, *North Borneo: 1951*, 111; Sarawak: CO, *Economic survey*, 144.

24.1% and the secondary sector a mere 0.8%. Corresponding figures were respectively 69.6%, 22.2% and 8.2% for the Federation of Malaya, and 63.4%, 35.0% and 1.6% for BNB.

Malay Malaysians

Since Malay Malaysian entrepreneurs belonged to the largest ethnic group on the peninsula, one would expect the democratization of Malayan politics to work to their benefit. In practice, however, it was the aristocracy rather than the entrepreneurial class who was the main beneficiary of these reforms for two reasons. First, the federal structure ensured a lasting role for sultans in national politics.²⁰⁰ Second, the leaders of the largest political party, the UMNO, were members of the elite themselves; Tunku Abdul Rahman, the party's leader from 1951 until 1970, was, for example, a member of the Kedah royal family.²⁰¹ In Sarawak, the Malay elite lost its traditional position in politics, but here Malay Malaysians constituted too small a share of the population for entrepreneurs to benefit.²⁰²

Given the continued dominance of Malay Malaysian aristocrats in Malayan politics, policies regulating entrepreneurship were not dissimilar from those pursued in the earlier period. On the matter of land policies, Malay Malaysians could still count upon preferential access to land either through Malay reservations, in the states where these already existed, or customary tenure.²⁰³ However, as Arifin argues, the total acreage of Malay reservation land was on the decline since 1940 with land being made available for tin mining.²⁰⁴ As was the case prior to the Japanese occupation there did not exist a common land policy for the whole of the peninsula, because land utilization was constitutionally delegated to the governments of the various sultanates and settlements.²⁰⁵

These land policies had a clear rationale being aimed at fulfilling one of the national development goals: an increase in domestic food production.²⁰⁶ For this same purpose, the colonial administration forged ahead in increasing the acreage of irrigated paddy land. By 1953 irrigation schemes carried out under the auspices of the Drainage and Irrigation Department covered 292,780 acres, or 37.3% of the total area under wet paddy, while another 117,000 acres were in the process of being irrigated.²⁰⁷ The source of finance for irrigation

²⁰⁰ CO, *Federation of Malaya: 1950*, 214-216.

²⁰¹ Hooker, *Short history of Malaysia*, 204.

²⁰² CO, *Sarawak: 1953*, 177; Porritt, *Colonial rule in Sarawak*, 380.

²⁰³ CO, *Economic survey*, 11.

²⁰⁴ Arifin, 'Malay reservation land', 6.

²⁰⁵ Government of the Federation of Malaya, *Draft development plan of the Federation of Malaya* (Kuala Lumpur 1950) 132.

²⁰⁶ *Ibidem*, 22.

²⁰⁷ CO, *Economic survey*, 15-16.

schemes depended on their size with large works being paid from federal funds and small ones from state funds; direct contributions from proprietors were no longer expected.²⁰⁸ During the 1950s, a number of schemes to make tractors available to rice growers were financed by the Rural and Industrial Development Authority (RIDA), which was established in 1950.²⁰⁹ From a macroeconomic point of view, these policies proved successful as an increase in paddy production of fourteen percent between 1950 and 1958²¹⁰ reduced rice imports.²¹¹ At the same time, however, these initiatives failed to make rice production a more profitable entrepreneurial activity; according to Harper 'the average income of planters in 1960 remained the same as it had been in 1947.'²¹²

Government efforts were not limited to supporting rural Malays growing paddy with RIDA's activities ranging from lending money and supplying boats to fishermen to establishing factories for the processing of smallholders' rubber and educating Malay village headmen.²¹³ Each year, a limited number of these had the opportunity to follow a course at the College of Agriculture; total enrolment in 1950 was 73. During this course they received instructions on the use of mechanical equipment, the extraction of palm oil and the cultivation of rubber, tea, coffee and Manila hemp.²¹⁴

In addition, a rubber replanting scheme, in operation between 1 July 1955 and 30 June 1962, supplied direct grants of 600 Malayan dollars to smallholders for every acre they were planning to replant. Even though this scheme applied to all plantations irrespective of size or the ethnicity of their owners, Malay Malaysian smallholders were its main beneficiaries for two reasons. First, regarding the size of plantations, the grant received by estates was \$200 lower and could only be used to cover 21% of the initial acreage. Moreover, there was a larger need for replanting on smallholdings, than on estates where these activities had been well under way before the scheme's introduction.²¹⁵ Second, regarding ethnicity, Malays controlled 56.5% of the total acreage under smallholdings.²¹⁶ The large need for replantings is exemplified by a fourteen percent decrease in smallholder rubber production between 1950 and 1958.²¹⁷

²⁰⁸ CO, *Federation of Malaya: 1950*, 164.

²⁰⁹ CO, *Economic survey*, 43.

²¹⁰ Harper, *Making of Malaya*, 237.

²¹¹ CO, *Economic survey*, 17.

²¹² Harper, *Making of Malaya*, 237.

²¹³ CO, *Economic survey*, 43.

²¹⁴ CO, *Federation of Malaya: 1950*, 114.

²¹⁵ N. J. White, *Business, government, and the end of empire: Malaya, 1942-1957* (Oxford etc. 1996) 208.

²¹⁶ J. J. Puthucheary, *Ownership and control in the Malayan economy* (Singapore 1960) 5.

²¹⁷ Harper, *Making of Malaya*, 237.

Table 5: Cooperative societies for rural Malays in Malaya, 1950

	Societies	Members	Share capital (Malayan dollars)
Rural Credit Societies	311	8,248	\$261,373
Seasonal Co-operative Credit Societies	88	2,162	\$49,040
Fishermen's Societies	7	344	\$4,213
Total	406	10,754	\$314,626

Source: Based on CO, *Federation of Malaya: 1950*, 46-48.

Apart from paying subsidies, government sought to support rural Malays financially through the continued promotion of cooperatives. As was the case during the preceding period the success of these financial institutions, mainly catering for short-term credit, remained limited.²¹⁸ In 1950, there were 406 societies with 10,754 members and a total share capital of 314,626 Malayan dollars (Table 5). Moneylenders, then, remained the main source of capital for most Malay Malaysian entrepreneurs and rural indebtedness was rampant.²¹⁹

Table 6: Land ownership in Malaya by ethnic group, 1950s (million acres)

	Chinese	Europeans	Indians	Malays	Total
Smallholdings	0.80	-	0.10	1.85	2.75
Medium holdings	0.35	0.03	0.13	0.01	0.52
Estates	0.27	1.60	0.05	-	1.92
Total	1.42	1.63	0.28	1.86	5.19

Source: Based on Puthucheary, *Ownership and control*, xvii.

Overall, one must conclude that the government policies listed here were largely unsuccessful in strengthening the position of Malay Malaysian entrepreneurs. Puthucheary argues that Malay Malaysian ownership was generally confined to smallholdings used for the cultivation of paddy, rubber and coconuts; they owned 1.86 million acres of the 5.19 million acres under cultivation on the peninsula, which was more than any other group, but their ownership of land on medium holdings and estates was negligible (Table 6). By contrast, few Malays were said to be engaged in commerce and essentially none in mining and manufacturing.²²⁰ That being said, Malay Malaysian entrepreneurs did manage to strengthen their position as middlemen in the fishing industry.²²¹

²¹⁸ Harper, *Making of Malaya*, 252-255.

²¹⁹ Ibidem, 239.

²²⁰ Puthucheary, *Ownership and control*, xvii.

²²¹ CO, *Economic survey*, 25.

Although legislation specifically aimed at positively discriminating Malay Malaysians was not imposed in BNB and Sarawak, entrepreneurs in the latter colony could nonetheless benefit from the prevailing policy climate by strengthening their position in fish farming and commerce. In the former case, they were able to do so through direct government support; the Agricultural Department sought to increase the domestic production of freshwater fish by aiding indigenous entrepreneurs, including Malay Malaysians, with constructing ponds and supplying them with fish.²²² As to commerce, with government no longer considering it an unsuitable activity, there was an increase in the number of Malays opening a shop²²³ or applying for a hawking license.²²⁴

Other indigenous Malaysians

More than for any other group, the period under review was associated with a significant increase in political power for the various indigenous peoples living in BNB and Sarawak. Although they were mainly represented by members of the aristocracy, rather than entrepreneurs,²²⁵ one would expect policies to be more in the interest of indigenous entrepreneurs, than those before the Japanese Occupation when the group was essentially excluded from administration.²²⁶

Political representation did not lead to an immediate change in land policies as the British chose to maintain the framework already instituted by the Brookes in Sarawak and the BNBBCC in BNB. Consequently, land in Sarawak was still divided into mixed zones and native areas,²²⁷ and indigenes in BNB could obtain land with a maximum size of fifteen acres to grow paddy since they possessed customary rights.²²⁸ In 1957 150,000 acres of land were held under native customary rights. The effect of this regulation was in practice limited to protecting interests of existing landowners, because all land in 'littoral districts' was already in use.²²⁹

By contrast, there was a clear alteration in government policies regulating shifting cultivation. In BNB this had already been subject to restrictions, but the colonial government sought to gradually eradicate the practice by inducing indigenes living in the hills to adopt a

²²² CO, *Sarawak: 1957*, 50.

²²³ *Sarawak Gazette*, 1 March 1947. 'News from far and near', 48.

²²⁴ *Sarawak Gazette*, 7 June 1949. 'Extracts from reports of administrative officers for the first quarter of 1949', 148.

²²⁵ Porritt, *Colonial rule in Sarawak*, 35-36; Tregonning, *Modern Sabah*, 238-239.

²²⁶ BNBBCC, *North Borneo*, 75-76; Ooi, *Of free trade and native interests*, 2.

²²⁷ CO, *Economic survey*, 135; Colonial Office, *Annual report on Sarawak, 1952* (Kuching 1953) 40.

²²⁸ CO, *Economic survey*, 116.

²²⁹ CO, *North Borneo: 1957*, 48-49.

different method of cultivation. For this purpose, a scheme was initiated to resettle families in lowland areas.²³⁰ A similar policy was adopted in Sarawak, where 5,000 acres of irrigated paddy land was set aside for shifting cultivators. These, however, were rather reluctant to abandon their traditional lifestyle. The cultivation of wet paddy instead of hill paddy would have made sense from an entrepreneurial point of view, since the former obtained higher yields;²³¹ in BNB the yield of wet paddy was 0.92 tons²³² per acre, whereas hill paddy only yielded 0.47 tons per acre.²³³ It must be noted that the government of Sarawak was not opposed to indigenes growing hill paddy per se,²³⁴ experiments were carried out to improve the crop's yield,²³⁵ but there were two problems associated with it. First, if not carried out correctly, it could cause erosion.²³⁶ Second, shifting cultivation complicated the issue of new land titles, because land that was not being cultivated could nonetheless be held under customary tenure.²³⁷

Government encouragement to cultivate wet instead of hill paddy was one of the policies pursued to raise domestic rice output, a development objective the Borneo territories shared with the Federation of Malaya.²³⁸ In addition, a Padi Purchasing Scheme was started in Sarawak in 1946 and in BNB three years later involving the purchase of surplus paddy from cultivators against a guaranteed price and building a food reserve which could be used in times of need.²³⁹ Moreover, this period witnessed the advent of irrigation schemes in the Borneo territories.²⁴⁰ It is unclear how many acres these schemes covered, but the Sarawak development plan for 1955-1960 tells us that irrigation using small diesel pumps had 'been introduced in nearly all Divisions'.²⁴¹

As the rice imports of BNB and Sarawak did not show a decreasing trend between 1948 and 1957, one has to conclude that these policies were not particularly successful in reaching self-sufficiency (Figure 5), nor did they stimulate indigenous Malaysian entrepreneurs to use more land for the cultivation of rice. While the acreage under wet paddy in BNB grew from 44,573 acres in 1951 to 45,350 in 1957, total paddy acreage actually fell

²³⁰ CO, *North Borneo: 1957*, 44-45.

²³¹ Colonial Office, *Development plan of Sarawak (1955-1960)* (Kuching 1954) 10.

²³² 1 ton is 1,016.47 kilograms.

²³³ CO, *North Borneo: 1957*, 49.

²³⁴ CO, *Sarawak: 1952*, 52.

²³⁵ CO, *Sarawak (1955-1960)*, 24

²³⁶ CO, *Sarawak: 1952*, 52.

²³⁷ CO, *Sarawak: 1957*, 29.

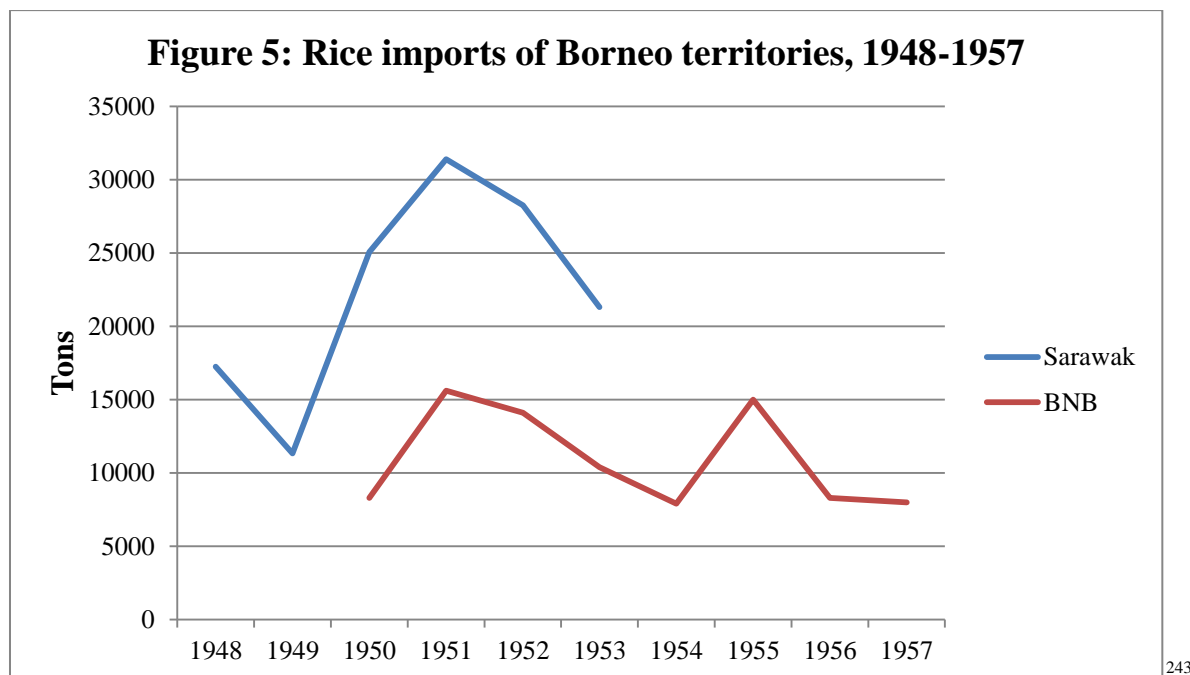
²³⁸ Kaur, *Economic change in East Malaysia*, 131.

²³⁹ CO, *North Borneo: 1951*, 31; CO, *Sarawak: 1952*, 52; CO, *Economic survey*, 140; CO, *Sarawak: 1957*, 41.

²⁴⁰ CO, *Sarawak (1955-1960)*, 9; CO, *North Borneo: 1957*, 58-59.

²⁴¹ CO, *Sarawak (1955-1960)*, 9.

from 76,097 acres to 74,648 acres.²⁴² At the same time, imports in 1957 were lower than in 1951, reflecting higher yields in rice cultivation.



Source: See note 243.

The fluctuations in rice imports may be explained by the fact that indigenous Malaysians still tended to concentrate on the cultivation of one crop or another depending on profitability.²⁴⁴ Increases in rice imports in 1950 and 1951 were associated with soaring rubber prices caused by the Korean War.²⁴⁵ The authorities could have prevented this if they had discouraged the cultivation of cash crops among indigenous Malaysian entrepreneurs, but they decided not to do so. Instead, they encouraged a 'mixed system of farming',²⁴⁶ and multiple schemes were started in support of this group.

In Sarawak rubber smallholders were supplied with high-yielding planting material and received grants to compensate for the loss of income as a consequence of the replacement of old rubber trees by new ones.²⁴⁷ Even though this scheme did not only apply specifically to indigenous smallholders, the group was an important beneficiary owning 80% of holdings under 100 acres and 49% of total rubber acreage in 1952; the average size of an indigenous

²⁴² CO, *North Borneo: 1951*, 115; CO, *North Borneo: 1957*,

²⁴³ Based on Sarawak: CO, *Economic survey*, 140; BNB: CO, *Economic survey*, 119 and CO, *North Borneo: 1957*, 37.

²⁴⁴ CO, *North Borneo: 1951*, 31; CO, *Sarawak (1955-1960)*, 10; CO, *Economic survey*, 118.

²⁴⁵ Drabble, *Economic history of Malaysia*, 160-161.

²⁴⁶ CO, *Economic survey*, 139.

²⁴⁷ CO, *Sarawak (1955-1960)*, 27.

holding was 1.46 acres.²⁴⁸ The Agricultural Department similarly supplied pepper shoots to planters,²⁴⁹ enabling Dayaks to get a foothold in an industry which used to be controlled by Chinese Malaysian entrepreneurs.²⁵⁰ The Dayaks were aided in their endeavours by the large demand for pepper in the world market, causing the price margin between white pepper and black pepper, which required a less intensive production process, to narrow.²⁵¹ Concentration on low quality pepper, however, did force a relatively large number of them to abandon the crop when prices dropped in 1957.²⁵² To prevent this from happening to Melanaus producing sago, the government adopted the Sago Flour (Control Exports) Ordinance 1948, which only permitted the export of sago flour that reached ‘a specified minimum standard of quality’.²⁵³ In BNB, by contrast, only indigenes growing tobacco received support; a 1951 annual report tells us that a group of planters followed a course about improved cultivation methods on a tobacco estate.²⁵⁴

The large role of indigenous Malaysians in the administration of Sarawak compared to BNB resulted in the group getting more support in growing cash crops. In addition, the Agricultural Department in the former white sultanate enabled Land Dayaks to become fish farmers by supplying fish and helping them with constructing ponds,²⁵⁵ while the Co-operative Development Department promoted the use of cooperatives.²⁵⁶ In 1954 there were 137 societies with 9,330 members and a share capital of \$268,735. Different from the Federation of Malaya, where cooperatives lent money to members on an individual basis, societies in Sarawak stored their capital in the Co-operative Central Bank, registered in October 1953.²⁵⁷ Despite receiving a \$250,000 interest-free government loan in 1957,²⁵⁸ however, it was not able to supply credit until 1962.²⁵⁹

Although this period did not bring about any significant changes in the position of indigenous Malaysian entrepreneurs, four developments are worth mentioning. First, the Bajau, whose entrepreneurial activities were originally confined to fishing and growing wet paddy,²⁶⁰ managed to diversify into cattle-farming; a 1957 annual report for North Borneo

²⁴⁸ CO, *Sarawak: 1952*, 41.

²⁴⁹ CO, *Sarawak (1955-1960)*, 12.

²⁵⁰ CO, *Sarawak: 1952*, 28 and 55; CO, *Sarawak: 1953*, 55.

²⁵¹ CO, *Sarawak: 1953*, 33.

²⁵² CO, *Sarawak: 1957*, 44-45.

²⁵³ CO, *Sarawak: 1952*, 54.

²⁵⁴ CO, *North Borneo: 1951*, 34.

²⁵⁵ CO, *Sarawak: 1957*, 50.

²⁵⁶ CO, *Sarawak (1955-1960)*, 29.

²⁵⁷ Porritt, *Colonial rule in Sarawak*, 335 and 337.

²⁵⁸ CO, *Sarawak: 1957*, 61.

²⁵⁹ Porritt, *Colonial rule in Sarawak*, 335.

²⁶⁰ CO, *North Boreo: 1951*, 12.

even deemed this their ‘most important contribution’ to the economy.²⁶¹ Second, indigenes set up six small scale sawmills in BNB.²⁶² Third, in the sago industry hand rasping was gradually being replaced by machine rasping. Large growers were able to buy machines for their individual use, while others formed a syndicate.²⁶³ That growers had sufficient capital at their disposal to purchase engine driven mills shows that considerable profits could be made from the cultivation of sago, but these were often not high enough to prevent Melanaus from running into debts with Chinese moneylenders during slumps.²⁶⁴ Fourth, while the position of indigenous Malaysian entrepreneurs in the tertiary sector remained weak, there was some improvement noticeable. In BNB indigenes sold their produce in traditional markets or *tamu* held in most rural villages, instead of relying on middlemen. In addition, the shops in such villages were usually owned by indigenous entrepreneurs, with Malaysian Chinese focussing on commerce in larger settlements.²⁶⁵ In Sarawak more shops were opened by Dayaks,²⁶⁶ who increasingly chose to operate these themselves instead of renting it to members of the Chinese community.²⁶⁷

Chinese Malaysians

Above I argued that the strength of the business network of Chinese Malaysian entrepreneurs combined with relatively *laissez-faire* government policies enabled them to play a prominent role in the Malaysian economy. Even though democratization principally worked to the benefit of the Malays in Malaya and other indigenous Malaysians on Borneo, we may expect that the new political constellation did not have a negative effect on Chinese business interests for three reasons. First, Chinese Malaysians remained a potent force in politics. In the Federation of Malaya the MCA, whose leadership mainly comprised wealthy Chinese businessmen, managed to become part of the ruling coalition even though Malay Malaysians constituted 49% of the population and more than 80% of the electorate in 1955;²⁶⁸ many Chinese did not qualify for citizenship since they could not speak Malay or English.²⁶⁹ The UMNO nonetheless decided to cooperate with the MCA because the British would not grant independence to Malaya if the government was dominated by one single ethnic group.

²⁶¹ CO, *North Borneo: 1957*, 13.

²⁶² CO, *Economic survey*, 122.

²⁶³ *Sarawak Gazette*, 2 August 1948. ‘News from far and near’, 160.

²⁶⁴ *Sarawak Gazette*, 7 June 1949. ‘First quarter 1949’, 150.

²⁶⁵ CO, *Economic survey*, 123.

²⁶⁶ *Sarawak Gazette*, 2 January 1947. ‘News from far and near’, 15; *Sarawak Gazette*, 30 June 1952. ‘Extract from District Officers’ reports, first quarter, 1952’, 135.

²⁶⁷ *Sarawak Gazette*, 1 May 1947. ‘News from far and near’, 86.

²⁶⁸ Gomez and Jomo., *Malaysia’s political economy*, 12.

²⁶⁹ Turnbull, *History of Malaysia*, 239-240.

Moreover, the party was dependent upon financial support by the Chinese;²⁷⁰ one of the founders of the MCA, H. S. Lee, was the main financier the campaign for the 1955 Federal Elections.²⁷¹ Second, policies aimed at supporting Malay and other indigenous Malaysian entrepreneurs, were limited to the industries in which these groups already played an important role. Chinese Malaysians, then, were not confronted with unfair competition in other sectors. Third, since co-operatives proved largely unsuccessful, entrepreneurs remained dependent upon moneylenders. During the interwar period, Chettiars were the main source of credit for rural Malays, but after the Japanese occupation the Chinese ranked first.²⁷²

Chinese ascendancy was not limited to moneylending with businessmen increasingly investing in Malaya, because it was no longer possible to invest in China after the Communist Party came to power in 1949. As a result, 53% of Malayan rubber estates in 1957 were under Chinese Malaysian ownership, compared to 40% ten years earlier. At the same time, European estates still covered two-thirds of total acreage.²⁷³ In addition, Chinese Malaysians came to own 13.2% of the area under oil palms.²⁷⁴ In the tin mining sector, Chinese continued to rely on gravel pumps, which gave them a competitive edge over their European counterparts in the early post-war years because it required less capital and time to restart damaged mines. Their share of production rose from 30% in the years prior to the Japanese Occupation, to 40% thereafter;²⁷⁵ it stood at 38.5% in 1950²⁷⁶ and 38.8% two years later.²⁷⁷ There are no statistics available for the production of freshwater fish farms, but primary sources suggest that Chinese Malaysian entrepreneurs were dominant in this new industry.²⁷⁸ In Sarawak the manufacturing interests of Chinese Malaysians expanded to include factories producing such products as arrack, bricks, matches, pottery and vermicelli.²⁷⁹

Chinese Malaysian entrepreneurs did not remain completely untouched by government policies. It is probable that tin miners would have gradually lost market share to their European counterparts, if it were not for the Federation's membership of the International Tin Agreement which came into force in 1956. As part of this agreement a buffer stock was

²⁷⁰ Gomez and Jomo, *Malaysia's political economy*, 12.

²⁷¹ J. T. Lindblad, 'A Malaysian perspective on decolonization: lessons for Indonesia?', *Masyarakat Indonesia* 39: 2 (2013) 341-360, 349.

²⁷² Harper, *Making of Malaya*, 239.

²⁷³ White, *Business, government, and the end of empire*, 51 and 53.

²⁷⁴ CO, *Economic survey*, 21.

²⁷⁵ White, *Business, government, and the end of empire*, 84.

²⁷⁶ CO, *Federation of Malaya: 1950*, 101.

²⁷⁷ CO, *Economic survey*, 26.

²⁷⁸ *Ibidem*, 25; CO, *Sarawak: 1953*, 60; CO, *Sarawak: 1957*, 51.

²⁷⁸ White, *Business, government, and the end of empire*, 84.

²⁷⁹ CO, *Sarawak: 1952*, 16.

established to prevent strong price fluctuations, thus protecting the less efficient Chinese producers.²⁸⁰ Furthermore, Chinese in Malaya and Sarawak were encouraged to become members of cooperatives, a privilege previously reserved to Malays and Indian estate labourers.²⁸¹ In Malaya this was part of a larger campaign to win the hearts and minds of Chinese peasants in order to prevent them from supporting the Malayan Communist Party (MCP). In addition, the authorities went on to resettle nearly 600,000 people, 86% of them Chinese, in so-called New Villages between 1948 and 1955.²⁸²

Resettlement had a negative effect on the business interests of Chinese smallholders who had played an important role in the economy through the cultivation of rubber and vegetables, and the breeding of pigs. An economic survey for Malaya tells us that the area under food crops, excluding rice, declined from 95,727 acres in 1948, to 67,465 acres in 1951. By the end of 1953 this figure had only increased slightly to 82,082 acres. As a consequence, imports of fresh vegetables rose from 7,326 tons in 1948 to 12,860 tons three years later, while the export of pigs to Singapore shrank from 115,400 in 1949 to 37,542 in 1953.²⁸³ According to Harper, three factors caused this development. First, there was a shortage of land that could be used for cultivation, either because there was no unoccupied land near New Villages, or because state governments were reluctant to make land available for this purpose. Second, land that was made available was often of dubious quality. Third, growers, previously employing shifting cultivation, had trouble getting used to settled agriculture. Many of them, therefore, saw no other option than to seek employment on rubber estates. The demise of smallholders worked to the detriment of small traders, who were confronted with a decrease in tradeable produce.²⁸⁴

The authorities in Sarawak sought to satisfy Chinese land-hunger by enlarging the area classified as mixed zone land. 29,000 Acres of agricultural land were added in 1951 and another 26,000 acres for the growing of rubber a year later. At that point in time, officials were convinced that these schemes were sufficient to satisfy demand,²⁸⁵ but five years later government was still in search for new blocks of land to be opened up for Chinese Malaysian

²⁸⁰ White, *Business, government, and the end of empire*, 151 and 174.

²⁸¹ CO, *Federation of Malaya: 1950*, 45-46; CO, *Sarawak: 1952*, 94-95; CO, *Sarawak: 1957*, 61.

²⁸² Harper, *Making of Malaya*, 175-176

²⁸³ CO, *Economic survey*, 15 and 18.

²⁸⁴ Harper, *Making of Malaya*, 178 and 180-181.

²⁸⁵ CO, *Sarawak: 1952*, 10 and 41.

agriculturalists.²⁸⁶ In BNB, by contrast, it was only in 1957 that plans were made to make new land available to Chinese.²⁸⁷

Indian Malaysians

Although not targeted by new government initiatives it does not seem that Indian Malaysian entrepreneurship was disadvantaged since this group gained governmental representation, but the political influence of Indian Malaysian entrepreneurs was smaller than that of their Chinese counterparts. Indians constituted a significantly smaller part of the population and therefore held fewer seats in the various representative councils. Given the large number of seats allocated to functional groups in the Federal Legislative Council of Malaya it is difficult to make statements on the seats held by Indians before 1955,²⁸⁸ but of the fifty-two seats that were won by the Alliance in the Federal elections in that year thirty-five went to the UMNO, fifteen to the MCA and only two to the MIC.²⁸⁹ In addition, the leadership of the MIC mainly comprised left-leaning members of the middle class, rather than businessmen.²⁹⁰ That being said, White argues that the party also included wealthy entrepreneurs.²⁹¹

Table 7: Labourers' Co-operative Credit Societies, Federation of Malaya

	Societies	Members	Share capital (Malayan dollars)
1949	380	35,333	\$1,384,924
1950	389	39,085	\$1,118,097

Source: Based on CO, *Federation of Malaya: 1950*, 48-49.

As was the case during the preceding period, support for Indian Malaysians remained limited to cooperative societies for estate labourers, who constituted 23.1% of the Indians living in the Federation of Malaya in 1955.²⁹² The number of these societies had grown since the Japanese Occupation, but both membership and share capital dwindled. In 1950 there were 389 societies with 39,085 and a share capital of \$1,118,097 (Table 7); down from 338 societies with 61,120 members and a share capital of \$1,901,736 twelve years earlier (Table 3). If one assumes that roughly 23% of Indian Malaysians in 1950 worked on estates, then only 30% of them held membership to a co-operative. This percentage was probably even

²⁸⁶ CO, *Sarawak: 1957*, 29-30.

²⁸⁷ CO, *North Borneo: 1957*, 45.

²⁸⁸ CO, *Federation of Malaya: 1950*, 214.

²⁸⁹ R. A. Brown, *The Indian minority and political change in Malaya, 1945-1957* (Oxford etc. 1981) 193.

²⁹⁰ Gomez and Jomo, *Malaysia's political economy*, 12.

²⁹¹ N. J. White, 'The beginnings of crony capitalism: business, politics and economic development in Malaysia, c. 1955-70', *Modern Asian Studies* 38: 2 (2004) 389-417, there 393.

²⁹² Mahajani, *Role of Indian minorities*, 108 and 110.

lower since Malay and Chinese labourers could also become members of Labourers' Co-operative Credit Societies.²⁹³

Table 8: Distribution of finance and commerce-occupations by ethnic group in the Federation of Malaya, 1955

	Chinese	Indians	Malays	Others	Total
Banking & insurance	4,829 (6.8%)	3,302 (16.6%)	2,442 (17.8%)	216 (13.2%)	10,789 (10.1%)
Produce dealers	14,022 (19.6%)	1,408 (7.1%)	2,717 (19.8%)	273 (16.7%)	18,420 (17.3%)
Retail distributors	38,954 (54.6%)	10,432 (52.4%)	6,839 (49.8%)	543 (33.2%)	56,768 (53.2%)
Others	13,596 (19.0%)	4,752 (23.9%)	1,728 (12.6%)	602 (36.8%)	20,678 (19.4%)
Total	71,401 (100%)	19,894 (100%)	13,726 (100%)	1,634 (100%)	106,655 (100%)

Source: Derived from Mahajani, *Role of Indian minorities*, 111.

Despite the lack of government support, Indian Malaysian entrepreneurs were able to play an important role in finance and commerce on the peninsula. In 1955, Indians constituted the second largest group employed in this sector after the Chinese Malaysians (Table 8). Most of them were engaged in retail distribution, followed by other occupations, banking & insurance and dealing in produce. Relatively speaking, Indian Malaysians were best represented in banking and insurance which employed roughly ten percent of the people engaged in commerce, but 16.6% of the people from Indian descent. By contrast, even though 17.3% of those having a commercial occupation were produce dealer, only 7.1% of the Indian Malaysians were so.

The low incidence of produce dealing corresponds with a low incidence of land ownership among Indians, thus suggesting that making transactions with members of the own ethnic group was prevalent in this part of the supply chain. Not only did Indian Malaysians own less land than any of the other main ethnic groups in Malaya, ownership was also heavily concentrated. According to Puthuchery 75% of rubber smallholdings under Indian ownership were worked by tenants. Most land was held by Chettiars, who accumulated it through the defaulting of debtors.²⁹⁴

The ascendancy of Chinese moneylenders as the main source of credit for rural Malays²⁹⁵ by no means led to the decline of Chettiars, but rather to a change in clientele; more money was lent to clerks and shopkeepers. According to Mahajani, the value of assets held by

²⁹³ CO, *Federation of Malaya: 1950*, 48-49.

²⁹⁴ Puthuchery, *Ownership and control*, xvii-xviii.

²⁹⁵ Harper, *Making of Malaya*, 239.

this group on the peninsula in 1957 was considerably higher than in 1941, when it stood at 270 million Malayan dollars.²⁹⁶ This may be explained by the successful venturing of Chettiar firms in southern India into import-substitution industrialization which made more capital available for banking purposes in Southeast Asia.²⁹⁷

The Borneo territories remained outside the Chettiar's business network, but judging from the primary sources Indian Malaysian entrepreneurship was on the rise here. While the pre-war sources only make mention of one trader who opened a shop in Sarawak,²⁹⁸ post-war sources indicate that Indian entrepreneurs had a controlling interest in the livestock industry of BNB and Sarawak. These ventures were, however, generally limited in size, particularly in Sarawak.²⁹⁹ In addition, they were employed as technicians, artisans and merchants;³⁰⁰ in Sarawak Indian Malaysians specialized in trading textiles.³⁰¹

²⁹⁶ Mahajani, *Role of Indian minorities*, 99-100.

²⁹⁷ Brown, *Capital and entrepreneurship*, 180 and 188.

²⁹⁸ *Sarawak Gazette*, 1 April 1922. 'Monthly report February, Simanggang, Kalaka district, Kabong', 101.

²⁹⁹ CO, *Economic survey*, 121 and 141.

³⁰⁰ CO, *North Borneo: 1951*, 14.

³⁰¹ CO, *Sarawak: 1952*, 26.

3. 1957-1970: independence and emergent affirmative action

While the first twelve years after the Pacific War were characterized by democratization of the political system in Malaysia, it was only during the period under review here that the various territories obtained independence from the United Kingdom. In the Federation of Malaya, accelerated independence was to be expected after the Alliance sealed an overwhelming victory in the 1955 Federal Elections for four reasons. First, different from its political rival *Parti Negara*, the newly-established party of UMNO's founder Dato Onn Jaafar, the Alliance sought to gain independence as soon as possible.³⁰² Second, and connected to this, large electoral support served to show the colonial authorities that this desire was broadly shared among the citizens of Malaya.³⁰³ Third, cooperation between the three main ethnic groups which took place in the Alliance was an important precondition for independence.³⁰⁴ Fourth, the fact that the coalition was dominated by English-educated members of the upper-middle and upper class gave the British confidence that their extensive business interests in the country would be protected after independence.³⁰⁵

Consequently, the Federation of Malaya gained independence from the United Kingdom on 31 August 1957.³⁰⁶ Under the 1957 constitution, the country became a constitutional monarchy headed by one of the nine Malay sultans in the function of *Yang di-Pertuan Agong*.³⁰⁷ The *Yang di-Pertuan Agong* was chosen for a five-year term by his fellow sultans in the Conference of Rulers without having the possibility of being re-elected. Normally, the honour was bestowed upon the longest serving sultan. Legislative power was vested in a bicameral parliament constituting the *Dewan Negara* or Senate and the *Dewan Rakyat* or House of Representatives. The Senate comprised 38 members of whom 22 were elected by the parliaments of the eleven states, which retained considerable authority, and sixteen by the monarch to serve those interests not properly represented. The House of Representatives counted 104 members, chosen through general elections. In the first elections after independence, held in 1959, the Alliance secured 73 seats. This enabled it to form a cabinet which assisted the *Agong* who had executive authority.³⁰⁸

³⁰² Brown, *Indian minority and political change*, 188; Turnbull, *History of Malaysia*, 246-247.

³⁰³ Turnbull, *History of Malaysia*, 247.

³⁰⁴ Matheson Hooker, *Short history of Malaysia*, 205.

³⁰⁵ Turnbull, *History of Malaysia*, 250; White, *British business*, 2.

³⁰⁶ Matheson Hooker, *Short history of Malaysia*, 206.

³⁰⁷ Turnbull, *History of Malaysia*, 250.

³⁰⁸ Government of the Federation of Malaya, *Federation of Malaya: official year book, 1961* (Kuala Lumpur 1961) 50, 52-54 and 65.

The Borneo territories had to wait until 1963 before they became independent, but this did not mean that they were excluded from administrative reforms before this time. In Sarawak the system of indirect elections for the Council *Negri* was maintained, but as of 1961 voting rights were no longer confined to ‘adult married ratepayers and tenants’, instead every resident older than twenty-one was allowed to vote. In addition, the number of *ex-officio* members was reduced from fourteen to three, while nominated members gained eleven seats. Since the nominees included a minimum of four members not affiliated with the bureaucracy, this reform clearly increased the power of local inhabitants vis-à-vis colonial administrators.³⁰⁹ In BNB members not affiliated with the bureaucracy gained a majority over officials in the Legislative Council from 1960 and two years later they received two additional seats in the Executive Council.³¹⁰

On 16 September 1963, the territories today constituting Malaysia became an administrative unity for the first time when the Borneo territories were unified with the Federation of Malaya to form the larger Federation of Malaysia. Singapore was also part of the new federation, but it left the country, either voluntarily or forced depending on one’s perspective, for political reasons in 1965.³¹¹ Sarawak and BNB (renamed Sabah) entered Malaysia as equal partners to the Federation of Malaya, thus granting them significantly more autonomy than the peninsular states. This involved control over finance and policies in the field of development, education, immigration and religion. In practice, however, the federal government did not hesitate to interfere in Bornean affairs if national unity was said to be threatened.³¹²

As was the case in Malay states, legislative power in Sabah and Sarawak was vested with the State Legislative Assembly wholly made out of directly elected members. In the nine sultanates the sultan had executive authority, but on Borneo and in Penang and Malacca, this honour was bestowed upon a governor appointed by the *Yang di-Pertuan Agong*. They were in all cases assisted by the State Executive Council containing members of the largest coalition in the legislature. On the federal level Malaya retained 104 seats in the *Dewan Rakyat*, while an additional sixteen seats were allocated to Sabah and 24 to Sarawak. The Alliance remained the dominant force in politics, winning 89 seats in the first general

³⁰⁹ Porritt, *Colonial rule in Sarawak*, 24-25.

³¹⁰ Tregonning, *Modern Sabah*, 238-239.

³¹¹ Turnbull, *History of Malaysia*, 258-259.

³¹² Kaur, *Economic change in East Malaysia*, 173 and 215-219.

elections held in 1964.³¹³ Five years later the coalition suffered an enormous defeat, when it only won 67 seats.³¹⁴ It did, however, manage to gain an absolute majority of 92 seats after seeking support from a number of Bornean parties.³¹⁵

Table 9: Population of Malaysia by ethnic group, 1960³¹⁶

	Federation of Malaya (1960)	Sarawak (1960)	Sabah (1960)	Malaysia (estimate)
Chinese	2,595,000 (37.0%)	229,154 (30.8%)	104,542 (23.0%)	2,928,696 (35.6%)
Indians	787,000 (11.2%)	...	...	787,000 (9.6%)
Europeans	...	1,631 (0.2%)	1,896 (0.4%)	3,527 (0.0%)
Malays	3,510,000 (50.0%)	129,300 (17.4%)	...	3,639,300 (44.3%)
Malays and other indigenous Malaysians	...	...	306,498 (67.4%)	306,498 (3.7%)
Other indigenous Malaysians	...	377,952 (50.8%)	...	377,952 (4.6%)
Others	126,000 (1.8%)	6,492 (0.9%)	41,485 (9.1%)	173,977 (2.1%)
Total	7,018,000 (100%)	744,529 (100%)	454,421 (100%)	8,216,950 (100%)

Source: FDoI, *Malaysia: 1965*, 60-61 and 631.

Considering that 9.1% of the population of Malaysia in 1960 lived in Sarawak and 5.5% in Sabah, it is worth noting that these territories were nonetheless allocated 16.7% and 11.1% of the seats in the *Dewan Rakyat*, respectively. Compared to ten years earlier, Malay Malaysians remained the largest ethnic group in the country, followed by Chinese Malaysians (Table 9). While other indigenous Malaysians previously constituted the third largest group, they now ranked fourth behind the Indian Malaysians. In Sarawak 31.9% of the population was Iban, 7.7% Land Dayak and 6.0% Melanau. The Dusun people continued to be the largest indigenous group in Sabah with 32.0%, followed by Bajaus with 13.1% and Muruts with 4.9%; other indigenes, including Malay Malaysians, comprised 17.5%.³¹⁷ Even though the

³¹³ Federal Department of Information, *Malaysia: official year book, 1965* (Kuala Lumpur 1967) 89 and 126-127.

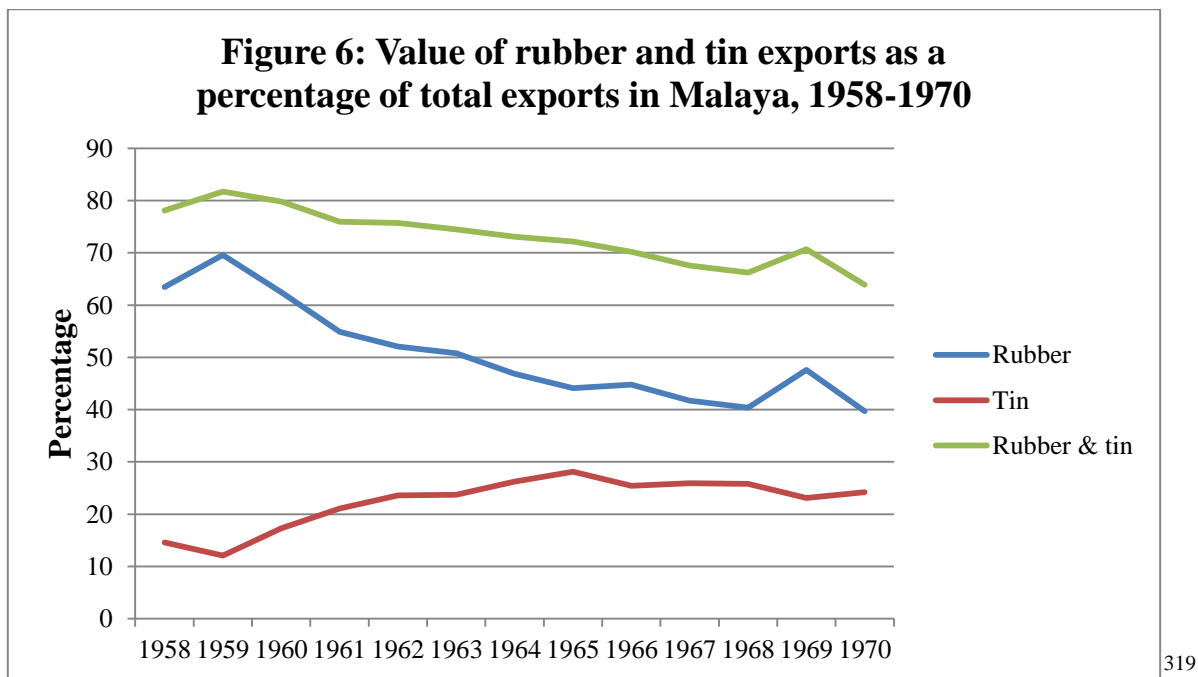
³¹⁴ M. Rudner, 'The Malaysian general election of 1969: a political analysis', *Modern Asian Studies* 4: 1 (1970) 1-21, there 7.

³¹⁵ Federal Department of Information, *Malaysia: official year book, 1970* (Kuala Lumpur 1972) 35.

³¹⁶ The statistics for the population of the Federation of Malaya are rounded.

³¹⁷ FDoI, *Malaysia: 1965*, 60-61.

size of the Chinese community as a share of the total population had declined, the contrary was the case on Borneo; in Sarawak it was the largest ethnic group from 1962 onwards.³¹⁸



Source: See note 319.

Political independence did not have an immediate effect on Malaysia's place in the world economy. In Malaya rubber and tin remained the most important export products throughout the period under review, although their cumulative share did decrease from 81.7% in 1959 to 63.9% in 1970 (Figure 6). In Sarawak petroleum ranked first among the state's export products, followed by rubber up until 1964 when it was surpassed by timber. By 1967 the value of pepper exports was also higher than that of rubber; the latter fell from a peak at 122.4 million Malaysian dollars in 1960 to \$26.3 million in 1968, the last year for which data are available.³²⁰ A similar trend was discernible in the composition of Sabah's exports with rubber being most important in 1957 and timber in the period thereafter. The value of rubber exports decreased by 29.8% between 1957 and 1968, while that of timber exports increased by 961.9% over the same period.³²¹

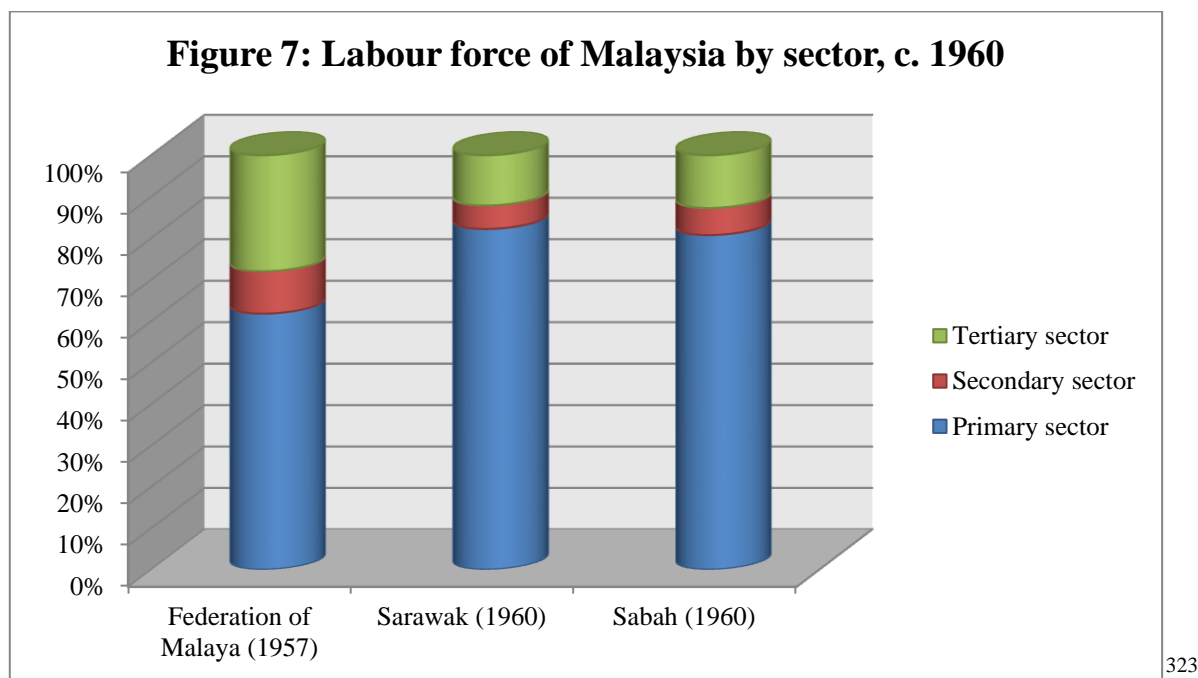
³¹⁸ Colonial Office, *Sarawak: report for the year 1962* (London 1963) 12; FDoI, *Malaysia: 1965*, 60; FDoI, *Malaysia: 1970*, 27.

³¹⁹ Derived from: Malaya, *Federation of Malaya: 1961*, 470; FDoI, *Malaysia: 1965*, 664; Federal Department of Information, *Malaysia: official year book, 1967* (Kuala Lumpur 1968) 333; FDoI, *Malaysia: 1970*, 593.

³²⁰ Colonial Office, *Sarawak: annual report, 1958* (Kuching 1959) 26; Colonial Office, *Sarawak: annual report, 1960* (London and Kuching 1961) 26; Department of Statistics, *Annual bulletin of statistics: State of Sarawak, 1968* (Kuching 1969) 77.

³²¹ Department of Statistics, *Annual bulletin of statistics: Sabah, 1968* (Kota Kinabalu 1969) 120.

As a consequence, the primary sector remained the main source of employment in the domestic economy (Figure 7). Its share was largest in Sarawak, where it employed 82.2% of the working population; the tertiary sector employed 12.1% and the secondary sector 5.7%. Corresponding figures were respectively 80.8%, 12.7% and 6.5% for Sabah, and 61.9%, 28.0% and 10.2% for the Federation of Malaya. When comparing the statistics with those from ten years before, two observations can be made. First, the share of the secondary sector had grown in every territory. Second, employment in the tertiary sector showed a sharp decline on Borneo. The precise reason for this is unclear, but it may be connected to the smaller size of the working population in 1960. Presumably, women providing services within the confines of their own household were previously considered to be employed in the tertiary sector.³²² Even though the primary sector was the largest source of employment, the tertiary sector contributed most to GDP throughout the period under review (Figure 8).



Source: See note 323.

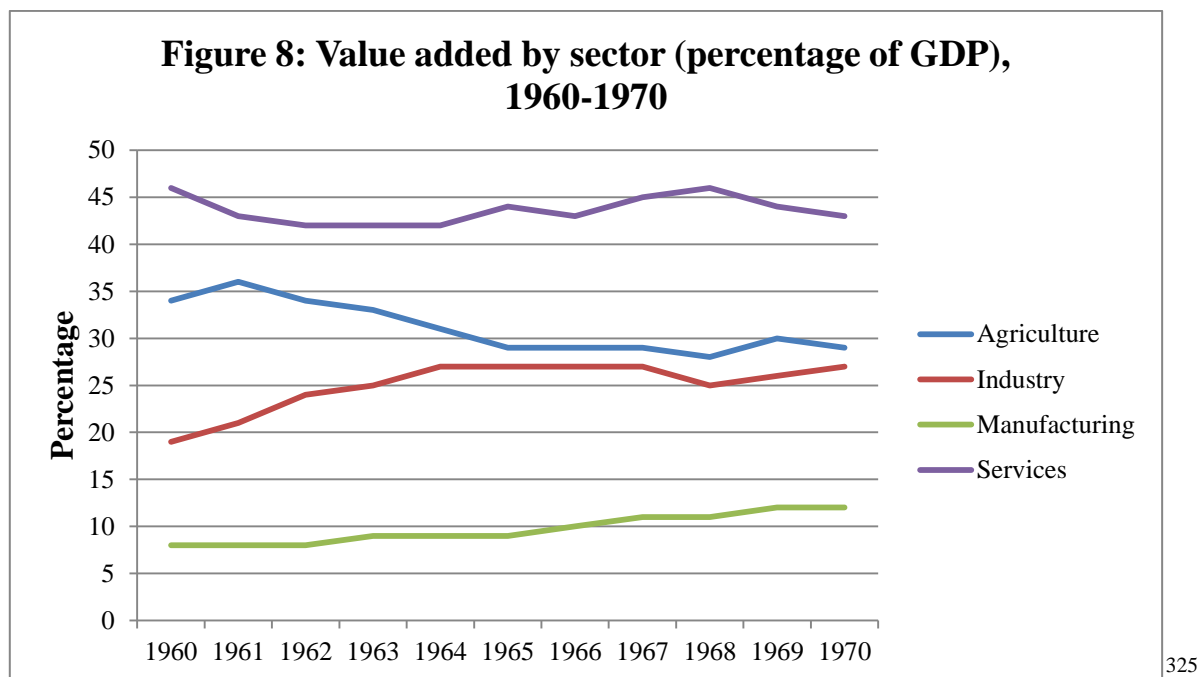
Malay Malaysians

As became clear above, those members of the Malay Malaysian elite playing a prominent role in the administration in the years leading up to independence managed to retain their position during the period under review. Therefore, one would not expect policies regulating entrepreneurship to challenge the economic status quo in any radical manner. That being said,

³²² CO, *North Borneo: 1951*, 111; CO, *Economic survey*, 144; Kaur, *Economic change in East Malaysia*, 162 and 164.

³²³ Derived from Federation of Malaya: FDoI, *Malaysia: 1965*, 57; Sarawak and Sabah: Kaur, *Economic change in East Malaysia*, 162 and 164.

independence undoubtedly gave policymakers more leeway to promote Malay Malaysian business interests because there was no longer a need for economic policies to be subservient to metropolitan interests. Moreover, the gradual Malayization of the bureaucracy during the period 1957-1965, involving the replacement of expatriates by Malays,³²⁴ diminished the chance of such policies being opposed in government circles.



Source: Based on World Bank: WDI.

Policies aimed at the development of Malay Malaysian entrepreneurship, then, were broader in scope than before independence. In the field of land policies this manifested itself in the maintenance of Malay reservations and customary land without the condition that part of this land should be planted with paddy.³²⁶ In addition, the Federal Land Development Authority (FELDA), a government agency established in 1956, allocated land to landless peasants for the cultivation of cash crops.³²⁷ Even though FELDA catered to all landless peasants, notwithstanding ethnic origin,³²⁸ both Drabble, and Gomez and Jomo argue that its activities mainly benefitted Malays.³²⁹ They do, however, not specify whether this can be attributed to conscious policy or the larger demand among members of this group. After all,

³²⁴ Lindblad, 'Malaysian perspective on decolonization', 352.

³²⁵ Industry comprises manufacturing, construction, electricity, water and gas, but also mining which is, in general, considered to be part of the primary sector.

³²⁶ *Federal Constitution*, 81-84.

³²⁷ Gomez and Jomo, *Malaysia's political economy*, 15.

³²⁸ Tunku S. Bahrin and B. T. Lee, *FELDA: 3 decades of evolution* (Kuala Lumpur 1988) 74.

³²⁹ Drabble, *Economic history of Malaysia*, 166; Gomez and Jomo, *Malaysia's political economy*, 14-15.

Malay Malaysians constituted the majority of rural poor.³³⁰ During the period under review 21,422 families or approximately 139,243 persons³³¹ received land covering a total of 124,854 hectares.³³² While the number of resettled persons may seem impressive at first glance, demand clearly outstripped supply.³³³

Up until 1960 all FELDA holdings were planted with rubber, but in the following year it also started to initiate palm oil schemes. By the end of 1970, 59,861 hectares were under rubber and 64,966 hectares under oil palms.³³⁴ In this way, smallholders were able to diversify into the cultivation of oil palms; FELDA schemes accounted for 25.1% of oil palm acreage in 1970.³³⁵ Previously the industry had been controlled by foreign-owned estates, because smallholders could not meet the capital requirements for the production of palm oil.³³⁶ This was not the only problem associated with cultivation on smallholdings; profitability was strongly dependent upon careful harvesting, rapid processing and the full utilization of mills. Therefore, settlers first received training on a communal lot before being allocated an individual holding of four hectares. The same method was deployed in rubber schemes from 1962 onwards.³³⁷

The average monthly income of settlers lay between 300 and 350 Malaysian dollars, which was significantly higher than the \$50 to \$65 they could earn as rural labourers. This income could, however, only be attained once the crop reached maturity,³³⁸ that is after approximately seven years in the case of rubber and three years in the case of oil palms.³³⁹ Prior to this they had to rely on a subsistence allowance of up to \$70 depending on the number of days worked. The allowance did not concern a gift, but a loan which had to be repaid within fifteen years after the first harvest against an interest of 6.25%. In addition, settlers had to cover the costs associated with the building of their house and the development of their holding. Nonetheless, Bahrin and Lee argue that '[t]here is no do doubt that FELDA's land development and settlement activities have improved the economic status of its settlers.'³⁴⁰ On the long term this may well have been true as Drabble argues that the majority of settlers were able to repay their loans and subsequently acquire motor vehicles and

³³⁰ Malaya, *Federation of Malaya: 1961*, 37; Drabble, *Economic history of Malaysia*, 277.

³³¹ FDoI, *Malaysia: 1970*, 342.

³³² Bahrin and Lee, *FELDA*, 58.

³³³ Gomez and Jomo, *Malaysia's political economy*, 15.

³³⁴ Bahrin and Lee, *FELDA*, 58.

³³⁵ FDoI, *Malaysia: 1970*, 254.

³³⁶ White, *British business*, 198.

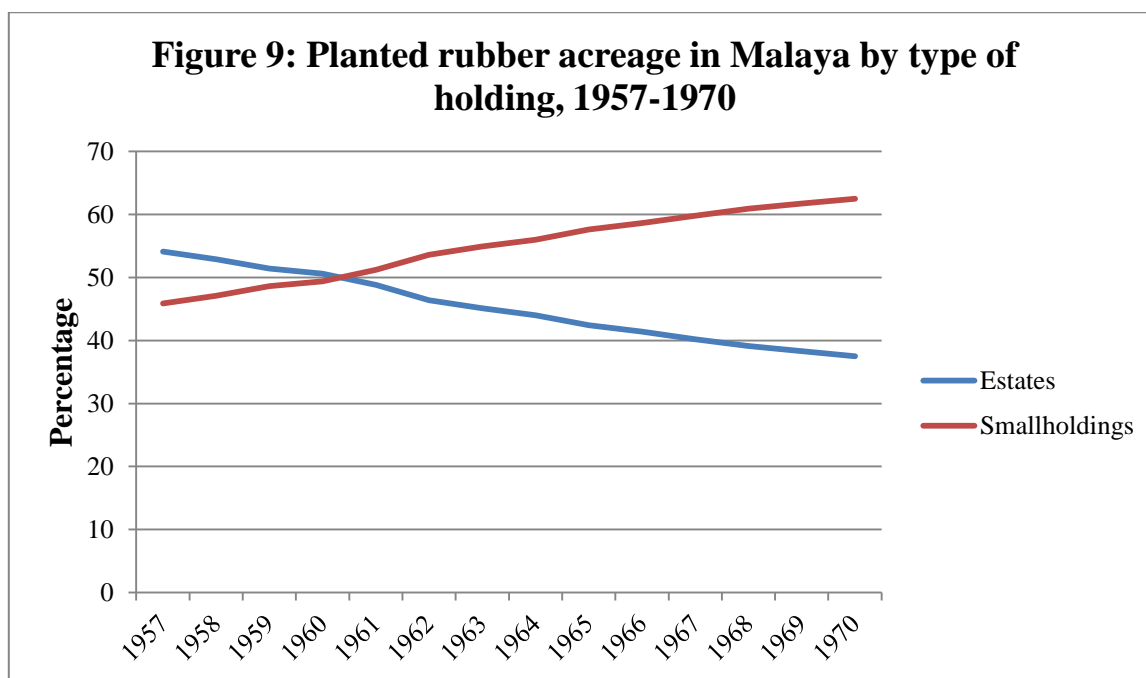
³³⁷ Bahrin and Lee, *FELDA*, 38, 49 and 51-53.

³³⁸ *Ibidem*, 88.

³³⁹ Drabble, *Economic history of Malaysia*, 166-167.

³⁴⁰ Bahrin and Lee, *FELDA*, 89-90 and 92.

electronic equipment for their own consumption.³⁴¹ It is doubtful whether they would have been able to do this to a similar extent in their capacity as rural labourers.



Source: Derived from White, *British business*, 141.

Government efforts to stimulate the cultivation of cash crops among rural Malays were not limited to the activities of FELDA. As was mentioned above, the Rubber Replanting Scheme introduced during the preceding period remained in force until 30 June 1962.³⁴² This was followed by a second scheme which supplied 750 Malaysian dollars to smallholders owning more than five acres for every acre they were planning to replant, and \$800 to those owning less land.³⁴³ Smallholders wanting to plant rubber on land previously used for other purposes were entitled to \$400 per acre;³⁴⁴ no provisions were made for grants to estates.³⁴⁵ As a result, the number of smallholdings under high-yielding trees increased from 50% of the total in 1965³⁴⁶ to 63% five years later.³⁴⁷ The corresponding figures for estates were 78%³⁴⁸ and 84%.³⁴⁹ Moreover, while smallholdings comprised 45.9% of Malayan rubber acreage in 1957, this had increased to 62.5% by the end of the period (Figure 9). Since high-yielding trees produced three to four times more rubber per acre than old ones, replanting bolstered

³⁴¹ Drabble, *Economic history of Malaysia*, 221.

³⁴² White, *Business, government, and the end of empire*, 208.

³⁴³ Economic Planning Unit, *First Malaysia Plan, 1966-1970* (Kuala Lumpur 1965) 99-100.

³⁴⁴ Malaya, *Federation of Malaya: 1961*, 229-230.

³⁴⁵ White, *British business*, 139.

³⁴⁶ FDoI, *Malaysia: 1965*, 434.

³⁴⁷ FDoI, *Malaysia: 1970*, 221.

³⁴⁸ FDoI, *Malaysia: 1965*, 434.

³⁴⁹ FDoI, *Malaysia: 1970*, 221.

potential profitability,³⁵⁰ although this was somewhat weakened by a 40% fall in international rubber prices between 1957 and 1970³⁵¹ caused by increased competition from synthetic rubber.³⁵²

With self-sufficiency in food requirements still out of sight, government similarly continued to stimulate rice production both by improving yield per acre and ensuring a steady income to those entrepreneurs growing paddy. For the purpose of achieving the former, irrigation works were carried out³⁵³ and, under the First Malaysia Plan, a Padi Fertiliser Subsidy Scheme was introduced which allowed farmers to buy fertilisers for 70% of the market price.³⁵⁴ A steady income was to be ensured through a guaranteed minimum price for paddy, similar to the Padi Purchasing Scheme introduced in the Borneo territories during the preceding period,³⁵⁵ and the establishment of the Federal Agricultural Marketing Authority (FAMA). Under the auspices of FAMA the trade in rice was regulated by licensing middlemen and demanding immediate cash payments in exchange for produce. An official year book for Malaysia tells us that this caused growers to obtain a better price for paddy, but there are no statistics available to confirm this.³⁵⁶ Two other policy measures deserve to be mentioned here: the enactment of the Padi Cultivators Act in 1967 and the establishment of an Agricultural Development Bank two years later.³⁵⁷ The former strengthened the position of tenants because it required land lords to enter a tenancy agreement for a minimum of three seasons and set restrictions on the amount of rent that should be paid.³⁵⁸ The Agricultural Development Bank constituted a source of agricultural credit, thus providing an alternative to the cooperatives.³⁵⁹

As for the success of these policies, the area under wet paddy grew from 794,120 acres in 1962-1963 to 963,890 acres in 1967-1968, while the area under dry paddy decreased slightly from 44,450 acres to 43,850 acres.³⁶⁰ It should be noted that the growth of acreage can be mainly attributed to the fact that every acre of double cropped land represented two

³⁵⁰ FDoI, *Malaysia: 1970*, 221.

³⁵¹ D. E. F. Henley, 'The agrarian roots of industrial growth: rural development in South-East Asia and sub-Saharan Africa', *Development Policy Review* 30: S1 (2012) S25-S47, there S34.

³⁵² EPU, *First Malaysia Plan*, 21-22.

³⁵³ FDoI, *Malaysia: 1965*, 198 and 365; FDoI, *Malaysia: 1967*, 47-48; FDoI, *Malaysia: 1970*, 263-264.

³⁵⁴ FDoI, *Malaysia: 1970*, 253.

³⁵⁵ Malaya, *Federation of Malaya: 1961*, 275.

³⁵⁶ FDoI, *Malaysia: 1970*, 258-259.

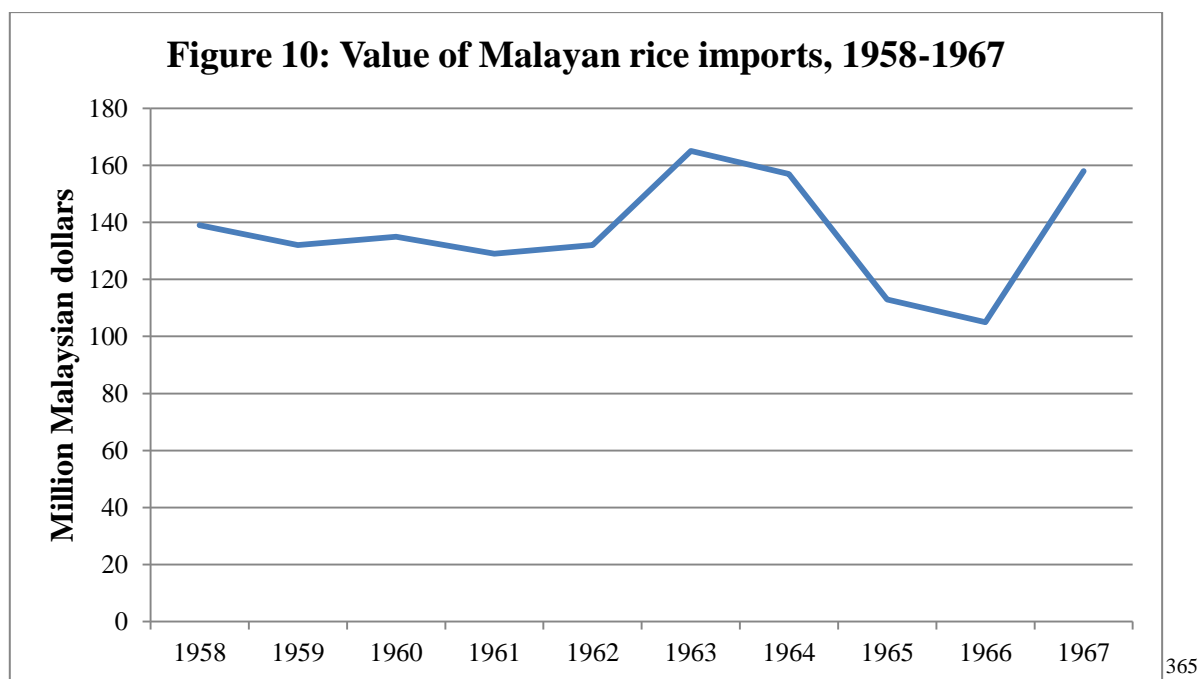
³⁵⁷ Turnbull, *History of Malaysia*, 265.

³⁵⁸ Commissioner of Law Revision, *Laws of Malaysia: act 528, Padi Cultivators (Control of Rent and Security of Tenure) Act 1967* (Kuala Lumpur 2006) 8 and 10.

³⁵⁹ FDoI, *Malaysia: 1970*, 253.

³⁶⁰ Department of Statistics, *Annual bulletin of statistics: Malaysia, 1968* (Kuala Lumpur 1969) 11.

acres in Malaysian statistics;³⁶¹ this area increased from 20,900 acres at the end of 1960³⁶² to 104,450 acres during the 1966-1967 season.³⁶³ Consequently, production of paddy grew from 827,125 tons in 1962-1963 to 1,013,365 tons five year later. At the same time, sensitivity to the forces of nature remained with production only comprising 711,308 tons in 1963-1964.³⁶⁴ This is also reflected by the fact that the value of Malayan rice imports failed to display a declining trend (Figure 10).



Source: See note 365.

Policies to stimulate the development of Malay Malaysian entrepreneurship were not limited to the agricultural sector. The Road Traffic Ordinance of 1958 required all new transport licenses to be issued to Malays until they had gained a share of the industry that was equivalent to their share of the population in a state. Ten years later this target was met in six states in case of the taxi industry, but only eighteen percent of commercial buses and six percent of trucks were owned by Malay Malaysians. In 1965 a quota was set to issue 50% of all timber licenses to Malay entrepreneurs thus further strengthening their position in this industry; a year earlier they already held licenses for nearly half of peninsular timber acreage. Even though no such quotas were set in the construction sector, Malay contractors tended to

³⁶¹ FDoI, *Malaysia: 1967*, 33.

³⁶² FDoI, *Malaysia: 1965*, 204.

³⁶³ FDoI, *Malaysia: 1967*, 33.

³⁶⁴ Department of Statistics, *Malaysia, 1968*, 11.

³⁶⁵ Based on Malaya, *Federation of Malaya: 1961*, 469; FDoI, *Malaysia: 1965*, 664; FDoI, *Malaysia: 1967*, 11.

be given responsibility over public projects as long as their price was not more than ten percent higher than that of non-indigenes.³⁶⁶

In November 1969 a state-owned enterprise called *Perbadanan Nasional* (PERNAS) or National Corporation was established for the purpose of promoting ‘increased participation of the indigenous community in commerce and industry, either through subsidiary companies or jointly with other organisations.’³⁶⁷ During 1970 PERNAS was occupied with the trade in building materials and the export of sawn timber. In addition, it established a subsidiary company dealing in insurances and bought land on Malay reservations for mining purposes. Government also set up the Exploitation of Minerals in Malay Reservation Loan Fund and Trust Account to give financial support to those Malays willing to enter the mining industry. By the end of 1970 two Malay mining companies had received loans totalling 400,000 Malaysian dollars to open gravel pump tin mines. One of PERNAS’ minority shareholders was Bank Bumiputra,³⁶⁸ a government-supported private bank ‘intended primarily to inject capital into business ventures by Malay entrepreneurs.’³⁶⁹

Prior to March 1966 RIDA was the main agency giving support to Malay Malaysian entrepreneurs in the manufacturing sector. The activities of RIDA were largely confined to rural areas where it provided loans to enterprises active in the primary, secondary and tertiary sectors of the economy and promoted the development of small-scale manufacturing. For this purpose, it carried out market research, gave technical advice and training, and functioned as a purchasing and selling association for individual producers. According to a 1961 official year book RIDA was also planning to establish a number of manufacturing enterprises which would stay under its control for a number of years before being brought under Malay ownership, but it is unclear whether these plans have ever come to fruition.³⁷⁰

In 1966 RIDA was reconstituted as *Majlis Amanah Rakyat* (MARA) or Indigenous People’s Trust Council. MARA sought to enhance the position of *bumiputra* entrepreneurs in five ways. First, it organised education program ranging from the vocational level to the academic level and awarded scholarships to enable people to continue their study abroad; by the end of 1970, 3,000 students were enrolled in the MARA Institute of Technology, an institution for higher education. Second, it lent money to enterprises taking more risk and

³⁶⁶ M. H. Lim, ‘Contradictions in the development of Malay capital: state, accumulation and legitimation’, *Journal of Contemporary Asia* 15: 1 (1985) 37-63, there 41-42.

³⁶⁷ FDoI, *Malaysia: 1970*, 248.

³⁶⁸ FDoI, *Malaysia: 1970*, 247-248 and 294.

³⁶⁹ White, ‘Beginnings of crony capitalism’, 401.

³⁷⁰ Malaya, *Federation of Malaya: 1961*, 134-135.

demanding lower interest rates than commercial banks.³⁷¹ Its lending policy contrasted with that of RIDA in the sense that business ventures in agriculture and fisheries were no longer eligible for loans.³⁷² Third, entrepreneurs could address MARA for professional advice on matters relating to accounting, business management, engineering, marketing and product design. Fourth, commercial buildings such as shophouses and factories, and raw materials could be obtained under favourable conditions.³⁷³ Fifth, MARA made investments in commercial ventures subsequently selling shares to individual investors and ran a unit trust fund.³⁷⁴ Another organisation seeking to increase Malay share ownership was *Syarikat Permodalan Kebangsaan* (SPK).³⁷⁵

Table 10: Ownership of equity capital of incorporated companies by ethnicity and industry in Malaya, 1970

	Chinese	Foreigners	Indians	Malays
Agriculture, forestry & fisheries	22.4%	75.3%	0.1%	0.9%
Mining & quarrying	16.8%	72.4%	0.4%	0.7%
Construction	52.8%	24.1%	0.8%	2.2%
Manufacturing	22.0%	59.6%	0.7%	2.5%
Banking & insurance	24.3%	52.2%	0.6%	3.3%
Commerce	30.4%	63.5%	0.7%	0.8%
Transport & communications	43.4%	12.0%	2.3%	13.3%
Others	37.8%	31.4%	2.3%	2.3%
Total	22.5%	60.7%	1.0%	1.9%

Source: Based on Gomez and Jomo, *Malaysia's political economy*, 20.

Despite these efforts Malay Malaysians still owned only 1.9% of the equity capital in limited companies in Malaya by 1970, significantly less than both Chinese and foreign investors (Table 10). It was only in transport & communications that Malays constituted the second largest group of investors. This may be attributed to the activities of MARA which established bus services throughout the country, selling shares of these companies to *bumiputras* as soon as they proved economically viable.³⁷⁶ Loans supplied by MARA, amounting to 11.3 million Malayan dollars between 1965 and 1968,³⁷⁷ were mainly used for

³⁷¹ FDoI, *Malaysia: 1970*, 347-348.

³⁷² FDoI, *Malaysia: 1967*, 87.

³⁷³ FDoI, *Malaysia: 1970*, 348-350.

³⁷⁴ FDoI, *Malaysia: 1967*, 90; FDoI, *Malaysia: 1970*, 349-350.

³⁷⁵ Lim, 'Development of Malay capital', 42-43.

³⁷⁶ FDoI, *Malaysia: 1970*, 349.

³⁷⁷ Lim, 'Development of Malay capital', 44.

investments in the tertiary sector, rather than manufacturing. There was, however, a tendency for individual loans to be used for bigger projects as time went by; initially construction, retail trade and taxis were the most important destinations, later on the portfolio included logging, hotels and filling stations.³⁷⁸

Other indigenous Malaysians

Although a 1970 official year book for Malaysia tells us that it was ‘the policy of the Government since Independence to improve the social and economic conditions of the Bumiputras in every aspect,’³⁷⁹ in practice policies mainly targeted Malay Malaysians living in the peninsula. The activities of organizations set up to strengthen *bumiputra* business interests such as MARA and SPK were limited to Malaya and the same applied to FELDA schemes. This may be partly attributed to the fact that the state governments of Sabah and Sarawak, rather than the federal government, were responsible for the implementation of development policies.³⁸⁰ At the same time, the ethnic factor played a role as well. The non-Muslim majority of East Malaysia’s indigenous population may have been regarded *bumiputras*,³⁸¹ but the interests of these inland people clearly differed from those of the Malays and Melanau living on the coast. The former traditionally practised swidden agriculture, while the latter relied on sedentary cultivation.³⁸²

This also caused non-Muslim indigenous dominance of Bornean politics to be viewed with suspicion by the rulers in Kuala Lumpur. In Sabah Chief Minister Donald Stephens, a prominent Dusun leader who had played a key role in state politics prior to independence, was forced out of office in 1966. He was replaced by Tun Mustapha, a Muslim of mixed Moro-Bajau origin. In the same year, Stephan Kalong Ningkan, the Iban Chief Minister of Sarawak, was ousted and replaced by Tawi Sli, another Iban, who proved more willing to pursue policies supported by the Alliance. Four years later a Melanau Muslim, Abdul Rahman Ya’kub, became Chief Minister.³⁸³

Possibilities to strengthen the position of other indigenous Malaysian entrepreneurs were further inhibited by the slow pace of Borneanization of the bureaucracy. In 1960 194 of the 254 posts in the Sarawak civil service were held by expatriates and only 43 by locals with the remaining posts being vacant; half of the Borneans in the civil service was of Chinese

³⁷⁸ FDoI, *Malaysia: 1967*, 88.

³⁷⁹ FDoI, *Malaysia: 1970*, 345.

³⁸⁰ Kaur, *Economic change in East Malaysia*, 216 and 218.

³⁸¹ *Federal Constitution*, 157-158.

³⁸² M. C. Cleary and P. Eaton, *Borneo: change and development* (Oxford etc. 1992) 95 and 107.

³⁸³ Kaur, *Economic change in East Malaysia*, 173 and 176.

descent.³⁸⁴ During Ningkan's administration, colonial officials continued to play a dominant role in policy-making.³⁸⁵ From the second half of the 1960s bureaucrats from the peninsula were on the increase in both Sabah and Sarawak.³⁸⁶ Kaur concludes that the 'general population' was largely deprived from the '[m]anagement of these economies'.³⁸⁷

As a consequence, policies regulating other indigenous Malaysian entrepreneurs were not only less extensive than those regulating Malay Malaysian entrepreneurs, but land policies sometimes even worked against indigenous interests. The new land code adopted in Sarawak in 1958 acknowledged indigenes' special rights to land through the preservation of native areas but prohibited the creation of new customary rights in the interior without a permit. Prior to 1958 it had been possible to obtain such rights over land by felling jungle and bringing it into productive use.³⁸⁸ In addition, a category of reserved land was created that included forest reserves and sanctuaries. Under the land code, government was allowed to alienate all types of land for the creation of reserved land, including that previously held under indigenes ownership.³⁸⁹ These measures strongly restricted the possibilities to practice swidden agriculture. According to Porritt the creation of Forest Reserves up to 1963 alone had decreased the land available for shifting cultivation by a quarter,³⁹⁰ although the low density of officials in the interior made it relatively easy for indigenes to occupy land illegally.³⁹¹

In Sabah land legislation remained unchanged,³⁹² but here the authorities also sought to curtail shifting cultivation in order to prevent deforestation. It remains a matter of discussion whether this practice caused deforestation. Kaur argues along with several other studies that this was not the case,³⁹³ while Cleary and Eaton write that there 'can be little doubt that shifting cultivation has contributed to the problem of deforestation and its attendant soil and hydrological consequences on Borneo'.³⁹⁴ It was, however, not more wasteful than logging, but the fact of the matter is that the timber industry played a considerably more important role in filling government coffers and boosting external trade.³⁹⁵

³⁸⁴ Lindblad, 'Malaysian perspective on decolonization', 355.

³⁸⁵ H. Solhee, 'The rice self-sufficiency policy: its implementation in Sarawak' in: R. A. Cramb and R. H. W. Reece eds., *Development in Sarawak: historical and contemporary perspectives* (Clayton, Victoria 1988) 69-104, there 90.

³⁸⁶ Cleary and Eaton, *Change and development*, 171.

³⁸⁷ Kaur, *Economic change in East Malaysia*, 204.

³⁸⁸ CO, *Sarawak: 1958*, 32-33.

³⁸⁹ Kaur, *Economic change in East Malaysia*, 144.

³⁹⁰ Porritt, *Colonial rule in Sarawak*, 225.

³⁹¹ Colonial Office, *Sarawak: annual report, 1961* (London 1962) 29.

³⁹² Government of the State of Sabah, *State of Sabah: annual report, 1963* (Kota Kinabalu 1964) 51.

³⁹³ Kaur, *Economic change in East Malaysia*, 198.

³⁹⁴ Cleary and Eaton, *Change and development*, 109.

³⁹⁵ *Ibidem*, 110 and 137; Kaur, *Economic change in East Malaysia*, 196.

Since the authorities were conscious that indigenes could only be induced to change their way of living when offered a suitable alternative, they sought to promote settled agriculture through various schemes. In 1960 the Department of Agriculture in Sarawak resettled 160 indigenous families on land suitable for the cultivation of rubber and wet paddy and provided them with long-term loans.³⁹⁶ A more systematic approach was adopted four years later with the introduction of Rubber Planting Scheme B. As part of this scheme, settlers were allocated a ten acre-holding of which eight acres were planted with high-yielding rubber trees, while the remainder included a house and space to cultivate fruit and vegetables.³⁹⁷ By 1970, 1,177 families had received land covering a total 13,700 acres. As was the case in FELDA schemes, settlers had to repay the subsistence allowance they were eligible to before the crop reached maturity³⁹⁸ and the costs for the development of their holding.³⁹⁹ In Sabah such a systematic approach towards land development was not adopted until the 1970s. Consequently, schemes showed a larger diversity in terms of the type of crop planted, ranging from rubber and wet paddy to oil palms and coconuts, and the size of holdings with some measuring five acres and others thirteen acres.⁴⁰⁰

Both Kaur and Cleary and Eaton convincingly argue that these endeavours have been a 'mixed success'.⁴⁰¹ A large number of settlers in Sarawak were faced with a problem to repay their loan to the Sarawak Development Finance Corporation (SDFC).⁴⁰² SDFC was established by the colonial authorities in 1958 to provide credit for agricultural undertakings⁴⁰³ and took over the responsibility for Rubber Planting Scheme B from the Department of Agriculture in 1968. Payment problems were partly caused by a decline in rubber prices, but a lack of commitment among settlers to work their land played a role as well.⁴⁰⁴

Different from Malaya where the demand for holdings on settlement schemes outstripped supply,⁴⁰⁵ indigenous Malaysians on Borneo remained reluctant to change from swidden agriculture to sedentary cultivation. The fact that landlessness was practically unknown in East Malaysia⁴⁰⁶ and schemes were often located hundreds kilometres away from

³⁹⁶ CO, *Sarawak: 1960*, 38.

³⁹⁷ Kaur, *Economic change in East Malaysia*, 184.

³⁹⁸ Cleary and Eaton, *Change and development*, 238.

³⁹⁹ Kaur, *Economic change in East Malaysia*, 184.

⁴⁰⁰ Sabah, *Sabah: 1963*, 48-49.

⁴⁰¹ Cleary and Eaton, *Change and development*, 238; Kaur, *Economic change in East Malaysia*, 184.

⁴⁰² Kaur, *Economic change in East Malaysia*, 184.

⁴⁰³ CO, *Sarawak: 1961*, 78.

⁴⁰⁴ Kaur, *Economic change in East Malaysia*, 184.

⁴⁰⁵ Gomez and Jomo, *Malaysia's political economy*, 15.

⁴⁰⁶ Kaur, *Economic change in East Malaysia*, 186.

settlers' area of origin was not conducive to their success either.⁴⁰⁷ The latter did not apply to SDFC schemes in Sarawak since indigenes were allocated holdings on land that they formerly held under customary tenure.⁴⁰⁸ Moreover, even though settled agriculture potentially produced higher yields, the low population density and scarcity of high quality soil legitimized shifting cultivation.⁴⁰⁹

Resettlement was not only utilized to curb swidden agriculture, it also supported government efforts to stimulate the production of cash crops and paddy. In addition, a number of other methods were deployed. The Rubber Planting Scheme introduced in Sarawak in 1956 continued to be in effect during the 1960s.⁴¹⁰ Under this scheme smallholders were supplied with high-yielding planting material⁴¹¹ and received a subsidy of 400 Malaysian dollars for every acre newly planted and \$600 for replantings.⁴¹² Initially, it was projected to plant 10,000 acres of land with high-yielding trees over a five-year period, but this target had already been met within three years;⁴¹³ by the end of 1967 the area covered 134,354 acres.⁴¹⁴

Since participation in the Rubber Planting Scheme demanded a 'high standard of husbandry' and close supervision from agricultural officers, it was not available to entrepreneurs living in remote areas or lacking sophistication in agricultural methods. Therefore, government introduced an Assisted Rubber Planting Scheme in 1960 enabling these agriculturalists to follow a course on various aspects of rubber production in one of the processing centres spread throughout the state before receiving enough high-yielding planting material and fertilisers, free of charge, to plant one acre. If the first year of cultivation proved successful they were entitled to material for another two acres.⁴¹⁵ The acreage under high-yielding rubber in Sarawak grew from 16.9% of total rubber area in 1960 to 41.1% seven years later⁴¹⁶ with the majority being owned by Ibans. According to Cramb this expansion can be largely attributed to government assistance as declining rubber prices otherwise would not have allowed planting.⁴¹⁷

⁴⁰⁷ Cleary and Eaton, *Change and development*, 238-239.

⁴⁰⁸ Kaur, *Economic change in East Malaysia*, 184.

⁴⁰⁹ Cleary and Eaton, *Change and development*, 109-110.

⁴¹⁰ FDoI, *Malaysia: 1965*, 436.

⁴¹¹ CO, *Sarawak (1955-1960)*, 27.

⁴¹² FDoI, *Malaysia: 1965*, 436.

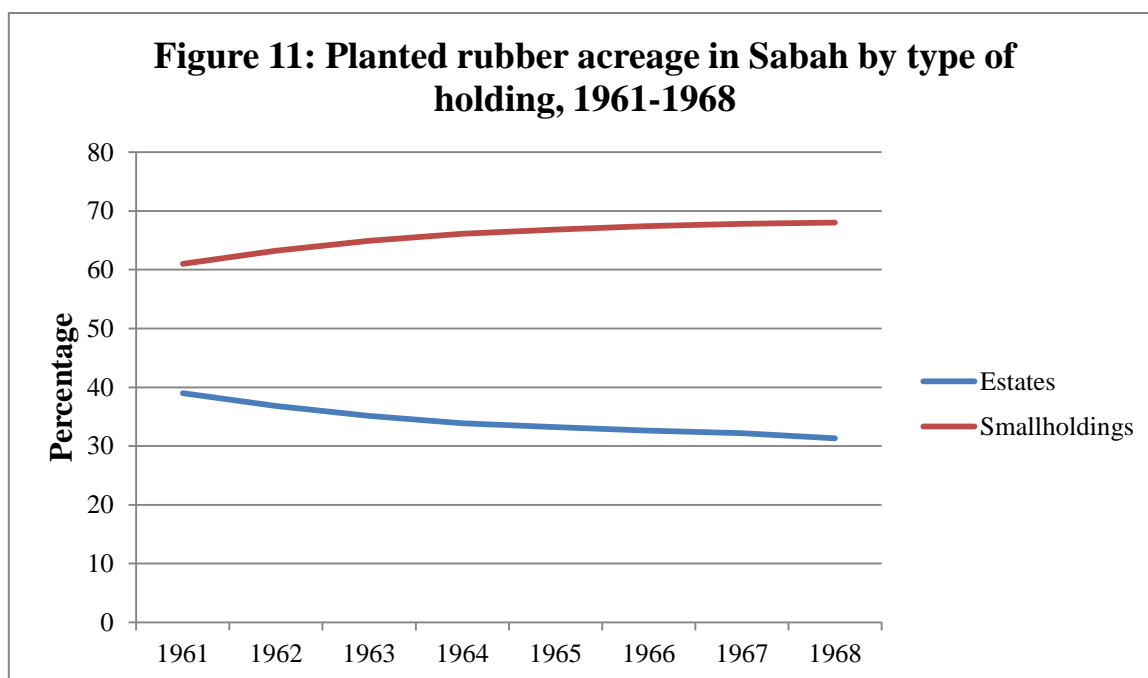
⁴¹³ CO, *Sarawak: 1958*, 42.

⁴¹⁴ Department of Statistics, *Sarawak, 1968*, 22.

⁴¹⁵ CO, *Sarawak: 1960*, 54.

⁴¹⁶ Department of Statistics, *Sarawak, 1968*, 23.

⁴¹⁷ R. A. Cramb, 'The commercialization of Iban agriculture' in: Cramb and Reece eds., *Development in Sarawak*, 105-134, there 120 and 127.



Source: Derived from Department of Statistics, *Sabah, 1968*, 66.

Table 11: Ownership of agricultural holdings in Sabah by ethnicity, 1961

	Number of holdings	Area (acres)
Bajaus	5,487 (12.8%)	33,756 (5.5%)
Chinese	7,939 (18.5%)	170,346 (27.9%)
Kadazans	20,312 (47.2%)	167,129 (27.4%)
Malays	3,057 (7.1%)	26,470 (4.4%)
Muruts	1,236 (2.9%)	10,088 (1.7%)
Others	4,917 (11.4%)	43,491 (7.1%)
Non – household holdings	26 (0.1%)	158,556 (26.0%)
Total	42,974 (100%)	609,836 (100%)

Source: Based on Department of Statistics, *Sabah, 1968*, 62.

In Sabah the area under high-yielding rubber grew from 41% of rubber acreage in 1961 to 60% in 1968. Corresponding figures were 32% and 48% for estates and 47% and 67% for smallholdings.⁴¹⁸ It is surprising that there was a higher incidence of high-yielding rubber in Sabah than in Sarawak, because growers received lower subsidies: \$120 for new plantings and \$550 for replantings.⁴¹⁹ Over the same period, the share of smallholdings in total Sabahan rubber acreage increased from 61% to 68% (Figure 11). Even though it is unclear to what extent this benefited other indigenous Malaysian entrepreneurs (including Bajaus, Kadazans and Muruts), the fact that they owned 62.9% of agricultural holdings and 34.6% of acreage in 1961 does suggest that they also had a considerable stake in the rubber industry (Table 11).

⁴¹⁸ Department of Statistics, *Sabah, 1968*,

⁴¹⁹ EPU, *First Malaysia Plan*, 100.

The production of wet paddy was stimulated in a variety of ways. To begin with, the authorities continued to buy paddy from cultivators against a guaranteed price,⁴²⁰ in Sarawak government bought 14,042 tons in the period 1957-1962⁴²¹ for a price of 13.50 Malaysian dollars per picul.⁴²² In 1959 this was supplemented by the Assistance to Padi Planters Scheme in the former white sultanate⁴²³ and the Assistance to Wet-Padi Planters Scheme in Sabah. The latter entailed the extension of irrigation works by the Public Works Department,⁴²⁴ while the former involved the provision of technical advice, materials and small cash subsidies to farmers. In this way they could develop wet paddy areas in a cooperative fashion.⁴²⁵ In addition, the use of buffaloes to work the land was promoted by giving farmers training on the use of these animals and subsidizing their purchase.⁴²⁶ In Sabah fertilizers were similarly subsidized.⁴²⁷ According to Solhee, paddy schemes in Sarawak initially mainly benefited the non-Muslim indigenous people living in the interior. It was only after Ningkan was forced to leave office in 1966 that more attention was paid to the lowland areas where Malays and Melanaus lived. This can be explained by the fact that his successor, Tawi Sli, brought policies closer in line with those demanded by the federal government. Around this time the government also assumed a larger role in the extension of irrigation projects with the establishment of a Drainage and Irrigation Department.⁴²⁸

Overall, the various paddy schemes proved a mixed success, just like the settlement schemes. In Sabah the area under wet paddy grew from 62,700 acres in 1963 to 74,555 acres five years later, while production increased from 57,600 tons to 80,427 tons over the same period.⁴²⁹ In Sarawak the results were less impressive: the area under wet paddy showed a small growth from 99,821 acres in 1960-1961 to 108,631 acres in 1966-1967, but production fell from 22,658,344 gantangs to 22,576,223 gantangs⁴³⁰. Planted area and production both fluctuated from year to year; in 1964-1965 26,015,394 gantangs were harvested from 118,477 acres.⁴³¹ Correspondingly both the value and the size of Bornean rice imports failed to show a

⁴²⁰ Kaur, *Economic change in East Malaysia*, 133.

⁴²¹ CO, *Sarawak: 1962*, 76.

⁴²² CO, *Sarawak: 1960*, 55; CO, *Sarawak: 1961*, 52.

⁴²³ CO, *Sarawak: 1960*, 55.

⁴²⁴ Kaur, *Economic change in East Malaysia*, 133.

⁴²⁵ CO, *Sarawak: 1960*, 55; Kaur, *Economic change in East Malaysia*, 133; Solhee, *Rice self-sufficiency policy*, 89.

⁴²⁶ CO, *Sarawak: 1962*, 97; FDoI, *Malaysia: 1965*, 405.

⁴²⁷ FDoI, *Malaysia: 1967*, 34.

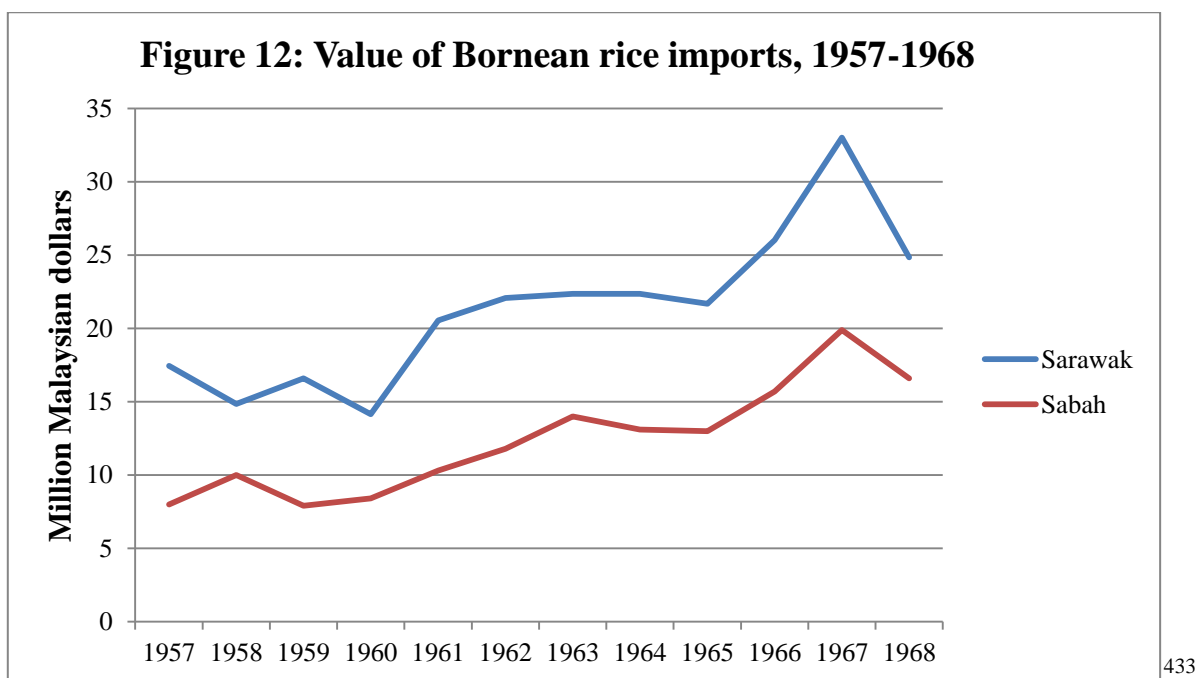
⁴²⁸ Solhee, *Rice self-sufficiency policy*, 90-91.

⁴²⁹ Department of Statistics, *Sabah, 1968*, 64 and 68.

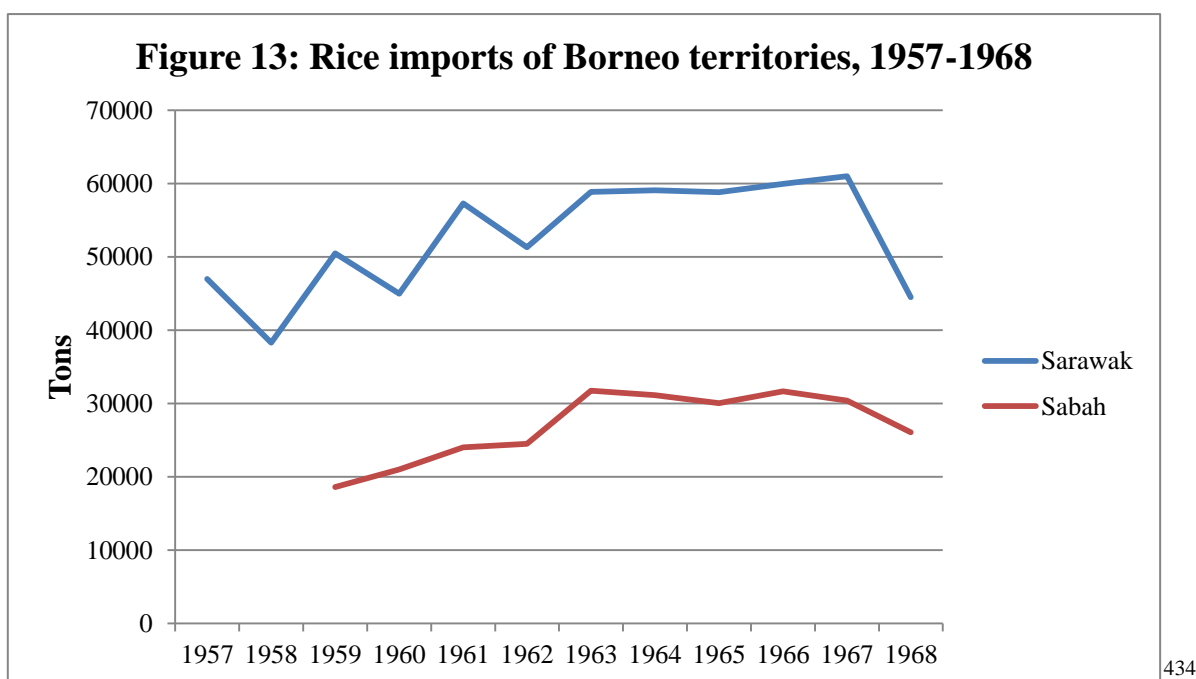
⁴³⁰ 1 gantang is approximately 2.4 kilograms.

⁴³¹ Department of Statistics, *Sarawak, 1968*, 25.

declining trajectory (Figures 12 and 13). In most cases, paddy remained a subsistence crop with only 36% of the rice-growers in Sarawak producing enough to feed their own family.⁴³²



Source: See note 433.



Source: See note 434.

⁴³² FDoI, *Malaysia: 1965*, 365-366.

⁴³³ Based on Sarawak: CO, *Sarawak: 1962*, 76; Department of Statistics, *Sarawak, 1968*, 73; Sabah: Department of Statistics, *Sabah, 1968*, 117.

⁴³⁴ Based on Sarawak: CO, *Sarawak: 1962*, 76; Department of Statistics, *Sarawak, 1968*, 81; Sabah: Government Printing Department, Sabah, *State of Sabah: annual report, 1963* (Kota Kinabalu 1963) 42; Department of Statistics, *Sabah, 1968*, 119.

Even though non-Muslim indigenous interests played a dominant role in state politics until the second half of the 1960s, this did not prevent the government of Sarawak from pursuing policies supporting Muslim Melanaus. In October 1957 the export duty on sago flour was abolished in order to ensure higher prices for producers.⁴³⁵ To give a further impulse to the industry the manufacture of fully refined sago flour was declared a pioneer industry in 1961. This enabled entrepreneurs 'in each of any five years during a period of eight years commencing on production day to set off against income from the manufacture of the relevant product a sum equivalent to one-fifth of the permitted capital expenditure.'⁴³⁶ These measures, however, were practically to no avail. Exports of sago flour increased from 19,683 tons in 1960 to 57,515 tons four years later and 35,973 tons in 1968, but with prices on the decline⁴³⁷ this was a sign of growers lacking alternative opportunities rather than industrial vitality.⁴³⁸ Increasingly, women became responsible for the working of sago, while men sought wage employment in the timber industry.⁴³⁹ The decline of the sago industry is manifested by a decrease in planted area from 150,000 acres in 1953⁴⁴⁰ to 90,000 acres in 1965.⁴⁴¹

Efforts to promote indigenous Malaysian entrepreneurship were not limited to agriculture. In Sarawak the Agricultural Department continued to provide support to those planning to operate freshwater fish farms or already operating one.⁴⁴² In addition, the SDFC provided loans to entrepreneurs engaged in agriculture as well as fisheries, the timber industry, agricultural processing and manufacturing as long as these utilized a considerable amount of locally sourced raw materials.⁴⁴³ Nevertheless, there is no evidence of any indigenous entrepreneurial activity in manufacturing, while their role in the timber industry was negligible.⁴⁴⁴ In Sabah, by contrast, they were able to extend their interest to logging; in 1963 there were four indigenous licensees. Three of these concerned companies under indigenous ownership, while the fourth was a cooperative 'open to all Natives.'⁴⁴⁵

⁴³⁵ Colonial Office, *Sarawak: annual report, 1958* (Kuching 1959) 45.

⁴³⁶ CO, *Sarawak: 1962*, 128 and 136.

⁴³⁷ Department of Statistics, *Sarawak, 1968*, 82.

⁴³⁸ CO, *Sarawak: 1960*, 57-58.

⁴³⁹ CO, *Sarawak: 1961*, 55.

⁴⁴⁰ CO, *Economic survey*, 140-141.

⁴⁴¹ FDoI, *Malaysia: 1965*, 368.

⁴⁴² CO, *Sarawak: 1960*, 66-67; CO, *Sarawak: 1962*, 99-101.

⁴⁴³ CO, *Sarawak: 1961*, 78.

⁴⁴⁴ Porritt, *Colonial rule in Sarawak*, 226.

⁴⁴⁵ Sabah, *Sabah: 1963*, 68.

Chinese Malaysians

More than ever before, Chinese Malaysian entrepreneurs in the post-independence period were confronted with a government seeking to promote Malay Malaysian business interests. In the past, efforts had been limited to sectors in which Malays already played a dominant role, but now they touched upon such Chinese bulwarks as transport and construction. That being said, the strong political representation of the Chinese business community, or more specifically the close ties of some of its members to Prime Minister Tunku Abdul Rahman, prevented affirmative action in commerce and manufacturing. It is telling that the UMNO Minister for Agriculture and Co-operative, Abdul Aziz Rashak, was forced to leave his office in 1963, because his 'advocacy of co-operatives in the *kampung* cut across the interests of Chinese rice and rubber traders.'⁴⁴⁶ These same political connections enabled a number of entrepreneurs, including H. S. Lee, to obtain a banking license from the government, while Lim Goh Tong was permitted to open a casino.⁴⁴⁷

Another Chinese Malaysian entrepreneur, Robert Kuok, secured pioneer status for his manufacturing ventures in sugar and flour production,⁴⁴⁸ thus exempting him from paying income tax for a period of two to five years.⁴⁴⁹ Kuok's experience was, however, more the exception than the rule with most pioneer certificates being awarded to foreign-owned companies. According to White 'the federal government tended to favour foreign firms in preference to local Chinese capitalists for fear of the latter further dominating the Malaysian economy at the expense of the *bumiputera*.'⁴⁵⁰ Golay *et al.* similarly write that Malay leaders had an interest in 'maintaining a large Western stake in the economy', but convincingly add that this manifested itself 'in the strict impartiality observed in policies affecting foreign investment vis-à-vis investment by nationals.'⁴⁵¹ Since foreign investors had more capital at their disposal they stood a better chance of meeting the technological requirements for pioneer status. For the most part, Chinese involvement in Malayan manufacturing remained limited to small-scale food, wood and plastic processing.⁴⁵²

On Borneo Chinese Malaysians were able to play a comparatively larger role in the manufacturing sector because the small size of the Bornean market, high labour costs and

⁴⁴⁶ White, 'Beginnings of crony capitalism', 394 and 401.

⁴⁴⁷ Gomez, *Chinese business*, 33.

⁴⁴⁸ *Ibidem*, 34.

⁴⁴⁹ Malaya, *Federation of Malaya: 1961*, 288.

⁴⁵⁰ White, *British business*, 167.

⁴⁵¹ F. H. Golay *et al.*, *Underdevelopment and economic nationalism in Southeast Asia* (Ithaca and London 1969) 346.

⁴⁵² Gomez, *Chinese business*, 34.

weak infrastructure made this an unattractive destination for foreign investments.⁴⁵³ A 1960 annual report for Sarawak tells us that the majority of industrial investments were of local origin. Although the report does not specify on the ethnicity of investors one may safely assume that they mainly concerned Chinese Malaysians, since investments were financed with profits from the rubber, pepper and timber industry; Chinese entrepreneurs played a dominant role in the latter two.⁴⁵⁴ According to Porritt the majority of the seven factories which had been granted pioneer status in Sarawak by the end of 1962 were Chinese-owned.⁴⁵⁵ They were said to own 94% of the 5,718 commercial facilities in the state six years later. This figure includes enterprises in both the secondary and tertiary sector of the economy.⁴⁵⁶

Pioneer status was not the only policy measure that benefitted Chinese entrepreneurs in the manufacturing sector of Sarawak. In addition, government participated in the development of factory sites either directly or through the SDFC. In the tertiary sector, the services of SDFC came to support exporters of pepper, who received loans worth 1,281,496 Malaysian dollars in 1960⁴⁵⁷ and \$672,600 in 1961. These concerned advances made 'in connection with bulk storage of pepper prior to export.'⁴⁵⁸ Since a considerable portion of world pepper production originated in Sarawak, a third in 1957,⁴⁵⁹ manipulating supply through the maintenance of a stockpile could lead to a considerable increase of the world market price and thus a higher reward for those involved in the pepper industry. In practice, however, exports of white pepper rose from 3,393 tons in 1960 to 10,826 tons eight years later. This triggered an increase in export earnings from little over fifteen million Malaysian dollars to \$19.1 million, but a fall in the average price per ton from \$4,474 to \$1,763. Black pepper exports increased from 705 tons to 11,978 tons over the same period, leading the value of exports to rise from \$2 million to \$15.6 million, but the average price per ton to be reduced by 50%.⁴⁶⁰

The authorities in Sarawak remained rather lenient towards Chinese Malaysians in terms of land policies. In 1960 4,655 acres of land that was formerly held by indigenes under native customary rights was made available to Chinese smallholders. The same applied to 525

⁴⁵³ Cleary and Eaton, *Change and development*, 164.

⁴⁵⁴ CO, *Sarawak: 1960*, 88.

⁴⁵⁵ Porritt, *Colonial rule in Sarawak*, 241.

⁴⁵⁶ M. Leigh, 'The spread of Foochow commercial power before the New Economic Policy' in: Cramb and Reece eds., *Development in Sarawak*, 179-190, there 183 and 187.

⁴⁵⁷ CO, *Sarawak: 1960*, 52 and 90.

⁴⁵⁸ CO, *Sarawak: 1961*, 48.

⁴⁵⁹ CO, *Sarawak: 1958*, 44.

⁴⁶⁰ Department of Statistics, *Sarawak, 1968*, 83-84.

acres of land in a forest reserve.⁴⁶¹ Two years later the area constituting mixed zone land was expanded by another 50,000 acres. In the same year the Mining (Amendment) Ordinance was adopted which enabled miners to obtain mining rights for minerals below the ground without also being required to possess rights over the surface. Moreover, it was now possible to acquire an exclusive prospecting license without first investigating whether indigenes possessed any customary rights over an area.⁴⁶²

As was mentioned above, the buffer stock which was established in 1956 as part of the International Tin Agreement came to support Chinese tin miners who operated less efficiently than their European counterparts.⁴⁶³ They were similarly supported by Malayan land policies which tended to favour Chinese ownership of land on Malay reservations over foreign ownership, thus giving them access to a fresh supply of rich deposits. Consequently, as of 1966, the Chinese regained their leading position in Malayan tin production which they had lost in 1929. The fact that gravel pumping continued to be the method of choice for the overwhelming majority of Chinese mining concerns, then, did not hurt their interests.⁴⁶⁴

Up until the middle of the 1950s the timber industry in Sabah was largely controlled by four foreign long-term concessionaires, but this began to change during the period under review. In 1956 the colonial government was forced to further liberalize the industry after it had been sued by a number of wealthy Chinese businessmen. At the dawn of independence a large number of small Chinese firms who operated under annual licenses had managed to obtain a considerable share of the industry.⁴⁶⁵ In the period that followed the strong representation of the Chinese business community in Sabahan politics ensured that many of the annual licenses were converted into long-term special licenses. Moreover, under Mustapha's chief ministership entrepreneurs were allocated large strips of land in return for electoral support, thus enabling their companies to gain market share. In Sarawak, Chinese Malaysians had been dominating the timber industry from the outset, but their political connections similarly began to play an important role in ensuring their position after independence.⁴⁶⁶

⁴⁶¹ CO, *Sarawak: 1960*, 38-39.

⁴⁶² CO, *Sarawak: 1962*, 61 and 120.

⁴⁶³ White, *Business, government, and the end of empire*, 151 and 174.

⁴⁶⁴ White, *British business*, 154.

⁴⁶⁵ Kaur, *Economic change in East Malaysia*, 142-143.

⁴⁶⁶ White, 'Beginnings of crony capitalism', 404-405.

Indian Malaysians

The lack of affirmative action programs for Malays in commerce did not only benefit Chinese Malaysian entrepreneurs but also Indian Malaysians operating in this sector.⁴⁶⁷ Moreover, these predominantly urban-based groups were aided by the fact that urban projects constituted half of public expenditure under the First and Second Malaya Plans (1955-1965) and the First Malaysia Plan (1966-1970), while urban services ranked first among private investments.⁴⁶⁸ That being said, Indian Malaysian entrepreneurs were less successful in turning the post-independence environment to their advantage than their Chinese counterparts. Harper argues that ‘the corporate stake of the Indian community had remained static between independence and the conclusion of the NEP.’⁴⁶⁹ Chettiar moneylenders, in particular, saw their market share gradually being eroded due to government assistance to rural Malay Malaysians. Consequently a large number of them returned to India, while others entered the urban construction sector.⁴⁷⁰ In 1968 approximately half of Indian Malaysians living on the peninsula was engaged in plantation work,⁴⁷¹ down from three-fifths in 1957;⁴⁷² 37.8% was employed in commerce, manufacturing, mining and services.⁴⁷³ No information is given regarding the distribution between these sectors, but in 1957 the services sector was the most important source of employment, followed by commerce, manufacturing and mining.⁴⁷⁴

In an effort to support Indian Malaysian plantation labourers the MIC established the National Land Finance Cooperative Society (NLFCS) on 14 May 1960 which was to acquire fragmented estates using the combined resources of workers; these could buy a share in the cooperative for 100 Malayan dollars. The NLFCS proved popular from the start with an initial membership of 15,000 and an accumulated capital of \$1.7 million. Three years later it had 29,000 members and capital worth \$7.6 million thus making it the largest cooperative in Malaysia. This enabled the NLFCS to buy its first estate within a month after its establishment and regularly pay annual dividends around ten percent throughout the 1960s.⁴⁷⁵ It was, however, in no position to compete with a state-owned enterprise such as PERNAS which had a paid-up capital of \$116 million at its disposal in 1969.⁴⁷⁶

⁴⁶⁷ White, ‘Beginnings of crony capitalism’, 401.

⁴⁶⁸ Tajuddin, *Malaysia in the world economy*, 148.

⁴⁶⁹ Harper, *Making of Malaya*, 370.

⁴⁷⁰ Evers, ‘Chettiar moneylenders’, 215.

⁴⁷¹ Tajuddin, *Malaysia in the world economy*, 148.

⁴⁷² Golay et al., *Economic nationalism in Southeast Asia*, 350.

⁴⁷³ Tajuddin, *Malaysia in the world economy*, 148.

⁴⁷⁴ Golay et al., *Economic nationalism in Southeast Asia*, 351.

⁴⁷⁵ E. T. Gomez, *Political business: corporate involvement of Malaysian political parties* (Townsville, Queensland 1994) 248-249.

⁴⁷⁶ Gomez and Jomo, *Malaysia's political economy*, 32.

Conclusion

My analysis of the competitive position of Malay Malaysian, other indigenous Malaysian, Chinese Malaysian and Indian Malaysian entrepreneurs during the fifty-year period preceding the New Economic Policy provides an answer to my original research question, i.e. to what extent did changes in the conditions for the development of entrepreneurship of varying ethnic origin during the period 1920-1970 anticipate the New Economic Policy? I argue that, although the favourable conditions facing Malay Malaysian entrepreneurs under the NEP were historically unprecedented, positive discrimination of Malays in government policies has deep historical roots. Initially such policies were fairly narrow in scope, gradually broadening as time went by. By the second half of the 1960s the policy climate already portrayed many of the features that would come to characterize the NEP.

Between 1920 and the Allied surrender to Japanese forces in 1942, positive discrimination mainly entailed preferential access to land through customary tenure and Malay reservations on the peninsula, indigenous areas in Sarawak and indigenous customary rights in BNB. There were, however, conditions associated with the use of this land: to varying degrees, peasants were required to plant their holding with paddy instead of cash crops. The distribution of high-yielding paddy seeds and extension of irrigation works were similarly intended to increase domestic rice production. Following the Pacific War, colonial authorities also began to promote the cultivation of rubber among Malay Malaysians. For this purpose, factories were established for the processing of smallholder rubber and the planting of high-yielding rubber varieties was subsidized. In addition, RIDA supplied loans to rural Malays and boats to fishermen.

It was only after the end of British colonial rule that the Alliance government embarked on affirmative action beyond the confines of agriculture and fishing. Quotas were set to encourage Malay participation in the timber and transport industries, Malay construction companies were preferred in government projects, and such public enterprises as SPK and MARA began acquiring equity on behalf of this group. These enterprises would subsequently come to play an important role under the NEP. Entrepreneurs engaged in manufacturing could gain support from MARA for subsidized raw materials and business premises, technical advice and loans; a separate loan fund was established for Malay Malaysian tin mining companies. Meanwhile, government efforts in agriculture were intensified with paddy growers benefitting from subsidized fertilisers, a guaranteed price for

paddy and marketing schemes. This period also saw the development of settlement schemes to reduce rural landlessness.

Since colonial law did not differentiate between Malays and other indigenes, the non-Malay indigenous Malaysians living on Borneo were similarly confronted with a favourable policy climate. In fact, native areas in Sarawak and native customary rights in BNB mainly benefited this group, given their numerical dominance. That being said, lower expenditure on rural development caused policies in their support to be considerably more limited than those accruing to peninsular Malays. This changed when the Borneo territories came under direct control of the British Colonial Office after the Japanese occupation. In Sarawak in particular, the colonial authorities began to promote rural development. In 1946 a guaranteed price for paddy was introduced, more than ten years before its introduction in Malaya. In addition, the planting of high-yielding rubber was subsidized and the Agricultural Department supplied pepper shoots and sweet water fish to interested entrepreneurs. In BNB, by contrast, a Padi Purchasing Scheme was the only policy measure of note. During the 1960s this was supplemented by settlement schemes and schemes subsidizing high-yielding rubber and paddy, fertilizers and buffaloes. Moreover, indigenes in Sabah were allocated a number of logging licenses.

Despite the Alliance government claiming to promote *bumiputra*, rather than Malay, business interests MARA, PERNAS and SPK were not active on Borneo. As a consequence, affirmative action in the secondary and tertiary sectors of the economy was absent. The SFDC did participate in the development of factory sites and supplied loans, but had no preference regarding the ethnicity of those gaining support. As Chinese Malaysians had a controlling stake in the manufacturing sector of Sarawak, it is most probable that they were the main beneficiaries of this scheme. Only other indigenous Malaysian entrepreneurs in Sarawak, then, could on one point in time (1945-1957) count upon government support that was roughly similar to the support received by Malay entrepreneurs in Malaya. Support in the post-independence period was not only more limited, the curtailing of swidden agriculture clearly worked against the interests of those indigenes deploying this cultivation method; this mainly concerned non-Muslim Dayaks. The resettlement of indigenes did not prove a viable alternative.

This similarly applied to Chinese Malaysian squatters who were forced to resettle to New Villages during the Malayan Emergency. Their resettlement led the domestic production of vegetables and pork to be drastically reduced. Although Chinese Malaysians lacked a special position in Malaysian land laws, Bornean authorities proved rather lenient towards this

group on various occasions. In order to satisfy the demand for foreign labour the BNCC tried to attract Chinese immigrants by granting them a piece of agricultural land and making cash advances. In Sarawak land was increasingly made available to Chinese Malaysians from the 1950s onwards. The main Chinese beneficiaries of government policy in Sarawak were those engaged in the pepper industry. Prior to the Pacific War the planting of pepper was subsidized, in the period thereafter pepper shoots were distributed and between 1957 and 1970 exporters received large loans. In Malaya Chinese tin miners could benefit from the establishment of a buffer stock during the early 1920s and again from 1956 onwards. After independence, the strong political connections of Chinese Malaysian businessmen ensured them access to fresh tin deposits and large timber concessions. Crony capitalism, then, finds its origin in the early independence period.

From the outset policies for the promotion of Indian Malaysian entrepreneurship were largely non-existent. There were cooperatives catering for Indian plantation labourers, but it is doubtful whether these enabled members to make inroads in the commercial sector. After independence the MIC took matters into its own hands when it established the NLFCS. This cooperative proved successful, but lacked the financial capabilities of state-owned enterprises established to promote Malay business interests. It should be noted that aforementioned paddy, pepper and rubber schemes, in principle applied to all entrepreneurs not withstanding ethnic origin. In practice, however, these schemes came to support Indians less than other ethnic groups either because they played a minor role in a given industry, as in the case of the rubber industry, or no role at all.

Despite the absence of supporting policies, Indian Malaysians had a significant stake of the financial sector up until independence. They similarly ranked above Malay and non-Malay indigenes in commerce and dairying. As for the Chinese, these remained the dominant ethnic group in forestry, mining and the secondary and tertiary sectors of the economy throughout the period under review. After independence, government policies caused Malay entrepreneurs to gain market share from their Chinese counterparts in construction and transport, but Chinese Malaysians did prove better capable to benefit from new opportunities in forestry and manufacturing. In the case of Chettiar moneylenders it was not so much direct competition from Malays that led their competitive position to deteriorate, but rather the fact that Malays could now obtain credit from government.

In general, expenditure on rural development did not improve the competitive position of Malay Malaysian entrepreneurs vis-à-vis entrepreneurs from other ethnic groups. Anno 1920 Malays already controlled a significant portion of paddy production and rubber

smallholdings; rubber and paddy schemes only came to consolidate this. Moreover, paddy schemes were largely unsuccessful in raising planters' income. There were two exceptions to this rule. First, under the First Malaysia Plan new plantings and replantings on estates were no longer subsidized, thus enabling the smallholding sector to gain a larger market share than the estate sector. Second, FELDA schemes allowed Malay Malaysian smallholders to enter the palm oil industry.

Different from the NEP era, affirmative action did not lead to a significant strengthening of Malay entrepreneurs' competitive position in estate agriculture, manufacturing, mining and services; by 1970 still less than two percent of equity capital in Malaya was under Malay Malaysian ownership. In these industries, the importance of the initial competitive position of an ethnic group and business connections was clearly still dominant over government policies.

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