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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

THE ECONOMIC POSITION
AND PROSPECTS
OF
MALAYSIA

January 5, 1965

Department of Operations
Far East

CURRENCY EQUIVALENTS

Currency Unit	-	Malayan dollar
1 Malayan dollar	=	U. S. \$0. 327
1 U. S. \$	=	M\$3. 06
M\$1 million	=	U. S. \$327, 000

Terminology: Malaysia comprises the former Federation of Malaya, plus Singapore, Sarawak and Sabah (formerly North Borneo). The latter three States are referred to as the "new States". The former Federation is now generally known as the "States of Malaya". Where there are discussions of the economic performance of "Malaysia" prior to September 1963, the references are to the aggregate performance of the components of Malaysia.

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BASIC DATA

<u>Area:</u>	Total	128,558 square miles
	Cultivated	13,924 square miles
<u>Population:</u>	Total	10,769,000
	Economically active	3,414,000
<u>Population Growth:</u>		2.8% p.a.
<u>Gross National Product:</u>		
in 1963 at current market prices	M\$9,664 million	(US\$3,158 million)
per capita	M\$905	(US\$300)
<u>Gross Fixed Investment:</u>	M\$1,827 million	(= 19% of GNP)
<u>Foreign Trade (1963 M\$ million):</u>		
Domestic exports f.o.b.		
Rubber	1,392	
Tin	480	
Timber	254	
Other	562	
Entrepot trade (net)	245	
Total Exports	<u>2,933</u>	
Imports c.i.f.	<u>3,662</u>	
Balance	- 729	
<u>Gold and Foreign Exchange</u>	)	M\$4,050 million (US\$1,324 million) gross, or
<u>Reserves of Official and Banking</u>	)	M\$3,280 million (US\$1,072) net of
<u>Institutions: (June 30, 1964)</u>	)	commercial banks foreign liabilities and
		sinking funds.
<u>Public Finance: (1964 M\$ million - preliminary)</u>		
Governments' revenue and Public Authorities current surplus	1,926	
Governments' Current Expenditure	<u>1,831</u>	
Total Current Resources	95	
Capital Expenditure by Governments and Public Authorities	980	
Overall Deficit	- 885	
<u>External Public Debt: (June 30, 1964)</u>	US\$309 million	
(including undisbursed)		
<u>External Debt Service on existing Debt - average 1968-1970:</u>	US\$25 million	(= 2.4% of projected export earnings.)

Summary and Conclusions

1. The merger of Singapore, Sarawak and Sabah into the former Federation of Malaya took place in September 1963, creating the unique multi-racial nation of Malaysia, in which the Malays predominate in the political and administrative fields, but the Chinese, who form the largest single community, dominate commercial and industrial life. Although the process of political, economic and financial merger has not been smooth, good progress has already been made on all fronts.
2. The Malaysia economy remains critically dependent on export performance - the ratio of exports to GNP has been about a third for several years, but is expected to decline slightly in the future. The relative importance of rubber in exports earnings and in total agricultural output will remain high - at around 50% and 60%, respectively. Nevertheless, as economic integration becomes a reality and as other sectors advance, the vulnerability of the economy to fluctuations in rubber prices will decline. The outlook may well be one of stagnation until the late 1960's or early 1970's because of probable adverse movements in the terms of trade. However, once rubber prices begin to level off, after the decline that appears in prospect during the next few years, the upward trend of rubber production should again contribute to a rising export level. By that time other crops, such as oil palm, sugar, cocoa and forest products, should also have made a significant advance. GNP should continue to grow slowly because of growth in the non-export sectors, and on a per capita basis may remain for a time at around the present level of about M\$900 (US\$300). Prospects in the longer run are for a resumption of satisfactory growth in per capita income.
3. One of the most significant changes of the past four years has been the growth in government expenditures; in all the components of Malaysia capital expenditures have increased two or three-fold since 1959-60, and this has been the main factor behind the increase in the investment rate to almost 20% of GNP. Particularly large increases were achieved in expenditures on education, roads and bridges, housing and agricultural development in the course of executing development plans which, on the whole, have been well conceived and promise to be effective in the long run. In the past year, however, defense and security expenditures have risen sharply in the wake of merger and the Indonesian "confrontation," and this has aggravated the public sector's financial position.
4. Public savings have dropped to a low level, and are likely to remain low for several years if the present trends in current expenditures are maintained, despite further efforts to raise taxes. Internal and external borrowing is unlikely to meet the public sector's needs during the rest of the decade, and some use will probably have to be made of the official exchange reserves.
5. For the country as a whole, the sharp increase in investment has not been matched by savings, and the balance on current foreign transactions has become negative following a large increase in imports over the past three

years. This external deficit was more than matched by private and public capital inflow until 1964 when reserves began to fall slightly from their high level of over M\$4,000 million. For most of the remainder of the decade there is likely to be a large trade and payments gap which, after allowing for a substantial increase in Malaysia's public borrowing from abroad and an expansion of private foreign investment, will probably require a considerable drawdown of reserves. During the early 1970's, the position should, however, improve as exports and GNP resume the rate of growth that was experienced in the early 1960's. This should make it possible to mobilize additional domestic resources and to reduce, or even eliminate, the running down of external reserves. Even allowing for a tripling in the rate of foreign public borrowing during the 1960's, debt service is unlikely to exceed 6% of 1975 export earnings, and a substantial margin of creditworthiness should then remain.

I. POLITICAL DEVELOPMENTS

1. Malaysia was formed in September 1963 by the merger of the dependent territories of Singapore, Sarawak and Sabah (formerly North Borneo) into the existing Federation of Malaya, which had been independent of Britain for six years. The merger was the last step in a process of consolidation which began in the nineteenth century with the formation by Britain of the Federated Malay States and the Straits Settlements at a time of rapid economic exploitation. The large-scale Indian and Chinese migration, which accompanied the development of rubber, tin and the trading centers, continued until the Second World War, creating a unique multiracial society which is at the root of Malaysia's present political and economic strengths and problems.
2. The merger of Singapore into the Malayan Federation was attempted in 1946, and again in 1957 at the time of Malayan independence, but on both occasions it was not found possible to incorporate predominantly Chinese Singapore into a nation with a tradition of Malay political and economic privileges. Then, as now, the willingness of Malays to give economic advantages and greater political participation to the Chinese depended on Chinese' willingness to assist Malays achieve economic equality. After 1957 Singapore continued to press for merger, and discussions were held from 1959 on the possibility of creating a common market, but it was not until mid-1961 that the turning point was reached and Malayan willingness to contemplate merger was announced - a change of approach which was strongly influenced by the growing strength of the left wing in Singapore and by the possibility of incorporating the counter-balancing non-Chinese populations of Sarawak and Sabah.
3. The political agreement which is the basis of the new federation reflects this background. Singapore's per capita representation in the Federal Parliament is only about 60% of that of the existing eleven States of Malaya, while the Borneo States receive more than twice the Malayan representation. Singapore citizenship also remains distinct from Malaysian citizenship. On the other hand the State of Singapore retains a large measure of autonomy, particularly in education, health, social welfare, labour and finance, and did not inherit the Federation system of Malay privileges. Guaranteed access for Singapore to a Malaysian common market was also an essential part of the political agreement. The Borneo States' constitutional position guarantees certain privileges for the indigenous peoples and also gives them, particularly Sabah, considerably more autonomy than their Malayan counterparts. They retain, for example, control over immigration, both from other parts of Malaysia and from other countries. Over the next decade, however, many of the distinctive features of the Borneo States' constitutional arrangements may be expected to lapse, leaving these states, particularly Sarawak, in a position similar to that of the States of Malaya.
4. In brief, Malaysia can be regarded as a successful merger based upon an intricate set of regional and communal interests. The accommodation of these interests has resulted in a patchwork of special concessions and corresponding restrictions, the need for which is widely acknowledged, although not accepted without some resentment. The new federation, however, receives much of its strength from the large number of Chinese and Indians who, although not indigenous, regard Malaysia as their home. The constitutional arrangements, although giving the new states disproportionate representations which are inversely related to their real political and economic power, appear to be

preserving the stability which marked the former Federation of Malaya. They nevertheless have created a situation which might tend to encourage the development of political parties along communal lines.

5. The formation of Malaysia has been followed by the expected Indonesian "confrontation" which resulted in the curtailing of Indonesian trade together with sporadic guerilla activity, mainly in Sarawak, and occasional small and ineffective troop landings on the mainland. These have not been of very great military importance, (although some local support was given to the guerillas by subversive organizations in Sarawak) but economic losses have occurred and the Government, in addition to receiving defence support from Britain and other Commonwealth countries, has had to expand its armed forces. The financial consequences of this rapid expansion are discussed below.

6. Internally, the effect of confrontation has been to consolidate support for the Malaysian merger, and at elections held since Malaysia was formed, both major ruling parties (The Alliance Party in Malaya; Peoples' Action Party in Singapore) were returned with substantially increased majorities. The PAP, in addition to forming the State Government of Singapore, also forms the core of the "loyal opposition" in the Federal Parliament. Conflicts and misunderstandings between the Singapore and Central Governments, which had emerged in the prolonged bargaining prior to merger, continue to exist and to hinder the progress of political and economic integration. The conflicts also probably contributed to the atmosphere of communal tension which led to racial riots in Singapore in July and August - the first for seven years. The result has been a period of conciliation, and various facilities for Malay advancement have been introduced into Singapore for the first time. Despite these troubles, however, progress in political and economic integration is being made, and throughout Malaysia the Central and State governments' main emphasis continues to be on the promotion of further economic growth.

II. SOME STRUCTURAL PROBLEMS OF THE NEW FEDERATION

7. Merger has created a nation which in the short run has inherited the vulnerability of its components to fluctuations in exports of primary products; in the long run, however, this vulnerability will be significantly reduced in two ways. In the first place stimulus will be given to production for local consumption following the creation of a common market. Secondly, because production and exports are more diversified, and because of the possibility of income transfers and labour mobility, the severity of the impact of any decline in export earnings in one sector is diminished. However, the impact could still be severe.

8. Domestic exports of rubber and tin alone accounted for about 61% of Malaysia's export earnings^{1/} in 1963, and rubber itself for 45%. Of the remaining exports, entrepot services are next in importance - accounting for a steady 11-12% of external earnings - followed by forestry products and iron ore. Indonesian confrontation starting in September 1963, has mainly affected the entrepot trade rather than Malaysia's domestic exports.

^{1/} Domestic exports plus value added by Malaysian external entrepot trade.

9. Total Malaysian export earnings have remained at a high level, still exceeding 30% of GNP, representing a very high dependence on external markets. In contrast to the steady average exports, retained imports have been rising sharply - increasing by 49% - twice as much as total imports, since 1959. Most of this increase is accounted for by machinery, transport equipment and other manufactured goods, which corresponds to the increase in expenditure on capital formation over that period. More recently, food imports have also been rising, and the overall result has been that expenditure on retained imports, as a percentage of Gross National Expenditure, has risen from 33% to 36% over the 1959-1963 period. The continued growth of the Malaysian economy is thus critically dependent not only on exports but also on imports. Curtailing imports for balance-of-payments reasons could have an adverse effect on the economy.

10. The structural problems faced by Malaysia are however not confined to over-dependence on a few uncertain export products, and on imports. The unemployment and under-employment problems remain severe - particularly in large towns and in the younger age groups - at a time when the population is probably growing at around 2.8%^{1/}p.a. The sensitivity of the economy to unemployment is also growing, in that the size of the working force has dropped from 40% of the total population to 33% since 1947. In the States of Malaya as a whole in 1962 6% of the working force was unemployed, but in large towns about 25% of males aged 15-19 and 11% aged 20-24 were unemployed,^{2/} with even higher percentages for females. Large numbers of unemployed of all age groups had been idle for more than a year, indicating that the problem is structural rather than seasonal. Employment opportunities for the unskilled in urban areas thus appear to have failed to keep up with the increase in the size of the labour force - a problem which has been aggravated by the population movement to the towns since the war - mainly on the part of non-Malays. The problem will be made more serious by the probable acceleration in the size of the labour force as the post-war population boom is felt. The amount of unemployment in Singapore is not accurately known, but total unemployment has long been high, and is probably around 15%, creating a serious political and economic problem. In the rural areas of Malaya, declared employment and under-employment is very low, although the scope for additional working hours clearly is great. Under-employment is probably severe in the more primitive areas of the Borneo States, despite the shortage of wage labour. Throughout Malaysia the structure of employment and unemployment also has important communal aspects. Overt unemployment is lowest in agriculture and other rural occupations in which Malays predominate, and highest in urban occupations and areas which are largely Chinese.

11. Despite these urban employment problems, the main emphasis of Malayan government policy for many years has been on raising the standard of living in the rural areas. Considerable government capital

1/ A recent sharp drop in the Singapore birth-rate implies a lower population growth rate than had been assumed in previous Bank reports.

2/ An unemployed or underemployed person is here defined as one actively seeking work - which is not always sought throughout the year in rural areas.

expenditures are being made in the rural sector, representing significant income transfers from the urban areas, and in the long run an increase in rural incomes should result over and above the increase in population. The tremendous disparity in incomes - average per capita incomes of Chinese in Malaya being between two and three times as great as that of Malays - and corresponding disparities in, for example, educational achievements seem likely to persist for a long time. Similarly, the disparities in the Borneo States between the indigenous and non-indigenous peoples, and between all Borneans and their Malayan counterparts, will require years of income transfer before equality of opportunity and income can be achieved.

12. In Singapore State Government policy has been aimed directly at increasing investment so as to reduce urban unemployment; only recently has increased attention been given to the promotion of Malay interests. The extent to which Singapore's unemployment problems and over-dependence on the entrepot trade, can be solved, depends largely on the extent of Singapore's integration into the Malayan economy. This is dealt with in the next section.

III. PROGRESS TOWARDS FINANCIAL AND ECONOMIC INTEGRATION

13. Ties between the components of Malaysia have long been strong. A common currency has circulated for decades, and close economic links between the various states have grown up in the wake of British and Chinese commercial activities. To a considerable extent, therefore, integration is already achieved, but important differences in tariff policy and other economic policies still remain as do certain tax differences.

A. Financial Integration

14. Levels of taxation on incomes and duties on tobacco, alcoholic beverages and petroleum products are already very similar in the States of Malaya and Singapore, and may be regarded as harmonised. Tax rates in the Borneo States will be harmonised with the Malayan rates over a period of years. Considerable progress has already been made, particularly by Sarawak, and large additional adjustments for all the New States were announced at the time of the 1965 Budget. Certain taxes which are Federal elsewhere in Malaysia are State taxes in the Borneo States, giving them (particularly Sabah) some additional autonomy compared with the eleven Malayan States. The large range of export duties and revenue and protective import duties which exists in the States of Malaya has almost no counterpart in the traditional free port of Singapore, however, and detailed procedures were evolved upon merger in order to ensure that harmonization does not interfere with Singapore's

external entrepot trade. Some steps towards harmonisation of tariffs will be taken during 1965; but Singapore retains the right to delay the implementation of any protective duty by a year and the implementation of revenue duties on goods entering into the entrepot trade up to 1975, although compensation must be paid to the Federal Government after 1968. Unlike the other Malaysian States, Singapore pays to the Federal Government only 40% of the Federal revenues collected in Singapore, so as to be able to meet the costs of services such as education, in which Singapore has autonomy but which elsewhere are a Federal responsibility. Singapore also meets the capital cost of Federal projects located in Singapore whose benefits are predominantly local.

15. These arrangements for the division of revenue between Singapore and the Federal Government are subject to biennial reviews for an indefinite period. The first of these reviews may take place during 1965. Each review will, in effect, produce a judgment on the relative financial needs of the Federal and Singapore State governments, in the light of their respective constitutional and political responsibilities, and relative income levels. No criteria for these reviews have been established, and they introduce an element of uncertainty into the fiscal system. This apart, however, progress towards harmonisation has so far been substantial and smooth, and it does not seem that the financial arrangements will in themselves be any barrier to internal harmony or to closer economic integration.

B. Economic Integration

16. Economic integration cannot be said to be progressing as swiftly as financial integration, and parochial attitudes have been widespread in the year since Malaysia was formed. The first step towards the creation of a common market has however been taken with the establishment, after many delays, of the Tariff Advisory Board, which started to hold public hearings in December 1964 on the first list of 101 commodities recommended for common tariff protection. This agency was, in effect, a pre-requisite to the entry of Singapore into Malaysia, since Singapore has long needed a larger guaranteed market for her industrial products in order to help solve her persistent unemployment problem. The Tariff Board promises to secure effectively many of the benefits of a larger protected market for producers throughout Malaysia, and should help prevent the application of controls on inter-regional Malaysian trade, as occurred earlier in 1964 in the case of flour and sugar^{1/}. Physical facilities, including a free zone and an expanded customs force, are already being planned in Singapore to enable the entrepot trade to continue despite the application of protective tariffs, so this does not appear to be a problem which will slow the rate of economic integration.

17. A common market in goods thus is on the point of emerging, and should come into effect in 1965 as the general protective duties announced in the 1965 budget, and others to be recommended by the Tariff Board shortly, are implemented. A complete common market in labour, however, does not yet exist,

^{1/} The degree of de facto autonomy which Singapore possesses is indicated by the unilateral ban which Singapore alone imposed on selected British imports, in retaliation for reduced textile quotas.

mainly because of the selectivity practiced by Sabah over internal migration, despite a serious labour shortage there. Sabah has, for example, shown a marked reluctance to recruit Indian labour, or to take any steps that might encourage the growth of trades unions.

18. The slow initial progress towards a common market is paralleled by developments in other spheres. In the field of the promotion and coordination of industrial development, for example, little progress has yet been made in establishing a common program of industrialization including the creation of the proposed Federal Industrial Development Authority^{1/}, which is designed to formulate and promote Malaysian policies on pioneer status and industrial location. As a result decision-making has continued to be on a regional rather than national basis - which could produce severe errors in the pattern of industrial development, particularly where large investments are involved, as in the iron and steel industry. An ad-hoc start towards a Malaysian, rather than Malayan, approach has however been made in one or two industries, such as automobile assembly.

19. Various Federal Government agencies and departments are gradually extending their activities onto a Malaysian basis, although operations in the new states are often inevitably curtailed by staff shortages - as appears to be the case with the Federal Land Development Authority. The Central Bank has extended its control over the commercial banks to the new states. Statistical services are however still working largely on a regional basis, and serious gaps exist both in regional data (especially in Sabah where data are almost non-existent) and in data on a Malaysian basis. These data shortages, the shortage of staff in Kuala Lumpur familiar with the economic problems of the new states, and the considerable degree of financial autonomy possessed by Singapore and to a lesser extent the Borneo States, have meant that planning for the new States is mainly carried out locally, and is largely confined to the public sector program. Similarly, the Federal Economic Planning Unit is also handicapped particularly in its macro-economic planning and in its work on policies towards the private sector. Full cooperation between Singapore and the Federal Government on the exchange and preparation of statistics has apparently not yet been achieved.

20. Nevertheless, financial, economic and administrative merger are already advancing as well as had been expected, and no unforeseen problems have emerged to slow the pace of integration. Because of the special autonomy given by the constitutional and geographic positions of the new States, direct responsibilities of the Federal Government in many subjects in the new States will in fact continue to be much less than in the Malayan States: progress towards the creation of common overall economic and financial policies seems however to be assured.

1/ A companion organization to the Tariff Advisory Board; both were recommendations of the Rueff Mission. ("A Report on the Economic Aspects of Malaysia", by an IBRD mission, July 1963.)

IV. PRODUCTION AND EXPORTS

A. Recent Overall Trends

21. Between 1958 and 1963 the volume of Malaysian production rose by about 5% a year, mainly as a result of the gradual increase in rubber output in the States of Malaya following heavy replanting during the 1950's. Tin, timber and manufacturing output also rose steadily. The volume of exports rose even faster over that period, rising by about 7% per annum. These rates of growth between 1958 and 1963 were matched by the overall growth of GNP in current prices, which rose by about 6% a year over the period, implying a per capita growth of about 3% p.a. However, almost all this income growth took place between 1958 and 1960, at a time when the terms of trade were moving sharply in Malaysia's favour due to a rise in rubber and tin prices; export earnings rose by nearly 50% between 1958 and 1960. Since the 1960 peak the rubber price has declined and the terms of trade have moved adversely; export earnings declined by about 11% by 1962. GNP increased by about 3.1% p.a. over the 1960-63 period, and average per capita incomes rose slightly as a result. In 1964 per capita GNP is likely to rise by about 3% because of the booming tin price and only a slight decline in the price of rubber. The economy has thus proven remarkably resilient to the recent drop in export earnings; GNP has risen despite the drop in export earnings after 1960, which also fell relatively from 34% of GNP in 1960 to 28% in 1963. The economy will probably also have to withstand a further period of stagnating export earnings over the next few years, as is discussed below.

22. On a regional basis a slight drop in real per capita GNP in Malaya between 1960 and 1962 was offset by a rise in Singapore, which has since lost ground due to confrontation at a time when Malayan GNP has been increasing. The relative growth of the various regions depends very much on their economic structure - that of Singapore, very much dependent on the service trades, manufacturing and construction, has been less affected by the trends in exports of primary products than Malaya. Sarawak in particular, whose per capita GNP is less than half Singapore's, has been seriously affected by an inefficient agricultural sector. Recent trends and the outlook in the major sectors are discussed in detail in the Annex.

B. Expected Trends in Total Output and Exports

23. On the basis of the discussion of the major sectors, it is likely that GDP, in constant prices, will rise at about 4% a year for about three years, subsequently rising to around 6% p.a. by 1970, a rate of growth which will probably continue until 1975. These overall volume trends are of course dominated by the rubber and minerals prospects, and most of the increase can be ascribed to the gradual attainment of maturity by rubber trees planted during the peak planting period of the early 1960's. The acceleration in the volume of output at the end of the decade is mainly in rubber although by that time other agricultural crops, such as palm oil, cocoa, etc., are expected to be reaching the markets in larger quantities. The minerals sector - mainly tin and iron - is unlikely to contribute any significant increase to the growth in the volume of output after 1966-1967. Export volume is likely to follow the

same pattern as GDP, but will probably rise somewhat more slowly at around 3% p.a. until about 1968, and thereafter at about 5% p.a. into the early 1970's.

24. Although a reasonable basis exists for forecasting the volume of output and exports much less certainty exists about the future price prospects, particularly of rubber. If it is assumed (as in the remainder of the report) that rubber prices decline steadily to M\$55 a pound by 1970, then, on the basis of the sectoral discussions in the Annex, it is likely that the value of domestic exports will decline slightly for two or three years before resuming an upward movement: it is unlikely that the 1964 level will be regained for four or five years, but by the end of the decade more rapid growth should take place if the price of rubber then stabilises and the volume of production continues to increase. The export of other crops such as oil palm, cocoa, etc. is also expected to be increasing more rapidly by that time, so by 1970 the value of domestic exports may be around M\$3,000 million, and in the order of M\$3,800 million by 1975 assuming that the price of rubber stabilises at around M\$55 a pound after 1970.

25. On the same basis, and assuming a continuing high and growing level of government expenditure, it is likely that GNP, in current prices, will continue to rise after 1964 by around 3% a year, despite stagnant export earnings, because of the expected buoyancy in manufacturing industry, construction, services, and other non-export sectors. Real per capita GNP is thus likely to be stable until 1967-68. Thereafter, the rate of increase in the volume of production is expected to rise slightly, and GNP will accordingly rise more rapidly and will maintain the higher rate of increase after 1970, assuming that the rubber price does not fall further. By 1970, if the expectations in the major sectors are fulfilled, real GNP should thus be growing at a rate approaching that achieved in the 1958-1963 period. If it is alternatively assumed, for illustration, that the price of rubber would be M\$65 by 1970, instead of M\$55, then the level of 1970 total export earnings would be around M\$3,250 million or 8% higher than if the price declined to M\$55 a pound; GNP likewise would be perhaps 3-4% higher in 1970.

26. On a regional basis, Singapore's GNP, which probably fell by about 4% during 1964 partly as a result of Indonesian "confrontation" is expected to resume an increase of 4-5% p.a. during the second half of the decade, assuming that investment and output in manufacturing industry increase as a result of the gradual extension of the common market, and that State Government urban development expenditures remain buoyant. The outlook for Sabah continues to be good, although the 5½% annual increase in output between 1958 and 1963 which resulted from the timber boom is unlikely to be as high in the foreseeable future. Only in Sarawak is the position depressing, and per capita GDP there is likely to fall until the end of the decade, although the situation may be alleviated by heavy military expenditures. In 1970, the regional disparities in income will probably be almost as great as they are today.

27. On the basis of these trends and assumptions a gradual structural change can be observed. The ratio of exports of GNP is likely to fall from about 29% of GNP in 1958-59 to around 22% in 1970 - a level which will probably be maintained in the early 1970's. The direct importance of domestic rubber

exports alone is also expected to fall from the 1958-59 average of 19% of GNP and 66% of exports to 11% and 49% respectively by 1970. To some extent, therefore, the present structural vulnerability of the economy will have been reduced, although rubber remains the Achilles heel.

V. DEVELOPMENT PLANNING

28. In all the components of Malaysia public sector expenditures are broadly following allocations set by the four regional development plans. Those of Malaya and Singapore date from 1960-61, while Sarawak and Sabah have recently prepared State plans; all have the common characteristic of emphasizing the role and targets of the public sector, although this includes substantial transfers from the public to the private sector; e.g., for rubber replanting in Malaya and for financing of private industrial investments in both Malaya and Singapore. A reconsideration of the scale and pattern of public investment and the policies towards private investment is currently taking place in connection with the preparation of the first Malaysian Plan (1966-70).

29. The allocations of investment have on the whole reflected the needs of the economy.^{1/} Heavy expenditures have been made in the rural areas of Malaya on land development, drainage and irrigation, crop subsidies, rural roads and bridges, health services and water supplies. Although in certain areas - for example some rural roads and irrigation schemes - economic returns may be low for some time, the investments in the rural areas promise on the whole to be an effective start towards improving smallholders future incomes. During the early 1960's insufficient attention was paid to policies which would help diversify the economy, and in the rural areas almost all the emphasis was on rubber. More recently, additional emphasis had been placed on investment in oil palm and many other crops, and on improving related extension services. The Federal Land Development Authority, which has been responsible for some of the more efficient schemes - short of investment in estate agriculture - is now concentrating all its investment in one area in Central Malaya, and is expected to promote a more diversified agricultural base.

30. Outside agriculture, communications, utilities and education, the impact of the Malayan Government on development has been relatively small. As is mentioned in the Annex, public assistance to the manufacturing sector has been small, comprising mainly transfers of government funds for industrial credit and the establishment of industrial estates. Here also, however, there are signs of change. Additional land is being developed for industrial estates, more funds have been provided for industrial credit and, if the Tariff Advisory Board and the Federal Industrial Development Authority are able to work effectively, the result should be improved performance in this field, and progress towards the goal of diversification.

31. In Singapore, being an urban area, the pattern of investment is entirely different. Given the probability of a decline in the entrepot trade, heavy emphasis has been placed on the promotion of the manufacturing sector:-

^{1/} The allocation of Malaysian public sector capital expenditures can be seen in Table 26.

heavy expenditure on the Jurong Industrial Estate and New Town areas, and on industrial finance, has been the result. To date, the response to these investments by private manufacturers has been fairly disappointing, and in industrial finance disbursements have been low, although commitments now appear to be rising. Equal emphasis has been placed on social services and on utilities; one of the most remarkable performances has been the growth in expenditure on low cost public housing. Rents on the smaller (1- and 2-room) flats are subsidised to a small extent, and a further additional subsidy is found in the long-term low-cost loans from the Government. Given the extremely poor and overcrowded housing which these flats replace, some subsidy to ease the adjustment appears fully justifiable, as are the plans to continue a high rate of housing investment.

32. In the Borneo States the new pattern of public investment expenditure which is emerging is a considerable improvement over the old. Excessive emphasis on road building, particularly in Sarawak, which in the past has not been closely related to economic development, has now been replaced by concentration on various agricultural programs which promise to bring returns which, while still low, will be a considerable improvement over the recent past. Roads apparently are still being built to unnecessarily high standards, however.

33. The performance in implementing the various public sector programs has been impressive. In Malaya the administrative capacity to execute projects at a high rate was achieved in 1961-62, and in 1963 in Singapore in almost all sectors except road and school building. In fact, in both Malaya and Singapore the ability and urge to execute projects have outstripped the facilities for a thorough project evaluation - a problem which has also led to a bottleneck in the preparation of projects for foreign financing. Despite this problem, however, the performance of the governments in planning and executing public sector projects has been good, and compares favourably with other countries in the region. While there is some public capital expenditure on projects of questionable economic priority, there appears to be less than in many other countries. By and large the development efforts in Malaysia have been reasonably well conceived and the record of execution has been unusually good.

VI. THE FINANCIAL SITUATION

A. Public Sector Expenditures

34. Rapid growth in government expenditure throughout Malaysia has been a dominating feature of the 1960's. The most spectacular increases have been in public capital expenditure and capital expenditure of the public authorities; both of which more than tripled between 1960 and 1964, and which together have now reached a level of M\$980 million or 10.5% of GNP. Current expenditures have also risen in the wake of increased capital expenditures, such as on education and agriculture, and because of growing debt service and security burdens. The upward trends, which have been shared by all the components of Malaysia, can be seen from the following table:

Consolidated Public Sector Expenditures^{1/}
(M\$ billions)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u> (est.)
Governments' Current Expenditure	1.19	1.22	1.31	1.43	1.62	1.83
Governments' Capital Expenditure	0.23	0.25	0.42	0.63	0.73	0.82
Public Authorities Capital Expenditure	<u>0.06</u>	<u>0.05</u>	<u>0.07</u>	<u>0.10</u>	<u>0.14</u>	<u>0.16</u>
TOTAL Expenditures	<u>1.47</u>	<u>1.52</u>	<u>1.80</u>	<u>2.16</u>	<u>2.50</u>	<u>2.85</u>
of which by:						
Malaya	1.01	1.05	1.24	1.48	1.63	2.08
Singapore	0.27	0.29	0.33	0.40	0.48	0.49 ^{2/}
Borneo States	0.12	0.14	0.15	0.18	0.25	0.13 ^{2/}
Public Authorities	0.06	0.05	0.07	0.10	0.14	0.16

^{1/} For coverage, see Statistical Appendix, Tables 22 et seq.
^{2/} Some expenditures, hitherto local, are now Federal.

35. Between 1960 and 1963 the social services sector absorbed 34% of governments' expenditure - mainly by education which alone accounted for 18% of total expenditure in 1963 and which also accounted for over 20% of the increase since 1960. Average per pupil expenditures rose from M\$150 to M\$180 over the period, and per capita expenditure from M\$30 to M\$50. Capital expenditure quadrupled over the 1960-64 period. The increase in expenditures per head is due in part to the expansion of the more expensive secondary, technical and vocational education, in which enrolment has progressed twice as fast as the total. On the average only one pupil in three who graduated from primary school now enters the first year of secondary school, which indicates the distance yet to be travelled. Regional disparities are also serious, as the following table for 1963 shows:-

	Total Malaysia	States of Malaya	Singapore	Sarawak	Sabah
Average expenditure per pupil (M\$)	182	171	216	192	185
Per capita Expenditure on Education (M\$)	43	41	64	29	28
School enrolment as % of School-age Population	69.9	68.4	90.0	53.4	51.3
Literacy rate - latest census	--	51%	52%	25%	24%

36. In an attempt to improve post-primary education, a Comprehensive Schools Program for the States of Malaya is being introduced which will, if successful, provide education for all 13-15 year-olds by 1967. Although this ambitious scheme is unlikely to be fully realised by that date, the pressures for increased expenditures on post-primary and advanced education are strong; in particular, the need to improve educational standards in the Borneo States is urgent. It is thus probable that the M\$50-60 million a year increases of the past will be continued or exceeded.

37. In 1964 security expenditures overtook education for the first time since the end of the campaign against communist guerillas in 1958. The sharp increase in 1963 resulted partly from the assumption by Malaysia of former British obligations; more recently, the Indonesian threat has led to accelerated police and military expansion including limited conscription. Total 1964 expenditures were about M\$440 million (1960, M\$220 million) and may rise to M\$590 million or 20.4% of total public expenditures in 1965 during the military build-up - but some of this expenditure will be financed by military loans or grants from abroad. For the rest of the decade annual expenditures are expected to exceed M\$500 million mainly because of the rapid increase in recurrent costs of the larger military and police establishment.

38. Expenditure on the various rural development programs has also increased sharply. Effective rural development programs have at last emerged in the Borneo States, and can be expected to grow in the near future. Both there and in the States of Malaya road construction has proceeded very rapidly, and by 1964, agricultural and transport expenditures in the rural areas had approximately doubled since 1960 and had reached about 22% of public expenditures. Very fast growth has also occurred in debt service payments because of the increase in debt. Expenditure on housing, television, and industrial sites and finance, have also risen; annual expenditures on subsidised low-cost housing developments alone now amount to more than a quarter of Singapore's capital expenditure, and may be expected to increase as urban renewal gets under way.

39. On the whole, as is discussed in Chapter V, capital expenditures have been consistent with the development needs of the various territories, and the rapid growth has been the result of an increasing capacity to execute projects. The increase in the rate of current expenditure does not appear to be excessive given the increase in the volume of government services such as education, health and defence. Nevertheless the rate of increase in current expenditure will have to be less in the next five years than in the past if large government current deficits are to be avoided, because of the likelihood of sluggish revenue.

B. Revenue

40. Current revenues have failed to keep pace with total expenditures; a Malaysian Governments' overall surplus of M\$261 million in 1960 became a deficit of M\$725 million in 1964, even after taking into account the net receipts of the social security systems. All Malaysian governments nevertheless experienced a rise in revenue at a time when exports were falling. Total governments' receipts have risen from M\$1,603 million in 1960 to M\$1,831 million in 1964 - receipts have remained roughly constant at about 18% of GNP (19% including social security contributions). The fall in export duty has, in part, been offset by rising import duty; company taxation has remained almost constant since 1961 while rubber profits fell. In 1964 tin duty exceeded rubber duty for the first time - a situation which is expected to continue. Various miscellaneous items - Singapore property tax, currency board profits, royalties, etc., have shown some buoyancy, and taxes other than taxes on trade now account for 55% of revenue compared with 48% in 1960 - a trend which certainly strengthens the tax system.

41. Tax revenues, at 14.4% of GNP, and total government receipts at 19%, are not excessively high given the structure of the Malaysian economy - with its large and very profitable export sectors - but the opportunities for increases are limited. After a number of years during which tax structures and rates were unaltered, 1965 will see the introduction of several new taxes - a payroll tax, multi-stage turnover tax, capital gains tax, excess profits tax on tin, tax on crown corks, etc., - which, together with important steps towards harmonising tax rates throughout Malaysia, will raise revenues by a step of 7-8% in 1965 to about 20% of GNP. This proliferation of taxes, each with low rates and initially hedged with exemptions, gives the government considerably greater scope in future attempts to raise tax revenue. The low initial rates are not likely to depress business activity, although the multi-stage turnover tax might have the effect of encouraging vertical integration of companies if the burden is significant. Tax revenue is likely to be fairly buoyant over the next few years: gradual tax harmonisation throughout Malaysia - which in most cases will mean an increase in tax rates to the existing Malayan levels - will be an important, if temporary, factor. A growing number of firms, which hitherto have enjoyed tax relief under the pioneer status program, will also become taxpayers. Import duty should also increase, since imports are also expected to rise over the next few years despite the probable increase in the tariff level.

C. Financing the Deficit

42. The rapid growth in the size of the public sector deficit has not been accompanied by any change in the pattern of borrowing. In effect, the only trends in the past six years have been in the reserves, as can be seen from the following table:-

(M\$ million)	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964(Est)</u>
Governments' Current Revenue	1,351	1,603	1,689	1,760	1,894	1,831
Governments' Current Expenditure	1,187	1,220	1,306	1,433	1,622	1,831
Current Surplus	+ 164	+ 383	+ 383	+ 327	+ 272	-
plus, net social security contribution	110	125	139	148	157	167
plus, surplus of public authorities	53	62	69	81	80	95
Total current resources	327	570	591	556	509	262
less, total capital expenditure	288	301	491	729	869	930
Overall surplus or deficit	+ 39	+269	+100	-173	-360	-718
<u>Financed by:</u>						
Local borrowing	138	124	26	99	127	133
Foreign loans and grants	108	117	88	107	107	160
Use of assets (decrease +)	-328	-527	-233	- 86	+ 86	+410
Other	43	17	19	53	40	15

Note: For full details see Tables 22 et seq.

43. The only additional source of finance was in the volume of foreign grants during 1964, which was augmented by military assistance. That apart, no new domestic resources have so far been mobilised to meet the growing deficit, and foreign public borrowing remains stagnant because of the shortage of suitable projects for foreign financing. It has, in fact, proven difficult to increase local borrowing, and the prospects for the coming years, as are discussed in Chapter VII below, are not bright. Fortunately realisable official reserves are large, probably totalling about M\$2,500 million including a portion of the currency backing. This should suffice, if necessary, for drawdowns for six years at the current rate of utilisation. Of the several governments, the Federal Government is probably in the tightest financial position - the formation of Malaysia having increased its 1964 aggregate expenditure by M\$165 million more than its receipts from the New States. (See Table 27). However, both the Federal Government and the Singapore State Government will be seeking additional sources for domestic borrowing in the near future, and will, in effect, be competing for loanable funds.

D. The Balance of Payments

44. Recent trends in the balance of payments have reflected the growth in public sector investment and decline in public savings. Between 1960 and 1964 the balance on current account has shifted from a surplus of M\$230 million to a deficit of M\$500 million, and net national foreign exchange assets, which had risen to M\$3.44 billion or almost a year's retained imports, began to decline slightly during 1964. The overall trends are indicated by the following data:-

(M\$ billion)	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964 (Est.)</u>
Domestic Exports f.ob.	2.89	2.57	2.55	2.69	2.88
Net Entrepot trade	0.23	0.23	0.25	0.25	0.19
less, retained imports c.i.f.	2.88	3.06	3.25	3.66	3.76
<u>Balance of Trade</u>	+0.24	-0.26	-0.45	-0.73	-0.70
<u>Invisibles (net)</u>	-0.01	+0.09	+0.21	+0.17	+0.19
<u>Balance on Current account</u>	+0.23	-0.17	-0.24	-0.56	-0.51
Private capital inflow	+0.27	+0.29	+0.35	+0.40	+0.40
Use of reserves (increase -)	-0.49	-0.20	-0.21	-0.07	+0.06
Other (net)	-0.01	+0.08	+0.10	+0.23	+0.05

Note: For details see Appendix Table 21

45. Trends in exports have already been discussed in Chapter IV above. Retained imports have been rising rapidly, as a result of increased investment outlays and consumption expenditure. About 60% of all retained imports have been investment goods and most of the remainder manufactured goods and raw materials - although in the last 1½ years imports of food have risen sharply. The adverse trend in the balance of trade and in the balance on current account has been offset in part by considerable private capital inflow (including retained profits of foreign-controlled companies). These inflows, which appear to have exceeded M\$300 million a year between 1960 and 1963, have been more important than any other factor in financing the current deficit and amount to thrice the public external borrowing during the period.

E. The Overall Financial Position

46. The picture that thus emerges from the performance during the 1960-1964 period is dominated by the increase in the overall investment rate from about 13.5% of GNP to almost 20% of GNP, at a time when real per capita incomes were rising by less than 1% annually, and total savings remained more or less stationary. The increase in investment has been largely by governments and public authorities; private investment appears to have grown relatively slowly, at about 5% a year during the 1960-1964 period, and has been exceeded by private savings. The growth in public investment has actually been accompanied by a decline in public savings, which poses a serious financial problem for Malaysian Governments. The implications of these developments for public finance and the balance of payments over the coming decade are discussed in the next chapter.

VII. MALAYSIA'S OVERALL ECONOMIC OUTLOOK AND CREDITWORTHINESS

47. Between 1960 and 1964 the changes that have taken place in the Malaysian economy have sprung mainly from the growing activity of the public sector, and, more recently, from the economic and financial merger which is gradually taking place, rather than from any structural change in the economy. In essence the structural problems of the economy - excessive dependence on a few export commodities, low rural incomes, etc., as discussed in Chapter II - are the same as in the mid-1950's. The technical and administrative capacity of Malaysian Governments to devote large resources towards removing or alleviating these problems has however increased, and the strain on Government and national resources which this has implied has been aggravated during the past year by heavy defence expenditures in the wake of the merger and the Indonesian confrontation.

48. The problems which the economy has faced during 1964 are, in effect, those which Malaysia will have to face for most of the rest of the decade. Current government expenditures rose rapidly, and public savings^{1/} fell from an average of M\$580 million in 1960-61 to M\$260 in 1964. Public capital expenditures reached M\$980 million compared with M\$350 million in 1960-61. Private investment probably rose slightly to around M\$1,100 million, but continued to be slightly exceeded by private savings. Overall, the surplus of total savings over investment of the 1960-61 period has become a deficit of M\$550-600 million, which is likely to be financed in 1964 by a net private capital inflow of M\$400 million, public borrowing from abroad of about M\$50 million, and use of foreign assets of M\$50-100 million. Private capital inflow from abroad has thus played a key role in maintaining the level of private investment and in preventing any significant drop in foreign assets so far. About a fifth of this investment has been in rubber, with an equal amount in tin, but the remaining 60% has been in manufacturing and other sectors, which are expected to grow relatively in the future. Roughly a quarter of the private foreign investment has been in the form of retained earnings.

^{1/} Including surplus of public authorities and increase in assets of provident funds.

49. The increase in the investment rate to almost 20% of GNP from about 14% in 1960 has thus been due almost entirely to the activities of the public sector. It has occurred at a time when exports and GNP are expected to be passing through a period of stagnation or slow growth, which aggravates the problem of generating adequate local savings to match the high level of investment. The rate of total investment during the rest of the decade will thus reflect the level of public sector investment, which will, in turn, be related in part to the level of public savings and the ability of the public sector to mobilise additional resources.

50. All these variables, in turn, will depend in part on the way in which export earnings develop. As indicated, there is a reasonable basis for forecasting the trend of export volume. Price prospects, however, are a matter of much greater uncertainty. This is particularly true of rubber prices which are, of course, of major significance in any projection of Malaysian economic trends. Perhaps the most likely course of rubber prices is a further decline by possibly 20% during the next four or five years, after which there will be reasonable stability. This is the assumption that has been made here in assessing Malaysian economic prospects and financing requirements. If the rubber price were to decline to the projected M\$55 level over a longer period than is assumed here, or if the price were to stabilise at a higher level, then the medium-term financing difficulties would be less acute than is implied in the discussion below.

A. Financial Prospects of the Public Sector

51. The financial prospects of the public sector are not bright under any reasonable forecast of export trends. On the assumption of a decline in rubber prices to M\$55 a pound by 1969-70, overall deficits requiring heavy borrowing seem likely to recur at least until the end of the decade, despite some further tax increases, unless there is a radical downward change in expenditures. Total current government receipts have grown at the same pace as GNP, and in 1964 were at the relatively high level of M\$2,000 million or 20.3% of GNP. With the 1965 tax increases, 1965 receipts will probably be about M\$2,250 million or 21.2% of 1965 GNP. If tax rates stayed unchanged, and after allowing for some additional revenue as a result of harmonisation of taxes throughout Malaysia, current receipts would probably reach about M\$3,000m. by 1970. It is probable, however, that additional efforts to raise taxes will be made after 1965, and hence total receipts could reach M\$3,200-3,300 million, or about 24% of projected GNP in 1970. It is unlikely that any significantly larger increase would be possible.

52. Current expenditures will probably grow almost as fast as current receipts. Current defence and police expenditures have already doubled since 1961 and may be expected to grow by another 40% in the next two or three years before stabilising once the military buildup is complete. The current costs of education and health services will certainly continue to increase, while the administrative burden of the larger federation, together with the probable increase in government employees' salaries, will also constitute a further expense. Debt service will probably double by 1970, rising to around 15% of expected expenditures. On the assumption that continued stringency will be practiced, current expenditures may still reach M\$2,600-2,700 million in 1970, implying a growth during the second half of the decade of around 35% compared

with 60% during the first half. Net annual receipts of the social security systems are expected to rise fairly rapidly from about M\$170 million at present to M\$300 million in 1970 as a result of extensions of coverage, and public authorities surplus¹ are also expected to rise from the present level of M\$100 million to M\$170 million by 1970.

53. On the basis of these assumptions, public savings would rise from a low point of about M\$260 million in 1965 to around M\$600 million in 1970 - a total in the 1965 through 1970 period of around M\$2,500-2,600 million. Public investment, on the other hand, could well amount to around M\$7,700 million over that period if financial resources for this level of investment are available. Public investment was just short of M\$1,000 million in 1964, equivalent to 9.5% of GNP and will probably reach M\$1,100 million in 1965 and about M\$1,300 million by 1967, assuming continued heavy capital expenditure on defence in the 1965-67 period. Perhaps M\$200 million, or possibly more, of this expenditure may be financed by military grants or loans from abroad. After 1967, further growth in public capital expenditure may be much slower, and largely confined to the growth in public authorities' expenditure. In accordance with this prospect the 1970 level of public investment may be put at about M\$1,400 million, or slightly less in relation to GNP than in 1967. The expected rise in private investment would however mean that total investment remains more or less constant over the 1965-70 period at 21-22% of GNP, compared with 14.4% in 1960-61.

54. On this assessment, the public sector as a whole would thus face the problem of financing a gap of around M\$5,200 million over the 1965-1970 period. The opportunities for domestic borrowing from the private sector are limited, but some additional lending from private provident and trust funds, insurance companies, etc., can be expected, particularly if additional inducements to invest locally are made. Of the M\$1,200 million net new local borrowing which is probable over this period, about half is expected to be from the banking system. After taking into account miscellaneous grants (including military) and other capital receipts of about M\$500-600 million, ^{1/} the gap which would have to be financed by drawing down public exchange assets or by public borrowing from abroad amounts to about M\$3,400 million. Given the uncertainties over the future revenue position, it would seem neither prudent nor easy to draw down public sector cash balances by more than M\$1,600 million, leaving a residual of M\$1,800 million to be borrowed mainly from abroad. Borrowing on this scale would imply a doubling of the fiscal burden of debt service to around M\$400 million a year in 1970, or roughly 15% of projected current expenditures.

55. It is thus clear that if the high level of public investment projected above is to be achieved, additional resources will have to be mobilised at a rate far exceeding that achieved in the recent past. While the ability of the public sector to make effective use of this volume of investment funds is not seriously in doubt, the administrative ability of Malaysian governments to prepare a sufficient volume of projects and loan proposals, which meet the

^{1/} Including the assets now held by the Currency Board as 100% backing for the currency. These assets are expected to be transferred to the Central Bank within two years.

needs of the major institutional lenders, has yet to be demonstrated. This has been a bottleneck in the past, and no effective action has yet been taken to improve the situation. Over this period the use of assets cannot prudently be substituted for foreign borrowing, because of the need to preserve some modicum of flexibility to deal with the uncertainties of the 1970's. The achievement of the projected level of public investment thus depends, in contrast to the past, directly upon Malaysia's ability to borrow from abroad. Sound management of the reserves might dictate a cut in the investment rate if the projected volume of foreign borrowing cannot be achieved.

B. The Overall Financial Position and Creditworthiness

56. The financial prospects for the economy as a whole are unlikely to be as serious as are those of the public sector. Private investment appears to have risen at only about 5% a year over the past five years, and this rate of increase is assumed to continue until the end of the decade. Private savings have been growing slowly since 1961 and have begun to exceed private investment; given also a slow recovery of public savings after 1965, the overall savings rate could rise from a low point of around 15% of GNP in 1964-65 to 17-18% in 1969-70. Total investment expenditure will however tend to rise faster than total savings until 1966-67, during the military buildup, and as a result the overall gap between investment and national savings may widen from around M\$500 million in 1964 to M\$800-900 million a year in 1965-67 before declining to perhaps M\$600 million in 1970 - giving a total resource gap for the 1965 through 1970 period of about M\$4,800 million.

57. If these levels of investment and current expenditure can be achieved, then it is likely that retained imports will continue to grow. In the past four years, retained imports have been almost constant at 45% of the total of investment expenditure plus private consumption expenditure. Although some import substitution is projected to occur, an average current balance-of-payments deficit of about M\$800 million a year is likely to emerge over this period which is equivalent to about 6% of average GNP. A drawdown in public sector foreign balances of perhaps M\$1,600 million as contemplated above, would reduce net foreign assets to a level of about M\$1,700 million, or about 5 months' retained imports in 1970, a level which should be regarded as a minimum, given the uncertainties about Malaysia's long-run export performance. Any exceptionally rapid drawdown of reserves, or a drawdown much in excess of the projected amount, might jeopardise the flow of private capital from abroad, which otherwise will probably total M\$1,500 million ~~net~~, an average of M\$250 million a year over the period. This assumes that Malaysia will maintain as favorable an investment climate as now exists. After allowing for grants and other capital receipts of around M\$300 million over the period, the volume of borrowing from abroad necessary to hold the fall in reserves to the above level will probably be about M\$1,600 million, or M\$267 million a year - almost four times the present average rate. Assuming that there is no slump in her major exports, Malaysia's ability to service an additional debt burden of that magnitude is not in doubt in view of the favourable long-term prospects for economic growth and export expansion. Service on existing debt is now less than 2% of export earnings, and would rise to about 6% of projected export earnings in 1970 if an additional M\$1,600 million of debt were to be incurred over the next six years.

58. Malaysia is thus making an attempt to raise the investment rate, through accelerated public investment, to a level well in excess of the present level of savings - thus creating a serious potential financing problem both in the public sector and for the nation as a whole. It is probable that the financial situation will be aggravated by the expected steady decline in the rubber price to M~~4~~55 a pound by 1970 - the assumption which is used here. Even if prices stayed at or near their present level of M~~4~~69, a financing problem would nevertheless exist, although it would be less severe. This can be traced, in part, to the pattern of investment in the recent past, in that heavy investments have been made in crops and other capital goods which have long gestation periods and long lives, and which therefore require a long interval before producing a stream of income and savings.

59. Assuming that financing difficulties do not slow the rate of investment, the prospects for the 1970's, on the assumptions used here, are more favourable. By the end of the decade the resumption of growth in per capita GNP should enable the private savings rate to increase after a period of stagnation. This, together with improved prospects for public savings, should tend to reduce the resource gap to manageable proportions. If the borrowing requirements mentioned above are met, and if too large a draw down in reserves is avoided, the need for rigorous exchange controls should also be avoidable - a factor which is important because private foreign investment is as large a source of external finance as public borrowing. The continuing absence of import controls for balance-of-payments reasons will also, given the country's high dependence on imports, reduce the threat of inflation that prolonged deficit spending could otherwise bring. The long-run prospects for Malaysia, following the expected financial stringency of the 1960's, are thus very favourable, although the impact of any slump in the market for natural rubber would be serious.

ANNEX

PRODUCTION AND EXPORTS: DEVELOPMENTS IN THE MAJOR SECTORS

A. Agriculture

1. The relative importance of the agriculture sector in Malaysia has been falling, and the relative importance of rubber in this sector has also decreased since 1960, although it will long dominate the scene. The production of agricultural crops other than rubber has been rising slowly, but the prospects for a more rapid increase in the late 1960's in crops such as palm oil, rice, cocoa, sugar, fruits, etc., are good: some progress will probably have been made by the end of the decade towards the goal of agricultural diversification, but rubber will remain dominant. The position of the major crops is discussed below.

Rubber

2. Malaysian rubber output has risen steadily since 1956 and rose from 764,000 tons in 1959 to 850,000 tons in 1963, reflecting the impressive increase in output in the States of Malaya which account for about 92% of Malaysian production. Despite the steady increase in physical production, the value of Malaysian output has fluctuated, rising from M\$1,200 million in 1958 to M\$1,800 million in 1960 before falling to M\$1,370 million in 1963. Average prices fell from a peak of M\$1.08 a pound in 1960 to 72M¢ a pound in 1963 and about 68M¢ a pound in 1964.

3. Total production in the States of Malaya during the first 8 months of 1964 was 6% higher than in the corresponding period of 1963, thus well exceeding the average growth rate between 1957 and 1963. This growing output has been mainly due to the attainment of maturity by high yielding rubber trees planted during the 1950's under the effective program to replant established rubber areas with new high yielding varieties. Yields per tapped acre have increased by over 30% since 1956 and, by the end of 1963, 71% and 46% of the total estate and small holding planted acreages respectively were under high-yielding material. The total acreage planted and replanted per year rose from 148,000 acres in 1958 to 237,000 acres in 1963, of which new planting and replanting by smallholders accounted for 70,000 acres in 1958 and 170,000 acres in 1963. This increase has been mainly in schemes under the smallholders replanting programs, under which smallholders received a large subsidy of M\$750 per acre plus M\$50 per acre for those owning less than 5 acres. New planting under the Federal Land Development Authority has also risen. However, both replanting and new planting by estates has declined slightly for the past three years because most of the better estate acreage is already replanted and because of a shift to oil palm. Total estate acreage has also fallen as old estates are sold for fragmentation or devoted to other crops.

4. Fixed investment in rubber of M\$127 million amounted to 26% of total fixed investment in the States of Malaya in 1958 and rose to M\$207 million, or 18% in 1963. This is a high proportion to devote to an investment which takes 7 years to yield returns, and which creates capital assets

which are specific in their use and whose value depends on highly uncertain trends in world rubber prices. Yet no other crop has so far proved as suitable as an estate crop or for raising small-holder incomes. It is, likely, however, that total investment in rubber will decline absolutely from 1964 onwards as replanting approaches an amortization basis and as more emphasis is placed on agricultural diversification into crops such as oil palm, cocoa, sugar, etc.

5. It is estimated that production in the States of Malaya will rise from 785,000 tons in 1963 to 1.1 - 1.2 million tons in 1970. Assuming that prices of natural rubber will fall from their present level of 69M¢ a pound to a level of 55M¢ a pound in 1970, the value of production of rubber will remain at about its present level, or may rise slightly.

6. In Sarawak the position is less satisfactory. Average production has shown no trend but has fluctuated since 1959 between 43,000 tons and 50,000 tons; the value of production has declined. The industry in Sarawak consists entirely of smallholders, whose care of trees and surrounding areas is poor and rubber processing methods often primitive. As a result average yields are low - in the region of 350 pounds per acre, or about 60% of the average yield in Malaya. A subsidized rubber planting scheme was introduced in 1956, but only 25% of the planted area in 1963 was covered with high-yielding rubber. Only a small increase in physical production is likely between 1963 and 1970, and the value of production is therefore likely to drop from an estimated M\$69 million in 1963 to M\$54 million in 1970. As a result rural incomes are likely to fall during the rest of the decade, but accelerated planting now will enhance incomes in the early 1970's.

7. In Sabah where 38% of total rubber acreages is on estates, replanting has been widespread. Although the government subsidy is the lowest in Malaysia at M\$120 an acre - in 1962, 46% of the total rubber acreage was under high yielding clones. Much of the high-yielding material has not yet reached maturity and rubber production has been stagnant over the last five years (23,000 tons in 1959 and 21,000 tons in 1963). Since 1962, production has been held down by an acute labour shortage, and it is estimated that 10,000 more laborers are needed to exploit tapped acreage efficiently and 20,000 more will be needed as new rubber comes into production. If this labour problem is solved it should be possible to double physical output between 1963 and 1970. This would raise the total value of the rubber crop from M\$34 million in 1963 to around M\$53 million in 1970. It is quite possible, however, that the shortage of labour will persist and that the increase in production will be considerably less.

Prospects for the Malaysian Rubber Industry

8. Competition from the synthetic rubber industry remains strong; it appears that synthetic rubber in 1964 has continued its post-war trend and secured an increased share (about 59%) of total rubber consumption, outside the Communist countries. Although present and expected overcapacity in the synthetic rubber industry continues to exert a depressing influence on synthetic prices, the demand for natural rubber held up well in the past two years, which probably accounts for the relatively slow price decline.

In fact, the consumption of natural rubber has remained steady and exceeded production since 1961, and stocks had to be significantly reduced in 1963. A further small reduction in stocks is expected this year.

9. The increasing range of uses to which synthetic rubber can be tailored had led to a technical fragmentation of demand, and in the fields in which natural rubber remains competitive relative costs are important. The importance of the introduction of high-yielding varieties lies in the reduction of unit costs as well as in the increase in the volume of production. All available data indicate that the Malaysian industry can withstand a fall in price to 50M¢ a pound or even less, and is in fact better situated to meet the expected excess of productive capacity in natural rubber towards the end of the decade than are other producing nations. If the price were to fall to 50-55M¢ at the end of the decade, it is unlikely that many estates or smallholdings in Malaya would go out of production, particularly given the poor alternatives for the use of smallholders land and labour in many an area. Estate labour costs have recently been increased by about 12% as a result of the recent wage agreement, and may increase further when wages are renegotiated in 1966; the new payroll tax will also have the effect of increasing costs, so a cost squeeze is certainly in evidence and efforts will have to continue to improve efficiency in production and marketing. It is still likely, though, that tapping will continue except on low-yielding areas where returns at prospective prices would not cover tapping and processing costs, or which could be converted to other crops without large capital losses. Production might fall in the Borneo states, however, where smallholders have shown a much greater propensity to abandon tapping at times of low prices, and where new investment in high-yielding varieties has been low.

10. Given these assumptions, and also assuming that Sabah's labour problems are solved, the volume of Malaysian production is likely to rise from 850,000 tons in 1963 to around 1.2 - 1.3 million tons by the end of the decade. By 1975 production will probably have reached 1.6 - 1.7 million tons. The average export value of production over the next four or five years will probably be a little less than in 1963 (M\$1,370 million) but should start to grow, attaining around M\$1,500 million by the end of the decade assuming the price will fall steadily to 55M¢ a pound.

Palm Oil

11. Malaysian palm oil production is at present almost entirely concentrated on estates in mainland Malaya, where production has risen from 70,000 tons in 1958 to 124,000 tons in 1963. Production has, however, fallen in 1964 because of strikes. The value of exports is small compared with rubber, reaching M\$68.0 million in 1963, yet palm oil is now the fifth largest export. The increase in production and acreage is expected to continue, with production reaching 146,000 tons by 1966 and 239,000 tons by 1970. Yields per acre on the better estates have exceeded expectations, reaching 10 tons F.F.B. per acre. Given the improved yields and the swift attainment of maturity (now 2½ years) the rate of return on investment in oil palm appears to be significantly higher than the rate of return on investment in rubber, even on soils which are ideal for rubber but only average for oil palms. These recent developments have confirmed oil palm's position as the best alternative crop to rubber, although it is unsuitable

for smallholders except on large cooperative schemes, such as are now being undertaken by the Federal Land Development Authority, or on the fringes of large estates. Further planting in the States of Malaya depends in part on the amount of land alienated by the States governments, which have long been reluctant to alienate additional land for estates.

12. Extensive plantings of oil palm have recently taken place in Sabah, probably reaching 13,000 acres by the end of 1964, but most of the acreage is immature. Production in 1963 amounted to only 56 tons, but this figure is expected to rise to 2,000 tons in 1966 and 19,000 tons in 1970. In Sarawak fairly large areas have been found to be suitable for oil palms and experimental work is being carried out. Probably, 10,000 acres of oil palm will be planted by 1970, mainly with the help of the Commonwealth Development Corporation. For Malaysia as a whole, therefore, production will more than double by 1970 and exports should amount to about M\$130 million.

Rice

13. More people are engaged in rice cultivation than any other occupation in Malaysia except rubber production. Production is mainly by Malay and Bornean smallholders, but the milling and marketing is typically handled by the Chinese. Progress in increasing production and yields has been steady and the percentage of pan-Malayan production to consumption has been rising slightly to its present level of about 56% assisted by a support price higher than the world price. Net imports show no trend. Recent developments are more promising, however: the area under double-cropping more than doubled between 1960/61 and 1963/64 to 49,000 acres, and a much larger further increase is foreseen on the basis of promising large irrigation schemes. A new hybrid rice - malinja - has been locally bred for double-cropping use, with excellent yield results given proper fertiliser application. The use of fertiliser is improving, but only 15% of the first crop is fertilised now. Smallholder tenure problems in some areas may however be a disincentive to raising production.

14. Rice production has been stagnant in the Borneo States, and both are heavy importers. Rice production presents considerable problems, mainly in Sarawak, because of the extensive use of shifting cultivation methods which have caused serious soil erosion. The Sarawak Government is making strong efforts to encourage more settled agriculture, based on the introduction of rubber and other crops, associated with a change in the land tenure system. Rice production is not expected to increase significantly, although prospects are better in Sabah. There is no production in Singapore. Malaysian production as a whole will probably keep pace with the growth in consumption, leaving net imports constant.

Other Crops

15. Coconut output has been disappointing in recent years, mainly because of inefficient smallholder production from oil palms. New planting and replanting efforts, with government subsidies and using high-yielding varieties, are however being made on a small scale throughout Malaysia, and

production should spurt at the end of the decade. Pepper is commercially produced only in Sarawak, where it is the second largest crop. Cultivation is highly intensive, and will increase only slowly because of a deliberate effort to stabilise output to prevent wide fluctuation in prices and new planting. Pineapple production and canning have risen in recent years and should continue to do so. Because of economies of scale in processing, a government-owned cannery is being constructed to take the entire smallholder production by 1965; it will eventually be co-operatively owned. The Government is attempting to encourage the local production and consumption of other indigenous fruits such as the rambutan. Abaca is being efficiently produced on an estate in Sabah, as is cocoa, for which the prospects are good, as they are in Malaya. Small quantities of sago, tea, coffee, tobacco and spices are commercially produced. Bananas, maize, tapioca and sugarcane are likely to be produced within the next few years. There is very little commercial livestock production in Malaysia, although pig production has increased substantially and is an important export product from Singapore's efficient market gardening sector.

16. The potential for the production of crops other than rubber is thus considerable, but for the rest of the decade rubber will remain the dominant crop, probably still accounting for about 60% of agricultural output in 1970, compared with 63% in 1960.

B. Forestry and Fishing

17. Of Malaysia's total area of approximately 129,000 square miles, some 93,000 square miles, or 72% are under forest. About 35,000 square miles have been designated permanent forest reserves, where the exploitation and regeneration of timber resources is subject to strict regulation. In addition, large quantities of timber are cut from land outside the reserves which is being developed for agricultural use. Exports of timber and products have grown remarkably, more than doubling since 1959, and timber now ranks third among Malaysia's exports, at a value of M\$265 million in 1963, and could increase in value if full use is made of the large resources. Malaysia is already second only to the Philippines as an exporter of tropical timber. Most of this growth has occurred in Sabah, which accounts for more than half of the total. The total value of 1963 production was about M\$450 million, of which about M\$200 million originated in Malaya, M\$180 million in Sabah and M\$70 million in Sarawak. Thus, only about 60% of total production is exported, the rest is either waste or is consumed locally: the share which is exported varies greatly among the regions, with about 30% of Malaya's timber, 75% of Sarawak's and 85% of Sabah's being sold overseas.

The Borneo States provide most of Malaysia's exports of timber in log form. Most of these exports are taken by Japan, with the lower quality logs going to Hong Kong. Japanese buyers have recently become more selective, while, at the same time, as the clearing of land for agricultural development proceeds more rapidly, there has been a tremendous increase in the supply of logs from once-and-for-all clearance on alienated land. In addition, the unusually favorable weather during the 1963-1964 monsoon

season resulted in abnormally high production, both in the Borneo States and in the Philippines. As a result producers' log stocks piled up during early 1964, enabling the Japanese buyers to lower the price temporarily and make it difficult to dispose of any but the best quality logs. This slump appears to have passed, however, and 1964 exports may be about 15% higher than 1963. Prospects for a steady or increasing level of demand for logs from Japan appear to be good. Sabah's exports are likely to suffer only if there is a substantial increase in timber supply from Indonesia or the Philippines, which in both cases is somewhat unlikely.

19. Sawmilling and other forms of wood processing have grown at a much more rapid pace in Malaya than in the Borneo States, partly due to the larger domestic market but also due to the fact that, in order to encourage the post-war recovery of local industries, the Federation and Singapore government have prohibited the export of nearly all timber in log form, with the result that practically all Malayan timber is converted locally. These restrictions do not apply to the Borneo States, and in Sabah, although local production of veneer is expanding and a second mill is being set up, processing is still unimportant. Most sawn timber for local consumption is in fact imported, while whole logs are exported. In Sarawak there is some local processing, although most of the timber exported is still in log form.

20. Exports of sawn timber, which originate mainly in Malaya, have not increased nearly as rapidly as exports of logs. Most of the sawn timber exports go to Australia, South Africa and the United Kingdom, where they incur high transportation costs and import duties. Thus, while Malaya's sawmill industry has been encouraged, it has been at the cost of a far slower growth in timber export earnings, and the Borneo States' share of these earnings has increased from about 58% of the total in 1953 to 77% in 1963.

21. The future trend of timber production will depend to a large extent on the government land use and forestry policy. At the present time 20-25% of annual production is from areas being cleared for agricultural and other uses. The rest is from areas cropped on a rotation basis. The period of rotation is, in general, 80 years in Sabah, 70 years in the States of Malaya and will be 60 years in Sarawak. In Sabah licences for such timber clearance were given out very freely, and as a result the rate of clearance has already exceeded immediate land needs: it is unlikely that land clearance will increase as rapidly as in the past. Production from permanent concessions is likely to increase slightly in Sabah and in Malaya, whereas Sarawak output will fall following a cut in the maximum permissible rate of exploitation. Overall, production is expected to rise slowly, and exports will probably reach M\$300 million in 1965-66 but eventually will fall to a stable long-run level. Both in Malaya and Sarawak, however, production is inhibited by a cautious forestry policy and could probably be increased substantially. In the meantime, considerable progress is being made in expanding local wood processing industries. Thus the eventual drop in export earnings may be largely offset by import substitution in paper, pulp, plywood and other wood products.

Fishing

22. Malaysia's fisheries have grown rapidly over the past decade and the value of production, excluding processing, is now probably about M\$120 million a year. However, most of the catch is consumed locally, and Malaysia as a whole is still a net importer of fish. The Government is encouraging off-shore fishing and the use of more efficient techniques. Progress will depend in the short run on foreign participation and in the long run on the training of local fishermen in navigation, refrigeration and other necessary skills.

C. Minerals

23. Malaysia's mineral production, excluding quarrying, has increased greatly in value, from M\$386 million in 1953 to M\$673 million in 1963, and now accounts for about 7% of GNP. Most of this increase is due to a 25% increase in the price of tin and a 33% increase in the price of iron ore during the period, and to an increase in the volume of iron ore production. In 1964, as prices continue to rise, the value of production should reach about M\$750-800 million.

Tin Mining

24. Malaysia's most important mineral product is tin, which accounts for almost 70% of mineral production and about 18% of total domestic exports, second in importance only to rubber. All Malaysian tin originates in the States of Malaya, which has been the world's leading producer for many years, accounting for about one-third of total world production.

25. The present volume of Malayan tin production is about 60,000 tons a year, a level roughly equal to that of the mid-fifties, before the imposition of export restrictions by the International Tin Council in 1958-1959 in an effort to halt the price decline. As a result of these restrictions, Malaya's output dropped 40% and only gradually recovered after the restrictions were lifted, not regaining the 1957 level, until 1963. Malaya and Thailand have been the only producers to regain the 1957 level. The price has, on the whole, increased steadily since around 1953 because of large U.S. Government purchases for the strategic stockpile and later by the price support operations of the International Tin Agreement. Since 1958 production has been unable to recover sufficiently to meet consumption requirements, boosting prices and creating a world shortage of tin which has been increasing steadily since, to be met in part by large releases from the U.S. stockpile. During 1964, the price rose rapidly and by October the world market price had reached an all-time high of more than £1,600 per ton, twice the average of 1959, before falling to £1,350 a ton in early December 1964.

26. The reason for the very sharp increase in price during 1964 are mainly speculative, as is indicated by the rapid fall from the October peak. During 1963 world consumption outran production by some 20,000 tons, 1/ but

1/ All these data exclude the centrally planned economies.

this deficit was covered by running down stocks, including releases from the U.S. stockpiles. The first half of 1964 saw a spurt in consumption which resulted in a similar excess of consumption over production but this too is expected to be more than covered by U.S. stockpile releases. The rise in the price of tin would thus appear to reflect consumers' uncertainty over the ability of suppliers to meet the expected increases in demand over the next decade, as well as speculative activity.

27. The steady rise in price exhausted the stocks held under the International Tin Agreement, whose previous "must buy" and "must sell" limits of £800 and £1,000 a ton, respectively, were superseded in November 1964 by new limits of £1,000-1,200 a ton. Because consumption is likely to exceed production until the late 1960's, it is unlikely that prices will fall much below £1,200 a ton for two or three years, or until there are firm signs that the £200 rise in the "floor" price will induce a sufficient increase in production to enable consumption needs to be met after the U.S. stockpile release program is terminated. ^{2/} In view of the high price levels expected in the next few years it is probable that by 1970 production will have been sufficiently stimulated to close the gap between supply and demand. The price accordingly is likely to fall to a level close to the present floor price of the Tin Buffer Stock - i.e. £1,000-1,100 a ton (\$1.25-1.37 a lb.)

28. Malaysian production is unlikely to react much to the latest price increase, and has not so far done so for two reasons. Firstly, more than half the total production is from dredges, which take from 18 months to four years to build or relocate, and whose production program cannot be swiftly altered. The open gravel-pump mines, which are mainly Chinese owned, have, however, continued to respond to the price increase, and production in 1963 and the first eight months of 1964 rose but failed to offset the continuing decline in dredge output caused by the gradual exhaustion of the better tin deposits. The output from gravel pumping has increased by 33% between 1960 and 1963 - these mines use simpler equipment that can be set up or moved to new sites relatively quickly and easily, thus being less affected than the dredge sector by uncertainty over the long-run future price.

29. The size of Malaya's commercial workable tin deposits has increased as the price has risen and as more efficient methods of extraction have been developed. Still, many mines are now working deposits which were previously considered sub-marginal or reworking tailings and old ground, and the tin content of the ground being worked continues to drop. In addition, output is limited by the availability of mining land, which is controlled by the State governments, and much of which lies within Malay reservations. Since few Malay mining companies have sufficient capital at their disposal, joint ventures must be organized, with the Malays contributing the land, if this tin is to be exploited. Also, in the absence of a well-coordinated national land use policy, rich mining land may be diverted to other, less productive uses.

^{1/} U.S. stockpile stocks as of mid-1964 were sufficient to support releases of 20,000 tons a year for about six years.

30. Taking all these factors into consideration, while the price of tin may continue to remain high it is unlikely that Malayan tin production will increase much above its present level, barring the discovery of substantial new deposits, or a change in land-use policy. There is a strong possibility that off-shore tin mining may develop, and at least one mining company began actively prospecting for tin on the submerged shelf off the coast of Perak when the Central Government, after years of delay, gave the go-ahead ^{1/}. In the absence of such new sources the volume of production may thus increase slightly from the present 60,000 tons to 63-64,000 tons in the next four years, but thereafter may slowly decline as the best reserves become exhausted. The value of exports should however jump from M\$460 million in 1963 to over M\$650 million in 1964 and M\$600 million for the next few years.

Iron Mining

31. Malaya exports about 6.5 million tons of iron ore a year, most of it to Japan's steel industry; in 1963 Malaya supplied 25.5% of Japan's imports of iron ore, as compared with 31.4% in 1961. In recent years iron ore has been Malaysia's fourth largest export, ranking behind only rubber, tin and timber, and iron mining was given a new lease on life in the middle of 1962, when the Rompin Mine in Pahang came into production with an estimated 28 million tons of reserves. But, at the present rate of depletion, known commercial reserves will be exhausted in less than ten years. Another problem is the fact that a lot of the new workings, although rich in iron content, contain sulphur and other substances which render them of less commercial value, given the present technology of iron-and-steel making. However, prospecting continues, especially in Pahang, where some surveys indicate the existence of further large quantities of iron ore.

32. Export earnings, boosted by sales from the Rompin Mine and the recent rise in price, have risen from about M\$100 million in 1959 to more than M\$175 million in 1963, a level unlikely to be exceeded in the next few years. Duties should continue to yield about M\$20 million a year to the Government.

Other Mineral Resources

33. Aside from tin and iron ore, the only important mineral resources currently being exploited are bauxite, mined in both Malaya and Sarawak but rapidly being depleted, titanium ore and other heavy minerals recovered as by-products of tin mining and smelting, and a small amount of petroleum, rapidly diminishing, from Sarawak's old Miri oilfield. Small quantities of gold are also extracted in both Malaya and Sarawak. However, there is considerable prospecting activity, both on and off-shore, and it is possible that valuable new resources may be discovered, which may include copper in the Labuk Valley in Sabah. Fairly encouraging results have recently been obtained in off-shore oil searches in Malaysian territorial waters off Sarawak in the vicinity of Brunei. High quality steam coal, as well as fireclay, have been discovered in Sarawak in commercial quantities, and may be exploited when the security situation improves.

^{1/} Off-shore mining has been successful for several years off the west coast of Thailand.

D. Entrepot Trade

34. One of the results of the merger of Singapore into Malaysia has been to make much of the entrepot trade internal trade rather than external trade. On the average about 12 percent of the value of re-exports is retained as net earnings by the Malaysian entrepot trade. These earnings have increased slightly in the past three years even though the value of re-exports has not, due to the change in the composition of re-exports, with an increase in the relative weight of commodities which bear a higher percentage of value added, such as food, machinery, textiles and other manufactured goods. Net foreign exchange earnings on Malaysia's entrepot trade were approximately M\$245 million in 1963, 1/ compared with about M\$230 million in 1960.

35. External entrepot trade has remained fairly stable in recent years, prior to confrontation, with re-exports amounting to about M\$2.1 billion and imports for re-export to about M\$1.8 billion. Of this total, M\$1.2 billion at export value, or considerably more than half, passes through Singapore, in addition to entrepot trade with the rest of Malaysia worth about M\$2.0 billion at export value. Thus, of Singapore's total re-exports of M\$3.2 billion, about 60% represents trade originating in or destined for the rest of Malaysia. Moreover, this trade with the rest of Malaysia has increased steadily in recent years, while Singapore's total volume of entrepot trade has not: the increase has however resulted from the rapid increase in re-exports of food and manufactured goods from other countries to the rest of Malaysia, rather than an increase in re-exports of Malaysian produce to the rest of the world. This trend is noticeable in Singapore's extra-Malaysian entrepot trade as well, as imports of raw materials from neighboring countries 2/ have decreased while re-exports of food and manufactured goods to those countries have increased. Thus, while the total value of Singapore's entrepot trade has remained fairly stable, its direction and composition have been changing rapidly. In 1963 more than 40% of Singapore's total re-exports consisted of manufactured goods, compared with less than 30% in 1959, while the balance of trade passing through Singapore between the neighboring countries and the more industrial countries has shifted at the expense of the former.

36. The gradual decline in the relative importance of entrepot earnings on primary commodities from neighboring countries has been further aggravated by a sudden drop in these earnings since September 1963 as a result of Indonesian confrontation. Since that time the Indonesian Government has

1/ 1963 earnings were, during the last quarter, adversely affected by confrontation. 1962 earnings totalled about M\$253 million.

2/ Indonesia, Thailand, Burma and Indo-China

adopted the policy of officially prohibiting almost all trade with Malaysia, although, through third countries and by other means, a certain amount of trade has continued to flow. The stoppage was initially almost complete, but trade via Singapore gradually built up to about 60% of its original value by mid-1964. Thereafter, further limited efforts to curtail the trade were made by Indonesia, and for security reasons the direct barter trade via Singapore also had to be stopped by Malaysia in August. In the immediate future, therefore, the entrepot trade with Indonesia appears likely to continue at about 35-40% of its original level. Some export trade, mainly of foodstuffs exported from Singapore and the west coast of Malaysia to Sumatra has also been lost, as has some entrepot trade via the Borneo States. Overall, however, the direct effect of the partial trade stoppage has been to cut Malaysian GNP by a little less than 2%. The impact has of course been highly localised, and relatively Penang has been hardest hit - although in absolute terms the brunt of the impact and the resulting unemployment has been taken by Singapore, where the direct impact has been to reduce regional GNP by about 6%, although initially the effect was more severe. The Singapore Government took strong economic defence measures to minimise the impact, which was also eased by an increase in Government spending. An indirect effect has been a spurt in investment in housing and a growing activity on the part of traders in manufacturing enterprises such as textiles.

37. The prospects for the internal entrepot trade can thus be regarded as quite good as long as imports into Malaysia continue to expand at their present rate. Exports are likely to be sluggish. About half the external entrepot trade is with Indonesia, whose future policies are not predictable. Assuming however that trade continues to be curtailed, the overall prospects are for a continuation of the slow decline which will probably result in an unchanging level of total entrepot trade during the next few years. The continuation of external entrepot trade assumes that satisfactory physical arrangements can be made to accommodate the trade in goods that become dutiable in Singapore, which hitherto has been a free port. Plans for a free zone combining the Telok Ayer Basin and the Port area are well advanced.

E. Manufacturing

38. Progress in the manufacturing sector ^{1/} has been steady but not spectacular. The contribution to Malaysian GNP has risen slowly from 7% in 1959 to about 8% in 1963, increasing in absolute terms by about 8% a year over that period, accompanied by a somewhat slower growth in employment. On a regional basis manufacturing industry has been growing slightly more slowly in the States of Malaya than in Singapore, and also contributes much less to regional GNP (about 4.7% as opposed to 16% in Singapore). In Singapore, however, industrial production as a % of Singapore's GNP has remained steady for four years, although the average annual growth rate in net value of output was about 9% between 1960 and 1962, falling to about 5% in 1963. The proportion of Malaysian net manufacturing output produced in Singapore

1/ Excluding rubber processing

has remained almost constant at around 55% since 1958. The Borneo States' output is negligible, outside sawmilling. Although adequate statistics on investment are lacking, gross capital formation in manufacturing industry in the States of Malaya probably does not exceed 8% of total investment, and there appears to have been only a slight upward trend in manufacturing investment during 1961-63. In Singapore, on the other hand, investment in manufacturing ^{1/} appears to have spurted in 1961, and increased by at least 10% a year since then, although some hesitation is evident in 1963, probably caused by uncertainty over the Malaysian merger. During 1964 investment and production appear to have increased further both in Singapore and the States of Malaya, and confidence does not seem to have been shaken by Indonesian confrontation.

39. During the past four years, the State Government of Singapore has made substantial investments to promote the growth of the industrial sector. Expenditure on the Jurong Industrial Estate alone has so far amounted to about M\$50 million. The difficulties of promoting industry in a free port have been found to be immense, however, as is indicated by the low disbursements on loans and equity which the Economic Development Board has been able to achieve. Up to the middle of 1964, only M\$16 million had been disbursed out of its initial resources of M\$100 million, and only 105 acres out of the 1,300 acres which had been cleared on Jurong were occupied by firms in production. The employment creation to date has also been insufficient to make a sizable impact on the annual increment to the labour force; the average investment required to create one new job has been higher than expected at around M\$16,000 (outside petroleum) - the employment implications of which are also causing concern in Malaya. There are indications, however, that new industrial investment in 1964 may have risen sharply, and if all expectations are fulfilled, industrial production should rise more rapidly from 1965 onwards.

40. In Malaya, very little active promotion or guidance of industrialization has been undertaken. Pioneer status certificates giving relief from some tax liabilities for a number of years have on the whole been given freely to applicants, as in Singapore, but holders account for only a small proportion of either investment or output. Little other assistance has been available and in contrast to Singapore, specific industrial aims and opportunities have neither been formulated nor promoted. The role of Malaysian Industrial Development Finance Limited (MIDFL) has been growing in importance over the past two years both as a source of technical assistance and of finance. Gross disbursements (M\$19.7 million at the end of August 1964) slightly exceeded those of the EDB in Singapore. Its role as an advocate of more aggressive Malaysia-wide industrial policies has also been important.

41. There is a good chance that 1964 and 1965 will however be the turning point in Malaysia's industrial development. Of the potential there

^{1/} Based on estimated retained imports of machinery, implements and tools, industrial electrical equipment, and non-residential building.

is little doubt - Malaysia's consumption of manufactured goods approaches that of the Philippines or Thailand, but is now largely met from imports; the opportunities in import substitution are very large, even though the prospects for domestic income growth are limited for a number of years. The mechanism for ensuring the judicious protection of the domestic market - the Tariff Advisory Board - is now in operation, and the impending Federal Industrial Development Authority should have adequate powers to formulate and promote a more aggressive policy on a rational Malaysian basis. It will be aided by the growth in the number of industrial estates which promises to reduce the land bottleneck. Also, the preparation of new Malaysia-wide pioneer industry legislation was announced at the time of the 1965 Budget. The value of manufacturing output is projected to grow at about 8% per annum, on the basis of past trends. It is entirely possible, however, that the growth in output may accelerate to 10% - 15% in the next several years, if protection and promotion have a significant impact.

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Table I

MALAYSIA - External Public Debt Outstanding Including Undisbursed
As Of June 30, 1964

Debt Repayable in Foreign Currencies
(In thousands of U.S. dollar equivalents)

Item	Debt as of June 30, 1964			
	Gross		Net of sinking fund	
	Net of undisbursed	Including undisbursed	Net of undisbursed	Including undisbursed
TOTAL EXTERNAL PUBLIC DEBT	<u>227,502</u>	<u>309,473</u>	<u>200,927</u>	<u>282,898</u>
Publicly-issued bonds	<u>69,059</u>	<u>69,059</u>	<u>48,210</u>	<u>48,210</u>
IBRD loans	<u>28,350</u>	<u>103,094</u>	<u>28,350</u>	<u>103,094</u>
U.S. Government loans (DLF)	<u>15,535</u>	<u>16,924</u>	<u>15,535</u>	<u>16,924</u>
Loans from other governments	<u>114,558</u>	<u>120,396</u>	<u>108,832</u>	<u>114,670</u>
Brunei	60,550	60,550	55,179	55,179
Germany	-	5,250	-	5,250
Hong Kong	6,122	6,122	5,767	5,767
United Kingdom	47,886	48,474	47,886	48,474

Statistics Division
IBRD-Economic Department
December 7, 1964

Table II

MALAYSIA - Estimated Contractual Service Payments on External
Public Debt Outstanding Including Undisbursed as of June 30, 1964 1/

Debt Repayable in Foreign Currencies
(In thousands of U.S. dollar equivalents)

GRAND TOTAL

Year	Debt Outstanding at Beginning of Period (including undisbursed)	Payments During Period			Total
		Amortization	Interest		
	<u>2/3/</u>				
1964	282,898	7,271	9,312		16,583
1965	280,055	7,373	9,968		17,341
1966	271,765	7,805	10,225		18,031
1967	262,955	8,497	11,661		20,158
1968	252,200	10,227	12,828		23,055
1969	240,796	15,850	12,354		28,204
1970	223,697	13,223	11,557		24,780
1971	209,391	10,514	10,952		21,466
1972	197,945	13,780	10,353		24,133
1973	183,212	27,270	9,211		36,481
1974	154,992	9,382	8,229		17,611
1975	144,651	9,548	7,879		17,427
1976	134,075	27,539	6,903		34,443
1977	105,752	7,815	5,908		13,723
1978	97,420	8,189	5,507		13,695

PUBLICLY-ISSUED BONDS

Year	Debt Outstanding at Beginning of Period		Payments During Period		Total
	Gross	Net	Amortization	Interest	
	<u>2/</u>	<u>2/3/</u>			
1964	69,059	48,210	572	2,866	3,437
1965	69,059	47,605	642	2,821	3,463
1966	69,059	46,295	642	2,821	3,463
1967	69,059	44,942	654	2,821	3,475
1968	69,059	42,369	654	2,821	3,475
1969	69,059	40,926	654	2,821	3,475
1970	69,059	39,435	4,040	2,531	6,571
1971	49,739	34,746	441	2,242	2,683
1972	49,739	33,858	441	2,242	2,683
1973	49,739	32,938	13,723	1,787	15,510
1974	35,739	18,703	371	1,332	1,703
1975	35,739	17,809	371	1,332	1,703
1976	35,739	16,882	11,909	914	12,823
1977	7,893	4,626	79	496	575
1978	7,893	4,425	79	496	575

(continued)

MALAYSIA - Estimated Contractual Service Payments on External
Public Debt Outstanding Including Undisbursed as of June 30, 1964 1/

Debt Repayable in Foreign Currencies
(In thousands of U.S. dollar equivalents)

IBRD LOANS

Year	Debt Outstanding at Beginning of Period (including undisbursed) ^{2/}	<u>Payments During Period</u>		
		Amortization	Interest	Total
1964	103,094	812	1,575	2,387
1965	102,687	867	2,115	3,012
1966	101,820	1,223	2,545	3,769
1967	100,596	1,823	4,127	5,950
1968	98,773	3,470	5,414	8,914
1969	95,303	3,663	5,255	8,918
1970	91,640	3,872	5,045	8,917
1971	87,769	4,079	4,826	8,906
1972	83,689	4,312	4,596	8,908
1973	79,377	4,557	4,352	8,909
1974	74,820	4,775	4,095	8,870
1975	70,045	4,883	3,828	8,711
1976	65,161	5,166	3,551	8,718
1977	59,995	5,455	3,259	8,714
1978	54,541	5,759	2,951	8,710

U.S. GOVERNMENT LOANS

Year	Debt Outstanding at Beginning of Period (including undisbursed) ^{2/}	<u>Payments During Period</u>		
		Amortization	Interest	Total
1964	16,924	1,334	535	1,869
1965	16,251	1,382	557	1,939
1966	14,869	1,430	508	1,938
1967	13,439	1,481	458	1,939
1968	11,958	1,533	405	1,938
1969	10,425	1,587	351	1,938
1970	8,838	947	295	1,242
1971	7,891	278	274	552
1972	7,613	288	264	552
1973	7,325	298	254	552
1974	7,027	309	243	552
1975	6,718	319	232	551
1976	6,399	331	221	552
1977	6,068	343	209	552
1978	5,725	355	197	552

(continued)

(Table II continued)

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MALAYSIA - Estimated Contractual Service Payments on External
Public Debt Outstanding Including Undisbursed as of June 30, 1964 ^{1/}

Debt Repayable in Foreign Currencies
(In thousands of U.S. dollar equivalents)

LOANS FROM OTHER GOVERNMENTS

Year	Debt Outstanding at Beginning of Period		Payments During Period		
	Gross ^{2/}	Net ^{2/4/}	Amortization	Interest	Total
1964	120,396	114,670	4,553	4,336	8,889
1965	119,778	113,512	4,482	4,445	8,927
1966	116,159	108,780	4,510	4,351	8,860
1967	112,512	103,977	4,539	4,255	8,794
1968	108,836	99,099	4,571	4,157	8,728
1969	105,128	94,142	9,946	3,927	13,873
1970	94,784	83,784	4,363	3,686	8,049
1971	91,218	78,985	5,715	3,610	9,325
1972	85,843	72,785	8,739	3,251	11,990
1973	76,566	63,573	8,691	2,819	11,510
1974	67,216	54,442	3,926	2,558	6,486
1975	63,942	50,079	3,974	2,487	6,462
1976	60,621	45,633	10,133	2,216	12,349
1977	46,160	35,062	1,938	1,943	3,881
1978	44,712	32,728	1,996	1,862	3,857

^{1/} Includes service on all debts included in Table I prepared December 7, 1964.

^{2/} Amount outstanding for 1964 is as of June 30, 1964. Payments are for the calendar year 1964.

^{3/} Gross debt less applicable sinking fund.

^{4/} Gross debt less applicable sinking fund. Loans from Brunei and Hong Kong are being redeemed in part by contributions to a sinking fund.

Statistics Division
IBRD-Economic Department
December 7, 1964

Table 1

MALAYSIA - Land Use and Area 1962-63
(Sq. miles)

	<u>States of Malaya</u>	<u>Singapore</u>	<u>Sabah</u>	<u>Sarawak</u>	<u>Total Malaysia</u>
Rubber	6,250	10	362	570	7,192
Rice	1,540	--	143	440	2,123
Coconut	800	8	142	86	1,036
Oil Palm	275	--	10	--	285
Pepper	--	--	--	11	11
Sago	--	--	6	140	143
Fruits	340	3	9	16	368
Shifting Agriculture	--	--	1,000*	8,450+	9,450
Other crops and fallow land	600	39	68	169	876
Frost Reserves	13,350	--	9,980*	11,550	34,880
All other land	27,545	160	18,568	26,818	72,194
 Total	 50,700	 220	 29,388	 48,250	 128,558

* Rough estimate

+ Excluding hill padi

Source: Information from Agricultural Departments of the various regions.

Table 2

MALAYSIA - Estimated Population by Age-group and by Race, end-1963

	<u>States of Malaya</u>		<u>Singapore</u>		<u>Sarawak</u>		<u>Sabah</u>		<u>Malaysia Total</u>	
	No.	%	No.	%	No.	%	No.	%	No.	%
A. AGE-GROUP										
0-4	1,326	17.3	327	18.1	151	18.7	95	18.9	1,899	17.6
5-9	1,173	15.3	274	15.2	133	16.4	79	15.9	1,659	15.4
10-14	988	12.9	226	12.6	84	10.4	48	9.6	1,346	12.5
15-19	741	9.7	143	7.9	72	8.8	41	8.3	997	9.3
20-29	1,127	14.7	267	14.9	115	14.2	84	16.8	1,593	14.8
30-39	813	10.6	210	11.7	96	11.8	65	13.0	1,184	11.0
40-49	651	8.5	161	9.0	72	8.9	44	8.9	928	8.6
50-59	467	6.1	117	6.5	46	5.7	24	4.8	654	6.1
60 and over	374	4.9	74	4.1	41	5.1	19	3.8	508	4.7
TOTAL	7,660	100.0	1,800	100.0	810	100.0	499	100.0	10,769	100.0
B. RACE ^{1/}										
Malays	3,837	50.1	254	14.1	142	17.5	^{2/} 32	6.4	4,265	39.6
Chinese	2,841	37.1	1,352	75.1	255	31.5	117	23.5	4,565	42.4
Indians and Pakistanis	843	11.0	148	8.2	--	--	--	--	991	9.2
Sea Dayak	--	--	--	--	254	31.4	--	--	254	2.3
Kadazan	--	--	--	--	--	--	160	32.0	160	1.5
Other indigenous	4	--	--	--	150	18.5	177	35.5	331	3.1
Other non-indigenous ..	135	1.8	46	2.6	9	1.1	13	2.6	203	1.9
TOTAL (all races)...	7,660	100.0	1,800	100.0	810	100.0	499	100.0	10,769	100.0
Percentage Distribution ..	71.1		16.7		7.5		4.6		100.0	

^{1/} Includes Indonesians^{2/} Mainly Indonesians

Source: Adaptation of official Projections based on latest census in each region.
Net migration is excluded.

Table 3
1/
Economically Active Population of Malaysia
(thousands)

	<u>2/</u> States of Malaya		<u>3/</u> Singapore		<u>3/</u> Sarawak		<u>3/</u> Sabah		<u>4/</u> Estimated Total - 1962	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture, forestry, hunting and fishing	1,290.3	54.3	40.2	8.4	239.6	81.4	142.1	80.5	1,735.3	50.8
Mining and Quarrying	47.7	2.0	1.6	0.3	--	--	--	--	48.7	1.4
Manufacturing	162.9	6.9	66.8	13.9	11.5	3.9	6.7	3.8	262.2	7.7
Building and Construction	50.3	2.1	24.6	5.1	4.6	1.6	4.5	2.5	90.0	2.6
Electricity, Gas, Water and Sanitary Services	8.8	0.4	5.6	1.2	--	--	--	--	15.8	0.5
Commerce	318.7	13.4	121.5	25.3	13.8	4.7	7.7	4.4	506.5	14.8
Transport, Storage and Communications	81.1	3.4	50.3	10.5	5.6	1.9	4.7	2.6	142.0	4.2
Services	412.7	17.4	161.3	33.6	16.3	5.5	10.1	5.7	605.7	17.7
Others	1.9	0.1	8.3	1.7	2.9	1.0	0.8	0.5	7.8	0.2
TOTAL	2,374.4	100.0	480.3	100.0	294.3	100.0	176.6	100.0	3,414.0	100.0

1/ Age 10 and over in Singapore; age 15 and over elsewhere.

2/ Results of 1962 Sample Survey of Employment, Unemployment and Underemployment.

3/ At the time of the most recent official census (Singapore 1957, Sarawak and Sabah 1960).

4/ The total consists of the actual 1962 data for Malaya plus the census figures for the new States raised by the estimated percentage population increase between the census date and 1962.

Table 4

MALAYSIA - Progress in Education, 1953-1963

	1953	1960	1961	1962	1963	Regional Breakdown - 1963				1964 est.
						States of Malaya	Singapore	Sarawak	Sabah	
<u>Enrolment (000's)</u>										
Primary Schools	922	1,526	1,631	1,655	1,690	1,178	343	106	63	1,741
Secondary Schools	106	230	263	291	339	231	83	18	7	383
Others	0	2	3	27	25	21	3	0	0	30
Total	1,028	1,758	1,897	1,973	2,054	1,430	429	124	70	2,154
Enrolment as a % of total population	13.2	18.0	18.8	19.0	19.2	18.8	24.2	15.0	14.1	19.5
Enrolment as a % of schoolage population	57.7	71.3	72.6	71.8	69.9	68.4	90.0	53.4	51.3	71.2
Secondary school enrolment as a % of total enrolment	10.3	13.1	13.9	14.7	16.5	16.2	19.3	14.5	10.0	17.8
Pupil/Teacher ratio	32.1	28.4	28.3	27.8	28.1	27.4	30.0	30.5	28.2	28.3
Average enrolment per school	177	239	257	257	267	260	701	118	135	278
Literacy rate - latest census						51%	52%	25%	24%	
<u>Estimated Expenditure on Education (M\$ million)</u>										
Current expenditure		275	305	349	389	261	98	19	11	434
Capital expenditure		25	46	67	76	50	14	7	5	99
Total		300	351	416	465	311	112	26	16	533
of which:										
Expenditure on Higher Education	1/	34	61	68	84	58	20	3	3	94
Expenditure on other schools		266	290	348	381	253	92	23	13	439
Total expenditure as a % of GNE		3.7	4.0	4.4	4.6	4.8	4.0	5.8	5.0	5.0
<u>Financed by: (M\$ million)</u>										
School fees in Government and aided schools		26	27	15	19	10	3	3	3	23
Funds provided by Central or Local Governments		223	244	312	339	225	86	18	10	390
Other		17	19	21	23	18	3	2	0	26
Average expenditure per pupil in aided schools		147	153	178	182	171	216	192	185	204
Total per capita expenditure on education (M\$)		31	35	40	43	41	64	29	28	48

Table 5

Malaysia - Estimated Output of Selected Agricultural Products (1959-1963)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>Regional Breakdown - 1963</u>			
						<u>States of Malaya</u>	<u>Singapore</u>	<u>Sabah</u>	<u>Sarawak</u>
Rubber (Th. tons)	764.0	780.0	807.6	817.3	850.5	782.9	1.8	21.2	44.6
Rice (Th. tons)	539.1	662.3	710.9	679.3	726.7	623.8	-	42.2	60.0
Palm Oil (Th. tons)	71.5	90.3	93.3	106.5	123.6	123.6	-	-	-
Pepper (Th. tons)	8.4	4.1	10.9	11.5	11.7	-	-	-	11.7
Coconuts (Th. tons copra equiv.)	153.4	203.0	194.9	165.3	163.7	130.0	2.5	18.3	12.9
Pineapples (million lbs. received by canneries)	315.0	325.0	368.0	408.0	n.a.				
Fisheries (Th. tons landed)	147.0	167.0	178.0	196.0	210.0	184.0	9.0	~~~~~ 17*/	
Livestock (Th. Head)									
Buffalo and Cattle	663.0	673.0	680.0	677.0	n.a.	574 (1962)	-	81.0	22.0
Pigs	1,424.0	1,454.0	1,552.0	1,610.0	n.a.	492.0	750.0	81.0	287.0
Goats	305.0	298.0	305.0	316.0	n.a.	287.0		18.0	11.0

*/ Rough estimate

Sources: Information from Agricultural Departments of the different regions.

Table 6

States of Malaya - Rubber Statistics 1953-1964

<u>Year</u>	<u>Planted Acreage</u>		<u>Production</u>			<u>Yield per Tapped Acre - Estates</u> (pounds)
	<u>Estates</u> (000 acres)	<u>Small-holdings</u>	<u>Total</u>	<u>Estates</u>	<u>Small-holdings</u>	
1953	2,041	1,614	574.4	341.8	232.6	470
1954	2,028	12,629	586.5	345.5	241.0	480
1955	2,025	1,650	638.7	352.5	286.2	490
1956	2,017	1,686	626.0	351.6	274.4	496
1957	2,020	1,710	637.5	368.6	268.9	535
1958	1,989	1,766	662.9	390.1	272.8	586
1959	1,950	1,839	697.8	408.0	289.8	641
1960	1,942	1,892	708.4	414.1	294.3	676
1961	1,945	1,968	736.7	429.5	307.2	719
1962	1,933	2,064	751.6	439.2	312.4	745
1963	1,925	2,145	784.7	455.5	329.2	780
1964 (Jan.-Aug.)	--	--	524.9	299.5	225.4	--

<u>Year</u>	<u>Exports</u> (000 long tons)	<u>Imports</u>	<u>Average Singapore</u>	<u>Export Unit</u>
			<u>Price R.S.S.#1</u> (Malayan cents per lb.)	<u>Values</u> (Malayan \$ per ton)
1954	612.1	27.1	67.3	1,476
1955	659.5	33.3	114.2	2,402
1956	649.4	43.7	96.8	2,122
1957	655.1	37.9	88.8	1,991
1958	690.2	56.1	80.2	1,735
1959	782.9	53.3	101.6	2,199
1960	766.8	70.7	108.1	2,385
1961	790.6	64.9	83.5	1,824
1962	791.0	67.3	78.2	1,729
1963	841.5	53.2	72.4	1,633
1964 (Jan.-Aug.)	554.5	26.8	67.0	--

Source: Department of Statistics, States of Malaya.

Table 7

Malaysia - Mineral Statistics - 1953 and 1956-64

	<u>1953</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>First half 1964</u>
<u>Tin</u>										
Production of Tin-in-Concentrates (Th. tons):										
by Dredging	28.6	30.7	28.1	19.9	18.9	28.0	29.6	28.5	27.5	12.2
by Other Methods	27.7	31.6	31.2	18.6	18.6	24.0	26.4	30.1	32.4	17.5
Total	56.3	62.3	59.3	38.5	37.5	52.0	56.0	58.6	59.9	29.7
Number of Tin Mines Operating:										
Dredges	76	78	76	34	45	69	72	65	65	64
Others	553	706	662	383	438	522	624	639	644	710
Total	629	784	738	417	483	591	696	704	709	774
Approximate, Export Value of Production (M\$ millions)	343.4	405.1	371.7	238.6	250.2	343.8	420.6	440.9	458.6	270.5
<u>Iron Ore</u>										
Production (Th. tons)	1062.7	2444.6	2972.4	2795.3	3760.7	5640.3	6733.5	6507.3	7264.5	3207.1
Exports (Th. tons)	1018.3	2389.3	2919.7	2591.4	3772.3	5500.2	6435.1	6441.1	6581.8	
Value of Exports (M\$ millions)	20.5	51.2	65.5	62.6	99.9	140.2	163.8	166.2	176.3	
Average Unit Value (M\$ per ton)	20	21	22	24	26	25	25	26	27	
<u>Bauxite Exports (Th. tons)</u>										
States of Malaya	135.4	259.1	340.6	246.6	363.8	448.0	284.4	314.9	450.5	
Sarawak	0	0	0	92.8	202.9	260.1	256.4	198.7	172.2	63.0
Total	135.4	259.1	340.6	339.4	566.7	708.1	540.8	513.6	622.7	
Value (M\$ millions)	2.8	4.8	6.4	5.8	10.4	13.0	10.6	9.7	11.0	

(Table 7 continued)

- 2 -

	<u>1953</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	First half <u>1964</u>
<u>Sarawak Petroleum</u>										
Production (Th. U.S. bbls.)	351.5	508.8	474.5	410.4	396.6	433.3	435.5	418.2	372.5	178.7
Value (M\$ millions)	2.5	3.8	3.6	3.2	2.9	2.7	2.6	2.5	2.3	
<u>Other Mining</u>										
Value of Production (excludes quarrying)	17.0	16.5	12.1	13.9	8.4	10.5	15.6	8.0	25.0	
Total Value (approximate)	386.2	481.4	459.3	324.1	371.8	510.2	613.2	627.3	673.2	

Table 8

States of Malaya - Tin Statistics 1953-1964

A. Production and Trade (thousand long tons)

<u>Year</u>	<u>Production</u> ^{1/}	<u>Imports</u> ^{1/}	<u>Exports</u>		<u>Total</u>
			<u>Concentrates</u> ^{1/}	<u>Metal</u>	
1953	56.3	6.0	27.1	35.1	62.2
1954	60.7	8.2	31.5	37.3	68.8
1955	61.2	10.8	33.9	37.9	71.9
1956	62.3	10.9	20.6	52.4	73.0
1957	59.3	13.9	19.4	50.4	69.8
1958	38.5	7.9	6.3	38.5	44.8
1959	37.5	8.7	.7	44.1	44.8
1960	52.0	20.7	.3	76.3	76.6
1961	56.0	16.6	.4	74.2	74.6
1962	58.6	25.3	.5	81.3	81.3
1963	59.9	20.2	.5	84.6	85.1
1964 (Jan.-June)	29.6	5.0 ^{2/}	.2 ^{2/}	37.0 ^{2/}	37.2 ^{2/}

^{1/} Tin content of concentrates.
^{2/} Estimates

B. Tin Prices

	<u>London-Cash</u> (£/long ton)	<u>New York-prompt</u> (US cents/lb.)	<u>Singapore-ex-works</u> (M\$ per picul)
1953	731.7	95.8	363.9
1954	719.4	91.8	353.6
1955	740.1	94.7	365.5
1956	787.7	101.2	387.0
1957	754.8	96.2	373.2
1958	734.9	95.1	369.3
1959	785.4	102.0	396.9
1960	796.6	101.4	393.8
1961	888.6	113.3	447.7
1962	896.5	114.6	447.8
1963	909.7	116.6	455.4
1964 January	1041.0	134.0	523.3
June	1183.0	149.0	588.8
end-October	1681.0	215.0	845.0
end-November	1448.0	185.0	739.0

Source: International Tin Study Group and Department of Statistics, States of Malaya.

Table 9

Malaysia - Forestry

	<u>1953</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>Regional Breakdown - 1963</u>		
							<u>Malaya 2/</u>	<u>Sabah</u>	<u>Sarawak</u>
<u>Volume of Production 1/</u>									
Timber	81	154	209	227	240	292	110	122	60
Poles, firewood and Charcoal	n.a.	28	27	29	27	26	22	2	2
Total		182	236	256	267	318	132	124	62
<u>Volume of Timber Exports</u>									
Logs	13	60	74	96	110	134	neg.	103	31
Sawn Timber	16	32	46	38	41	48	34	neg.	14
Total	29	92	120	134	151	182	34	103	45
<u>Value of Timber Exports (M\$ millions)</u>									
Logs	16	69	99	119	144	179	neg.	149	31
Sawn Timber	29	52	91	63	66	86	62	1	23
Total	45	121	190	182	210	265	62	150	54
of which Sabah	12	61	91	103	122	150			
<u>Average Unit Value (M\$ per cu. ft.)</u>									
Logs	1.29	1.15	1.34	1.24	1.32	1.34	n.a.	1.44	1.01
Sawn Timber	1.76	1.62	1.97	1.66	1.61	1.77	1.83	1.80	1.62
<u>Approximate Total Value of Production</u>									
(M\$ millions)	150	220	370	340	350	450	200	180	70

1/ All volume figures are estimated true volume in millions of cubic feet.

2/ Includes Singapore.

Source: Forest Departments of the various regions.

Table 10

Output of Selected Industrial Products (States of Malaya + Singapore)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>Rubber Processing</u> ^{1/}						
Ribbed Smoked Sheet - Thousand Tons	37.2	78.8	68.2	60.7	40.5	30.6
Remilled - Thousand Tons	130	141	168	185	207	193
All Rubber Processing - Value Added M\$ millions	n.a.	50.2	85.9	65.4	74.3	n.a.
<u>Rubber Products</u>						
Footwear - million pairs	13.2	16.0	18.9	19.4	20.0	22.5
Compounds - million lbs.	3.3	3.5	4.1	4.0	3.7	4.5
All Products - Value Added M\$ millions	n.a.	14.9	17.6	18.5	18.2	n.a.
Soft Drinks - million gallons	18.5	18.8	20.2	21.6	21.3	24.3
Beverage Industries - Value Added M\$ millions	n.a.	29.6	30.8	41.1	39.0	n.a.
Biscuits - Thousand Tons	19.3	23.6	24.8	25.1	25.7	25.3
Soap - Thousand Tons	30.1	26.9	28.7	28.9	28.2	30.4
Cigarettes, Cigars, etc. million lbs.	5.3	8.7	13.2	15.6	17.3	19.8
All Tobacco Products, Value Added M\$ millions	n.a.	15.0	25.5	27.7	39.9	n.a.
Sawn Timber '000 Tons of 50 cu. ft.	661	688	907	899	943	1046
Wood Products, incl. sawmills, Value Added M\$ millions	n.a.	38.7	49.4	47.5	52.1	n.a.
Bricks - millions	138	117	121	137	172	183
Cement - (states of Malaya only) Thousand Tons	108	190	282	326	321	356
<u>Electricity (States of Malaya) Million KWH</u>						
<u>Consumption</u>						
Tin Mines and Dredges	385	366	551	628	673	684
Other Mines	20	18	19	24	23	24

(Table 10 continued next page)

(Table 10 continued)

- 2 -

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>Electricity (States of Malaya)</u>						
Industrial and Commercial	206	225	264	301	348	412
Lighting and Domestic Power	181	211	233	255	279	308
Total Consumption	792	820	1066	1209	1323	1429
<u>Electricity (Singapore) Million KWH</u>						
<u>Consumption</u>						
Industrial and Commercial Power	254	263	284	306	331	328
Domestic Power	148	162	178	193	212	234
Private Lighting	81	89	104	120	133	148
Public Street Lighting	10	10	11	12	13	14
Total Sold	492	525	578	637	690	724
Total Consumption (States of Malaya and Singapore)	1284	1345	1644	1846	2013	2153

1/ Excludes rubber processed on estates.

Note: No comprehensive industrial data exist. The following partial sources were used. It should be noted that the Singapore Industrial Census only includes establishments employing more than 10 people.

Sources: a) Monthly Statistical Bulletin of the States of Malaya.
b) Singapore Monthly Digest of Statistics.
c) Survey of Manufacturing Industries - Federation of Malaya (1962).
d) Censuses of Industrial Production - Singapore 1959, 1960, 1961, 1962.

Table 11

Malaysian Balance of Trade by S.I.T.C. Section 1958-1963
(M\$ millions)

	<u>Food and Live Animals</u>	<u>Beverages and Tobacco</u>	<u>Crude Materials Inedible</u>	<u>Mineral fuels and Lubricants</u>	<u>Animal and Vegetable Oils and Fats</u>	<u>Chemicals</u>	<u>Manufactured Goods</u>	<u>Machinery and Transport Equipment</u>	<u>Misc. Manufactured Articles</u>	<u>Unclassified</u>	<u>Total</u>
<u>1958</u>											
Imports (c.i.f.)	1026	143	716	939	14	179	622	385	231	96	4352
Exports (f.o.b.)	323	35	2142	596	108	37	450	63	38	212	4003
Balance	- 703	- 108	+ 1426	- 343	+ 94	- 142	- 172	- 322	- 193	+ 116	- 349
<u>1959</u>											
Imports	955	128	967	886	19	192	573	366	221	77	4384
Exports	252	28	3071	555	96	30	414	54	25	200	4726
Balance	- 703	- 100	+ 2104	- 331	+ 77	- 162	- 159	- 312	- 196	+ 123	+ 342
<u>1960</u>											
Imports	999	128	1064	852	20	219	652	476	276	105	4790
Exports	262	32	3180	527	103	31	620	59	28	190	5032
Balance	- 737	- 96	+ 2116	- 325	+ 83	- 188	- 32	- 417	- 248	+ 85	+ 241
<u>1961</u>											
Imports	1053	152	820	788	18	252	769	592	310	110	4864
Exports	275	37	2639	461	106	36	723	68	37	218	4600
Balance	- 778	- 115	+ 1819	- 327	+ 88	- 216	- 46	- 524	- 273	+ 108	- 263
<u>1962</u>											
Imports	1047	151	862	834	18	246	821	733	335	86	5133
Exports	298	50	2558	504	94	36	762	110	43	232	4686
Balance	- 749	- 101	+ 1696	- 330	+ 76	- 210	- 59	- 623	- 292	+ 146	- 447
<u>1963</u>											
Imports	1267	171	672	807	17	268	889	836	392	82	5401
Exports	360	58	2511	475	98	36	779	83	52	220	4672
Balance	- 907	- 113	+ 1839	- 332	+ 81	- 232	- 110	- 753	- 340	+ 138	- 730

Note: Because of rounding, individual items may not add to totals.

Source: Mission estimates based on published trade statistics of the components of Malaysia. 1963 data are slightly under-estimated because of the exclusion of trade between Indonesia and Singapore, which is no longer reported.

Table 12

MALAYSIA - Domestic Exports and Re-exports 1958-1963

(M\$ million)

	1958			1959			1960		
	Domestic Exports	Re-exports	Total Exports	Domestic Exports	Re-exports	Total Exports	Domestic Exports	Re-exports	Total Exports
Rubber	1,196.7	636.0	1,832.7	1,751.7	897.6	2,649.3	1,838.4	817.5	2,655.9
Tin	226.1	55.4	281.5	241.1	57.1	298.2	370.3	135.9	506.2
Timber	71.8	14.3	86.1	112.4	12.2	124.6	174.6	16.9	191.5
Iron Ore	62.5	--	62.5	99.9	--	99.9	140.2	--	140.2
Coconuts and Products ...	70.4	68.6	139.0	64.1	60.2	124.3	76.4	65.0	141.4
Oil Palm and Products ..	50.6	8.4	59.0	53.3	13.1	66.4	61.2	11.9	73.1
Canned Pineapple	33.1	--	33.1	27.9	--	27.9	26.4	--	26.4
Pepper	15.1	30.2	45.3	15.7	44.0	59.7	17.0	70.6	87.6
Machinery	12.3	50.8	63.1	11.9	41.8	53.7	13.1	45.8	58.9
Chemicals	16.3	21.0	37.3	17.2	12.4	29.6	18.1	13.2	31.3
Textiles	2.6	103.4	106.0	6.3	49.4	55.7	8.4	45.6	54.0
Other Manufactures	32.0	665.1	697.1	33.2	606.7	639.9	39.9	574.2	614.1
Others	97.9	462.5	560.4	120.8	376.0	496.8	106.4	344.6	451.0
Total	1,887.4	2,115.7	4,003.1	2,555.5	2,170.5	4,726.0	2,890.4	2,141.2	5,031.6
	1961			1962			1963		
Rubber	1,453.1	681.7	2,133.8	1,364.3	679.5	2,043.8	1,391.8	546.1	1,937.9
Tin	427.7	149.2	576.9	431.2	185.8	617.0	480.2	173.9	654.1
Timber	169.6	13.6	183.2	202.6	7.8	210.4	253.8	6.4	260.2
Iron Ore	163.8	--	163.8	166.1	--	166.1	176.3	--	176.3
Coconuts and Products ..	64.7	51.0	115.7	46.5	20.3	66.8	45.2	25.9	71.1
Oil Palm and Products ..	57.3	12.8	70.1	59.5	8.8	68.3	63.1	12.7	75.8
Canned Pineapple	32.4	--	32.4	35.6	--	35.6	39.6	--	39.6
Pepper	26.8	52.5	79.3	24.0	44.7	68.7	24.2	38.3	62.5
Machinery	13.0	54.8	67.8	16.6	92.8	109.4	17.8	63.4	81.2
Chemicals	15.5	20.4	35.9	15.4	21.1	36.5	22.4	13.6	36.0
Textiles	5.4	77.7	83.1	5.9	64.0	69.9	3.4	59.5	62.9
Other Manufactures	32.9	524.8	557.7	44.9	578.9	623.8	60.8	532.0	592.8
Others	108.1	392.6	500.7	136.8	432.3	569.1	109.3	511.6	621.2
Total	2,569.3	2,031.1	4,600.4	2,549.4	2,136.1	4,685.5	2,687.9	1,983.7	4,671.6

Source: Mission estimates based mainly on published trade statistics of the components of Malaysia.

Table 13
(M\$ million)
Regional Analysis of Malaysian Exports, 1958 and 1963

	<u>Domestic Exports to Rest of World</u>					<u>Total Malaysia</u>	<u>Total Re-exports Malaysia</u>	<u>Total Exports Malaysia</u>
	<u>States of Malaya</u>	<u>Singapore</u>	<u>Total Malaya</u>	<u>Sarawak</u>	<u>Sabah</u>			
<u>1958</u> -Rubber	1,100.2	3.3	1,103.5	60.4	32.8	1,196.7	636.0	1,832.7
Tin and concentrates	226.1	--	226.1	--	--	226.1	55.4	281.5
Timber	16.0	--	16.0	19.5	36.3	71.8	14.3	86.1
Iron ore	62.5	--	62.5	--	--	62.5	--	62.5
Coconuts & Products	41.5	21.8	62.3	1.0	6.1	70.4	68.6	139.0
Oil Palm & Products	49.2	1.4	50.6	--	--	50.6	8.4	59.0
Canned Pineapple	21.6	11.5	33.1	--	--	33.1	--	33.1
Pepper	0.6	--	0.6	14.5	--	15.1	30.2	45.3
Machinery	0.6	11.7	12.3	--	--	12.3	50.8	63.1
Chemicals	5.8	8.2	14.0	0.8	1.5	16.3	21.0	37.3
Textiles	0.8	1.8	2.6	--	--	2.6	103.4	106.0
Other Manufactures	14.2	14.8	29.0	3.0	--	32.0	665.1	697.1
All other exports	53.1	8.5	61.6	28.2	8.1	97.9	462.5	560.4
Total	1,592.2	83.0	1,675.2	127.4	84.8	1,887.4	2,115.7	4,003.1
 <u>1963</u> -Rubber	1,287.4	2.7	1,290.1	69.6	32.1	1,391.8	546.1	1,937.9
Tin and Concentrates	480.2	--	480.2	--	--	480.2	173.9	654.1
Timber	55.4	--	55.4	53.7	150.6	253.8	6.4	260.2
Iron Ore	176.3	--	176.3	--	--	176.3	--	176.3
Coconuts and Products	27.0	9.6	36.6	0.8	7.8	45.2	25.9	71.1
Oil Palm and Products	58.4	4.7	63.1	--	--	63.1	12.7	75.8
Canned Pineapple	29.0	10.6	39.6	--	--	39.6	--	39.6
Pepper	2.2	--	2.2	21.8	0.2	24.2	38.3	62.5
Machinery	2.2	15.6	17.8	--	--	17.8	63.4	81.2
Chemicals	14.2	8.2	22.4	--	--	22.4	13.6	36.0
Textiles	2.1	1.3	3.4	--	--	3.4	59.5	62.9
Other Manufactures	28.4	26.1	54.5	5.0	1.3	60.8	532.0	592.8
All other exports	67.6	18.5	86.1	15.2	8.0	109.3	511.6	621.2
Total	2,230.4	97.3	2,327.7	166.1	200.0	2,687.9	1,983.7	4,671.6

Source: as for Table 12.

Table 14

MALAYSIA - Direction of Trade

(M\$ million)

	IMPORTS						EXPORTS					
	1958	1959	1960	1961	1962	1963	1958	1959	1960	1961	1962	1963
<u>Sterling Area</u>												
United Kingdom	735.3	628.5	740.4	814.6	817.5	856.5	559.5	584.9	631.4	534.1	462.7	404.3
Australia	169.7	176.2	184.7	199.7	219.4	255.0	213.3	247.4	282.1	171.2	206.3	177.1
Brunei	304.4	299.2	246.7	195.3	198.9	178.6	32.2	30.8	27.3	28.1	26.6	33.7
Hong Kong	138.0	143.6	168.2	192.4	198.0	214.2	66.1	77.0	91.2	89.5	102.8	124.6
India	105.5	90.2	81.8	120.2	96.6	161.4	101.0	109.4	148.3	115.9	116.3	99.5
Other Sterling Area	179.4	195.3	206.0	225.7	312.0	365.3	161.2	165.2	202.1	178.7	175.2	191.4
Subtotal	1,632.3	1,533.1	1,627.8	1,747.9	1,842.4	2,031.0	1,133.3	1,214.7	1,382.4	1,117.5	1,089.9	1,030.6
<u>Continental Europe</u>												
W. Germany	87.1	114.1	130.0	155.6	153.2	173.9	160.6	230.6	316.1	238.0	178.5	187.3
France	33.5	36.0	48.1	54.4	58.2	53.2	108.5	151.0	198.2	178.9	166.5	137.1
Italy	20.4	20.0	27.2	43.0	56.3	58.1	144.6	159.3	191.0	182.1	167.8	181.4
Netherlands	76.0	91.0	98.6	134.9	123.2	127.3	129.7	147.6	112.5	105.6	98.2	93.4
Belgium and Luxembourg	20.6	26.1	24.9	31.4	30.3	30.0	23.3	29.6	64.0	57.2	68.9	64.8
Subtotal	237.8	287.2	328.8	419.4	421.2	442.6	566.7	718.1	881.8	761.8	679.9	664.0
China - mainland	204.0	166.7	188.6	190.0	222.9	314.4	119.4	123.2	88.7	13.6	3.8	18.3
Indonesia	1,109.8	1,277.6	1,251.3	1,021.6	1,045.3	790.8	380.8	162.5	161.6	246.6	339.0	277.3
Japan	316.1	304.7	405.1	451.0	505.7	576.7	463.0	641.4	710.7	724.5	685.4	731.8
Thailand	299.0	340.7	373.7	357.4	349.6	353.8	109.7	124.6	181.3	107.2	115.3	119.3
U. S. A.	145.0	160.3	210.1	259.9	303.3	320.9	431.6	594.4	537.2	552.7	655.9	609.4
U. S. S. R.	1.0	2.3	6.7	8.8	10.3	16.0	137.2	354.4	165.1	275.1	338.5	341.4
Others	406.6	311.3	398.3	407.8	432.0	554.9	661.4	792.7	914.8	801.4	777.8	879.5
TOTAL	4,351.6	4,383.9	4,790.4	4,863.8	5,132.7	5,401.1	4,003.1	4,726.0	5,031.6	4,600.4	4,685.5	4,671.6

Source: Mission estimates based mainly on published trade statistics of the components of Malaysia.

Table 15

(A) Import and Export Price Indices, and Terms of Trade, of States of Malaya, 1959=100

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1st quarter</u>	
								<u>1963</u>	<u>1964</u>
<u>Exports</u>									
<u>Price Index</u>									
Rubber	90	80	100	106	83	79	76	79	68
Tin	96	93	100	101	113	116	112	107	134
TOTAL	91	83	100	105	87	85	82	84	79
<u>Volume Index</u>									
Rubber	92	90	100	103	108	108	115	116	116
Tin	112	87	100	169	170	179	191	194	163
TOTAL	97	92	100	113	122	125	134	131	131
<u>Imports</u>									
<u>Price Index</u>									
Food	108	101	100	101	103	103	106	105	110
TOTAL	107	102	100	103	101	98	103	101	104
<u>Volume Index</u>									
Food	96	102	100	108	107	107	121	127	120
TOTAL	98	94	100	120	126	143	142	148	134
TERMS OF TRADE	85	82	100	102	86	87	79	83	76

(B) Price Indices, States of Malaya and Singapore, 1959=100

States of Malaya - Retail Price Index ^{1/}	104	103	100	100	100	100	103	102	104
Singapore - Consumer Price Index ^{2/}	n.a.	n.a.	100	100	101	102	103	103	105

Sources: Monthly Statistical Bulletin, States of Malaya. Monthly Digest of Statistics, Singapore.

^{1/} Includes all races except Europeans.

^{2/} Weights apply only to households with expenditure levels of M\$100-500 per month.

Table 16

Singapore's Entrepot Trade ^{1/}
(M\$ millions)

	1958			1959			1960		
	Imports for Re-exports	Value Added	Re-exports	Imports for Re-exports	Value Added	Re-exports	Imports for Re-exports	Value Added	Re-exports
Rubber (crude)	921.9	102.1	1,042.0	1,379.9	133.4	1,527.9	1,360.2	125.4	1,420.5
Tin ^{2/}	44.4	5.6	50.0	6.8	0.5	7.3	7.6	0.2	7.8
Timber ^{2/}	11.0	2.7	13.7	11.5	2.2	13.7	18.3	5.3	23.6
Animal & Vegetable oils, Oilseed, etc.	68.6	9.6	78.3	67.2	15.3	82.4	61.7	9.0	70.8
Spices and Tea	71.8	18.3	93.6	83.1	25.4	108.6	81.4	24.6	127.9
Machinery	115.0	19.2	146.9	121.6	21.4	161.2	151.3	37.1	211.9
Chemicals	33.6	6.9	39.9	34.2	6.9	41.8	41.5	7.7	48.9
Textiles and Clothing	169.2	17.7	189.9	123.2	16.2	144.4	128.7	17.5	151.0
Other Manufactures ^{3/}	97.2	16.0	122.0	89.4	16.6	124.3	108.3	20.6	141.4
All Others ^{3/}	1,027.1	133.3	1,201.1	893.8	125.6	1,055.9	856.5	139.0	1,099.5
Total	2,559.8	331.4	2,977.4	2,810.7	363.5	3,267.5	2,815.5	386.4	3,303.4
of which: Value added by processing		159.4			187.0			179.5	
Other value added		172.0			176.5			206.9	
	<hr/>			<hr/>			<hr/>		
	1961			1962			1963		
Rubber	984.0	133.1	1,130.2	969.8	129.0	1,088.7	820.3	94.6	974.9
Tin ^{2/}	28.7	2.3	31.0	9.8	0.9	10.7	4.9	3.6	17.3
Timber ^{2/}	16.0	1.9	17.9	23.8	3.5	24.2	29.6	5.5 ^{4/}	32.6
Animal & Vegetable oils, Oilseed, etc.	57.6	6.2	64.6	39.1	2.2 ^{4/}	45.0	38.5	1.4 ^{4/}	46.0
Spices and Tea	93.9	13.9	109.8	75.5	11.5	97.9	83.7	18.5	94.1
Machinery	189.8	40.2	245.3	244.2	65.6	315.8	217.3	98.1	319.8
Chemicals	51.4	7.7	58.4	55.7	9.3	70.2	62.4	11.6	78.5
Textiles and Clothing	146.0	20.3	166.9	154.0)		171.4	161.2)		190.2
Other Manufactures ^{3/}	120.0	23.7	157.2	171.6)	56.1	215.9	183.9)	69.4	243.6
All Others ^{3/}	958.6	142.5	1,134.8	920.1	121.3	1,125.3	945.4	144.5	1,200.4
Total	2,646.0	391.8	3,116.1	2,663.1	397.2	3,165.1	2,542.1	447.2	3,197.4
of which: Value added by processing		191.0			221.4			225.3	
Other Value added		200.0			175.8			221.9	

Source: Based on data prepared by Chief Statistician, Singapore.

^{1/} Including trade with other parts of Malaysia. "Imports for re-exports" plus "value added" usually do not add up to "Re-exports" because of stock changes and other factors.

^{2/} Imports of tin and timber for re-export are rough estimates, because, prior to 1962, tin ore and logs were treated as retained imports rather than imports for re-export.

^{3/} Section 3, Mineral Fuels and Oils, included in "All Others."

^{4/} SITC group 4 only.

Table 17

MALAYSIA - Estimate of Gross National Product and Expenditure 1958-1963

	1958	1959	1960	1961	1962	1963 ^{1/}
Gross National Product at Factor Cost	6572	7079	7471	7770	8206	8568
plus: indirect taxes less: subsidies	744	936	1123	1023	1031	1096
Gross National Product at Market Prices	7316	8015	8594	8793	9237	9664
plus: net factor income to abroad	130	204	270	188	170	200
Gross Domestic Product at Market Prices	7546	8219	8964	9081	9507	9864
less: exports of goods and non-factor services ^{2/} (..)			5811	5393	5531	5540
plus: imports of goods and non-factor services ^{2/} (..)	-259	-839	5008	5095	5367	5656
discrepancy ^{2/}			+25	+105	+110	+145
Gross National Expenditure	7287	7380	8186	8888	9453	10,135
of which, <u>on Consumption</u>	6351	6615	7044	7538	7843	8298
a) Private ^{3/}	5301	5558	5959	6363	6504	6795
b) Public	1050	1057	1085	1175	1339	1503
<u>on Gross Domestic Fixed Capital Formation</u>	945	766	1142	1350	1610	1827
a) Private ^{4/}	644	538	867	909	922	1002
b) Public ^{5/}	291	228	275	441	688	825

Note: These estimates are orders of magnitude only, and reflect uncertainties about the underlying balance of payments data, and the production and expenditure data, of the New States.

^{1/} Preliminary

^{2/} Complete Malaysian import and export data are not available prior to 1960. 1960 through 1963 data are taken from the balance of payments estimates in Table 21. The discrepancy arises mainly from the incorporation of data on Singapore. Singapore's GDP estimate is derived from the Gross National Expenditure estimate, thus relying heavily upon trade and payments data of uncertain accuracy. The process of aggregating Singapore's balance of payments data into a Malaysian estimate led to the use of data which does not correspond with that upon which the GDP estimate is based, hence the discrepancy. A further error was introduced in deriving the Borneo States' GNE estimates from GDP using only the visible trade data, excluding non-factor services.

^{3/} Residual. Includes expenditures of Malaysians overseas.

^{4/} Including stocks.

^{5/} Includes public authorities.

Table 18

MALAYSIA - Composition of Consumption Expenditure
(M\$ millions)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u> ^{1/}
<u>Private Consumption</u>						
Food	2,253	2,378	2,493	2,664	2,735	2,836
Beverages and Tobacco	508	519	560	591	589	616
Clothing and Footwear	410	434	457	477	478	529
Furniture and Household Equipment	323	352	390	437	472	506
Other Expenditures on Goods	234	250	288	312	303	328
Housing Services	627	653	678	677	692	711
Transport and Communications	282	319	374	393	411	432
Recreation and Entertainment ^{2/}	296	318	366	386	395	406
Other Services	330	356	376	393	396	408
Adjustments ^{3/}	+38	-21	-23	+33	+33	+23
Total Private Consumption Expenditure	5,301	5,558	5,959	6,363	6,504	6,795
<u>Public Consumption</u>	1,050	1,057	1,085	1,175	1,339	1,503
<u>TOTAL CONSUMPTION EXPENDITURES</u>	6,351	6,615	7,044	7,538	7,843	8,298

^{1/} Preliminary

^{2/} Including value added by restaurants and some retail trade.

^{3/} Includes expenditure abroad of residents, less expenditure in Malaysia by non-residents and other adjustments.

Source: The above figures are based on detailed official consumption estimates for the States of Malaya and Singapore for 1958-1961. Detailed estimates were also available for Singapore for 1962 and 1963, together with totals for the States of Malaya for 1962 and 1963 - details were estimated by the mission. Virtually all the data for the Borneo States were also estimated by the mission.

Table 19

MALAYSIA - Expenditure on Gross Capital Formation by Type
1958-1963 (M\$ millions)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u> ^{1/}
Land	2	3	3	3	3	3
Dwellings	169	134	156	182	213	254
Non-residential buildings	129	124	157	203	290	348
Other construction and works	147	125	149	196	315	362
Machinery, transport equipment, etc.	312	271	368	464	546	609
Planting of perennial crops	152	169	189	217	243	251
Total fixed capital formation	911	826	1,022	1,270	1,610	1,827
plus increase in stocks ^{2/}	34	-60	120	80	—	—
Gross domestic capital formation	945	766	1,142	1,350	1,610	1,827

Source: official estimates were available for the States of Malaya and Singapore for 1958-1961, and for Singapore for 1962 and 1963. Partial estimates were available for the States of Malaya for 1962 and 1963 and these were supplemented by mission estimates. Mission estimates were made for the Borneo States for all years except Sarawak 1961, where an official estimate was used.

1/ Preliminary

2/ Malaya only

Table 20

States of Malaya - Gross Domestic Product by Industry of Origin in Constant 1960 \$

(M\$ millions)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u> ^{1/}
Agriculture, Forestry, Hunting and Fishing	1,723	1,723	1,767	1,831	1,879	1,986	2,070	2,113	2,207
Rubber	1,108	1,087	1,110	1,155	1,215	1,233	1,286	1,307	1,369
Other	615	636	657	676	664	753	784	806	830
Mining and Quarrying	270	292	288	203	218	306	338	351	410
Manufacturing	480	487	500	515	544	445	468	496	528
Construction									
Electricity, Water and Sanitary Services	56	59	63	53	54	70	79	90	100
Transportation, Storage and Communication	128	141	147	149	168	189	204	212	227
Wholesale and Retail Trade	584	624	630	624	664	777	829	870	914
Banking Insurance and Real Estate	59	56	51	54	62	71	79	87	96
Ownership of Dwellings	205	211	218	228	232	239	247	258	270
Public Administration and Defence	308	317	330	331	338	355	377	389	449
Services	444	472	499	527	557	586	606	671	712
<hr/>									
Gross domestic product at factor cost in constant 1960 dollars	4,257	4,382	4,493	4,515	4,716	5,182	5,495	5,812	6,213

^{1/} Preliminary

Source: Department of Statistics
States of Malaya.

Table 21

MALAYSIA - Balance of Payments Estimates 1960-1963
(M\$ millions)

	1960			1961			1962			1963		
	Receipts	Payments	Net	Receipts	Payments	Net	Receipts	Payments	Net	Receipts	Payments	Net
1. Domestic Trade ^{1/}	2,890	2,679	+211	2,569	2,847	-278	2,549	3,009	-460	2,688	3,384	-696
2. Entrepot Trade ^{2/}	2,141	1,780	+361	2,031	1,673	+358	2,136	1,744	+392	1,984	1,607	+377
3. Total Merchandise Trade	5,032	4,459	+573	4,600	4,520	+80	4,686	4,753	-67	4,672	4,991	-319
4. <u>Services:</u> ^{3/}												
Freight and Insurance	24	331	-307	19	344	-324	18	380	-326	16	410	-395
Other transportation & travel ^{4/}	297	125	+172	310	134	+176	340	140	+199	340	155	+185
Other Services ^{5/}	458	93	+365	46	97	+366	488	93	+395	512	100	+412
Subtotal of Services	779	549	+230	793	575	+218	846	614	+232	868	665	+204
5. Investment Income ^{6/}	131	402	-272	185	369	-184	208	355	-147	203	366	-164
6. Private Transfers Payments ^{7/}	8	296	-288	11	276	-265	11	273	-262	14	288	-274
7. Net Govt. Transfer Payments ...	n.a.	n.a.	-47	n.a.	n.a.	-40	n.a.	n.a.	-30	n.a.	n.a.	-33
8. Official Grants ^{8/}	56	--	+56	54	--	+54	38	--	+38	30	--	+30
9. Non-monetary Gold	--	22	-22	--	29	-29	--	3	-3	--	7	-7
10. <u>Balance on Current Account</u>	6,006	5,775	+231	5,643	5,809	-166	5,788	6,043	-240	5,787	6,350	-563
11. <u>Long-term Capital Account</u>												
Private Long-term Capital ^{9/} (net)	--	--	+270	--	--	+290	--	--	+350	--	--	+400
Central and State Government												
Issues Abroad ^{10/}	--	--	--	--	--	--	--	--	--	68	--	68
Official Loans ^{11/}	66	--	+66	39	--	+39	59	--	+59	42	--	+42
Other	n.a.	n.a.	-9	n.a.	n.a.	-8	n.a.	n.a.	-11	n.a.	n.a.	-11
Subtotal	--	--	+327	--	--	+321	--	--	+398	--	--	+499
12. <u>Balance on Current and Long-term Capital Account</u>			+558	--	--	+154	--	--	+159	--	--	+64
13. <u>Monetary Movements</u>												
Net Change in Foreign Assets												
of Official Institutions ^{12/}	--	--	-520	--	--	-310	--	--	-301	--	--	-43
Net Change in Commercial Banks												
and other foreign assets ^{13/}	--	--	+27	--	--	+180	--	--	+87	--	--	-26
Other net monetary movements												
including errors and omissions	--	--	-65	--	--	+47	--	--	+55	--	--	+133
Total net monetary movements	--	--	-558	--	--	-155	--	--	-159	--	--	+64

Source: Based on estimates prepared by the Department of Statistics, States of Malaya, and Bank Negara Malaysia.
Details may not add to totals because of rounding.

Note: These data should be regarded as orders of magnitude rather than precise estimates. Particularly the data on private long-term capital, investment income, private transfer payments, and entrepot trade are subject to error. A further error is introduced by the use of customs data on the physical movement of merchandise, rather than foreign payments data - which do not exist.

- ^{1/} Retained imports and domestic exports (f.o.b. values).
^{2/} Entrepot trade with the rest of the world, thus excluding Singapore's entrepot trade with the rest of Malaysia.
^{3/} Estimated from freight charges.
^{4/} Includes bunkers, provisions, air passenger fares, port dues, etc.
^{5/} Foreign military and embassy expenditures, film rentals, management fees, etc.
^{6/} Rough estimate.
^{7/} Mainly to China, India and Europe.
^{8/} Including military aid.
^{9/} Estimate of direct and portfolio investment, based mainly on 1962 company survey for States of Malaya. Includes repatriation of assets of local insurance companies, required by the Insurance Ordinance.
^{10/} Comprising £5 million issue in London and US\$5 million lent by Chase Manhattan Bank, both in 1963.
^{11/} Drawings by Central Government and other official agencies on IBRD and other loans.
^{12/} All official and semi-official agencies, as included in Table 30. Includes sinking funds - minus sign indicates increase in assets.
^{13/} See Table 30 for coverage. Changes in non-resident holdings of Malaysian currency are negligible. In both items 12 and 13 a small error is introduced by the valuation of foreign assets at market value rather than cost.

Statistical Note on Public Finance Tables 22 through 29

An attempt is made in the following tables to show the aggregate transactions of agencies in the public sectors of the component parts of Malaysia. The agencies included are the Federal Government, all fourteen State governments, and the following authorities:

<u>Malaya</u>	<u>Singapore</u>
Central Electricity Board	Housing and Development Board
Malaysian Railways	Harbour Board (now Port of Singapore Authority)
Penang Port Commission	Public Utilities Board (formerly part of City Council)
	Telephone Board

The Economic Development Board of Singapore is regarded, in most respects, as part of the Singapore State Government. Excluded because of lack of information are the transactions of the public authorities in the Borneo States - which, however, are relatively unimportant. Excluded also are agencies whose main contribution to the public sector is financial, such as the Post Office Savings Bank, all Provident Funds, Rubber Funds, etc. and some agencies whose functions are financed mainly from Government appropriations such as RIDA and FLDA.

Data on revenue and expenditure are believed to be reasonably accurate, although errors are introduced by the incorporation of the accounts of the CEB, SHE and PPC whose financial years do not correspond with the calendar year. Expenditures by public authorities and States exclude expenditures financed by Federal loans or grants, which are included in Federal Government expenditures.

Data on financing are less precise, in part because of the use of changes in gross assets and gross borrowings of public sector agencies. Debt of both the Central and Singapore State governments is held, to a limited extent, by other Malaysian governments and public sector agencies: over the 1959-1964 period, however, changes in these holdings were relatively small and thus do not significantly affect the results. Such changes in internal debt holdings as took place will of course be offset by corresponding changes in assets. Similarly, current receipts of governments are slightly overstated by the inclusion of tax and interest receipts from other government bodies. Such payments are offset, however, by reduced current surplus of public authorities.

Unless otherwise noted, these tables are mission estimates based on data supplied by the agencies concerned.

TABLE 22

MALAYSIA - Summary Overall Accounts of the Central and State Governments and Public Authorities (1959-1964)

(M\$ million)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u> ^{1/}
<u>Revenue and Expenditure</u>						
Governments' Current Revenue	1351	1603	1689	1760	1894	1831
Governments' Current Expenditure	1187	1220	1306	1433	1622	1831
Current surplus or deficit	+164	+383	+383	+327	+272	n
Public authorities' current surplus	53	62	69	81	80	95
Total current resources	+217	+445	+452	+408	+352	+95
Capital expenditure of governments	229	247	422	631	726	820
Capital expenditure by public authorities <u>2/</u>	59	54	69	98	143	160
Total capital expenditure	288	301	491	729	869	980
Overall deficit or surplus	-71	+144	-39	-321	-517	-885
<u>Sources of Finance</u>						
Net Sale of long-term bonds <u>3/</u>	250	190	145	+269	252	+235
Net Sale of short-term bonds and treasury bills	-2	+59	+20	-22	+32	+65
Foreign Borrowing	+50	+58	+41	+66	+87	50
Change in foreign assets <u>4/</u> (minus means increase) ...	-272	-484	-250	-85	+59)	
Change in local assets (minus means increase)	-56	-43	+17	-1	+27)	+410
Capital grants received	+58	+59	+47	+41	+20	+110
Other capital receipts <u>5/</u>	+43	+17	+19	+53 <u>6/</u>	+40	+25
Total Sources of Finance	+71	-144	+39	+321	+517	+895

Source: Based on succeeding tables, but see note 1/ below.

1/ These totals represent estimated actual 1964 transactions, based upon the latest available data. They thus do not agree with the supporting tables which are based upon budget estimates.

2/ From their own resources, excluding loans or grants from governments.

3/ Includes borrowing by the Borneo States, mainly from Brunei.

4/ Sinking funds are assumed to be outside the governments' accounts.

5/ Including appreciation of investments, local borrowing by public authorities, and errors and omissions.

6/ This item includes an unusually large appreciation of investments, and large statutory deposits by commercial banks in Singapore.

Table 23

Malaysian Public Finance 1963 - Regional Breakdown
(M\$ millions)

	Federal Gov't	Malayan Public Authorities	Singapore Public Authorities	State Governments in				Total
				Malaya	Singapore ^{1/}	Sarawak	Sabah	
<u>Revenue and Expenditure</u>								
Current Revenue	1,107	--	--	150 ^{2/}	454	88	95	1,894
Current Expenditure	935 ^{2/}	--	--	179	354	79	75	1,622
Current surplus or deficit ^{3/}	+172	+31	+49	-29	+100	+9	+20	+352
Capital expenditure	455	77	66	60	126	49	37	869
Overall deficit or surplus	-283	-46	-17	-89	-26	-40	-17	-517
<u>Sources of Finance</u>								
Net Sale of long-term bonds	+177	--	--	--	+65	--	+10	+252
Net Sale of short-term bonds & treasury bills	+28	--	--	--	+4	--	--	+32
Foreign Borrowing	+60	+25	+2	--	--	--	--	+87
Change in foreign assets (minus means increase)	+83	+4	+2	--	-50	+27	-7	+59
Change in local assets (minus means increase)	-5	+15	+4	+1	-7	+9	+10	+27
Capital grants received	-82 ^{4/}	--	+2	+88 ^{4/}	+4	+4	+4	+20
Other capital receipts	22	+2	+7	--	+10	--	--	+40
Total Sources of Finance	+283	+46	+17	+89	+26	+40	+17	+517

^{1/} Including Economic Development Board.

^{2/} Excludes the road, capitation, etc., grants paid by the Federal Government to the States' governments.

^{3/} Trading surplus in the case of the public authorities.

^{4/} Represents M\$88 million in grants from Federal Government to States' governments.

Source: See Statistical note preceding table 22.

Table 24
Malaysia - Federal and State Current Revenues, 1959-1964
(M\$ millions)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964 (est.)</u>
<u>Direct Taxes</u>						
Income tax	215	280	336	347	346	342
Estate duty	7	9	7	11	12	12
Subtotal	222	289	343	359	359	354
<u>Export Duties</u>						
Rubber	198	219	130	103	92	51
Tin and tin ore	36	58	65	67	71	76
Others	19	12	17	25	38	35
Subtotal	253	287	212	195	199	162
<u>Import Duties and Excise</u>						
Tobacco and products	157	165	167	169	174	181
Petrol and heavy oils	105	130	134	140	150	156
Malt Liquors and spirits	76	83	86	88	93	94
Others	134	169	168	166	182	180
Subtotal	472	547	555	563	599	611
<u>Other Receipts</u>						
Licences and Fees, <u>1/</u> and Receipts for Gov't. Services	190	217	243	272	308	307
Receipts of trading departments <u>2/</u>	42	45	50	58	63	46
Interest	37	53	93	97	98	83
Currency Board Surplus Fund Distribution	27	28	35	50	61	60
Other revenues <u>3/</u>	109	134	158	166	207	198
TOTAL	<u>1,351</u>	<u>1,603</u>	<u>1,689</u>	<u>1,760</u>	<u>1,894</u>	<u>1,819</u>
of which: tax revenue	1,076	1,282	1,332	1,366	1,425	1,398
non-tax revenue	275	321	357	394	469	421

1/ includes royalties.

2/ net receipts of posts and telecommunications, gross receipts from civil aviation, broadcasting and T.V., and some rural water supplies.

3/ includes receipts of Singapore City Council (mainly property tax) and land sales. The City Council was merged with the State Government in 1961.

4/ Capital grants are excluded.

Table 25
Malaysia - Federal and State Current Expenditures^{1/}
(M\$ millions) 1959-1964

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u> (rev. est.)
<u>Economic Services</u>						
Agriculture, rural development, fisheries, forestry, etc.	48	61	66	79	76	100
Industries and mining	9	6	4	3	4	7
Public Works and Transport	123	124	131	136	146	156
<u>Social Services</u>						
Education	223	235	267	320	356	382
Health	125	130	144	157	171	192
Labor and Social Welfare, and other social services ^{2/}	51	47	47	52	66	71
<u>Government Services</u>						
Administration	160	178	191	197	250	240
Defence	92	86	92	95	109	184
Internal Security	148	123	115	126	148	185
Debt Service (including sinking fund contributions)	78	93	112	149	164	195
Pensions and Gratuities	96	99	97	77	84	96
Others	34	39	40	42	48	49
TOTAL	<u>1,187</u>	<u>1,220</u>	<u>1,306</u>	<u>1,433</u>	<u>1,622</u>	<u>1,857</u>

^{1/} Excluded from these expenditures are the current expenses on posts and telecommunications (which are treated as offsets to revenue), and contributions to the development and other statutory funds.

^{2/} Mainly broadcasting and information.

Table 26

Malaysia - Consolidated Capital Expenditures of Federal and State Governments and Public Authorities
 M\$ million 1959-1964

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u> (rev.est.)
<u>Agriculture</u>						
1) Land and Rural Development	11.5	8.4	18.4	51.5	44.5	65.8
2) Rubber replanting	43.8	42.9	35.7	29.1	20.8	36.5
3) Drainage and Irrigation	5.8	6.9	19.1	26.7	24.8	32.9
4) Others	4.1	3.8	9.9	12.3	13.7	30.2
Subtotal	65.2	62.0	83.1	119.6	103.8	165.4
<u>Transport</u>						
5) Roads and Bridges	22.5	34.3	59.3	120.6	121.9	138.6
6) Railways	4.2	3.5	8.4	11.2	19.6	16.0
7) Ports	7.6	11.6	23.1	26.1	22.5	12.4
8) Civil Aviation	2.5	3.1	4.4	11.0	21.0	32.1
9) PWD Plant and Equipment <u>1/</u>	1.9	14.5	37.3	31.9	17.0	11.9
Subtotal	38.7	67.0	132.5	200.8	202.0	211.0
<u>Communications</u>						
10) Telecommunications	18.9	13.2	18.8	22.8	23.7	42.2
11) Broadcasting and Television	0.6	2.2	2.9	3.3	10.9	24.2
12) Posts	0.4	0.7	0.9	2.2	2.0	2.9
Subtotal	19.9	16.1	22.7	28.3	36.6	69.3
<u>Industry</u>						
13) Site Development (including related land purchases) <u>2/</u>	0.1	0.2	7.1	8.4	16.1	29.0
14) Industrial Finance <u>2/</u>	--	--	0.8	5.3	30.0	18.0 <u>3/</u>
15) Other	0.5	4.1	1.2	0.4	3.4	8.9
Subtotal	0.6	4.3	9.1	14.1	49.5	55.9

(continued)

(Table 26 continued)

- 2 -

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u> (rev.est.)
<u>Social Services</u>						
16) Housing <u>4/</u>	28.5	30.5	65.9	73.6	97.1	122.1
17) Education	17.3	22.1	39.7	63.1	71.3	98.6
18) Health	8.0	7.6	11.9	34.9	23.8	50.0
19) Other	22.0 <u>5/</u>	17.2	3.7	13.7	28.6	58.2
Subtotal	79.8	77.5	121.2	185.3	220.8	328.9
<u>Utilities</u>						
20) Water and Sewerage	20.5	18.2	38.0	50.4	61.5	93.2
21) Electricity	55.1	44.6	59.4	99.4	123.5	166.2
Subtotal	75.6	62.8	97.4	149.8	185.0	259.4
22) Defence	7.5	9.2	21.2	25.1	58.7	92.4
23) Police	1.0	1.8	3.4	5.7	12.4	34.2
Subtotal	8.5	11.0	24.6	30.8	71.1	126.6
GRAND TOTAL	288.3	300.7	490.6	728.7	868.8	1,216.5

1/ PWD plant and equipment is used mainly for road construction. Plant and equipment expenditure is not separately identifiable in Singapore.

2/ Includes actual disbursements by Singapore's Economic Development Board, rather than transfer by the State Government to the EDB.

3/ Includes M\$22.5 million disbursement to M.I.D.F.L., which subsequently reinvested most of this sum in Federal treasury bills.

4/ Includes low-cost housing, municipal housing, PWD housing and Government building.

5/ Includes M\$20 million contribution to the initial assets of the Bank Negara.

Table 27

Federal Government, Summary Accounts and Sources of Financing 1959-1964

	1959	1960	1961	1962	1963	Total 1964	2/ States of Malaya	4/ New States	5/ 1965
Current Revenue <u>1/</u>	829	996	1,017	1,050	1,107	1,340	1,115	225	1,420
Current Expenditure <u>2/</u>	777	798	851	912	1,023	1,330	1,030	300	1,455
Current Account Surplus	+52	+200	+166	+138	+84	+10	+85	-75	-35
Capital Expenditure	142	141	264	415	455	550	460	90	610
Overall Surplus/Deficit	-90	+59	-98	-277	-371	-540	-375	-165	-645
<u>Sources of Financing</u>									
Domestic Borrowing									
Treasury Bills, Treasury Deposit Receipts and two-year loans (net)	-2	58	5	-32	+28	+66	+66	--)
Long-term borrowing, including five-year loans and advance deposits (gross)...	202	110	120	180	177	170	170	--	) 210
Foreign Borrowing (gross)	40	44	31	38	60	8	8	--)
Other Capital Receipts (mainly foreign grants).....	38	40	30	11	6	84	2	82	95
Change in Local Assets (-means increase)	-24	-9	+39	-23	-5	) +212	+212	--)
Change in Foreign Assets (" ")	-184	-298	-142	+75	+83			--	--	) +340
Other Adjustments, including errors and omissions	+20	-4	+15	+28	+22	--	--	--)
TOTAL	+90	-59	+98	+277	+371	+540	+458	+82	+645

Source: Ministry of Finance.

Note: For 1959 through 1963 these revenue and expenditure data relate to the Federal Government of the eleven States of Malaya, 1964 data includes Federal transactions with the new States as well.

1/ Excluding current expenses of Posts and Telecommunications, which are treated as offsets to revenue: these have been as follows: 1959 1960 1961 1962 1963 1964 1965 Revenue also excludes grants.

31 33 35 38 40 69 82

2/ Excludes contributions to Statutory funds: includes grants to State Governments.

3/ Estimated out-turn. 4/ Includes all receipts and expenditures directly attributable to the formation of Malaysia.

5/ Budget estimate, after allowing for underspending of M\$60 million on current account and M\$190 million on

credit account as shown in 1965 Budget Statement

Table 28
MALAYSIA - Holders of Federal Government Debt 1959-1964 (June)

As at end of period:	Short-term debt ^{1/}						Medium and Long-term debt ^{2/}					
	1959	1960	1961	1962	1963	June 1964	1959	1960	1961	1962	1963	June 1964
(A) <u>Federal and State Government Funds & Agencies</u>	154	212	202	170	116	115	595	675	787	955	1118	1157
Employees Provident Fund	35	--	--	--	--	--	463	532	618	736	847	885
Post Office Savings Bank	4	7	4	4	4	4	47	63	83	92	102	103
Federal Govt. Sinking Funds and Investments	--	--	--	--	--	--	n.a.	17	20	23	23	23
State Governments	9	18	5	6	14	17	24	33	34	34	34	34
Rubber Industry Replanting Board	100	136	162	130	75	72	10	11	11	48	88	88
Municipalities	--	3	7	12	12	11	17	17	17	18	20	20
Other Government Agencies	6	48	38	18	11	11	33	2	4	4	4	4
(B) <u>Financial Institutions</u>	45	41	44	42	87	142	60	88	95	111	153	156
Bank Negara Malaysia	3	11	22	19	32	40	--	--	--	--	16	19
Commercial Banks	42	30	22	23	37	84	48	62	64	78	100	101
Insurance Companies	--	--	--	--	--	1	n.a.	12	16	18	20	20
Cooperative Societies	--	--	--	--	--	--	12	14	15	15	16	16
M. I. D. F. L.	--	--	--	--	18	17	--	--	--	--	--	--
(C) <u>Miscellaneous Local Investors</u>	--	--	--	1	4	5	97	69	69	80	99	102
Private Provident and Trust Funds	--	--	--	--	1	--	11	16	12	16	26	31
Trustee Companies	--	--	--	--	--	--	37	25	28	31	35	35
Others	--	--	--	1	3	5	49	28	29	33	38	36
(D) <u>Foreign Holders of Domestic Debt</u>												
Hong Kong Government	--	--	--	--	--	--	12	12	12	12	12	12
(E) <u>TOTAL DOMESTIC DEBT</u>	199	253	246	213	207	262	764	844	963	1158	1382	1427
(F) <u>External Debt</u> ^{3/}	--	--	--	--	--	--	334	360	373	394	443	
TOTAL FEDERAL GOVERNMENT DEBT (including short-term)							1297	1457	1582	1765	2032	

^{1/} Treasury Bills and Treasury Deposit Receipts. ^{2/} 2-year, 5-year, and other long-term loans, excluding advance deposits.

^{3/} Including a small loan from the Singapore Government.

Source: Bank Negara Malaysia. Details may not add to totals because of rounding

Table 29

Singapore State Government - Holders of Public Debt
(M\$ millions)

		<u>December 31st</u>			<u>June 30th 1964</u> ^{1/}
	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	
A. <u>Long-term Debt</u> ^{2/}					
Singapore City Council and Public Utilities Board	10.7	10.8	12.8	10.6	(10.6)
Government of Singapore	8.4	8.2	9.5	11.2	(11.2)
Federal Government	14.2	14.2	14.2	14.3	(14.3)
Central Provident Fund Board	34.3	80.8	122.7	169.7	(169.7)
Other Public Sector Agencies ^{3/}	14.2	16.7	22.3	28.3	(28.3)
Commercial Banks	33.0	33.1	38.0	40.7	(40.7)
Insurance Companies	5.4	6.7	6.6	7.2	(7.2)
Nominee and Trustee Companies	10.7	11.4	15.1	24.7	(24.7)
Individuals	4.8	4.6	4.1	4.2	(4.2)
Other Private Sector Agencies	14.1	13.6	14.2	14.7	(14.7)
Total Long-term Debt	150.0	200.0	260.0	327.5	327.5
B. <u>Treasury Bills</u>					
Singapore City Council and Public Utilities Board	--	--	5.9	--	--
Economic Development Board	--	3.2	5.0	3.0	3.0
Post Office Savings Bank	1.2	1.6	1.8	1.8	1.0
Port of Singapore Authority ^{3/}	--	--	--	9.1	8.9
Other Public Sector Agencies	--	2.0	1.4	1.3	2.4
Commercial Banks	--	8.7	11.1	11.2	12.9
Other Private Sectors	--	0.2	--	3.3	0.6
Total Treasury Bills	1.2	15.7	25.2	29.7	29.8
C. <u>Total Debt</u>	151.2	215.7	285.2	357.2	357.3

^{1/} No new long-term issues took place in the first half of 1964 - holdings are assumed to be unchanged.

^{2/} Excludes advance deposits.

^{3/} Singapore Harbour Board/PSA, Housing and Development Board, EPF Board, Post Office Savings Bank, City Council, Penang.

Table 30

MALAYSIA - Gold and Foreign Exchange Reserves, 1953 and 1959 to mid-1964
(mid-market values in M\$ millions as at December 31st)

(A) GROSS RESERVES							
1. <u>Central Government and States of Malaya</u>	<u>1953</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>June 30, 1964</u> ^{1/}
1(a) Central Government	429	607	916	1,095	1,074	1,034	979
(excluding sinking funds).....	(344)	(476)	(767)	(911)	(845)	(763)	(694)
1(b) Bank Negara Malaysia	0	113	143	114	155	150	218
1(c) Currency Board <u>2/</u>	768	1,156	1,189	1,212	1,334	1,373	1,376
1(d) IMF Gold Tranche	0	0	0	0	10	22	23
1(e) Government Agencies <u>3/</u>	included in 1(a)	90	91	83	90	88	87
1(f) Commercial Banks	175 (est.)	150	167	126	133	133	159
1(g) Other Private Agencies <u>4/</u>	n.a.	26	27	29	34	31	32
SUBTOTAL	<u>1,372</u>	<u>2,142</u>	<u>2,532</u>	<u>2,658</u>	<u>2,831</u>	<u>2,832</u>	<u>2,873</u>
2. <u>State of Singapore</u>							
2(a) State Government	350	193	302	369	499	573	546
(excluding sinking funds)	(294)	(142)	(260)	(319)	(433)	(493)	(460)
2(b) Government Agencies <u>5/</u> .....	)included	137	137	204	217	202	203
(excluding sinking funds) .....	) in 2(a)	(92)	(82)	(130)	(125)	(125)	(126)
2(c) Commercial Banks	345 (est.)	447	435	382	295	351	299
SUBTOTAL	<u>695</u>	<u>777</u>	<u>874</u>	<u>955</u>	<u>1,011</u>	<u>1,126</u>	<u>1,048</u>
3. <u>State of Sarawak</u>							
3(a) State Government <u>6/</u>	66	60	90	89	82	51	48
3(b) Commercial Banks	n.a.	24	26	20	18	20	18
SUBTOTAL	<u>66</u>	<u>84</u>	<u>116</u>	<u>109</u>	<u>100</u>	<u>71</u>	<u>66</u>
4. <u>State of Sabah</u>							
4(a) State Government	11	12	21	32	38	48	53
4(b) Commercial Banks	n.a.	17	31	30	14	8	9
SUBTOTAL	<u>11</u>	<u>29</u>	<u>51</u>	<u>62</u>	<u>52</u>	<u>56</u>	<u>62</u>
TOTAL	<u>2,144</u>	<u>3,032</u>	<u>3,574</u>	<u>3,785</u>	<u>3,993</u>	<u>4,085</u>	<u>4,050</u>
(excluding sinking funds) <u>7/</u>	<u>(2,003)</u>	<u>(2,806)</u>	<u>(3,329)</u>	<u>(3,479)</u>	<u>(3,609)</u>	<u>(3,661)</u>	<u>(3,598)</u>

(Section (B) and footnotes, over)

(Table 30 continued)

- 2 -

	<u>1953</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>June 30,</u> <u>1964</u> <u>1/</u>
(B) NET RESERVES							
Official and semi-official reserves ...	1,624	2,368	2,888	3,198	3,499	3,542	3,533
Commercial Banks and other reserves ...	520(net)	664	686	587	494	543	517
TOTAL (gross)	<u>2,144</u>	<u>3,032</u>	<u>3,574</u>	<u>3,785</u>	<u>3,993</u>	<u>4,085</u>	<u>4,050</u>
less: commercial Banks foreign liabilities	<u>n.a.</u>	<u>146</u>	<u>195</u>	<u>204</u>	<u>198</u>	<u>221</u>	<u>318</u>
TOTAL (net)	<u>2,144</u>	<u>2,886</u>	<u>3,379</u>	<u>3,581</u>	<u>3,795</u>	<u>3,864</u>	<u>3,732</u>
(excluding sinking funds) 7/... (2,003)	(2,003)	(2,660)	(3,134)	(3,275)	(3,411)	(3,440)	(3,280)

1/ Preliminary

2/ Malaysia's share of the exchange assets of the Currency Board, which has varied between 92.3% and 93.3% in recent years.

3/ Comprising Post Office Savings Bank
Employees Provident Fund
Malayan Rubber Fund Board
S. Indian Labour Fund Board
Malaysian Railways
Central Electricity Board
Penang Port Commission

4/ Comprising the four principal private provident funds only. Insurance companies, and other enterprises and individuals, are known to own substantial foreign assets: their magnitude is unknown, but for Malaysia as a whole is now likely to exceed M\$300 million.

5/ Comprising Public Utilities Board
Singapore Harbour Board (now Port of Singapore Authority)
Central Provident Fund
Post Office Savings Bank
Economic Development Board
Municipal Provident Fund

6/ Including Post Office Savings Bank

7/ Including sinking funds of the Borneo States' governments.

Source: based on Staff study prepared in Bank Negara Malaysia.

Note: Details may not add to totals due to rounding.

Table 31

MALAYSIA - Estimated Money Supply
(M\$ million)

	(end of period)		1962	1963	March 1964	June 1964
	1960	1961				
<u>I Money Supply</u>						
Active Circulation of Currency in private sector <u>1/</u>	996	996	1035	1077	1077	1077
Current Account Deposits with banks <u>2/</u>	848	854	923	1013	1010	991
Total Money Supply	1844	1850	1958	2090	2088	2069
Change from preceeding period	+20	+6	+108	+132	-2	-21
			<u>Details</u>	<u>Changes</u>		
				1962/ 1963	Dec.1963 Mar.1964	March/June 1964
<u>II Factors Affecting Money Supply</u>						
Gold and Foreign Exchange Holdings (net)			1852	-35	-53	+12
Currency Board			1334	+39	+22	-20
Central Bank			153	-3	-2	+71
Commercial Banks			365	-71	-72	-39
Governments' Debt Holdings			200	+72	-17	+66
Central Bank			13	+22	--	--
Commercial Banks			187	+50	-17	+65
Commercial Bank Credit to Private Sector <u>3/</u>			1672	+208	+119	+37
Loans and Advances			1485	+176	+133	+37
Trade Bills			154	+20	-15	-3
Private Securities			32	+13	+1	+3
Governments' Deposit Balances (decrease +)			-263	+39	+5	-62
at Central Bank			95	--	+2	-58
at Commercial Banks			167	+39	+3	-4
Miscellaneous items (net)			-349	+19	-18	+3
<u>Total Money Supply</u>			3112	+303	+37	+55
Fixed and Savings Deposits of Private Sector <u>3/</u> at commercial banks (decrease +).....			-1154	-171	-39	-72
<u>Total Active Money Supply</u>			1958	+132	-2	-21

Source: data supplied by Bank Negara Malaysia. (Details may not add to totals because of rounding.)

- 1/ Based on Malaysia's share (92.5%) of the Currency Board profits. Private Sector includes public authorities and local governments.
- 2/ Includes current accounts of the public authorities with Bank Negara and the commercial banks but excludes deposits of banks and governments. Also excludes deposits with the Post Office Savings Bank.
- 3/ Including public and local authorities.

Table 32

MALAYSIA - Assets and Liabilities of the Commercial Banks, 1957-1964
(M\$ millions)

	December 31st							June 30,	
	1957	1958	1959	1960	1961	1962	1963	1964	
<u>Assets</u>									
1. Cash <u>1/</u>	98	102	108	126	131	135	141	151	
2. Loans and Advances <u>2/</u>	925	901	1,100	1,353	1,593	1,782	2,005	2,130	
3. Investments (a) in Malaysia	140	144	163	179	190	219	281	335	
(b) Abroad	57	79	112	140	118	115	111	104	
4. Balances due from other banks									
(a) in Malaysia	387	496	505	474	453	569	538	) 837
(b) Abroad	419	522	488	407	334	342	307)	
5. Reserves with Bank Negara	--	--	34	38	43	44	49	51	
6. Other Assets	148	269	386	291	423	484	469	502	
TOTAL	2,174	2,513	2,896	3,008	3,285	3,690	3,901	4,110	
<u>Liabilities</u>									
7. a) Demand deposits	875	894	926	914	917	994	1,047	1,036	
b) Fixed deposits	300	414	521	701	822	912	986	1,080	
c) Savings and other deposits	214	225	296	304	340	381	439	470	
d) Total deposits	1,389	1,533	1,743	1,919	2,079	2,287	2,472	2,586	
8. a) Balances due to banks in Malaysia ..	338	451	459	486	491	567	605	) 938
b) Balances due to banks abroad	98	95	132	174	182	191	214)	
9. Other liabilities	349	434	563	429	533	645	610	586	
TOTAL	2,174	2,513	2,897	3,008	3,285	3,690	3,901	4,110	
<u>Regional Breakdown, December 1963</u>									
	<u>States of Malaya</u>		<u>Singapore</u>		<u>Sabah</u>		<u>Sarawak</u>		<u>TOTAL</u>
		%		%		%		%	
A. TOTAL Assets	1,758	45	1,890	48	145	4	108	3	3,901
B. Loans and Advances	826	41	1,045	52	82	4	52	3	2,005
C. Deposits	1,225	50	1,073	43	94	4	80	3	2,472

1/ Including cash with Bank Negara

2/ Including bills discounted or purchased, and bills receivable

Source: data supplied by Bank Negara

Table 33

Malaysian Commercial Banks - Classification of Loans and Advances as at June 30, 1964

(M\$ million)

	<u>Federation of Malaya</u>	<u>Singapore</u>	<u>Sarawak</u>	<u>Sabah</u>	<u>Total</u>
<u>Public Authorities</u>	<u>10,698</u>	<u>243</u>	--	<u>234</u>	<u>11,175</u>
<u>Agriculture</u>	<u>149,735</u>	<u>46,364</u>	<u>5,654</u>	<u>26,919</u>	<u>228,672</u>
Rubber and rubber products	85,435	42,080	1,387	7,327	136,229
Rice and rice milling	61,111	346	151	191	61,802
Other agriculture and forestry	3,189	3,938	4,116	19,398	30,641
<u>Mining</u>	<u>33,208</u>	<u>10,428</u>	<u>206</u>	<u>481</u>	<u>44,323</u>
Tin and tin smelting	10,559	5,179	--	--	15,738
Iron ore	20,915	2,880	--	--	23,795
Other minerals	1,734	2,369	206	481	4,790
<u>Manufacturing</u>	<u>51,364</u>	<u>86,709</u>	<u>4,687</u>	<u>1,267</u>	<u>144,027</u>
<u>Construction</u>	<u>56,441</u>	<u>55,871</u>	<u>2,528</u>	<u>10,351</u>	<u>125,191</u>
<u>Trade - Import, export, wholesale & retail</u>	<u>271,881</u>	<u>404,114</u>	<u>21,875</u>	<u>30,127</u>	<u>727,997</u>
<u>Financial concerns (including banks)</u>	<u>30,298</u>	<u>46,376</u>	--	<u>564</u>	<u>43,132</u>
<u>Individuals</u>	<u>188,068</u>	<u>138,953</u>	<u>14,484</u>	<u>5,209</u>	<u>346,714</u>
For business purposes	85,572	75,716	797	3,802	165,887
For private purposes	102,496	63,237	13,686	1,407	180,826

(Table 33 continued)

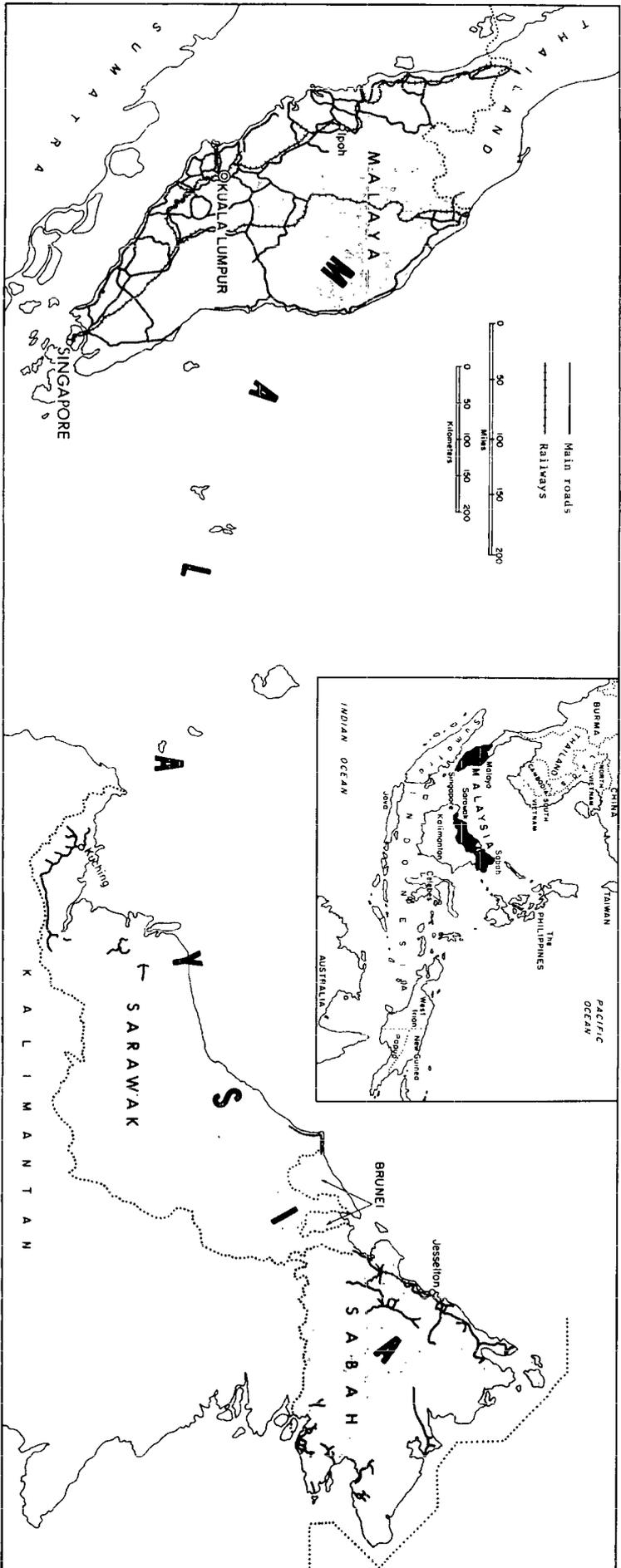
- 2 -

	<u>Federation of Malaya</u>	<u>Singapore</u>	<u>Sarawak</u>	<u>Sabah</u>	<u>Total</u>
<u>Service trades</u> <u>1/</u>	<u>18,137</u>	<u>35,653</u>	<u>2,071</u>	<u>1,772</u>	<u>57,683</u>
Other	<u>54,790</u>	<u>49,030</u>	<u>785</u>	<u>8,416</u>	<u>113,021</u>
Subtotal - loans and advances	<u>861,670</u>	<u>839,635</u>	<u>52,290</u>	<u>85,340</u>	<u>1,838,935</u>
Bills discounted or purchased	34,560	89,063	3,200	3,680	130,503
Bills receivable	20,204	103,797	--	--	124,001
<u>TOTAL</u>	<u>919,434</u>	<u>1,066,600</u>	<u>55,490</u>	<u>89,020</u>	<u>2,130,545</u>

1/ Transport, storage, communications, hotels and restaurants, institutions, etc.

Source: data supplied by Bank Negara and State Governments.

MALAYSIA



DECEMBER 1964

LRRO-1445R