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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

THE ECONOMY OF THE FEDERATION OF MALAYA

September 12, 1958

CURRENCY EQUIVALENTS

U.S. \$1.00	=	Malayan \$3.06
M \$1.00	=	U.S. \$0.327
M \$1,000.00	=	U.S. \$327.00

TABLE OF CONTENTS

<u>Chapter</u>	<u>Page No.</u>
<u>Basic Statistics</u>	i
<u>Summary and Conclusions</u>	iii
I. <u>Social and Political Background</u>	1
II. <u>Production</u>	2
Agriculture	3
Rubber	3
Other Export Crops	4
Import Crops	5
Rice	5
Tin	6
Other Minerals	6
Secondary Industries	7
III. <u>External Finance</u>	8
Trade and Exchange Policies	8
Foreign Trade	8
Terms of Trade	9
Balance of Payments	10
Invisibles	11
Private Capital Movements	11
Balance of Payments by Currency Area	12
IV. <u>Internal Finance</u>	13
Government Budgets	13
Main Revenues and Expenditures	13
Sources for Financing Deficits	15
Public Debt	16
Money and Banking	17
Prices	19
V. <u>The Development Program</u>	20
Financing the Plan	22
VI. <u>Prospects of the Economy</u>	24
Rubber	24
Tin	25
Other Prospects	26
Balance of Payments	27
Creditworthiness	28
<u>Statistical Appendix</u>	30
(See next page for list of tables)	
<u>Map of the Malay Peninsula</u>	

STATISTICAL APPENDIX TABLES

<u>Table No.</u>		<u>Page No.</u>
1	Area Under Crops	31
2	Export of Agricultural, Fisheries and Timber Products ...	32
3	Rubber Statistics	33
4	Tin Statistics	34
5	Volume and Value of Exports	36
6	Volume and Value of Imports	37
7	Direction of Trade by Currency Areas	38
8A	Estimated Balance of Payments, 1956	39
8B	Estimated Balance of Payments, 1956, Singapore and Rest of World	40
9	Sterling Assets	42
10	External Public Debt Outstanding September 30, 1957	43
11	Estimated Contractual Interest and Amortization Payments on External Public Debt	45
12	Commercial Banks' Assets and Liabilities	46

BASIC STATISTICS

Area - Total 32.4 million acres (50,700 sq. miles)
Cultivated - 5.4 million acres

Population - (mid 1957 estimate, in millions):
Total - 6.4
Malays - 3.2
Chinese - 2.4
Indian - 0.8

Gross National Product (1955 estimate at current prices, in millions
of M\$):
Total - 4,700
Per capita 775 (U.S.\$258)

Foreign Trade (1957, in millions of M\$):
Exports, f.o.b. including re-exports:
Rubber 1,304
Tin 439
Other Exports 437
Total Exports 2,180

Imports, c.i.f. 1,807

Balance / 373

Sterling Assets of Official and Banking Institutions
(December 31, 1957, in millions of M\$): 1,541

Budget (1957 provisional actuals, Federal and State governments,
in millions of M\$):

Revenue	885
Expenditure:	
Defense	234
Other non-develop- ment expenditures	604
Development expend- itures	189
Total expenditures	1,027
Excess of expend- iture	142

Public Debt (December 31, 1957, net of sinking funds, in millions of M\$):

Internal debt:	
Long-term	453
Short-term	<u>170</u>
Total internal debt	623
External debt	331
(U.S. dollar equivalent)	<u>(107.2)</u>
Total public debt	954

Money Supply (end March, 1958, in millions of M\$):

Private demand deposits	302
Currency in circulation	<u>562</u>
Total money supply in the hands of public	864

Cost of Living Index for Malayan Workers

(January 1949 = 100) - May 1958 127

SUMMARY AND CONCLUSIONS

i. The Federation of Malaya is starting as a new nation under more favorable circumstances than many countries which have gained independence in the post-war period. When independence was proclaimed on August 31, 1957, in an atmosphere of political stability, the country, with a per capita income of about US\$250, was among the most prosperous in Asia.

ii. The country's financial position is strong. Sterling assets of official and banking institutions at the end of 1957, excluding sinking funds, amounted to approximately M\$1,439 million (US\$480 million), or about 80% of the current annual rate of imports. The main problems confronting the country are to build a nation out of a population composed of several different racial and cultural communities (the largest of which are Malay, Chinese and Indian) and to increase, or at least maintain, per capita income in the face of a population growth of more than 3% per year.

iii. The Federation has achieved its present high level of income and consumption mainly by making extensive use of its natural advantage as a producer of rubber and tin for the world market. During the post-war period the proportion of exports to gross national product has averaged about 50%; rubber has accounted for over 60% of total exports and tin for about 20%. The proceeds of exports are used to pay for imports to supplement domestic food production and to procure practically all requirements of fuel, manufactured consumer goods and capital goods. A significant part of export proceeds is remitted abroad as profits and dividends on the large foreign investment which is concentrated in the Federation's rubber and tin industries.

iv. The structure of the Federation's economy is not likely to change radically in the foreseeable future, and therefore the economic prospects depend to a large extent on the outlook for rubber and tin. The total world demand for rubber is expected to increase more rapidly than production of natural rubber and the market prospects for natural rubber are therefore favorable. In the case of tin the prospects for an increase in world demand are limited, and producing countries signatory to the International Tin Agreement have recently cut their exports sharply.

v. During 1958 export earnings are likely to decline significantly due to a fall in rubber prices resulting from depressed world markets and from restrictions on tin exports. Beyond 1958 the probable outlook for Federation export earnings is a gradual recovery to about the 1957 level in the early 1960's, a plateau at around this level until about the mid-1960's, and thereafter an increase of around 4% per year on the average sustained primarily by an expanding output of rubber.

vi. The Federation's development plan calls for Government expenditures of M\$1,140 million over the five-year period 1956-1960. It is well conceived with emphasis on (a) a program to replant part of the rubber acreage with new, high yielding varieties, (b) the development of transportation and power facilities, and (c) the expansion of social services to meet the needs

of the growing, multi-cultural population. It is likely, however, that completion of the development plan will be delayed by about two years due to technical as well as financial limitations.

vii. Over the next five or six years, when export earnings are likely to remain relatively stable, the country's sterling reserves are likely to be drawn down somewhat in order to carry out the development program. However, in view of the characteristic large short-term fluctuations in export earnings, the Federation should as a matter of policy try to maintain rather large foreign exchange holdings. Therefore, some foreign borrowing would be justified in order to reduce the drain on reserves which is likely to take place. Considering the small size of the present external debt service in relation to present and prospective foreign exchange income, there is little doubt that the Federation could without difficulty meet the service payments on the existing debt and on the additional borrowing now under consideration, including that for the Cameron Highlands Hydroelectric Project. In total the peak service on these obligations would not exceed 2% of present foreign exchange income and in most years would be considerably less.

viii. In view of the present favorable balance of payments position with the dollar area, which is not likely to change radically in the foreseeable future, additional debt could be in U.S. dollars.

THE ECONOMY OF THE FEDERATION OF MALAYA

1. SOCIAL AND POLITICAL BACKGROUND

1. The Federation of Malaya lies on a peninsula of 50,690 square miles, extending southeast from Thailand toward the straits of Malacca, with the island of Singapore forming a separate Crown Colony on its tip. The 6.4 million population of the Federation is comprised of 3.2 million Malays, who are mostly small-holder farmers and fishermen, and civil servants; 2.4 million Chinese, who own small estates, tin mines, and are in business and market gardening; 800,000 Indians, the bulk of whom are plantation workers and shop keepers and clerks; and a multitude of other races, among whom about 17,000 Europeans, mostly British, are the most influential as high Government officials and managers of banks, businesses and estates.

2. The independence of the Federation of Malaya in August 1957 came at the end of an orderly plan worked out between the U.K. authorities and the national parties over a period of years. It involved no major policy changes or violent reversals of trends. The government is formed by the Alliance Party, which won an overwhelming majority of elected seats and merges the three large communal parties of United Malay National Organization, the Malayan Chinese Association and the Malayan Indian Congress.

3. In the pursuit of independence, the Alliance has achieved some measure of compromise between the divergent interests and aspirations of communities, but there are stresses and strains within the Alliance on the questions of further unification of the party, the national language problem and the absorption of Chinese schools in a national education system. The first general elections after independence will come at the end of 1959, when for the first time all 98 members of the Legislative Council will be elected. It is generally held that the Alliance Party will be returned, but with a small majority and most likely with a strong Social Democratic opposition in parliament.

4. The Government is pursuing a moderate policy with regard to private enterprise and foreign investment and is moving toward a national policy in all spheres very gradually. However, the very high rate of population growth (in excess of 3% per year), and the necessity of molding a nation out of multi-lingual and multi-racial communities, dictate a relatively high rate of expenditure on social services as well as directly productive investment. Other problems facing the new nation include: (i) tracking down the remaining small number of Communist fighting forces in the jungle and thus finally bringing to an end the ten-year-old warfare which has been a heavy burden on both the financial and administrative resources of the country, (ii) maintaining the present high standards of administrative efficiency in the face of a shortage of qualified and experienced men which is likely to develop in the next few years as expatriate officers are replaced under a Malayanization program, (iii) maintaining the traditional close economic ties with Singapore in the face of major political changes in the two territories, and (iv) absorbing non-Malay races in a Malayan nation without undue friction.

II. PRODUCTION

5. The available data on the gross national product of the Federation are based on estimates of the combined GNP of Singapore and the Federation prepared by the IBRD Survey Mission which visited Malaya in 1954, together with some supplementary data prepared by the statistical departments of the governments of Singapore and the Federation. One of the basic assumptions is that the Federation GNP comprises approximately 75% of the combined GNP of the two territories. The estimates of Federation GNP at current prices and at constant (1952) prices for the years 1949-1955 are given below (in millions of M\$).

	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
Current Prices	2,700	4,000	5,600	4,700	4,400	4,000	4,700
Constant Prices ^{1/}	3,800	5,100	5,700	4,700	4,500	4,400	5,400

6. An unusually high proportion of the national product is exported, and the wide fluctuations in GNP during 1949-1955 have corresponded fairly closely to the world market conditions for rubber and tin, with changes in export earnings tending to lead changes in GNP by perhaps six months to one year. During this period the proportion of exports to GNP ranged from 36% to 65% and averaged about 49%.

7. Per capita GNP in 1955, at current prices, is estimated at about M\$775, equivalent to US\$258. This figure was approximately equal to per capita GNP in Japan. Singapore with around US\$400 is probably the only place in Asia (aside from Israel) where per capita income substantially exceeds that of the Federation. The wide fluctuations make it somewhat difficult to determine the rate of growth of Federation GNP. However, comparing 1955 GNP at constant prices with the 1949-1953 average, the rate appears to be approximately equal to the rate of population growth, i.e. about 3.2% per year.

8. A rough estimate of the composition of Federation GNP is as follows:

Estimated Gross National Product by Industrial Origin (percentage distribution)

Rubber	23
Other agriculture and forestry	27
Mining	9
Manufacturing	11
All other activities	<u>30</u>
Total	100

^{1/} Including effects of changes in terms of trade.

Agriculture

9. The organization of agriculture is a combination of estates and small-holdings. The former are European and Chinese. About 60% of the rubber acreage is in estates as is all the oil palm and tea (a minor crop), about half of the pineapple and a minor part of the coconuts. The remaining acreage is cultivated by small-holders.

10. The area cultivated is about 5.4 million acres or 17 percent of the total area. The largest area cultivated is under rubber, about 3.5 million acres (64.5 percent of total cultivated acreage) followed by rice (16.5 percent), coconuts (9.2 percent), fruits (3.7 percent), oil palm (1.85 percent), other food crops (1.85 percent), spices (0.92 percent) and miscellaneous crops (1.5 percent). (See Table 1, Statistical Appendix) Although accurate information is unavailable as to the quality and possibilities of unused land, it is evident that considerable scope exists for further agricultural expansion.

11. The predominant feature of Malayan agriculture is the relatively high degree of commercial activity. Although a considerable part of the rice, coconut, fruit and other food crops are produced for direct use, all the rubber, palm oil, spices and a large proportion of the other crops including rice are sold off farms for consumption within the country and for export. Exports of agriculture, fisheries and timber products account for more than 70 percent of the value of Malaya's total exports (See Table 2, Statistical Appendix), and a large part of imports also consists of agricultural commodities.

Rubber

12. Practically all of the rubber produced is exported. It accounts for about 60 percent of the value of total exports. Conditions of production and yields obtained vary widely between estates and smallholders and even within these groupings. European estates are technically efficient, whereas the opposite is true in the case of smallholdings.

13. The acreage under rubber has remained fairly stable over a long period of time. Prewar there was over-capacity and hence no incentive to expand. Since the war, emergency conditions and disinclination on the part of the States to "alienate" land have hindered further expansion. Production figures since the war (See Table 3, Statistical Appendix) show considerable variation for a number of reasons. In the first place the trees had been rested during the war and thus produced at very high levels for a short period after tapping was resumed. However, replanting schedules were not kept up during the war and the average age of the trees increased. Consequently, under continued tapping the yields tended to decline with each successive year. Rubber prices also fluctuate widely (see Table 3, Statistical Appendix) and this too affects production. And with the year to year changes in production and price there is marked variation in Malaya's income from rubber, particularly amongst smallholders who tend to tap each tree more intensively and to tap more trees when the price of rubber is high, and vice versa.

14. The Government has become progressively concerned with the failure to expand production to any considerable extent. An independent rubber inquiry mission appointed by the Government in 1953 and the International Bank Survey Mission both advocated an expanded replanting program. In 1952 the Government had already instituted a Smallholders Replanting Scheme to encourage replanting of 480,300 acres of smallholdings between 1952 and 1959 through a payment of M⁵⁰⁰ per acre financed by a cess on the export of smallholder rubber. This scheme also provided for a payment of M⁴⁰⁰ per acre for planting rubber on new land by smallholders. Subsequently, the Government has made money available on a subsidy basis to raise the payment for smallholders' replanting to M⁶⁰⁰ per acre. Funds have also been made available to subsidize estates to the extent of M⁴⁰⁰ per acre (about half the estimated cost of replanting) for replanting up to 21% of the total estate acreage between January 1955 and June 1962; this would cover about 420,000 acres, or an average of about 60,000 acres per year.

15. Actual replanting since 1953 as compared with targets is as follows (data in thousand acres):

<u>Year</u>	<u>Smallholders</u>		<u>Estates</u>	
	<u>Target</u>	<u>Actual Replantings</u>	<u>Target</u>	<u>Actual Replantings and New Plantings 1/</u>
1953	40.0	30.5	60.0	34.5
1954	50.3	25.7	60.0	46.2
1955	60.0	28.9	60.0	67.6
1956	70.0	50.0	60.0	93.1
1957	80.0		60.0	100.0 (es-
1958	90.0		60.0	timate)
1959	90.0		60.0	

1/ Total acreage replanted on estates from 1948 to 1956 was 457 thousand acres and plantings on new land 77.9 thousand.

16. These various schemes are not expected to affect materially the level of rubber production until after 1962, since it takes about seven years for a rubber tree to reach the tapping stage. However, replantings on estates prior to 1953 are beginning to have an effect in the form of increased yields, and should result in a gradual rise in total production between now and 1962. Replanting by smallholders was negligible prior to 1953, and the scheme for subsidising smallholders planting on new land produced no results through 1956. Since then, however, a number of new land development schemes, which will take advantage of this subsidy, have been started.

Other Export Crops

17. Compared with rubber, exports of other agricultural products are small. The most important are coconut oil, palm oil, spices, pineapple and timber. Coffee, tea and fresh fruit are minor exports. Some fish is also exported, but on balance the country is a net fish importer.

18. The net trade in copra and coconut oil (i.e. after deducting the value of copra imports) is valued at from M\$35 to M\$40 million per annum. The acreage under coconuts has declined by about 17 percent since prewar due to flooding of one important area and some conversion to oil palm. The crushing side of the industry has recently been expanded to a capacity of 250,000 tons of copra or 160,000 tons of oil. Production of copra, however, has been running about 155,000 tons. This is normally supplemented by copra imports. However, due to high prices recent imports of copra have not been sufficient to utilize all the crushing capacity.

19. Trade in products of the oil palm (palm oil and palm kernal) has been expanding gradually and was valued at M\$50 million in 1957. Practically all of the crop is exported. The area under production (confined to three estates) has expanded 52 percent since prewar.

20. Exports of canned pineapple, which are mainly to the United Kingdom, increased from 16.5 thousand tons in 1954 to 26.2 thousand in 1957 when the value was M\$19.8 million. Acreage has expanded in the past four years from 24 to 45 thousand. Both the growing and canning sides of the industry suffer from poor quality of fruit, obsolete equipment and unsatisfactory management.

21. The export of coffee, tea and spices amounted to M\$35 million in 1957. The most important item in this category is arecanuts, a spice which accounted for M\$18 million of exports last year.

22. Timber exports, which consist chiefly of sawn lumber rather than logs, have expanded from M\$18 million to M\$30 in the past four years.

Import Crops

23. Imports of agricultural, fisheries and timber products account for 40 percent of the value of the Federation's total imports. Cereals represent about 11% of the value of total imports and one-quarter of agricultural, fisheries and timber imports. The other main agricultural imports are dairy products, fruit and vegetables, refined sugar, copra and rubber.

Rice

24. Current domestic rice production is 488,000 long tons and imports about 346,000 tons. Imports are controlled by the Ministry of Commerce and Industry which maintains a stock of domestic and imported rice. Import permits are issued only to licensed wholesalers who are allowed to import two tons for every one ton purchased from the reserve stock (a rotation measure). There is also a minimum guaranteed price for unlimited quantities of domestic paddy or milled rice which is currently M\$15 per picul of 133.3 pounds for paddy (equivalent rice price ex-mill is £48.3 per long ton). The Government loses money on domestic purchases but recoups its losses on imported rice sold to merchants from the reserve stock.

25. All the natural paddy land of Malaya is now utilized and is generally over-populated. Further expansion in production can only come about as a result of increasing yields on existing land and the development of new areas which need protection from salt water or require irrigation and/or drainage. Any substantial increase in production is believed to require rather extensive public works programs.

26. In spite of the fact that yields are higher than in other tropical rice-producing countries,^{1/} the returns per worker are considerably lower than those from alternative crops, particularly the tree crops. The policy of expanding rice production which is favored in some quarters is, therefore, based mainly on ideas of national self-sufficiency and fear of an international rice shortage.

Tin

27. In 1957 tin made up 20% of the total value of Federation exports and ranked only second to rubber. The Federation accounts for 35% of the free world production of tin. (See Table 4, Statistical Appendix). For the last half-century, Malayan tin production has been practically stationary although it has fluctuated widely from year to year. Mechanization has reduced the number of workers engaged in the industry from 200,000 in 1913 to about 40,000 at present. The main problems have been how to cope with a market characterized by extreme fluctuations in price, technological economies in the use of tin and the threat of surplus production when the U.S. stopped purchases for stockpiling purposes. Little prospecting has taken place in recent years. Many dredging companies do not have sufficient land on which to continue operations. Tin miners are critical of the policies of the state governments regarding the issuance of licenses for prospecting and the alienation of new tin lands for exploitation. Market conditions in the past year have depressed prices to the point where production has been sharply curtailed by agreement among the main producing countries (see paragraph 97 below and Table 4, Statistical Appendix).

Other Minerals

28. The gross value of minerals other than tin at present represents about 15% of the total value of mineral production. In order of importance, these minerals are: iron ore, coal, bauxite, gold, columbite, ilmenite, scheelite, wolframite, monazite and China clay. During much of the post-war period new prospecting has been hampered by the Emergency, although this problem has become much less acute since 1953. Although still small, the value of production of these minerals, especially iron ore, has increased substantially during the past several years, particularly since 1953.

^{1/} Yields in Malaya are 1,708 pounds per acre as compared with 1,409 in Indonesia, 1,393 in Burma and 1,182 in Thailand for the years 1950/51-1953/54.

Secondary Industries

29. The pattern of industrial development in the Federation consists of a wide variety of small and relatively simple industrial organizations, and with a few exceptions it is associated directly or indirectly with the Federation's role as a primary producer and trader. The Bank Survey Mission in 1954 estimated that nearly 40% of the industrial labor force were persons working on their own account and family workers; since then, conditions have probably not changed much.

30. Rates of growth according to this small scale pattern appear fairly high, but industrial development of the Federation has not been very great, in spite of a number of favorable factors such as a relatively high level of income; a stable government; an efficient administration; reassuring policies regarding private and foreign enterprise; a high standard of public utilities and services; an intelligent and hard-working labor force; and a fair degree of managerial skill and enterprise. On the other hand, the size of the domestic market is small, and the Federation's main primary products are not of the kind on which large scale export industries could be built. Rubber normally gains in weight and bulk in the course of manufacture, and tin constitutes a very small part of the finished product. Moreover, the development of a steel industry based on known iron ore deposits is hindered by the absence of metallurgical fuels and cheap power, the scattered location of ore deposits and the large capital requirements. Finally, the high level of wages, the open character of the economy, and the lack of long-term financial facilities with reasonable interest rates also have tended to retard industrial growth.

31. A large part of the commercial agriculture, mining, trading and banking activities are carried on with British enterprise and capital. With only a few exceptions, the capital, management and labor of industrial enterprises are Chinese, operating mainly on a family basis. Levels of technical equipment and working efficiency vary greatly and industrial ventures start and close down at a fast rate.

32. The Federation government realizes the importance of developing secondary industries in order to create jobs for an unusually fast growing working population and for absorbing the impact of fluctuations in the fortunes of rubber and tin by diversifying the economy. As recommended by the Bank Survey Mission, the government has taken steps to establish a special Division for Industrial Development, an Industrial Finance Corporation and an Industrial Research Institute. The Industrial Development Division is already operating within the Ministry of Commerce and Industry and trying to shape and implement an industrial development policy with substantial inducements to private domestic and foreign enterprise. The power generating capacity of the Federation is also being considerably expanded.

III. EXTERNAL FINANCE

Trade and Exchange Policies

33. The foreign transactions of the Federation are less affected by trade and exchange controls than most other countries of the sterling area. Nearly all imports are covered by an open general license, with the exception of rice imports and imports from the dollar area and from Iron Curtain countries (except mainland China). Some imports from the dollar area are, however, licensed freely and others are granted licenses on the merits of each case, the test being whether or not the goods are available on a reasonably competitive basis from the sterling area. Moreover, dollar area goods can be imported via Hong Kong, provided payment to Hong Kong is in sterling.

34. Import duties are relatively low and are levied for revenue purposes, although a Tariff Advisory Committee has recently been appointed to advise on protective tariffs for industry. At present the average incidence of import duties is less than 20% of net imports, which is considerably lower than in other South Asian countries. Export duties are also levied for revenue purposes. Schedules of specific duties for rubber and tin vary the amount of duty collected according to the rise and fall of the export prices of these commodities. Duties on other export items are very small, averaging about 5% ad valorem.

35. There is no exchange control with the rest of the sterling area. Authorized dealers deal freely in sterling, but permission of exchange control authorities is required for purchases and sales of other currencies. For trade transactions, approval is given automatically after the issue of export and import licenses. For capital investments from outside the sterling area investors must first obtain approval from exchange control authorities for each project. The general policy is to give approval for almost any project except the establishment of trading firms. Once an investment is approved, the remittance of profits and repatriation of capital is permitted without restriction.

Foreign Trade

36. The Federation normally realizes a sizable trade surplus. Imports adjust within a fairly short period to changes in export earnings, because a large proportion of incomes is derived from exports and because the Malayan dollar is on a sterling exchange standard, which provides an automatic response of the money supply to changes in the balance of payments. Short-term fluctuations in imports, however, are less pronounced than in the case of exports. Thus after the Korean boom, the fall in imports was smaller and less rapid than the decline in exports, but the downward trend continued through 1954, after the decline in exports had been halted. During the 1955-1957 period imports also rose less rapidly than exports but continued to increase after exports levelled off, as seen from the table below summarizing the recent trade position.

(Millions of Malayan Dollars)

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	Jan. - March <u>1957</u>	<u>1958</u>
Exports, fob	2,134	1,598	1,625	2,370	2,262	2,180	578	468
Imports, cif	<u>1,660</u>	<u>1,451</u>	<u>1,319</u>	<u>1,543</u>	<u>1,751</u>	<u>1,807</u>	<u>471</u>	<u>433</u>
Balance	₹ 475	₹ 147	₹ 306	₹ 827	₹ 511	₹ 373	₹ 107	₹ 35

37. Rubber accounts for about 60% of total Federation exports and tin for 20%. The Federation is the world's largest exporter of tin and the second largest exporter of rubber. The remainder of the exports consist largely of other agricultural and forestry products, of which coconut oil, palm oil, timber and canned pineapple are the most important, and other minerals mainly iron ore (see Table 5, Statistical Appendix). Exports generally have shown a modest rise in volume since 1952-53. The volume index for all exports (1952 = 100) stood at 116 for 1957. The most notable increases have been in timber and iron ore; the latter has tripled in volume and value and has become the Federation's third largest export, although it still accounts for only about 3% of total exports.

38. The Federation's main imports are foodstuffs (about 30% of the total), machinery and transport equipment (13%), mineral fuels (8%), and textiles, clothing and footwear (7%). Chemicals, mainly for the processing and light manufacturing industries, and base metals consisting largely of metal semi-manufacturers for use in construction, are also sizable items. In addition tin concentrates, rubber and copra are imported from neighboring countries, mainly for processing and re-export (see Table 6, Statistical Appendix). Rice imports comprise about one-quarter of the foodstuffs category, or 7-8% of total imports, and provide between 40% and 50% of estimated domestic consumption. Other important items in the food category are dairy products, fruits and vegetables, sugar, and other cereals. The volume index of all imports (1952 = 100) after dipping in 1953-54, moved up to 111 in 1956 and 110 in 1957.

Terms of Trade

39. Following the Korean war boom, the prices of Federation exports fell further and more rapidly than import prices, with a consequent substantial worsening in the Federation's terms of trade. In 1955, however, while the unit value of imports continued downward, the unit value of exports rose by more than 40% largely due to an increase in rubber prices, and the terms of trade improved markedly. From 1955 through 1957 there was a gradual decline in the unit value of exports and an increase in the unit value of imports. As indicated in the table below the terms of trade receded considerably from the 1955 peak, but they still remain well above the low point of 1953-54 and slightly more favorable than in 1952. It is probable that the terms of trade showed some further deterioration in the first part of 1958 due to a decline of rubber and tin prices.

Unit Value of Exports and Imports
and Terms of Trade

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Exports	100	75	72	103	96	91
Imports	100	97	87	80	85	89
Terms of Trade	100	77	82	129	113	103

Balance of Payments

40. There are no official balance of payments estimates for the Federation. Invisibles, changes in private short-term foreign exchange holdings, and private long-term capital transactions can only be inferred. During the four years 1954 through 1957 the Federation's trade surplus amounted to M\$2,017 million and foreign assets of official and banking institutions (which are all in sterling) increased by M\$405 million.^{1/} During this period also the Government received foreign loans amounting to M\$223 million equivalent. Invisibles and private capital movements are thus estimated to have resulted in net payments equivalent to M\$1,835 million, as indicated below. It is estimated that over one-half of the net payments were to Singapore.

(millions of Malayan dollars)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>Total</u>
A. Trade Balance	<u>₹306</u>	<u>₹827</u>	<u>₹511</u>	<u>₹373</u>	<u>₹2,017</u>
B. Reported Capital Transactions:					
Government borrowing	-123	- 60	- 40	-	- 223
Change in official and banks' sterling assets	<u>₹138</u>	<u>₹399</u>	<u>₹ 47</u>	<u>-179</u>	<u>₹ 405</u>
Sub-total	<u>₹ 15</u>	<u>₹339</u>	<u>₹ 7</u>	<u>-179</u>	<u>₹ 182</u>
C. Invisibles and Private Capital (B - A)	-291	-488	-504	-552	-1,835

A more detailed estimate of the balance of payments for the year 1956, with explanatory notes indicating the limitations of the data, is given in Tables 8A and 8B of the Statistical Appendix.

^{1/} Estimated cost basis. See Table 9, Statistical Appendix for recent movement of sterling assets at market value and on estimated cost basis.

Invisibles

41. The most important items of Federation payments for current invisibles are remittances of company profits and dividends, private remittances, freight and insurance. Remittances of profits and dividends are mainly from rubber plantations and tin mines, particularly the former, and they fluctuate with the changes in rubber and tin export earnings. During the Korean boom they probably exceeded M\$600 million, and in 1953 they probably fell to around M\$100 million. In 1956 they have been estimated at around M\$195 million. No reliable estimates of private (family) remittances are available. However, these transfers are probably more stable than profit remittances, although still subject to considerable fluctuation according to the changes in the rubber and tin markets.

42. Invisible receipts have most likely been much more stable (and much smaller) than invisible payments. The largest item has been expenditure by Commonwealth Forces stationed in the Federation, which has been estimated at M\$75 million in 1956. Although data for other recent years are not available, it seems likely that such expenditure has not fluctuated greatly since about 1953 when the emergency was brought largely under control. The remaining items are relatively small, and include U.K. grants for development and defense (M\$11 million in 1956), interest on the Government's sterling securities (M\$16 million in 1956) and earnings from the repair of foreign ships (M\$9 million in 1956).

Private Capital Movements

43. It is known that many trading firms operating in the Federation hold balances both in Singapore and overseas which fluctuate fairly closely with the rise and fall of trade. However, while it is generally believed that these short-term movements of capital are large, it is impossible to estimate their size.

44. Long-term private capital movements probably have not been large in recent years; on balance there has probably been a small inflow of funds. The biggest incoming item has most likely been re-investment of profits by foreign owned rubber plantations and tin mines. Investment in rubber plantations has been almost entirely for replanting of existing acreage, and the actual investment cost of this operation to the companies is not very great, particularly in view of the government subsidy of M\$400 per acre. Similarly, foreign investment in tin mining has probably been quite small; production by European-owned mines has been fairly steady and little new prospecting has taken place. During 1956 and 1957 Japan is reported to have invested M\$2.9 million (about U.S.\$1.0 million), of which M\$1.6 million was in the form of loans, for development of iron ore mines. Additional (unknown) amounts are also reported to have been invested in iron mining by Australian investors in recent years. In addition there have been some foreign investments in secondary industries such as cement, pharmaceuticals and food processing. The most noteworthy item of long-term private capital outflow in recent years has been purchases of foreign-owned shares in rubber estates and tin mines by Malayan residents, mainly

Chinese; such purchases are believed not to have assumed major proportions

Balance of Payments by Currency Area

45. The Federation is one of the largest and most consistent net dollar earners in the sterling area. During 1952-1956 more than 15% of total exports went directly to the dollar area while less than 1½% of imports came from that area (see Table 7, Statistical Appendix). Invisible payments to the dollar area are small and consist mainly of payments for oil and some profit remittances. The estimated current account balance of payments with the dollar area in 1956 is summarized below.

(Millions of Malayan Dollars)

Trade balance	₤ 366
Invisibles (net)	<u>- 43</u>
Surplus	₤ 323

46. Aside from the dollar area, the Federation probably realizes a sizable current account surplus in most years with the OEEC countries. With Singapore, except in boom years, the Federation's usual trade surplus is probably approximately offset by a deficit on invisibles. A substantial current account deficit is most likely incurred fairly consistently with the rest of the sterling area. A deficit is also the usual case in current transactions with the rest of the world.

47. Despite the gaps in information it is clear that the Federation's basic balance of payments position at present is strong. Although her foreign exchange earnings are subject to wide fluctuations, there is also flexibility in her foreign exchange payments. Imports, invisible payments and private capital movements follow fairly closely the changes in foreign exchange income.

48. During the years 1949 through 1957 the sterling reserves increased in each year except 1953 and 1957. At the end of 1957 they still amounted to M\$1,541 million (US\$514 million) and were equivalent to about 85% of 1957 imports.

49. The main problem for the future is whether foreign exchange earnings can be expanded rapidly enough to pay for the volume of imports necessary to provide for the rapidly increasing population.

IV INTERNAL FINANCE

Government Budgets

50. The Federal Government has traditionally followed conservative fiscal policies, and indications are that the present Government will continue to do so. It is the Government's policy to balance the budget, exclusive of capital outlays, not necessarily in each year but over a reasonable period. However, the Government is subject to pressures, which are likely to increase, for larger outlays on both current and capital account, particularly for social services.

51. The bulk of total public revenue accrues to the Federal Government. In recent years total public expenditures have averaged about M\$900 million. More than half of the expenditures by the state governments, which comprise one-quarter to one-third of total public outlays, have been covered by grants from the Federal Government. As shown in the table on page 14, the consolidated budget of the Federal and state governments tends to show a fairly large overall deficit when foreign trade is depressed, as in 1953 and 1954; when foreign trade is more favorable, as in 1955 and 1956, the deficit tends to be reduced to a small figure.

52. The budget estimate for 1958 shows a decline in revenue of about 5% as compared to 1957 actuals and an increase in expenditure of about 13%. The overall deficit is estimated at M\$330 million, more than twice the 1957 deficit. In view of the expected tight financial position it was decided that no major new development projects would be started this year unless financing could be obtained from abroad. As a result, the provision for development is about 12% below last year. This decline however is more than offset by an increase of 16% in non-development expenditures, mainly for social services and defense. However, judging from the experience of recent years, the actual increase in non-development expenditures may well be considerably less than estimated. At the same time, revenue may prove to be lower than estimated because of a fall in trade and incomes resulting from the decline in rubber prices and restriction of tin exports since the budget estimate was prepared. On balance it is probable that the overall deficit will be smaller than estimated, with both revenues and expenditures at lower levels than budgetted.

Main Revenues and Expenditures

53. The main sources of Federation revenue are customs duties and income tax, which in 1957 accounted for nearly 70% of total public revenue. The rate of income tax on company profits is 30%, and about three-fourths of income tax receipts are derived from this source. The tax rate on individual income ranges from 5% on the first M\$1,500 of chargeable income to 40% on chargeable

Consolidated Budget of the Federal and State Governments

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
	<u>Actuals</u>	<u>Actuals</u>	<u>Actuals</u>	<u>Actuals</u>	<u>Provisional Actuals</u>	<u>a/ Estimate</u>
<u>Revenue</u>	669	658	834	904	885	838
<u>Expenditure:</u>						
Defense	325	242	224	230	234	271
(of which emergency)	(202)	(147)	(122)	(126)	(120)	(128)
Other non-development	458	508	531	570	604	730
Development	<u>137</u>	<u>128</u>	<u>114</u>	<u>150</u>	<u>189</u>	<u>167</u>
Total	920	878	869	950	1,027	1,168
<u>Excess of Expenditure</u>	<u>251</u>	<u>220</u>	<u>34</u>	<u>46</u>	<u>142</u>	<u>330</u>
<u>Financing:</u>						
External grants and loans	47	141	67	51	30	51
Long-term internal borrowing	83	94	40	-	160	60
Short-term internal borrowing	53	6	-33	-30	-80	33
Deposits and miscellaneous accounts	68	56	-19	45	-30	115
Change in cash balance (increase -)	<u>-</u>	<u>-77</u>	<u>-20</u>	<u>-19</u>	<u>63</u>	<u>71</u>
Total Financing	251	220	34	46	142	330

a/ Development expenditures are provisional.

N.B. The fiscal year coincides with the calendar year.

income in excess of M\$55,000. Only a small number of individuals pay income tax (about 30,000 in 1956) mainly because the scale of personal allowances is very high. Other significant sources of revenues are rents and royalties from mines and forests, license and excise taxes, and net receipts from public enterprises. The percentage distribution of the main revenues in 1957 was as follows:

Rubber export duty	14%
Tin export duty	6%
Import duties	33%
Income tax	15%
Other revenue	<u>32%</u>
Total	100%

54. As a result of this structure of revenue, government income is dependent to a large extent on the fortunes of rubber and tin. Income from rubber and tin export duties, of course, depend directly on the exports of those items. In addition, however, collections of import duties are fairly closely related to rubber and tin exports since, as noted previously, imports tend to follow the trends in exports. Finally, a large part of both company and individual incomes is dependent on rubber and tin, with the consequence that collections from income tax also tend to fluctuate with exports.

55. The level of budget expenditures has fluctuated much less than revenues in recent years. There has, however, been a significant change in the pattern of expenditures. The burden of defense has declined considerably due to the improvement in the emergency situation after 1953; thus in 1957 defense outlays amounted to about 23% of total expenditure as compared to 36% in 1953. Development outlays were cut back in 1954 and 1955 as an economy measure in view of the unfavorable revenue position following the Korean boom. With the adoption of a new five-year development plan, covering the period 1956-1960, and the improvement in revenue in 1955, development expenditures were increased in 1956 and 1957. In the latter year development outlays accounted for about 18% of the total expenditure, which was slightly higher than in 1953. Non-development expenditures, excluding defense outlays, have shown a gradual and steady upward trend, and their proportion in total expenditures has increased from 50% in 1953 to 59% in 1957. The main increases have been for education and public health services.

Sources for Financing Deficits

56. The main sources of finance for the overall deficits have been of a non-inflationary character. The major sources have been external grants and loans, long-term internal borrowing, and accruals in various deposit and miscellaneous accounts. External grants have come from the U.K. Colonial Development and Welfare Fund, for development purposes, and from the U.K. Government, for defense purposes. External loans have come from sale of Government bonds and direct borrowing from the U.K. and Singapore Governments. M\$40 million (£4.7 million) were raised through the sale of bonds on the London market in each of the years 1954 and 1956. In 1954 a long-term loan was also obtained from the Government of Singapore. In addition, over a period of several years up to 1955 long-term, interest-free loans were obtained from the United Kingdom Government which were used to pay war damage claims in the Federation.

57. The internal market for Government securities is very limited. Virtually the only source of long-term funds is the Employees' Provident Fund, which is currently accumulating funds at the rate of about M\$70 million per year. The Government also keeps a large number of reserve funds, revolving funds, trust funds and other accounts, such as the rubber replanting fund which is derived from the cess on exports of smallholders' rubber, the fund for the purchase of rice, tele-communications renewals fund, deposits of various government subordinate authorities, etc. Net accumulations in these accounts usually provide the Government with a significant amount of funds which can be applied toward covering an excess of budget expenditure over revenues.

58. The Federal Government's total reserves in cash and investments increased in each of the three years 1954 to 1956. In 1957, however, there was a decline and they stood at M\$515 million at the end of the year.

Public Debt

59. The estimated total debt of the Federal Government, net of sinking funds, as of December 31, 1957, was M\$927 million, of which M\$271 million (US\$89.0 million) was external debt and the remainder was internal debt. The total was slightly more than the recent level of annual public revenue, and servicing accounts for about 5% of total public budget expenditures. In addition, the Central Electricity Board, a government agency, owed M\$60 million (US\$19.8 million) to the Colonial Development Corporation of the United Kingdom. The debt position at the end of 1957 is summarized below.

(Millions of Malayan Dollars)

Internal Debt (net of sinking funds):	
Long-term	426
Short-term	170
Sub-total	<u>596</u>
External Debt (net of sinking funds):	
Federal Government	271
Central Electricity Board	60
Sub-total	<u>331</u>
Grand Total	<u>927</u>

60. In the first half of 1958 the main changes were an increase of M\$60 million in the internal long-term debt, through the sale of 6% registered stock redeemable in 1968-73, and an increase of M\$43 million in short-term internal debt. The external debt declined slightly.

61. All of the external debt is payable in pounds sterling^{1/}, except for about M\$31 million owned to the Government of Singapore which is payable in Malayan dollars (see Table 10, Statistical Appendix). The external debt is scheduled to be entirely repaid by 1979. Estimated annual service payments will average between M\$12 million and M\$15 million (between US\$4 million and US\$5 million equivalent) during most of this period, except in 1960 and 1963 when service payments would rise to M\$51 million (US\$16.8 million) and M\$39 million (US\$12.7 million) respectively, because of the scheduled lump sum repayments of the Central Electricity Board loans from the Colonial Development Corporation (see Table 11, Statistical Appendix). However, in the past few weeks a number of developments have taken place which will alter significantly the future payments schedule. First the United States has agreed to loan the Federation US\$10 million from the Development Loan Fund for port development; the loan will be repayable in U.S. dollars at 3½% interest over 30 years. Secondly, on condition that the proposed Bank loan for the Cameron Highlands hydroelectric project is made, the Colonial Development Corporation has agreed to renew its loans to the Central Electricity Board with provisor:

^{1/} At recent London quotations the yield on Federation of Malaya bond is 6.8%.

for repayment over 25 years. Thirdly, also on condition that the proposed Bank loan is made, the Commonwealth Development Finance Corporation has agreed to make a 20-year loan of £500,000 to the Central Electricity Board with interest at 6-3/4% and a 10-year grace period on repayment of principal.

62. The external debt service burden is small. Even under the present amortization schedule, the peak payment of M\$51 million would be equivalent to only about 2.1% of the estimated 1957 foreign exchange earnings on current account. If the three agreements mentioned above become effective, the 1960 and 1963 peaks would be eliminated and debt service would be US\$6-7 million (about M\$20 million) per year during the 1960's, or less than 1% of 1957 foreign exchange earnings on current account. There would be a peak in 1970 of about US\$12 million (M\$36 million), equivalent to 1 1/2% of 1957 current account earnings, and thereafter the service would drop again to well under 1% of current account earnings.

Money and Banking

63. The Malayan dollar is on an automatic sterling exchange standard, and it is legal tender in the colonies of Singapore, Sarawak, North Borneo and the State of Brunei, as well as in the Federation. It is issued and redeemed freely and exclusively in exchange for sterling at the rate of 2 shillings and 4 pence by a Board of Commissioners of Currency located in Singapore. Sterling received by the Currency Board in exchange for the issue of currency is mainly invested in securities in London. Part of the profits of the Currency Board, which are derived from interest on its investments and from commission charges, is retained to allow for possible depreciation in the value of its sterling investments. In this way the sterling backing for the currency is maintained between 100% and 110%. The remaining Currency Board profits are distributed among the participating governments according to a formula which is based mainly upon the cash held in the tills of banks and the population of each territory.

64. Commercial banking facilities in the Federation are extensive and efficient. The major part of the banking business is done by large overseas banks, although there are several important local banks operated by Chinese. Four or five overseas banks account for about two-thirds of the total deposits, for over 80% of the overseas assets of the banking system and for about half of local advances. Interest rates follow closely the London rates.

65. The question of establishing a central bank has been discussed for a number of years both in the Federation and Singapore. In May 1958 the Federation Government announced its decision to establish a central bank for the Federation. Legislation is now being drafted for presentation to the Legislative Council in the Fall, and the bank is expected to open for business at the beginning of 1959. It would have the full powers of a central bank, but the power to issue currency would not be invoked immediately after its establishment. The proposed legislation will contain accession clauses to permit the extension of the bank's jurisdiction to Singapore or to any other territory which entered into an agreement with the Federation Government for

this purpose. Meanwhile the Currency Board has been asked to prepare new currency notes for the Federation, which would have the same value and backing as the present notes, but would have a different appearance. Thus the establishment of a central bank will not result in a major change in the currency system in the immediate future, and it would not in all likelihood result in any significant modification of lending practices for sometime to come. Gradually, however, with the growth in production and trade for the domestic market, a rising proportion of the assets of the banking system may be used to provide credit for the Federation economy rather than invested abroad, and thus support and supplement long-term capital formation. The central bank, on the other hand, could provide moderate amounts of credit to the Government.

66. As a result of the present institutional framework, movements in the money supply are highly dependent on the balance of payments, and through the money supply mechanism, any disequilibrium in the balance of payments - whether toward surplus or deficit - tends to be self-corrective. For instance if a fall in export prices leads to a balance of payments deficit, the amount of currency in circulation and demand deposits will decline. The economy will thus become less and less liquid until expenditures by households, firms, etc. must be reduced, and the balance of payments deficit is eliminated. It is conceivable that the commercial banks could mitigate the effects on the money supply of the balance of payments deficit by using their large sterling reserves to expand credit. In practice, however, when export prices begin to fall, the banks adopt a cautious attitude and bank credit tends to follow the course of export earnings.

67. The most important factor which may work against these trends is government financial operations. In fact, what has happened since 1948 is that the Government, by following conservative policies, has added to its cash balances and investments (mainly sterling securities) in more years than it has drawn on them. Over the period as a whole the Government's liquid assets in the form of domestic bank balances and sterling holdings have risen considerably.

68. Money supply in the hands of the public has been estimated as follows:

(Millions of Malayan Dollars)

	December <u>1954</u>	December <u>1955</u>	December <u>1956</u>	December <u>1957</u>	March <u>1958</u>
Private Demand Deposits	334	369	346	309	302
Currency in Circulation	<u>450</u>	<u>564</u>	<u>564</u>	<u>557</u>	<u>562</u>
Money Supply	784	933	910	866	864

69. The changes in the money supply shown above reflect clearly the effects of the sharp rise in export earnings in 1955 and the operation of the self-correcting mechanism in 1956. The increase in the money supply in 1955, which resulted largely from the rise in sterling holdings, brought a quick response

in the form of an increase in imports, which halted the rise in sterling holdings and in the money supply in 1956. Private bank credit increased in line with the growth in trade, and in 1956 the banks drew down their balances abroad in order to finance the expansion of credit in the Federation (see Table 12, Statistical Appendix). The Government accumulated bank balances and sterling investments during this period and thus prevented the money supply from rising as far and as fast as would otherwise have occurred. In 1957 export earnings fell slightly but a high level of imports was maintained, mainly by drawing down existing bank deposits; bank credit expanded but at a slower rate than in 1956, reflecting increased caution by the banks in the face of weakening export prices. Sterling holdings and the money supply both declined. The Government incurred a deficit during 1957 which prevented a further decline in the money supply.

Prices

70. Information on the domestic price level in the Federation is rather limited. There is no wholesale price index, although there are a number of cost of living indices. However, in an open economy such as the Federation's, prices tend to be fairly stable since supplies of goods can change quickly in response to demand. During export booms higher income and demand are met with higher imports, and in a recession lower incomes and lower demand are followed by lower imports and less goods in the shops. Because the Federation is dependent to a large degree on imported consumer and capital goods, the domestic price level is sensitive to changes in the cost of imported goods.

71. The cost of living indices for Malayan, Chinese and Indian workers indicate that prices rose sharply between 1949 and 1952. Thereafter, they declined steadily until 1956. At the end of 1956, the cost of living indices increased rather suddenly by about 5%, probably due mainly to the Suez crisis, and they have since remained at that level.

Cost of Living Indices

	<u>Malayan Workers</u> <u>(Jan.1949 = 100)</u>	<u>Chinese Workers</u> <u>(Jan.1947 = 100)</u>	<u>Indian Workers</u> <u>(Jan.1947 = 100)</u>
Annual Average 1949	98	82	90
Annual Average 1952	138	120	131
Annual Average 1955	122	106	109
Annual Average 1956	123	107	111
Annual Average 1957	128	112	118
May 1958	127	112	115

V. THE DEVELOPMENT PROGRAM

72. The Government's plans for public development expenditure for the years 1956-1960 were announced in a Report on Economic Planning in the Federation of Malaya in 1956. The development program, which is based to a large extent on the recommendations of IBRD Survey Mission, calls for Government outlays of M\$1,140 million during the five year period. In broad outline, it is generally well conceived with emphasis in the right places -- rubber replanting, transportation, power and social services. The Government's plan and the recommendations of the Survey Mission are summarized below.

Summary of Development Programs
(in millions of Malayan dollars)

	IBRD Survey Mission <u>1955-1959</u>	Federation Five-Year Plan <u>1956-1960</u>
Agriculture	211 (30%)	256 (22%)
Transport and Communications	177 (25%)	292 (26%)
Power	37 (12%)	160 (14%)
Social Services	100 (14%)	149 (13%)
Municipal Development	79 (11%)	150 (14%)
Government Buildings and Miscellaneous	<u>51 (7%)</u>	<u>123 (11%)</u>
Total	703 (100%)	1,140 (100%)

N.B. Excluding "unallocated" sums in both programs.

73. As seen from the summary, the total program of the Federation is about 60% larger than that recommended by the Survey Mission. The decision for this large increase was based mainly on political factors associated with the impending independence of the country. At the time of the Survey Mission report, independence was thought to be still several years distant. When the Federation plan was drawn up the decision had been taken to speed up the schedule, and the date of independence was imminent. Elections had recently been held (in July 1955) in which 52 members out of the 98-man Legislative Council had for the first time been elected by popular vote. There was considerable political pressure to expand development outlays, particularly for social services, in order to strengthen and consolidate the support of the newly elected Government by the various racial and economic groups in the population. Moreover, when drawing up the Plan it was anticipated that a substantial amount of assistance would be obtained in the form of loans from the Government of the United Kingdom. When this subsequently proved not to be the case, the plan was published with the proviso that the execution might take six to seven years, instead of five years. In presenting the 1958 development budget, the Finance Minister reiterated the point that the Plan would have to be extended beyond the 1960 target unless financial availabilities improved. In this light the Federation Plan appears less ambitious. If it were spread over seven years, it

would require an average annual outlay of about M\$163 million, which is about 15% above the average outlay required for the Survey Mission's program.

74. In agriculture the main item in the Federation Plan is M\$160 million for subsidies for the rubber replanting schemes. A further M\$60 million is allocated for irrigation and drainage schemes mainly relating to rice production. M\$15 million is included for development of new land. Projects to develop about 30,000 acres have been started, including one of 4,100 acres in which the Colonial Development Corporation is participating in both a financial and advisory role.

75. The major items in the transportation and communications program are roads (M\$75 million), railways (M\$103 million), ports (M\$49 million) and telecommunications (M\$55 million). The Federation has a good system of paved trunk roads particularly on the west coast. The road development program is essentially the continuation of a program started under emergency conditions; it appears to concentrate rather too much on trunk roads as compared to secondary or feeder roads. The main part of the railway program is replacement of steam locomotives by diesel electrics. Provision is also made for improvements of signalling equipment and permanent way. The largest port development project is construction of a new harbor in the North Klang Straits to relieve congestion at nearby Port Swettenham, the port for Kuala Lumpur. Improvements are also planned at the other main ports of Penang, Malacca, Port Swettenham and Kota Bharu. The telecommunications program aims at providing 16,000 new lines with necessary exchanges and transmission systems.

76. In the power sector, the main provisions are for a new 30,000 kW power station at Penang, completion of the 20,000 kW steam station at Malacca and expenditure on the first stage of the Cameron Highlands hydroelectric scheme through 1960.

77. The proposed outlays on social services include M\$95 million on education, with a goal of providing primary education facilities for all children of school age, and M\$53 million on health, mainly for new hospitals and training facilities for doctors, dentists and public health workers.

78. The amount provided for municipal development includes a variety of items the most important of which are the improvement of water supplies in towns and villages, improvement of streets, construction of new market places, some public low-cost rental housing for low-income groups, and the development of a new industrial estate with adjoining township near Kuala Lumpur.

79. The smooth execution of the development program is likely to encounter some administrative and technical difficulties. For instance, the plans for projects in some individual sectors have not yet been worked out in any detail, and there is a shortage of qualified and experienced persons to do

this work. This shortage has recently increased as a result of the Malay-
anization program.

80. Another problem is the existing land policy. Under the Constitution the states retain absolute control over public land. They are jealous of this prerogative and appear extremely hesitant to "alienate" land for any purpose. Consequently, while there are large areas of potentially productive land, there are a number of areas which are overcrowded and where a real land hunger exists. This policy also restricts prospecting for tin and other minerals.

81. The schedule of expenditures on the development plan called for a substantial increase in 1958-1960 over the actual rate achieved in the first two years of the plan period. It now appears that expenditures in 1958 will fall below the rate of expenditures in 1957. Altogether it seems likely that the development program will take closer to seven years to complete than five years. The sectors where the delays are likely to be greatest are social services (e.g. construction of new schools and hospitals), agriculture (particularly drainage and irrigation schemes, development of cooperatives and extension service), and probably roads. Development of power, ports, railways and telecommunications are likely to be less affected; in these sectors most of the project planning has been completed, the execution of larger projects is being assisted by foreign consultants, and a substantial part of the expenditures will be for imported equipment.

Financing the Plan

82. During the five year plan period it is estimated that development expenditures may approximate M\$850 million instead of the planned M\$1,140 million. During 1956 and 1957 about M\$340 million have already been spent. Thus during 1958-1960 roughly M\$510 million will need to be financed.

83. The possible sources of financing are (a) Government surpluses of revenue over non-development expenditures, (b) profits and reserves of public enterprises, such as the railways and the Central Electricity Board, (c) internal long-term borrowing, (d) external loans and grants, and (e) drawing on accumulated government balances and investments. During the next several years there is little likelihood of any revenue being available, since non-development expenditures will probably rise for such purposes as building up the permanent defense establishment, education and other government services. On the other hand the Emergency may be brought to an end fairly soon. This would, in due course, result in a savings for the Government of well over M\$100 million per year. Some grants for defense purposes may also be received from the United Kingdom. Finally it should be quite possible to raise additional revenues through amendment of the income tax, increasing the rates of import duties, etc. In view of these possibilities and the generally conservative financial policies of the Government, it is reasonable to assume that during the next several years, revenues and defense grants from the United Kingdom will on the average be

sufficient to cover non-development expenditures, but that there will be no surplus which could be applied toward development.

84. Of the M\$510 million required for development during 1958-1960, the Government should be able to raise about M\$400 million from domestic sources and from disbursements on external grants and loans which are already committed or likely to be committed in the immediate future. The sources and estimated amounts of these funds are summarized below.

(millions of Malayan dollars)

Domestic Sources

Internal borrowing:

Employees' Provident Fund	200	
Other (Post Office Savings bank, Government trust funds, etc.)	<u>75</u>	275
Profits and reserves of public enterprises		63

External Sources

Colonial Development and Welfare Grants	15	
Development Loan Fund	20	
International Bank	<u>23^{a/}</u>	
Commonwealth Development Finance Corporation	<u>4^{a/}</u>	
		400

a/ Estimated disbursements for Cameron Highlands Project.

85. There are a number of possibilities for raising the remaining M\$110 million. The Government's uncommitted reserves (including cash and investments) were estimated at M\$275 million at the end of 1957, and the Government would be justified in using a modest amount of them for development purposes. However, since the Government's income is highly dependent on the market for one commodity (rubber), fairly large liquid reserves should be kept against market fluctuations. It is also conceivable that additional external assistance may be obtained; for instance, before the end of 1960 it may prove feasible for the Government to sell another bond issue on the London market.

86. Aside from the above possibilities, the Government if necessary could probably arrange to borrow additional funds from the commercial banks and insurance companies which then would hold some of their assets in Federation Government securities instead of in sterling securities. Finally, there is the likelihood that a central bank will be established, which could make a modest amount of loans to the Government.

87. Taking into account all of the above possibilities, it may be concluded that the prospects are reasonably good for the Government to obtain the full amount of the M\$510 million which is likely to be required for development over the next three years.

88. During the early 1960's, development expenditures are likely to rise to perhaps M\$200 million per year. At the same time internal resources available for development should increase. Government revenues should rise gradually with the expected increase in national output, while the rate of increase in non-development expenditure should taper off, once the permanent defense establishment is built up, the compensation to expatriate officers is paid, and the initial expansion of social services, now in progress, is completed. Consequently it should be possible to finance some of the future development expenditures from revenue. Moreover after the establishment of the central bank, a market for government securities should be gradually developed. However, the need for external assistance and possibly some further reduction in reserves to finance part of development outlays would still remain until the prospective expansion in export earnings, expected mainly from rising rubber income after the mid-1960's, materializes.

VI. PROSPECTS OF THE ECONOMY

89. The Federation has achieved a relatively high level of income largely on the basis of its natural advantage as a producer of rubber and tin but also through steady growth in other lines of primary production, in small-scale but extensive manufacturing and in a variety of service and commercial activities. It is to be expected that this diversified pattern of development will continue. But such a course of development must depend on adequate basic support from rubber and tin production. Without this, other lines of development are not so promising that they can be expected to maintain a rate of economic expansion which is satisfactory in relation to the rapid growth of population. Therefore an appraisal of the prospects of the economy hinges in large measure on the outlook for rubber and tin.

Rubber

90. Market prospects for natural rubber are favorable. Free world consumption of all types of rubber has been increasing at an annual average rate of 4.5% a year and it is reasonable to expect that requirements by 1975 will be about double the present level. Nearly all of the increase in supplies in recent years has been in synthetic rubber. Natural rubber production has hardly risen at all since 1950. And because of technical advantage of natural rubber for certain purposes, and also because most of the world outside the U.S. and Canada continues to rely almost entirely on

natural rubber supplies, there is a price premium for natural over synthetic rubber except in depressed business periods.

91. It is unlikely that this favorable market position for natural rubber will be adversely affected by any major expansion in supplies. Among the world's largest producers Malaya has the best prospects for increasing production. But these prospects, together with such additions to output as can be expected from other natural suppliers, are not likely to be on a scale which would maintain the present volume ratio of natural to synthetic in an expanding rubber market. For some time then a price premium for natural over synthetic rubber seems probable.

92. On the other hand it also seems probable that this premium will not continue indefinitely, as further technical improvements are made in synthetic rubber and as synthetic capacity outside the United States and Canada is expanded. At the same time, it has been estimated that because of the high cost of new synthetic rubber equipment the long-run price of synthetic will be higher than the present level of US\$0.23 per pound and may reach around US\$0.25.

93. In view of these considerations, a longer range forecast for natural rubber prices may be based on a figure equivalent to synthetic prices of US\$0.23-0.25 per pound or around M\$0.70 f.o.b. Malaya. On a cost basis Malaya would have no difficulty in competing at this price. Possibly this level would be reached around the mid-1960's. Meanwhile, it may be assumed that natural rubber will continue to receive some premium, except in periods of depressed business activity in the consuming countries, and for several years then a price on the average of around M\$0.80 seems reasonable.

94. Regarding rubber production prospects, the Federation has an active replanting program for both estates and smallholders. Because of the time lag between replanting and maturity of new trees the full effects of the program will not be realized until the period beginning in 1962 or 1963. Until that time an increase in rubber production is unlikely to be more than about 3% a year on the average. Thereafter, the rate of increase should go up to 4 or 5% a year and even more if some of the difficulties experienced in the program for smallholders can be overcome. There are also substantial opportunities for increasing this rate still further by expanding the total area under rubber. Land and labor are available and market prospects are satisfactory. Efforts in this direction are only beginning and they should be stepped up significantly. This could not be expected to have a substantial impact on production, however, until the late 1960's.

Tin

95. World tin consumption since the war has been marked by a very slow rate of expansion, due to the widespread adoption of the tin-saving electrolytic method of plating in the United States, the development of plastics, the substitution of aluminum and the general high price of tin. World production was maintained, until recently, in excess of consumption largely as a result of the U.S. stockpiling program.

96. The immediate short-run position is dominated by the cessation of U.S.

stockpiling, the current business recession which is reducing world consumption, the tendency in importing countries to reduce inventories in anticipation of lower prices, and the possibility of further increases in exports from the U.S.S.R.

97. The International Tin Council (ITC) has now shouldered the responsibility of maintaining tin prices at a price range of £730 to £880 per long ton f.o.b. London. This is being done by buffer stock operations and by control over exports from countries signatory to the International Tin Agreement (who account for 90% of free world production). Currently the price is at the lower limit of this range, and exports in the first three quarters of 1958 have been restricted to 60% of the October 1956-September 1957 rate of 150.5 thousand tons; for the fourth quarter 1958 they have been restricted further to 52%.

98. Assuming that by 1960 world economic conditions will have recovered from the current recession, it is to be expected that world consumption will expand to the 1957 rate of 160,000 tons. Allowing for exports from the U.S.S.R. and from free world non-signatory producers of around 25,000 tons, the Tin Agreement countries may be expected to produce 135,000 tons or 15.5 thousand less than during the base period (October 1956-September 1957).

99. The Federation's net exports of tin in recent years have been at an annual rate of about 60,000 tons. If Tin Agreement countries are restricted to 135,000 tons the Federation's share in the market would be reduced to about 54,000 tons. After 1960 a gradual increase to recent levels may be expected.

100. The Tin Agreement might fail to hold prices at the £730 level, if participating countries for various reasons, such as labor unrest, are unable to hold production down to the levels of their export quotas. In such a case, a reduction in minimum prices to £640 per ton is possible. This was the original minimum level set when the agreement was signed.

Other Prospects

101. The basis for a general and diversified expansion of the Federation economy should be provided by the prospective long-run expansion of rubber production and some long-run growth in tin output. Given these foundations and the potentialities for further development of rice and other subsistence and commercial agricultural products, of timber and fishing products, possibly some further mineral development, and continuing growth of manufacturing, commercial and service enterprises, it should be possible for the Federation to maintain a pace of economic expansion at least equal to the prospective growth in population.

102. There are, however, some uncertainties in this outlook. It will be unfortunate if the effectiveness of the essential role of Government in the Federation's development is diminished because of unnecessarily rapid Malayanization of the administrative services or excessive concession to demands for social services at the expense of productive development or financial stability or both. A deterioration of relations with Singapore, though possibly of more basic consequence to Singapore than the Federation, would nevertheless have adverse effects on the economy of the latter through unnecessary expenditure in

duplicating facilities available in Singapore and through interference with the market and services which Singapore provides for the Federation. A separate and independent monetary system in the Federation, coupled with restrictive exchange practices between the two Governments, could also lead to a capital outflow from the Federation to Singapore or some other sterling haven in the event of uncertainty concerning Federation currency.

103. But while these adverse eventualities are possible there is as yet no basis for concern that they will materialize to a serious degree. While some temporary loss of administrative efficiency is probably inevitable the Federation is nevertheless following a moderate policy in the Malayanization of its services in a congenial atmosphere. Some concessions to demands for substantial expansion of education and other social services are to be expected and these may divert some resources from public investment and productive development. There is however no indication in pronouncement or practice that the independent Federation Government intends to depart from the Malayan tradition of sound and conservative finance. And while the present expenditure program is beyond prospective resources, it is conceded that the necessary adjustment will be made through an extension of the period of the program rather than through resort to inflationary financing. There is little scope for the latter so long as the present monetary system is maintained and, as noted previously in connection with establishment of a central bank, it has been decided for the time being to continue with this monetary system.

104. This decision also included continuation for the time being of the common currency with Singapore which is a most encouraging development in connection with the maintenance of satisfactory economic and financial relations between the two governments. It suggests a willingness to work out problems arising in connection with these relations in a mutually satisfactory manner. Currency separation involving a break by the Federation with the automatic sterling exchange standard may result in some outflow of liquid funds from the Federation to Singapore. But a substantial movement of capital from the Federation seems unlikely so long as its currency is supported with a high foreign exchange reserve and with fiscal and monetary policies conducive to confidence that a high reserve position will be maintained.

Balance of Payments

105. Foreign exchange earnings are not likely to rise appreciably above recent levels for the next five or six years. Thereafter they should begin to increase at a fairly good rate.

106. This year export earnings can be expected to be down from the 1957 level because of the adverse effect of world business conditions on rubber prices and the sharp restriction on tin exports. Some recovery in rubber prices seems probable but it is difficult to foresee a return to average 1957 price of almost M\$0.90. As noted earlier, a reasonable price forecast is around M\$0.80 for the next few years, followed by a decline to about M\$0.70 by the mid-1960's. Additional production at a price of M\$0.80 should restore the 1957 level of rubber earnings by 1961 or 1962. An accelerated

growth in production is probable after 1962 but the effect of this on earnings may be delayed for two or three years because of the expected decline in price to around M\$0.70. Hence a marked and sustained rise in rubber export earnings can be foreseen only from about the mid-1960's.

107. Tin prospects are less favorable than rubber. Some growth in the trend of world tin consumption can be expected but not at a sufficient rate to restore 1957 levels of production until around 1962. Continued growth thereafter in world demand and in Malayan production at a modest average annual rate seems a reasonable expectation.

108. Some steady increase in earnings from other exports is also to be expected, especially from palm oil and possibly from cacao, spices, timber and pineapples.

109. On these bases the probable outlook for Federation export earnings is a drop this year, a gradual recovery to about the 1957 level in the early 1960's, a plateau at around this level until the mid-1960's, and thereafter an increase of around 4% a year on the average sustained primarily by an expanding output of rubber.

110. For the next five or six years, then, the earnings from exports will probably not be adequate in themselves to maintain both per capita levels of consumption imports and investment import requirements. Nevertheless, it should not be necessary to curtail either in view of prospective foreign grant and loan assistance and the possibility for some reduction in sterling reserves (corresponding to government budgetary deficits). The necessary scale of the latter should not be such as to disturb the Federation's strong reserve position. Regarding invisibles and short-term capital movements, it may be assumed that the pattern of past years will be followed and that they will adjust to the change in export earnings. And in the longer run the basic economic factors for growth in export earnings are of sufficient promise to permit an increase in imports at a rate somewhat faster than population growth.

Creditworthiness.

111. The sterling holdings of official and banking institutions at the end of 1957, excluding sinking funds, amounted to M\$1,439 million, or 80% of imports. Over the next five years, however, when export earnings are expected to rise relatively little, these holdings are likely to be drawn down somewhat in order to carry out the development program. Fairly large development outlays are necessary during this period in order to maintain the present standard of living and provide for the rapidly growing population. At the same time, in view of the characteristic large short-term fluctuations in export earnings, the Federation should as a matter of policy try to maintain rather large foreign exchange holdings. Therefore, some foreign borrowing would be justified in order to reduce the drain on reserves which is likely to take place during the next few years. Considering the small size of the present debt service in relation to present and prospective foreign exchange income, there is little doubt that the Federation could without difficulty meet the service payments on the proposed borrowing for the Cameron Highlands power project and other

existing and proposed external indebtedness previously discussed. In total the peak service on these obligations would not exceed 2% of present foreign exchange income and in most years would be considerably less.

112. In view of the favorable balance of payments position with the dollar area, which is not likely to change radically in the foreseeable future, there should be no currency problem in making loans to the Federation.

STATISTICAL APPENDIX

TABLE 1

Area Under Crops
(thousand acres)

<u>Commodity</u>	<u>1939</u>	<u>1950</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Rubber	3,373	3,358	3,525 ^{a/}	3,517 ^{a/}	3,550 ^{a/}
Rice	747	931	891	876	897
Coconut	599	509	495	517	517
Oil Palm	<u>76</u>	<u>96</u>	<u>111</u>	<u>115</u>	<u>116</u>
Total	<u>4,795</u>	<u>4,894</u>	<u>5,022</u>	<u>5,025</u>	<u>5,080</u>
Other Food Crops	82	80	97	102	n.a.
Fruits	174	176	196	212	214
Spices	70	56	51	54	51
Miscellaneous	<u>77</u>	<u>59</u>	<u>70</u>	<u>70</u>	<u>74</u>
Total All Crops	<u>5,198</u>	<u>5,265</u>	<u>5,436</u>	<u>5,465</u>	<u>n.a.</u>

^{a/} Estimated

Source: Federation of Malaya, Ministry of Agriculture

TABLE 2

Exports of Agricultural, Fisheries
and Timber Products
(in millions of Malayan dollars)

<u>Commodity</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Rubber:				
Ribbed smoked sheets	552.6	960.0	857.3	737.0
Crepe	164.5	278.5	259.8	296.9
Liquid latex	159.5	316.2	231.1	254.6
Other	<u>26.4</u>	<u>29.6</u>	<u>29.9</u>	<u>16.0</u>
Sub-Total	<u>903.0</u>	<u>1,584.3</u>	<u>1,378.1</u>	<u>1,304.5</u>
Coffee, Tea, Cocoa, Spices:				
Arecanuts	12.9	17.2	24.0	18.4
Coffee	11.8	6.0	7.8	7.8
Tea	7.8	9.1	5.0	5.4
Other	<u>1.7</u>	<u>2.6</u>	<u>2.4</u>	<u>3.1</u>
Sub-Total	<u>34.2</u>	<u>34.9</u>	<u>39.2</u>	<u>34.7</u>
Oils and Fats:				
Palm Oil	31.6	36.4	43.2	45.5
Coconut Oil	55.5	50.6	56.7	47.3
Other	<u>1.1</u>	<u>1.6</u>	<u>2.1</u>	<u>0.8</u>
Sub-Total	<u>88.2</u>	<u>88.6</u>	<u>102.0</u>	<u>93.6</u>
Timber:				
Lumber	11.8	18.3	19.9	19.1
Saw and veneer logs	6.4	7.9	9.8	11.0
Fuel and charcoal	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>1.9</u>
Sub-Total	<u>20.2</u>	<u>28.2</u>	<u>31.7</u>	<u>32.0</u>
Fruits and Vegetables:				
Pineapple	14.4	17.3	19.2	20.0
Other	<u>14.2</u>	<u>14.2</u>	<u>13.9</u>	<u>15.4</u>
Sub-Total	<u>28.6</u>	<u>31.5</u>	<u>33.1</u>	<u>35.4</u>
Miscellaneous:				
Fish and Fish Preparations	16.1	13.9	14.6	14.5
Oilseeds, copra etc.	13.4	6.3	8.2	15.7
All other	<u>14.6</u>	<u>15.6</u>	<u>14.2</u>	<u>12.7</u>
Sub-Total	<u>44.1</u>	<u>35.8</u>	<u>37.0</u>	<u>42.9</u>
Total Exports of Agricultural, Fisheries and Timber Products	1,118.3	1,803.3	1,621.1	1,543.1
Grand Total, All Exports	1,626.9	2,360.0	2,264.1	2,182.2
(Percentage, Agricultural, Fisheries and Timber Products)	(68)	(76)	(72)	(71)

Source: Government of the Federation of Malaya, Dept. of Statistics

TABLE 3

RUBBER STATISTICS

<u>Year</u>	<u>Planted Acreage</u>		<u>Production</u>			<u>Yield per Acre - Estates (pounds)</u>
	<u>Estates</u> (000 acres)	<u>Small- holdings</u> ^{1/}	<u>Total</u>	<u>Estates</u>	<u>Small- holdings</u>	
1947	1,945	1,500	646.4	360.5	285.9	570
1948	1,964	1,500	698.2	403.6	294.6	560
1949	1,983	1,500	671.5	400.8	270.7	550
1950	1,977	1,500	694.1	376.7	317.4	510
1951	1,975	1,500	605.3	328.8	276.5	460
1952	2,009	1,500	584.2	341.7	242.5	480
1953	2,041	1,500	574.4	341.8	232.6	470
1954	2,028	1,500	586.5	345.5	241.0	480
1955	2,025	1,500	638.7	352.5	286.2	490
1956	2,017	1,500	626.0	351.6	274.4	496
1957	2,050	1,500	638.7	369.8	268.9	
<u>Jan.-Apr.</u>						
1957			208.8	115.8	93.0	
1958			206.6	119.7	86.9	

^{1/} Accurate figures are unavailable.

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Average Singapore Price R.S.S.#1 (Malayan cents per lb.)</u>
	<u>(000 long tons)</u>		
1947	711.6	54.5	37.3
1948	731.9	45.4	42.2
1949	710.0	32.3	38.2
1950	780.0	86.6	108.2
1951	691.6	99.4	169.6
1952	608.8	28.3	96.1
1953	596.2	23.0	67.4
1954	612.1	37.1	67.3
1955	659.5	33.3	114.2
1956	649.4	43.7	96.8
1957	655.1	37.9	88.8
<u>Jan.-Apr.</u>			
1957	220.2	11.4	92.4
1958	217.2	18.8	77.4

Source: Federation of Malaya, Department of Statistics.

TABLE 4

TIN STATISTICS

World Production and Consumption
(thousand long tons)

<u>Year</u>	<u>Production</u>		<u>Consumption of Tin</u>	
	<u>Tin Metal</u>	<u>Tin in Concentrates</u>	<u>World Total</u>	<u>U.S.A.</u>
1950	174.0	166.5	152.0	71.2
1951	167.5	167.5	140.0	56.9
1952	168.5	171.0	132.5	45.3
1953	181.0	177.0	134.5	54.0
1954	184.5	177.5	142.5	54.4
1955	178.5	177.0	154.5	59.8
1956	177.0	175.5	160.5	60.5
1957	168.0	173.5	157.0	54.5

Federation of Malaya - Production and Trade
(thousand long tons)

<u>Year</u>	<u>Production^{1/}</u>	<u>Imports^{1/}</u>	<u>Exports</u>		
			<u>Concentrates^{1/}</u>	<u>Metal</u>	<u>Total</u>
1950	57.5	9.8	29.2	46.1	75.3
1951	57.4	7.6	28.8	36.2	65.0
1952	57.1	5.7	27.0	37.2	64.2
1953	56.4	6.0	27.1	35.1	62.2
1954	60.9	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
<u>Jan-Apr.</u>					
1957	19.6	3.8	9.8	14.4	24.2
1958	15.4	3.0	3.2	15.1	18.3

^{1/} Tin content of concentrates.

(continued on next page)

TABLE 4 (cont'd)

Tin Prices

<u>Year</u>	<u>London</u> (£/long ton)	<u>New York</u> (US cents/lb.)	<u>Singapore</u> (Malay cents/lb.)
1950	744.6	95.6	271.3
1951	1,077.3	128.3	390.1
1952	964.4	120.4	354.5
1953	731.7	95.8	268.1
1954	719.4	91.8	260.6
1955	740.1	94.7	270.5
1956	787.7	101.2	285.5
1957	754.8	96.2	275.0
1958			
Jan.	730.7	92.8	264.2
Feb.	731.5	93.8	266.4
March	731.3	94.3	270.6
April	730.9	93.0	265.5
May	730.8	94.5	269.6

Source: International Tin Study Group and
Monthly Statistical Bulletin of the Federation of Malaya

TABLE 5

VOLUME AND VALUE OF EXPORTS

(Quantity in thousand long tons; value in millions of Malayan dollars)

	1952		1953		1954		1955		1956		1957		Jan-Mar. 1957		Jan-Mar. 1958	
	Quantity	Value	Quantity	Value	Quantity	Value										
Rubber	609	1287	596	896	612	903	659	1584	649	1378	655	1304	171	357	170	294
Tin a/	64	511	62	383	69	404	72	434	73	472	70	439	18	118	14	85
Coconut oil	54	43	58	55	61	56	70	51	81	57	66	47	19	13	13	10
Iron ore	1007	23	1018	21	1060	21	1592	33	2376	51	2920	66	267	6	204	6
Palm oil	46	45	50	31	50	32	55	36	59	43	61	46	15	12	14	10
Timber	122	19	133	20	116	18	165	26	187	30	200	29	42	6	53	8
Canned pineapple	7	7	13	11	17	15	21	18	23	19	26	20	5	4	6	4
Fish & preparations		b/		b/		16		14		15		15		b/		b/
Other exports		199		181		160		174		198		214		82		51
Total		2134		1598		1625		2370		2262		2180		578		468
Volume Index, all exports	100		99		103		109		113		116		115		n.a.	

a/ Includes tin-in-concentrates and tin metal. Quantity of tin-in-concentrate is included in terms of metal content.

b/ Included in "Other Exports".

Source: Federation of Malaya, Department of Statistics, Monthly Statistical Bulletin of the Federation of Malaya, and Federation of Malaya Imports and Exports

TABLE 6

VOLUME AND VALUE OF IMPORTS

(value in millions of Malayan \$)

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>Jan-Mar. 1957</u>	<u>Jan- Mar. 1958</u>
Rice	160	204	94	126	136	134	38	n.a.
Other cereals and preparations thereof	57	55	51	48	52	53	14	n.a.
Dairy products	75	73	69	79	88	89	34	n.a.
Fruits and vegetables	89	63	64	63	75	72	20	n.a.
Sugar	72	55	45	49	58	74	17	n.a.
Other foodstuffs	<u>125</u>	<u>118</u>	<u>83</u>	<u>113</u>	<u>116</u>	<u>107</u>	<u>19</u>	<u>n.a.</u>
Total foodstuffs	578	568	406	478	525	529	142	139
Machinery and trans- port equipment	219	172	149	174	232	237	62	58
Mineral fuels	93	103	115	126	136	150	36	35
Textiles, clothing and footwear	149	108	115	134	133	130	35	a/
Beverages and tobacco	104	85	76	80	83	89	20	21
Chemicals	76	62	73	88	104	112	30	24
Base metals	59	44	44	53	64	67	19	a/
Tin concentrates	46	36	48	64	70	88	20	14
Rubber	46	26	44	59	69	57	14	19
Copra	6	6	15	11	23	21	5	6
Other commodities	<u>285</u>	<u>237</u>	<u>235</u>	<u>276</u>	<u>314</u>	<u>327</u>	<u>88</u>	<u>117</u>
Total imports	1,660	1,451	1,319	1,543	1,751	1,807	471	433
	=====	=====	=====	=====	=====	=====	=====	=====
Volume Index, all imports	100	95	84	107	111	110	116	n.e.

a/ Included under "Other commodities"

Source: Federation of Malaya, Department of Statistics, Monthly Statistical Bulletin of the Federation of Malaya, and Federation of Malaya Imports and Exports.

TABLE 7
DIRECTION OF TRADE BY CURRENCY AREAS
(in millions of Malayan dollars)

	Exports						Imports						Balance					
	Jan-Sept						Jan-Sept						Jan-Sept					
	1952	1953	1954	1955	1956	1957	1952	1953	1954	1955	1956	1957	1952	1953	1954	1955	1956	1957
Singapore	881	678	694	997	831	606	651	556	509	587	696	534	+ 229	+ 121	+ 185	+ 410	+ 135	+ 72
United Kingdom	426	227	182	324	284	182	380	283	261	295	333	250	+ 46	- 57	- 79	+ 29	- 48	- 68
Other Sterling Area	72	74	96	103	116	90	180	198	142	178	192	137	- 108	- 125	- 47	- 75	- 76	- 47
United States	293	232	201	327	345	233	32	25	16	18	22	20	+ 261	+ 207	+ 185	+ 309	+ 323	+ 213
Other Dollar Area	27	25	31	40	47	34	9	3	2	3	4	3	+ 18	+ 22	+ 29	+ 37	+ 43	+ 30
SEEC Countries	267	222	268	379	374	230	82	66	73	90	113	107	+ 185	+ 156	+ 195	+ 290	+ 261	+ 123
Rest of World																		
Japan	52	61	65	90	120	142	42	24	27	44	46	32	+ 10	+ 37	+ 38	+ 46	+ 73	+ 109
Thailand	42	35	25	31	39	37	125	134	121	161	171	156	- 83	- 99	- 96	- 130	- 132	- 119
Indonesia	13	4	6	11	8	7	101	106	134	133	130	106	- 88	- 102	- 128	- 122	- 123	- 99
Other Countries	61	41	58	70	100	88	52	55	33	35	44	44	+ 10	- 14	+ 25	+ 35	+ 57	+ 45
All Countries	2,133	1,598	1,625	2,372	2,264	1,649	1,652	1,451	1,318	1,543	1,751	1,390	+ 480	+ 147	+ 307	+ 828	+ 513	+ 259

Source: Government of the Federation of Malaya, Ministry of Commerce and Industry

TABLE 8A

ESTIMATED BALANCE OF PAYMENTS, 1956

(in millions of M\$)

<u>Current Account:</u>	<u>Receipts</u>	<u>Payments</u>	<u>Net</u>
Trade (Export fcb, imports' cif)	2,262	1,751	/ 511
Expenditure by Commonwealth Forces	75	-	/ 75
U.K. grants for defense and development	11	-	/ 11
Interest on Government investments and debts	16	4	/ 12
Government pensions	-	16	- 16
Private remittances	-	50	- 50
Profits, dividends, etc.	-	195	- 195
Oil transactions not included in visible trade	45	87	- 42
Tourism	5	10	- 5
Other invisibles	31	20	/ 11
Total invisibles	<u>183</u>	<u>382</u>	<u>- 199</u>
Total, Current Account	2,445	2,133	/ 312
Errors and Omissions	-	-	- 306
<u>Capital Account:</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>
Private Long-term Capital	-	/ 1	- 1
Government Long-term Loans	-	/ 40	- 40
Increase in sterling balances and securities	<u>/ 47</u>	<u>-</u>	<u>/ 47</u>
Total, Capital Account	/ 47	/ 41	/ 6

N.B. See notes at end of Table 8B

TABLE 8B

ESTIMATED BALANCE OF PAYMENTS, 1956

Singapore and Rest of World

(in millions of M\$)

	<u>Singapore</u>	<u>Rest of World</u>	<u>Total</u>
<u>Current Account:</u>			
Exports, fob	831	1,431	2,262
Imports, cif	696	1,055	1,751
Trade Balance	<u>£ 135</u>	<u>£ 376</u>	<u>£ 511</u>
Net Invisibles	<u>-</u>	<u>- 199</u>	<u>- 199</u>
Net balance, current account	<u>£ 135</u>	<u>£ 177</u>	<u>£ 312</u>
Errors and Omissions	- 170	- 136	- 306
<u>Capital Account:</u>			
Private long-term capital	-	- 1	- 1
Government capital	-	- 40	- 40
Sterling Assets	<u>- 35</u>	<u>£ 82</u>	<u>£ 47</u>
Total, Capital Account	- 35	<u>£ 41</u>	<u>£ 6</u>

Notes to Tables 8A and 8B

1. These statements are incomplete in a number of important respects. Among others, data are totally lacking or very incomplete on (a) invisible transactions with Singapore, (b) private capital transactions with the entire Sterling Area, including Singapore, (c) private (family) remittances abroad, and (d) the division of company profits between those remitted abroad and those retained in the Federation.

Notes to Tables 8A and 8B (cont'd).

2. The estimates of invisibles were taken from two main sources:

(a) A statement prepared by Government of Singapore Department of Statistics in which invisible receipts and payments were first estimated on a Pan-Malayan basis (i.e. Singapore and the Federation together) and then divided on the basis of various assumptions between Singapore and the Federation.

(b) Information on a number of specific items obtained from the Federation Ministry of Finance.

3. The following items were taken from the information provided by the Federation Ministry of Finance: U.K. grants, Government interest receipts and payments, and payments for Government pensions. The remaining invisible items were taken from the estimate prepared by the Singapore Department of Statistics.

4. Remittances of profits and dividends was the only item in the Singapore estimate which was not divided as between Singapore and the Federation. However for the purposes of Tables 8A and 8B approximately 80% of the total was allocated to the Federation and the remainder to Singapore. This distribution was based on a comparison of the incomes (after taxes) earned by non-resident companies in each territory. The entry includes the whole of the estimated profits earned in the Federation by non-resident companies; re-investment of profits should appear in the capital account, although this information is not available. Estimates of dividends payable to non-resident shareholders in Federation companies are also included in this entry, together with other types of income payable abroad such as pensions to retired company employees.

5. The entry for private long-term capital is based on exchange control information which extends only to non-sterling areas.

6. The entries for government long-term loans are based on information obtained from the Federation Ministry of Finance.

7. For changes in sterling assets, see Table 9.

TABLE 9

STERLING ASSETS

(in millions of M\$, end of period)

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Government Holdings:						
Sinking fund investments	64	75	87	98	103	102
Other investments and cash	<u>442</u>	<u>326</u>	<u>401</u>	<u>460</u>	<u>554</u>	<u>456</u>
Sub-total	506	401	488	557	657	558
Currency Board investments		506	575	648	651	660
Commercial banks balances abroad		<u>346</u>	<u>343</u>	<u>513</u>	<u>424</u>	<u>323</u>
Total		1,253	1,406	1,718	1,732	1,541
Total excluding sinking funds		(1,178)	(1,319)	(1,620)	(1,629)	(1,439)

Notes:

1. All of the investments included in the above table are at market value as of the dates indicated, except sinking fund investments which are not available at market value and are shown on a cost basis. Government investments other than in sinking funds are not available on a cost basis. A rough estimate of the value of these investments at cost was made by the following method: the percentage difference between the Currency Board's investments at cost and at market value was determined, and this percentage was then applied to the Government's investments at market value. After making this adjustment to Government investment, and using the data on Currency Board investments at cost, the following estimates of the total value of sterling assets were obtained (in millions of M\$):

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
	1,262	1,400	1,799	1,846	1,667

2. The assets of the Currency Board belong jointly to the Federation, Singapore, Brunei and Sarawak. The Federation's share of the assets shown in this table was derived by allocating to the Federation the proportion of the total Currency Board assets corresponding to the share of Currency Board profits which have been distributed to the Federation. The Federation's share in the Currency Board profits has been as follows:

1953	61.16%
1954	64.46%
1955	67.12%
1956	65.63%

Information on the Federation's share for 1957 has not yet been received, and the 1956 percentage was used to obtain the 1957 figure.

Table 10

External Public Debt Outstanding June 30, 1958
(In thousands)

<u>Item</u>	<u>Gross debt out- standing</u>	<u>Estimated sinking fund accumulated</u>	<u>Net debt outstanding</u>	
			<u>In currency of payment</u>	<u>In U.S. dollar equivalents</u>
TOTAL EXTERNAL PUBLIC DEBT				<u><u>107,182</u></u>
STERLING DEBT			<u>£ 34,664</u>	<u>97,057</u>
Publicly issued bonds	<u>£ 16,845</u>	<u>£ 4,011</u>	<u>£ 12,834</u>	<u>35,935</u>
£ 6,900,000 Federated Malay States 3% Stock, 1934/54 - 1960/70	£ 6,900	£ 2,771 <u>1/</u>	£ 4,129	11,562
£ 9,945,000 Federation of Malaya 3% Sterling Loan, 1949/54 - 1974/76	£ 9,945	£ 1,240 <u>1/</u>	£ 8,705	24,373
Loans from U.K. Government			<u>£ 17,221</u>	<u>48,218</u>
Debentures of the Central Electrical Board held by Colonial Development Corporation				
£ 3,580,000, 4%, 1951/60 <u>2/</u>			£ 3,580	10,024
£ 567,950, 4-3/4%, 1951/60 <u>2/</u>			£ 568	1,590
£ 830,000, 4-3/4%, 1953/63 <u>2/ 3/</u>			£ 830	2,324
£ 800,000, 4-1/2%, 1953/63 <u>2/ 3/</u>			£ 800	2,240
£ 1,300,000, 4-1/4%, 1953/63 <u>2/ 3/</u>			£ 1,300	3,640
£ 600,000 Colonial Development Corp. Loan to Federal Land Development Authority <u>2/</u>			£ 600 <u>4/</u>	1,680
£ 15,536,666 War Damage Loan, no interest, 1956-1975 <u>5/</u>			£ 9,543	26,720
Loan from the Government of Brunei	<u>£ 4,667</u>	<u>£ 58</u>	<u>£ 4,609</u>	<u>12,904</u>
£ 4,666,667 Federation of Malaya (1955) Brunei 3% Sterling Loan 1971/76 <u>2/ 6/</u>	£ 4,667	£ 58 <u>1/</u>	£ 4,609	12,904

N.B. See footnotes at end of table (next page)

- 44 -
Table 10 (cont'd)

External Public Debt Outstanding June 30, 1958

(In thousands)

<u>Item</u>	<u>Gross debt out- standing</u>	<u>Estimated sinking fund accumulated</u>	<u>Net debt outstanding</u>	
			<u>In currency of payment</u>	<u>In U.S. dollar equivalents</u>
MALAYAN DOLLAR DEBT			M\$ 30,981	10,125
Loans from the Government of Singapore	M\$ 11,900	M\$ 10,919	M\$ 30,981	10,125
M\$ 35,000,000 Straits Settlements 3% War Loan 1952/53 - 1959/60 <u>7/</u>	M\$ 11,900	M\$ 10,919	M\$ 981	321
M\$ 30,000,000 Loan from Government of Singapore, 1954-1979 <u>8/</u>			M\$ 30,000	9,804

1/ Estimated by IBRD.

2/ Guaranteed by the Federation Government.

3/ This loan is repayable either in Malayan dollars or in pounds sterling at the rate of M\$1 = 2s. 4d.

4/ This amount was undisbursed as of June 30, 1958.

5/ This loan is guaranteed jointly and severally by the Government of the Federation of Malaya and Singapore. A total of £ 15,536,666 (\$ 43,782,665) was drawn against this loan. The Government of the Federation of Malaya is responsible for 75% of this loan and Singapore for 25%. The amount shown in the table is Malaya's share of the debt.

6/ The interest rate on this loan is 3% per annum up to March 31, 1966. The terms for the remainder of the life of the loan will be the subject of negotiation between the two Governments at a later date.

7/ The original funded debt amounted to M\$35,000,000 (U.S.\$11,437,650). It was agreed between the Governments of the Federation of Malaya and Singapore that 34% of the liabilities (M\$11,900,000) of the former Straits Settlements would be taken over by the Federation of Malaya.

8/ This loan has a 10 year grace period on both interest and principal. Repayment terms for the following 15 years will be negotiated but have not yet been agreed upon.

TABLE 11

Estimated Contractual Interest and Amortization Payments on External Public Debt

(in thousands of U.S. dollar equivalents)

Year	<u>Debt Outstanding June 30, 1958</u>				<u>Debt after Proposed Changes^{1/}</u>	
	<u>Debt outstanding January 1</u>	<u>Total Debt</u>			<u>Debt outstanding January 1</u>	<u>Total Payments during year</u>
		<u>Amortization</u>	<u>Interest</u>	<u>Total</u>		
1958	107,182 ^{2/}	2,128	2,774	4,902	107,182 ^{2/}	4,902
1959	106,092	2,277	2,793	5,070	113,092	5,441
1960	103,338	14,018	2,804	16,822	150,338	6,491
1961	88,917	2,274	2,265	4,539	116,990	6,455
1962	86,208	2,272	2,265	4,537	113,552	6,442
1963	83,467	10,478	2,265	12,743	110,060	6,433
1964	72,486	2,273	1,899	4,172	136,506	9,438
1965	69,675	2,273	2,389	4,662	131,908	9,916
1966	66,829	2,274	2,389	4,663	127,191	9,906
1967	63,943	2,273	2,389	4,662	122,344	9,891
1968	61,021	2,305	2,389	4,694	117,368	9,914
1969	58,027	2,310	2,387	4,697	112,222	9,905
1970	54,988	7,339	2,385	9,724	106,922	15,058
1971	47,299	2,099	1,803	3,902	96,721	9,217
1972	44,827	2,102	1,801	3,903	91,619	9,197

^{1/} Debt as of June 30, 1958, plus the following changes:

- (a) Negotiation of Central Electricity Board debentures held by Colonial Development Corporation
- (b) Proposed Commonwealth Development Finance Corporation loan to Central Electricity Board.
- (c) Proposed I.B.R.D. loan to Central Electricity Board.
- (d) Proposed Development Loan Fund loan for port development.

^{2/} Amounts outstanding shown for 1958 are as of June 30, 1958. Payments shown for 1958 are for the full year.

TABLE 12

COMMERCIAL BANKS' ASSETS AND LIABILITIES
(millions of Malayan dollars - end of period)

	1954	1955	1956	1957	April 1957	April 1958
<u>Assets</u>						
Cash	50	47	52	59	39	63
Loans and advances	162	194	252	279	288	340
Treasury bills	5	-	9	9	9	9
Other local investment	55	50	40	51	40	52
Balance due from local banks	65	81	71	80	61	79
Foreign assets	343	513	424	323	377	303
(of which Singapore)	(214)	(305)	(270)	(134)	(148)	(122)
Other assets	34	46	49	51	50	50
Total Assets	<u>714</u>	<u>931</u>	<u>897</u>	<u>852</u>	<u>864</u>	<u>896</u>
<u>Liabilities</u>						
Demand deposits:						
Private	334	369	346	309	317	294
Government	97	120	160	125	158	154
Public enterprises	<u>23</u>	<u>37</u>	<u>30</u>	<u>32</u>	<u>30</u>	<u>28</u>
Total	454	526	536	466	505	476
Time and savings deposits:						
Private	128	168	175	173	173	187
Government	6	56	21	32	27	38
Public enterprise	<u>2</u>	<u>40</u>	<u>14</u>	<u>10</u>	<u>14</u>	<u>15</u>
Total	136	264	210	215	214	240
Balance due to local banks	66	86	74	90	65	82
Foreign liabilities	23	16	31	32	35	51
(Of which Singapore)	(7)	(6)	(13)	(16)	(19)	(38)
Other liabilities	<u>35</u>	<u>39</u>	<u>46</u>	<u>49</u>	<u>45</u>	<u>47</u>
Total Liabilities	<u>714</u>	<u>931</u>	<u>897</u>	<u>852</u>	<u>864</u>	<u>896</u>

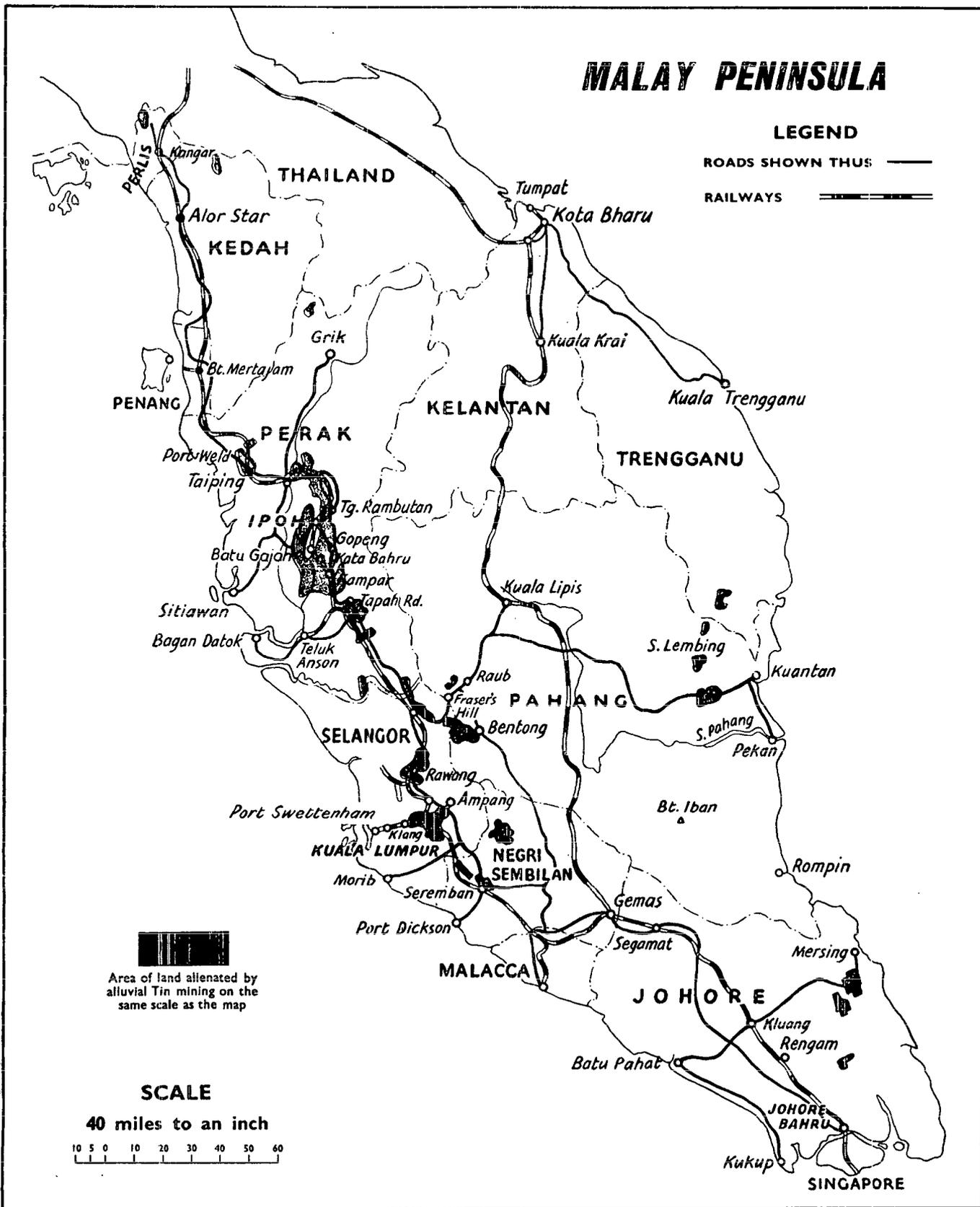
Source: Monthly Statistical Bulletin of the Federation of Malaya

MALAY PENINSULA

LEGEND

ROADS SHOWN THUS 

RAILWAYS 



Area of land alienated by alluvial Tin mining on the same scale as the map

SCALE

40 miles to an inch

