

BOOK REVIEW

Published 3 May 2018

Charting the Economy: Early 20th Century Malaya and Contemporary Malaysian Contrasts

by H. R. H. Sultan Nazrin Shah, Published by Oxford University Press, 234pp. ISBN: 978-983-4720-14-8

Malayan GDP, 1900–1939

The greatest pioneering achievement of the author, His Royal Highness Sultan Nazrin Shah of Perak, is the construction of the Gross Domestic Product (GDP) of Malaya in nominal and real terms for a 40-year period before World War II, from 1900 to 1939. This is a herculean task, never attempted before either single-handedly or by a group or government agencies, such as the country's Statistics Department.

Although Malaya then was under British rule, there were in fact seven independent administrative states, namely (1) The Straits Settlements of Penang, Singapore and Malacca, (2) The Federated Malay States of Perak, Selangor, Negeri Sembilan, and Pahang, and the Sultanates of (3) Perlis, (4) Kedah, (5) Kelantan, (6) Terengganu and (7) Johore which together were referred to as the Unfederated Malay States. All the seven administrative units had their own custom areas with different tariff systems. There was no colonial annual report in British Malaya as a whole, although there were separate annual reports on each of the seven administrative entities. They had the same currency though, using the common Straits Dollar with free mobility of labor and population within British Malaya (Pan-Malaya).

Singapore became a separate British Crown Colony after World War II, in 1945. The pre-war statistics thus had to be separated by the author to get the statistics of Malaya and not Pan-Malaya.

There were other herculean tasks to be overcome. The trade and production statistics which is used by the author to include Singapore, upon which the author depended heavily for his GDP estimates, varied enormously in quality and availability among the seven administrative entities of Malaya.

Further, to arrive at real GDP from nominal GDP, the author had to have a GDP deflator in the form of a constant price index. The only available cost of living Straits Settlement Index, the consumer price index, had to be greatly depended upon to do the task as a proxy.

The lack of published statistics and the raw statistics available had made his task a most challenging and unenviable one. In our view, the author's success was hard work and tenacity in face of insurmountable difficulties. Much more knowledge is now known of the pre-war Malayan economy, particularly with regards to the GDP and its components, because of the author's research efforts.

Tin Followed by Rubber

The book provides comprehensive statistics on the growth of the tin-mining industry reinforced several decades later by the then new rubber-growing industry. Both were export industries, pure and simple.

As all tin produced were meant for export, roads, railways and ports had to be built. Consumer imports, conspicuously rice and opium followed. That was, to the author, and correctly so, the *laissez-faire* colonialism.

The Malayan States that had tin, namely the west-coast states of Perak, Selangor and Negeri Sembilan started to join the west-coast port cities of Penang, Singapore and Malacca in prosperity and affluence, leaving further behind the other non-tin-mining States, particularly those on the East Coast.

Demographic transformation too took place rather conspicuously, drawing mainly Southern Chinese immigrants to the tin-mining areas: tin-mining towns, such as Kuala Lumpur, Taiping, Ipoh, and the port cities of the Strait Settlements.

When rubber came, it followed those areas that already had infrastructure for the exports and imports of goods and services. This further accentuated the lop-sided development of modern Malaya. More new immigrants from Southern China, who were pushed out by political and social instability, in addition to extreme poverty, followed. Tamils, also more Indians mainly, were recruited by the then burgeoning British agency houses for the rubber sector. Over the period 1900–1939, this added more to the multicultural and multiracial increase of the population. Such demographic changes are well documented in this book.

After World War II, when synthetic rubber came to rule the roost, Malaya diversified into palm oil and industrialization. Both the new industries were very successful in Malaya, winning the accolade of a miracle of managed capitalism afterwards. To 1975, particularly between 1970 and 2009, the writer made the statistical comparison with pre-war Malaya 1900–1939. Statistics on tin and rubber are particularly well documented and presented in the book, including the then increasing dominance of the British agency houses in both the industries.

Low Standards of Living

Rising real per capita income is normally associated with rising standards of living. But in the author's study of the pre-war Malaya, that was not quite the case. In other words, the Marginal Propensity to Consume was quite disappointingly low. The author rightly attributed this phenomenon to two main reasons. Much of the returns to capital by the

ubiquitous British agency houses were repatriated to London, where they were headquartered. Two, there was a significant amount of repatriation of savings from the immigrant workers, especially by Chinese and Indians.

We share the view of these two strong possibilities. Further research is needed to provide concrete statistical evidence to the author's hypothesis.

Compared with post-World-War-II statistical evidence, the Marginal Propensity to Consume curve in Malaya appeared more nominal. In the post-war period, the population has settled: capital investments too have been localized. Public sector investment too has multiplied. These three factors directly and indirectly have contributed to bringing about normalcy in the post-World-War-II consumption function.

Sources of Growth

One of the most interesting features of the book is that it provides dissected statistics on the contributions of Labor, Capital and Total-Factor Productivity (TFP) to GDP growth over the period 1900–1939. The average contributions are given as follows:

Labor → 1.8%

Capital → 1.7%

TFP → 2.0%

The formula used can also be used to arrive at the factor contributions of Sabah and Sarawak for the same period 1900–1939, and for the Malayan economy for other periods of time. Indeed, it might also be useful for other researchers for adding new knowledge on sources of growth on other economies by using the author's formula.

To growth economists, Chapter Five's examination of the sources of growth is as interesting and illuminating as the other five chapters.

Direction of External Trade

As to be expected, both exports mainly tin and rubber at the beginning went to the metropolitan power, the United Kingdom, followed by the imports of manufactured goods (from the United Kingdom as well). The United States (US), however, quickly took over the share from the United Kingdom as the US economy grew exponentially following its successful industrialization. Thus, when the Great Depression of the 1930s took place in the US, Malaya took the biggest hit.

During the post-World-War-II period, and following the Malaya/Malaysia independence, the direction of trade became more diversified; with the increasing shares going to Asian countries, particularly Japan, China, South Korea, Taiwan, Hong Kong and India, with Singapore continuing to play a strategic role before and after World War II. The changes in the direction of trade reflect the great resurgence of the post-World-War-II Asian economies, particularly those of East Asia.

Two Important Events

Before World War II, two global events hit the Malayan newly emerged economy, as both tin and rubber were completely exported. One such event was World War I and the other the Great Depression. These two events were to dominate the author's analysis of the Malayan economy from 1900–1939.

The author, however, rightly provides an interesting underlying contrasting impact. World War I had a positive impact and the Great Depression a disastrous and negative impact on the Malayan economy.

World War I raised the prices of both rubber and tin. The Depression lowered both of the prices. The Depression thus also scaled down export taxes and other tax revenues resulting in significant budget cuts which made the Depression in Malaya worse.

The author, because of the scarcity of data, avoided the Malayan economy during the Japanese Occupation (1941–1945). He also skipped the Malayan Emergency and the Korean War, which like WWI, brought about an unprecedented boom for Malaya. The boom must have contributed positively to the ending of the Malayan Emergency as well as contributing to make British Malaya the cash cow for the British Empire and a source of great strength for the Sterling Area.

Comparing Growth Rates

Another strong feature of the book is the comparison of growth rates and standards of living between 1900–1939 and 1970–2009. This comparison has never been done before. The result may be startling to many. The average real GDP growth rates of 1970–2009 were higher than that of 1900–1939. But per capita consumption was perceptively much higher still.

Three main reasons he deduced for the much higher growth and per capita consumption rates after Independence. One, is the successful industrialization of the economy. Two is the successful agricultural diversification of the economy, mainly palm oil growth to replace rubber cultivation. Three, is the enormous increase in investment in human capital formation and in infrastructural development. All three factors involved a seismic shift in government policy after Independence. The author rightly attributes these seismic shifts in policy to the success and commitment of the post-Independence development-oriented and people-oriented administration.

While we completely agree with the analysis and assessment of the writer on the two periods, we think that the post-war figures were also inflated by the global method of calculating GDP, with the increasing contributions made by the hitherto unpaid goods and service activities that were much more prevalent in the older pre-war economy than the more modern economy of the post-Independence Malaya/Malaysia.

Besides, the important discovery and export of oil and gas also added much more growth impetus to much of the later period.

Lack of statistical data did not allow the author to compute the comparative Gini-coefficients of the two periods.

GDP and GNI

As pointed out by the author, GDP is a geographical product and Gross National Income (GNI), a national product. GNI refers to the total output (income) of its citizens. In the pre-WWII Malaya, much of the national output was carried out by non-citizens, namely British entrepreneurs in the private sector and also in the public sector and to complicate measurements, a large part of the immigrant residential population were not subjects of the Sultans or the British local government. Whatever were the problems of measurements of the GNI, the real per capita levels in the pre-war Malaya must be by definition much lower than the post-war GNI level. This should affect the large difference in the per capita consumption levels between the two periods.

In other words, the divergence between GDP and GNI was much higher; very much higher; before WWII and after WWII, especially for the period 1990–2009 after WWII.

Unique Book on Malaysian Economy

The author should be congratulated for producing this unique book on the Malaysian economy, particularly in the pre-WWII Malayan economy under British rule.

For anyone interested in have a good knowledge of the Malayan/Malaysian economy, this is an indispensable and authoritative book. It should be found in all the libraries of the world on Malaya, Malaysia and South East Asia. Faculty would find the book a must-read for their students of the Malayan, Malaysian and Southeast Asian economies.

The author has presented the book in the most readable manner. All the chapters are well organized and presented with clarity. The statistics tables on the book as well as in the appendices add to the charm and gold mine of information on the Malayan/Malaysian social accounts and their components.

This review is not the main entree for the book. It is only an appetizer. For the wealth of knowledge on the social accounts, their components and analysis, the book is a must read.

Constructing and analyzing the system of national income accounts is after all a tedious, daunting process requiring much skill, and understanding of that system. All the more so, when performing such a detailed task in past Malaysian history when data availability can be most challenging.

When the author, then the Regent of Perak, visited Professor Lim Chong Yah in his office in Nanyang Technological University (NTU) in the course of preparation of this unique book, he told Professor Lim thus: “Your book on *The Economic Development of Modern Malaya* is so valued by me that I have purposely sent it to London for a first rate binding with first rate leather cover. I have displayed your book on my office desk as a great place of honor.” The reviewers would like to reciprocate to that honor by placing the author’s book, also in first rate leather cover, for display as an honor to the author, to his

pioneering first class contributions to the knowledge of the Malaya/Malaysian economy. Congratulations once again, your Royal Highness.

LIM CHONG YAH

Emeritus Professor of Economics

National University of Singapore (NUS)

Emeritus Professor of Economics

Nanyang Technological University (NTU), Singapore

ACYLIM@ntu.edu.sg

EUSTON QUAH

Professor of Environmental Economics and Cost-Benefit Analysis

Head of the Economics

Nanyang Technological University (NTU)

President

Economic Society of Singapore

Editor of Singapore Economic Review

ecsquahe@ntu.edu.sg