As time goes by *Prof Dr Jomo Kwame Sundaram*

An in-depth look at Britain's colonial legacy in Malaya by Sultan Nazrin Muizzuddin Shah

Charting the Economy: Early 20th Century Malaya and Contemporary Malaysian Contrasts impressively assesses the uneven development of colonial Malaya's economy during the first four decades of the 20th century before the Japanese Occupation. The volume also contrasts it with the economic transformation of contemporary Malaysia. The book greatly enhances our understanding of the colonial Malayan economy, using innovative methods to estimate "national income" in the peninsula in the 20th century before World War II.

'Colonial' Malaya

The priorities and nature of British imperialism in the region changed from the last third of the 19th century. In 1867, the "free" ports of Penang, Malacca and Singapore came to be directly ruled by the Colonial Office in London as the Straits Settlements (SS), instead of via the East India Company. The SS enabled profitable primary commodity exports as well as manufactured and other luxury imports, besides serving as bases for eventual British suzerainty over the peninsular Malay states. Before the Japanese Occupation, SS tax revenue came mainly from opium, alcohol, gambling and even licensed prostitution, as in Johor, but never from exports or other imports.

Over four decades, British control was extended from the SS entrepôts to the rest of the peninsula from the Pangkor Treaty of January 1874 until the outbreak of World War I in the second decade of the 20th century. Colonial dominance, disguised as "indirect rule", enabled control as well as exploitation of people, land and the natural resources. It is almost amusing, if not tragic, that a motley crew of purported nationalists are now in denial about the record of British colonial rule.

Through a series of unequal treaties, often secured by gunboat diplomacy, Britain eventually gained effective, if "indirect" control of nine peninsular Malay sultanates, beginning with the tin-rich states of Perak, Selangor, Negeri Sembilan and Pahang, which would later constitute the Federated Malay States (FMS). The Pangkor Treaty set the precedent with the appointment of a British Resident to "advise" the Perak sultan on all matters other than Islam and Malay custom. Thus, "indirect rule" mimicked British control of India's "princely states" through "Residents" who effectively dictated terms on behalf of the imperial power.

Johor was controlled for much of the 19th century by London via Singapore through its Temenggong, later "promoted" to sultan, while the British wrested control of the four southernmost Malay states of Siam — Kedah, Perlis, Kelantan and Terengganu — in the early 20th century. Together, the five, lacking tin, came to be referred to as the remaining Unfederated Malay States (UMS).

As Western imperialism dismembered the Ottoman and Austro-Hungarian empires and inadvertently catalysed various European, Arab, Turkish and Zionist nationalisms in the early 20th century, there was still little sense of a shared common national identity among the denizens of British Malaya, or even with the archipelagic populations under Dutch and American rule, later to constitute Indonesia and the Philippines.

Economic legacy

Generous land concessions to British companies and public infrastructure investments lowered private costs and increased output as well as profits. Other policies were similarly oriented to best serve private British firms to mobilise capital through joint-stock companies in London. All this required improving transport infrastructure, electricity and water supply, especially on the west coast of the peninsula, notably to serve colonial business interests. Thus, most such "benefits" of colonial rule came from efforts to facilitate exploitation, enhance British profits and perpetuate imperial control.

By the beginning of the 20th century, the FMS was producing more than half the world's tin, especially following the popularisation of the use of tin cans for food preservation from the middle of the 19th century, for example, during the American civil war. Similarly, the popularisation of motorised vehicles from the end of the 19th century greatly increased the demand for natural rubber until World War II saw increasing use of synthetic substitutes.

Thus, colonial Malaya's unsteady growth was mainly based on exports of tin and later, rubber, whose prices fluctuated in the world economy. Heavily reliant on these two primary commodities, mainly used by US industries, Malaya's trade dependence — with consequences for the volatility of export earnings, government revenue and incomes — was reflected by its high ratio of exports to gross domestic product. Such export dependence implied economic instability related to price volatility, that is, a boom and bust economy.

Thus, annual growth in Malaya ranged from a peak of 46% in 1925 to a nadir of -31% in 1931! Despite the Great Depression in the 1930s, Malaya's real per capita income grew by an average of 2.9% annually from 1900 to 1939. Meanwhile, labour incomes on mines and plantations rose much more slowly at 1% yearly. Hence, wages grew much less than output, productivity and profits.

In two decades, colonial privilege transformed tin mine ownership and profit shares as Chinese mines' share of output fell from four fifths in 1912 to a third in 1931. In rubber too, largely British, "European" plantation companies dominated due to their greater ability to raise capital. Well over 100 European companies were operating in the FMS by 1939, mostly London-listed ones.

Commodities accounted for almost all merchandise exports from 1901 to 1939, contributing three fifths of total output. Profits were huge, with large dividends for stockholders when prices were high, sometimes even reaching three digits in percentage terms. These chiefly British-owned businesses reaped huge profits and dividends, mostly repatriated to their mainly foreign shareholders, with generally declining fractions reinvested in Malaya during the early boom years.

Meanwhile, colonial Malaya remained a captive market for imported British manufactures, although cheaper alternatives, for example, from Japan, China and India, gradually made some headway despite imperial privilege. Oriented to serve Western industrial needs, Malaya was built on rubber and tin, with minimal manufacturing, mainly to smelt tin and smoke rubber for export besides basic engineering works necessary for a profitable colonial economy.

British policy

British enterprises were enabled to maximise profits by the supportive legal and institutional environment. Government support included providing choice land for plantations at nominal prices, with minimal restrictions, and imposing low taxes. With so much of Malaya owned by foreigners, it was no surprise that domestic output greatly exceeded national income, with profits, including dividends, flowing abroad. Investment growth averaged less than 10% per annum, implying little was being reinvested in the domestic economy, limiting further growth, domestic "economic linkages" and balanced and inclusive development. Consequent uneven development and colonial-type inequalities remain manifest to this day.

Over a decade after Malayan independence in 1957, foreigners still owned over three fifths of share capital in limited companies at par value, including 75% in agriculture and 73% in mining. The more nationalist post-colonial government led by Malaysia's second prime minister sought to reduce foreign ownership of share capital in publicly limited companies from over 60% of par value in 1969 to 30% by 1990.

The 1970s saw public funds used to buy over companies mainly invested in Malaysia ("agency houses" and rubber plantation and tin mining companies) and trading on London's stock market since colonial times. Ironically, the last decade has seen a resurgence of foreign share ownership, encouraged by changing national regulations and international circumstances since 2009.

Labour and inequality

The peninsula, with its abundant land and natural resources, had a small population of under two million at the start of the 20th century, rapidly augmented by immigration. The growing worker population was mostly involved in tin mining and agriculture, eventually mainly rubber cultivation.

Immigration from China, India and Java provided cheap labour, initially indentured, but always exploited. Such labour immigration grew with the tin and then rubber booms until the Great Depression bust of the 1930s. European plantations employed over a quarter of a million workers in 1929, on the eve of the Great Depression, of whom four fifths were from South India.

Large inflows of culturally distinct labourers from China and India quickly raised their population shares until the 1920s. This immigration markedly changed the ethnic composition of the country, although colonial policy also encouraged land settlement from other parts of the mainly Muslim Nusantara, or Malay archipelago, in the Dutch East Indies to increase local food production, especially of rice, to feed the working population, and thus maximise net foreign exchange earnings for the empire.

Thus, British imperial interests and policies created a colonial Malayan economy where occupations became closely associated with ethnicity and culture. The Malay share of the peninsular population fell from 63% in 1901 to 49% three decades later. The Malay share of Malaysia's population then increased once again to more than 60% of its total population due to higher fertility and continued immigration from the Nusantara (Indonesia, southern Thailand and southern Philippines), while the combined share of Chinese and Indians has fallen below a third due to lower fertility and higher emigration.

Capital income went mainly to a relatively few rich investors and was mainly remitted abroad, rather than reinvested in the colony once profitable opportunities were exhausted. Meanwhile, real wages rose slowly, up only 1.6% annually on average from 1900 to 1939, thus exacerbating inequality, both "domestically" and "internationally".

As output per capita grew at almost double this rate, capital income rose much faster than economic output. Thus, the uneven nature of colonial economic development resulted in large disparities in consumption levels and expenditure patterns along class lines, but popularly perceived primarily in terms of ethnicity and occupation.

Social progress?

The Malayan railway system began in 1885 with the first line to take tin from Taiping in the tin-rich Larut valley to Port Weld. Its early development was clearly driven by the administration's desire to better serve the tin mining industry. State public works departments undertook road building and maintenance for similar reasons elsewhere. Government investments in electricity generation and distribution began in the late 19th century after private suppliers failed to serve private investor interests well enough.

Social provisioning in the colonial period, especially before the Japanese Occupation during World War II, also sought to ensure profitable colonial enterprise, although some positive side effects may have trickled down to improve public welfare. Investments in healthcare and education were mainly intended for British and local elite families in towns, with limited rural health services to enhance labour productivity.

Death rates from malaria and other infectious diseases were initially so high as to render investments prohibitively expensive. Immigrant workers not only introduced new infections but were also vulnerable to locally endemic diseases. Rural services initially prioritised the well-being of European managers, with the health of workers increasingly recognised as crucial for business profits. Hence, some larger mines and plantations found it economic or necessary to provide basic medical services.

Nevertheless, urban hygiene and sanitation remained otherwise poor, with rural conditions around mines and plantations harsher, but often still better than for Malay peasant farmers and fishermen. Of course, not everything in the empire was subject to such crude cost-benefit calculus, but denial of the interests and logic of economic imperialism needs to be challenged.

Malaya's school facilities evolved subject to many considerations, including colonial public finances, business profits and communal mobilisation, deepening the cultural pluralism of the emerging "plural" colonial society. Rural Malay children increasingly attended government-funded schools, which initially provided four years of elementary education in Malay. Meanwhile, the sons of the ruling and administrative elite attended English-medium urban schools before joining the elite Malay College in Kuala Kangsar, established in 1905 and modelled on "English public schools", to train them for eventual colonial government service.

Besides independent Islamic schooling, especially in more traditional Malay communities in the UMS and SS, Chinese and Tamil vernacular schooling also developed separately as Malayan demography changed with female immigration. While Chinese schools were largely community initiatives patronised by business interests, Tamil schools were more similar to Malay vernacular schools, especially when set up by estate managements as extended daycare facilities before children came of age and could join their parents in the labour force. Thus, vernacular schooling served to deepen cultural identities, as English-medium schooling promoted colonial subject cosmopolitanism, inadvertently weakening traditional ethnic sensibilities.

Thus, education policy reinforced the sociocultural segregation of colonial Malayan society. More cosmopolitan Westernised elites eventually emerged in all three major ethnic communities, unified by English-language facility. As in all colonial empires, such elites — largely, but not all, or always allied to the British — remained relatively small, intermediating between colonial rulers and the ruled.

Setting the record straight

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but popularly seen primarily in terms of ethnicity, culture and occupation. Malaysia's multicultural, multiethnic and multilingual-class character can thus be traced to the incubus of British imperium, the central theme of this enlightening and readable tome by the Sultan of Perak.

In Empire: How Britain Made the Modern World, Harvard historian Niall Ferguson, then at Oxford, advanced imperial apologia to argue, mainly citing India, that British imperialism provided invaluable infrastructure and good governance via colonial administration, enabling subject populations to secure better lives and inherit the bases for post-colonial economic growth and social progress.

In his recent response to resurgent imperial nostalgia inspired by such colonial apologists, former Indian minister Shashi Tharoor has refuted such claims in *An Era of Darkness: The British Empire in India*. In an understated academic fashion, *Charting the Economy* is Malaya's Tharoor, minus the eloquent politician's polemic, but with an irrefutable, original and comprehensive empirical case. E