

# Malayan Economic Policy and Socio-Political Development 1948-1963: Domestic and Global Factors.

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## Abstract:

This paper discusses the Malayan economic development (and its policy) and the socio-political development in the late 1940s until 1963. The situation in Malaya was not stable during that period. Two groups were emerged in Malaya, first pro-British and the second group was pro-communist. The emergency period that was declared by the British in June 1948 because of the unstable situation in Malaya (the conflict between the communist group and British Malayan government/Alliance Government after 1957). The British with cooperation by the Malayan people was successful in managing the conflict. Economic development and socio-political policies were used as strategies in defeating the communist movement in Malaya. The findings in this paper are; the domestic situation in Malaya during the period 1948-1963 was not free from the global political development (i.e, the Cold War that emerged in Europe in late 1940s between the United States and the Soviet Union; the strategy and policies taken by the British/independence pro-British government in Malaya applied and considering the bipolarity struggle (Cold War between Communist and the West) and; Malayan pro-West and anti-communist foreign policy under Tunku Abdul Rahman (first prime minister of Malaya) contributed to the positive development of independence Malaya. Without strong support from the British and Western powers and right foreign policy decision by Tunku Abdul Rahman, it was impossible to achieve a positive level of development and political stability during the period of 1948-1963 (Malaya might be controlled by the communist group and became a communist state like North Vietnam in 1954).

**Keywords:** Malaya, Emergency period, Cold War, pro-British, Communist, economic development, Tunku Abdul Rahman.

## 1. Introduction.

The political and economic situation in Malaysia during the period 1948-1963 can be divided into two periods; 1948 until mid- 1950s and second half of 1950s until 1963. During the first half of the 1950s, Malaysia was under serious internal communist attack. In the second half of the 1950s and early 1960s the situation became better. The British and Commonwealth countries played a vital role in creating a stable situation. Independence was given to Malaya in 1957 after the communist movement in Malaya was under government control. The British colonial power played an important role in creating a stable condition in Malaya. The British model of politics and economic foundations followed by the British creation political party in Malaya, the alliance of UMNO-MCA-MIC. The alliance between Malay aristocrat, Chinese business and Indian leader became the core political group in independence Malaya. The pro-British and anti-communist political party played crucial role in Malayan political stability and economic development.

## 2. Historical Background: Malaya and British Colonial Power.

After gaining independence from Great Britain in 1957, Malaya still continued to maintain close economic and political relations with Great Britain. The dominant political leader that was created by the British, obtained their education from British educational system. They were influenced by the British culture and British economic philosophy. In many aspects Malaya followed the British model in politics and economic policy. The Malayan senior officers, administrators and cabinet ministers mostly graduated from British or Commonwealth universities.

The Malayan education policy of sending Malayan students to United Kingdom, and Commonwealth countries (Australia, Canada and New Zealand) after independence continued. The education policy strengthened the 'British economic model' and political philosophy in Malaya for a few decades after independence. The economic achievement and level of development was important in surviving the sending students to overseas.

The structure of foreign ownership and the corporate sector of the Malayan economy did not change after gaining independence from Great Britain in 1957. Until 1970, economic system and the ownership structure

were similar to before independence where two-thirds of the modern sector of the Malayan economy remained under foreign ownership (Hirschman, 1989). The British ownership and their role in Malayan economics was one of the factors why Great Britain felt that it was their responsibility to protect Malaya from external threats. The economic interest of the British in Malaya influenced the British political and military-security policy towards Malaya after 1957. Although Great Britain gave independence to Malaya in 1957, the defence, security and economic/financial matters were still controlled by the British. British senior officers held important positions in the Malayan ministry of finance for the first few years after independence.

Besides the financial aspect, security matters were also under British protection. It was clear under the Anglo-Malayan Defence Agreement (AMDA). AMDA treaty was signed in September 1957, just a few days after Malaya gained independence on 31<sup>st</sup> August 1957. The security and military pact with Malaya was important in the 1950s development and socio-political stability. At that time Malaya was under serious attack by the communists with strong support from Mainland China (China Communists under Mao Tse-tung). The political and communist struggle in Vietnam under Ho Chi Minh also influenced the communist activities in Malaya. Without military support from the British, Malayan security would not be secure. It would destroy the British economic interest in Malaya. There are close relationships between the security/political stability and economic development/social harmony.

### **3. The British Support and Malayan Stability.**

The Malayan economic and political situation would be different if the British left Malaya earlier than 1957. The political stability and economic prosperity failed to be achieved without British support. The British security was important in defeating the communist threat after the Second World War. The communist action after 1948 in Malaya was very serious. Without British support the creation of Malay political party (UMNO) and liberal Chinese group (MCA) as the core and dominant group in Malaya was impossible in defeating the communists. The radical Chinese (communist) and left Malay leader (pro-communist socialist) would become the dominant leader in Malaya. It is impossible to gain stability without the existence of a dominant political group that happened in Indonesia, where the Dutch failed to control her colony after the war without a dominant pro-Dutch political group.

Malaya still had closed economic and trade relations with Britain and other Western powers in the 1950s. Western and Japanese investors were interested in running their activities in Malaya because Malaya was considered as a part of the Western world. Although Britain gave independence to Malaya in August 1957, Britain still controlled Federation of Malaya under AMDA that was signed in September 1957. Malaysian security covered under SEATO. Although Malaya was not a member of SEATO, but because of Britain was a SEATO member and the AMDA treaty, indirectly it means that Malaya also covered under SEATO because of the condition of Malayan-Britain relationship factor. The Governing party of Malaya (Alliance Party) also was a 'British followers' because the prime minister and senior cabinet ministers were followed British style.

Political stability was maintained under the 'Western Style' of administration under Prime Minister Tunku Abdul Rahman. Security was secured under AMDA and the SEATO umbrella where Britain was one of the SEATO members. There were close relationships between the political-military and progress of economy and level of development. Malaya's economic growth and development progressed constantly in the 1950s, before and after it gained independence from the British in 1957.

### **4. Native Malayan Government and British Philosophy.**

New native governments (Alliance Government under Tunku Abdul Rahman) after independence did not bring significant and negative changes to the Malayan economy and the development policies. Malaya followed the British model of development for a few decades after independence. Most of the Malayan politicians and officers were trained in Britain or the Commonwealth countries, Australia, New Zealand or Canada. Malayan Prime Minister, his deputy and cabinet members graduated from British or Commonwealth universities. For them, 'Western' and 'British' was the best model that should be followed. The Malayan independence in 1957 was just a transformation of leadership from British to native leaders. The policy and government's philosophy did not make a great difference. The political and economic philosophy that was created by the British before giving independence to Malaya influenced the Malaya policy after independence. The strength of the dominant

group greatly influenced the post-independence economic and political stability. The international political development means that the Malaya-Great Britain relationship became closer. The development at the domestic and regional level also led to the close relations between Malaya and Great Britain. The Malayan Communist struggle to take over the Malayan government or 'Emergency Period' (1948-1960) was a vital period in the Malaya-Great Britain relationship. Great Britain played important and vital role in defeating communist and survive the Alliance Party. The vital motive behind British strong support to the Malayan Alliance government was the British economic interest in Malaya. If the communist took over Malaya, Britain will lose all of their economic interest in Malaya. The Vietminh movement in Vietnam (under Ho Chi Minh) from early 1945 onwards and the 1954 Agreement between France and Ho Chi Minh influence the British policy in Malaya, and other Western powers in Southeast Asia. (Keylor, 2003). The situation was different with Indonesia where the Sukarno regime had a bad relation with the Dutch.

The changes in the independent Malaya were the programmes of development for the native population, especially for the Malays from rural areas. The majority and traditional settlement of the native population were in rural areas. There were little changes of pattern of the Malaya settlement under the British colonial administration. Under the British economic policy there was little progress in the Malay and other native community in the rural areas of Malaya. Most of them were still engaged in the traditional activities, such as subsistence peasant and fisherman. The involvement of natives in the modern sector, such as trade and business, industries activities and services sectors, was very limited during the British administration. The native populations (Malay) were engaged in the traditional economic sector, such as a paddy planter and fisherman. The programme for native development began in early 1950s with the formation of Rural Development Authority (RIDA).

The immigrants from China and India were actively involved in modern economic sectors in Malaya during British administration. The Chinese and Indians opened-up the virgin land in the Malayan hinterland under tin mining industries and rubber plantations. Most of the Chinese immigrants lived in urban or sub-urban areas. Some of the urban centres in tin mining areas were established and expanded during the British colonial administration in Malaya. A few decades later the tin mines centres developed rapidly as a business and administration centre. The towns such as Taiping, Ipoh, Seremban and Kuala Lumpur were originally small centres and developed rapidly after the tin-mining industry developed by the British in that area since the late nineteenth century. They were involved in trade, business and other modern activities in urban centres and the rest in the tin-mining industries. The majority of population in business centres such as Penang, Singapore, Kuala Lumpur were Chinese. Ipoh, Taiping, Seremban and Kajang are other urban centres that were largely populated by the Chinese. These areas originally were the centres of tin industries. The creation of MCA into a dominant group (the UMNO-MCA alliance) was a vital step taken by the British in creating the economic stability for post-war Malaya.

##### **5. New Policy, Strengthen the Malays Position and the Cold War in Malaya.**

The policy for the native improvement economically was also important in preventing them from giving support to the communist party, as well as improving the standard of living. The socio-economic stability in Malaya was different with the socio-economic process in Indonesia after the Second World War. In early 1960s, there were big percentages of poor groups in Indonesia. Such a situation was cleverly manipulated and exploited by the PKI (Partai Komunis Indonesia=Indonesian Communists Party) to penetrate into the poor groups and to spread their ideology, influence and power towards the poor groups of people. In Malaya, the leaders were able to concentrate upon development programmes because the British had already provided basic facilities and infrastructure. Alliance government improved and re-allocated the development programme.

The Malays who lived in the traditional Malay village were the main target for the alliance government. Most of their settlements were remote from urban centres. With improved road and other means of communication improved their settlements. Small numbers of Malay, except Malay rulers and aristocrats lived in urban areas. The programme to encourage Malay to migrate to urban areas would stabilise the population distribution. The process began in the 1950s. The replanting of smallholdings of rubber, irrigation programmes to paddy plantations stimulated the native population to be involved in industrial and modern sectors (such as business and trade sector) which was among the new policy of the Alliance government. The main objective of such programmes was to develop the native and restructure the whole economic and population structure of Malaya. The development and economic programmes were aimed to improve the level of Malays and in socio-military aspect as a social weapon in facing the communist threats. When the level of native development (and whole

population) improved, poverty can be eradicated. Hence it could destruct the communist activities to influence her ideology to the poor group of the population. The mass population who were below the poverty line could easily be influenced to support the communist ideology. It was easier to gain support from mass population who were largely below the poverty line, rather than the support from a large number of middle class and those who were above the poverty line. The process towards economic and political stability could only be achieved by having a dominant group, such as the UMNO-MCA alliance in Malaya. The support given by the British power was important in creating a strong and effective dominant group.

Investments in developing human resources through education and health programmes were also among the actions taken by the Alliance government (led by UMNO) after independence in 1957. A big number of students were sent to overseas universities (especially to Great Britain, The United States, Australia, New Zealand and Canada) for their degrees in various subjects. Human resources investment was important for the long-term development process. It was hoped that the human product of Western universities would be influenced by the Western philosophy and continued to follow the British economic model when they were appointed to hold good posts in Malaya upon the completion of their studies abroad. The pro-Western in 'mind' and 'economic philosophy' were important in the new state development like Malaya. Malayan leaders believed that the national development could not totally depend on the foreign experts. Native experts are needed in the long-term national development. The changes in the economic and political system were required in the new independence state like Malaya. The formation of a strong political party is required in the transformation from colonial to independence structure. The dramatic changes (as what happened in Indonesia after the war) destroyed the existing system and created instability. The struggle against Dutch colonial power also affected the political and economic achievement in a negative way.

Developmental minded economic programme under Premier Tunku Abdul Rahman and his deputy, Tun Abdul Razak contributed to the successful development programme, the economic prosperity and social harmony in the multi-racial society. The Ministry of Rural Development, under Tun Abdul Razak, played an important and significant role in developing rural areas where the majority of the native population lived. Restructuring the Malay and the whole Malayan society was running effectively under Tun Abdul Razak since mid 1950s. Under the Ministry of Rural Development, the new land programme was opened for plantation. Landless rural Malay peasants were given opportunities to develop in modern agriculture sector. FELDA (Federal Land Development Authority), FELCRA and regional development programme (such as JENGKA, KEJORA (Lembaga Kemajuan Johor Tenggara), KESEDAR (Lembaga Kemajuan Kelantan Selatan or Kelantan Selatan Development Authority), KETENGAH (Lembaga Kemajuan Terengganu Tengah) and DARA) were among the land development programmes for native population under this ministry (Fisk and Osman Rani, 1982). The new-land programmes as mentioned above were successful in improving the native peasant and improving their standard of living.

Internal migration of native population from traditional settlement to the new land programmes had little impact to the socio-economy of Malaya who were struggling to combat communist ideology. Firstly, the new land programme had restructured the settlement structure of Malay peasant community and their geographic locations. Second, higher and relatively better income made it difficult for the communist party to influence the Malay peasant community. Thirdly, the opening up of the thick tropical forest destroyed the 'communist settlement'. New road and transportation system and community facilities were developed in the new land programmes area. The infrastructure made it easier for the government to control and to send any military assistance for any possibilities of communist threats.

## **6. Pro-West Foreign Policy, Security Matters and Malayan National Development.**

The Anglo-Malayan Defence Agreement in 1957 was also important for Malayan economic development, prosperity and social stability especially in the early years of independence. Malaya still faced serious fighting with communists when British gave her independence in 1957. Emergency Period ended in 1960. Emergency was a great struggle of Malayan Communist Party (with Soviet Union and China supports) to control Malaya from British administration and then from native government who pro-West. The struggle started in 1948 and ended in 1960. The AMDA agreement gave economic advantage to Malaya. Malayan government did not have the burden to spend a big percentage of its income for defence expenditure. The national income could be invested and used for social welfare, education and economic development projects. By signing AMDA agreement, the Malayan government could save the huge defence budget. This was different with the defence

experience in Indonesia under President Sukarno where the big percentage was allocated for defence expenditure.

Since 1957, independent Malayan government concentrated upon the economic and infrastructure project. Poverty eradication, rural development and income distribution among the population were among the main objectives of the national Malayan development plan ( Lim, 1973; Wheelwright, 1965; Chee & Kho 1974). Prosperous economic development and social harmony were important factors for long term Malayan national planning. The prosperity and social harmony also played an effective 'weapon' in containing communist influence and their 'propaganda' in influencing the mass population to reject the communist ideology. This factor became more important in the multi-racial society like Malaya. There are three main social ethnics groups in Malaya. In the early years of independence there were 50 percent were Malays, 35 percent Chinese and the rest were Indian and other ethnics groups. The position of 35 percent of Chinese was important at that time because the majority of the communist members were from Chinese ethnic. Balance policy is important for Malaya for containing communist influence, as well as economic development. Without support from Chinese ethnics the Malayan government would not be strong. The economic development programme consolidated the position of the Malayan political dominant group, i.e. the Alliance Party.

Malaya was an anti-communist state under Tunku Abdul Rahman administration (Dalton, 1966). The Tunku Abdul Rahman political philosophy and the close relations with the Western capitalist countries affected the Malayan development positively. The hegemonic powers role i.e. the British before the war and the American after the war played a great role in consolidating the position of a dominant political group in Malayan politics. By having better standards of living (especially when most of the population can fulfil the basic needs), it was difficult for the communists and left-wing political group to influence Malayan people to give their support to the communists and radical political party.

The Malayan anti-communist policy and close relations with Western countries, especially with Great Britain and the United States gave many economic advantages to Malaya. The position of the United States, as the hegemonic power after World War II and her struggle against Communism (led by Soviet Union and China communist) afforded much economic benefit to new state like Malaya. During the emergency period (1948-1960) Malaya was strongly supported by Great Britain and the Commonwealth countries, especially Australia and New Zealand. Emergency period was the period of struggle between Malayan government and Malayan Communist Party from 1948 to 1960. Malayan Government was strongly supported by Great Britain, whereas, Malayan Communist Party strongly supported by China communist. The Struggle ended in 1960. The Communist group failed to control Malaya (Jackson, 1991). With the main objective of defeating communist and guerrilla threat by the Malayan Communist Party, the British colonial administration refurbished and extended the road and railways system to allow the police and the army to penetrate the more remote areas of Malayan peninsula. The better road and railways (with primary objective for security reasons) also benefited the Malayan economic development. With a good transportation system, more land can be opened and increase the efficiency of plantation activities, especially for palm oil and rubber industries. The values of the land increased with good road and railways system. Most of the cost for building the roads and railway systems were funded by the British colonial government. This good transportation benefited the Malayan after gaining its independence from British in the *late* 1950s.

In order to counter the communist activities, British colonial government also formed the 'New Village' scheme in controlling the Chinese from rural areas from giving their support to communist. More than 90 percent of the Malayan Communist members were from Chinese origin. Very small percentage Malay ethnic and other native gave their support to communist. It was different with the situation in Indonesia, where Communist Party had strong support from native people. Over half a million rural Chinese were resettled in the 'new village' which were furnished with school, medical facilities, clean water, electricity and community centres (Stubbs, 1989). All of these facilities also benefited the socio-economic developments. After the Emergency period ended in 1960, and the communist activities were under control, some of the 'new village' that was developed by the British as a small centre during the emergency period (1948-1960) developed with modern activities and became an urban centre. For example, Sungei Chua, a town near Kajang, Selangor originally was a 'new village'. Now Sungei Chua is a town and with its good location have potential to become one of the important business centre.



## 7. The Cold War in East Asia and Economic Development in Malaya.

The position of Malaya under Tunku Abdul Rahman in the international political struggle against anti-communist policy benefited the Malayan economic development. International and regional political development such as the Korean War (1950-1951) and Indochina political crisis (First Vietnam War, 1946-1954) benefited the economic development of Malaya.

The Korean War had an impact on the economies of Malaya and other Asia-Pacific countries. The fear that fighting might extend to Southeast Asia, as well as the need for both sides in the Cold war to build up stockpiles, led to a marked rise in the price of a number of strategic commodities. Most particularly, the price of natural rubber rose fourfold and that of tin doubled. Malaya and Singapore were beneficiaries with the rise of prices of both commodities. Malaya was the world's largest producer of rubber and tin, and Singapore, which was the premier trading port for both commodities (Stubbs, 1994). The Malayan government used the windfall revenues to improve port facilities and build up new electrical generation stations to keep up with the growth in the economy. The consequences of the Korean War boom for Malaya in terms of bolstering their economies and social infrastructure were very similar to the consequences for Taiwan and South Korea of American aid (Stubbs, 1994).

## 8. Conclusion.

The Malayan economic development during the colonial period in the early 1950s (under British colonial administration) greatly benefited the Malayan development process. The decision of the Alliance Party under Premier Tunku Abdul Rahman (after independence from British on 31<sup>st</sup> of August 1957) to maintain close relations with Great Britain and to be pro-West in foreign policy benefited Malayan development. The process of Malayan development constantly improved before and after independence. The Cold War international relations structure and Malayan domestic policy benefited the Malayan development.

The British policy after the war in Malaya was successful in defeating communism and the creating of a pro-West dominant group in Malaya. The strength of the Alliance party in independent Malaya since mid-1950s was planned and strongly supported by the British. The dominant group led by Tunku Abdul Rahman was successful in stabilising the economic and political situation. With pro-British government, the British interests in Malaya were secured. The special Anglo-American relationship and the emergence of the United States of America as the new hegemonic power after the Second World War, also contributed to the economic and political stability for Malaya. The military relation between Malaya-Great Britain under AMDA and Great Britain-United States military relations under SEATO benefited Malayan. The Malayan government policies were different with the top political leaders in Indonesia. President Sukarno had closed relations with communist countries in the 1950s, made the process and level of development in Indonesia different with Malaya under Tunku Abdul Rahman.

The discussion in this paper conclude that: the domestic situation in Malaya during the period 1948-1963 was not free from the global political development (i.e, the Cold War that emerged in Europe in late 1940s between the United States and the Soviet Union; the strategy and policies taken by the British/independence pro-British government in Malaya applied and considering the bipolarity struggle (Cold War between Communist and the West) and; Malayan pro-West and anti-communist foreign policy under Tunku Abdul Rahman (first prime minister of Malaya) contributed to the positive development of independence Malaya. Without strong support from the British and Western powers and right foreign policy decision by Tunku Abdul Rahman, it was impossible to achieve a positive level of development and political stability during the period of 1948-1963 (Malaya might be controlled by the communist group and became a communist state like North Vietnam in 1954).

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