

## CHAPTER I

### A. Foreign trade of the Federation of Malaya\*

The objectives of the Federation of Malaya's trade policy are to promote overseas trade to the fullest possible extent and to maintain external reserves in order to preserve the economic and financial stability of the country. In pursuance of this desired objective the Federation follows a policy of liberal trading whereby its import and export trade is relatively free of controls and restrictions. Import restrictions are imposed only for health, security and strategic reasons and, in some cases, for the protection of local industries.

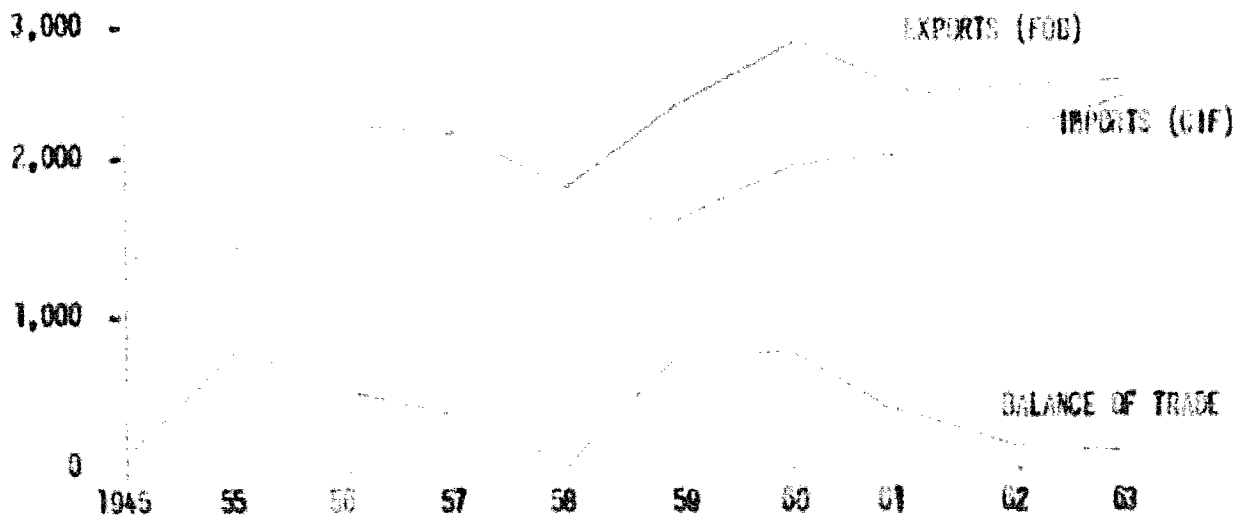
The exports/imports trade of the Federation forms a nexus of the Malayan economy, for a considerable proportion of Malaya's economic activity lies in the production of export goods and the distribution of import goods. The country has specialised in the production and processing of commodities for international trade, such as rubber and tin which together account for almost 80 percent of her total exports.

Since 1954 the country has experienced favourable balance of trade. In more recent years, however, this balance has been on a decline. In 1954 the favourable balance of trade amounted to \$303/- million. The following year this surplus 'rocketed' up to \$829/- million. By 1958 the favourable balance of trade reached a 'rock bottom' of \$128/- million. In 1959 the balance took an upward trend again, reaching \$734/- million and in 1960 to \$776/- million. Since 1961 there has been a drastic decline resulting in a favourable balance of trade of only \$175/- million in 1963. The balance of trade trend, of the Federation is shown in Diagram I.

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\* Throughout the exercise, Federation of Malaya refers to the 11 states of the mainland Malaysia, unless otherwise stated. Federation refers to the former Federation of Malaya. Malaya refers to the Federation of Malaya and Singapore.

DIAGRAM I



Source: Central Bank Report 1962.

From the graph it appears that there is a cycle in the balance of trade. The first peak in this cycle was observed in 1955 when rubber prices\* were the highest since the Korean Boom. Following the peak, there is a decline. After 1958 a recovery is apparent, resulting in the second peak for the study period, in 1960. This was again due to the high prices<sup>1</sup> of rubber and tin, recorded in that year. Tin price then was the highest since the Korean Boom. After 1960 a general decline prevails. It is apparent that the balance of trade trend for the Federation depends largely on the prices of her major exports, rubber and tin. The value of exports has been the major contributor to the Gross National Product of the country.

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\* The average rubber price for 1955 was 111.14 cents per pound. (Vide Rubber Statistics Hand Book 1954-62). The prices of the three grades of rubber in 1955 were:

RSS 1 FOB	114.16 cents per pound
RSS 2 FOB	110.88 cents per pound
RSS 3 FOB	108.40 cents per pound

1 ibid. The prices of the three grades of rubber in 1960 were:-

RSS1 FOB	106.08 cents per pound
RSS 2 FOB	106.69 cents per pound
RSS 3 FOB	104.42 cents per pound

Price of tin in 1960 was \$393.68 per picul. Department of Mines Statistical Bulletin.

Table 1 sets out the pattern of Foreign trade as well as the ratio of the exports to the GNP.

TABLE 1

FOREIGN TRADE OF THE FEDERATION OF MALAYA AND THE RATIO OF EXPORTS TO  
(GROSS NATIONAL PRODUCT

(In \$ Million)

Years	Imports (a)	Exports (b)	Balance of Trade (c)	GNP (d)	$\frac{b}{d}$ %
1954	1319	1627	308	N.A.	-
1955	1543	2372	829	4695	50.6
1956	1751	2264	573	4731	47.8
1957	1814	2132	368	4868	44.1
1958	1657	1885	128	4703	40.8
1959	1739	2473	734	5200	47.1
1960	2151	2527	776	5665	51.1
1961	2228	2627	398	5604	46.2
1962	2417	2611	194	5786	45.3
1963	2575	2690	175	6430*	41.1

N.A. Not available

\* Estimated figure

Source: 1) Federation of Malaya Statistics of External Trade.  
2) Central Bank Annual Reports 1960 - 1963

The contribution of exports to the GNP has been unstable in the last decade, contributing 50.6% in 1955, dropping to 40.8% in 1958, the lowest for the decade, and increasing to 45.3% in 1962. In the last year of the study period, a further drop to 41.1% was recorded. The exports of the Federation, is clearly an indicator of the country's balance of trade. An increase in exports has seen an increase in the balance of trade as in the years 1955, 1959 and 1960. Likewise a fall in the exports has resulted in a fall in the balance of trade as in the years 1956, 1957, 1958, 1961 and 1962. The only exception to the similar movements is 1963, when though an increase in exports was recorded there was a drop in the balance of trade from \$194/- million in 1962 to \$175/-

million in 1963.

B. Importance of trade with Japan

Japan is one of the most important trading partners of the Federation of Malaya. Its importance has been increasing especially during the last decade. In 1954 visible trade between the Federation and Japan amounted to \$91.7 million or 3.2% of the Federations total visible trade. Since then, Japan with her fast rate of development, especially in the production of industrial goods, has been competing with the other trading partners of the Federation for a better position in the ladder of importance. From the trade figures it is apparent that trade between the Federation and Japan has been on the increase over the past decade. An all time record was registered in 1963 when total imports and exports amounted to \$648.9 million or 12.1% of the Federations total visible trade. The increasing trend has been maintained almost for the entire period under study. The only exception is 1958 when total visible trade with Japan dropped to \$198.9 million from \$220.3 million in the previous year.\* Figures for the visible trade between the Federation and Japan are set out in Table 2.

TABLE 2

TRADE BETWEEN THE FEDERATION OF MALAYA AND JAPAN

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(In \$ Million)

Years	Imports	Exports	Balance of Trade	Total exports and imports	Total Federation Trade	Percentage of Federation Trade
1954	26.9	64.8	37.9	91.7	2946	3.2
1955	43.9	90.0	46.1	133.9	3915	3.4
1956	46.4	119.6	73.2	166.0	4015	4.2
1957	43.8	176.5	132.7	220.3	3996	5.5
1958	38.9	160.0	121.1	198.9	3542	5.7
1959	54.9	301.0	246.4	355.6	4212	8.5
1960	83.9	355.0	266.1	443.9	5078	8.8
1961	91.7	371.0	279.3	462.7	4855	9.5
1962	117.0	356.7	239.7	473.7	5028	9.4
1963	252.3	396.6	144.3	648.9	5265	12.1

\* The reason for the drop in visible trade in 1958 is given in the analysis of exports and imports at the end of this chapter.

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The Federations exports to Japan/been increasing for almost the entire study period. However the two exceptional years are 1958 and 1962. Imports on the other hand has been steadily increasing since 1954 with the exception of 1958, when imports dropped from \$43.8 million (1957) to \$38.9 million (1958). However the trend after 1958 has again been on an incline.

It is apparent that the gap between exports and imports has been narrowing down in recent years. Outstanding in this respect is the year 1963 when imports reached an all time record of \$252.3 million. Exports for the same year though highest (\$396.3 million) did not record a significant increase over 1962. (\$356.7 million). The faster increase in imports than exports, explains the decline in the favourable balance of trade for 1962 and 1963. From Table 2, 1958 appears to be a significant year. In that year imports fell by \$4.9 million, exports by \$16.5 million, total trade by \$21.4 million and the balance of trade by \$11.6 million. This was the result, not only of financial and administrative burdens\* arising from the achievement of independence in 1957, but also the world-wide recession of 1957-58.

It is apparent from the above analysis that trade with Japan has been quite significant. In 1963 Japan was the 3rd most important trading partner, ranking only next in importance to Singapore and the United Kingdom. In that year visible trade between the Federation and Japan amounted to an all time record of \$648.9 million. The position that Japan has attained, is likely to be maintained, if not improved, in view of the Agreement on Commerce signed between the two countries.\*\* Japans trading position as compared to the other trading partners of the Federation in 1963 is shown in Table 3.

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\* The Second Five Year Plan 1961-65 pg. 1.

\*\* An Agreement on Commerce was signed on May 10th 1960 between the Federation of Malaya and Japan. Relevant portions of the Agreement are presented in the Appendix.

TABLE 3

## FEDERATION OF MALAYA FOREIGN TRADE - 1963

(In \$ Million)

Countries	Total Visible Trade	Percentage of Federation Trade
Total all countries		
of which	5238.5	100.0%
Singapore	776.6	14.1
United Kingdom	757.7	14.0
Japan	648.9	12.1
United States	523.1	10.1
Thailand	263.6	5.2
Indonesia	215.5	4.3
West Germany	211.5	4.1
Australia	176.5	3.5
India	134.2	2.7
Others	1523.1	29.8