

## **CHAPTER FIVE**

### **MALAYANISATION SCHEME 1961-65**

This chapter deals with the processes by which the International Bank for Reconstruction and Development (IBRD), commonly known as the World Bank made strategies and extended finances for the creation of a new Administrative Machinery and the extension of the Draft Development Plan, 1950-60. The IBRD Mission formulated the Malayanisation Scheme for the impending independent Government of Malaya in 1957, and extended the Draft Development Plan for the period 1961-65. The Scheme is commonly known as the "Second Five-Year Plan" in official reports.<sup>1</sup> On the administrative front, the Malayanisation Scheme was a domestication process which involved the transfer of offices from British administrators to local personnel. The Malayanisation process involved a training programme that put in place Malayan nationals within the administrative structures left behind by the colonial administration. The Scheme particularly called for training programmes and the establishment of the new administrative machinery to execute, monitor and report on the progress of the Development Plans. On the economic front, the "Malayanisation Scheme" was an extension of the five-year plan of the Draft Development Plan for Malaya, 1950-60.<sup>2</sup> The implementation of social and economic programmes was tied to the policy of ending the Emergency which began in 1948, and the creation of

Malaysia's Armed Forces as the Malayanisation of national security. The legal, formal and monetary function of the IBRD in the making of the administrative and economic development plans for the independent Federal Government continued with the force of law of the Bretton Woods Agreements since 1945. Thus, the Malayanisation scheme, 1961-1965, was established and executed on the authority of the Bretton Woods Acts, which authorised the IBRD as the source of finances for the administration and extension of the Scheme in question.

#### **Legislation of the Bretton Woods Agreements: The IBRD as the Source of Funds**

The Bretton Woods [Anglo-American] Agreements, particularly Ordinance No. 75 of 1957 was the authority by which the IBRD allocated finances to the extended development plans in the period 1961-65.<sup>3</sup> Immediately after independence, the Government legislated the Bretton Woods Ordinance can be traced through the order of the "Loans (International Bank Ordinance) 1958"<sup>4</sup> and "Ordinances and Acts: Ordinance No. 40 of 1959."<sup>5</sup> A year after Malaysia was formed in 1963, the Bretton Woods Agreements were enforced by the "Federal Subsidiary Legislation 1964: Bretton Woods Agreements and Peace Treaties Orders (Extension) Order, 1964."<sup>6</sup>

1. "This Order may be cited as the Modification of Laws (Bretton Woods Agreements and Peace Treaties Orders) (Extension) Order, 1964;

2. The legislation specified in the First Schedule to this Order [Bretton Woods Agreementss] shall, with any neccessary modifications, extend thoughout Malaysia."<sup>7</sup>

The main objective for extending the Bretton Woods Agreements throughout the Federation in the period 1957/60-65, was to maintain the Consolidated Fund that consitituted of loan funds arising from the IBRD and revenue funds from internal sources for the development expenditure of the Federal Government.

**IBRD-Multilateral Finances: The Consolidated Fund (Consolidated Loan Account)**

The legislations of the Bretton Woods Agreements in the period 1961-65, were made proactive to the Bretton Woods Ordinance [Act] No. 75 Of 1957. This act named the IBRD as the source of finance for the Federation Government. The financial provisions for the Malayanisation Scheme were made in accordance to the Bretton Woods Agreements as was legislated under Ordinances and Acts: Ordinance No. 75 of 1957; and it was extended under the Federal Subsidiary Legislation of 1964.<sup>8</sup>

To charge on the Consolidated Fund in accordance with the provisions of the Article 14 of the Bank [IBRD] Agreement payable in Gold or US dollars or in Malayan Currency.<sup>9</sup>

This meant that the IBRD provided loan funds to the Federation Government kept in the Consolidated Loan Account of the Consolidated Fund. The Financial Provisions

of the Federal Constitution [Agreement]<sup>10</sup> required, (and still require), the Federation Government to maintain by the Treasury in respect to the Consolidated Fund three separate Accounts:

"(a) an account to be called the **Consolidated Revenue Account** in which account shall be kept all moneys in the Fund other than such moneys as mentioned in paragraph (b) and (c);

(b) an account to be called the **Consolidated Loan Account** in which account shall be kept all moneys received by way of loan upon public credit of the Federation; and

(c) an account to be called the **Consolidated Trust Account** in which shall be kept of all moneys received subject to a trust and to be applied in accordance with the terms of trust."<sup>11</sup>

These financial provisions (legislation of the Bretton Woods Agreements) explain the mechanism by which finances arising from the IBRD were constituted into the **Consolidated Loan Account of the Consolidated Fund** of the Federal Government. This particularly explains the authority by which the IBRD extended finances for the economic development plans of the independent Federation Government in the period 1957/60-65. By virtue of the loan funds kept in the Consolidated Fund (Consolidated Loan Account), the Federation Government drew (charged) moneys from such account by the authority of Supply Acts, 1961-65. During the Malayanisation Scheme, the Government drew IBRD-finance by the authority of **Supply Acts** that were passed by Parliament in the period 1961-65. The Government annually charged moneys from the Consolidated Fund by issue of Supply



Acts for the development expenditure of the Malayanisation Scheme:

- (1) Supply Act, No. 28, 1961<sup>12</sup>
- (2) Supply Act, No. 13, 1962<sup>13</sup>
- (3) Supply Act, No. 15, 1963<sup>14</sup>
- (4) Supply Act, No. 31, 1964<sup>15</sup>
- (5) Supply Act, No. 2, 1965<sup>16</sup>

The answer to the question of who allocated what, when, and how is found in the very processes by which the Federal Government received IBRD-finances into the Consolidated Loan Account and drew such moneys by issue of the Supply Acts (in 1-5 above) for the expenditure of the Federal Departments and Ministries. In consultation with the IBRD Mission and the British Government, the Economic Planning Unit (EPU) attached to the Prime Minister's Department, annually submitted requests for IBRD-funds and IMF-funds (Stand by Arrangements) that were available to the Federal Government in the period 1961-65.

The Government received IBRD-funds and IMF-funds as loan funds into the Consolidated Loan Account and drew (charged) such funds for the expenditure of the Malayanisation Scheme.<sup>17</sup> This meant that Parliament only issued the Supply Acts to draw funds from the Loan Account of the Consolidated Fund, the total of which, were distributed to the Ministries and Departments on policies of the IBRD in consultation with British Government. For example, the Federation Government annually expended a sum of \$25.7 million (arising from the IBRD) on the Ministry of Defence and Internal Security in the period 1957-61.<sup>18</sup> The allocation of these funds to the Ministry of Defence was made on the policy provided by the

IBRD and the British Government that, "the Federation adheres to the development programme broadly of the scale and content as [outlined in the Supply Acts, 1961-65, Tables: 17-22.]."<sup>19</sup> Therefore, the drawing of IBRD-finances from the Consolidated Loan Account of the Consolidated Fund by issue the Supply Acts for the Federal expenditure, affirms the processes by which the IBRD determined the allocation of loan funds to the Federal Government.

#### **The Transaction of IBRD Funds via its Agencies**

Multilateral loan funds from the IBRD via its agencies such as the Colombo Plan, the British Government and the Colonial Development Corporation (CDC)<sup>20</sup> were kept in the Consolidated Loan Account.<sup>21</sup> The Colombo Plan invited developed countries especially the United States, Australia and Canada to assist in the making of the Malayanisation Plan. The Colombo Plan also invited South and South-East Asian countries to assist in the making of various development projects of the Malayanisation Plan.<sup>22</sup>

The participation of the British Government and CDC to raise funds from the IBRD for the Governments of Malaya and later Malaysia was conducted on terms of Bretton Woods [Anglo-American Financial] Agreements. On the basis of this authority, the British Government raised loan funds from the IBRD and legislated "Colonial Development and Welfare Acts in return of schemes made and loans

approved [in the period 1961-65]."<sup>23</sup> All these funds were kept in the Consolidated Loan Account, and the Federal Government drew (charged) these funds on the authority of **Supply Acts, 1961-65**. These **Supply Acts** account for the development expenditure of the various departments and ministries enlisted in **Tables 17-22**.

The raising of external finances from the IBRD when combined with the internal sources of revenue (GDP) constituted the GNP in the five-year period of the Malayanisation Plan. This affirms the mechanism by which IBRD-finances enabled the Federation Government to draw loan funds from the **Consolidated Loan Account** by the issue of **Supply Acts** for the expenditure of the departments and ministries of the Malayanisation Scheme, as a unified administrative machinery. The subsequent texts articulates the processes by which IBRD -strategies and finances determined the interplay between administrative and economic development plans for Malaysia. This relationship is also illustrated in the progress of Federal expenditure that was drawn from the Consolidated Loan Account and expended to the departments and ministries of the Federal Government in the period 1961-65.

**TABLE 17: THE SUPPLY ACT (NO. 28) 1961:  
DEVELOPMENT EXPENDITURE (\$ MILLION)**

NO.	MINISTRIES & DEPARTMENTS	ALLOCATION(\$)
2	Conference of Rulers	19,670
4	Election Commission	75,000
6	Railway Service Commission	3,750
7	Prime Minister	30, 000
21	Ministry of Commerce & Industry	609,526
22	Ministry of Defense	10, 000
23	The Regular Army	1,506,569
28	Education	260,020
29	External Affairs	155,939
32	Treasury	395,095
34	Charges on Account of Public Debt	148,160
38	Pensions, Retiring Allowances	700,850
39	Ministry of Health	70,000
46	Ministry of Internal Security	26,548
58	Printing	118,000
69	Ministry of Rural Development	90,000
75	Timbalan Yang di-Pertuan Agong	25,799
77	Road transport	275,129
<b>Total</b>		<b>\$4,246,095</b>
Source: Act of Parliament, No. 28, 1961, pp. 113-114.		

TABLE 18: THE SUPPLY ACT (NO. 28) 1961:  
DEVELOPMENT EXPENDITURE (\$ MILLION)

NO.	MINISTRIES & DEPARTMENTS	ALLOCATION(\$)
1	Parliament	\$15,365
2	Prime Minister	534,381
3	Broadcasting	10,000
4	Railway Service Commission	18,000
5	Ministry of Commerce industry	69,359
6	Federation Armed Forces	1,293,744
7	Ministry of External Affairs	126,638
8	Health & Social Welfare	113,600
9	Ministry of Interior	359,053
10	Printing	11,547
11	National Registration	5,560
11	Town & Country Planning	2,200
12	Federal Police	99,571
13	Ministry of Justice	1,750
14	Attorney-General	20,000
15	Ministry of Labour	71,520
16	Ministry of Rural Development	3,312,386
17	Ministry of Transport	10,000
18	Marine Surveys	2,100
19	Public Works-Recurrent	19,890
20	Telecommunications	57,000
21	Information Broadcasting	70,934
Total		\$6,415,157
Sources: Act of Parliament, No. 28, 1961, pp. 114-115.		

TABLE 19: THE SUPPLY ACT (NO. 13), 1962: DEVELOPMENT EXPENDITURE

NO.	MINISTRIES & DEPARTMENTS	ALLOCATION
1	Parliament	1,822,569
2	Conference of Rulers	98,878
3	Auditor-General	1,927,306
4	Election Commission	1,340,565
5	Public Service Commission	509,470
6	Railway Service Commission	109,252
7	Prime Minister	3,307,926
8	Federal Establishment Office	10,362,310
9	Keeper of Public Records	100,491
10	Museums	182,278
11	Statistics	1,014,326
12	Agriculture Co-operatives	15,426,674
13	Commerce & Industry	2,035,057
14	Ministry of Defence	90,029,534
15	Education	223,513,335
16	External Affairs	6,969,805
17	Immigration	1,158,242
18	Pilgrimage	128,361
19	Treasury	19,266,434
21	Statutory Funds	50,100,000
23	Customs and Excise	9,734,367
24	Comptroller of Income Tax	89,699
25	Inland Revenue	4,271,243
26	Ministry of Health	93,594,702
27	Social Welfare	4,111,148
28	Information and Broadcasting	121,541
29	Broadcasting	6,630,969
30	Information	6,610,946
32	Ministry of Home Affairs	837,468
31	Aborigine Affairs	1,233,929
32	Chemistry	857,468
33	Fire Services	153,130
34	Local Government	41,022
35	Registrar of Companies	741,090
36	Prisons	5,300,961
37	Printing	3,637,821
38	Commissioner- Registration	3,768,459

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**CONTINUED...TABLE 19: SUPPLY ACT NO. 13, 1962**

No.	MINISTRIES & DEPARTMENTS	ALLOCATION
39	Town and Country Planning	239,919
40	Ministry of Internal Security	2,357,889
41	Federation Police	85,120,970
42	Ministry of Justice	140,609
43	Judicial	4,073,439
44	Attorney-General	884,971
45	Public Trustee	457,456
46	Ministry of Labour	568,403
47	Labour-Industrial Relations	2,747,074
48	Machinery	432,256
49	Ministry of Rural Development	11,434,740
50	Commissioner of Lands	561,709
51	Geological Survey	1,075,327
52	Mines	1,287,710
53	Survey	11,308,778
54	Game	270,620
55	Ministry of Transport	169,899
56	Civil Aviation	1,564,220
57	Meteorological Service	456,130
58	Marine	2,300,662
59	Marine Surveys	46,239
60	Road Transport	2,069,651
61	Ministry of Works	163,050
62	Postal Services	15,953,738
63	Public Works	7,739,086
64	Public Works- Recurrent	26,508,950
65	Telecommunications	22,089,152
<b>Total</b>		<b>\$773,179,763</b>

Source: Act of Parliament, No. 13, 1962, pp. 195-197.

Note: Figures are in (\$ Million).

TABLE 20: THE SUPPLY ACT (NO. 15), 1963: DEVELOPMENT EXPENDITURE

No.	Ministries & Departments	Allocation(\$)
1	Parliament	20
2	Prime Minister	422,053
3	Establishment Office	20
4	Museums	4,366
5	Agriculture Co-operatives	40
6	Commerce & Industry	160,000
7	Ministry of Defence	305,290
8	Education	70
9	External Affairs	270,311
10	Immigration	10
11	Treasury	256,855
12	Statutory Funds	135,000
13	Customs and Excise	10
14	Information, Broadcasting	10
15	Broadcasting	80
16	Information	20
17	Aborigine Affairs	10
18	Prisons	101,000
19	Printing	40
20	Town and Country Planning	4,200
21	Federation Police	655,060
22	Judicial	10
23	Attorney-General	17,000
24	Rural Development	1,327,361
25	Commissioner of Lands	30
26	Geological Survey	10
27	Survey	20
28	Game	10
30	Civil Aviation	91,810
31	Postal Services	526,030
32	Public Works	20
33	Telecommunications	20
34	Department of Television	30
<b>Total</b>		<b>\$4,276,816</b>

Source: Act of Parliament, No. 15, 1962, p. 176.

Note: Figures are in (\$) million.



**TABLE 21: THE SUPPLY ACT NO. 31, 1964: DEVELOPMENT EXPENDITURE**

NO.	MINISTRIES & DEPARTMENTS	ALLOCATION (\$)
1	Parliament	353,630
2	Conference of Rulers	6,403
3	Prime Minister	312,566
4	Public Service Commission	49,678
5	Museums	65,160
6	Agriculture Co-operatives	71,600
7	Commerce & Industry	186,376
8	Ministry of Defence	13,957,597
9	Education	40
10	External Affairs	1,130,074
11	Treasury	169,010
12	Statutory Funds	155,114,909
13	Customs and Excise	323,561
14	Comptroller of Income Tax	1,590
15	Inland Revenue	33,010
16	Ministry of Health	9362,000
17	Information and Broadcasting	9,000
18	Radio	43,330
19	Information	450,656
20	Aborigine Affairs	10
21	Registrar of Societies	7,700
22	Prisons	129,106
23	Commissioner- Registration	79100
<b>CONTINUED...</b>		

**CONTINUED... TABLE 21: SUPPLY ACT NO. 31, 1964**

<b>NO.</b>	<b>MINISTRIES &amp; DEPARTMENTS</b>	<b>ALLOCATION</b>
24	Federation Police	4,490,177
25	Labour-Industrial Relations	133,150
26	Machinery	10
27	Ministry of Rural Development	10
28	Ministry of Works	32,924
29	Ministry of Welfare Services	1,207
30	Culture, Youth, Sports	57,564
31	Local Government & Housing	450
32	Ministry of Home Affairs	1,205,300
33	(New) Civil Defence	2,352,119
34	<b>Singapore</b>	
35	Immigration	20
36	Prisons	10
37	Royal Malaysia Police	10
38	<b>Sabah</b>	
39	Education	10
40	Broadcasting & Information	27,900
41	Prisons	229,968
42	National Registration	5,150
43	Civil Aviation, Meteorological	33,188
44	Marine	42,150
45	Royal Malaysia Police	1,540,939
46	<b>Sarawak</b>	
47	Prisons	68,710
48	Broadcasting	77,080
49	Information	18,100
50	Office of Federal Secretary	163,268
51	Royal Malaysia Police	2,785,179
52	Public Works	33,079
53	Miscellaneous Services	250,000
<b>Total</b>		<b>\$186,303,778</b>

Source: Act of Parliament, No. 31, 1964, pp. 133-135.

Note: Figures are in (\$) million.

TABLE 22: THE SUPPLY ACT (NO. 2) 1965: DEVELOPMENT EXPENDITURE

NO.	MINISTRIES& DEPARTMENTS	ALLOCATION (\$)
1	Parliament	30,478
4	Election Commission	23,320
5	Public Service Commission	39,930
6	Railways Service Commission	4,402
7	Prime Minister	466,313
8	Federal Secretary	100,000
11	Statistics	34,000
12	Overseas Aid Scheme	460,490
14	Commerce & Industry	407,543
15	Culture Youth & Sports	250,000
17	Ministry of Defense	320,030
19	Education & Subventions	12,000,000
21	External Affairs	652,860
23	Treasury	268,061
24	Statutory Funds	2,805,500
25	Royal Customs and Excise	7,800,000
26	Inland Revenue	166,461
29	Inland Revenue-Borneo States	90,646
30	Ministry of Health	42,342
32	Ministry of Home Affairs	200,000
33	Royal Malaysia Police	2,817,200
34	Immigration	3,843,334
35	Prisons	34,790
36	Printing	312,325
37	Registrar of Societies	88,809
38	Commissioner- Registration	30884
CONTINUED ...		

CONTINUED ... TABLE 22: THE SUPPLY ACT (NO. 2) 1965		
No.	MINISTRIES& DEPARTMENTS	ALLOCATION (\$)
39	Information & Broadcasting	1,012,062
41	Radio	62,599
42	Information	10
24	Attorney-General	36,200
44	Labour	137,373
47	Labour/Industrial Relations	6,740
49	Lands and Mines	20,771
50	Forestry	11,375
52	Local Government & Housing	29,576
57	National & Rural Development	173,820
60	Ministry of Transport	19,316
64	Civil Aviation	110,000
65	Marine	11,650
69	Marine-Borneo States	158,450
70	Welfare Services	270,000
72	Ministry of Works, Posts	104,310
73	Public Works	48,000
74	Sabah Affairs Civil Defence	14,535
	Total	\$35,557,365
Source: Act of Parliament, No. 91, 1965, pp. 1141-1142.		

### The Administrative Machinery

On the administrative front, Malayanisation meant the formulation of a new administrative machinery (political structure) which favoured the workings of the centralized authority of the IBRD and IMF in the period after independence. The

involvement of the IBRD Mission in formulating the new Administrative Machinery was founded on the policy to terminate expatriate services of British colonial administration after one hundred and seventy years in Malaya. The IBRD required the transfer of offices from British colonial administrators to local personnel as the Malayanisation process or domestication process of administrative and economic development plans. For this reason, the IBRD initiated and funded training programmes for Malaysian nationals to execute, monitor and report on the progress of the development plans in the new administrative machinery. This meant that the Malayanisation Scheme remained in the hand of the IBRD though it was not properly revealed especially by the IBRD officials who participated in the making of the new administrative machinery.

The leading IBRD official was Sir Sydney Caine who participated in the preparation of the Malayanisation Scheme. Caine was the top-most official of the IBRD Mission on the "Draft Development Plan, for Malaya 1950-60" and its extension as the Malayanisation Scheme, 1961-65.<sup>24</sup> He was also the Chairman of the Currency Board Commission that was transformed into the Central Bank in 1958,<sup>25</sup> and the Vice Chancellor of the University of Malaya.<sup>26</sup> Sydney Caine argued in an academic paper that Malaya struggled for her independence in 1957 from Imperial Britain as the result of similar struggles in Indonesia and other neighbouring countries.<sup>27</sup> However, original records establish that the formulation of the new administrative machinery (political structure) for the Federal Government, dates back

to the preparations that were made in 1957 by the Mission of the IBRD in unity with the Government of Britain. "In light of recommendations of the International Bank Mission and of various needs of a nation shortly to become fully independent and to take its rightful place among other independent nations of the world,"<sup>28</sup> the IBRD Mission explained the policy relating to the transfer of offices from British colonial administrators to local personnel as a Malayanisation process:

"Politically [Administratively] it was a year of great preparation for the transfer of power [offices] from the United Kingdom to an independent sovereign Federation of Malaya which took place on 31 August 1957 after more than 170 years of British administration since the foundation of Penang."<sup>29</sup>

It was against this background that the IBRD Mission initiated the idea to form the "Economic Committee of the Executive Council under the Chairmanship of then Chief Minister, Tunku Abdul Rahman Putra al Haj."<sup>30</sup> This constituted the Economic Secretariat that was attached to the Chief Minister's Office in the period 1957-60. This Secretariat worked hand in hand with the new Central Bank, as the branch offices of the IBRD and the International Monetary Fund (IMF) in Kuala Lumpur.<sup>31</sup> The Central Bank had been established on strategies and funds of the IBRD.<sup>32</sup> In 1960, the Mission of the IBRD recommended the transformation of the Economic Secretariat into a unified Department known as the Economic Planning Unit (EPU).<sup>33</sup> The EPU was attached to the Prime Minister's Department, the National Development Planning Committee (NDPC), the National Operation Room, and the Central Bank as the office of the IBRD and IMF in Kuala Lumpur. The

function of the Economic Planning Machinery articulates the well-organised setting and penetration of the "international authority" of the IBRD in the Federal Administrative Machinery from the highest office of the Federal Government to the village level.

### **The Economic Planning Machinery**

The Economic Planning Unit (EPU) emerged during the Malayanisation Scheme, 1961-65, as a unified economic and administrative mechanism of the Federal Government. It originated from strategies that were made by the Mission of the IBRD in consultation with the Government of Britain during this period. The experience of the Emergency in 1948-60 led the Mission of the IBRD and the British Government to the creation of the EPU attached to the Prime Minister's Office.<sup>34</sup> It was initiated to function as the Secretariat of National Development Planning Committee (NDPC) and the National Operation Room. The EPU constituted a Unified administrative system in which the IBRD and its executing agencies, for instance, the Central Bank [Bank Negara] are well-organized internally to determine development goals and the allocation of Federal and State funds.<sup>35</sup> It also constituted the technique by which close coordination of development strategies were followed at all levels of government, i.e. by the federal and state governments, public and local authorities, and the private sector. The membership to the NDPC consisted the

Governor of the Central Bank, representatives from the Treasury, Ministry of Commerce and Industry, Ministry of National and Rural Development, the EPU and the Prime Minister's Department, the Department of Statistics, representatives from the private sector, employer's association, and trade unions. The NDPC, to which the EPU provides Secretariat Services, was created to formulate, implement, evaluate and revise progress of the development plans as recommended and assigned, by the Mission of the IBRD:

"(i) to formulate and review all plans for national development and make recommendations on the allocation of resources;

(ii) to review the causes of delays and implementation of national development plans and propose specific solutions;

(iii) to ascertain such adjustments in national development plans as may be necessary in the light of changes in the economic situation;

(iv) in the discharge of the above terms of reference, to use its discretion in making decisions itself or to make reference to the cabinet or the Economic Committee of the Cabinet;

(v) to consider all subjects to be submitted to the cabinet by Ministries and Departments which have a direct or indirect bearing on development, and if it considers it necessary, and to advise Cabinet on the development aspects of each subject."<sup>36</sup>

In carrying out the development plans, foreign capital organised mainly by the IBRD and its executing agencies was allocated on the basis of priority of projects in



these ministries and departments operated largely on the availability of external capital. Thus, the Central Bank, the Treasury, the NDPC and the EPU in consultation with the operating ministries and departments enlisted proposals on regular and continuing basis for submission for loans or grants from the IBRD and its executing agencies. The Federal Government submitted similar proposals for financial aid to developed nations such as the United States, Britain, Australia and others.<sup>38</sup> The programming of foreign capital was an integral part of development planning and implementation. The Federal Government acknowledged this process as essential for the success of the Malayanisation Scheme:

The EPU as the coordinating authority for technical assistance will ensure that over the next five years requests for technical assistance are closely related to the implementation of programmes approved under the Plan.<sup>39</sup>

Towards the end of the Malayanisation Scheme in 1965, the IBRD Mission made arrangements to train local personnel in various aspects of development planning and administration. This programme was initiated in order to create skilled personnel to replace mainly British expatriates that had been serving in public offices in the period 1946-65.<sup>40</sup> The training programme was supported by funds arising from the IBRD, the United Nations and its specialised agencies, the Colombo Plan and others.<sup>41</sup> In the course of the First Malaysia Plan, 1966-1976, local trained personnel assumed offices and they offered services relating to the implementation of

the Development Plans, i.e. in terms of reporting, presentation and providing information relating to the progress of various projects in the plan. This is further articulated by the mechanism in which the NDPC coordinated, and still coordinates, policies arising from the IBRD at the National level, State, District and Village level through the National Operation Room.<sup>42</sup>

At the National level, close consultation was established in the following departments: the EPU, the NDPC, the Central Bank (Economic Research Department of the Bank), the Economic Division of the Treasury, Department of Statistics and Research Divisions of other Ministries and Departments.<sup>43</sup> These departments constituted the National Operation Room that provided a technique of reporting and controlling operations related to development plans at all levels of the Government.

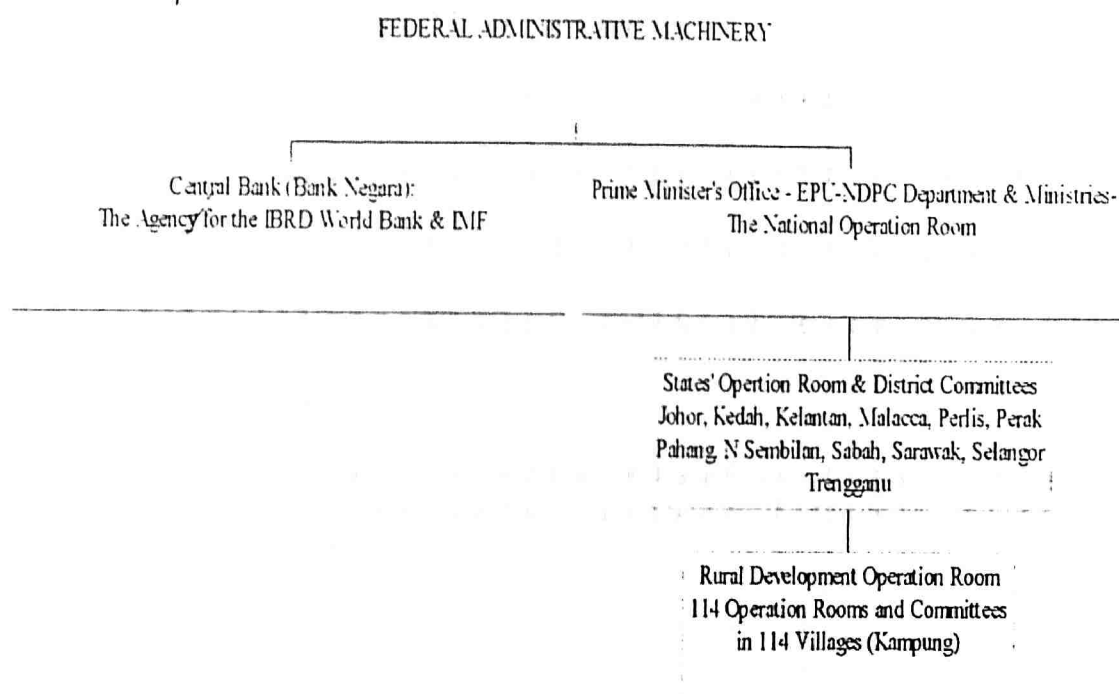
The information in the national operation Room is kept up to date by the various ministries and departments for reporting activities, expenditure, success and difficulties. Periodic meetings with representatives from these ministries and departments enabled the NDPC-EPU to make necessary policies relating to the development plan.<sup>44</sup> At the State, District and village level, the NDPC-EPU provided similar services through the National Operation Room. Each State District and some Villages were established with Development Committees and Operation Rooms.<sup>45</sup> The purpose of which, officials at these levels were required to coordinate development activities with officials of various Ministries and Departments of the Federal Government. In the Operation Room are complete, current, and uniform

reports on progress in public development programmes and by the Federal Government for States, Districts and Villages of Malaysia.<sup>46</sup>

The setting up of the Administrative Machinery for the independent Federal Government relates to the short-term and long-term objectives of the Bretton Woods' IBRD and IMF that went into and structuring of the new administrative machinery in the period 1946-65. The administrative Machinery for the Malayanisation Scheme was the final stage of transforming the old bilateral -colonial order of the Federal Government. The dismantling of bilateral structures ushered in the Bretton Woods' international monetary system along with the new administrative structures for such a system. The disintegration of the bilateral system marked the end of the "authoritative allocation of value" in as much as the colonial masters and local rulers who shared such authority were replaced by the "international authority." This came in the hands of the IBRD and IMF to make decisions and allocate funds relating to and administrative and developmental affairs of the Federal Government, as illustrated in **Figure 1**.

Figure 1

# THE BRETTON WOODS' IBRD/WORLD BANK & IMF



Note: Figure represents the well-organised setting of the IBRD & IMF in Malaysia's Administrative Machinery.

Source: Techniques Used for Developing Malaysia, Ministry of National and Rural Development, Kuala Lumpur, Government Printer, 1965, p. 24.

## **IBRD Mission: The Coordination of Policies**

In the period 1961-63, the Federation Government requested the IBRD to send a Mission to make a survey and provide a framework for administrative and economic development for the Government of Malaysia.<sup>47</sup> In response to the Federation's requests, Mr. Jacques Rueff, Chairman of the IBRD Mission, who was assisted by Mr. William M. Gilmartin, Economic Adviser of the Far East Department of the IBRD, paid an initial visit to Malaya and Singapore from October 23rd to November 1st, 1962. The task of the IBRD Mission was defined in agreed Terms of Reference relating to administrative and economic development plans for Malaysia.

These included:

"1. to examine and report on the feasibility of, and problems inherent in, closer economic coordination among the territories of Malaysia with special reference to:

(a) the feasibility of common arrangements among the territories of Malaysia, taking into account the importance of preserving the entrepot trade of Singapore, Penang and Labuan, and the Public revenue implications of such arrangements;

(b) the impact of present differences in tariff and trade policies among the territories;

(c) differences in competitive position and the industrial promotion aims and policies of the territories;

(d) other economic areas of possible conflicts or overlapping interests;

2. to recommend concrete steps which be taken in the fields of economic policy to effect such economic coordination so as to produce the maximum advantage to all territories;

3. To recommend administrative arrangements for coordinating and integrating development planning including industrial development."<sup>48</sup>

In addition to Mr. Jacques Rueff and Mr. William M. Gilmartin, the IBRD Mission consisted of nine officials who arrived in Kuala Lumpur on 7th February 1963. They were:

- (i) Mr. Jacques Rueff: Chairman of the IBRD Mission;
- (ii) Mr. Leonard Rist: Vice-Chairman, World Bank's Special Adviser (He was responsible for coordinating the Mission's work in the absence of Mr. Jacques Rueff); Messers John A. Edelman: Economic Adviser for the Far East Department of the IBRD;
- (iii) Mr. Thomas R. McHale: American economist specializing in industrial development;
- (iv) Mr. Jean Royer: French Expert on Trade and Tariffs and former Deputy Secretary General of GATT;
- (v) Mr. Marcel L. E. Schimmlin: official of the General Customs Administration at the French Ministry of Finance;
- (vi) Mr. B.S. van Deinse: Economist in the Far East;
- (vii) A Dutch Expert of Port and Transportation;
- (viii) An Economist in the Far East Department of the IBRD;
- (ix) Mr. Arthur C. Wigan: Australian, expert on problems of industrialization;
- (x) Miss M. Major and Miss Tuner:"

The officials of the IBRD Mission, (outlined in i-x above), provided a policy framework for the economic needs of Malaysia. The Mission focused its attention on customs union arrangement and industrial development as the foremost strategies and themes for Malaysia's economic problems and needs.<sup>49</sup> The Mission also provided administrative strategies pertinent to economic needs of the Federation on consideration that, the economic unification of territories which were formerly independent from one another both politically and economically raised some complicated problems, and in order to assist in their resolution the Federation Government had to invite the IBRD Mission.<sup>50</sup> On the basis of Malaysia's economic weaknesses and necessities, (as was characterized by shortages in revenue and serious need for financial aid), the Mission of the IBRD that formulated the Malayanisation Scheme felt that Malaysia was not ready to conduct her administrative and economic affairs independently.<sup>51</sup>

In the survey, the Mission identified major problems especially shortages in revenue and opted for a policy to invite foreign private investments, commonly known as Foreign Direct Investment (FDI) in the country.<sup>52</sup> The Mission initiated this strategy to enhance capacities of revenue sources and to bridge the gap between unskilled personnel in development-work and the pace of economic development.<sup>53</sup> The Mission also identified that the Federation was associated with problems of shortages in skilled personnel and over dependence on expatriates especially from Britain.<sup>54</sup> In this regards, the Mission recommended a dynamic policy of training local

officers to replace expatriates from Britain who had been in service up to the Malayanisation Scheme.<sup>55</sup> For the above mentioned reasons, Malaysia required external capital. Hence, the IBRD Mission initiated the Malayanisation Scheme with special bias to the invitation of foreign private capital:

"[Malayanisation and the invitation of foreign private investments as the] only alternative to the serious shortages in revenue [due to] over dependence on tin and rubber production and shortages in physical capacity [lack of trained personnel in military and civil administration and particularly developmental work]."<sup>56</sup>

This was the international multilateral economic order of the IBRD that enabled the independent Government of Malaysia to work on broad objectives of the Malayanisation Plan:

"(1) To provide facilities and opportunities for the rural population to improve its levels of economic and social well-being;

(2) To provide employment to the country's population of working age which is likely to increase by about 15% during the Plan period;

(3) To raise per-capita output of the economy and to protect per-capita living standards against the adverse effects of a possible decline in rubber prices;

(4) To widen the variety of Malayan production, emphasising the development of other suitable agricultural products in addition to rubber, and giving a very reasonable encouragement to industrial expansion which in the long-term offers perhaps the greatest promise for sustainable development and diversification of the Federation economy;

(5) Finally, while stressing the importance of development which will meet production and employment requirements, to improve and expand the social services needed to provide educational opportunities for rapidly growing school-age population, to extend the public health services over a wider coverage of the rural as well as urban



population, to assist in large measures in the provision of housing and to provide more adequately for rural and urban utilities."<sup>57</sup>

On the basis of these objectives (in 1-5 above), the late Tunku Abdul Rahman Putra al Haj presented the Malayanisation Scheme to the House of Representatives of Parliament for its acceptance on January 9, 1961.<sup>58</sup> He described the plan as the "big push" in the Government's efforts to provide for the social and economic needs of the nation.<sup>59</sup> He particularly acknowledged the involvement of the IBRD in the making of the Plan, the themes of which, the Federal Government (Parliament) approved on the same day, January 9, 1961.<sup>60</sup> As capital from internal sources was limited to the Government, the implementation of the plan required external loan funds provided by the IBRD for the expenditure towards the creation of Malaya and later Malaysia's Armed Forces and Social and Economic Programmes.

### **The Organization of Revenue and Expenditure 1961-65**

The IBRD financial policy that treated external loan funds [grants] as augmentations of revenue was extended to the financial year 1961-65.<sup>61</sup> That is to say, the interaction of the Government's current revenue sources and foreign sources of financing provided the basis of economic performance of the Malayanisation Scheme. This was realized in grants and foreign and domestic borrowing (e.g. from public corporations) of the Consolidated Public Sector Finance, 1961-65. For the

financial year 1961-65, the Government (Parliament) authorised the borrowing of moneys from the Consolidated Fund for expenditure on the various ministries and departments specified in the **Supply Acts, 1961-65**, enlisted in **Tables: 17-22**. Over the five year period, development expenditure that was drawn from the Consolidated Fund increased from \$6,415,157 million in 1961 to \$35,557,365 million in 1965. In the course of the plan, Government revenues arising mainly from taxation of exports failed to match current expenditures, as a result the surplus on current account was reduced by the growth in development expenditure (**Table 23**). This led to increased deficits in the public sector. Under these circumstances, the public sector depended in part on finances that were derived from domestic borrowing, and to a similar degree was financed by liquidation of the government's accumulated assets from foreign borrowing. As the Federation was confronted by poor export earnings and these caused multiple deficits, the public sector eventually failed to activate growth of aggregate demand for the Malayanisation Scheme.

**Table 23: Growth of Exports and Production for Domestic Use**

Year	1961	1962	1963	1964	1965
Output	7136	7529	8005	8567	9182
GDP-MP	3919	3999	4184	4256	4381
Exp-NFS	55	53	52	50	48
Exp-% GDP	3271	3530	3821	4311	4801
GDP-DU	45	47	48	50	52
Growth Rate	5.8				
Source: First Malaysia Plan, 1966, p. 24 .					

**Abbreviations :**

GDP, Gross Domestic Product; GDP -MP, at Market Prices Exp, Exports; NFS, Non-factor Services; Exp %, Export Percentages of GDP; GDP-DU, Domestic Use.

This explains the rationale for the Government's need for official loans from the IBRD and borrowing in markets abroad that significantly improved the economic performance. Industrial production expanded and it shifted the composition of output away from production for export towards production for domestic market. This strategy was initiated and funded by the IBRD to solve Malaysia's serious problem of revenue.

In the five-year period 1960-65, export output grew at only 2.8% annually, while output for domestic use increased at 9.2% (see **Tables: 23 & 27**). The increase in output for domestic use was the result of production arising from domestic industries and factories that were established mainly on IBRD-finance. These processes explain the extent and scope to which external finances improved the capacity of revenue sources for Malaysia's economy. The direct involvement of the IBRD in the making of the Malayanisation Scheme manifests in strategies and finances arising towards the Scheme.

The involvement of IBRD strategies and finances is particularly articulated by the plan to end the Emergency and the creation of Malaysia's Armed Forces Programme, the significance of which, directly related to the development of social and economic programmes that were initiated by the IBRD for the Malayanisation Scheme. This strategy signified the manner by which the IBRD diverted Government spending on the Emergency and the Armed Forces Programme to social and economic programmes of the Malayanisation Scheme. In other words,

the implementation of social and economic programmes was tied on the policy of ending the Emergency, and the creation of the Federation's Armed Forces as part of the Malayanisation (domestication) process of national security.

### **The Federal Armed Forces Programme 1960**

The Malayanisation of the Federation Armed Forces in the period 1960-65 involved two main programmes: The first was the ending of the services provided by the Multilateral Armed Forces organised by the British Government in Malaya since the beginning of the Emergency in 1948. These included, for instance, Australian,<sup>62</sup> British and East African Armed Forces.<sup>63</sup> The Second programme was the domestication of Malayan personnel into the Armed Forces Programme. The latter programme particularly involved the organisation and expansion of the Police Field Force, training of Battalions, and general administrative measures of the Ministry of Defence and the Ministry of Internal Security. The ending of the services of Multilateral Armed Forces and the involvement of the Malayan personnel into the Federal Armed Forces" had immediate bearings on the raising of development expenditure for the Malayanisation Scheme.

## **Ending the Multilateral Armed Forces**

In this Programme, financial aid provided by the IBRD through Britain was allocated for the ending of the Emergency, the creation of the Federation's Armed Forces and the Development Programme. This involved Social and Economic projects such as Education and Industrial Development.<sup>64</sup> The British Government issued a policy not to provide direct Exchequer Assistance for an independent Commonwealth country.<sup>65</sup> Instead, the British Government chose to provide "a grant equivalent to the unspent balance, on independence day, of the Colonial Development and Welfare allocations arising from the IBRD."<sup>66</sup> The British Government emphasised to the Federation Government the decision not to provide Exchequer assistance towards ending the Emergency and the Development Programme: "We stand by that undertaking, but beyond that we cannot go in the form of direct Exchequer assistance towards the Development Programme."<sup>67</sup>

The British Government further argued that by contributing towards the Emergency and building up the Federation's Armed Forces, the Federation was able to devote a substantial portion of her own resources to Development Programme which otherwise would have been put into the Emergency and the Armed Forces Programme.<sup>68</sup> This meant that the British Government was making a substantial, though indirect, contribution towards the Development Programme. At any rate, Britain resorted to such simplistic arguments because she had nothing further to

contribute to the Emergency that she and the IBRD Mission had decided to end in 1960. Britain and the IBRD were behind the declaration of the end of the Emergency in July 1960.<sup>69</sup> Henceforward, the fight against Russian and China's military advance to Malaysia was undertaken as the Emergency under the Internal Security, Defence Programmes and Police Operations. Quantitatively, the entire programme of ending the Emergency and the building of Malaysia's Armed Forces (Regular Army) for the independent Federal Government involved a sum of \$425 million for the financial year 1957-60 (see Table 24).

**Table 24: Financial Aid for the Emergency and the Armed Forces Programme, 1957-61**

<b>Programme</b>	<b>Costs \$ million</b>
Grant towards the Emergency	\$185,000,000
Colonial Development and Welfare Balance	42,000,000
Grant for the Armed Forces Programme	56,000,000
Military Aid in kind	47,000,000
Installations for Malaysia's Armed Forces	95,000,000
<b>Total</b>	<b>\$425,000,000</b>
Source: CAB 124/84: Federation of Malaya: Memorandum by the Minister for Colonial Affairs, 9th January 1957, f. 197.	

### **The Malayanisation of the Armed Forces Programme**

At the end the Emergency in July 1960, the Federal Government continued with the Armed Forces Programme as an integral part of the Development Programme of the Malayanisation Scheme, 1961-65. The need to continue the Armed

forces programme in relation to the Development Programme was explained by the then Prime Minister and the Minister of Defence, Tun Haji Abdul Razak in a Parliamentary Debate on the "Defence Estimates for 1961 in December 1960:"<sup>70</sup>

"I mentioned that the end of the Emergency in July 1960 had marked the end of the campaign which had engaged the Federation Armed Forces for more than 12 years. I pointed out, however, that even so it was necessary for units of the Federation Armed Forces to continue to be engaged on border security duties to ensure the integrity of the Northern frontier and to prevent any revival of Communist terrorists activities within the border area. The need for continued operations has prevailed during 1961, and will continue in 1962 .... The Federation Army would be able as a result of the ending of the Emergency to devote its time to training and to the improvement of its administration .... Within the Federation Armed Forces[,] Malayanisation ... must be effected without loss of operational or administrative efficiency."<sup>71</sup>

On 17th December 1962, Dato' Dr. Ismail bin Dato' Haji Abdul Rahman (the then Minister of Internal Security) explained that "the end of the Emergency did not mean the end of the Communist threat, or that peace has returned. This justified the need to expand and continue with the Armed Forces Programmes to:

- (i) contain the Communist Subversion, Riots and Civil disorder;
- (ii) to prevent crimes in rural and urban areas (mainly caused by land developments and the increase in the field of industrialisation and to suppress secret society activities);
- (iii) to step up measures in the combat against the threat of militant Communism which exist in Thai/Malayan border."<sup>72</sup>

The Minister drew attention of the House of Representatives to agree to the Defence Programmes and "Estimates" for the Ministry of Defence during 1961-1962. The Defence Programme involved the reorganisation and expansion of the "Royal Malayan Navy," "Royal Malayan Air Forces" and "Royal Malayan Armed Forces." The Royal Malayan Navy was directed towards designing and placing a contract for "6 Patrol Craft," the "Commissioning of the Dispatch and Survey Vessel" and the installation of "5 Mine Sweepers" to what the Minister of Defence described as "full operational efficiency."<sup>73</sup> By 1962, the "Naval Programme" had been equipped with new patrol crafts, thus raising the technical training standards, increasing the officer strength by short service Commissions both from the ranks and direct entry. It also involved the reorganisation of the Navy to conform to the Common user service administration and providing the necessary backing of stores and equipment. These programmes made the Navy less dependant to outside financial and physical assistance in this period. Hence, the Minister of Defence acknowledged: " The Federation's main Naval Base has been completed in 1962 as the Concept of Malaysia comes nearer to realisation."<sup>74</sup>

### **The Royal Malayan Air Forces and Armed Force**

Eleven new aircraft under this programme were acquired. The "Doves and Two Cessnas" were obtained for communication and photographic reconnaissance and "Six Provosts for Pilots" basic training. Four Pilots were trained in flying



standard by the Royal Malayan Air Force and received their training on these "Provosts." A technical school was also established in which training was given to 78 Malayan airmen. In 1962, the programme was completed with the acquisition of 10 new "Twin Pioneer" of modified designs and better performance.<sup>75</sup>

The Royal Malayan Armed Forces Programme was expanded as the Malayan Officers in the Armed Forces increased to 564 in 1962 compared to 197 "Seconded Officers" in 1961.<sup>76</sup> The funding of these programmes in the period 1961-65, depended on finances that were drawn by the Federation Government from the Consolidated Fund on the authority of the Supply Acts as part of the whole allocation to the extended development programme, 1961-65.<sup>77</sup> As such, the Minister appealed to the House of Representatives to accept the Defence estimates for the expansion programme of the Federal Armed Forces as a necessary part of the Malayanisation Scheme.

### **The Indonesian Conflict and The Alternative to Co-Existence -Global War**

During 1963-1965, the Armed Forces Programme involved "security situation arising from Indonesia's policy of 'Confrontation'."<sup>78</sup> Hence, forcing the Federal Government to make additional expenditure for the Ministry of Defence and the Ministry of Internal Security beyond what had been included before the House of Representatives in 1961-1963. On 11th January 1964, Mr. Tan Siew Sin (the then

Member for Dato Kramat) explained to the House of Representatives that Indonesian hostility had increased and thus drew attention to the additional expenditure for the Ministry of Defence and the Ministry of Internal Security.<sup>79</sup> "

Article 102 of the Constitution lays down a special procedure for meeting situations of this kind, when owing to the indefinite character or to circumstances of unusual urgency without going through the normal procedure of tabling detailed estimates, and the Government has decided that the time has come to ask the House to take action in accordance with this special provision.<sup>80</sup> For this reason, he suggested that the Government raises \$50 million from the Consolidated Fund to spend on such an Emergency of the Indonesian Confrontation.

On the same day, the then Deputy Prime Minister and Minister of Defence (Haji Abdul Razak) opposed the motion on the premise that there was no national crisis whatsoever. He argued that the method of getting blanket approval of funds from the House of Representatives prevented discussions on the detailed budget for the subject in question. However, the then Minister of Finance Dr. Lim Swee Aun supported the motion tabled by Mr. Tan Siew Sin. Tun Haji Abdul Razak rose again and agreed to the motion: "Although we have not declared war, **but (sic)** we have a war **on (sic)** [at] our hands."<sup>81</sup> These were the processes by which the Government raised the \$50 Million moneys from the Consolidated Fund, and Parliament accepted to meet from time to time to review the spending of such moneys on the Indonesian Confrontation.

### **The Consolidated Fund: National Security Expenditure [Bills]**

On the whole, the Federal Government drew moneys from the Consolidated Fund for expenditure on the Regular Army (Defence) as that which constituted the implementation of Malaysia's Armed Forces Programme towards ending the Emergency and the domestication of the Armed Forces in Malaysia during 1961-65. **Table 25** computes the moneys that the Government drew from the Consolidated Fund on the authority of **Supply Acts 1961-65** towards the Armed Forces Programme. The ending of the Emergency is also expressed in the progress of expenditure that steadily diminished from \$1,506 million in 1961 to \$320 million in 1965 (see **Chart 1**).

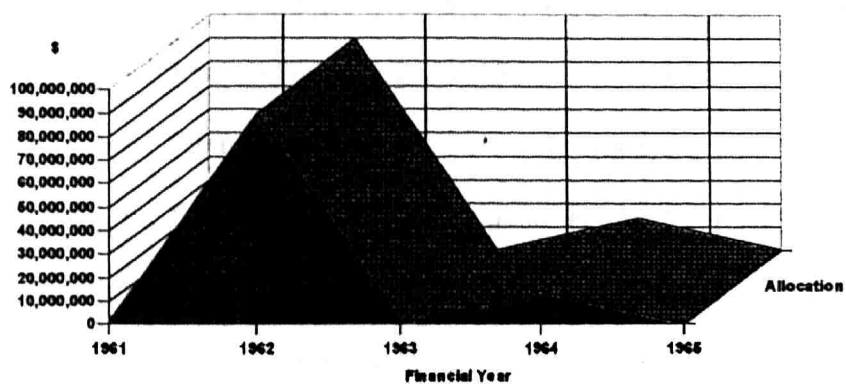
**Table 25: Development Expenditure  
for the Regular Army (Defence) 1961-65**

<b>Year</b>	<b>Allocation (\$ million)</b>
1961	\$1,506,569
1962	90,029,534
1963	305,290
1964	13,957,597
1965	320,030
<b>Total</b>	<b>\$106,119,020</b>
<b>Source: Supply Acts, 1961-65.</b>	

In 1962 when the development expenditure towards the Emergency and the Armed Forces started declining, Dr. Ismail bin Dato' Haji Abdul Rahman the then Minister of Internal Security confirmed it as the result of the end of the Emergency:

"Much of the attention of the departments under this Ministry [Internal Security] was devoted in the past years to tackling the Emergency[,] and as the Emergency was brought under control it was possible to reduce expenditure. In my speech introducing the 1961 Estimates[,] I drew attention to the very considerable reductions in the sums provided over the past years and I indicated that the reason was because of the rapid improvement in the Emergency situation which led to the declaration of the end of the Emergency in July 1960."<sup>82</sup>

**Development Expenditure for the Regular Army/Defence  
1961-65**



Source: Supply Acts, 1961-65, See also Table 18.

## **The Zone of Peace**

There were other multilateral arrangements of administrative nature towards the struggle against the advance of Communism in Malaysia and her neighbours. These were programmes were funded by the IBRD and its executiing agencies specifically for the formulation of the Zone of Peace-Freedom and Neutrality and the Non- Aligned Movement that emerged in 1965. The zone of Peace was not a new idea nor a new defence arrangement involving Malaysia and the international community. For, the Zone of Peace was the achievement of multilateral defence arrangements that had started in 1949. These arrangements were made on the authority, strategies and finances of the IBRD against Communist advance in Malaya, Southeast Asia, and in fact the entire Sterling Area. The Zone of Peace had been initiated as a defence co-operation on terms of reference for the Emergency and the Armed Forces Programme against the advancement of Communism in 1949.<sup>83</sup>

The immediate aim of a wider association of the West, including the Pacific members of the commonwealth with the South East Asia countries as a defence cooperation in the area, was to prevent the spread of Communism and to resist Russian expansion; its long term object was to create a system of friendly partnership between East and West and to improve economic and social conditions in Southeast Asia and Malaysia.<sup>84</sup> Thus, the Zone of Peace as opposed to China and Russia's military

advance relates to the policies and finances of the Bretton Woods' IBRD on which the Emergency and the Armed Forces Programme for the Federation was started in 1949. It was completed on the same policies and funds in 1960, and subsequently domesticated or Malaysianised in the period 1961-65. The military operations that had been formerly carried out by foreign multilateral armed forces were transferred to the Federal Regular Army (Ministry of Defence) and the Police. In sum, the central outcome of carrying out the Emergency and the building of Armed Forces Programme for Malaysia, was the restoration of peace and stability that provided a conducive atmosphere for the Federation Government to embark on the Malayisation Scheme that involved the development of social and economic programmes for the period 1957/61-65.

On third December, 1965, Parliament discussed Malaysia's position in the struggle against Communism, Russian and China's perceived threat. The Permanent Secretary of the Ministry of Foreign Affairs had indicated alliance some member states of the Communist Block and said that Malaysia was not pro West. However, in maintaining Malaysia's position against any form of support from Russia or China, Dr. Mahathir bin Muhamad said:

"I am afraid that if you are supported by the devil you may be classified as the devil as one yourself."<sup>85</sup>

### **Social Programmes: Educational and Training 1961-65**

The Federation Government conducted the expansion of educational services during the Malayanisation Scheme on the basis of funds and strategies of the ten-point program of the White Paper Policy of the IBRD. This policy required "continued [and] vigorous expansion of the education-resources to keep pace with the growth of school age population and if possible increasing the percentage enrolled."<sup>86</sup> It was specifically designed to bring about skilled Malaysians to offer required services in the various sectors of the Malayanisation Scheme. The White Paper Policy was extended from the Draft Development Plan, 1950-60.<sup>87</sup> The Mission of the IBRD considered educational development as one of the foremost strategy to the economic and social problems of Malaya in the period after independence in 1957.<sup>88</sup> This explains the educational strategies and provisions of funds, the process of which, was the result of the ten-point programme of the White Paper of the IBRD. It determined the expansion of educational services to meet shortages in skilled personnel during the Malayanisation Scheme.<sup>89</sup>

In the five-year period of the Malayanisation Scheme, the expansion of educational programs involved expansion in schools, classrooms, pupils and students, teachers for primary and secondary schools, and increases in development expenditure for the entire educational programs (see **Table 26**). The main elements of the education programme was the expansion of the facilities and staff of Primary Schools



to keep pace with the increase in the number of children of Primary School age. Under the programme, the Federation continued to offer the opportunity of primary education to every child in Malaya in the appropriate age brackets. The overcrowding and other deficiencies of classrooms were eased, though financial limitations necessitated the continuance of the system of double sessions -whereby two Primary Schools used the same premises.<sup>90</sup>

In the year 1962, new type of schools known Continuation Schools were established. However, these schools began with a two-year Post-Primary course, with a vocational bias, to pupils who did not gain entry to other Secondary Schools. The limited number of schools was caused by financial limitations, namely shortages in revenue. Secondary education was developed along similar lines of primary schools in the same period. About 30 per cent of pupils who had completed their primary education received secondary schooling either through Forms I, II and III of Secondary Schools of the then existing type of Continuation Schools for Rural Areas. About two-thirds of these pupils continued into Forms IV and V.<sup>91</sup> The function of educational projects required a total expenditure of about \$20 million on technical education to assist in meeting the needs of the Malayanisation Scheme.<sup>92</sup>

On the basis of funds and strategies arising from the IBRD, the number of school age enrolment increased. Primary school fees were abolished and most of the partially assisted primary and secondary schools remaining outside the national system of education were made to accept the abolition of school fees in the five-year period

of the Malayisation Scheme.<sup>93</sup> In pursuit of this policy the school leaving age was increased from 12 to 14 years as that which constituted the reorganization of the comprehensive system of education. At the same time, the Federation Government undertook a decision to establish upper-secondary vocational schools, which were in future incorporated into educational facilities that were formerly provided to schools, for instance, in the Continuation Schools for Rural Areas.<sup>94</sup> The teacher training program was integrated and streamlined to cope with the increasing teacher requirements.<sup>95</sup> For example, a system of guidance and counselling was introduced in lower-secondary schools and the government's national language policy was implemented.

Quantitatively, development loan expenditure on education and training amounted to \$277.4 million in the period 1961-65.<sup>96</sup> The main efforts in school education, and reference to specific quantity, focused on primary education and expansion of secondary education facilities. A total 5,890 classrooms were constructed in primary schools and 3,120 classrooms in secondary schools to enable their respective enrolments to increase from 979,350 to 1,231,740 and from 98,960 to 275,360 pupils between 1960 and 1965.<sup>97</sup> About 50 hostels for some 5,000 pupils in secondary schools and about 1,000 teachers' quarters were constructed during the period.<sup>98</sup>

In the field of college education, priority was given to the training of teachers in order to cope with increasing school enrolment. Teacher training facilities were

expanded by completion of a new secondary teacher training college and three primary teacher training colleges and the provision of substantially improved and expanded facilities at three secondary six and primary teacher training colleges. In sum, the total number of teachers that graduated annually increased from 2,400 in 1960 to 3,260 in 1965.<sup>99</sup>

The expansion of University education was conducted in the University of Malaya in the five-year period of the Plan. This involved establishment of new Faculty of Medicine and School of Education, extensions to Faculties of Arts, Science, Agriculture, Engineering and Library and completion of two residential colleges for 600 students and 71 housing units for University staff.<sup>100</sup> In addition to this, the building programme for the Medical Centre was brought close to completion. Construction was also started on the Great Hall and Administrative Block, both of which were completed in 1966; two residential colleges for an additional 900 students.<sup>101</sup> On the whole these were the processes and scope by which the implementation of the ten-point program of the White Paper Policy of the IBRD expanded school enrolment, schools and classrooms and education staff, at all levels of education system of Malaysia in the period under review (see Table 26).

**Table 26: IBRD- Funds & Policies:  
Educational Projects 1961-65**

<b>Educational Project</b>	<b>Aid</b>
Primary Schools	56.6
Lower Sec. Schools	111.6
Upper Sec. Schools	77.1
Post-Secondary Schools	12
Agricultural College Serdang	4.8
New College East Coast	13.0
<b>Teacher-Training</b>	
(a) Primary	3.87
(b) Secondary	23.4
Trade Vocation	3.3
<b>University of Malaya</b>	
(a) Agriculture	2.4
(b) Economics & Administration	0.6
(c) Engineering	1.0
(d) Education	0.96
(e) Science	5.5
(f) Others	19.29
(g) Computer	0.25
(h) Agriculture; Schools	13.6
<b>Source: IBRD Far East Department : Malaysia Review of Education Projects, 3rd June 1966, p. 5.</b>	

### **Economic Programme: Pioneer Industries**

The IBRD initiated an industrialisation programme aimed at overcoming the severe shortage in internal revenues. Industrial development in Malaysia is rivetted on the Pioneer Industry Legislation that was passed by Parliament as the result of IBRD-

finances and strategies.<sup>102</sup> The establishment of pioneer industries depended on the need to enhance production by attracting foreign capital, (commonly known as "Foreign Direct Investment [FDI],"<sup>103</sup> to solve the serious problem of shortages in revenue that was caused mainly due to over dependence on agricultural production. The IBRD also initiated industrial development for Malaysia as a strategy of import substitution.<sup>104</sup> This strategy required the Federal Government to establish foreign industries (Pioneer Industries or softly known as infant industries) in the country to stop dependence on foreign imports at the expense of foreign exchange.<sup>105</sup> The Mission of the IBRD that made the survey for the establishment of Pioneer Industries considered that "as soon as possible after Malaysia Day [1963], the Pioneer Industry laws in the several States of Malaysia should be replaced by new Federal legislation."<sup>106</sup> Parliament accepted such decisions of the IBRD and subsequently passed the Pioneer Industry laws in 1963.<sup>107</sup> This legislation specifically required the Government to grant incentives mainly in form of tax exemption and protection of pioneer industries. This policy became the basis upon which special assistance (arising mainly from the IBRD) was given towards establishing industries in the five-year period of the Malayanisation Scheme. In the process, the Government accorded tax exemption and tariff protection to all foreign industries that were approved for operation; they were exempted from income tax for a period ranging from two to five years.

Until 1963, more than 50 firms with a called up capital of about \$27 million and producing 238 products were awarded pioneer status. The Federal Government granted duty exemption and protective duties on required raw material imports to Pioneer Industries. This policy was executed by the authority of Federal Ordinance that was inaugurated in 1958 on recommendation of the IBRD to give incentives to Pioneer Industries in the country:

"The Federal ordinance exempts pioneer industry firms from the payment of income tax for an initial period of two years if the company's fixed capital investment does not exceed \$100,000. The period can be extended to three years if the investment is valued at between \$100,000 and \$250,000 or to five years if it exceeds \$250,000."<sup>108</sup>

As a result of the Pioneer Industry Legislation, ninety nine industries were approved to specialize in the production of chemicals, tobacco, engineering, non-metallic-minerals, food and beverages, for domestic and export purposes.<sup>109</sup> In carrying out this strategy, the Federal Government released land for the establishment of industrial estates in the country. The Government provided land facilities for the construction of Pioneer Industry Estates (composed of foreign companies):

"The Second Five-Year Plan provides a trust fund of \$7.5 million for loans to States for development of industrial estates, that is, developed areas with land and utilities made available to manufacturing establishments."<sup>110</sup>

Quantitatively, the Government released 210 lots in Petaling Jaya to Pioneer Industries; 400 acres in Seremban and similar land provisions were made in Johore

Bahru, Ipoh, Buttherworth, Taiping, the State of Selangor, Kuala Lumpur, and Klang. The Government reported that of the ninety nine Pioneer Industries that were approved, seventy had started production and employed about 5,000 workers by 1963."<sup>111</sup> In addition to this, two oil refineries were established at Port Dickson, and these involved an investment of \$117 million and capacity of 1.75 million tons per annum. More than 150 factory lots were sold to enterprises producing processed foods, beverages, tobacco, pharmaceutical, paints and chemicals, printed materials, tin containers, plastics, electrical appliances and construction materials. About eighty factories started production in the period 1961-65.

The Federal Government considered manufacturing and industrial development a high economic priority for the Malayanisation Scheme. It considered Manufacturing and Industrial Development ... "a matter of very high priority ... For the future, the importance of manufacturing to the Federation's long-run development and economic diversification can hardly be over-emphasised."<sup>112</sup> That is to say, the Federation Government granted economic opportunities to foreign capital and reduced the problem of shortages in revenue. This improved the economic performance of Malaysia in the sense that production of industrial products increased for both domestic and foreign markets (see **Table 27**). Investments that were undertaken in the process of import substitution were reflected in domestically produced goods that began to replace imported commodities. The evidence of this structural change arising from pioneer industries is computed in **Table 27**. This was

the process by which foreign capital (FDI) as a strategy initiated by the IBRD provided the foundation for economic growth of Malaysia through the establishment of Pioneer Industries. The success of industrial establishment was supported by Industrial Institutions that emerged on the basis of funds and policies from the IBRD.

**Table 27: Domestic Production as Proportion of Total Consumption, Selected Industrial Products, 1960 and 1965**

Industry	1960	1965
Cigarettes	.60	.90
Manufactured	.69	.75
Biscuits	.93	1.08
Soap	1.06	1.20
Bicycle	.97	1.25
Cement	.89	1.08
Source: <b>First Plan Malaysia</b> , 1966, p. 26.		

In 1958, the Mission of the IBRD initiated the plan to establish the Malayan Industrial Development Finance Limited (MIDFL). It was created to serve as the executing agency of the IBRD (Central Bank) and as a go-between the Bank and customers for medium and long-term loans on industrial projects for Malaysia.<sup>113</sup> The Government acknowledged the initiatives of the Mission of the IBRD and accepted in principle the formation of such an authority; and in turn directed the National Development Planning Committee, in consultation with concerned Ministries, to draw up a plan for the establishment of such a body.<sup>114</sup> MIDFL was specifically designed to assist private enterprise by making medium and long term loans and performing



underwriting and technical services for industry.<sup>115</sup> In October 1962, the Missions of the IBRD and International Finance Cooperation (IFC) visited Malaya and recognised that MIDFL had increased its financial capacity and resources towards industrial development.<sup>116</sup> On 12th March 1963, Parliament further discussed "a Bill [entitled] an Act to provide for the application of certain provisions of the Loans (International Bank) Ordinance, 1958, to a guarantee by the Federation of a Loan by the IBRD to MIDFL and for the matters connected therewith."<sup>117</sup> While introducing this Bill to the House of Representatives of Parliament, Mr. Tan Siew Sin the then Minister of Finance described the significance of securing the loan from the IBRD and reorganising MIDFL for industrial development:

The reorganisation of the Company will then be complete ... and it will then be able to play an expanded and dynamic role in financing of industrial development in the Federation and throughout the territories of Malaysia."<sup>118</sup>

These statements indicate that the then Minister of Finance had repeated statements on the term of reference made by the IBRD Mission for the creation of MIDFL. The Federal Government was committed to IBRD-strategy of creating MIDFL as the agency of industrial development for Malaysia. To this end, the IBRD decided to provide \$250 million of MIDFL's total equity. This accounted for MIDFL authorized capital of about \$15 - \$50 million in the period 1961-63; and by the end of the five-year plan 1961-65, MIDFL had spent \$250 million that was allocated by the IBRD to expand industrial development for Malaysia.<sup>119</sup> These figures represent the

extent to which MIDFL as an internal industrial agency of the IBRD was created to execute policies and distribute funds for the industrial development of Malaysia in the period after independence.

In addition, the MIDFL agreed to finance investments in plastic industries and several other applications were considered. Firms wanting to produce beer, sugar, flour, aluminum, paper, fertilizers, and iron and steel. All these foreign industries applied for the "Pioneer Status" and were considered for acceptance. This explains the manner by which prospects for manufacturing investment appeared quite buoyant, and it also appeared reasonable in as much as the expected level of industrial output during 1961-1965 was in the range of fifty per cent to seventy five per cent. Another advantage of industrial establishment in Malaysia was the increase in capital-intensive kinds of production and employment opportunities in the industrial sector. About 30,000 industrial workers were employed in the five-year period of the Malayanisation Scheme.

Furthermore, the IBRD initiated the Federal Industrial Development Authority (FIDA). It was created to promote industrial establishments under the funding of the IBRD. The founding responsibilities of FIDA manifest the purpose for which the IBRD encouraged the building of Malaysia's industrial development on the basis of foreign capital:

- "(a) making recommendations on pioneer status applications;
- (b)formulating policy on industrial site development, administering ... and acting as

a coordinating agency among States institutions with such functions;

(c) carrying out, or contracting for economic feasibility studies of industrial possibilities;

(d) providing general guidance and advice to the units engaged in industrial research ... and other agencies such as the National productivity Centre and the Small Industries Service Institute;

(e) assembling general information on the conditions of Malaysian industrial production and directing industrial promotional work, domestically and abroad."<sup>120</sup>

On the whole, Malaysia's industrial institutions were created on IBRD-finance and policies for the industrial development and to enhance the capacity of Federal sources of revenue. This was kept in place by the establishment of a Common Market and organization of the Tariff Board on the terms of IBRD-policies and funds.

### **Industrial Protection: A Common Market and the Tariff Board**

The Mission of the IBRD provided Terms of Reference upon which a Common Market and a Tariff Board was established. The Mission decided that Malaysian authorities were to rely on the independent expert-advice of the IBRD Mission to command the confidence of government and private business circles. In the process, the Tariff Board and Common Market were formed based on Terms of Reference that were set by the Mission of the IBRD, and these are outlined in **Appendix 11**. The IBRD justified the establishment of a common Market and the Tariff Board on the premise that "more rapid industrialization is essential to augment

Malaysia's prosperity, two fundamental conditions for achieving this objective are:

- (a) the creation of a common Malaysia['s] market for domestic products;
- (b) the judicious use of tariffs to protect this market. "<sup>121</sup>

Upon completion of proposals for establishing the Tariff Board relating to the management and operation of a common market for Malaysia and the neighbouring countries in the region, the Mission of the IBRD acknowledged its success in this cause and assigned duties to the Tariff Board:

"The Mission is satisfied that the application of its recommendations relating to the composition and procedures of the Tariff Board would give to that body the necessary status and machinery to enable it to discharge the important functions entrusted to it, and would materially assist [especially by providing financial aid] in ensuring the successful establishment of a Malaysian common market. "<sup>122</sup>

The assignments of the Tariff Board included the following:

- "(a) the definition and scope of the initial common market in terms of commodities or tariff items;
- (b) the examination of all further applications for protection of which, would if approved, imply an extension of the common market to new products and the corresponding adoption of additional Malaysian protective tariffs;
- (c) the period review of exiting protective tariffs;
- (d) other functions, in particular with respect to cases of unfair competition from foreign suppliers. "<sup>123</sup>

On the basis of the assignments of the Tariff Board (outlined in **a-d** above), the IBRD Mission recommended the establishment of the Tariff Board and the Customs Union to protect the pioneer industries from foreign imports before and after the Malayanisation Scheme.<sup>124</sup> The Federation Government accepted in principle the establishment of the Tariff Board and the Customs Duties thereof, and legislated it under the Customs Duties (Amendment) (No. 8) Order, 1964 as was laid to the House of Representatives on 26th November, 1964.<sup>125</sup> In explaining the Customs Duties Order to the House of Representatives on the same day, Mr. Tan Siew Sin repeated the statements of the terms of reference that were made by the IBRD Mission for the establishment of the Tariff Board and the Custom Union:

"This Order [Customs Duties (Amendment) (No. 8) Order, 1964] is made solely for the purposes of protecting a domestic industry. The Government is satisfied that the home manufacturer will establish an efficient undertaking to produce quality products."<sup>126</sup>

This Order (Customs Duties (Amendment) (No. 8) became the policy upon which the Federal Government conducted international trade with the neighbors within the Custom Union. The recommendations of the IBRD leading to the establishment of the Common Market and the Tariff Board are outlined in **Appendix 11**. The implementation of which brought the Federation of Malaysia into agreement with Singapore and other Southeast Asian countries on a common market.<sup>127</sup> The Government recognised, "Malaysia is now in position to proceed carefully in the direction of tariff protection on the advice [by the IBRD Mission] to stimulate further

industrial expansion."<sup>128</sup>

This was established on the premise that in the period before the Malayanisation Scheme, industrialization was not rapid, and that the gradual adoption of protective tariffs by the Federation would increase the rate of industrialization.<sup>129</sup> The Mission also argued that growth of, [so-called], self-sufficiency in neighboring developing countries, often behind tariff walls, had reduced the size of the market and made competition more intensive.<sup>130</sup> For these reasons, the IBRD Mission further argued that circumstances were forcing many firms to restructure their markets with the neighbours. This meant that Malaysia had to follow similar direction in which the neighbor were organising themselves into a Common Market.

The strategy to expand Malaysia's industries or markets to the neighbors is manifested in the process by which Malaysia and Singapore agreed on a Common Market. The Mission considered conditions of production as unfavorable on the proposition that producers of new industries (pioneer industries) would have found it hard to compete with suppliers who relied on large domestic market and offered economies of scale (production in large quantities) and opportunity to change prices.<sup>131</sup> It was therefore considered that benefits offered by the larger domestic market were needed for a common market, which was more imperative for Singapore than it was for the Federation of Malaysia.<sup>132</sup> It was on the basis of these proposals that the IBRD Mission chose to create a common market for Malaysia "to retain the valuable Singapore market ... for all protected goods ...[to] increase the size of its

protected market by over fifty per cent."<sup>133</sup>

In setting up the common market, the Mission considered the desirability of promoting industrialization and establishing, as rapidly as possible, a protected market for goods produced or manufactured in significant quantities in Malaysia. The IBRD Mission regarded this policy necessary in achieving the objectives of the Common Market as outlined in **Appendix 11**. The Mission also considered that the unification of largely independent economies always gives rise to a number of transitional and long-run problems, and that this was true in Malaysia where existing customs and trade policies were divergent, and where a number of industries have already been set up under the protection of such policies. This meant that producers would have had difficulties in meeting competition from producers in other parts of Malaysia. Nevertheless, the Mission recommended that the Federation Government establish, as firmly and quickly as possible, the Pan-Malaysian Common Market and not to lose sight of the importance of such establishment.

Due to misconceptions relating on the establishment of a Common Market and the Tariff Board, the IBRD Mission explained the characteristics of such a market and its economic benefits to Malaysia.<sup>134</sup> The Mission explained that the common market did not imply that the new States of Malaysia, and more particularly Singapore, were required to apply immediately the customs tariff in its entirety.<sup>135</sup> In addition, the Mission advised that the establishment of a common market required the inclusion of all products produced or manufactured in Malaysia and such products

were consumed in the area within significant quantities.<sup>136</sup> The Mission also considered that in the early stages of its establishment, it was not essential to include the whole range of products that were to be imported from abroad, and which might have or not have been the same in different parts of Malaysia.<sup>137</sup> Hence, the Mission of the IBRD chose to consider that it was essential, in this connection, to make a clear distinction between "protective" and "non-protective" (or revenue) duties. In regards to this distinction, the Mission explained further: "There may be also a few duties which are neither protective nor revenue, and which are designed to discourage imports of luxury or undesirable goods. For purposes of our recommendations, these are classified as "non-protective."<sup>138</sup> The "Trade Classification of Malaysia 1963-65" details each individual item of the Malaysian imports and exports indicating "protective" and "non-protective" (or revenue) duties.<sup>139</sup> This articulates the processes by which the IBRD Mission decided strategies on the foundation of markets and industries for Malaysia's resources. A detailed explanation of the IBRD Mission on the Common Market is outlined in **Appendix 11**. Similar information on the Federation's imports and exports is detailed in the **Annual Statistics of External Trade**.<sup>140</sup>



## Conclusion

On the administrative front, the enforcement of the Bretton Woods Agreements and the allocation of IBRD-finance enabled the creation of the new Administrative Machinery for the independent Federal Government of Malaya in 1957 that came to be known as Malaysia since 1963. The central outcome of the enforcement of the Bretton Woods Agreements, and the involvement of the IBRD Missions in the Federation's administrative affairs was the implementation of Malayanisation Scheme. The IBRD designed this Scheme in order for the British colonial administration to transfer offices to local personnel as that which meant independence or Malayanisation of the Federal Government in the period 1957/61-65. This was the process by which IBRD- funds and policies constituted "**good governance**" for the independent Federal Government.

On the Economic front, the IBRD funded and extended the Draft Development Plan for Malaya 1950-60 into the Malayanisation Scheme, 1961-65, as the solution to the existing and future economic problems of the Federation Government. For the existing and future economic problems of the Federation especially shortages in revenues (capital). For this reason, the IBRD initiated and funded the Industrial Development Programme of Malaysia with special bias to the invitation of foreign investments, commonly known as Foreign Direct Investments (FDI).<sup>141</sup> The interplay between external finances combined with internal resources

(revenues) constituted the Gross National Product (GNP) for the development expenditure of the development programmes of the Federal Government.

## Endnotes

1. The Malayanisation Scheme is commonly known as the Second Five-Year Plan, 1961-65. See **Federation of Malaysia, Second Five-Year Plan 1961-1965**, Kuala Lumpur, Government Printer, 1961. Martin Rudner falls on the wrong side of history to call the Malayanisation Scheme as the first plan that marked the beginning of Malaysia's administrative and Economic Development Plans. See Martin Rudner, **Nationalism, Planning and Economic Modernization in Malaysia: The Politics of Beginning Development**, Beverly Hills, Sage Publications, 1975, p. 5.
2. In the period 1956-60, the Mission of the IBRD initially formulated the "Malayanisation Scheme" and extended it for the period 1961-65. See Federal Secretariat, Try. Y. 261/C: Explanatory Memorandum and the Draft Development Plan, 1956-60.
3. **Federation of Malaya, Bretton Woods Agreements: Ordinance, No. 75 of 1959**, Kuala Lumpur, Government Printer, 1959.
4. **Malaysia, His Majesty's Government Gazette, Vol. 7, No. 22, October 1963**, pp. 375-376.
5. **Ordinances and Acts Passed During the Year 1959: Bretton Woods Agreements (Amendments) Ordinance, No. 40, 1959**, Kuala Lumpur, Government Printer, 1960, p. 371.
6. **Federal Subsidiary Legislation 1964: Bretton Woods Agreements and Peace Treaties Orders (Extention) Order, 1964**, Kuala Lumpur, Government Printer, 1966, p. 676. See also Appendix 6.
7. Ibid.
8. Ibid.
9. **Ordinances and Acts Passed During the Year 1959: Op. Cit.**, p. 371.
10. The management of the Consolidated Loan Account was further tied to the Financial Provisions of the Federal Constitution. The Government was required to keep and draw funds from such an Account. Specifically, Clause 7(b) of the Constitution required the Government to keep loan funds in the Consolidated Loan Account. It should be stated here that the financial provisions of the Federation of

Malaysia (1961-65) were adopted proactive to the financial terms of the Federation Malaya Agreement, 1956. See **Malayan Constitutional Documents, Second Edition, Vol. 1**, Kuala Lumpur, Government Printer, 1962, pp. 231-240.

11. **Ibid.**

12. **Act of Parliament No. 28 of 1961: Supplementary Supply Act, 1961**, pp. 113-115.

13. **Act of Parliament No. 13 of 1962: Supply Act, 1962**, pp. 195-197.

14. **Act of Parliament No. 15 of 1963: Supplementary Supply Act, 1963**, pp. 175-176.

15. **Act of Parliament No. 31 of 1964: Supplementary Supply Act, 1964**, pp. 133-135.

16. **Act of Parliament No. 2 of 1965: Supplementary Supply Act, 1965**, pp. 1141-1142.

17. **Malayan Constitutional Documents, Op. Cit.**, p. 233.

18. CAB 124/84: Federation of Malaya: Memorandum from the Minister of State for Colonial Affairs, 9th January 1957, f. 192.

19. **Ibid.**

20. On the passing of IBRD-finance via the British Government and its agency, Colonial Development Corporation (CDC), see **Colonial Development Corporation: Fabian Research Series, No. 267, 1968**, London, Fabian Colonial Bureau, 1968.

21. On the participation of other Southeast Asian countries and the invitation of developed countries especially the United States, Canada and Australia in the implementation of the Malayanisation Scheme, see **The Colombo Plan: Annual Reports, Consultative Committee on Economic Development in South and South-East Asia, 1957-1965**, London, Her Majesty's Stationary Office. It should be stated here that the passing of IBRD-funds via the British Government, its agency CDC and other multilateral institutions such as the Colombo Plan, made IBRD-finances invisible in the Federal Accounts.

22. **Ibid.**

23. **Foreign and Commonwealth Office, Colonial Development and Welfare Acts 1929-70: A Brief Review**, London, Her Majesty's Stationary Office, 1971, p. 38.

24. On the involvement of Sir Sydney Caine as the leading official of the IBRD Mission in the making of the Draft Development for Malaya, 1950-60, See CO 1022/337: Progress Report: Development Plan, Federation of Malaya, 1950-52, para. 153-155.

25. Federal Secretariat, Treasury/Try.(FS) 0.3878: Central Bank, February 15th, 1957, ff. 1-2.

26. On Sir Sydney Caine as the Chairman of the Currency Board Commission and his involvement in establishing the Central Bank (Bank Negara), see Federal Secretariat, Treasury/Try. (FS) 0.3878: Appointment of a Banking Advisor, 15th February 1957. See especially Federal Secretariat, White Paper and Currency, 1961.

27. Sydney Caine, "The Passing of Colonialism in Malaya," **Far Eastern Economic Review**, No. 1, Vol. 25, 1958, p. 560.

28. Federal Secretariat, Treasury (PS)/3124: Colombo Plan Annual Report, Federation of Malaya, 1957, p. 1.

29. Ibid.

30. Ibid.

31. On the role of the IBRD and IMF into the foundation of the Central Bank (Bank Negara) as a very important component of Malaya/Malaysia's administrative machinery, see Federal Secretariat, MF. (Ed.) Sec. 00029/60: Memorandum on Currency Arrangements and between Singapore and Malaya, 1960, pp. 1- 14.

32. Federal Secretariat, Treasury/Try. [FS.] 0.3878: Federation of Malaya, Central Bank, 28th June 1957, ff. 5-8.

33. Federal Secretariat, Try. Y. 261/C: Explanatory Memorandum, Op. Cit., p. 32.

34. Ibid., p. 32.

35. Federal Secretariat, MF. (Ed.) Sec. 00029/60: Memorandum on Currency Arrangements, Op. Cit., pp. 1- 14.

36. See **First Malaysia Plan**, Kuala Lumpur, Government Printer, 1966, para. 223.
37. On the criteria by which the IBRD/World Bank monitored financial and administrative affairs of the Federation Government in the initial period of the Malayanisation Scheme see, International Bank For Reconstruction and Development, 1818 H Street, N. W. Washington 25, D. C., December 30th 1957-December 30th 1965. See especially Federal Secretariat, Try. (FS) 4869 Pt. 68/6: Excess on Government Hospitality Fund, 1960, ff. 9-17.
38. On other multilateral funds that were allocated to Malaysia, see Development Assistance to Malaysia, 1966-1970, Kuala Lumpur, United Nations Office.
39. See **First Malaysia Plan**, *Op. Cit.*, para. 424.
40. Federal Secretariat/ Treasury (PS) 3124: Colombo Plan Annual Report, *Op. Cit.*
41. Federal Secretariat, JPA 1107/46A: Colonial Development and Welfare Fund: Fellowships, 1960.
42. **Technique Used for Developing Malaysia**, Kuala Lumpur, Ministry of National and Rural Development, 1961, p. 18.
43. *Ibid.*, p. 18.
44. *Ibid.*, pp. 1-7.
45. *Ibid.*
46. *Ibid.*
47. On the invitation of the Mission of the IBRD/World Bank by the Federation Government, see **Malaysia, Report on the Economic Aspects of Malaysia, By a Mission of the IBRD under the Chairmanship of Mr. Jacques Rueff**, July 1963, Kuala Lumpur, Government Printer, 1963, p. 1.
48. *Ibid.*, p. vii.
49. *Ibid.*, pp. vi-vii.
50. In reference to specific time, the decision by the IBRD Mission to conduct the Malayanisation Scheme in the period after independence, see Federal Secretariat, Treasury (PS)/ 3124: Colombo Plan Annual Report, *Op. Cit.*, p. 11.

51. Ibid.
52. Ibid.
53. Ibid.
54. Ibid.
55. Ibid.
56. Ibid.
57. **Second Five-year Plan, Op. Cit.**, para. 51.
58. Parliamentary Debates, House of Representatives: Official Reports, 1961, 9th January 1961, 1961, Col. 1590.
59. See, **Second Five-Year Plan, Op. Cit.**, p. vii.
60. See Parliamentary Debates, House of Representatives, 1961, Op. Cit.
61. The organization of finances for the Malayanisation Scheme was continued on the fiscal policy of the ten-year plan 1950-55/60. This policy treated external loan funds as augmentations of Federal revenue, see CO 1022/337: Progress Report, Development Plans, Federation of Malaya, para. 50.
62. On the Australian Armed Forces in Malaya during the Emergency period, see Peter Dennis and Jeffrey Grey, **Emergency and Confrontation: Australian Military Operations in Malaya and Borneo, 1950-1966**, St. Leonards, NSW 2065, Australia, Allen & Unwin Ltd., 1996.
63. On the involvement of the British Armed Forces in the Emergency in Malaya, see **Operation Firedog: Air Support in the Malayan Emergency, 1948-1960**, London, HMSO, 1972. For the East African Armed Forces involved in the Emergency, see Chapter 4.
64. Ibid., f. 197.
65. Ibid., f. 197.
66. Ibid., f. 197.

67.Ibid.

68.Ibid.

69.Parliamentary Debates, House of Representatives: Official Report, 23rd January 1962, Col. 3579.

70.Parliamentary Debates, House of Representatives: Official Report, 16th January 1962, Col. 2981-2984.

71.Ibid.

72.Ibid.

73.Parliamentary Debates, House of Representatives: Official Report, 16th January 1962, Col. 2981-2984.

74.Ibid., Col. 2986.

75.Ibid., Col. 2987.

76.Ibid., Col. 2984.

77.Ibid., Col. 3579-3583.

78.Parliamentary Debates, House of Representatives: Official Report, 11th January 1964, Col. 5032.

79.Ibid.

80.Ibid., Col. 5032-5033.

81.Ibid., Col. 5038.

82.Parliamentary Debates, House of Representatives: Official Report, 23rd January 1962, Col. 3579.

83.CO 537/4873: Brief for the United Kingdom Delegation to the Colombo Conference, Op. Cit., f. 49.

84.Ibid.



85. Ibid., Col. 4662.

86. On the origins of the ten-point program of the white paper policy of the IBRD, see **Federation of Malaya, Report Organized by the Mission of International Bank for Reconstruction and Development, on the Request of the Governments of the Federation of Malaya, the Crown Colony of Singapore and the United Kingdom**, Singapore, Government Printer, 1955, p. 101.

87. On the foundation of the White Paper Policy and Education in the Malayanisation Plan, see Federal Secretariat, JPA 2641/46: Postwar Colonial Training, 1960.

88. On the continuity of the White Paper Policy in the five-year period of the Malayanisation Scheme, see **Second Five-Year Plan, Op. Cit.**, pp. 12-13.

89. Educational projects that were established as the result of the White Paper Policy during the Malayanisation Scheme were also reported in the First Malaysia Plan, see **First Malaysia Plan**, Kuala Lumpur, Government Printer, 1966, pp. 165-166.

90. Ibid.

91. IBRD/World Bank-Far East Department: **Malaysia, Review of Education Projects**, June 3rd 1965, p. 1-8.

92. Ibid.

93. Ibid.

94. Ibid.

95. Ibid.

96. Ibid., p. 70.

97. Ibid.

98. Ibid.

99. Ibid.

100. Ibid., p. 166.

101.Ibid.

102.Federal Secretariat, Treasury (PS)/ 3124: Colombo Plan Annual Report, Op. Cit., p. 11.

103.ECAFE (ESCAP)/Economic and Social Survey of Asia and the Pacific: Asia and the Pacific into the Twenty- first Century, Development Challenges and Opportunities (Embargoed), 1997, New York, United Nations, pp. 150-155.

104.Ibid.

105.Ibid.

106.Ibid.

107.Parliamentary Debates, House of Representatives: Official Reports, 12th March 1963, Col. 4101-4102.

108.Act of Parliament, No. 3 of 1965: Industrial Development Authority (Incorporated) Act, Op. Cit., p. 55.

109.Ibid.

110.**Second Five-Year Plan, Op. Cit., p. 64.**

111.Ibid.

112.**Ibid.**, para. 70.

113.**See Report by the Mission of IBRD under Mr. Jacques Rueff, Op. Cit., para. 76-77.**

114.Act of Parliament, Industrial Development Authority, Op. Cit.

115.**Report by the Mission of IBRD under Mr. Jacques Rueff, Op. Cit., para. 77.**

116.Ibid.

117.Parliamentary Debates, House of Representatives: Official Report, 12th March, 1963, Col. 4100.

118.Ibid.

119. *Ibid.*, para. 77.

120. **Second Five-Year Plan, Op. Cit.**, para. 80.

121. **Report by the Mission of IBRD under Mr. Jacques Rueff, Op. Cit.**, p. 41.

122. *Ibid.*, p. 49.

123. *Ibid.*

124. Federation of Malaysia, Tariff Advisory Board (Amendment) Act, 1965, No. 39 of 1965, p. 159.

125. Parliamentary Debates, House of Representatives: Official Reports, 26th November 1964, Col. 2723.

126. *Ibid.*

127. **Federation of Malaya, Agreements in Malaysia concluded between the United Kingdom of Great Britain and the Northern Ireland, North Borneo, Sarawak, and Singapore**, Kuala Lumpur, Government Printer, 1963.

128. **Report by the Mission of IBRD under Mr. Jacques Rueff, Op. Cit.**, p. 41.

129. *Ibid.*, p. 42.

130. *Ibid.*

131. *Ibid.*

132. *Ibid.*

133. *Ibid.*, p. 42.

134. *Ibid.*, p. 45.

135. *Ibid.*, p. 45.

136. *Ibid.*

137. *Ibid.*

138. **Ibid.**

139. **Federation Malaya, Trade Classification, 1962-1965**, Kuala Lumpur, Government Printer.

140. **States of Malaya, Annual Statistics of External Trade, 1963-65**, Kuala Lumpur, Department of Statistics.

141. For details on Industrial Development Programme as a policy for future Economic Development Plans of the Government of Malaysia, see Chapter 6.