

CHAPTER SIX

CONCLUSION

This thesis explains the inter-relationship between the legal, formal, and monetary authority of the Bretton Woods' International Bank for Reconstruction and Development (IBRD) and the Administrative and Economic Development Plans for Malaysia. The thesis adopted the rigour of the historical methodology and re-examined the political science approach based on the "authoritative allocation of value". That is to say, New States independently determined their own administrative and economic affairs. This approach had misled earlier studies on Malaysia's Administrative and Economic Development Plans. The historical records on the legislation of the Bretton Woods Agreements and the allocation of IBRD-finance for the Administrative and Development Plans for Malaysia in the period 1945-65, formed the empirical evidence that the IBRD determined Malaysia's administrative and economic affairs. The internationally organised administrative and monetary infra-structures in Malaysia's Development Plans is an integrated part of the Bretton Woods World Order that emerged in July 1944.

The Authoritative Allocation of Value

The "authoritative allocation of value" approach had rested on the premise that an independent nation-state designed its own economic and social development programmes based on its formal and legal procedures. This assumption was grounded on Harold D. Lasswell's idea of "Who Gets What, When and How."¹ This approach permeated all studies on New States that emerged after World War Two. The ahistorical political science methodology made the case that developing states organised independently their strategies for economic and administrative affairs. These studies minimised the "international authority" of the Bretton Woods's IBRD.

The "authoritative allocation of value" approach influenced Martin Rudner to argue that Malaysia's economic development is determined by the prevailing regime of the day. This basic premise has been questioned throughout the thesis that traced the international hand of the IBRD in deciding strategies and financial allocation for the Administrative and Development Plans for Malaysia in the period 1945-65. The evidence for this thesis is buried in the historical records of modern Malaysia located in the international records outside the country and in its Constitution, legislation and administration.

The Historical Records

At Bretton Woods, New Hampshire, July 1944, a momentous decision was made that gave birth to a new international order. The historical relevance of this event in modern times is examined by Armand Van Dormael in his book **Bretton Woods: Birth of a Monetary System**. "International authorities" such as the IBRD and the International Monetary Fund (IMF) and its agencies replaced local and colonial authority in New States that were to emerge after World War Two. The British Parliamentary records show the close links between the Bretton Woods Agreements, July 1944 and the Anglo-American Agreement of 1945. Britain used its existing legislative and executive powers to put in place in Malaya the necessary legislation to implement the unfolding international order. The Foreign Jurisdiction Act, the 1945 Welfare Act and agencies such as the Colonial Development Corporation and Welfare Fund and the Colombo Plan served the Bretton Woods Agreements.

The legal, formal and monetary function of the Bretton Woods' IBRD as the source of finances and strategies for the administrative and economic development

plans for Malaysia had been established by the **Bretton Woods Agreements: (Proclamation No. 29 of 1945), A Proclamation to Give Effect to Certain Provisions of the Bretton Woods Agreements** and the **Bretton Woods Agreements: (Proclamation No. 32), A Proclamation to Provide For the Control and Regulation of Currency and Exchange**. The Bretton Woods Agreements of July 1944 were enforced by the Ordinances and Rules of the British Military Administration, 1945-46, and the Malayan Union, 1946-48. In the subsequent regimes of the Federation of Malaya, 1948-57 and Malaysia 1963-, the Bretton Woods Agreements were enforced under the 1948, 1957 and 1963 Federation Agreements and Constitutions which named, and still names, the IBRD as the source of finance for the Federation Government since 1948:

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.²

This meant that the IBRD provided loan funds to the Federation Government that were kept in the Consolidated Loan Account of the Consolidated Fund. The Financial Provisions of the Federal Constitution of 1957 (for Malaya) and 1963 (for Malaysia) required, (and still requires), 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."³

The enforcement 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. It was through this Account that the "international authority" of the IBRD extended finances for the economic development plans. By virtue of the loan funds kept in the Consolidated Fund (Consolidated Loan Account), the Federation Government drew (charged), and still draws, moneys from such account by the issue of its Supply Acts. The drawing of IBRD-finances from the Consolidated Fund (Consolidated Loan Account) by the Supply Acts for the Federal expenditure, explains the mechanism by which the IBRD determined the allocation of loan funds to the Federal Government. This partly answers the question of "who gets what, when and how" in Malaysia's Administrative and Economic Development Plans in the period 1945-65.

The early presence of the IBRD hand in the administrative and economic affairs of Malaya are housed in the recently declassified Public Records Office, Colonial Office, Series 1022. Subsequent IBRD Missions have left their volumes in

print and their internal correspondence and unpublished reports are deposited in the Federal Secretariat records of the British Military Administration, 1945-46, Malayan Union, 1946-48, and the Federation of Malaya, 1948-57, independent Malaya, 1957-63 and Malaysia, 1963. The international presence is more visible in the records of the Treasury and the Economic Planning Unit, Prime Minister's Department.

National Security

National Security, (herein called the Emergency) was directly related to international politics, armed forces and internal administrative organization for the period 1945-65. The build-up of the Armed Forces was imperative for the social and economic programmes of the Draft Development Plan for Malaya, 1950-60 and the Malayanisation Scheme, 1961-65. The Federation's Commitment to the Armed Forces Programme and the fight against Communism, specifically Russia's and China's perceived conquest of Malaya, was the condition for providing financial aid by the IBRD. The advance of communism stood against the economic objectives of the IBRD and IMF and failure to comply meant a denial of funds for economic development of Malaya. It was based on this international dimension that a plan was made to build a strong Armed Forces in Malaya to stop Russia and China's intended

military attack and the conquest of communism.

It was against this international economic and political conflict between Russia and China's intended conquest of Malaya and the need to carry out economic development programmes (financed by the IBRD) as required by the Bretton Woods Agreements that the Emergency was conducted by the British Government in the period 1950-60. The Emergency plan was conducted as a core component of the international campaign in Malaya in which the IBRD finances and multilateral Armed Forces were brought together. Under the Malayanisation Scheme, 1961-65, the Regular Malayan Armed Forces took over the role of the Multilateral Armed Forces.

The Administrative Machinery

The thesis traced the creation and function of the Administrative Machinery in Malaysia in the enforcement of Bretton Woods Agreements relating to the short-term and long-term objectives of the IBRD and IMF in the period 1945-65. The Bretton Woods Agreements were founded on the basis of the United States providing financial loan to enable the Government of Britain "for the early reconversion of the sterling area [for instance, Malaysia] ... by organising world commerce and foreign

exchanges on a multilateral and non-discriminatory basis."⁴ Malaysia's administrative machineries were created and organised on the Bretton Woods Agreements.

The first step to this end saw the British Military Administration (BMA), 1945-1946, introducing and enforcing **The Bretton Woods Agreements, 1945: Proclamation Number 29 of 1945, and Proclamation Number 32: A Proclamation to Provide For the Control and Regulation of Currency and Exchange**, which gave effect to the operations of the IBRD and IMF. The incoming victorious BMA replaced the Japanese military administration and concluded new treaties with Malay Rulers. J. de Ve. Allen observed the creation of the new International Order in Malaya by "The Order in Council under the Foreign Jurisdiction Act"⁵ upon which the BMA imposed a new constitution and forced the Malay Rulers to give away their authority over the then Malay States.⁶ The BMA acquired the Malayan States and centralized them under a unified administration known as the BMA Secretariat.

The regime of the Malayan Union (MU) continued the Development Plans initiated by the IBRD under the "**Foreign Jurisdiction Act.**" The enforcement of the Act gave effect to the formulation of a constitution framework for a unified Administrative machinery known as the MU Secretariat. This Act enabled the Government of the MU to prepare the Development Plan, 1946-56, as the proposal for the Federation to receive finances allocated by the IBRD to the then Malaya. By

virtue of IBRD-finances and strategies the economic and administrative structure of the MU and the Development Plan were transferred to the regimes of the Federation of Malaya and Malaysia that emerged in 1948/1957-1963 and 1963-, respectively.

On the basis of the terms of reference that were made by the IBRD Mission and the British Government in Geneva in 1956, the Mission of the IBRD provided a constitutional framework for the establishment of an independent Government of Malaya that emerged in 1957.⁷

The independent Government of Malaya in 1957 was built on IBRD -finances and policies as part of the Malayanisation Scheme that involved the transfer of offices from British administrators to local personnel. This regime continued under a unified administration known as the Federal Secretariat of the Federation of Malaya until 1963 when Malaysia was formed. Thus, the creation and function of the Administrative machineries of Malaysia for the period 1945-65 is based on the legal, formal, and monetary authority of the Bretton Woods' IBRD. The historical records flies in the face of the political science approach that Malaysia's development strategies were determined by the prevailing regime of the day.

The Economic Development Plans

Earlier studies had misled the legal, formal and monetary authority of the

Bretton Woods' IBRD in the creation and implementation of economic development Plans for Malaysia. Martin Rudner followed a single-line argument of the theory of "authoritative allocation of value" and concluded that Malaysia's Development Plans had begun with the Malayanisation Scheme, (commonly known as the Second Five-Year Plan), 1961-65. He assumed that before 1957 the Federation's economy was "naive and unsophisticated". However, the records are clear that the Malayanisation Scheme was initiated in 1956 as part of the domestication process for the transfer of offices from British- colonial administrators to Malayan personnel for the impending independent government of Malaya the following year.

Martin Rudner's faulty methodology led him to argue that the Federal Development Plans were internally organised for the "spread of modern capital"⁸ as the priority goal of government:

"From the vantage point of the mid-1970s Malayan development plans of a decade or two ago seem remote and almost naïve in their simplicity. Nevertheless the First and the Second Five-Year Plans and their attendant policies pursued between 1956-65 comprised a turning point in modern Malayan economic history: these relatively unsophisticated planning instruments marked the beginnings of a process of Malayanisation of the country's hitherto colonial economy. Malayanisation in this context denoted a national form of modernization. It was characterized by the spread of modern capital resources to new productive and social enterprises; by turning inward of economic policy to concentrate on domestic income, growth, and distribution; and by the emergence of national development as a prior goal of government."⁹

However, Martin Rudner did not realise that the so-called "modern capital" was the

allocation of IBRD- finances that created and enabled the implementation of the Economic Development Plans for Malaysia since 1946. The allocation of IBRD- finances to Malaya in 1946 initiated the proposal for the "Ten-year Development Plan 1946-56."¹⁰ It was this Plan which was the first and the beginning of economic development processes for Malaya in the hands of the IBRD and IMF. The IBRD allocated funds for the implementation of the **Draft Development Plan for Malaya 1950-60**. The Draft Development Plan was based on five interrelated divisions for national development programme. It is pertinent to note that in the Development Plan the first task was the securing of finance that is to determine "who gets what, when and how".

1. A Plan for sources funds for national economic development programme [that is to say, IMF, IBRD, and via the agencies of the Government of Britain, Colonial Development Corporation, Colombo Plan, etc].
2. Development of Trade and Industry;
3. Development of Capital Resources and Utilities: Agriculture, Land, Fisheries, Forestry, Forestry, Mining and Power, Transport and Telecommunications, Industry and the Entrepot Trade;
4. Development of Human Resources: Education, Medical and Health, Social Welfare and other services;
5. The Development of National Security.

The Draft Development Plan, 1950-60 was implemented based on IBRD- policy that key institutions be established: the Central Bank (Bank Negara) and the

building of the Armed Forces Programme for national security. Internationally organised IBRD-finances and revenues funds from internal sources were brought into play for the running of the 546 projects of development that constituted the Draft Development Plan. In 1955, the IBRD Mission examined the progress of the Draft Development Plan and described it as an advanced stage of the Malayan economy:

"Power, transport, communications and other basic facilities are reasonably well developed, there is a substantial nucleus of skills and enterprise; standards of public administration are high, and institutional patterns and habits of commerce and finance are correspondingly advanced. We believe ... it can be accelerated by the governmental measures and policies we recommend."¹¹

The observations of the IBRD Mission refutes Martin Rudner's assumption that the Malayan economy was "naïve and unsophisticated" before 1956. It was the IBRD that provided the funds and drew policies that enabled the Federal Government to continue with the Draft Development Plan for the financial period 1956-61. The Plan was executed on the IBRD -fiscal policy based on Federation's ability to raise loans abroad or locally and generate internal revenue. In other words there is a close relationship between amount of loans raised which can be raised abroad and the value of resources in the country. This became the primary concern in the drafting of estimates of revenue, expenditure and loan requirements for the five- year plan 1956-60. In the same period the IBRD Mission in unity with the Government of Britain formulated the Malayanisation Scheme as an extension of the Draft Development Plan

for Malaya, 1950-60.

The IBRD extended the Draft Development Plan for Malaya into the Malayanisation Scheme, 1961-65 as the thrust of the domestication process for national administration and economy. The IBRD provided strategies and funds for the Malayanisation Scheme as the only solution to then existing economic problems of the independent Federal Government of Malaya that was over-dependent on foreign expatriates for its national administration and tin and rubber as the primary sources of revenue.

The IBRD decided that the policy to invite foreign investments, commonly known as Direct Foreign Investment (FDI), become the objective of the Government in order to enhance desired levels of income.¹² The IBRD designed this policy to bridge the gap between unskilled personnel in development-work and the pace of economic development. The IBRD associated the Malayanisation Plan with the strategy to launch a vigorous policy of training local officers to replace expatriates from the British Government who had been serving in the public offices. Subsequently, the Government acknowledged the implementation of the IBRD policy in the domestication process of the economy: "The Government is . . . pursuing a vigorous policy of training suitable local officers to replace expatriate [British] officers when the latter retire under the Malayanisation Scheme."¹³ Therefore, the

extension of the Draft Development Plan 1950-60 into the Malayanisation Scheme, 1961-65, does not suggest that it was the beginning of economic Development as claimed by Martin Rudner neither were its programmes new in the national economy.¹⁴

It follows that the involvement of the IBRD in the administrative and economic Development Plans for Malaysia explains what Martin Rudner calls, "success story of Malaysian economic development."¹⁵ Economic Development Plans depended largely on external finances that were combined with internal sources of revenue to constitute the Gross National Product (GNP). It is pertinent to note policy measures that were crucial to make this interaction more effective and efficient to realise the goals of national economic development. The allocation of IBRD funds and its strategies for economic development in Malaysia are particularly ingrained in the Industrial Development Programme which was introduced towards the end of the Draft Development Plan, 1950-60.

The Industrial Development Programme

The inflows of foreign capital as a policy or strategy for the economic development of Malaysia, is important because it contributed, and still contributes to the growth of existing factors of production. This strategy was initiated in 1950 on the IBRD-policy that integrated total internal revenues or GDP with external loan funds as GNP of the Federation of Malaya. In other words, the combination of foreign capital (as external revenues) and internal revenues constituted the total government expenditure on both recurrent and development expenditure. The combination of external and internal finances underlaid the process of economic development in Malaysia. This policy was continued by the Federal Government as the New Economic Policy in the implementation of the First Malaysia Plan, 1966-76. It forms the background for the subsequent economic plans.¹⁶ There is compelling evidence to suggest that the success of Malaysia's economic development rested on the implementation of strategies and accumulation of capital from external sources, particularly the strategies and finances provided by the IBRD.

In the period 1961-65, foreign investors were invited and accorded "pioneer industry status" in order to establish industries and factories as a strategy for the

invitation of foreign capital in the country towards economic growth and development. The "pioneer status" as a policy and fiscal incentives were designed by the IBRD Mission in 1956 for FDI. It was subsequently legislated in the period 1958 -65, and has since remained a prominent strategy for FDI in Malaysia. This includes exemption from company profit tax, investment tax allowance, e.g. research and development expenditure and allowances for training, exports, reinvestment and buildings. The foundation of Malaysia's economic development in the period 1946-65, was established on the strategy of foreign capital inflows.

In reference to specific period and financial problems that characterised Malaysia's economy in the period, 1950-65, the Mission of the IBRD designed the strategy to invite foreign investments. This strategy served as an alternative to the serious shortage in revenue due to over dependence on tin and rubber production. It was also designed to solve the problems of shortages in physical capacity e.g. trained personnel in military, civil administration and other developmental work."¹⁷ It is against this background that the IBRD extended the invitation for foreign investments, as a means to enhance desired levels of income (revenue). The IBRD Mission under the Chairmanship of Professor Jacques Rueff provided the strategy for Malaysia to invite foreign investors by establishing industries in order to enhance national sources

of revenue. In a Parliamentary Debate of 18th December 1963, Dr. Lim Swee Aun, the then Minister of Finance, appealed to the House of Representatives to accept the decision of the IBRD Mission to promote industrial development for Malaysia:

"There need no greater proof in the soundness of our credit than the fact that the IBRD has invested in our Industrial Development and Finance Company to finance our Industrialisation Programme."¹⁸

This justified the need for the Government to acquire external capital as had been planned by the IBRD Mission on the premise that capital was limited to the Government, and industrialisation was the only solution to the problem. In short, the "international authority" of the IBRD in deciding strategies for Malaysia's Development Plans has since been underlined by Dr. Lim Swee Aun. In 1963 when the Industrial Development Programme was tabled at the House of Representatives which by political science definition is the instrument for the "authoritative allocation of value", he urged the House to accept the IBRD policy to enhance Malaysia's capital earning capacity. In Bold and Capital letters the historical records of parliament imprints the international hand of the IBRD: