

CHAPTER III

INTER - REGIONAL TRADE

'Inter-regional' trade, in this chapter, refers to the trading relationships between Sabah, Sarawak and Malaya. It should be noted that Sabah and Sarawak form 3 separate customs areas at the moment, although arrangements for a common market are well under way.

The Extent of the Trade:

Trade amongst the three regions forms only a relatively insignificant part of the total external trade of each of the three regions.

The following tables will indicate the extent of the trade that exists between the three regions. They show the proportion of the total trade of each of these regions which is accounted for by trade amongst themselves.

TABLE 3-1[†]

TRADE BETWEEN (i) MALAYA AND SABAH
(ii) MALAYA AND SARAWAK

	1960	(\$ million)			1964	1965
		1961	1962	1963		
Malaya's imports from:						
Sabah	0.05	0.1	0.1	0.1	0.2	0.5
Sarawak	0.1	0.18	0.2	4.6	15.9	n.a.
Malaya's exports to:						
Sabah	0.7	0.8	1.1	4.7	7.8	12.8
Sarawak	1.6	0.8	0.9	3.2	6.4	n.a.

[†]Source: Compiled from - Malaya "External Trade Statistics" (Kuala Lumpur: Government Printer)

¹This does not take into account the Free Ports of Penang (Malaya) and Labuan (Sabah).

TABLE 3-2[†]

TRADE BETWEEN SABAH AND SARAWAK
(\$ MILLION)

	Sarawak: Imports From Sabah	Sarawak: Total Imports (all sources)	Sarawak: Exports to Sabah	Sarawak: Total Exports (all destinations)
1961	2.0	221.8 ^a	0.8	178.0 ^a
1962	3.0	206.1	1.5	177.8
1963	5.1	222.9	2.8	171.1
1964	3.9	270.5	3.0	198.9

When the volume of trade amongst the three regions is compared to their overall total exports and imports, it will be seen that the value of trade amongst themselves constitutes less than 1% of their total external trade. This shows the very limited extent of the inter-regional trade.

In contrast, it would be instructive to consider the principal trading partners of each of these regions. (Sabah's principal trading partners are the United Kingdom, Hong Kong, Japan, the United States, Indonesia, Philippines and Singapore).

These tables reveal that the main suppliers for the import requirements of these three regions are the developed economies like the United Kingdom, the United States and Japan. These three countries are also the main consumers for the exports of these 3 regions. Notable exceptions to this generalisation are the significant imports of rice from Thailand and the import of crude oil from Brunei by Sarawak for refining. Trade with Indonesia, prior to Confrontation, was also quite significant for all three territories.

A significant point to note is the considerable volume of trade which all three regions have with Singapore. This is largely a reflection of Singapore's position as the entrepot centre for South East Asia.

[†]Source: Compiled from Sarawak: "External Trade Statistics" (Kuching: Government Printers).

^a - excluding imports of crude oil from Brunei.

^b - excluding exports of crude oil imported from Brunei.

TABLE 3-3

PRINCIPAL TRADING PARTNERS - SARAWAK (IN MILLION MALAYAN \$)

	1961		1962		1963		1964	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
United Kingdom	44.9	16.8	44.0	10.0	56.0	7.0	61.0	6
U.S.A.	22.0	5	32.0	3.6	40.0	2.9	27.0	3.0
Japan	16.0	105.0	18.0	116.2	26.0	148.0	25.0	129.0
Hong Kong	24.9	9.9	39.0	12.9	50.0	12.0	36.0	13.0
Singapore	10.8	19.0	13.2	13.6	19.0	14.7	36.6	31.4
Indonesia	22.2	1.0	22.0	1.1	24.0	0.8	3.8	0.16
Philippines	12.6	19.6	6.0	32.0	4.0	45.0	6.5	28
Overall Total (including other countries)	214.9	220.3	238.8	234.7	304.7	274.7	302.5	259.3

TABLE 3-4*

PRINCIPAL TRADING PARTNERS - SARAWAK
(in million Malayan \$)

	1 9 6 1		1 9 6 2		1 9 6 3	
	Imports	Exports	Imports	Exports	Imports	Exports
U.K.	64.3	30.2	47.4	51.6	50.8	33.6
U.S.A.	9.4	1.6	10.0	3.5	13.6	3.2
Japan	13.8	73.7	14.1	51.8	15.9	55.6
Hong Kong	15.2	77.6	10.4	14.2	11.5	14.3
Indonesia	9.4	12.6	11.4	21.5	6.5	10.2
Singapore	27.1	155.3	27.5	138.3	32.0	143.6
Thailand	15.2	0.01	15.2	0.003	13.4	0.01
Brunei	191.4	4.1	195.4	3.8	174.4	4.7

TABLE 3-5**

PRINCIPAL TRADING PARTNERS - MALAYA
(\$ million)

	1 9 6 1		1 9 6 2		1 9 6 3	
	Imports	Exports	Imports	Exports	Imports	Exports
U.K.	502.8	315.1	533.6	245.7	534.1	223.5
U.S.A.	112.1	333.6	144.0	382.5	133.0	390.0
Japan	182.0	382.4	214.2	363.9	252.5	396.6
Australia	95.6	28.8	114.7	46.7	130.4	47.0
Hong Kong	84.4	6.7	84.7	6.5	84.6	10.0
Germany	83.1	163.9	83.7	108.9	94.8	116.6
Thailand	248.3	23.5	240.9	24.2	240.0	23.5
Indonesia	249.5	38.7	293.5	26.4	212.5	6.0
Singapore	205.2	522.7	242.5	521.1	235.9	540.9

* Source: Compiled from Sarawak: "External Trade Statistics" (Kuchings Government Printers).

** Source: Compiled from - Malaya: "External Trade Statistics" (Kuala Lumpur: Government Printers)

These prevailing trade patterns are a reflection of the structures of the economies of the three regions. The broad similarity in their economic structure means that the scope for reaping mutual advantage through mutual trading is limited. A study of the main exports of each region and in juxtaposition with this, their main import requirements, will substantiate this point.

TABLE 3-6

MAIN IMPORTS 1963⁺

(\$ million)

Sabah

Rice	14
Tobacco	51
Oil, seeds, nut kernels	7
Petroleum products	20
Clothing	8
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Total imports (all sources)	304
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Sarawak

Food items	54
Rice	22
Manufactured goods	49
Machinery & Transport	39
Tobacco	7
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Total imports (all sources)	396.5
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⁺Source Statistics of External Trade, Sabah.

Statistics of External Trade, Sarawak.

Statistics of External Trade, Malaya
(Government Printers, 1963)

Malaya

(\$ million)

Food	656
Manufactured Goods	993
Machinery & Transport	511
Crude materials, inedible	292
Chemicals	168
Total imports (all sources)	2,354

TABLE 3-7

MAIN EXPORTS:

Sabah:	1960	1961	1962	1963	1964
Rubber	49.5	41.2	36.7	32.0	32.2
Timber	90.2	102.7	122.1	150.6	148.5
Tobacco	5.3	3.6	2.2	0.78	-
Hemp	5.1	4.8	3.2	3.7	4.5
Copra	40.2	27.0	18.4	17.5	15.9

Sarawak:	1961	1962	1963	1964
Rubber	83.2	72.5	69	60.1
Timber	42	40	53	62
Pepper	28	23	22	16.2
Bauxite	5.5	4.0	3	3.0
Sago	3.2	4.1	5	8.0
Petroleum ⁺	-	-	2.3	-

⁺Excluding re-exports of crude oil refined at Miri.

States of Malaya:	1961	1962	1963	1964
Rubber	1,442.4	1,367.6	1,373.9	1,303.4
Tin	553.1	620.3	642.4	728.3
Coconut oil	27.7	22.1	22.0	12.0
Palm oil	61.2	65.1	69.0	80.6
Timber	41.5	47.6	64.6	86.5
Canned pineapple	26.2	28.0	29.4	33.1
Other items	310.2	308.8	327.0	374.5
Iron ore	163.8	166.2	176.3	152.5
Total Exports	2,626.1	2,625.7	2,704.6	2,780.9

Having noted the scope and extent of the trade it will be now necessary to consider in detail the trade that at present exists amongst these three regions. However, a few words must be said about the statistical data that has been quoted. These statistics are obtained from the Annual Bulletins on External Trade for the three regions. There is a lack of uniformity in the types of clarification given in the Bulletins of the different regions.

Another difficulty is the discrepancies that exist between the data supplied by the Bulletins for the different regions. For example, it appears that in theory the exports of day Sarawak to Sabah should be equivalent to Sabah's imports from Sarawak for the same period. But this does not turn out to be so, and there are many such discrepancies. Studies are at present being conducted in the Statistics Department which attempt to trace the cause of this wide discrepancies. Some of the reasons could be the following:

(i) It is believed that not all exports from the states of Malaya directed to Sabah and Sarawak actually reach their final destination.

(ii) Exports are computed on the F.O.B. basis while imports are recorded according to C.I.F. valuation.

(iii) Some of the exports directed via Singapore and held back in Singapore without reaching their final destination.

(iv) The time-lag between the date of export and the date on which the imports arrive.

In order to avoid the complications posed by these discrepancies, it is proposed that we assume away these discrepancies. This involves some sacrifice of accuracy but is not of a sufficient extent as to impair the validity of the observations made on the pattern and trends of trade amongst the three regions.

Malaya - Sabah:

Malaya's imports from Sabah (or conversely Sabah's exports to Malaya) is still an insignificant trickle. At its highest level so far in 1965, it was valued at slightly more than \$0.5 million.

However there has been a steady increase in the flow between 1960 to 1965. Malaya's imports from Sabah showed a 100% increase between 1960 and 1961 and also between 1964 and 1965. This trend of a steady increase is true only for a few items; for many items the values are very insignificant and the annual totals fluctuate. The items which have shown a steady increase are food products like fresh fish, spices and food preparations. There was a marked increase in the imports of oil seeds from \$6,048 in 1963 to \$364,000 in 1965. This is probably connected with the increase in the area of land being brought under oil palm cultivation in Malaya.

Thus Malaya's imports from Sabah (or conversely Sabah's exports to Malaya) is still an insignificant trickle (valued at \$578,484 at highest level so far in 1965) although there has been a steady increase in Malaya's imports from Sabah.

However the rise in Malaya's exports to Sabah (or conversely Sabah's imports from Malaya) has been of greater magnitude. It has shown a steady increase from \$796,197 in 1960 to \$1,118,876 in 1962. There was a sharp increase in 1963 to \$4,706,294 and thereafter to \$7,803,712 in 1964 and \$12,867,590 in 1965. Thus the value of Malaya's exports in 1965 is almost 20 times the value of her imports from Sabah.

Exports of food products like, Rice, Milk and Cream and Margarine have shown a steady increase since 1962. There was a 4-fold increase in value of exports to \$191,038 over the 1962 figure and a 6-fold increase in 1965 over the 1964 figure to \$683,691.

There was also a marked increase in petroleum produce in 1964 and 1965 - in 1963 the exports were valued at \$427 while

in 1964 the figure had jumped up to \$1,363,234. This increase is probably connected with the establishment of Petroleum refineries in Port Dickson.

Exports of Chemical products, soap, paints and perfumes have shown the ^{most} significant increase and at present constitutes the most important single group of items in Malaya's exports to Sabah. The increase in exports in this group shows a significant rise in 1963 to \$1,596,278 as compared to \$164,241 in 1962. There has been a steady rise to \$2,531,110 in 1964 and to \$3,149,005 in 1965.

Exports of various manufactured articles especially Rubber Manufactures, a similar trend of increase after 1962 and exports in this group stands at \$1.3 million in 1965 as compared to \$0.12 million in 1962. The most significant item within this group is Rubber Manufactures, \$1.1 million worth of which was exported in 1965.

There has also been similar increases in exports of Machinery and transport equipment to Sabah and 1965 exports were valued at \$2.8 million. Within this group are items like power-generators, heating and cooling equipment and motor vehicles.

Furniture and Footwear were the main items responsible for the steady rise in the exports of miscellaneous manufactures which was valued at \$1.1 million in 1965.

The following points will thus be noted about Malaya's trade with Sabah:

1. The volume of exports to Sabah is of far greater magnitude than Malaya's imports from Sabah. In fact in 1965 it was 20 times greater. Apart from oil seeds, fresh fish and spices imports of other products are almost negligible.
2. A proportion of the two-way trade consists of re-exports since it includes items like Machinery, Transport equipment, Iron and Steel products which are net of domestic production.
3. There is a common pattern of increases in the volume of trade from 1963 onwards. But these increases are not of a very great magnitude and it is difficult to ascribe any one factor as responsible for it. The fact of political unification could be one of the factors responsible for this trade increase.
4. Malaya's imports from Sabah are negligible but it is noteworthy that a major part of the increase in her exports to Sabah have been mainly due to items like Soap, Paints, Rubber Manufactures and Footwear. These

are items which are among the range of products which Malaya's new manufacturing plants are turning out.

Malaya - Sarawak

Apart from the imports of petroleum, Malaya's imports from Sarawak are not at all significant. Petroleum imports began to feature only after 1962, being valued at \$4.4 million in 1963 and has increased to \$17.1 million in 1965.

If imports of petroleum are excluded then Malaya's total imports from Sarawak up to 1964 have not exceeded \$1 million in value. There has been a steady increase but the value of trade as such is negligible. The relatively significant items are only Spices, Coffee, Crude, Rubber and oil seeds.

Malaya's exports to Sarawak showed very marked increases from 1963 onwards. It stood at \$0.9 million in 1962 and increased as follows:

1963	-	\$ 3.2 million
1964	-	\$ 6.4 million
1965	-	\$15.5 million

The most important single group of items are food products exports of which jumped up to \$5.4 million in 1965 from \$0.5 in 1964. Four point four million dollars worth of Rice was exported in 1965 as against only \$0.04 million in 1963. Fresh Fish, Sugar and Confection, and Margarine are the other products which have shown significant increases.

Petroleum products showed a sudden increase from \$1,500 in 1963 to \$0.7 million in 1964 and \$1.6 million in 1965.

As in the case of Sabah, there was an increase in both the number of items and the value for the goods classified under Chemicals. Soap and Paints were the two main items within this group. Exports of paints increased from \$0.02 million in 1962 to \$0.7 in 1965 while exports of Soap increased from \$0.16 million in 1962 to \$1.7 in 1965.

There were also a significant increase in exports of footwear which increased from \$23,000 in 1963 to \$196,000 in 1965.

Exports of Rubber Fabricated articles, Rubber Manufactured articles and paper products also showed some increase.

Exports of non-domestically produced products like generators and motor-vehicles were valued at around \$1 million between 1963 and 1965. These items are obviously items which have been re-exported.

Thus the trade between Malaya and Sarawak conforms closely to the pattern of the trade between Malaya and Sabah i.e.:

(i) The volume of exports from Malaya to Sarawak is at much greater magnitude than the import of goods from Sarawak (i.e. excluding imports of petroleum).

(ii) The presence of non-domestically produced products in the two-way flow of goods.

(iii) The steady increase in the value of the trade from 1963 onwards.

(iv) The increase in the exports of Soap, Paints, and Footwear - goods which are within the range of Malayan Manufactures.

Sabah - Sarawak:

The trade between the two Borneo territories is also of a relatively limited extent. Although a Borneo Free Trade area has existed since 1962, the volume of trade is not really significant.

Sabah's exports to Sarawak (or conversely Sarawak's imports from Sabah) have shown a slow increase from 1961 to 1963:-

The value of imports were:	1961	-	\$2.08 million
	1962	-	\$3.03 million
	1963	-	\$5.19 million

In 1964 the figure fell to \$3.9 million.

A large proportion of these imports consists of goods re-exported from Sarawak. This is borne out by the fact that \$2.4 million in 1963 and \$1.5 million in 1964 of the exports consisted of Machinery and Transport equipment which are not produced in Sarawak.

The only other items totalling more than \$0.5 million are imports of Food and Fuels.

Sabah's imports from Sarawak (or conversely Sarawak's exports to Sabah) are of even a more limited extent. There has been a slow increase from \$0.8 million in 1961 as follows:

1962	-	\$1.5
1963	-	\$2.8
1964	-	\$3.0

The bulk of these imports is made up of imports of items classified under S.I.T.C. 2 - oil seeds, oil nuts, and copra. One point three million dollars in 1962, \$2.6 million in 1963 and \$2.5 million in 1965 of the total imports from Sarawak consist of items within this group. The only other significant group of items is Fuels and Lubricants which amounted to \$0.2 million in 1964. All the other items are insignificant and do not exceed \$0.05 in value.

Prospects for Inter-Regional Trade

From the above descriptions it will emerge that the present trade amongst the three regions is comparatively insignificant although there has been a steady increase in the value of trade after 1963, the date of the formation of Malaysia. The formation of the Malaysian Common Market will give added impetus to the increase in inter-regional trade. Steps towards the formation of a single customs area are already well under way. So far five lists of goods have been announced for possible inclusion as common market goods and quantitative restrictions have been temporarily imposed on them to prevent speculative imports.⁺

The formation of a single customs area, allowing for free circulation of goods amongst the three regions, will affect the inter-regional trade in two main ways.

(i) The Common Market so created would mean a Market 52% larger than the present market of the states of Malaya and 11 times larger than the Borneo Free Trade area. As previously noted, a good part of the existing inter-regional trade consists of commodities like fish, sugar, fruits and vegetables. This expanded market would thus provide greater opportunities for local producers of all these commodities which are consumed in significant quantities in Malaysia. In other words the Agricultural sector could grow greatly under the shelter of a common external tariff wall and a significant savings could be made from the expenditure of much-wanted foreign exchange on imports of food commodities. The growth of this domestic sector would result in greater inter-regional trade in these goods.

(ii) The common external tariff would be aimed primarily at the promotion of manufacturing industries in Malaysia in order to diversify the economy as well as to effect much need import substitution production. The common market would provide a greatly enlarged economic base for Malaysia's infant industries. It would thus result in a significant increase in the inter-regional trade and would initially comprise of a flow of eight manufactures from Malaya to the Borneo territories, since

⁺See Chapter IV.

Malaya has a head start in industrial development. This need not necessarily be to the detriment of the Borneo territories since the relative advantage which Malaya enjoys initially can be counter-balanced by redistributive transfer of funds from Malaya to boost the development in the Borneo territories.

On the 9th of October, more than 160 items of goods manufactured in Malaysia were allowed duty free movement within the country.⁺

So far only 6% of the Malayan GNP is derived from the manufacturing sector while in Sabah and Sarawak it is 2% and 21% respectively. In Malaya 22% of the manufacturing consists of primary processing, 42% consist of the manufacture of food and other products using local raw material and 36% consists of the more capital intensive industries which are to make up an industrial complex as is understood in the developed countries. The scope for import substitution is substantial² particularly in chemical products, manufactured food products, textiles, manufactured tobacco and machinery and transport equipment.

The growth of the import substitution manufacture will inevitably be reflected in an increase in the inter-regional trade in manufactured commodities. Thus the expansion of inter-regional trade is a concomitant of the establishment of the Malaysian Common Market and has a vital role to play in the overall economic development of Malaysia.

²Report on the economic aspects of Malaysia.

⁺See Federal Government Gazette, 9th October, 1965: