

TABLE 1

THE I.M.F. STANDARD FORM FOR PRESENTATION OF
BALANCE OF PAYMENTS ACCOUNTS

A. CURRENT TRANSACTION

1. Merchandise (1.1. & 1.2.)
 - 1.1 Exports and Imports (f.o.b.)
 - 1.2 Other
2. Non-Monetary Gold Movement (Net)
3. Foreign Travel
4. Transport
5. Insurance
6. Investment Income (6.1 through 6.3)
 - 6.1 Direct Investment
 - 6.2 Other Interest
 - 6.3 Other Equity
7. Government (not included elsewhere)
8. Miscellaneous
- Total Goods and Services (1 through 8)
9. Donations (9.1 through 9.4)
 - 9.1 Personal and Institutional Remittances
 - 9.2 Other Private Transfers
 - 9.3 Reparation
 - 9.4 Official Grants
10. Total Current Transaction (1 through 9)

Errors and Omission

B. CAPITAL ACCOUNT

Private (Excluding Banking Institutions)

11. Long-Term Capital (11.1 through 11.6)

- 11.1 Direct Investment
- 11.2 Portfolio Securities, Bonds
- 11.3 Portfolio Securities, Shares
- 11.4 Amortisation
- 11.5 Other Contractual Repayments
- 11.6 Other

Official and Banking Institutions

12. Long-Term Capital (12.1 through 12.6)

- 12.1 Official Loans
- 12.2 Bank Loans
- 12.3 Portfolio Securities
- 12.4 Amortisation
- 12.5 Other Contractual Payments
- 12.6 Other

13. Short-Term Capital (13.1 through 13.4)

- 13.1 Payments and Clearing Agreements
- 13.2 Liabilities to I.M.F. and I.B.R.D.
- 13.3 Other Liabilities to Official and Banking Institutions
- 13.4 Other

14. Monetary Gold

Total Movements of Capital and Monetary Gold (11 through 14)

Source: I.M.F. Balance of Payments Manual.

The Malaysian Standard Schedule

The classification which we shall use in this exercise is the Malaysian classification used by the Department of Statistics Malaysia. This classification is essentially the same as the I.M.F. Standard Form above but has been adapted to suit Malaysian conditions.

This particular classification has been adopted for the simple reason that most of our data was obtained from the Department of Statistics Malaysia which adheres to this classification. To use the I.M.F. classification would mean that we have to make changes to fit the data into the I.M.F. Standard Form. This must necessarily entail a lot of unnecessary work.

Below is a reproduction of the Malaysian Form for the presentation of the Balance of Payments Accounts.

TABLE 2

THE MALAYSIAN FORM FOR PRESENTATION OF
BALANCE OF PAYMENTS ACCOUNTS

A. CURRENT ACCOUNT

1. Merchandise Trade (f.o.b.)
2. Non-Monetary Gold
3. Official Grants Received
4. Other Invisibles
 - 4.1 Freight and Insurance
 - 4.2 Other Transportation
 - 4.3 Travel
 - 4.4 Investment Income
 - 4.5 Government Transaction NIE
 - 4.6 Other Services
 - 4.7 Private Transfers
 - 4.8 Government Transfers
5. Balance on Current Account

B. CAPITAL ACCOUNT

6. Balance on Long-Term Capital Account
 - 6.1 Private Long-Term Capital (Net)
 - 6.2 Central and Local Government Issues Abroad
 - 6.3 Official Capital (Net)
 - 6.4 IBRD, IDA, and IFC
 - 6.5 Other Official Long-Term Capital

6. Balance on Current and Long-Term Capital Account
 7. Balance on Monetary Movements (excl. Short-Term Capital)
 - 7.1 Changes in Gold and Foreign Exchange Holdings of Central Government, Government Agencies and Public Authorities.
 - 7.2 Changes in Gold and Foreign Exchange Holdings of Monetary Authorities (Net)
 - 7.3 Changes in Foreign Exchange Holdings of Commercial Banks (incl. Banks' Borrowings) Net
 - 7.4 Changes in Account with I.M.F.
 - 7.5 Changes in Non-Residents' Holdings of Malayan Currency (excl. I.M.F.)
 - 7.6 Changes in Monetary and other Short-Term Capital
 - 7.7 Errors and Omission
-

Source: An Annual Summary of Malaysia's Balance of Payments Estimates 1961 to 1965 - Department of Statistics, Malaysia, Kuala Lumpur.

3. Purpose of the Balance of Payments

The balance of payments, as defined by the I.M.F. provides a record of a country's economic transaction with other countries. It gives, in a brief compass, an overall transaction of any given country in the international economy over a specified period of time, usually a year. In the hands of a trained observer, the balance of payments can be used to analyse a country's economic position. "By studying these summaries or record, one can obtain a glimpse of the organic character of the whole subject matter of international economics"⁸.

The different categories of transaction ranging from merchandise trade to financial payments and receipts are expressed in a single value figures and by studying the different value figures that are being ascribed to different classes of transaction, noting how they are related to the other classes, and how each or the total of these separate classes behave through time, the informed observer can draw useful conclusions concerning the country's economic position.

⁸Enke and Salera, op.cit. p. 71

Another major purpose of keeping these records is to inform the governmental authorities of the international position of the country to aid them in reaching decisions on monetary and fiscal policy on the one hand, and trade and payments on the other.⁹

The distinction between the monetary and fiscal policy, and trade and payments emphasise the two fold division of the balance of payments. "In its origin, it was essentially directed, as an accounting device, to provide information appropriate to foreign exchange budget"¹⁰ The authorities -- officials of the central bank, national treasury, and of the stabilization fund -- wanted to be assured that the country could go on buying foreign goods from foreign residents and meeting payments to foreign residents as they become due. (In a subsequent chapter, the writer shall discuss the monetary system of Malaysia in relation to the balance of payments). Recently the balance of payments has been directed to explaining the influence of foreign transaction on national income.

The balance of payments can also be used for the purpose of showing, especially in the case of young and relatively underdeveloped countries, important aspects of the way in which its development is linked financially with the capital supplying countries. Or take the case of an old country which has far flung foreign investment; although many of its citizens may be familiar with the fact that the country's earnings on foreign investment are important source of income, the balance of payments conveniently summarises the situation in quantitative terms. A statement of the country's international accounts in this case "...can show the extent to which its citizens are living off the past exports, or the balance of payments may be used to reveal how some countries live off tourists, shipping services and so on."¹¹

The most important purpose of the balance of payments is, perhaps, its role in the study of the changing international economics of a given country. This is especially so in the case of Malaysia whose economy is very much dependent on external economic events. "The balance of payments as a set of relations, is an economic barometer

⁹Kindleberger, op. cit. p. 16

¹⁰ibid., p. 16

¹¹Enke and Salera, op. cit. p.72

which, in the hands of persons trained in the art of economic analysis, can be used to appraise a nations short-term international economic prospects, to elevate the degree of the international solvency and determine the appropriateness of its exchange rate or the value of its monetary asset¹²

The balance of payments is also made to serve a host of other purposes of varying degree of importance. Like any accounting devise its purpose is informational and its detailed compilation may be changed in any direction, for any particular purpose, so long as the method of keeping the record is clear and consistent. For national income purposes, it is important to get more frequent information. In connexion with foreign exchange problems, it is often significant to know the separate balance of payments of a country with particular country, group of countries, or currency area. In consequence, a great many countries and some international bodies are constructing balances of payments in area and currency terms. But at the other extreme the balance of payments is used to gather detailed information and make it available to those who have an interest in it. The accounts must show, therefore, as much details as is feasible, of the transaction of a country's shipping, tourist trade, interest and dividends as well as the breakdown of merchandise trade and financial transaction.

The balance of payments is therefore an important tool of economic analysis which is becoming increasingly useful to governmental authorities and policy makers.

Scope of Study

It has been originally intended that the analysis in this exercise would cover a period of ten years from 1956 to 1965 and that the analysis would be confined to the States of Malaya only. However, because no separate data is available for the States of Malaya after the formation of Malaysia, the writer must be contented to restrict the analysis to five years from 1961 to 1965. The Department of Statistics had made an estimate of the balance of payments of Malaysia since 1961 (though Malaysia came into being only in 1963). With the separation of Singapore last year adjustments had to be made to exclude Singapore from the whole analysis. This has been done to ensure maximum comparability and consistency of the analysis.

¹²ibid. p. 72

The term "Malaysia" in this exercise therefore is used to mean the States of Malaya, Sabah and Sarawak. The data for 1961 to 1963 are mere aggregates of these three territories while for 1963 onwards they were collected as an integrate whole. No attempt, however, is made to distinguish between pre-1963 Malaysia and post-1963 Malaysia. For the purpose of this analysis "Malaysia" was in existence since 1961.

The first chapter of this exercise is confined primarily to defining various terms used in the balance of payments. This is done to provide a groundwork for the analysis proper which is done in Chapter II.

Chapter III is confined mainly to the discussion of the problems of Malaysian balance of payments and ways which at least contain this problem. It is, perhaps, relevent to discuss in this chapter import substitution process and progress in the field of manufacturing for export. Also discussed in this chapter is the question of capital inflow.

In Chapter IV the monetary system and the foreign exchange reserves are discussed in relation to the balance of payments.

Finally before concluding, some light is thrown on the prospects of balance of payments in the short-run as well as in the longer-run.