CHAPTER III

STRUCTURE OF CUSTOMS DUTIES

Introduction

Rates of import and export duties for the various components of Malaysia are detailed in the "Trade Classification and Customs Tariffs".[1] A noticeable feature is that for almost all the products there are different rates for Malaya, Sabah and Sarawak. Consequently, it would be futile if we attempted to give the different rates. Our interest lies mainly with rubber and tin - our principal exports. In Malaysia import and export duties are collected from the importers and exporters respectively. A number of countries[2] are accorded preferential rates of import duty as members of "Commonwealth of Nations". Not all but only specific categories of goods are entitled to such preferential rates if they are grown or produced or manufactured in and consigned direct from any one of the Commonwealth countries. In addition to the list of countries given in the above publication, the following have also been included:

1) Uganda - effective from 26.3.1964

2) Kenya - effective from 15.4.1964

3) Sabah, Sarawak and Singapore - effective from 4.6.1964.

Export Duties

(1) Rubber

The rate of export duty on rubber is on an ad valorem basis[3] and on a sliding scale. The collections of revenue therefore vary with the export prices of rubber. Such a basis of taxation not only means a higher yield when value is high but also attracts a higher percentage of duty. The Schedule I duty on rubber is as follows:

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[1] Trade Classification and Customs Tariffs 1964, Government Printer.

[2] Ibid., p. 10.

[3] That is calculated as a percentage of the price of rubber.

Price of Rubber Exports	Rate of Duty
1. When the price of rubber does not exceed 60¢ per lb.	4%
2. When the price of rubber exceeds 60¢ per lb. but does not exceed 80¢ per lb	0.18625P - 8.775
3. When the price of rubber exceeds 80¢ but does not exceed 100¢ per lb.	0.4P - 27.750
4. When the price of rubber is above $1.00 per lb.	$.25X^2 + 3.375x + 14.250$

Source: Trade Classification and Customs Tariff 1964, op. cit., Appendix A, p. 192.

P = price of rubber

$X = \frac{\text{price} - 100}{10}$

The rates of export duty on rubber for all prices below 60¢ is 4 %. This appears unfair especially in view of the fact that rubber prices may well fall below 60¢ in the next few years. Therefore a solution would be to extend the above graduated system even for prices below 60¢ tapering of at a minimum price lower than the present one of 60¢ per lb.

Table 3.2 shows receipts from rubber export duty. It points out a general increase in rubber export duty from 1958-1960, and a decline from 1961. Except for 1965, every year since 1960 has shown a decline in receipts as compared to the previous year. Column (3) gives the percentage significance of rubber export duty in total export revenue. Furthermore, it exhibits a tendency to increase followed by a rapid decline. By 1966, the importance of rubber duty in export duties is expected to be reduced to half that of in 1958. While before 1962, rubber export duty accounted for over 50% and sometimes even 80% of export duties, in recent years it accounts for just over 30%. This general trend of declining importance set in at 1960 and from that year the significance of rubber as a major component of export duty revenue has been subjected to drastic declines. And there is every reason to suggest that if this trend continues, and it may well continue, the percentage significance may well drop to 20%.

TABLE 3.2

RUBBER DUTY AND TOTAL EXPORT DUTIES

Year	Rubber Duty Schedule I (1)	Total Export Duties (2)	Export Duty on Rubber as Percentage of Export Duties (3)
1958	90,551,545	136,557,394	66.31%
1959	184,357,545	227,126,792	81.16%
1960	196,089,075	259,969,404	75.45%
1961	118,116,168	191,963,392	61.53%
1962	93,028,953	177,313,708	52.46%
1963	82,656,606	181,714,499	45.43%
1964	75,774,714	200,000,881	37.89%
1965	82,000,000	228,000,000	35.96%
1966	61,000,000	181,000,000	33.70%

Source: Financial Statements, op. cit., 1958-1964, Estimates of Federal Revenue and Expenditure, op. cit., 1965 and 1966.

TABLE 3.3

RUBBER, PRICES, EXPORTS AND REVENUE

Year	Average Price Per Lb. ¢ (1)	Rubber Exports (Tons) (2)	Revenue from Rubber Duty (3)
1958	80.21	690,172	$ 90.5 m.
1959	101.56	782,875	$184.3 m.
1960	108.08	766,797	$196.0 m.
1961	83.54	790,562	$118.1 m.
1962	78.20	791,016	$ 93.0 m.
1963	72.42	841,483	$ 82.6 m.
1964	68.14	847,304	$ 75.7 m.
1965	70.02	886,915	$ 82.0 m.

Source: Same as Table 2.6. For Prices of Rubber - the Rubber Producer's Council, Federation of Malaya Annual Reports, 1959-1965. For Export Figures, Monthly Statistical Bulletin of the States of Malaya, April 1966, Dept. of Statistics.

Considering the relative influence of rubber prices (column (1) Table 3.3) and quality of rubber exports (column (2) on the revenue from rubber duty (column (3) it becomes evident that what influences receipts from rubber duty is price rather than quantity. For example while exports have increased by 200,000 tons since 1958, the revenue from rubber duty in 1965 is expected to be lower than the 1958 figure. We are not suggesting that quantity changes do not play any role. What is true in fact is that price fluctuations is the main cause of fluctuations in rubber export duty revenue. Consequently the main reason for the decline in importance of revenue from rubber duty is a fall in rubber prices. In 1958, when prices averaged about 80¢ the revenue collected was $90.5 m. When in 1959, the price rose by 21¢, the additional revenue amounted to $94 m. And a further rise in price of slightly less than 7¢ brought in a larger amount which showed an increase of nearly $12 m. over the 1959 figure. In 1961, the rubber price dropped to 83.54¢ which brought in $115 m., a reduction of $78 m. from the 1960 figure. Further price drops reduced export duty from rubber and in 1964, when the price of rubber was 68.14¢, the rubber export duty collected was slightly more than $75.5 m. However, in 1965 the rubber price went up nearly by 2¢ to 70.02¢. This small increase in rubber price is expected to bring in an additional $6.3 million. There exists then a correlation between price changes and receipts from rubber export duty. Minor changes in price affect the revenue collections from rubber export duty to a very large extent, and in the same direction. The First Malaysia Plan takes this phenomenon into consideration. In fact it states that "on an average, a one-cent fall in the world rubber price will cost Malaysia $25 m. a year in export receipts".[4]

Another feature to be noticed is that between 1958 and 1962 any change in revenue from rubber exports was immediately reflected on the total export receipts.[5] But since 1963, when its contribution to total export duties fell below 50%, changes in rubber exports duties do not seem to have had any strong impact on total revenue from export duties. In 1963, for example, when rubber duty fell to $82 m. from $93 m. in 1962, export duties rose by more than $4 million. Similarly in 1964, when rubber export duties fell by $7 m. total export duties receipts rose by $18 m. from $181.7 m. to $200.0 m. in 1964. The 1965 and 1966 figures seem to suggest that rubber export duty is still exerting determinate influence on total export duties. But rubber export duty has lost its importance in the final determination of export duties receipts. This increase in revenue from export duties (column (2) Table 3.2) will be due more to a rise in the export price of tin and price rises in some other export product of Malaysia. In brief then, price of rubber has been declining, and consequently the

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[4] First Malaysia Plan 1966-1970, Government Printer 1965, p. 43. A one-cent fall in price of rubber will reduce receipts from export duty on rubber by about $3 m.

[5] See column (1) and column (2) in Table 3.2.

revenue from export duty on rubber has also exhibited a similar decline. These two factors have contributed to rubber's loss of importance in export duties.

(2) **Tin**

The export duty on tin, like on rubber, is on an ad valorem basis fixed on a sliding scale i.e. increasing as the price of tin rises. There is a complex formula by which duty on tin is determined. The formula may be stated in a tabular form.

TABLE 3.4

EXPORT DUTY ON TIN

Price of Tin	Rate of Export Duty
1. When the price of tin does not exceed $388.37\frac{1}{2}$¢ per pikul	2.40 + .31 (P - 41)
2. When the price of tin exceeds $388.37\frac{1}{2}$¢ but does not exceed $400 per pikul	44.04 + .31 (P - 400)
3. When the price of tin exceeds $400 per pikul	47.76 + .12 (P - 400)
4. Additional duty on all tin-ore exported	70¢ per pikul

Source: As in Table 3.1, Appendix B, p. 193.

P = price of tin.

The rate of tin duty does not seem to need any extension of the present structure below the $388.37\frac{1}{2}$¢ limit. The level of tin price for the period under review and its trend as been such as to give one confidence that tin price is very unlikely to fall to such low levels that recuires review and change. The price of tin, however, has shown large scale increases in recent years. As such, the possibility of extending the graduated tax system to higher levels than $400 should be investigated and appropriate changes made thereof.

Table 3.5 shows both the absolute and percentage contribution of tin export duty. The most prominent feature of column (1) is a general increase from 1958 to 1965. The 1965 tin export duty would be about 4 times that of 1958. Therefore unlike rubber, tin exports receipts have been showing an increasing trend throughout the period of

TABLE 3.5

TIN DUTY AND TOTAL EXPORT DUTIES

Year	Tin Export Duty Receipts $ (1)	Total Export Duties $ (2)	Col. (1) as % of Col. (2) (3)
1958	29,955,774	136,557,394	21.93%
1959	35,615,855	227,126,792	15.69%
1960	54,805,265	259,869,404	21.08%
1961	65,444,296	191,963,392	34.09%
1962	66,900,193	177,313,708	37.72%
1963	71,265,482	181,714,499	39.21%
1964	95,984,819	200,010,881	47.98%
1965	112,200,000	228,000,000	49.21%
1966	87,300,000	181,000,000	48.23%

Source: Same as Table 2.6.

our analysis. The most significant jumps have been in 1961 and 1964.

Here again the reason for such a trend is to be found in the rising price of tin. Since 1960, the quantity of tin exported seems to have averaged between 75,000-85,000 tons, and there has been no appreciable increase in the quantity exported. However, revenue from tin duty seems to have increased steadily from even before 1960 (column (3) Table 3.6). At the same time the price of tin has shown a steady increase and at present is above $700 per pikul. The most glaring example of the influence of price on tin export duty receipts was in 1964. In that year, a big jump upward in the price of tin yielded a sharp rise in tin export duty proceeds.

The impact of tin export duty on total export duties is indicated in Table 3.5 columns (2) and (3). The impact of tin export duty was not very evident before 1963. In fact it is not possible to establish any correlation between changes in tin export duty proceeds and total export duties collection. As late as 1962 when the duty collected from tin was increasing, total export duties for that year declined. Since 1963, however, there has come to exist a direct relationship between tin export duty receipts and total export duties proceeds. The 1966 tin export duty proceeds are expected to fall, and similarly the estimates indicate an expected fall in the revenue from export duties. This implies to a certain extent that tin exports have

TABLE 3.6

TIN PRICES, EXPORTS AND REVENUE

Year	Average Price Per Pikul : (1)	Tin Exports (Tons) (2)	Revenue from Tin Duty (3)
1958	369.35	44,843	$ 29.9 m.
1959	396.94	44,847	$ 35.6 m.
1960	395.68	76,606	$ 54.8 m.
1961	446.85	74,615	$ 65.4 m.
1962	447.79	81,896	$ 66.9 m.
1963	455.40	95,102	$ 71.2 m.
1964	619.42	71,663	$ 95.8 m.
1965	702.80	73,889	$112.2 m.

Source: Column (1) Monthly Statistical Bulletin, op. cit., April 1966, Table 2.7, p. 58.

Column (2) Ibid., p. 53, Table 1.1.

Column (3) Financial Statements, op. cit., 1958-1964, Estimates of Federal Revenue and Expenditure, op. cit.

come to influence much more the total export duties than before. This is clear from Table 3.5 column (3). In fact by 1964 it was double that of 1958. When in 1958 it contributed nearly 1/5 of total export duties receipts, it is now contributing a little less than ½ of the total export duty proceeds. In 1959, tin share, in percentage terms dropped to 15.69%. In absolute terms, however, it showed an increase over the 1958 figure.[6] This situation of increasing absolute amount reflecting a lower percentage is explained by the massive increase in rubber export duty proceeds in 1959[7]. In general terms, while rubber's share has shown a decline in recent years, tin's share has increased. This increase, however, is insufficient to compensate for the decline of receipts from export duty on rubber. What is not often realised is that, comparing Table 3.2 and Table 3.5, in 1964 tin contributed more than rubber both in absolute and percentage terms in total export duties.

[6] See column (1) Table 3.5.

[7] See column (1) Table 3.2.

This shift in the significance of these two commodities is expected to have continued in 1965 and probably will continue in 1966. Till now we have taken advantage of tin exports to obtain adequate tax revenue. There is however, a limit to which tin export duty proceeds can increase. Since it is an exhaustible asset, its contribution would sometime in the future inevitably decline.

Other Items

The other major items are iron-ore and timber. In the case of iron-ore export duties were in the region of $20 million. While discussing the problems facing the iron-industry, the Finance Minister pointed out that though a number of mines pay a lower rate than 15% ad valorem - export duty normally imposed - the tax burden on the industry needs adjustment.[8] Probably we might witness a lowering of the present export duty of 15%. Malaysian iron-ore is of low grade and consequently it is become difficult to sell it. Such a situation calls for change and adjustment before the iron-mining industry is strangled out of production. Another source of revenue is export duty on timber. Unlike other export commodities of Malaysia, timber has a steady demand and a stable price. Consequently there is little fluctuation in export duty receipts from this source.

Export Duty and Total Revenue

TABLE 3.7

SIGNIFICANCE OF EXPORT DUTIES IN TOTAL REVENUE

Year	Total Export Duties (1)	Total Revenue (2)	Col. (1) as % of Col. (2) (3)
1958	136,557,394	762,465,446	17.90
1959	227,126,792	890,972,163	25.49
1960	259,869,404	1,069,020,972	24.30
1961	191,963,392	1,081,006,862	17.75
1962	177,313,708	1,097,388,792	16.15
1963	181,714,499	1,150,246,312	15.79
1964	200,010,881	1,338,195,777	14.94
1965	228,000,000	1,437,400,000	15.87
1966	181,000,000	1,556,050,500	11.62

Source: As for Table 2.6.

[8] Supply Bill 1966, op. cit., p. 71.

Export duty collections are indicated in column (1) Table 3.7. Until 1960, there has been an increase in the amount of export duty collected. However, from 1961 till 1963, there has been a drop in export duty collection. This was the period when rubber export duty underwent a drastic decline. It was also the interval before tin export duties increased so that by 1964, when tin export duty collections increased it brought about slight increases in export duties but was insufficient to bring it back to the 1959-1960 level. The drop in tin export duty in 1966 is also expected to cause a decline in total export duties receipts of 1966. While total revenue has been increasing export duty has either stagnated or declined. In other words, export duties had a negative role in total revenue increases over the period 1958-1965. Perhaps it would be more appropriate if we suggest that the net increases of revenue in other sources have been reduced to some extent by export duty declines in some of our analysis. years

Contribution to total revenue from export duties was highest in 1959 and since then there has been a continuous decline except for the year 1965 when it showed a slight improvement as compared to the previous year, but in 1966 its contribution to total revenue is anticipated to decline to itslowest level of 11.63%. What bears out is quite contrary to common belief. Singly, export duty has been declining as a source of government revenue and some may even be tempted to suggest that in a decade or so it would be relegated from being a major source of government revenue. In any case, however, it is not to our benefit to rely too much on export duties since the yield depends too much on fluctuations of the world market prices.

In the case of Bolivia, the United Nations Technical Assistance Mission[9] observed the defects of an ad valorem tax. As for tin it maintained that an ad valorem tax "takes no account of differences in cost of extracting and processing ores of varying grades or of net profits realised".[10] The structure of our tax system on tin suffers this basic defect. Similarly, for rubber, no consideration is given for differences in costs of production or net profits realised. While this may not be determental to the marginal producer at a period of high prices and good demand, it may be so in time of low prices.

Almost all the budget speeches of the Malaysian Finance Minister seem to suggest a gloomy tone. Reductions in export revenue has every reason to cause concern to the Federal government because the dependence of government revenue on export revenue expresses itself in 3 main forms. In the first place in terms of export duties itself. Export duties are themselves on an ad valorem basis which adds in an element of instability. The second form in which the exports make a contribution to the revenue is through income tax. Companies associated with export trade pay a flat rate of 40% company tax. Furthermore,

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[9] Taxes and Fiscal Policy in Underdeveloped Countries, United Nations, p. 43.

[10] Ibid., p. 49.

individuals employed in these industries are subjected to income tax if they fall within the tax brackets. In view of the fact that company taxation is relatively more important than personal income tax in total income tax collections, the contribution of companies associated with the export sector in income tax is also significant. The third form of export revenue contribution is through import duties. When export prices are high, the boom in the export sector expresses itself in terms of greater availability of foreign exchange which means increasing import capacity of the economy. When import volume increases import duties then will bring in sizeable revenue. We shall be dealing with the correlation between export and import duties later in this study.

Import Duties

Important Sources

In any statement of government revenue[11] one tends to find a longer list of items under import duties than under export duties. But the most significant sources of import duties are petrol and tobacco products.[12] In the case of petrol duty our period can be divided into 2 parts. In column (2) Table 3.8, the line of demarcation is at 1962. Till 1962 (inclusive) import duty from petrol had been increasing slowly but steadily. After 1962, however, the revenue from this source declined considerably so that by 1964 it formed only half that of 1962. The main reason for this decline has been the process of import substitution. Local products are, however, subject to excise duty. Therefore, at the same time as import duty on petrol declined, excise duty on it has shown a tendency to increase. Percentage-wise, till 1963 it had contributed near about 20% of import duty but since then, however, its significance as a source of import duty has been drastically reduced. Figures for 1964, 1965 and 1966 are clear indications of both the general decline of import duty from petrol and further expected reductions. In brief then the duty on petrol as a source of revenue is to meet the same fate as export duty from rubber - both are declining in importance. The difference, however, is that while excise duty on petrol has shown an increasing trend, there is no such transfer as far as rubber is concerned.

"Tobacco, cigars and cigarettes" is by far the most significant component of import duties. The increase has not been dramatic but slow and steady. Except for 1962, in all other years there has been an increase in the absolute amount collected over the previous year. Over the whole period of 9 years, this increase is expected to be around $32 million. Unlike rubber, tin or even petrol, there has been no major change of trend in revenue from import duties on tobacco

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[11] Financial Statement, op. cit. or Estimates of Federal Revenue and Expenditure, op. cit.

[12] "Tobacco products" here is meant to be a convenient phrase for the following, "tobacco, cigars and cigarettes".

TABLE 3.8

RECEIPTS FROM PETROL DUTY AND DUTIES ON TOBACCO, CIGARS, AND CIGARETTES; AND THEIR CONTRIBUTION TO TOTAL IMPORT DUTY RECEIPTS

Year	Total Import Duties (1)	Petrol Duty (2)	Tobacco, Cigars and Cigarettes Duty (3)	Col.(2) as % of Col.(1) (4)	Col.(3) as % of Col.(1) (5)
1958	282,045,851	59,277,156	98,574,296	22.01	35.30
1959	300,699,544	67,559,702	101,042,719	22.46	36.60
1960	353,481,717	70,882,693	104,342,064	20.05	29.51
1961	357,940,632	71,496,864	107,173,354	19.97	29.94
1962	364,139,492	73,534,081	104,254,407	20.19	28.63
1963	351,419,359	66,854,943	109,298,482	19.02	31.10
1964	367,482,454	29,459,827	130,882,547	8.01	35.61
1965	385,200,000	30,000,000	131,000,000	7.78	34.00
1966	392,798,500	31,000,000	131,332,000	7.79	33.43

Source: As for Table 2.6.

products. And also the common element of excessive fluctuation in export duties is absent in not only tobacco products but also in the other important import duty receipts. In percentage terms, column (5) Table 3.8, tobacco products are expected to contribute more than 30% of total import duties for 6 of the 9 years under review. When we compare import duty on tobacco products to export duty on tin and rubber we find that for all the seven years till 1964, tobacco import duty has produced more revenue than tin and in later years (1962 onwards) more than rubber export duty.[13] Therefore, as a component of customs duties in recent years tobacco products are most important followed by tin and rubber.

The other components of import duties are revenue from the following:

i) Heavy and feul oils,

ii) Spirits,

[13] See, Table 3.8, Table 3.5 and Table 3.2

iii) Sugar,

iv) Textiles and apparel.

Each of the above 4 items contribute around $20 million dollars. On the whole, however, duties apart from petrol and tobacco products constitute between 40% - 50% of import duties. In recent years they have shown an increase in importance mainly because of a decline in receipts from import duty on petrol.

Import Duty and Total Revenue

TABLE 3.9

SIGNIFICANCE OF IMPORT DUTIES IN TOTAL REVENUE

Year	Total Import Duties (1)	Total Revenue (2)	Col. (1) as % of Col. (2) (3)
1958	282,045,851	762,465,446	36.99
1959	300,699,544	890,972,163	33.74
1960	353,481,717	1,069,020,972	33.06
1961	357,940,632	1,081,006,862	33.11
1962	364,139,492	1,097,388,792	33.18
1963	351,419,359	1,150,246,312	30.55
1964	367,482,454	1,338,195,777	27.46
1965	385,200,000	1,437,400,000	26.79
1966	392,798,500	1,556,050,500	25.24

Source: As for Table 2.6.

Unlike export duties in Table 3.7, import duties, (Table 3.9) does not show any fluctuating tendencies. There has been a general increase in import duties over the whole period except in 1963 when it fell by $13 m. from the 1962 amount. In that sense, import revenue is more conducive to good prediction and often is more reliable as a source of revenue. Column (3) which gives the percentage significance of import duties in total revenue can be divided into 3 parts. In the first place 1958 had a large percentage figure of 36.99%. Secondly between 1959-1962, import duties contribution had remained almost constant at 33% which gives further reason to believe that import duties are less unstable and fluctuating. The period beyond 1964, shows a decline. The 1964 decline was not so much due to a decline in

import duty receipts but more so because of larger increases in total revenue than in import duties which consequently lowered the percentage of import duty to total revenue. Such would also be the case if estimates for 1965 and 1966 hold good. To get a proper perspective one has to view both columns (1) and (2) before deciding to analyse column (3).

One more useful companies to be drawn is that import duties are even more important as a source of government revenue than export duties. Import Duties have been very much more important (1½ times roughly) than export duties. The significance of import duties has risen, relative to export duties in recent years because of the declining importance of the latter.

Generally we may notice that in common with other developing countries, where little or no industrialisation has taken place, and where manufactured goods are by and far imported, import duties in Malaysia have been an important source of revenue ,in fact the most important. With industralisation, however, there is bound to be import substitution and subsequently the trend would be for imports to diminish their contribution to total government revenue. Although, this trend has not very significantly set in, we may note that the reduction of revenue from import duties can, however, be partly off-set by introducing some other form of taxation such as excise duty.

Import and Export Duties - A Correlation

Generally speaking, there exists a correlation between fluctuations in export and import revenue with a time lag between receipts of exports and the actual spending of that income on imports. Increase in export duties results from higher export proceeds as a result of higher export prices. Higher export proceeds in any one year indicates a greater capacity to import and larger imports lead to higher revenue from import duties. Looking at Tables 3.7 and 3.9 it becomes evident that any increase in export revenue is reflected in an increase in import duties the following year. Apart from the 1962 import duties which increased even though there was a decline in 1961 export duties, all other years seem to follow this general rule. Even for this period, a decline of export duties in 1961 and a further decline in 1962 had a cumulative effect on import duties in 1963 which was lower than the 1961 and 1962 import duties figures. There exists therefore, in any export orientated economy like Malaysia, a clear-cut correlation between export proceeds and import proceeds the following year. This is reflected on export duties and import duties changes. One cannot expect to find fluctuations in export duties collections to be immediately reflected in import duties. But a long series of reductions or increases will inevitably be felt in the other sources of federal revenue.

Customs Duties and Total Revenue

Table 3.10 column (1) shows the absolute amount of customs revenue collected for the period under review. The trend of total

TABLE 3.10

SIGNIFICANCE OF CUSTOMS DUTIES IN TOTAL REVENUE

Year	Total Customs Revenue (1)	Total Revenue $ (2)	Col. (1) as % of Col. (2) (3)
1958	418,603,245	762,465,446	54.90
1959	527,826,337	890,972,163	59.24
1960	613,351,122	1,069,020,972	57.37
1961	549,904,02[illegible]	1,081,006,862	50.86
1962	541,453,200	1,097,388,792	49.34
1963	533,133,858	1,150,246,312	46.34
1964	567,493,335	1,338,195,777	42.40
1965	613,200,000	1,437,400,000	42.66
1966	573,798,500	1,556,050,500	36.87

Source: As for Table 2.6.

customs revenue was increasing till 1960. This was because revenue from both import duties and export duties was rising during that period. For the next three years, 1961-1963, customs duties showed a decline. In this phase decreases from export duties were not accompanied by sufficient increases in import duties thus resulting in net reductions of customs duties. 1964, however, shows an increase in customs duties. In that year both export and import were rising above their previous years levels, (see Tables 3.7 and 3.9) which resulted in an increase of $34 m. in customs duties. It is to be noted that Customs Duties have not only formed the most important source of federal revenue between 1958-1964 but will also be the most important source in future years. On an average, however, there has been a decline since 1961 in the total contribution of Customs Duties to federal revenue (see column (3) Table 3.10). However, Customs Duties are still the most important single source of central government revenue.

In actual fact Malaysia depends on Customs Duties much more than most other countries. According to Adler J.H.,[14] total customs duties form only 29.0% of total revenue in underdeveloped countries

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[14] "Fiscal Policy in A Developing Country", R.M. Bird (ed.), "Readings on Taxation in Developing Countries", Baltimore J. Hopkins, 1964, p. 31.

whereas in the case of developed countries it forms an average of 11.5%. The situation in Malaysia is typically that of a country whose national income rests largely on foreign trade and particularly on the prices of a few primary export commodities. Malaysia therefore is much more reliant on customs duties than other developing countries. Moreover, prices of rubber and tin are fluctuating according to supply and demand conditions of the world markets. Such a situation has inevitably led to a built-in instability in our sources of revenue and this is quite evidently reflected in the differences between the estimates and actual collections over the years.[15] Even the Finance Minister in framing his budget has to assume certain average prices for forecasting revenue collections for the year. Apart from the fact that we have an unstable tax structure, a case can be made for this heavy reliance on customs duties. In the first place, taxation of foreign trade is administratively easy to collect. Secondly export duties are imposed on the most prominent and profitable export commodities like rubber and tin. Thirdly import duties provide a means of taxing indirectly even the poorest. And finally such taxes play a protectionist function for local manufactures. This is becoming increasingly important in the framing of recent supply bills.

Conclusion

Certain basic features of our customs duties structure are now evident. In the first place, Malaysia depends largely on customs duties for the revenue. But revenue from exports in recent years has tended to decline and in totality, customs duties have shown signs of not being able to kick in large amounts of revenue. Therefore, we have a two-pronged problem (i) heavy reliance on customs duties, and (ii) probable decline in customs duties. The only way possible to remedy the situation is to broaden our tax base. It would involve a search for new sources of revenue that might release us from our traditional dependence on spasmodic customs duties. It requires the widening of our tax base by introducing new import taxes to compensate for the decline in the existing customs duties and to cushion-off their fluctuations. We have till now only made little effort in the way of harmonisation[16] of tariffs between the different component of Malaysia. A policy similar to that being followed in income tax is urgently required and ad hoc consultations with the Borneo States should be the first step to the establishment of a Common Market.

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[15] Financial Statements, op. cit., 1958-1964.

[16] Bank Negara Malaysia, Annual Report and Statements of Accounts, 1965.