ECONOMIC CHANGE IN EAST MALAYSIA

STUDIES IN THE ECONOMIES OF EAST AND SOUTH-EAST ASIA

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Economic Change in East Malaysia

Sabah and Sarawak since 1850

Amarjit Kaur

*Associate Professor and Head
Department of Economic History
University of New England
Armidale, New South Wales
Australia*

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For

Jan, Noreen Amrita and David Amar

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Preface

Sarawak and British North Borneo. The very words have conjured images of headhunters prowling along jungle paths looking for their next victims or white rajahs lording it over the natives and bringing civilisation to them. These two states were faraway lands on the island of Borneo, which was itself off the beaten track. But once in a while, travellers' tales excited western imagination about the fabulous wealth to be had there. It was only in the nineteenth century that a new breed of adventurers set sail for these places lured by their forest products, their promise as new markets and out of scientific curiosity. James Brooke was the most successful of these adventurers and his story has been well recounted by historians and novelists. Others were not so successful. However, since the 1960s the Dipterocarp forests of Borneo have become one of the principal sources of tropical hardwood timber entering world trade. As a consequence of economic change and the transformation of the rainforest environment these remote outposts have suddenly been thrust into the limelight as conflicts arose between different land use, interest and ethnic groups for allocation of land and rights to utilise resources. This has generated debate among scholars, international conservation and environmental organisations and local pressure groups about the nature of and consequences of development, not only for Sabah and Sarawak, but for the Southeast Asian region generally.

My first reason for writing this book is to examine and compare the pace of economic and social change in Sabah and Sarawak, taking a long-term view of their economic growth. The book concentrates on economic development and the role of the state during the first four decades of the twentieth century, but also links the pre- and post- World War II periods. The book's major focus on economic change fills a gap as relatively little has been written on economic development, although a substantial literature exists on the administration of the white rajahs or the British North Borneo Chartered Company. In addition, there are several anthropological and ethnological works on the indigenous groups of the island and their individual economies, and on the Chinese in these states. This book therefore attempts to make Sabah and Sarawak's post-1969 economic development more explicable by considering it in the light of previous growth during the pre 1940 and the 1946–1963/9 periods.

My second reason for writing this book is my interest in the environmental impact of the timber trade, land development schemes and dam construction, all issues of current topicality.

I initially started out with transport and economic change in these states but was persuaded by Malcolm Falkus, one of the editors of the series under which this book appears, to write a book on general economic development. Consequently some of the material on the current

economic structure is derivative. It was also difficult to decide what to include and what to leave out. There are large gaps in our knowledge of economic development in Sabah and Sarawak, but on some topics and issues, there is an abundance of material. This book has been very much guided by my own interests and knowledge and reflects the availability of sources. Indeed, some readers may feel that a detailed history of every sector has not been provided. It is hoped that omission has not led to misinterpretation. My study is written in the hope that it will stimulate further research on the subject.

Acknowledgments

A number of people and institutions made this work possible. The Toyota Foundation funded my initial research work in Sabah, Sarawak and the United Kingdom for the period 1989–1990, while I was employed at the University of Malaya. Subsequent research was funded by a grant from the Australian Research Council and internal research grants awarded by the Faculty of Economics, Business and Law, University of New England, which I joined in late 1990.

I am most grateful to the following institutions for archival access: Arkib Negara Malaysia; Arkib Negeri Sabah; Sarawak Museum; University of Malaya Library; Institute of Development Studies, Sabah; Public Records Office (London); Institute of Commonwealth Studies (London); School of Oriental and African Studies Library; Rhodes House Library (Oxford); Cambridge University Library; United Nations Library; National Library of Australia; and Dixson Library, University of New England.

I would like especially to record my grateful thanks to Malcolm Falkus for his support and helpful comments.

I would also like to thank my former colleagues at the University of Malaya, especially Khoo Kay Kim, Ranjit Singh and Abdullah Azmi Khalid; in Sabah, James Ongkili, Maximus Ongkili (formerly Director, Institute of Development Studies), and Agatha Matayun (formerly archivist at Arkib Negeri Sabah); and in Sarawak, Hew Cheng Sim, Peter Kedit and Loh Chee Yin (Sarawak Museum). I have also benefited from comments from friends and colleagues working on aspects of Borneo history, especially Robert Cramb, Vincent Houben and Nicholas Tarling. John Drabble was an important source of information and he also gave me helpful comments. My thanks also go to Madeline Entaban Stauffer and Peter Stauffer, and former colonial officials who served in Sabah and Sarawak, especially Neville Haile and Bill Roberts for providing me with colourful insights into the period. To the many colleagues, like Tony Reid, Peter Carey, Colin Barlow, Pang Teck Wai, Michael Leigh and Peter Boomgaard, who attended my seminars on various aspects of the book and made suggestions which helped clarify my ideas and arguments, a heartfelt thanks. I am also grateful to Gerda van Houtert who typed the original draft and Fay Hardingham who prepared the book for publication.

Finally, I acknowledge my indebtedness to my husband Ian Metcalfe who gave critical comments and drew the maps. My children, though too young to assist directly, gave me support and love while waiting anxiously for the book's completion.

Map 1 Southeast Asia

Preliminary Note

The term Sabah is used in the text to refer to the modern state of Sabah. Prior to 1963, the state was known as British North Borneo. Although the current practice is to refer to East Malaysia as Sabah and Sarawak, the term East Malaysia is used here in its *geographical* sense to refer to the two Borneo territories.

The new spelling system adopted by Indonesia and Malaysia has been followed for Malay words; for example *pengiran*. The spelling of place names and rivers follows current practice; for example, Kuching and Rajang.

All dollar figures quoted (unless otherwise stated) are in Straits (later Malayan/Malaysian) dollars or *ringgit*. In the nineteenth century the value of the Straits dollar fluctuated, but in 1904 it was pegged to sterling at the rate of M\$1.00 to 2s 4d (about US \$0.40–0.60 in pre World War II terms). From 1947 to 1974 M\$1.00 was equal to about US\$0.33. Since 1973, when Malaysia opted out of the sterling area and floated the *ringgit* against the US dollar and the British pound, the *ringgit* has appreciated.

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Introduction

Malaysia is currently approaching Newly-Industrialised Country (NIC) status. In 1990, nearly 27 per cent of GDP was from manufacturing industry. It is evident though that the extent of industrialisation is very different between Peninsular Malaysia and Sabah and Sarawak with the process much more advanced in Peninsular Malaysia. Geographically, culturally, and ethnically, Sabah and Sarawak are far away from the mainland and reap little visible benefit from the peninsula's economic success. The key to understanding uneven development in the Malaysian federation lies in its historical and recent past and to do justice to the complexities and history of Malaysia would far exceed the purpose and format of this book. However, it is necessary to relate at least a few of the facts which may convey some of the complexities and current issues of Malaysia today.

The modern state of Malaysia was formed in 1963 by the union of the Federation of Malaya, which had achieved independence from Britain in August 1957, the island of Singapore, which had been given internal self-government by Britain in 1958, and the territories of Sabah and Sarawak, which had been British crown colonies from July 1946. On 9 August 1965, Singapore was expelled from the new Federation and became a separate independent state. Hence since August 1965, Malaysia has comprised the eleven states of what was then known as West Malaysia and the two Borneo states of East Malaysia (See Map 2). In the early 1970s the term West Malaysia was officially changed to Peninsular Malaysia while East Malaysia was changed to Sabah and Sarawak, allegedly after the secession of Bangladesh from Pakistan.

Geographic Location

Peninsular Malaysia forms part of the southern projection from the Asian mainland, with Thailand immediately to its north and the island of Singapore to the south. It has an area of 131 794 square kilometres and consists of eleven states: Perlis, Kedah, Penang, Perak, Selangor (with the Federal Capital Territory of Kuala Lumpur), Melaka, Johor, Negeri Sembilan, Pahang, Trengganu and Kelantan.

Sabah and Sarawak occupy the northern and northwestern coast of the island of Borneo. Sabah lies approximately between latitude 4° and 7° North and longitude 115° and 119° East. Sarawak lies between latitude 0°50' and 5° North and longitude 109°36' and 115°40' East. Together they occupy an area of 198,149 sq km (Sabah – 73 700; Sarawak – 124 449) in comparison to their neighbours, Brunei Darussalam (5765) and Kalimantan, Indonesia (539 460).

Map 2 States of Malaysia

Climate and Rainfall

Both Peninsular and East Malaysia have a uniformly warm and humid climate with temperatures ranging from 25.5°C to 33°C, except at high altitudes where the nights are considerably cooler. Seasonal changes are marked not by variations in temperature but by changes in rainfall, which in turn are related to the cycle of the monsoonal winds. The northeast monsoon, which sweeps down across the South China Sea, is the dominating air stream during November to January. It then gradually decreases in force with a transitional period in April to May followed by the southwest monsoon. Another transitional period occurs in October to November and the whole cycle then repeats. Throughout most of Malaysia the rainfall ranges from 2000mm to 4000mm per annum, although there is considerable variation between different regions. Nowhere is there a true dry season, but most areas receive more rainfall during certain periods in the year, the wettest season coinciding with the northeast monsoon.

The Physical Environment

The landform of both the peninsula and Borneo is characterised by coastal plains giving way to a rugged mountainous interior. The spine of the peninsula is the Main Range, and there is a further block of highland covering most of upper Kelantan, inland Trengganu and Pahang. The peninsula's highest peak is Gunung Tahan (2207 metres). The interior mountains have always posed a formidable barrier to trans-peninsular movement and the focus of settlement has been the coastal lowlands. From early times, political centres were established on the rivers which have their headwaters in the inland ranges. Most peninsular states derive their name from the principal rivers. In Borneo, the lowlands, often swampy alluvial plains, also form a belt along the coast. Behind these plains are the foothills leading inland up to a mountainous mass through which runs the border between Malaysian and Indonesian Borneo. The highest mountain in Borneo, and also in Southeast Asia, is Mount Kinabalu (4500 metres). The great rivers of Borneo, like those on the peninsula, were the original sites of settlement. The heavy rainfall and warm temperatures have resulted in East Malaysia being covered by equatorial forests. Indeed, Borneo possesses one of the richest and most diverse flora and fauna on earth, and the trade in tropical timber represents a major export earner for Sabah and Sarawak. Along the plains most of the original forest cover has been removed to make way for settlements, physical infrastructure, commercial agriculture and industries.

Population

Ethnic considerations and religious affiliations are another sphere of Malaysian diversity. In 1991, Malaysia's population was an estimated 18.4 million of which about 14.8 million live on the peninsula, while Sabah's population totalled 1.8 million and Sarawak's 1.7 million. In Peninsular Malaysia, the dominant ethnic group is the Malays. In Sabah, the dominant group is of Kadazan origin, while in Sarawak the Dayaks predominate. The categorisation of the local peoples in East Malaysia has been a difficult task and the resulting classification conceals considerable variation in language and life style. Both Peninsular and East Malaysia were land-abundant, labour-scarce economies and consequently immigration has been an important factor underlying population growth in the nineteenth and early twentieth centuries. In East Malaysia, immigration from China and the Netherlands East Indies was a major driving force in pushing total population growth rates.

Political Patterns

The British colonial authorities fostered the incorporation of the independent Borneo territories with Malaya and Singapore to form the Malaysian Federation. Initially, there was considerable apprehension in Sabah and Sarawak resulting in the formation of a number of political parties structured along communal lines. Nevertheless, early opposition to the Federation by East Malaysian leaders soon faded, largely because Malaya was prepared to make a number of important concessions and also because Sabah and Sarawak were concerned over the aggressive stance adopted towards them by Indonesia and the Philippines. Over the years there has been an underlying tension in this relations between the federal government in Kuala Lumpur and the state governments of Sabah and Sarawak. In essence this tension has derived from the notably lower level of economic development and political sophistication in Sabah and Sarawak. On the whole, smooth federal-state relations have been guaranteed because the federal government has continued to ensure the supremacy of those political leaders who co-operate fully with it.

What does all this mean for Sabah and Sarawak? The leaders of these two states are preoccupied with trying to catch up to the social and economic progress of West Malaysia. Their economic goals as a whole have fostered general attitudes to the environment which are seen as inimical to conservation by conservationists. Thus current strategies for parcelling out land for settlement for expansion of commercial agriculture and for logging have largely been carried out in the name of development and these leaders have shown a greater tendency to discourage environmental criticism of their policies than to incorporate conservation into their development agenda.

This book's main theme is a long-term view of East Malaysia's economic growth. While its focus is on economic development during the first four decades, it also links the post-World War II period (1946–63) with the national period (1963 onwards). In other words, the contexts in which economic change will be analysed will be both historical and comparative. The virtue of this approach is twofold. Firstly, an historical orientation will supply a necessary corrective to the impression that export-oriented development (especially in Sarawak) is a recent phenomenon and represents a sharp departure from the past. Secondly, a comparative investigation can highlight patterns of development and experience that is not easily discernible in single country studies.

A second theme relates to the role of the state. Was the role of the Chartered Company and the Brooke Administration in relation to economic growth only a limited one in comparison to the British role in the Malay peninsula? Furthermore, one might think there would be a striking contrast between a state governed benevolently by the Brookes on the one hand, and by a chartered company seeking profits on the other. My study shows that despite being different 'states', the result in terms of policies was actually very similar.

Another theme is the integration of the two economies not only into the international economy but into Malaysia. Despite initially lacking comparable locational and infrastructural facilities to attract major investment, the two Borneo states had, from at least the First World War, become complementary in terms of their raw materials rather than competitive with Singapore/Malaya. After the Second World War, the colonial government completed the process so that at the time of Independence the economies of the two states were much closer to that of West Malaysia.

The book is structured in three parts. The first and main section focuses on economic development in Sabah and Sarawak during the period 1850–1940.* It is argued that the foundations of an export-oriented economy were laid during this period. The second part analyses economic change during the colonial period (1946–1963). It is argued here that colonial development policies were designed to promote territorial unity in North Borneo and to integrate Sabah and Sarawak in the Malayan-Singaporean economy and the wider Southeast Asian trading network. The third part deals with the post-independence period when federal policies were seen as a central force making for integration of economic activity in the Malaysian federation.

* It is not proposed here to deal specifically with the brief Japanese Occupation period (1942–45) since there was no significant departure from previous economic trends.