

## Session 8:

### “International Order of Asia in the 1930s and 1950s”

#### Malaya and the Sterling Area Reconsidered:

#### Continuity and Change in the 1950s

by

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#### Introduction

The central importance of Malaya<sup>1</sup> for the post-war sterling area has become an established article of faith in the historiography of British decolonisation.<sup>2</sup>

Reconstructed after the Japanese occupation, the ‘twin pillars’ of the Malayan economy, rubber and tin, re-established massive export markets in the United States

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<sup>1</sup> Given the economic interconnections of mainland and island into contemporary times, the term ‘Malaya’ is here taken to include Singapore with the Federation of Malaya. ‘Malaysia’ refers to the federation of Malaya, Sarawak and Sabah (North Borneo).

<sup>2</sup> See, for example, A. J. Stockwell, ‘British Imperial Policy and Decolonization in Malaya, 1942-52’, *Journal of Imperial and Commonwealth History*, 13, 1 (1984), p. 78; R. F. Holland, *European Decolonization: An Introductory Survey*, London: Macmillan, 1985, pp. 108-9; John Darwin, *Britain and Decolonisation: the Retreat from Empire in the Postwar World*, London: Macmillan, 1988, pp. 108, 136, 138, 156-7; P. J. Cain and A. G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914-1990*, Harlow: Longman, 1993, pp. 279-80.

and, in repetition of the late-1930s, Malaya topped the list of the empire's dollar earners. Post-war Britain's most important export industry was to be found some 8000 miles from the British Isles because Malaya's rubber production alone earned more dollars for the hard currency pool in London than all of metropolitan Britain's exports to the United States. In July 1948, Colonial Secretary Arthur Creech Jones, justified the declaration of an Emergency in Malaya to his cabinet colleagues in London on the grounds that, 'It would gravely worsen the whole dollar balance of the Sterling Area if there were serious interference with Malayan exports'.<sup>3</sup> Malaya's vast hard currency earnings, and the accumulation of huge sterling balances, underpinned British economic recovery and the creation of the welfare state after 1945, and Malayan exports would continue to shore up the exchange value of sterling into and throughout the 1950s.

Yet, from this British — or what might be termed 'Eurocentric' — perspective there is a danger of exaggerating and over-emphasising the importance of the sterling area in Malaya's economic history. Malaya was important for the sterling area, but, how important exactly was the sterling area for Malaya? As this paper points out, a number of modifications were made to the operation of the sterling regime in Southeast Asia during the 1950s which transformed the imperial economic bloc into a less ferocious beast by the end of that decade. Moreover, Malaya's continued adherence to empire-Commonwealth exchange controls and commercial preferences did not exclude the region from engagement with the revival and expansion of intra-Asian trade and investment flows. In this, a number of continuities can be identified

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<sup>3</sup> Cited in Darwin, *Britain and Decolonisation*, p. 138.

with the ‘international economic order’ of the 1930s, and the sterling area system in Asia exhibited a degree of ‘openness’ which is often overlooked.<sup>4</sup>

### **The Imperial Economic System Maintained**

Between the 1930s and the 1960s, the true economic significance of Malaya for the British imperial economy lay not in invisible earnings from City investments or in markets for ailing provincial manufacturers, but in the ability of the peninsula’s tin mines and rubber plantations to earn hard currency. In intervening in the commodity markets during the inter-war years, the British government recognised the contribution of Malaya’s exports to upholding sterling’s existing parity with the dollar. After 1945, metropolitan indebtedness and the Labour government’s commitment to full employment, emphasised more than ever, the value of Malaya within the sterling bloc. The recovery and reconstruction of the British territories in Southeast Asia after the Japanese occupation was given high priority in London.<sup>5</sup>

The peninsula’s largest source of imports, making up between one-fifth and one-quarter of the total in the 1940s and 1950s, was the UK. The rest of the sterling area accounted for a further quarter of the total. Before the war, the United States supplied no more than 3 per cent of Malaya’s total imports. It accounted for about one-tenth of the total in 1947-8, having made substantial gains as a source of cotton textiles and machinery. However, exchange controls reduced imports from dollar sources so that in the 1950s, the US share of Malaya’s imports was cut to 5-6 per cent. As for exports, Britain took approximately 15 per cent of Malayan produce after

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<sup>4</sup> Akita Shigeru and Kagotani Naoto, ‘International Order of Asia in the 1930s’, unpublished paper, 29 March 2000.

the war. About 18 per cent went to the rest of the sterling area. In contrast, the United States received nearer to 30 per cent of Malayan exports. Although less-pronounced than in the 1930s, the massive and consistent balance of trade surplus with the dollar area gave Malaya a key role in the post-war international payments system. In addition, Malaya earned a significant hard currency surplus through its export trade with western Europe, representing 18 per cent of Malayan exports in 1950 against just 6 per cent of imports.<sup>6</sup>

*Table 1: Malaya (including Singapore, North Borneo, Sarawak and Brunei): Net Current Balance, 1950-6 (£ million)*

	1950	1951	1952	1953	1954	1955	1956
Dollar Area			+71	+43	+37	+68	+51
Other Non-Sterling Area			+6	-2	-6	-1	+1
Sterling Area	-59	-29	-58	-58	-37	-24	-42
Total All Areas	+91	+122	+19	-17	-6	+43	+10

*Source:* Bank of England Archives, London (hereafter BoE), OV 65/5, ‘Draft Note on Malaya and Sterling Area’, c. November 1957.

The boom in rubber and tin prices during the Korean war served to further enlarge the Malayan area’s surplus with the dollar area, and it still stood at over £70 million in 1952. Despite the decline in commodity prices at the end of the Northeast Asian conflict, Malaya’s dollar surplus in 1956 was in excess of £50 million (see table 1).

<sup>5</sup> See Nicholas J. White, *Business, Government, and the End of Empire: Malaya, 1942-57*, Kuala Lumpur: Oxford University Press, 1996, ch. 2.

In 1958, the Federation of Malaya alone maintained a favourable balance of trade with the dollar area of M\$356 million (approximately £42 million).<sup>7</sup> As was recognised in Whitehall, ‘Malaya pulls a great weight for her size in the sterling area’. The Federation delegation at the London Constitutional Conference in early 1956 calculated that, between 1950 and 1954, Malayan earned *surpluses* of about £400 million and £240 million with the dollar and OEEC (Organisation for European Economic Cooperation) countries respectively on visible account. These were hard currency surpluses far greater than any other member of the sterling area and comparing with UK *deficits* of £1,525 million and £860 million. Malaya achieved such a surplus in its overseas transactions that the region’s sterling balances grew by £110 million between 1950 and 1955.<sup>8</sup> By 1958, one-quarter of total sterling area balances were attributed to the Malayan area.<sup>9</sup>

Hence, US economic hegemony in Commonwealth Southeast Asia was far from instantaneous at the end of the Pacific war. Indeed, in the Federation and in Singapore, US commercial and financial influence was still insignificant in the 1950s. American direct investments in the decolonisation era were discouraged by the operation of sterling area exchange controls, and colonial governments placed restrictions on the repatriation of profits from United States investments.<sup>10</sup> A

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<sup>6</sup> *The Sterling Area: An American Analysis*, London: US Economic Cooperation Administration Special Mission to the UK, 1951, pp. 371-6, 386-8.

<sup>7</sup> *FMS Chamber of Commerce Yearbook, 1958*, Kuala Lumpur, 1959, President’s Address, 29 April 1959, p. 13.

<sup>8</sup> Public Record Office, London (hereafter PRO), CO 1030/72, ‘Federation of Malaya talks: finance’: Colonial Office Far Eastern Department note, January 1956 reproduced in A. J. Stockwell (ed.), *Malaya*, London: HMSO, 1995, Part III, Doc. 396, p. 245.

<sup>9</sup> Catherine R. Schenk, *Britain and the Sterling Area: From Devaluation to Convertibility in the 1950s*, London: Routledge, 1994, p. 25.

<sup>10</sup> White, *Business, Government, and the End of Empire*, p. 54.

substantial flow of American private capital only began in 1961 following the signing of a US investment guarantee in Kuala Lumpur.<sup>11</sup>

Even so, financial and monetary continuities persisted well into the 1960s. When the Federation of Malaya became fully self-governing in August 1957, the conservative Alliance government chose to remain inside the Commonwealth economic bloc.<sup>12</sup> This meant that the Federation's surplus on its dollar balance of payments continued to be offset by a deficit on its sterling equivalent. Malaya's spatial pattern of trade did not suddenly shift after 1957, and the government in Kuala Lumpur (and in Singapore) continued to convert its dollar surplus into sterling in order to buy the goods required from sterling sources. Despite the creation of a central bank in Kuala Lumpur in 1959, the time-honoured allegiance to the pound was retained as was the adherence to the neo-Gladstonian fiscal and monetary policies which had prevailed under colonial rule. The link to sterling was reinforced by perseverance with a common currency for Malaya, Singapore and the Borneo territories. A currency board, and not the Bank Negara managed the 'Greater Malaysia' monetary system, while the Malayan dollar continued to be rigidly pegged at 2s. 4d. to the pound until 1967.<sup>13</sup> Notwithstanding the great sterling devaluation of November 1967, and the development of separate currencies after Singapore's exit from Malaysia, it was only in June 1972, following the decision of HMG to allow sterling to float on world currency markets, that the Malaysian and Singaporean

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<sup>11</sup> The agreement was extended to the whole of Malaysia (including Singapore) in June 1965. PRO, DEFE 25/212, Copy of Telegram from High Commission, Kuala Lumpur to Commonwealth Relations Office, 6 July 1965.

<sup>12</sup> Singapore remained a British colony, achieving internal self-government in 1959. It finally became a fully independent republic in August 1965, following an ill-fated political merger with Malaysia from September 1963.

<sup>13</sup> Catherine R. Schenk, 'The Origins of a Central Bank in Malaya and the Transition to Independence, 1954-9', *Journal of Imperial and Commonwealth History*, 21 (1993), pp. 409-31.

governments took up the US dollar as the instrumental currency which would regulate the movements of their currencies.<sup>14</sup>

The system of preferences accorded by Malaya to products of Commonwealth countries, as well as Eire and Burma, also survived political decolonisation, and it was only in 1966 that the Malaysian government abolished most of the residual advantages accorded to British goods. This adherence to sterling and Commonwealth trade, combined with the minimal restrictions placed on the flow of capital to and from the UK, helped British firms retain control of the commanding heights of the post-colonial Malayan economies — rubber, tin and oil palm production, banking, shipping, and the import-export business.<sup>15</sup> As Tim Harper has recently written: ‘Economic decolonisation was a much slower process than the transfer of political power. In 1958, 25 per cent of Malaya’s imports were from the UK, in 1963, 21 per cent. In 1970, 65 per cent of foreign capital in Malaysia was British’.<sup>16</sup>

A desire in London to maintain these sterling area benefits may well have played a significant part in ‘making Malaya safe for decolonisation’ — firstly, through defeating communist insurgency and, secondly, through accelerating the transfer of power during the 1950s in favour of the alliance of communal parties, led by Malay aristocrats and overseas Chinese and Indian business leaders.<sup>17</sup> Britain’s need of Malayan dollars was a factor influencing the intensification of the ‘hearts and

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<sup>14</sup> BoE, EC 5/543, Memorandum enclosed in John Wilson, Chartered Bank, London to Douglas Stone, Bank of England, 30 October 1972.

<sup>15</sup> Another factor which tended to mitigate against investment from outside the sterling area was the operation of blocked account procedures in Malaysia until July 1967 – before that time, proceeds from the sale of investments in Malaysia by non-sterling area residents could not be remitted home. *Bulletin of the Malaysia-Singapore Commercial Association*, 51, December 1967, p. 5.

<sup>16</sup> T. N. Harper, *The End of Empire and the Making of Malaya*, Cambridge: Cambridge University Press, 2000, p. 363.

minds' campaign against the Malayan Communist Party after 1952. On the political front, the attraction of Tunku Abdul Rahman's Alliance lay principally in its geo-political orientation — that is, its pro-western, anti-communism against the backdrop of France's scuttle from Indo-China.<sup>18</sup> But, clearly, the commitment of the anglophile Alliance to the sterling area served to further bolster the respectability of its leadership in British eyes. As Holland neatly puts it, Malaya's crucial role in preserving British monetary stability 'did not mean that Malayan decolonization became undesirable *per se*; but it did mean that infinite care was required as to whom the beneficiaries of such decolonization might be'.<sup>19</sup> In the course of 1956, the Federation's first Minister of Finance and leading Malayan Chinese tin miner, H. S. Lee, established his orthodox financial credentials in Whitehall and the City. He requested from the Treasury and his own bankers, the Chartered Bank, ammunition to use against those in Singapore who wished to see a free US dollar market established there.<sup>20</sup> In later talks with the Governor of the Bank of England, Lee won general approval for his plan 'to start a Central Bank on a conservative and cautious basis'.<sup>21</sup> After political independence in 1957, as senior expatriate officers retired and more

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<sup>17</sup> The phrase is from Holland, *European Decolonization*, p. 103. The general argument that the preservation of sterling's world role was the key element in decolonisation can be found in Cain and Hopkins, *Crisis and Deconstruction*, pp. 285-91.

<sup>18</sup> Stockwell (ed.), *Malaya*, Part I, pp. lxxiii-iv.

<sup>19</sup> Holland, *European Decolonization*, p. 110.

<sup>20</sup> White, *Business, Government, and the End of Empire*, p. 146. In October 1955, the Governor of Singapore, Sir Robert Black, had written to London regarding the 'feeling that Malaya is being exploited... [amongst]... the mercantile and producing middle-classes': 'The danger is that the question of Malaya severing itself from the sterling area might become a political issue'. And, in Singapore, at least, Black noticed that a US dollar based economy was being advocated to allow Singapore to 'enjoy the same freedom as its rival Hong Kong'. Cited in Greg Poulgrain, *The Genesis of Konfrontasi: Malaysia, Brunei, Indonesia, 1945-65*, London: Hurst, 1998, p. 72. British officials and commercials 'on the spot' were also suggesting that Malaya should divorce itself from the sterling area. During the tour of Malaya by the Bank of England's W. J. Jackson in 1951, H. A. L. Luckham in the economic secretariat revealed that he wished to end the Malayan dollar's parity with sterling and maintain Malaya's own US dollar reserves, controlling them through a central bank. E. M. F. Fergusson, the Singapore legislative councillor and industrialist, also expressed the view that Malaya should retain its dollar earnings. BoE, OV 44/79, Report of Malayan Visit, 27 February-30 March 1951.

<sup>21</sup> Cited in White, *Business, Government, and the End of Empire*, p. 146.

nationalist-minded elements in Malaya searched for ways of asserting economic *merdeka* (freedom), there were pressures on the government to join the dollar area, thus linking Malaya's economy to the strongest and most stable currency in the world and attracting American development capital. Yet, senior ministers in Kuala Lumpur appear to have accepted the strenuous arguments of the Bank of England against such moves:

...By far the most important issue for the Federation is the fact that, if it left the Sterling Area, it would cut itself off to a large extent from the supplies of UK capital and credit on which its economy has been built up and largely depends. Once the Federation left the Sterling Area, all its current trade with the Area would be subject to exchange restrictions, UK bank credit would be less freely available, private capital investment from the UK would be severely restricted, and borrowing in the UK capital market would not be possible. This could disrupt the whole economy and there is no reason to think that any other country, for example, the US, would fill the gap left by the UK, even if the Federation held substantial amounts of US dollars...<sup>22</sup>

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<sup>22</sup> BoE, OV 65/5, 'The Federation of Malaya and the Sterling Area'. Draft Note by the Overseas Department, July 1958. Bank officials could only see one apparent advantage in Malaya leaving the sterling area: if it ever built up its reserves entirely in US dollars, the Federation could protect itself against a sterling devaluation. Yet, even then, Malaya would not be fully protected since the US dollar had been devalued in the past. To get full protection, the Federation would have to hold gold. At present rates of interest this would cost Malaya about 5 per cent per annum – in just five years, for example, the Federation could lose as much in interest corresponding to a 20 per cent devaluation of the currency in which its reserves were held. Schenk points to the maintenance of foreign investor confidence as the principal reason for Commonwealth countries choosing to remain in the sterling area after independence. *Britain and the Sterling Area*, p. 42. The available evidence from Malaysia confirms this – in 1967, Finance Minister Tan Siew Sin, publicly justified his government's continued policy of free capital transfers within the sterling area on the grounds that 'the surest way to trigger off a flight of capital is to impose restrictions on capital outflow. Capital, both domestic and foreign, is very timid. If you tell it that it cannot leave except with Government permission, that very possibility that it may not be able to leave if and when it wishes to do so, frightens it, and it will want

So it would seem that the sterling area, and the British financial and commercial connections which accompanied it, were the crucial determinants of Malayan economic activity in the 1950s. However, the remaining sections of this paper will be devoted to revealing the cracks which were opening up in the imperial economic edifice during the decolonisation and immediate post-colonial years. These developments looked forward to the exponential growth of the Asia-Pacific trading and investment realm during the 1980s and 1990s, but, at the same time, resurrected and revitalised aspects of the Asian international order of the 1930s.

### **The Changing Sterling Area**

The tightly controlled sterling bloc of the early-1950s was a shadow of its former self by the end of the decade. For one, political change *did* impact upon the operation of the sterling area in Malaya. Even before independence, the Federation government spent dollars virtually as it chose. The Malayan delegation at the London constitutional talks of January-February 1956 had sought concessions in recognition of Malaya's exemplary service to the dollar pool in London.<sup>23</sup> As a prelude to political *merdeka*, therefore, the Malaysians won 'self-determination' in dollar expenditure, and a new Ministry of Finance, under H. S. Lee, was established. HMG was now informed about Kuala Lumpur's proposed dollar import programme and might comment on it — for example, as regards possible alternative sterling sources

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to leave'. PRO, FCO 24/162, Speech to Alliance Youth reported in Economic Section, British High Commission, Kuala Lumpur to the Far East and Pacific Department, Commonwealth Office, London, 26 May 1967.

<sup>23</sup> CO 1030/72, 'Federation of Malaya talks: finance' reproduced in Stockwell (ed.), *Malaya*, Part III, p. 246.

for particular items — but had effectively surrendered the right to approve it. By independence, the Federation was in the same position as any other independent Commonwealth country: in framing its dollar import policy Malaya was expected to take account of its obligations as a member of the sterling area in the light of the information received periodically from Threadneedle Street about the state of the reserves etc. But, ultimately, Federation ministers and civil servants, and not Bank of England exchange controllers, managed the expenditure of Malayan hard currency on imports from the dollar area. In other words, the successful functioning of the sterling area in Southeast Asia now rested upon Malayan consent and not British coercion. It should also be noted that British metropolitan-led liberalisation after 1955 resulted in import restrictions on dollar goods being progressively relaxed throughout the sterling area with the goal of full convertibility.<sup>24</sup> The chairman of the Malayan Exchange Banks Association observed that the large dismantling of exchange controls on an international scale, beginning from early 1959, produced a much freer movement of funds across exchanges. A wide relaxation of import controls, especially over goods from the dollar area, accompanied the new freedom from exchange control – so much so, that Singapore traders could now do substantial business directly with North America where formerly dollar goods had been supplied via Hong Kong.<sup>25</sup>

These liberalisations corresponded with a growing disenchantment with the sterling area in influential circles in Britain as well as a specific scepticism regarding Malaya's future wealth potential, burdened as the area was with an enduring dependence on two commodities which were highly vulnerable in the face of global technological advance. With the massive re-activation of the synthetic rubber

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<sup>24</sup> BoE, OV 65/5, Copy of D. O. Henley, Office of the Commissioner-General for the UK in Southeast Asia, Singapore to S. T. Charles, Treasury, 19 November 1957 enclosing 'Draft Note on Malaya and the Sterling Area'; Schenk, *Sterling Area*, ch. 5

industry in the United States during the Korean War, Malaya's rubber export markets became more diversified and Britain, with about 20 per cent of the market, emerged as Malaya's main buyer of plantation rubber by 1958.<sup>26</sup> The result was a sharp downturn in Malaya's dollar earnings by the 1960s, and a Foreign Office paper of September 1964 declared that Britain's 'material interests' in Southeast Asia were now 'marginal'. Malaysia was 'now in deficit [with the dollar bloc] and likely to remain so'.<sup>27</sup> Moreover, during 1958, a synthetic rubber plant came on stream in the UK, encouraged by the Treasury and the Board of Trade as a means of guaranteeing the international competitiveness of British industry.<sup>28</sup> 1958 also proved a watershed year in terms of economic developments in Malaya itself, marking the beginnings of a breakdown in the old economic complementarities between metropole and periphery. The 'openness' of the colonial export economy was eroded by the introduction of pioneer industry legislation and protective tariffs designed to encourage import substitution (similar state initiatives soon followed in decolonizing Singapore).<sup>29</sup> The development of a synthetic rubber industry in Britain and the encouragement of manufacturing in Malaya were the Anglo-Malayan manifestations of a trend towards the marginalisation of the sterling area, 'in the wake of changing priorities both in

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<sup>25</sup> *Singapore Chamber of Commerce Annual Report for 1959*, Singapore: 1960, p. 32.

<sup>26</sup> PRO, DO 35/9759, 'Brief for the Secretary of State's Visit to Malaya. Rubber', c. January 1959. The United States was still the main buyer of Malayan tin but conservation, reclamation and replacement strategies by American consumers greatly reduced the peninsula's percentage share from pre-war. The British agency houses had diversified into oil palm but as Sir Norman Kipping, Director-General of the Federation of British Industry, discovered in early 1958, the crop 'may increasingly suffer from the wider use of synthetic detergents'. Confederation of British Industry Records, Modern Records Centre, University of Warwick, Mss. 200/F/3/D3/6/75, D/5528. 'Report on the Federation of Malaya'.

<sup>27</sup> PRO, CAB 148/7, DO (O) (64) 59, 'British Policy Towards South-East Asia'. Memorandum by the Foreign Office, 22 September 1964.

<sup>28</sup> White, *Business, Government, and the End of Empire*, pp. 190-4.

<sup>29</sup> John H. Drabble, *An Economic History of Malaysia, c. 1800-1990*, Houndmills: Macmillan, 2000, pp. 169-70.

Britain and in the overseas sterling area as countries increasingly focused on their own development and trade links independently of their sterling area relations'.<sup>30</sup>

### **Malaya and the Intra-Asian Economy: the 'Official Market'**

Even without a declining UK economic interest in Malaya, the survival of the sterling area in Asia throughout the 1950s did not preclude the revival and expansion of intra-Asian trade. Moreover, by the second half of the decade, Malayan political and business leaders were looking to further develop these Asian economic links. In the course of 1956, a Malayan trade mission was assembled to visit China and Japan. The adviser to the mission was the Melaka business politician, Tan Siew Sin, later Minister of Commerce and Industry and Minister of Finance in the post-colonial Federation. The mission was strictly non-official in character, but had the blessing of the Federation's Chief Minister (and later Prime Minister), Tunku Abdul Rahman.<sup>31</sup> For Tan Siew Sin, 'Red China' offered an alternative, long-term trade strategy to reliance on western markets. As he explained to T. H. Tan, Chief Executive Secretary of the Malayan Chinese Association, in June 1956:

There is a feeling in certain knowledgeable quarters... that the USA may be heading for a general economic recession. If this is so, it might well lead to a general trade recession throughout the entire non-communist world, and it is at such times that rubber sales to the Communist bloc may

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<sup>30</sup> Schenk, *Britain and Sterling Area*, p. 128.

<sup>31</sup> Arkib Negara Malaysia, Kuala Lumpur (hereafter ANM), Tan Siew Sin Papers, SP 45/897, T. H. Tan to Tan Siew Sin, 20 June 1956; 'Rules of the Trade Mission to China and Japan', April 1956.

give us some help in arresting the inevitable collapse of rubber prices on world markets...<sup>32</sup>

Pre-war, a flourishing trade between Malaya and China had been facilitated by the Malayan Chinese community. China supplied traditional goods and foodstuffs but increasingly textiles, and by the end of the 1930s, China controlled 4 per cent of the total volume of imports into British Malaya. China's export trade to Malaya was far less marked than the UK's or the US's but, as Nie Dening points out, it was a on a par with Australia and the countries of western Europe. In return, China took a share of Malaya's primary products – some 40 per cent of China's rubber was derived from Malaya by 1936. In addition, overseas Chinese remittances from the Straits Settlements and the Malay States were running at approximately 100 million yuan (about £12.5 million) by the end of the 1930s.<sup>33</sup>

There was a vast growth in Sino-Malayan trade after the Second World War – the total volume of trade worth about US\$63 million in 1950 was two and a half times that of 1940. However, strategic controls on trade with Communist China were introduced in May 1951 as a consequence of Beijing's intervention in the Korean War. These were lifted, however, in mid-1956 and the People's Republic began to purchase rubber from Malaya in increasing quantities. In the first three-quarters of 1958, a figure of 64,000 tons was attained, and mainland China was now the sixth largest purchaser of Malayan rubber. In return, Malayan imports from China for the first nine months of 1958 were worth M\$120 million (as against M\$100 million for the whole of 1957). The principal trade was in cotton textiles plus other light

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<sup>32</sup> Ibid., Tan Siew Sin to T. H. Tan, 28 June 1956.

<sup>33</sup> Nie Dening, 'Changes in the Trading Ties Between China and Malaya, Prewar to Postwar', *Journal of the Malaysian Branch of the Royal Asiatic Society*, LXXII, 1 (1999), pp. 101, 104, 108

industrial goods. Jimmy Donald, the chairman of the British-dominated Singapore Chamber of Commerce and manager of the Borneo Company Ltd. (BCL) in the island colony, reported to London that these manufactures from the People's Republic were 15-20 per cent cheaper than from western sources and even slightly cheaper than those arriving from Japan.<sup>34</sup> In the course of 1958, the Singapore Plywood Company Ltd. – part of the BCL's industrial and commercial portfolio – discovered its local markets 'flooded with cheap imports' from China (and Japan).<sup>35</sup> As in the 1930s, the China-Malaya trades were underpinned by an indispensable institution, the Bank of China. Its branches in Singapore, Kuala Lumpur and Penang provided user-friendly exchange services, particularly export and import purchase bills.<sup>36</sup>

Yet, for geo-political reasons, the government in Kuala Lumpur grew increasingly wary of mainland China's influence in Southeast Asia. In the autumn of 1958, the Alliance government banned Communist China's textile imports to protect its own nascent industry in Johor. The government also amended its banking legislation to ban any bank whose control was vested in a foreign government; an action which had the effect of closing down the Bank of China in the Federation because of suspected financial links to the Malayan Communist Party. At the same time, Beijing was barred from organising trade fairs in the Federation, culminating in embargoes on trade between Malaya and China. As such, Malaysian-Chinese economic links would not fully revive until the beginning of the 1970s.<sup>37</sup> But, the

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<sup>34</sup> PRO, DO 35/9759, 'Brief for Lord Home's Visit to Malaya. Economic Relations with China', c. January 1959; Incheape Archives, Guildhall Library, London (hereafter IA), Ms. 27259/5, Donald to Malcolm, 20 October 1958 enclosing copy of letter to W. C. S. Corry, Malayan Commercial Association of Great Britain, 20 October 1958; Nie, 'Trading Ties', pp. 100, 102, 104.

<sup>35</sup> Borneo Company Ltd., *Annual Report and Accounts 1958*.

<sup>36</sup> Nie, 'Trading Ties', pp. 110-11.

<sup>37</sup> PRO, DO 35/9759, 'Economic Relations with China'; BoE, OV 65/6, Copy of telegram from British High Commissioner, Kuala Lumpur to Commonwealth Relations Office, London, 30 October 1958; Nie, 'Trading Ties'. Tan Siew Sin's pro-China economic policy seems to have been overturned

important point is that without anti-communist exigencies, and irrespective of the continued existence of the sterling area, Malaya's trade with the People's Republic would have expanded dramatically from the end of the 1950s.

In the meantime, however, Japan's anti-communism made it an ideal Asian trading partner for Malaya, and the Federation (and Singaporean) trade delegation of 1956 would prove ultimately more successful in Tokyo and Osaka. Informal meetings with Japanese political and business figures during August 1956 paved the way for a number of top-level Malayo-Japanese meetings which culminated in the Japan-Malaya trade agreement of 1960 and the Singapore-Japan Tax Convention of 1961.<sup>38</sup> British officials were relieved that the trade deal between Tokyo and Kuala Lumpur expressly excluded Japan from the system of Commonwealth preference. At the same time, the Federation's 'rights and obligations' as a member of the sterling area were not affected. But, significantly, the Malayo-Japanese pact was Kuala Lumpur's first most-favoured-nation agreement outside the Commonwealth.<sup>39</sup>

From the early 1950s onwards, Japanese general trading companies (*sogo shosha*) and individual entrepreneurs had rejuvenated Japan's commercial links with sterling-area Southeast Asia. Although less marked than in other parts of the region, by the late 1950s, Japanese economic penetration of Malaya was already causing alarm in British official and commercial circles. Japan was now second to Britain as a supplier of imports to the Federation of Malaya, and, immediately after *merdeka*, the British agency houses complained of strong competition in the bazaar given a 'continued and increasing influx' of goods from Japan (as well as China and

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by the Minister of Finance, H. S. Lee. Lee's antipathy to Beijing stemmed from his pre-war and wartime links to the Guomindang.

<sup>38</sup> Tomaru Junko, *The Postwar Rapprochement of Malaya and Japan, 1945-61: the Roles of Britain and Japan in South-East Asia*, Houndmills: Macmillan, 2000, ch. 6.

continental Europe), resulting in their profits running 'at extremely low levels'.<sup>40</sup> The period of the early-1930s, when the low value of the yen had permitted Japan a growing share of the Malayan industrial goods market, appeared to be repeating itself. Between 1931 and 1933 the UK's share of Malaya's imports of manufactures was maintained at around 20 per cent, but Japan's proportion more than doubled from 6.4 per cent to 13.6 per cent, and even after the imposition of import quotas, Japan still supplied nearly one-fifth of Malaya's textiles in 1938.<sup>41</sup>

The resurrection of Japanese trade with Malaya after the war was a slow process, and it was not fully complete by the end of the 1950s. As late as 1961, Japan's percentage share of the Federation's imports was still outstripped more than two and half times by the UK (see table 2).

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<sup>39</sup> PRO, DO 35/9974, Woodruff to Phillips, 19 May 1960, Enclosure III: Note by McKelvie, 19 May 1960.

<sup>40</sup> *FMS Chamber of Commerce Yearbook 1957*, Kuala Lumpur, 1958, President's Address, 16 April 1958, p. 12.

<sup>41</sup> ANM, BMA (Intelligence) 506/31, 'Memorandum on the Entrepot Trade of Singapore', 25 November 1944, p. 6; Yuen Choy Leng, 'Japanese Penetration of Pre-war Malaya' in K. S. Jomo (ed.), *The Sun Also Sets: Lessons in 'Looking East'*, Kuala Lumpur: INSAN, 1983.

*Table 2: Imports into the Federation of Malaya  
by Britain and its principal industrial competitors, 1961.*

	M\$ million	Percentage of total
United Kingdom	503	22.6
Japan	182	8.2
United States	112	5.0
Australia	95	4.3
Hong Kong	84	3.7
West Germany	83	3.7

*Source:* DO 189/219, 'Britain's Trade with Malaya'. Note by the Commonwealth Relations Office, c. January 1962.

But, while there was little significant expansion in total Japanese exports to Malaya during the latter half of the 1950s, a qualitative and far-reaching shift in the pattern of that trade did occur. Sales of Japanese textiles in Malaya declined as newer industrialising countries in Asia, such as China and India (along with the Federation and Singapore themselves) started to compete. On the other hand, sales of Japanese radios, photographic equipment and consumer durables showed spectacular growth — for example, by 1960, Japan could claim over 70 per cent of the pan-Malayan market in battery radios.<sup>42</sup> In January 1958, the leading Malayan daily, the *Straits Times*,

<sup>42</sup> Unless otherwise indicated, the following three paragraphs are primarily based upon PRO, DO 35/9974, Copy of H. W. Woodruff, UK Trade Commissioner, Kuala Lumpur to E. L. Phillips, Board of Trade, 19 May 1960 and enclosures.

hailed an '[i]nflux of Japanese made electrical goods'. This followed the prediction of the German firm, Hagemeyer Trading, that Japan 'would eventually rank among the world's foremost electrical goods manufacturers'. The demand in Malaya for low-priced, high-quality Japanese electricals was so apparent to Hagemeyer's Singapore branch that its managing director secured the local agency for the products of the Osaka-based Matsushita Electric Industrial Company throughout the region. These included washing machines, ice-cream freezers, toasters, mixers, irons, refrigerators, radios, home-lighting equipment, industrial equipment, power packs, automotive accessories and spares, and bicycle accessories.<sup>43</sup> Despite the enduring system of imperial preference, British industry was proving increasingly uncompetitive in the supply of 'high-tech' goods to Southeast Asia.<sup>44</sup> Hence, we can clearly discern the emergence of trends during the 1950s which would culminate in Japan becoming Malaysia's major trading partner by 1965.

Concurrently, Japan was beginning to supply private development capital for Malaya's first phase of industrialisation through import substitution. In 1960, the manager of a Japanese firm establishing an oil refinery in Singapore, prophesied that capital investment rather than the export of goods would prove the major form of Japanese economic penetration of Malaya in the future. In the Federation, Japanese manufacturers had already helped form companies to build a sugar refinery, refrigeration and processing plants for tuna-fishing, an asbestos plant, a factory

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<sup>43</sup> *Straits Times*, 17 January 1958.

<sup>44</sup> Catherine Schenk argues that imperial preference did not necessarily 'feather-bed' British manufactures in the decolonising empire. 'Decolonization and European Economic Integration: the Free Trade Area Negotiations, 1956-8', *Journal of Imperial and Commonwealth History*, 24, 3 (1996). Indeed, in Singapore, British goods enjoyed no preferences and in the Federation less than one-third of British exports by value were covered by Commonwealth trade advantages. And, the only sector in which there was a clear UK advantage was in the motor-car market where British manufacturers were protected by Commonwealth preferences on the payment of registration tax. The real problem facing British manufactured goods was their low quality, high price, extended delivery times, and poor after-sales service.

manufacturing galvanised iron sheets, and another unit producing toothpaste. More ambitious plans were afoot for a tin-smelter, an oil refinery and a steel plant. Most of these enterprises were situated on the new industrial estates at Petaling Jaya (outside Kuala Lumpur) and Prai (opposite Penang). Admittedly, the level of Japanese industrial investment in Malaya's pioneer industries was slight when compared with the funds channelled by the alliance of British transnationals and agency houses to defend long-established markets, and eased into Malaya by the continued functioning of the sterling area. Nor did Japanese industrial investment compare favourably with the capital marshalled from within Malaya itself (see table 3).

*Table 3: Sources of called-up capital for pioneer industries in the Federation of Malaya, 1958 to mid-1962*

	M\$ million	Percentage of total
Singapore	19.6	28.4
United Kingdom	16.0	23.2
Federation of Malaya	13.0	18.9
USA and Canada	5.4	7.8
The Bahamas	5.0	7.3
Hong Kong	4.3	6.2
Australia	2.7	3.9
Japan	1.3	1.9
Other	1.6	2.3

*Source:* Adapted from J. H. Drabble, *An Economic History of Malaysia, c. 1800-1990*, Houndmills: Macmillan, 2000, p. 169.

As late as 1969, Japan ranked a mere fifth among foreign countries with investments in Malaysia.<sup>45</sup> Yet, the Japanese factories were typically joint ventures with politically well-connected Malayan *towkay* — for example, T. H. Tan, who as Secretary-General of the Alliance and a close personal friend of the Tunku was ‘one

<sup>45</sup> Mehmet Sami Denker, ‘The Evolution of Japanese Investment in Malaysia’ in K. S. Jomo (ed.), *Japan and Malaysian Development*, London: Routledge, 1994.

of the most powerful men in the country'.<sup>46</sup> A branch of the Bank of Tokyo set up in Kuala Lumpur towards the end of 1959 with the express intention of providing loans for joint Japanese-Malayan ventures. It may be, therefore, that the above figures significantly underplay Japanese participation in Malaya's nascent manufacturing industry. Certainly, by the end of 1961, the Board of Trade in London regarded new Japanese investment in the peninsula as 'impressive' and already running 'second to ours'.<sup>47</sup> The scene was being set for the explosion of Japanese industrial investment in Malaysia from the 1970s.

After 1955, meanwhile, Malaya became the largest supplier of iron ore to Japan - in 1960 almost all of the 5.5 million tons of iron ore shipped from the peninsula was destined for Japanese steel plants.<sup>48</sup> Before the Pacific war, the east-coast mines had been developed by Japanese enterprises, and in 1937 the states of Johor, Kelantan and Terengganu produced 2.5 million tons or about half of Japan's iron ore imports.<sup>49</sup> Although the colonial authorities were insistent that Japanese businesses should not be allowed absolute financial or managerial control in the post-war iron industry, many of the Malayan mining companies relied on Japanese capital, equipment and mining technicians, and a leading Japanese industrial and trading concern, Mitsubishi Shobi Kaisha, established a mining department in Singapore to provide prospecting services for the Federation's iron industry. Additionally, Japanese economic influence expanded into Malaya through the provision of experts

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<sup>46</sup> Desmond Tate, *Power Builds the Nation: The National Electricity Board of the States of Malaya and its Predecessors. Volume II: Transition and Fulfilment*, Kuala Lumpur: Tenaga Nasional Berhad, 1991, p. 63. Business links between Chinese entrepreneurs and Japanese firms in Malaya were nothing new. As Rajeswary Brown has shown, the vast growth of Malayan Chinese rubber business during the 1930s was due to links with the Japanese *sogo shosha*. *Capital and Entrepreneurship in South-East Asia*, Houndmills: Macmillan, 1994, pp. 117-22.

<sup>47</sup> PRO, DO 189/151, Copy of Draft Note for the President by Commercial Relations and Export Department, 17 November 1961.

<sup>48</sup> *FMSCC Yearbook 1960*, Kuala Lumpur, 1961, President's Address, 14 March 1961, p. 10.

and technical aid. In the late-1950s, arrangements were made for two engineers from the Federation's Department of Telecommunications to receive training in Japan. The Japanese also supplied rice-planting experts to mainland Malaya under the provisions of the Colombo Plan.<sup>50</sup> Meanwhile, a Japanese industrial advice bureau was established in Kuala Lumpur to offer assistance to Malay entrepreneurs who wished to found industrial ventures in partnership with Japanese investors. On a more populist level, Japan's industrial might was on display at the Kuala Lumpur trade fair of February 1960, and during the autumn of that year an industrial floating fair visited Port Swettenham as well as Singapore. Indeed, a similar pattern of Japanese economic penetration prevailed in the island colony: the remarkably popular trade fair of 1958 had been preceded by the establishment of an inter-connected cluster of branches of Japanese shipping firms, the *sogo shosha*, banks and insurance companies. In the manufacturing sector, the Bridgestone Tyre Company began operations in October 1956 while a subsidiary of the Onoda Cement Company was registered on the island in June 1958.<sup>51</sup> The trade fairs in Malaya were organised by the government-backed JETRO (the Japan External Trade Organisation) which established an office in Singapore as the successor to the pre-war Commercial Museum.<sup>52</sup> Indeed, as with economic ties between China and Malaya, there were clear continuities between the 1930s and the 1950s in Japan's commercial connections with the Federation and Singapore – not least, because many of the Japanese firms in 1950s Malaya were reincarnations of pre-war businesses. For

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<sup>49</sup> Yuen Choy Leng, 'Japanese Rubber and Iron Investments in Malaya, 1900-41', *Journal of Southeast Asian Studies*, 5, 1 (1974), pp. 18-36; idem., 'Japanese Penetration', pp. 222-3.

<sup>50</sup> Although originally Commonwealth-dominated, Japan was admitted to membership of this scheme for the economic development of South and Southeast Asia in 1954. Tomaru, *Postwar Rapprochement*, pp. 137-50.

<sup>51</sup> Hirakawa Hitoshi, *Japan and Singapore in the World Economy: Japan's Economic Advance into Singapore, 1870-1965*, London: Routledge, 1999, pp. 164, 166-77.

example, Japan's premier shipping line, Nippon Yusen Kaisha, re-established its services to Singapore in mid-1952; the Bank of Tokyo was the virtual successor to the pre-1945 Yokohama Specie Bank; while, the first Japanese trading company to set up in 1950s Singapore, the Dai-ichi Bussan, was an off-shoot of the reconstructed Mitsui group.<sup>53</sup>

Given recent negative memories of the Japanese occupation and lingering 'blood-debt' claims amongst the Malayan Chinese communities, it might seem distinctly odd that Malaysians should welcome economic links with Japan during the 1950s. Yet, engagement with the burgeoning Japanese economy proved an important means of stressing an Asian identity as colonialism crumbled. Many of those Malays who held high office in the post-colonial era had received their wartime education in the Japanese *koa kunrenjo* (youth training schools).<sup>54</sup> Even the moderate Malay nationalist politician, Dato Onn, reflected after the war: 'Under the Japanese I learnt that an Asian is just as good as a European... [The Japanese] were brutal, true, but they inspired us with a new idea of what Asia might become'.<sup>55</sup>

The Cambridge-educated Tunku Abdul Rahman remained more at home in London than in Tokyo, but the Federation's Commonwealth-oriented prime minister could still see advantages for Malaya in the expansion of economic links with Japan. During the Tunku's visit to the Asian Games in Tokyo in June 1958, means of expanding trade with Japan and increasing co-operation in the field of industrial development were discussed. In subsequent press conferences, the Tunku stressed

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<sup>52</sup> W. G. Huff, *The Economic Growth of Singapore: Trade and Development in the Twentieth Century*, Cambridge: Cambridge University Press, 1994, p. 284.

<sup>53</sup> Nicholas J. White, 'Britain and the Return of Japanese Economic Interests to Southeast Asia after the Second World War', *South East Asia Research*, 6, 3 (1998), pp. 284-5, 289, 297.

<sup>54</sup> Akashi Yoji, 'Watanabe Wataru, the Architect of the Malay (sic.) Military Administration, December 1941-March 1943', paper presented to the Second International Malaysian Studies Conference, University of Malaya, Kuala Lumpur, Malaysia, 2-4 August 1999, p. 13.

that the economies of Japan and the Federation were complementary. His Minister of Commerce and Industry, Tan Siew Sin, pressed for increased purchases of iron ore, tin and rubber, considered amending GATT restrictions on the import of Japanese manufactured goods, and sought Japanese investment capital for the development of Malayan industries. The Tunku had two particular pet projects which would involve Japan – the first, to gain assistance in the development of small-scale cottage industries as a means of providing employment for rural Malays and, the second, to establish a large Japanese department store in Kuala Lumpur as a means of bringing down Malaya's cost of living. Notwithstanding the objections of local business leaders who feared exclusion from development opportunities, the Alliance government increasingly wooed Japanese industrial capital. Rather than pan-Asian sentimentality, Federation ministers were here influenced by more hard-headed and immediate concerns: namely, the looming danger of Malayan unemployment amongst a rapidly growing working population (which had doubled since 1947 to reach 4 million ten years later). With little or no expansion possible in the labour forces of the staple primary industries, the development of factory-based manufacturing offered a solution to the unemployment problem. As Sir Geofroy Tory, Britain's High Commissioner in Kuala Lumpur appreciated in June 1958: 'the Tunku and his Minister of Commerce and Industry appear to be determined to bring industry to Malaya from whatever sources may offer it, and if necessary *without regard to traditional trading patterns*' (my emphasis).<sup>55</sup> Japanese industrial capital was thus assigned a crucial role in stabilising Malayan society and polity. In Singapore too after 1955, the emergent political leaders regarded the development of manufacturing

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<sup>55</sup> Cited in John Keay, *Last Post: the End of Empire in the Far East*, London: John Murray, 1997, p. 230.

<sup>56</sup> PRO, DO 35/9974, Confidential Despatch to Lord Home, 18 June 1958.

industries with Japanese capital as a means of anaesthetising the communist undertow with prosperity.<sup>57</sup>

There also existed a broad degree of British official support for the economic revival of Japan in Southeast Asia.<sup>58</sup> Ignoring howls of protest emanating from British manufacturers in Lancashire and Staffordshire, as well as from the agency houses in Malaya, the UK Commissioner-General's Office in Singapore supported the American Cold War design to build up Japan as a counterweight to Communist China. In this, Southeast Asia's markets for textiles and light industrial goods, in exchange for badly needed raw materials and food supplies, would be critical to Japanese economic survival and prosperity. Japan would atone for the war, not through crippling reparations payments, but through increased trade, capital investment, and technical assistance to Southeast Asia. Moreover, from the early 1950s, British officialdom permitted Japanese trade and capital a key role in making up the Malayan development deficit and thus winning Malaya's domestic Cold War. This was particularly pressing as supplies of capital from the City of London became increasingly scarce. For example, during talks with Japan's prime minister, Kishi Nobusuke, in November 1957, Singapore's British Governor, Sir Robert Black, supported Japanese involvement in Singapore's industrialisation as a means of countering communist influence in the region.<sup>59</sup>

Indeed, the desperate desire to encourage economic development to win Malayan 'hearts and minds', and so aid the political management of decolonisation, came to over-ride the strict enforcement of sterling-area rules. In the re-development of the peninsula's iron mines, the Treasury disliked Japan's 'objectionable' barter

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<sup>57</sup> Shimizu and Hirakawa, *Japan and Singapore*, p. 161.

<sup>58</sup> White, 'Japanese Economic Interests'.

<sup>59</sup> Shimizu and Hirakawa, *Japan and Singapore*, p. 161.

deals and bilateral trading methods. Pahang's deposits, for example, were to be exploited by the Eastern Mining and Metals Company (EMMCO) via indirect payments for Japanese steel supplies in the form of deductions from the proceeds of the ore sales to Japan. For the protection of metropolitan interests, the Treasury, and the Board of Trade, would have preferred to see sterling-area equipment and finance more fully utilised.<sup>60</sup> But, the views of the Federation's assertive expatriate Member for Economics, Oscar Spencer, won the argument:

[T]he over-riding requirement is the rapid development of Malaya on a sound economic basis; providing this is achieved we consider we must be prepared to compromise, if necessary, by accepting foreign plant and machinery to a greater extent than we would really like... We recognise of course that there is a foreign exchange aspect to be considered, and that it is an important one... [B]ut this objective should be secondary to the really important issue of development.<sup>61</sup>

As the Bank of England finally conceded in the summer of 1954:

If the company [EMMCO] is convinced that the proposed scheme is necessary and it of advantage, particularly from the point of view of securing a footing on the Japanese market,... the Federation

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<sup>60</sup> PRO, CO 1030/184, Dalton, Treasury to MacKintosh, Colonial Office, July 1954; Dalton to Harding, Colonial Office, 3 September 1954; telegram from Colonial Secretary to Kuala Lumpur, 13 September 1954.

<sup>61</sup> Letter to the Colonial Office, 26 June 1953 cited in Tomaru, *Post-war Rapprochement*, p. 108.

Government... could hardly be expected to hold things up simply out of our dislike of Japanese bilateral trading methods.<sup>62</sup>

Besides the dash for development, it was also appreciated in both London and in Malaya that there was a compatibility between the recovery of Japan and the prosperity of the sterling area.<sup>63</sup> At the end of 1953, the UK Treasury argued for a general liberalisation of Japanese trade with the colonial empire to boost sterling-area dollar receipts. After all, the sterling area, rather than the dollar area, had proved Japan's main international market before the Pacific war, and the Treasury and the Board of Trade both hoped that Japan could be persuaded to use its dollar resources for increased purchases from the colonies.<sup>64</sup> Indeed, as Japanese domestic industry began exceeding pre-war levels of production, and Malaya's exports to the United States declined, Japan emerged as a major consumer of Malayan commodities. By 1958, for example, Japan was the second most important destination for the peninsula's tin. Japanese factories increased their consumption of rubber (both natural and synthetic) by nearly six times between 1950 and 1962 to reach 294,000 tons, and, despite an expanding synthetic capacity in Japan, 57 per cent of this rubber was derived from Malayan plantations.<sup>65</sup> In Kuala Lumpur, Oscar Spencer shrewdly observed in the summer of 1953 that to deny the Japanese supplies of iron ore from Malaya, 'would lay us open to a charge of discrimination; this in turn would stop us from pressing the Japanese to accord more favourable treatment to our own rubber

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<sup>62</sup> PRO, CO 1030/184, Copy of Ryan, Bank of England to Dalton, Treasury, 31 August 1954.

<sup>63</sup> Again, there is a parallel with the 1930s. See Akita and Kagotani, 'International Order of Asia', pp. 12-20.

<sup>64</sup> PRO, CAB 134/846, EA 31 (53) 1 reproduced in David Goldsworthy (ed.) *The Conservative government and the end of empire, 1951-1957*, Part III, London: HMSO, 1994, doc. 377, pp. 69-72.

<sup>65</sup> Guildhall Library, London, Rubber Growers' Association Council Minutes, Ms. 24863/72, 7 October 1963, 'Report on Visit Overseas, 6 April-15 June 1963 by Leslie Bateman'.

and tin exports'.<sup>66</sup> A growing awareness of the need to appease Japan economically to ensure the prosperity of the sterling area was another factor in permitting the re-establishment of Japanese commercial banks in Malaya from the mid-1950s. As one British official in Singapore appreciated in September 1955: 'International banking in general is one of the invisible exports of the sterling area'. To refuse the Bank of Tokyo's request to set up a branch in the British colony might well 'invite retaliation by Japan'.<sup>67</sup>

The relatively 'open' nature of the sterling-area system in Asia can be further illustrated through an examination of the economic relations between Malaya and Hong Kong during the 1950s. The Malayan territories were permitted to take advantage of the so-called 'Hong Kong gap' whereby, combined with the normal colonial dollar programme procedure, the Federation and Singapore benefited from special arrangements for the import of dollar goods through Hong Kong's free market (albeit incurring a 5-6 per cent commission). Because of the opportunities for abuse —outlined in the next section — the guardians of sterling in Threadneedle Street were far from happy about Singapore's import of hard currency goods via Hong Kong. The Treasury in London, meanwhile, regarded the intra-Asian dollar trade as difficult to defend in the IMF and discriminatory within the sterling area since other colonies and dominions were not allowed to buy in Hong Kong. Yet, as with the issue of Malayan iron-ore development by Japan, the Colonial Office argued successfully in favour of local interests: the colonial administration believed that the Hong Kong dollar trade was vital to Singapore's intra-Southeast Asian trade – particularly since North American goods could be bartered for Indonesian rubber which was

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<sup>66</sup> Cited in White, 'Japanese Economic Interests', p. 296.

<sup>67</sup> Ibid., p. 298.

subsequently processed and sold on by Singapore Chinese for US dollars.<sup>68</sup> It was also pointed out that Malaya's need of anti-inflationary goods was met partly from the Hong Kong trade and if this was stopped an even more substantial increase than that already allowed in Malaya's dollar ceiling would be required. Hence, in 1951, it was agreed within Whitehall that Malayan purchases through Hong Kong should be allowed to continue (although subject to certain 'safeguards'). Attempts were made to draw attention to sterling-area sources of supply, particularly from the UK, to lessen the attraction of this trade to Malayan importers.<sup>69</sup> But, the practice remained widespread to the late-1950s, and this concession in the dollar trade proved an important factor in official tolerance of the sterling area in post-colonial Malaya. As the Federation's Minister of Commerce and Industry, Tan Siew Sin, pointed out in the Malayan parliament at the end of 1957, the Federation was likely to remain in the sterling area for the foreseeable future and an immediate increase in direct imports of dollar consumer goods was unlikely since that market was already well supplied indirectly through Hong Kong.<sup>70</sup>

Strictly speaking, the Hong Kong-Malaya trade in US and Canadian goods was intra-Pacific rather than intra-Asian. Yet, these exchanges were fuelling the intra-Asian economy, not least through consolidating links between Hong Kong Chinese and Malayan Chinese merchants. Indeed, on top of supplying dollar goods, Hong Kong proved a significant supplier of capital for Malaya's import-substitution industrialisation in the late-1950s and early-1960s – with six per cent of the capital

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<sup>68</sup> Indeed, Singapore was not an exclusively Malayan port. Indonesian trade, both legal and illegal, was probably more significant than pan-Malayan trade for the British entrepot during the 1950s. See, *Economic Growth*, pp. 279-81. Indonesia's contribution to Singapore's position as the world's largest rubber market was acknowledged through an inter-government agreement whereby Jakarta received US dollars for rubber sent to the British port. This is another example of the flexible, open nature of the sterling-area system in Southeast Asia.

<sup>69</sup> BoE, OV 44/79, Note by Payton for O' Brien, 15 May 1951.

share, Hong Kong was the sixth largest industrial investor in the Federation (see table 3). Here, links between Hong Kong Chinese and Malayan Chinese entrepreneurs were crucial in the development of the Federation's textile production. The M\$2 million weaving and dyeing mill at Scudai, Johor started operations during 1958 with the capability of producing 15 million yards of cloth per annum for the domestic market. The Singapore industrialist, David Lee, with capital and technicians from Britain's East Asian colony, promoted this pioneer industry.<sup>71</sup> Moreover, in the aftermath of the official ending of direct trade with Communist China in the later 1950s, it was through overseas Chinese commercial networks that Chinese products continued to find their way into Malaya via Hong Kong.<sup>72</sup>

### **Malaya and the Intra-Asian Economy: the 'Unofficial Market'**

In addition to the tolerance, and indeed encouragement, of a degree of regulated intra-Asian trade and investment, British officials in Singapore, Kuala Lumpur and Penang encountered great difficulty in imposing sterling-area dictates upon Malaya's commercial community. There was massive evasion of controls and wide-scale smuggling which produced an intra-Asian 'black market'. This was part of a long tradition of Southeast Asian 'passive resistance' to European economic designs in the region. In the sixteenth century, for example, Portuguese attempts to monopolise the spice trade were seriously undermined by the operation of 'black markets' by Asian traders, and the development of an alternative 'Muslim' spice route via Aceh and the Middle East. Closer to the 1950s, there was a huge illegal barter trade between the

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<sup>70</sup> Reported in PRO, DO 35/9972, Bevan, British High Commission, Kuala Lumpur to Wright, Board of Trade, 17 December 1957.

<sup>71</sup> *Straits Times*, 2 January 1958.

Netherlands East Indies and British-controlled Singapore during the inter-war years, as well as the Japanese occupation, while smuggling back and forth across the Straits of Melaka by ethnic Chinese entrepreneurs proved crucial in the financing of the Indonesian revolution.<sup>73</sup> The British Military Administration of post-war Malaya became known as the ‘Black Market Association’, illustrating what Harper has called ‘the resilience of local economic life to attempts by the state to control it’.<sup>74</sup> Meanwhile, rubber was illegally shipped over the Thai border to take advantage of Bangkok’s free exchange market. This trade proved so large that it contributed to the decline of hard currency earnings from Malayan rubber during the first nine months of 1949, culminating in the sterling crisis and devaluation of that year.<sup>75</sup>

W. J. Jackson of the Overseas and Foreign Office of the Bank of England paid an unofficial visit to the Federation and Singapore in February and March 1951. Although laced with colonial racism and stereotypical views of ethnic Chinese business practice, Jackson’s reports for his seniors in London provide a fascinating first-hand account of the ‘large seamy side’ to Malaya’s economy. ‘[T]he whole area appears riddled with graft, vice, rackets of all kinds, smuggling and so on’, reported Threadneedle Street’s envoy in June 1951.<sup>76</sup> Perhaps recalling wartime Britain, Jackson declared that ‘controls breed rackets’. Official command over the movement of currency notes appeared to be illusory: there was a street in Singapore known locally as ‘Change Alley’ where ‘every currency under the sun can be obtained without difficulty’. Malayan notes were smuggled out by travellers to Bangkok from

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<sup>72</sup> Nie, ‘Trading Ties Between China and Malaya’, p. 103, 109.

<sup>73</sup> Twang Peck Yang, *The Chinese Business Elite and the Transition to Independence in Indonesia, 1940-50*, Kuala Lumpur: Oxford University Press, 1998.

<sup>74</sup> Harper, *Making of Malaya*, p. 43.

<sup>75</sup> PRO, BT 64/4000, ‘Draft Note on Rubber for Inclusion in the Report of the Working Party on Raw Material Prices by A. E. Lee, 4 August 1949’.

where they were bought by Thai traffickers and subsequently smuggled back into Malaya. There was additionally widespread trafficking and commodity deals in notes between Malaya, Thailand and Indonesia and within Malaya itself — indeed, the banking habit was tending to decline since physical currency provided a useful means of evading the income taxes in the Federation and Singapore (first introduced in 1948).

Moreover, Jackson discovered that it was ‘common knowledge’ that Malayan Chinese merchants were ‘salting away funds in the [United] States’. A widespread practice was to under-invoice rubber — that is, to export top-quality rubber (Grade 1) as the low-quality commodity (Grade 4). Singapore was a busy free port and examination by customs officials could not be relied upon. As long as the weight of the rubber agreed with the declaration made by the exporter no further examination of the bales was ordinarily undertaken. The agent in New York made payment for Grade 1, but the exporter in due course would only surrender the dollar proceeds of Grade 4. Singapore’s Exchange Controller, Eric Himsworth, had discovered that this rubber ‘racket’ further fuelled intra-Asian trade, particularly between Hong Kong and Singapore. The Singapore Chinese owners of the unsurrendered US dollars profited by selling them in Hong Kong for local currency. These Hong Kong dollars were either used by the Singapore Chinese rubber exporters themselves or sold to importers who were then able to buy US goods under licence from Britain’s East Asian entrepot. From the perspective of the Bank of England, therefore, the Hong Kong free market was being severely misused and represented a major loss of dollars for the hard currency pool. But, worse still, Jackson found that offers of American

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<sup>76</sup> BoE, OV 44/79, Note for O’ Brien, 28 June 1951. Unless otherwise indicated, the following paragraphs are largely based upon this extensive note as well as Jackson’s letter of 20 April 1951 to O’Brien.

goods — ranging from cars to cameras — against payment in sterling were then being sold on from Singapore to other parts of the sterling area, and as far away as Southern Rhodesia. This practice prevailed despite the supposed condition of 1950 that Singapore's purchases through the Hong Kong free market would be tolerated as long as goods imported under this arrangement were not subsequently offered to other sterling area territories. The argument of Andrew Gilmour, Singapore's Economic Secretary, that the Hong Kong trade was an essential anti-inflationary device, as well as an inducement to Indonesia and Thailand for rubber, were seriously flawed in the Bank of England's view.

In all this, Jackson was particularly mistrustful of the rubber multi-millionaire, Lee Kong Chian, who, with a transnational commercial network of agents and branches throughout East and Southeast Asia's overseas Chinese communities, had many opportunities 'to get up to his tricks'. Lee's suspected links with the Malayan communists gave a political edge to his allegedly illicit commercial activities. Furthermore, one intra-Asian trade, which was completely beyond sterling-area control, was opium which, in the early 1950s, reached the local Chinese dealers at Singapore's Boat Quay by sea, land and air from Communist China. Narcotics trafficking was so rife and so unmanageable that some Europeans in Malaya felt that the government should legalise the trade as a lucrative source of revenue.<sup>77</sup> Overseas Chinese networks also facilitated the clandestine trade in gold. After 1952, Singapore became the major market for gold smuggled from Hong Kong. As with opium, the

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<sup>77</sup> It was claimed by the Nationalist Chinese regime in Taipei that Malaya's opium trade was controlled by the communist guerrillas, but, as British officials discovered, most dealers in Singapore tended to support the Guomintang! Singapore National Archives, MF 096 (Chief Secretary's Office 972/53), Telegram from Colonial Secretary, London to Governor, Singapore, 3 March 1953 and reply of 12 March 1953. On the general importance of opium in modern Asian history see Carl A. Trocki, *Opium, Empire and the Global Political Economy: A Study of the Asian Opium Trade, 1750-1950*, London: Routledge, 1999.

Bank of England discovered that Singapore acted as the redistribution centre for Hong Kong gold up-country to the Federation, and for Southeast Asia as a whole.<sup>78</sup>

But, in the evasion of sterling-area controls to profit from intra-Asian trade, Europeans were not beyond reproach. In 1951, a major Danish agency house was under suspicion regarding the shipment of rice from Thailand to Singapore. There were also doubts about how the British exchange controllers obtained their whisky and American cigars! The proper operation of exchange control was additionally hampered by cleavages and jealousies between Kuala Lumpur, Penang and Singapore as well as antagonisms between Exchange Control (staffed by seconded Bank of England officials) and the economic branch of the secretariat (headed by members of the Malayan Civil Service).

For all these reasons, Jackson was wholly opposed to the suggestions — aired by both Europeans and Chinese in Singapore and Kuala Lumpur — that Malaya should have an entirely free-hand in US dollar spending: ‘it seemed to me that the area would become a sink’. It is impossible, of course, to calculate the importance of the illicit, non-sterling trades for Malaya during the 1950s, but their prevalence and economic importance cannot be doubted. As an indication, Huff has noted that the illegal barter trade between Singapore and Indonesia was ‘larger than the legal’, that it fed off Indonesian controls, and that it contributed significantly to the economic growth of the British port:

...Indonesian traders could obtain more manufactured goods if rubber and produce were bartered in Singapore than marketed legally, and could sell these manufactures at a large profit in Indonesia. Thus, Indonesian

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<sup>78</sup> Catherine R. Schenk, ‘The Hong Kong Gold Market and the Southeast Asian Gold Trade in

regulation set up a “virtuous” circle for both the Singapore economy and Indonesians in contact with the port: high 1950s world rubber prices stimulated Outer Province [Sumatra and Kalimantan] smallholder production; Singapore Chinese traders provided the means for Indonesians to realize these prices; and Singapore’s trade in rubber and the shipment of manufactures expanded accordingly, with further important benefits for the island’s remilling industry...<sup>79</sup>

## **Conclusion**

This paper has stressed the enduring value of Malaya for the sterling area throughout the 1950s. The desire to maintain Malaya’s dollar earnings and manage its sterling balances was clearly a central, albeit not exclusive, tenet of Britain’s controlled decolonisation strategy for maritime Southeast Asia. Even so, the liberalisation of the sterling area after 1955, combined with Malayan political devolution, produced a number of significant changes to the functioning of the imperial economic system in the region. At the same time, the examples of Japanese participation in the Federation’s iron-ore industry and the Malayan dollar trade via Hong Kong, illustrate that the Colonial Office and the colonial administrations in Malaya were able to temper the more hard-line, sterling-minded tendencies of the Bank of England and the Treasury. Perhaps, therefore, a more important, longer-term continuity in Malaya’s international economic history, linking the 1930s to the 1950s and beyond, was the existence of the sterling area alongside large and burgeoning intra-Asian trade and investment flows. Some of these economic exchanges and practices, such as opium

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the 1950s’, *Modern Asian Studies*, 29, 2 (1995), pp. 387-402.

trafficking and the under-invoicing of rubber, were unregulated and defied imperial controls, and they point both to the limits of British economic imperialism in Southeast Asia during the 1950s and to the inherent flexibility of the Asian commercial community, particularly in Singapore. As such, a considerable volume of intra-Asian trade is hidden from the official statistics. Threadneedle Street's W. J. Jackson sardonically concluded in 1951 that, 'a huge dollar surplus covers a multitude of sins'.<sup>80</sup> We can, however, be more certain of Malaya's re-engagement with, and growing incorporation into, the regulated Asia-Pacific economy. Returning from a visit to Malaya at the end of 1957, it was already obvious to the Liverpool shipping baron, Sir John Hobhouse, that 'European exports to Asia must be supplanted to an increasing extent by Japan and later China'.<sup>81</sup>

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<sup>79</sup> Huff, *Economic Growth of Singapore*, pp. 280-1

<sup>80</sup> BoE, OV 44/79, Copy of Jackson to O'Brien, 20 April 1951, p. 2.

<sup>81</sup> Note of 20 November 1957 cited in Nicholas J. White, 'The Diversification of Colonial Capitalism: British Agency Houses in Southeast Asia during the 1950s and 1960s' in Ian G. Cook et al., *Dynamic Asia: Business, Trade and Economic Development in Pacific Asia*, Aldershot: Ashgate, 1998, p. 32.