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British Malayan capitalism, 1874–1957: An economic-historical perspective

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This article grounds its analysis in the historical approaches of three well-known French academics: Fernand Braudel (1902–1985), Georges Duby (1919–1996), and Robert Boyer (b. 1943). Fernand Braudel, in his inaugural speech at the Collège de France in 1950, declared that ‘History is the daughter of its time’. He defined the work of the historian not as a journey into the past that is closed and outdated, but as a constant coming and going from the past to the present and from the present to the past. This conception of history is known as ‘histoire-problème’, where a new way of writing history is put forward that asks questions of the past, from the problems of the present.¹

Based on this progressive conception of history, Georges Duby, also of the Collège de France, encourages us to revisit what we thought we knew: ‘historians read the same documents with a new eye’ (Duby, 1991, p. 75). In 1989, Robert Boyer proposed that new disciplinary alliances be forged between economics and history (Boyer, 1989, pp. 1397–1426). For Boyer., economic theory works as a ‘reserve’ of concepts and problems that would allow history to be renewed by economics and in turn, illuminates historical experiences to better test their relevance and coherence.

For Malaya/Malaysia specifically, beyond the widely recognized post-independence success of the country’s development, the challenges it faces today are its dependence on external markets, capital, and technology; shortfalls in innovative industrial capacities; wide social inequalities, especially among localities; poor factor productivity, low wages, and a large, low-skilled proportion of the workforce; and diminished confidence in the country’s governance institutions. According to Boyer’s theory of capitalism, the Malaysian economic and social system can be described in terms of two essential aspects: the dynamics of capital accumulation—the ‘accumulation regime’—and the regulation of the system.

The contemporary Malaysian economy is the result of the disruption of the former political, economic, and social order by successive European powers, especially the United Kingdom (UK) from 1874 to independence in 1957. This article revisits the country’s British heritage from the perspective of the local capitalist structure established by British companies and supported by the British administration.²

British Malaya's form of capitalism, 1874–1957

British control of the Straits of Malacca began with the British East India Company pursuing a purely mercantilist approach. Around 1830, the Company united the key commercial ports of Penang (with Province Wellesley), Singapore, and Malacca, into a single administrative entity, which in 1867 became known as the British Crown Colony of the Straits Settlements.³

This arrangement constituted a 'solid chain of port settlements on the great Calcutta–Canton axis (later to include Hong Kong)' (De Koninck, 2005, p. 59). In 1874, after the Pangkor Treaty was signed, the Perak district of the Dinding was formally added as part of the Straits Settlements, and the British authorities began colonizing the Malay peninsula's inland sultanates to exploit their natural resources, launching 'colonisation by capital' rather than through settlements (Furnivall, 1948, p. 1).

In 1896, four of the Malay peninsula's states—Perak, Selangor, Negeri Sembilan, and Pahang—were combined as the Federated Malay States and were administered by a senior British civil servant, the Resident-General, based in Kuala Lumpur, with each of the four states having a British resident. By 1909, the four northern and eastern peninsular states had come under British rule and, with Johor in the south, formed the Unfederated Malay States. The primary aim of the British administration was to create the enabling conditions, including maintaining law and order, for exploiting the Malay peninsula's natural resources with the use of low-paid workers, whether local or imported.

The British administration shaped the local division of labour, demographics, and social hierarchies, laying down key structures that the present-day Malaysian economic system inherited. While the Straits Settlements came under '*direct rule*', the peninsular states were governed by '*indirect rule*', which according to Frank Swettenham, the first Resident-General of the Federated Malay States, as quoted in Barlow (1995), aimed to:

'preserve the acceptable customs and traditions of the country, attract people's sympathies for and interests in our aid, and teach them the benefits of good government and enlightened policy'.

British government officials considered that indirect rule would be successful if the support of an initially hostile Malay ruling class could be achieved (Andaya and Andaya, 1982).

Between 1887 and 1904, the administration replaced traditional customary rules for assigning land with a European-style leasehold system to encourage British planters to raze forests and develop the country. Other key institutional changes included organizing a tax administration; setting up a legal structure based on common law, along with a criminal justice system; introducing a monetary system anchored on the pound sterling; enabling mass immigration of labourers to work in tin mines and on plantations; and building infrastructure to support economic development.

Per 'regulation theory' (Boyer, 2022), Malaya's accumulation regime was characterized by an *extensive* accumulation of capital: more capital invested from Europe, linked to more labour hired, mostly from southern India and southern China, on plots of cheaply acquired land (Gordon, 2004, pp. 523–546), with a limited local domestic demand component (as most profits came from exports). Wages were kept very low by a seemingly unlimited supply of migrant workers (see last paragraph of 'The state–economy relationship' below). This specific mode of regulating capitalism proved to be stable and lucrative between 1850 and 1913 in Europe: it is illustrated by Malaysia for the UK, and continued after World War I.

Colonial capitalism: viability and institutional hierarchy

Malaya’s colonization advanced through differing governance approaches: first, *direct rule*, then *indirect rule*, following the evolving economic ideology of the 18th and 19th centuries. By the early 20th century, Malaya had become a highly prosperous colonial possession and one of the world’s leading producers and exporters of tin and rubber, but with its new working class—migrants and indigenous workers—often on subsistence earnings.

The UK administration allowed compatriot companies to reap great profits in the Malayan peninsula without its making substantial military or political investments, except during the communist insurgency in 1948–1960. What was the structural combination that worked so well for British interests? According to regulation theory, five linked dimensions are necessary in the hierarchy of key institutions framing the rise of local capitalism, set out below from the most to the least ‘determining’.

Integration into international trade

From 1874, Britain had set the foundation for modernizing Malaya by gradually taking control of its tin mines and expanding plantation agriculture. Natural resource exploitation remained closely tied to trade, because plantation crops were destined for the metropolis and other Western countries along already established trade routes. Up to the end of the 19th century, most exports from the Straits Settlements’ ports of Singapore, Penang, and Malacca comprised coffee, sugar, tobacco, tea, tin, spices, wood, and copra.

Yet much of these ports’ revenue came from the opium trade,⁴ and most of their activity served European companies. Export volumes took off only once the colony—abandoning strict mercantilism—committed to expanding rubber production during the first decade of the 20th century. The success of the colonial export economy can be measured by the rapid rise in exports.⁵ Malaya, through its mining capital Ipoh, in Perak, became the world’s leading tin producer and exporter in the first decades of that century. London also recognized the significance of Malay interior land and climate for rubber cultivation and its potentially unequalled profits.

Tin and rubber structured the economy, forming its ‘backbone’, constituting more than two-thirds of domestic exports, excluding re-exports (Emerson, 1937). Widely varying annual production of tin reflected price volatility (Table 1), with similar output variations for rubber. Price volatility was a major weakness in Malaya’s highly specialized tin and rubber export-dependent economy (Table 2).

Table 1 Tin production in Malaysia, 1851–1954 (annual average in thousands of tonnes)

1851–1860	1881–1890	1891–1900	1901	‘13	‘19	‘29	‘33	‘37	‘38	‘39	‘47	‘50	‘51	‘52	‘53	‘54
6.5	19.6	41.7	16.7	51.4	39.2	72.3	24.9	77.3	43.4	47.4	27.0	57.5	57.2	56.8	56.3	60.7

Source: International Tin Study Group (1954).

Table 2. Value of main exports from British Malaya, 1905–1953 (Straits\$ millions)

Year	Rubber ^a	Tin ^b	Pineapple ^c	Coconut ^d	Palm oil ^e	Total ^f
1906	11	89	3	9	–	293
1912	28	107	3	17	–	357
1920	280	128	7	52	–	879
1925	763	175	7	35	–	1,282
1929	440	182	8	36	1	925
1932	80	56	7	22	1	323
1937	489	190	8	31	7	897
1947	787	109	n/a	29	23	1,295
1950	2,455	479	12	144	37	3,961
1951	3,962	589	17	88	40	5,991
1952	1,891	516	13	93	49	3,795

Notes:

a In all forms: natural rubber, gutta-percha, jelutong, and latex.

b Metal extracted.

c Packaged, including canned pineapple juice after 1925.

d Various derived products, including copra, oil, and fresh coconuts.

e Includes palm oil and palm-seed oil.

f Data based on shipments from the Straits Settlements only until 1925; includes re-exports.

Source: Allen and Donnithorne (1962).

During World War II, Japan occupied Malaya and prohibited tin sales to foreign countries. The war destroyed a large part of Malaya's infrastructure, including nearly a third of the railways and rolling stock needed to transport ore, and tin production collapsed. Yet after the war the tin-mining industry recovered quickly, having been rebuilt with British government reconstruction funds. It became less varied: UK companies dominated both tin production and exports. And as the industry became more capital intensive, from 1947 to 1964, a mere 44,000 workers produced 50,000–60,000 tonnes annually (Jomo, 1986, Tables 6.1 and 6.4).

The Malayan rubber industry also saw tough times during World War II and for a few years after it—although rubber production data are not readily available for 1941–1947 to quantify the slump. Still, in 1947–1957, rubber output recovered as the Korean War created a boom between 1949 and 1952, stimulating Malaya's recovery: gross domestic product (GDP) doubled in 10 years and socio-economic conditions improved. Rubber prices, growing more than threefold between 1949 and 1951, from £119 to £467 per metric tonne, had a huge temporary impact on economic growth. Reflecting the post-war rubber surge, the share of workers employed in the rubber industry out of the total was 28.4 per cent in 1957, up from 26.5 per cent in 1947 (Del Tufo, 1949; Fell, 1960). The British authorities saw rubber and tin as the colony's principal sources of tax revenue and, in 1947, Malaya was one of the Commonwealth's leading sources of foreign currency.

Monetary regime

Money is generally considered to be the main institution underpinning capitalism, and in Malaya's colonial economy, monetary regulations were defined in favour of European traders' interests, including their industrial investments. Until the end of the 19th century, regional monetary conditions in the Malay peninsula were unstable and different currencies circulated.

But from 1899, Singapore's Board of Commissioners of Currency issued government banknotes—the Straits dollar, which quickly became legal tender throughout Malaya.

The choice of metal—gold or silver—on which to anchor the Straits dollar divided partners in the Straits of Malacca: local Europeans preferred gold, because they did business with Western countries that depended on the gold standard; Asian traders and entrepreneurs leaned towards silver because, in their trade with the West, they wanted to profit from silver's 50 per cent devaluation between 1870 and 1900. In 1903, the Straits Monetary Commission favoured European players for stability and their relationship with sterling and adopted a gold-based exchange rate for the Straits dollar. The monetary hegemony of the pound determined convertibility for the Malayan currency—in 1906, one Straits dollar equalled 12 British pence (of which there were 240 to the pound), and this rate remained unchanged until sterling's devaluation in 1967.

A prudent Currency Board regime had been chosen by the British authorities: monetary creation was strictly linked to the gold and sterling that the colony obtained through trade. The British-imposed exchange mechanism entailed minimal monetary policy from the government and was fully dependent on trade surpluses. Before World War II, including during the Great Depression, Malaya's foreign trade revenues equalled one-half of Japan's and exceeded China's.

Malaya was the leading source of foreign currency reserves for the UK, particularly United States (US) dollars, during the 1930s and 1940s, which supported the pound. The US, whose automobile industry depended on rubber imports, ran a large trade deficit with Malaya. The UK ran structural trade surpluses with Malaya, because most of Malaya's manufactured goods, such as machine tools, steel, and cars, were imported from the metropolis.

Competition and dualism

The third of the five elements in Boyer's accumulation regime was competition (Boyer, 2022)—the degree of concentration of markets, the price formation mechanism, and competition among types of players. In Malaya, entrepreneurs from Europe (mainly British) and China dominated the tin and rubber industries. Competition between ethnic Chinese mining activities and private British investments helped to propel the steep rise of the colonial economy.

Tin ore extraction was dominated by ethnic Chinese during the 19th century. A desire to control the tin-mining industry, and thus rival other European powers, drove British expansion. From the fourth quarter of the 19th century, supportive British policies led to a huge increase in tin-mining production from which the administration benefited through taxes. Western mining companies produced only about 22 per cent of all Malayan tin ore in 1910, but with the introduction and spread of capital-intensive dredging machines, the production of tin from Chinese mines as a share of the total fell dramatically (Table 3).

Table 3 Tin produced from Malayan Chinese mines, 1910–1953 (% of total Malayan output)

1910	1913	1919	1925	1929	1937	1953
78	74	68	56	39	32	38

Source: Allen and Donnithorne (1962).

By 1930, however, 85.2 per cent of British investment in Malaya was going to agriculture and only 7.4 per cent to mining (Hua, 1983). In 1937, two-thirds of foreign direct investment went to rubber and one-sixth to tin; 70 per cent of this capital came from the UK (Allen and Donnithorne, 1962).

Earlier, with rapidly rising world demand for rubber from the car industry, British interests did not want to let the US control Brazil's rubber supply. Thus by 1907, British planters had increased Malayan production to 889 tonnes, employing 58,000 workers and making what appeared to be enormous profits. In 1910, some British rubber companies paid a huge 300 per cent annual dividend. In 1912, 60 rubber companies offered annual dividends of some 68 per cent. British capital therefore flowed into the Malayan rubber industry, which in turn saw exceptional growth.

A broad shareholder base among many investors drove European capital investments to expand rubber production on their large plantations—unlike most other Asian rubber plantations, which were family-owned, small outfits built with private capital. The industry remained, however, very concentrated: in the 1950s, just five British companies controlled 60 per cent of all Malaya's European rubber plantations (Puthucheary, 1960).

Still, local smallholders produced about 46 per cent of Malaya's total rubber output in 1950, much the same share as two decades earlier. These small-scale planters could not afford to take advantage of opportunities to expand, nor could they react quickly to price changes: fluctuations sometimes proved extreme, occurring faster and lasting longer than in most other industries. Thus during the second half of the 1930s, smallholders' share of total rubber production fell sharply to just 32 per cent in 1938–1939.

Starting in Perak in the fourth quarter of the 19th century, the colonial administrators pursued a dual agricultural policy. In plantations they employed a capitalist system, while recognizing that indigenous farming modes had advantages the colonial system did not have for meeting the food needs of a growing population. Traditional rice farming also offered labourers freedom in their choice of work, unlike the work arrangements imposed on migrant Indians on rubber plantations.

This dualistic development rested on the coexistence of an extremely profitable (for the UK) modern export economy and a traditional domestic economy, reflected in the ethnic division of labour. Chinese and Indian migrants were imported for the modern economy, working in natural resource exploitation; Malays were largely excluded, and even at independence in 1957, more than three-quarters still worked in subsistence agriculture. More Malays worked in traditional domains such as farming, fishing, forestry, and livestock than in processing agricultural products, including natural rubber from plantations.

The same dualism was seen in the tin mines—modern European production systems versus traditional Chinese techniques—and on plantations and estates versus smallholdings. Geographically, Malaya's dualistic economy juxtaposed the mercantile sector of the Straits Settlements—the mines and plantations of the peninsula's west coast—and the modified subsistence economy—mainly in the northern and eastern states.

The state–economy relationship: a professed *laissez-faire*

Foreign companies led colonial Malaya's economic development, with the UK administration establishing a legal framework, building transport infrastructure, and providing safety and security. Unlike the Dutch colonial government, the British authorities did not own the peninsula's land or islands. Still, they strongly favoured commercial agricultural development, introducing rubber trees, and implementing irrigation programmes. Through other institutional interventions they helped the tin-mining industry to expand by furnishing a vital regulatory framework of policies, rules, inspections, labour laws, and so forth. Yet the British government's financial involvement remained small compared with that in its other colonies: in 1930, UK investment in Malaya of £108 million represented only 3.2 per cent of British outward investment, of which public funds accounted for just 7.4 per cent of total investment.



Development during the commodity boom in late colonial Malaya

Source: www.ehm.my

Far from adopting a pure '*laissez-faire*' approach, Britain sought to influence trade policy. Thus following a sudden and strong fall in the price of rubber, the Stevenson Restriction Scheme, 1922–1928, limited production and planting. 'Mr. Churchill [Winston Churchill was then Secretary of State for the Colonies] decided to go ahead with the scheme ... with the double object of saving the rubber planters, and, by making the Americans pay, contribute materially to stabilising the dollar exchange' (Drabble, 1973). As Churchill said in Parliament shortly afterwards and when no longer in office, 'One of the principal means of paying our debt to the United States is in the provision of rubber' (Lawrence, 1931, p. 37). A second scheme, the International Rubber Regulation Restriction Scheme, followed between 1934 and early 1942, and regulated almost all global rubber exports. 'The regulating action of the British and neighbouring governments ... thus "kept some hundred million pounds sterling of British investments from complete collapse"' (Callis, 1942, p. 52; cited in Gordon, 2019).

Migration policy was another tool that was used to support the British administration's commercial interests. The authorities put direct pressure on India's colonial government to support increased migration so as to expand the rubber industry. In 1907, recruitment was centralized through an Indian Immigration Committee with public and private sector participation, and funds allocated under the Tamil Fund Immigration Ordinance to finance

migrants' boat passage to Malaya (Sandhu, 1969). Nearly 3 million Indian workers emigrated to Malaya by 1941; 2 million used such monies or other government aid, and about 800,000 came unassisted. The recruitment system helped to keep Indian migrant workers' wages low by constantly supplying new workers: between 1904 and 1911, the plantations and estates employed 75 per cent of Indian workers arriving in Malaya. British administrators did not encourage them to settle permanently and encouraged repatriation of older workers—if they survived (see endnote 6).

In 1901, the census counted 1.7 million people in Malaya, but with huge migration inflows over the next decade the population reached 2.3 million by 1911, and more than doubled by 1947 to 4.9 million (Table 4). Migration increased during the late 19th and first half of the 20th centuries: Chinese migrant flows accelerated after the 1870s, and Indians in the early 20th century. Between 1850 and 1941, of the roughly 4 million Chinese labour migrants, half settled permanently (UNDP, 1994, p. 44). Of the several million Indian migrants who arrived in this period, an estimated 70 per cent of those who survived returned to India (Sandhu, 1969).⁶ The heavy inflows of migrant workers had a big impact on the ethnic composition of British Malaya's population in the first half of the 20th century (Table 4).



A labour-intensive tin mine in early colonial Malaya

Source: National Archives Malaysia, 2001/0025947

Table 4 Population by ethnicity, Malaya, 1901–1957

Year	Malay	Chinese	Indian	Others	Total population (thousands)
	Distribution (%)				
1901	62.8	29.3	6.2	1.6	1,733.7
1911	58.5	29.6	10.2	1.6	2,339.1
1921	54.0	29.4	15.1	1.5	2,906.7
1931	49.2	33.9	15.1	1.8	3,787.8
1947	49.5	38.4	10.8	1.3	4,908.1
1957	49.8	37.2	11.1	2.0	6,278.8

Source: Sultan Nazrin Shah (2019, p. 70).

Labour–wage nexus

Although the development of industrial capitalism required a strong accumulation of capital, fluctuations in industrial activity tended to hit the labour force and wages hard. After the very rapid rise in Malaya's rubber production, the Great Depression, especially between 1929 and 1932, had a devastating impact on workers' conditions: the effects of the 1929 Wall Street Stock Market crash appeared in both a drop in production and a worldwide collapse in rubber and tin demand. Price fluctuations, combined with sharp variations in wages (Table 5) and in employment, caused labour unrest: workers clashed with planters, spawning the first trade unions.

Table 5 Rubber prices and labour income on Malayan plantations and estates, 1922–1937

Year	Average rubber price (cents per pound)	Average wages (cents per day)
1922	20	40
1925	120	45
1930	20	40
1933	10	32
1937	32	50

Source: Hua (1983, p. 45).

Between 1929 and 1933, tin output fell from 69,366 tonnes to 29,404 tonnes, and net tin exports fell from \$117 million to \$37 million, that is by almost 70 per cent, when more than 200 mines closed, and one-third of miners lost their jobs (Jomo, 1986, Table 6.3). Western companies had already benefited from new, capital-intensive technologies that allowed them to produce more tin with far fewer workers: by 1930, foreign companies produced three-fifths British Malaya's tin with only 75,000 workers.

During the Great Depression, the colonial government repatriated tens of thousands of Indian and Chinese migrant workers from the plantation and mining sectors and enacted laws that curbed immigration. Plantation and estate workers for example, fell from an all-time high of

258,800 in 1929 to 125,000 in 1932. Among those who remained, many suffered great hardship and extreme poverty.

Conclusion

From our historical and theoretical structure three related results stand out.

First, the institutional configurations of Malayan capitalism can be analysed along a comparative historical perspective that supports the hypothesis of the leading role of the European economy's integration into international trade.

Second, the rapid rise of wage-labourer/employee status allowed people to engage in the market economy. In the *traditional* Malayan economy, there were hardly any wage labourers: 'Every person was in turn a farmer, fisherman, labourer or produce harvester' (Ooi, [1959], quoted in Jomo, 1986). But at independence, 56.6 per cent of Malaya's employed population were employees, as were two-thirds of Chinese workers, and 89 per cent of Indian workers (Fell, 1960). The rupture that colonial capitalism introduced in labour institutions and labour regimes appears greater than for the trade dimension, as the pre-colonial Malay peninsula was already embedded into local, regional, and wider trade networks.

Third, the riots that erupted in May 1969 compelled the Malaysian government to drastically change its economic strategy to overcome the depth and pattern of inequality. They marked the end of an economically viable but politically unstable colonial and post-colonial configuration of capitalism, and, under the leadership of Tun Abdul Razak, accelerated the political shift and socio-economic development, and opened a totally new economic era (Rasiah, 2019).

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¹ "All historical research presupposes from its very first steps that the investigation already has a direction. In the beginning is the spirit" (Bloch, 1993, p. 109).

² On the colonial surplus, that is, the sum of the benefits in money terms gained by the citizens, businesses, and government of the colonizing power (metropolis) and other powers from the colony, see the seminal work by Gordon (2018); and also van Nederveen Meerkerk (2019).

³ In 1867, the year of the transfer of the colony from the East India Company to the British Crown, the population of the Straits Settlements was estimated at 280,000 (Clifford, 1911).

⁴ In 1901, opium accounted for 53 per cent of exports, and alcohol 11 per cent (followed by tobacco).

⁵ Exports from the Straits Settlements grew six-fold between 1875 and 1895, then tripled by 1915 (Drabble, 1973, p. 111). Around 1910, 95 per cent of exports were raw commodities, of which more than 70 per cent went to the UK and other Western countries.

⁶ On some plantations, in the first decade of the 20th century, an estimated 70–90 per cent of workers died during the first year, and uncounted numbers ran away (Sandhu, 1969); see also Belle (2015).