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**Thursday**  
**21st December, 1961**

# **PARLIAMENTARY DEBATES**

**DEWAN RA'AYAT**  
**(HOUSE OF REPRESENTATIVES)**

**OFFICIAL REPORT**

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FEDERATION OF MALAYA  
**DEWAN RA'AYAT**  
(HOUSE OF REPRESENTATIVES)

*Official Report*

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Vol. III

Third Session of the First Dewan Ra'ayat

No. 21

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*Thursday, 21st December, 1961*

*The House met at Half-past Two o'clock p.m.*

PRESENT:

The Honourable Mr. Speaker, DATO' HAJI MOHAMED NOAH BIN OMAR,  
S.P.M.J., D.P.M.B., P.I.S., J.P.

„ the Deputy Prime Minister, Minister of Defence and Minister  
of Rural Development, TUN HAJI ABDUL RAZAK BIN  
DATO' HUSSAIN, S.M.N. (Pekan).

„ the Minister of Finance, ENCHE' TAN SIEW SIN, J.P. (Melaka  
Tengah).

„ the Minister of Transport, DATO' SARDON BIN HAJI JUBIR,  
P.M.N. (Pontian Utara).

„ the Minister of Commerce and Industry, ENCHE' MOHAMED  
KHIR BIN JOHARI (Kedah Tengah).

„ the Minister of Labour, ENCHE' BAHAMAN BIN SAMSUDIN  
(Kuala Pilah).

„ the Minister of Education, ENCHE' ABDUL RAHMAN BIN HAJI  
TALIB (Kuantan).

„ the Assistant Minister of Education, ENCHE' ABDUL HAMID  
KHAN BIN HAJI SAKHAWAT ALI KHAN, J.M.N., J.P.  
(Batang Padang).

„ the Assistant Minister of Rural Development, TUAN HAJI  
ABDUL KHALID BIN AWANG OSMAN (Kota Star Utara).

„ the Assistant Minister of Commerce and Industry, ENCHE'  
CHEAH THEAM SWEE (Bukit Bintang).

„ the Assistant Minister of Labour, ENCHE' V. MANICKA-  
VASAGAM, J.M.N., P.J.K. (Klang).

„ ENCHE' ABDUL GHANI BIN ISHAK, A.M.N. (Melaka Utara).

„ ENCHE' ABDUL RAUF BIN A. RAHMAN, P.J.K. (Krian Laut).

„ ENCHE' ABDUL SAMAD BIN OSMAN (Sungai Patani).

„ TUAN HAJI ABDULLAH BIN HAJI ABDUL RAOF (Kuala  
Kangsar).

„ TUAN HAJI ABDULLAH BIN HAJI MOHD. SALLEH, A.M.N., P.I.S.  
(Segamat Utara).

„ TUAN HAJI AHMAD BIN ABDULLAH (Kota Bharu Hilir).

„ ENCHE' AHMAD BIN ARSHAD, A.M.N. (Muar Utara).

The Honourable ENCHE' AHMAD BOESTAMAM (Setapak).

- „ ENCHE' AHMAD BIN MOHAMED SHAH, S.M.J. (Johor Bahru Barat).
- „ TUAN HAJI AHMAD BIN SAAID (Seberang Utara).
- „ ENCHE' AHMAD BIN HAJI YUSOF, P.J.K. (Krian Darat).
- „ TUAN HAJI AZAHARI BIN HAJI IBRAHIM (Kubang Pasu Barat).
- „ DR. BURHANUDDIN BIN MOHD. NOOR (Besut).
- „ ENCHE' CHAN SIANG SUN (Bentong).
- „ ENCHE' CHAN SWEE HO (Ulu Kinta).
- „ ENCHE' CHAN YOON ONN (Kampar).
- „ ENCHE' CHIN SEE YIN (Seremban Timor).
- „ DATIN FATIMAH BINTI HAJI HASHIM, P.M.N. (Jitra-Padang Terap).
- „ ENCHE' GEH CHONG KEAT (Penang Utara).
- „ ENCHE' HAMZAH BIN ALANG, A.M.N. (Kapar).
- „ ENCHE' HANAFI BIN MOHD. YUNUS, A.M.N. (Kulim Utara).
- „ ENCHE' HARUN BIN ABDULLAH, A.M.N. (Baling).
- „ ENCHE' HARUN BIN PILUS (Trengganu Tengah).
- „ TUAN HAJI HASAN ADLI BIN HAJI ARSHAD (Kuala Trengganu Utara).
- „ TUAN HAJI HASSAN BIN HAJI AHMAD (Tumpat).
- „ ENCHE' HASSAN BIN MANSOR (Melaka Selatan).
- „ ENCHE' HUSSEIN BIN TO' MUDA HASSAN (Raub).
- „ ENCHE' HUSSEIN BIN MOHD. NOORDIN, A.M.N., P.J.K. (Parit).
- „ TUAN HAJI HUSSAIN RAHIMI BIN HAJI SAMAN (Kota Bharu Hulu).
- „ ENCHE' IBRAHIM BIN ABDUL RAHMAN (Seberang Tengah).
- „ ENCHE' ISMAIL BIN IDRIS (Penang Selatan).
- „ ENCHE' KANG KOCK SENG (Batu Pahat).
- „ ENCHE' K. KARAM SINGH (Damansara).
- „ CHE' KHADIJAH BINTI MOHD. SIDEK (Dungun).
- „ ENCHE' KHONG KOK YAT (Batu Gajah).
- „ ENCHE' LEE SAN CHOON (Kluang Utara).
- „ ENCHE' LEE SECK FUN (Tanjong Malim).
- „ ENCHE' LIM JOO KONG (Alor Star).
- „ DR. LIM SWEE AUN, J.P. (Larut Selatan).
- „ ENCHE' LIU YOONG PENG (Rawang).
- „ ENCHE' T. MAHIMA SINGH, J.P. (Port Dickson).
- „ ENCHE' MOHAMED BIN UJANG (Jelebu-Jempol).
- „ ENCHE' MOHAMED ABBAS BIN AHMAD (Hilir Perak).
- „ ENCHE' MOHAMED ASRI BIN HAJI MUDA (Pasir Puteh).
- „ ENCHE' MOHAMED DAHARI BIN HAJI MOHD. ALI (Kuala Selangor).

- The Honourable ENCHE' MOHAMED NOR BIN MOHD. DAHAN (Ulu Perak).
- „ DATO' MOHAMED HANIFAH BIN HAJI ABDUL GHANI, P.J.K. (Pasir Mas Hulu).
- „ ENCHE' MOHAMED SULONG BIN MOHD. ALI, J.M.N. (Lipis).
- „ ENCHE' MOHAMED YUSOF BIN MAHMUD, A.M.N. (Temerloh).
- „ TUAN HAJI MOKHTAR BIN HAJI ISMAIL (Perlis Selatan).
- „ ENCHE' NG ANN TECK (Batu).
- „ ENCHE' OTHMAN BIN ABDULLAH (Tanah Merah).
- „ ENCHE' OTHMAN BIN ABDULLAH, A.M.N. (Perlis Utara).
- „ TUAN HAJI REDZA BIN HAJI MOHD. SAID (Rembau-Tampin).
- „ ENCHE' SEAH TENG NGIAB (Muar Pantai).
- „ ENCHE' D. R. SEENIVASAGAM (Ipoh).
- „ ENCHE' S. P. SEENIVASAGAM (Menglembu).
- „ TUAN SYED ESA BIN ALWEE, J.M.N., S.M.J., P.I.S. (Batu Pahat Dalam).
- „ TUAN SYED HASHIM BIN SYED AJAM, A.M.N., P.J.K. (Sabak Bernam).
- „ TUAN SYED JA'AFAR BIN HASAN ALBAR, J.M.N. (Johor Tenggara).
- „ ENCHE' TAJUDIN BIN ALI, P.J.K. (Larut Utara).
- „ ENCHE' TAN CHENG BEE, J.P. (Bagan).
- „ ENCHE' TAN TYE CHEK (Kulim-Bandar Bahru).
- „ TENGKU BESAR INDERA RAJA IBNI AL-MARHUM SULTAN IBRAHIM, D.K., P.M.N. (Ulu Kelantan).
- „ DATO' TEOH CHZE CHONG, D.P.M.J., J.P. (Segamat Selatan).
- „ ENCHE' TOO JOON HING (Telok Anson).
- „ ENCHE' V. VEERAPPEN (Seberang Selatan).
- „ WAN SULAIMAN BIN WAN TAM, P.J.K. (Kota Star Selatan).
- „ WAN YAHYA BIN HAJI WAN MOHAMED (Kemaman).
- „ ENCHE' YAHYA BIN HAJI AHMAD (Bagan Datoh).
- „ ENCHE' YEOH TAT BENG (Bruas).
- „ ENCHE' YONG WOO MING (Sitiawan).
- „ PUAN HAJJAH ZAIN BINTI SULAIMAN, J.M.N., P.I.S. (Pontian Selatan).
- „ TUAN HAJI ZAKARIA BIN HAJI MOHD. TAIB (Langat).
- „ ENCHE' ZULKIFLEE BIN MUHAMMAD (Bachok).

ABSENT:

- The Honourable the Prime Minister and Minister of External Affairs, Y.T.M. TUNKU ABDUL RAHMAN PUTRA AL-HAJ, K.O.M. (Kuala Kedah).
- „ the Minister of Internal Security and Minister of the Interior, DATO' DR. ISMAIL BIN DATO' HAJI ABDUL RAHMAN, P.M.N. (Johor Timor).

The Honourable the Minister of Works, Posts and Telecommunications,  
DATO' V. T. SAMBANTHAN, P.M.N. (Sungai Siput).

- „ DATO' SULEIMAN BIN DATO' HAJI ABDUL RAHMAN, P.M.N.  
(Minister without Portfolio) (Muar Selatan) (*On leave*).
- „ the Minister of Agriculture and Co-operatives, ENCHE'  
ABDUL AZIZ BIN ISHAK (Kuala Langat).
- „ the Minister of Health and Social Welfare, DATO' ONG YOKE  
LIN, P.M.N. (Ulu Selangor).
- „ the Assistant Minister of the Interior, ENCHE' MOHAMED  
ISMAIL BIN MOHAMED YUSOF (Jerai).
- „ ENCHE' AZIZ BIN ISHAK (Muar Dalam).
- „ ENCHE' CHAN CHONG WEN, A.M.N. (Kluang Selatan).
- „ ENCHE' V. DAVID (Bungsar).
- „ ENCHE' LEE SIOK YEW, A.M.N. (Sepang).
- „ ENCHE' LIM KEAN SIEW (Dato Kramat).
- „ ENCHE' NIK MAN BIN NIK MOHAMED (Pasir Mas Hilir).
- „ DATO' ONN BIN JA'AFAR, D.K., D.P.M.J. (Kuala Trengganu  
Selatan).
- „ ENCHE' QUEK KAI DONG, J.P. (Seremban Barat).
- „ ENCHE' TAN KEE GAK (Bandar Melaka).
- „ ENCHE' TAN PHOCK KIN (Tanjong).
- „ WAN MUSTAPHA BIN HAJI ALI (Kelantan Hilir).

#### IN ATTENDANCE:

The Honourable the Minister of Justice, TUN LEONG YEW KOH, S.M.N.

### PRAYERS

(Mr. Speaker in the Chair)

(Whereupon the Clerk reads the Message).

“Mr. Speaker,

### ANNOUNCEMENTS BY

#### MR. SPEAKER

The Senate has agreed to the following Bills without amendment:

### MESSAGE FROM THE SENATE

**Mr. Speaker:** Ahli<sup>2</sup> Yang Berhormat, saya telah menerima suatu perutusan yang bertarikh 24hb. October, 1961 daripada Yang di-Pertua, Dewan Negara, berkenaan dengan perkara<sup>2</sup> yang tertentu yang telah di-hantar oleh Majlis Dewan Ra'ayat ini bagi persetujuan Majlis Dewan Negara.

Sekarang saya jemput Setia Usaha Majlis membachakan perutusan itu kepada Majlis ini.

- (1) To provide for the more effectual prevention of corruption.
- (2) To amend and consolidate the law relating to education.
- (3) To provide for the establishment and incorporation of the University of Malaya and for matters connected therewith.
- (4) To apply a sum out of the Consolidated Fund to the service of the year 1962 and to appropriate such sum for certain purposes.
- (5) To repeal the Corporations Duty Ordinance of the Straits Settlements.
- (6) To amend the Local Councils Ordinance, 1952.

- (7) To make further provision with respect to policies of assurance upon human life and the carrying on of life assurance business.
- (8) To amend the Local Government Elections Act, 1960.
- (9) To provide for the payment of export duty on rubber exported from Penang, and matters connected therewith.

(Sgd.) DATO' ABDUL RAHMAN BIN  
MOHAMED YASIN,  
*President*".

### ASSENT TO BILLS PASSED

**Mr. Speaker:** I wish to inform the House that His Majesty the Yang di-Pertuan Agong on the 13th November, 1961, signified his Assent to the following Bills which were passed recently by both Houses of Parliament:

- (1) The Prevention of Corruption Bill.
- (2) The Education Bill.
- (3) The University of Malaya Bill.
- (4) The Consolidated Fund (Expenditure on Account) Bill.
- (5) The Corporations Duty Ordinance (Repeal) Bill.
- (6) The Local Councils (Amendment) Bill.
- (7) The Life Assurance Bill.
- (8) The Local Government Elections (Amendment) (No. 2) Bill.
- (9) The Rubber Export Duty (Penang) Bill.

### MESSAGE FROM THE SENATE

**Mr. Speaker:** Ahli<sup>2</sup> Yang Berhormat, saya suka juga hendak mema'alumkan kepada Majlis ini saya telah menerima suatu perutusan yang bertarikh 24hb. October, 1961 daripada Yang di-Pertua Dewan Negara memberitahu Majlis ini ia-itu Dewan Negara telah meluluskan suatu Rang Undang<sup>2</sup> yang telah di-hantar kepada Majlis ini bagi persetujuan Majlis ini.

Sekarang saya jemput Setia Usaha Majlis membachakan perutusan itu.

*(Whereupon the Clerk reads the Message).*

"Mr. Speaker,

The Senate has passed the following Bill:

To enable effect to be given to certain international conventions done at Geneva on the 12th day of August, 1949, and for purposes connected therewith, and transmit it to the House of Representatives for its concurrence.

(Sgd.) DATO' ABDUL RAHMAN BIN  
MOHAMED YASIN,  
*President*".

### ADJOURNMENT TO A LATER DAY

(MOTION)

**The Deputy Prime Minister (Tun Haji Abdul Razak):** Mr. Speaker, Sir, I beg to move,

That at its rising this day the House do stand adjourned to 8th January, 1962.

**The Minister of Finance (Enche' Tan Siew Sin):** Sir, I beg to second the motion.

Question put, and agreed to.

Resolved,

That at its rising this day the House do stand adjourned to 8th January, 1962.

### EXEMPTED BUSINESS

(MOTION)

**Tun Haji Abdul Razak:** Mr. Speaker, Sir, I beg to move,

That notwithstanding the provisions of Standing Order 12, the House shall not adjourn this day until after the completion of all Government business on the Order Paper.

**Enche' Tan Siew Sin:** Sir, I beg to second the motion.

Question put, and agreed to.

Resolved,

That notwithstanding the provisions of Standing Order 12, the House shall not adjourn this day until after the completion of all Government business on the Order Paper.

## BILLS PRESENTED

### THE SUPPLY (1962) BILL

Bill to apply a sum out of the Consolidated Fund to the service of the year 1962 and to appropriate such sum for certain purposes; presented by the Minister of Finance; read the first time; to be read a second time forthwith.

### THE SUPPLEMENTARY SUPPLY (1961) BILL

Bill to apply a sum out of the Consolidated Fund for additional expenditure for the service of the year 1961, to appropriate such sum for certain purposes and to provide for the replacement of amounts advanced from the Contingencies Fund; presented by the Minister of Finance; read the first time, to be read a second time at a subsequent sitting.

## BILL

### THE SUPPLY (1962) BILL

#### Second Reading

**The Minister of Finance (Enche' Tan Siew Sin):** Mr. Speaker, Sir, I beg to move that a Bill intituled "an Act to apply a sum out of the Consolidated Fund to the service of the year 1962 and to appropriate such sum for certain purposes" be read a second time.

A word of explanation is, I think, due to Hon'ble Members for the unusual timings proposed for this particular Budget session of Parliament. In the first place, the Budget is being presented very late in the year, compared with previous years, for the obvious reason that I had to be in London for the Malaysia talks during the second half of November, the period originally fixed for the current Budget session. Hon'ble Members may, however, ask why it has been necessary to summon them to Kuala Lumpur from the four corners of Malaya just to sit for one day and then to resume the sitting after an interval of nearly three weeks.

The reason is simple. Under the provisions of Article 99 of the Constitution, a statement of the estimated receipts and expenditure of the Federation in respect of every financial year shall, unless Parliament otherwise provides, be laid before the House of Representatives before the commencement of such year. As our financial year coincides with the calendar year, and as Parliament has not otherwise provided, it is obligatory that the expenditure and revenue estimates shall have been laid before this House before the end of this year. To have continued with the session, however, would have meant sitting during the period between Christmas and the New Year, when most people would like to be away from work, and hence the decision to hold the resumed session after the New Year. I can assure Hon'ble Members that this time-table does not appeal to me at all as it will give all the Government's critics more than ample time in which to prepare their broadsides when the session resumes early next month. There was, however, no alternative.

Sir, Hon'ble Members will perhaps agree with me that the year 1961 has been an extremely eventful and memorable one. It has seen the fulfilment of an idea, earlier mooted by our Prime Minister, of a closer economic and cultural association between the countries of South East Asia, and which has culminated in the formal launching of what has since become known as ASA or the Association of Southeast Asia, consisting at the moment of Thailand, the Philippines and ourselves. It has also witnessed the birth of the Malaysia proposal, which has already been debated in this House and which, on realisation, could have the most far-reaching political and economic consequences for all of us.

From the Treasury point of view Malaysia would provide the solution to one of our most important problems, namely our currency arrangements. As Hon'ble Members are aware, the present Currency Agreement covers the very five territories which are the

subject of the Malaysia proposal. Previous to this, the Government had been faced with two major choices in considering whether or not our own Central Bank should take over the note-issuing functions at present performed by the Currency Board. A decision on this important issue could not be postponed indefinitely otherwise our Bank Negara would not become a Central Bank in every sense of the word and, in particular, be able to perform effectively one of its most vital functions of being a lender of last resort.

The choice that lay before us then was either to try to accommodate Singapore within our future arrangements or to go it alone. Either course presented difficulties and complexities into which it is not necessary to go into detail at this stage other than to say that, on the one hand, we could have a situation in which one Central Bank would have to serve a sovereign State and also another State which was not completely sovereign whilst, on the other hand, we could have had the Federation and Singapore each setting up its own currency arrangements. The realisation of Malaysia would, however, solve this problem automatically by enabling the Bank Negara to issue its currency for circulation over the entire existing currency area and also to operate fully and effectively as the Central Bank for the whole of the merged territories. In the circumstances, I think it will be generally agreed that the Government has followed a wise course in deferring its decision on the currency issue until the picture becomes clearer as I have no doubt it will in the near future.

As export earnings form such a high proportion of our national income, and the former are so heavily dependent upon the level of economic activity in the industrialised countries as a whole, it might be useful to look for a moment at conditions in these countries during the year under review. The year 1961, Sir, is characterised by the recovery in the United States, a slower rate of advance in Western Europe and

weakness in primary commodity prices. In the U.S., the initial recovery from the recession of 1960 and early 1961 which took place as from March, 1961 was the speediest of the post-war recoveries. The rapid growth of industrial output was interrupted in September but was resumed in October and November. It is now likely that this recovery will continue into 1962, though it is difficult to forecast as to what level the new peak will reach.

Industrial production in Continental Western Europe, which has showed a substantial rise in 1960 at the time of the American recession, came to a standstill in the early months of 1961. By July and August, it had even somewhat declined with production in West Germany registering 5% lower than the February-March peak level. The slowing down of industrial activity during these months occurred in most of the Continental European countries with the exception of Italy. In spite of the apparent lull in the third quarter of 1961, some increase in industrial production in Western Europe might take place in the last quarter of 1961 and continue into 1962. In Japan, the remarkable rate of growth in industrial production is being temporarily slowed down by a credit squeeze as a result of balance of payments difficulties, but rapid expansion is expected in 1962 when the problem will continue to be how to restrain the tendency towards over-expansion in industrial output as a means of easing their balance of payments difficulties.

In the United Kingdom the July measures were followed by a halt in the growth rate of the gross domestic product which could even be interpreted as a slight down-turn. So far there is no indication of a significant change in its balance of payments position since the second quarter, although the measures put into effect halted speculation against sterling and have been followed by a renewed inflow of foreign funds. The world economic situation now seems somewhat less conducive to an improvement in the United Kingdom



balance of payments than it did in September last in spite of the recovery in the United States. This cautious view is largely necessitated by the pause in the economic expansion of Western Europe.

We, in Malaya, naturally follow with special concern the economic fortunes of Britain, and in particular the pound, closely linked as we are both to the latter and to the Sterling Area as a whole. The overwhelming bulk of our external reserves are in sterling and sterling securities, and our currency has a fixed parity with sterling, apart from the fact that all the reserves of the Currency Board are held in sterling. It can safely be assumed that the British Government will do everything in its power to preserve the integrity of the pound, but a great deal will depend on its ability to enforce its "pay pause" policy.

It can also equally safely be assumed that, in view of the fact that sterling is one of the world's two reserve currencies, other international authorities and friendly countries, in particular the International Monetary Fund and the United States, will do everything in their power to assist Britain in this respect. Should Britain, however, fail to win the battle against inflation and rising costs of production at home with a consequent diminution of exports, and be forced to devalue sterling, it is unnecessary to say that the consequences of such a step would be particularly serious for us in view of the circumstances to which I have already referred and which must give us food for thought.

Hon'ble Members might recall that some time ago this House gave its approval to the Government's proposal to invest up to \$75 million in non-sterling government securities or the securities of international institutions like the World Bank. To date, a total of approximately \$16 million has been invested in U.S. Treasury Bills, in time deposits, and in U.S. dollar stock issued by the International Bank. Active consideration is also being given to the

desirability of making investments in short-term Deutsche Mark securities issued by the Federal Republic of Western Germany.

I should perhaps now say a word or two about the situation of primary producing countries in general. It appears that 1961 may prove to be another disappointing year for primary producers. The weak recovery in the prices of primary export products at the outset of the U.S. economic recovery in the early months of this year proved to be short-lived. The setback in the growth of industrial production in Europe was followed by further declines in most commodity prices. Since May, the downward trend became more pronounced and in November the index of primary commodity prices had fallen to its lowest level in more than a decade. The corresponding rise in the export incomes of primary producers which should have occurred as a result of the increased quantities exported seems to have been checked by the weakness of prices. Since most products, except possibly tin, appear to be in a position of ample supply, and as the chances of an increase in total world demand for primary products matching that occurring in the first months of 1961 are small, no general and substantial recovery of commodity prices seems likely in the near future.

If we assume that economic growth in Continental Europe has definitely slowed down and no increase of production is to be expected in the United Kingdom, future gains in the United States might be offset by these two factors. The broad conclusion to be drawn therefore from this survey is that an economic upsurge on a world scale is not likely to occur within the near future.

While we are on the subject of the world economic situation, it would not be out of place to refer to the British Government's decision earlier this year to open negotiations with a view to acceding to the Treaty of Rome and becoming a member of the European

Economic Community. The Federation Government is fully conscious of the political as well as the economic considerations underlying the British attempt to achieve closer relations with Western Europe. We appreciate that the economic well-being of the United Kingdom is essential for the Commonwealth and the Sterling Area; and it may be that if Britain is to survive as an economic force of any consequence, she must be in the E.E.C. rather than outside it. While we do not wish to place any obstacles in the way of the British move, the Government hopes that such an association will not lead to discriminatory arrangements which would weaken the Commonwealth or cause serious damage to our exports to Britain or the expanded Community.

Malaya has a substantial export interest in Britain. In 1960, Federation exports to Britain amounted to \$382 million or 13% of total Federation exports. 13% of this amount was accorded preferential tariff treatment. Hon'ble Members may also wish to know that in the same year almost 18% of our exports went to the E.E.C. countries. 85% of our exports to Britain and more than 90% of our exports to the E.E.C. countries consist of natural rubber and tin. Both these products enjoy duty free entry into Britain. The present E.E.C. common external tariff on these two products is also zero.

Although there does not appear to be any immediate threat as far as these two commodities are concerned, the Six may, under the Treaty of Rome, impose a duty not exceeding 3% on rubber possibly to favour their synthetic rubber industry or supplies from their Associated Overseas Territories. If Britain joins the E.E.C. and adopts the latter's common external tariff, the Federation's other exports, particularly tropical hardwood, coconut oil, copra, canned pineapples and tea, which at present enjoy preferential tariff treatment in Britain, would instead be faced with a tariff wall which would discriminate against the Federation in favour of the Six and

their Associated Overseas Territories. Hon'ble Members may rest assured that the Government is doing whatever it can to preserve our interests in the event that Britain does join the E.E.C.

I would now like to touch on natural rubber prospects and prices. In the field of synthetic rubber, the latest development is the discovery of a process which has resulted in the production of what has been called stereo regular rubber. This product is claimed by its manufacturers to be almost as good as natural rubber in all its properties. While this claim may be open to dispute, at least in regard to the quality of elasticity, there is no question but that it poses a real and serious threat to natural rubber and emphasises the urgent need to expand both the scope and intensity of research in order to meet this growing challenge with greater confidence.

Another equally disturbing development has been the decision of the American and British Governments to put into effect as from 30th October last the interim modifications in their rubber disposal programmes. The United States Government may now sell up to 5,000 tons of rubber a month irrespective of price and may dispose of any amount when the price is above US 32 cents per lb. New York which is the equivalent of about 92 Malayan cents a lb. f.o.b. Malayan ports. Similarly, the British Government may sell up to 1,000 tons per month irrespective of price and may dispose of any amount above the equivalent U.K. price. The market reacted in typical fashion to this announcement. The price of rubber fell by 5 cents to around 75 cents a lb. and has since been hovering around this figure.

In this connection, Hon'ble Members would perhaps be interested to know how rubber price changes affect our economy. Assuming a net export of 733,000 tons a year, a drop in the value of exports by 5 cents a lb. would reduce receipts from rubber exports by \$82 million a year. Such a drop in export earnings would clearly have

adverse repercussions on our level of economic activity, incomes and employment, while the impact on Government revenue would be very marked. Assuming the same net exports, i.e. 733,000 tons, a drop of 5 cents from 80 cents to 75 cents, would reduce export duty receipts by \$14 million; a drop in the price from 75 to 70 cents would further reduce the yield from export duty on rubber by \$16 million to leave only \$70 million to be collected during the year as compared to the \$118 million expected to be raised in 1961 and the \$196 million collected in 1960. The immediate and direct reduction in the yield from rubber export duty is only the first impact on revenue that will take place. Rubber companies making lesser profits will also pay less income tax as a further result. The yield from import duties generally will be reduced as a further consequence of the lower level of economic activity.

It has been with thoughts such as these in mind that the Government has, during the last three years, consistently urged the highly industrialised countries of the Western World to devise some method whereby the prices paid for primary commodities bear some relation to those paid for manufactured goods. One of the most disquieting features of post-war economic trends, particularly in patterns of trade between the industrialised countries on the one hand and the under-developed countries on the other, is the growing disparity in wealth between them as a result of the prices of manufactured goods rising faster than those of primary products. For example, in 1950, under-developed countries sold their products for US \$25,000 million. In 1958, eight years later, they sold their products for exactly the same figure but had to pay 25% more for the manufactured goods they imported. This gives one an idea of the magnitude of the problem and it is needless to add that all primary producers face the same kind of problem, though it varies in degree as between one primary producer and another.

It is clear that a problem of this magnitude has to be tackled on a

world-wide scale if it is to be solved satisfactorily. A U.N. commission is currently examining a proposed scheme entitled "International Compensation for Fluctuations in Commodity Trade". Broadly, the underlying idea of this scheme is that primary producers suffering from a periodic diminution of export earnings as a result of a fall in commodity prices, would be entitled to make good the deficit by a contribution or a loan from a fund set up for this purpose. Apart from the fact that a loan obtained in this way can only postpone the final day of reckoning, if it is used to finance current account deficits and thus will only serve to aggravate an already difficult situation at a later date, this so-called solution does not really go to the root of the problem, i.e. maintaining a correct balance between the prices of primary commodities and that of manufactured goods, which is the key to a radical solution of this problem. It is needless to add that loans have to be repaid while fair prices will remain with us and are a matter of right. This scheme may, therefore, be described as a palliative which only serves to hide the symptoms without curing the disease.

In the view of our Government the problem, in so far as it concerns rubber, must be tackled much more radically. It is felt that the only solution is the creation of an international rubber buffer stock. Such a stock could well come out of the United States strategic stockpile and its size could be something of the order of 250,000 tons or thereabouts, but this is a figure which could be subject to revision either way in the light of a closer examination of this broad principle. The transfer of this amount of rubber from a national stockpile to international control would ensure that its operations would be to the interests of both producers and consumers.

We are, of course, aware that the operation of a rubber buffer stock is a much more complicated matter than one for tin, for example, because the former has to be rotated to prevent deterioration. The finance required would be considerable and while it

would be reasonable to expect both consumers and producers to bear their fair share of the cost of operation, it is suggested that producers like Malaya should be allowed to utilise their drawing rights on the International Monetary Fund for this purpose. We are, of course, aware that the rules of the I.M.F., as constituted at present, do not allow it to assist in matters of this kind, but these rules can be changed.

We are not unaware either that the acceptance of the principle of an international buffer stock for rubber might ultimately involve the acceptance of the same principle for other commodities. The financial implications of this principle would, therefore, be of a world-wide order but they are by no means impossible of attainment if the will is there. Hitherto, the industrialised countries have tried to assist the economic growth of the under-developed countries by means of financial aid in the form of grants and loans for economic development, apart from technical and other forms of aid. While these forms of aid are welcome, they cannot by themselves offer a permanent solution to an admittedly difficult problem. As I have said already, the root of the problem lies in ensuring that prices of primary commodities bear an equitable relation to those of manufactured goods and an international buffer stock or commodity pool could ensure predictable and adequate economic growth in the under-developed countries, assuming of course that other factors such as good government and sound economic policies are also present.

Without this assurance, however, of stable and fair commodity prices, even good government and sound economic policies may be found to be inadequate. It may be that even this conception, far-reaching and almost revolutionary as it is, may not be enough. I doubt, however, if anything less than this will suffice. If the highly industrialised countries of the West are really in earnest, as I have no doubt they are,

about helping the under-developed areas of the world, which are largely primary producers, to achieve a satisfactory rate of economic growth, there is perhaps no better way in which they can help. What is even more important is that such help would be of permanent value and would offer the best chance so far presented of tackling this problem successfully by eliminating its root causes.

There is also another factor which should be taken into consideration by the industrialised countries in their trade dealings with the under-developed ones. We are exhorted by them, and rightly so, to lift ourselves up "by our boot straps", if I may be permitted to use a colloquial expression. If, however, we succeed in doing so by building up manufacturing industries, it is our hope that the products of such industries would be allowed to enter the main industrial countries in fair and open competition. It cannot be suggested that this is an unreasonable request to make.

Returning to Malaya, although conditions in 1961, or at least what has so far come to pass, may not be as favourable as those during 1960, the out-turn for the year as a whole should be satisfactory, even if the decline in the price of rubber towards the end of the year casts an ominous shadow on future prospects. The Singapore price for RSS No. 1 for the first 9 months was fairly stable and averaged 85 cents a lb., though it averaged 80 cents during the 4th week of October, i.e. until the announcement of changes in U.S. and U.K. stockpile disposal policies. Assuming an average price for December of 75 cents, then the average price for the year would be 83 cents. Production is now estimated at 728,000 tons for 1961 and would set a new record. The price of tin in London reached the maximum price of £880 a ton or \$449 a picul under the First International Tin Agreement on 7th June, 1961. When the Buffer Stock held under the Agreement was exhausted, the price broke through the ceiling and averaged even higher

levels subsequently. The Singapore exports price averaged \$397 a picul for the first quarter, \$439 for the second and \$473 for the third. In spite of these price levels, production of tin-in-concentrates during the first 8 months has shown only a moderate increase.

Total exports for the first 10 months of 1961 amounted to \$2,190 million or 11% lower, while total imports at \$1,844 million were 4% higher than the corresponding period of 1960. Consequently, the trade surplus for the first 10 months of 1961 amounted to only \$346 million compared with \$683 million for the corresponding period of 1960. As may be expected, for the first 7 months of 1961, total money supply fell by \$48 million which was wholly accounted for by the reduction in currency circulation. Fixed and savings deposits, however, rose by \$33 million. The foreign exchange holding of the Federal Government rose by \$149 million, the holdings of the Currency Board, the Central Bank, the commercial banks and the Post Office Savings Bank fell in the aggregate by \$84 million.

On other occasions in the past, both inside and outside this House, I have hazarded a guess that the aggregate of savings of the small man in this country should be quite considerable, though unfortunately most of them are hidden in rather unconventional places such as old cupboards and under mattresses. I think many qualified observers thought that this opinion erred on the side of optimism even though I struck a note of caution at the same time by stating that it was unlikely that such savings could be "winkled out", to use a homely expression, for industrial investment, as Malayan investors were so used to high rates of return, particularly from rubber and tin, that they would sniff rather patronisingly at the much lower returns expected from industrial undertakings. In the event, I have been proved to be rather cautious, I am, of course, referring to the recent share offers to the public made by Dunlop's, Rothman's and Eastern Smelting. This

is indeed a happy augury for the future.

Deposits in the commercial banks have continued to grow during the course of this year and at the end of October, 1961 stood at \$1,060 million which was \$113 million more than at the beginning of the year. The continued increase was accounted for mainly by the increase in fixed deposits. Commercial banks advances have again risen proportionately faster than deposits during this year and stood at \$664 million at the end of October which was \$154 million more than at the beginning of this year. The ratio of advances to deposits was 62.6% at the end of October as compared with 53.9% at the beginning of the year. This increase reflects the more dynamic role played by the banks in assisting the financing of the country's development, but Bank Negara is keeping this matter under constant review to ensure that the banks adopt sound banking principles and do not overlend.

In regard to the mushroom life insurance companies, recent legislation enacted has inhibited the growth of new companies and prevented existing ones from issuing further policies. The latter are, however, going to present us with a difficult problem. If economic laws are allowed to take their course, many of these companies will become insolvent sooner or later, perhaps sooner rather than later, as the premiums charged hitherto have, in most instances, been grossly inadequate. The first few claims may be settled but it is highly probable that there will be default on subsequent claims. The other course is to wind up these companies and return to policy-holders such funds as are available. In some instances, they can hope to receive a return of all premiums paid, but in others, it is feared that only a small return will be possible. At the same time, a number of companies have had new and adequate rates calculated and can issue new policies at these rates. The solvency of these companies now depends on the degree of inadequacy

of premiums previously charged, and the extent to which shareholders' funds cover the deficiencies. It is hoped to introduce comprehensive legislation next year which, among other things, will impose an early test of solvency. This can be expected to disclose some insolvencies which will lead to the winding up of the companies concerned.

The Life Assurance Companies Ordinance of 1948 is not adequate for the purpose of winding up these companies, but the required provisions will form part of the comprehensive legislation to which I have already referred. Many mushroom companies had no legal existence and had not even made the statutory deposit of \$200,000. They were dishonest from the very beginning, and are now disappearing. While their principals will be prosecuted, if possible, it is unlikely that any significant assets will be available to permit a reasonable return to policy-holders.

Let us now turn to the Federal Government accounts. I pointed out last year that revenue for 1960 for the first time in history exceeded the \$1,000 million mark. It actually totalled \$1,069 million compared with the estimate of \$1,043 million given in my Budget speech then. Ordinary Budget expenditure for 1960 amounted to \$856 million thus resulting in a surplus of \$213 million on current account. Development expenditure amounted to \$141 million, and allowing for the \$25 million in contributions to Statutory Funds included in the ordinary expenditure, the total of ordinary and capital expenditure in 1960 amounted to \$972 million. There was thus an overall surplus of \$97 million on the 1960 accounts.

The outcome for 1961 will be less favourable than that for 1960 but much more favourable than the position shown in the 1961 Estimates. It is now expected that revenue will reach a new record level of \$1,071 million (*Applause*) \$100 million above the original estimate, and higher even than

last year's record level, albeit by only \$1.6 million. This may appear puzzling when it is recalled that the average price of rubber this year is substantially below that of last year. The drop in export duty from rubber by \$78 million is however offset by increases on other receipts. The revenue from income tax rose by \$46 million to reach a new peak level as a result of last year's high incomes and the greater effort made to increase revenue from this source—I shall want to speak on this subject later. The export duty from tin rose by \$11 million as a result of the high price of tin for the year. Interest earned on our balances and investments also showed a notable increase of \$21 million as a result of high interest rates in London. Total import duties, however, rose only slightly while some categories of duties like those on textiles, liquors and spirits showed some reduction.

Ordinary expenditure for 1961 on the other hand is expected to reach \$944 million as against the \$978 million authorised under the Budget and the first two Supplementary Supply Bills, an under-spending of \$34 million. In my speech last year, I stated that the revised estimate of ordinary expenditure for 1960 made by the Treasury was \$875 million. In the event, actual expenditure for the year totalled \$856 million, \$19 million below the revised Treasury estimate, which is still closer to actual out-turn than has been the case in previous years when the difference between Departmental estimates and actual out-turn varied between \$30 million and \$100 million. On the basis of the figures I have given, the surplus for 1961 on current account should be \$127 million. (*Applause*). If the revised estimate of development expenditure at \$288 million is anywhere near correct, then there would be a deficit of \$116 million on overall account, after due allowance has been made for the \$45 million in contributions to Statutory Funds included in the Ordinary Budget.

The principal increases and reductions in expenditure for 1962, as

compared to 1961, are enumerated in the Treasury Memorandum tabled as Command Paper No. 48 of 1961. It might, however, be useful to refer to those items which, in my view, require further comment. Charges on account of Public Debt will cost \$120 million in 1962, \$11 million more than they will this year. At a later stage of my speech, I shall deal with this item at some length.

The highest increase will, as Honourable Members can probably guess, be borne on the Education Estimates which will absorb \$223½ million next year against an estimate of \$189 million this year, an increase of \$34 million, equivalent to 18%. This increase is largely accounted for by the decision to introduce free primary education as from next year (*Applause*) which will cost an additional \$11 million, grants to post-primary schools which will cost another \$7 million, allowances to students at specialist training centres which will cost about \$3 million more, and grants for religious instruction in assisted primary, post-primary and secondary schools which will cost \$3 million more. This last provision constitutes a 100% increase over that for 1961. When it is remembered that expenditure on education in 1957, 5 years ago, totalled only \$123 million, i.e. only a little more than half of the 1962 provision, the magnitude of its growth can be seen in its proper perspective. Or, to put it in another way, the actual expenditure returns for this Ministry during the period from 1957 to 1960 show a steady annual increase of almost exactly 10.05%. For 1961, owing to the implementation of the Rahman Talib Report and the decision not to increase the existing fees in fully-assisted English-medium secondary schools, there has been a jump in the rate of increase from 10.05% to 14.4%. In addition, if all the remaining partially assisted Chinese secondary schools were to apply and be accepted for conversion to full assistance, an extra \$7 million would be required, making a total increase in expenditure on education next year

of \$41 million, compared with the year under review.

It is obvious that this rate of growth in the cost of our education services cannot be permitted to continue unchecked, since it is far in excess of the growth of the national income and of the population. I am assured by the Ministry of Education, however, that this rate represents a temporary "bulge" and that once the main recommendations of the Rahman Talib Committee have been put into effect the annual expenditure increase will drop to a more acceptable figure. However essential it is to improve our educational facilities and consequently to raise the productive capacity of our youthful population, we must always bear in mind the need to keep our rate of progress in line with the financial resources available, and the Treasury will keep a close watch to ensure that this is done.

A sum of \$50 million has been set aside as next year's contribution to the Development Fund in accordance with the declared intention of the Government that it would be prudent, particularly in good years, to make substantial contributions from revenue towards development costs. The contribution for 1961 was \$24 million.

A sum of \$98 million has been appropriated to the Ministry of Health and Social Welfare, an increase of \$6 million over this year's provision. It is needless perhaps to add that most of this increase has gone to the Ministry of Health itself. It will be noted that the increase in expenditure on social services has been most marked. Federal expenditure on education amounted to \$86 million in 1955. In that year too, expenditure on medical and health services amounted to \$56 million. The corresponding figures for 1962 are \$224 million and \$94 million respectively. In other words, expenditure on education and medical and health services rose from \$142 million in 1955 to \$318 million in 1962, an increase of 124%. In 1955, they amounted to 20% of ordinary budget expenditure; that

figure has risen to 30% in 1962. These comparative figures, Sir, should give the lie to those who assert that the Government is not sufficiently conscious of the needs of the under-privileged in this country.

Last, but not least, the Ministry of Rural Development, with a vote of \$26 million, will spend \$2 million more in 1962, most of it due to the increased provision for adult education.

Summing up, it will be seen that total ordinary expenditure for 1962, estimated at \$1,039 million, shows an increase of \$81 million over the 1961 Budget estimate of \$958 million, equivalent to 8½% or an increase of \$95 million over the revised estimate of \$944 million. By any standards, this is a burdensome increase and should give us all cause for concern.

It is estimated that by the end of 1961 the medium and long-term debt of the Federation will total \$1,359 million comprising \$990 million in domestic loans, \$356 million in sterling loans and \$13 million in U.S. dollar loans. The figure for domestic loans includes \$17 million in respect of advance deposits received in anticipation of the next loan issue. The estimated cost of servicing this debt in 1962 together with the discount on Treasury Bills and interest on Treasury deposit receipts is \$120 million. The comparable figure for 1961 is \$109 million so that debt charges have risen by \$11 million in the last 12 months as a result of the new loans raised during 1961. However, a sizable proportion of the loans raised by the Federal Government is re-lent to the States and statutory bodies and interest on and repayments of such loans granted in previous years and due in 1962 is estimated at \$9 million. The net public debt charges will, therefore, be about \$111 million in 1962. This sum represents 11% of the estimated 1962 revenue and whilst it is not an unduly high proportion, it does clearly emphasise the need to ensure that the majority of projects financed by loans will increase the national output, so that the increased revenue arising

therefrom will assist in meeting the debt service charges incurred.

Unless such a policy is strictly adhered to, a static revenue in future years will have to meet ever increasing debt charges. That the risk is a real one is made clear by a comparison with our position at the end of 1957 when the long-term debt totalled \$890 million and the charges on account of the public debt were \$50 million, equivalent to 6% of the revenue for that year. In the last four years, therefore, the public debt charges have more than doubled reflecting not only the expanding debt but the higher cost of borrowing in recent years. Having regard to the world-wide shortage of capital a return to low rates of interest is unlikely. Therefore, however desirable an expansion of the social services may be, it is essential that first preference is given in our investment programme to projects which will increase our productivity if posterity is not to be burdened with heavy debt charges incurred by the present generation.

On 31st October, 1961, the realisable assets of the Federation totalled \$915 million as compared with short-term liabilities of \$241 million in respect of Treasury Bills and deposit receipts. In 1957, the comparable figures were \$425 million and \$150 million respectively. In the last four years, therefore, the net realisable assets have increased by \$399 million from \$275 million to \$674 million.

The conversations which I had with leading commercial bankers in West Germany last autumn indicate that the Federation Government might be able to float a loan entirely on its own credit in the West German capital market some time next year, assuming the Berlin crisis has been settled by then. If this flotation is a success, as we have every reason to believe it will, it will be a unique achievement for a newly-independent country when it is remembered that, so far, only one other country in Asia has managed to match this achievement in the money market for a leading industrialised country.



Our ability to finance the Second Five-Year Plan without placing an undue strain on our financial and economic structure in general and our reserves in particular, would largely depend on our ability to restrain Government expenditure from getting out of hand and maintaining at least corresponding increases in Government revenue. While it is possible, within certain limits, to forecast Government expenditure within the next five years or thereabouts, it is not so easy to forecast revenue returns owing to their heavy dependence on the volatile prices of rubber and tin.

In the case of industrialised countries, fairly accurate approximations can be made on the basis of the growth of the Gross National Product owing to the diversity of production and the narrow range of fluctuations in prices. As increases in Government revenue usually bear some relationship to increases in the growth of the national product, it is possible to forecast the growth of Government revenue. This, however, is not the case in the Federation as the economy is export-dominated and the principal export commodities, rubber and tin, are subject to very wide fluctuations in prices so that an increase in the volume of production does not ensure a corresponding increase in its value.

Another possible method of computing future revenue might be the assessment of the effect of the expected investment under the Five-Year Plan on production. Unfortunately, however, a substantial part of such investment will contribute little to production during the period. "Indeed, in some sectors such as education", as has been pointed out in the World Bank Report, "the main output benefits arising from increased productivity may not be achieved for another generation. Even in agriculture, the bulk of the investments recommended will not produce their full impact on output until after 1965 because of the relatively long maturity period required for tree crops and the construction period required in irrigation projects. Thus the growth in

output between 1960 and 1965 will derive to a significant extent from past investments, as well as from investments during the period".

With so many imponderables the only factor about which we can feel reasonably certain is that rubber prices will decline steadily, though this may be somewhat offset by an increase in production. Here again, it is anybody's guess as to what the price level in 1965 would be. For the purpose of our calculations let us assume a price of 70 cents a lb. and a net annual export of nearly 800,000 tons. Let us also assume that by 1965 tin production would be in the region of 50,000 tons per annum sold at a price of \$450 a picul or £882 a ton.

Past experience appears to indicate that there exists a very close relationship between the volume of exports, expressed in terms of money, and G.N.P. The import curve also tends to follow the G.N.P. curve on a graph, though not so closely. We are assuming that there will only be a slight increase in G.N.P. in the next four years and hence no significant increase in the yield from import duties and excise is to be expected. The yield from income tax is also heavily dependent on export prices for our two main commodities. There are, of course, other secondary factors such as the volume of economic activity and the increasing industrialisation of the country, though in regard to the latter it should be borne in mind that pioneer industries will not contribute to the tax yield for the greater part of the five-year period covered by the Plan. Under the circumstances, it is assumed that yield from income tax in 1965 would not be significantly higher than the expected yield this year, i.e. \$232 million. The total arrived at by adding all these calculations is that by 1965, Federal Government revenue would be somewhere between \$1,045 million and \$1,080 million.

Expenditure, on the other hand, shows every sign of increasing steadily. In round figures, if we leave

out debt repayments, transfers to sinking funds and expenditure by State Governments, the projection in the Five-Year Plan allows for the recurrent Budget of the Federation to rise by 1965 to \$1,000 million. If we bear in mind that in 1961 Federation expenditure less debt repayments and transfers to sinking funds has been about \$900 million, we have only \$100 million more to go before we reach the 1965 projection. We cannot both exceed this projection and carry out the Development Programme unless there is a substantial though, for the moment, unforeseen increase in Federal revenue. The possibility of such an increase appears remote at present and it is therefore necessary to exercise the greatest care to ensure that recurrent expenditure should not rise at a rate which we can ill afford.

For this reason the policy adopted in preparing the 1962 Estimates included the establishment of a fixed ceiling for each Ministry and Department, within which each Head of the Estimates had to be framed. I am glad to say that all the Ministries and Departments co-operated well in observing these ceilings and, with very few exceptions, it was possible for the Estimates to be framed within the limits laid down. There was, in fact, only one Head in which the Estimates have substantially exceeded the ceiling, namely Head S15 which provides for the Ministry of Education, about which I have already spoken.

I do not propose now to describe in detail the trends within each department which lead me to think that in some of them there is a danger of the recurrent expenditure forecast to which I have referred being exceeded. I think it should be made clear, however, that the total of \$1,039 million included in the Estimates of expenditure for 1962 represents an increase of approximately 10% over the revised estimate of expenditure for 1961, which again is approximately 10% more than the actual expenditure for 1960. The estimated revenue for 1962 is approximately \$989 million

which is below the actual receipts of 1960 and 1961. I have already tried to show that no indications have appeared which give any reason to hope for an increase in the revenue level during the period of the Plan.

If recurrent expenditure were to continue to increase at the present annual rate while revenue remains more or less static, a deficit of between \$150 million and \$200 million could be expected on the accounts of the year 1965. This is not a prospect which can be accepted with equanimity, and Hon'ble Members will therefore understand that the need for economy on current account is constantly in my mind and that I must continue to exercise a firm hand in dealing with proposals that would lead to greater recurrent expenditure, at least in the Government and social sectors, if not in the economic sector. In order to ensure that the Five-Year Plan can be fully implemented, the present rate of increase on current account must, I think, be accepted for 1962, while staffs and stocks are being built up. After this "bulge" has been passed, however, it should be possible for the rate of increase to settle down to a less alarming figure.

Later in this meeting Hon'ble Members will be considering the estimates of development expenditure for 1962. These amount to \$450 million and it will be seen from the estimated balance sheet appearing at the beginning of the Development Estimates that if this programme is fully carried out, it will be necessary to contribute a further \$151 million from revenue to the Development Fund in addition to the contribution of \$50 million which has already been included in the 1962 Estimates of Ordinary Expenditure. To make this additional contribution we shall have to draw directly upon the reserve balances which have been accumulated in past years and instead of the surplus which has usually been reported at the close of each year, there will, if the proposed Development programme is completed, almost

certainly be a substantial deficit on the annual accounts for 1962. Whether or not the whole programme can be carried out depends largely upon the success which the Government and the building industry meet with in solving their staffing problems, and I therefore thought it prudent to leave any additional contribution to the Development Fund to be dealt with by Supplementary Estimate as and when the occasion arises.

It will, I think, be now clear that there are no grounds for complacency as regards the country's financial ability to carry out its capital investment programme and what I may perhaps call its social investment programme under the Second Five-Year Plan. The need for economy in all branches of the Government is constantly being impressed upon Ministries and Departments by the Treasury and I am happy to say that the Treasury's strictures on this subject do not go unheeded. In spite of shortage of staff and inexperience throughout most branches of the Public Service there is, I am happy to say, a general realisation amongst all officers of the importance of financial control. In this connection, the Treasury must express its gratitude also to the Public Accounts Committee of this House and to the Auditor-General, and his staff for their untiring efforts in pointing out and helping to set aright the irregularities which must inevitably from time to time occur.

I turn now to the matter of tariff changes. Hon'ble Members should have before them Statute Paper No. 54 of 1961 which sets out the changes in duties which come into effect at 4 o'clock this afternoon.

The export duty on iron-ore is increased from 10% *ad valorem* to 15% *ad valorem*. The duty rate of 10% was fixed as long ago as 1913. I have not been able to discover how much iron-ore was exported in that year but I think it safe to assume that exports then were in no way comparable in volume with those which have occurred in the last two or three years

when the rate of extraction has been increasing very substantially. There are strong indications that iron mines are earning extremely high returns and it is therefore only equitable that they should contribute their fair share to the revenue. The very fact that production of iron-ore, which was only about 2½ million tons in 1956, is likely this year to reach the 7-million ton mark, is ample testimony to the vigour of this industry.

Hon'ble Members may be aware that the land titles under which a number of iron-ore mines are held provide for the payment of royalty by the mine to the Government of the State in which the mine is situated. These royalties vary in rate, but normally do not exceed 10% *ad valorem*, in which case they are collected by the Customs in the same way as export duties. Generally in cases where the royalty is less than 10%, export duty is collected at a rate which, added to the royalty, brings the total payment to 10%, all of which is, or will be, handed over to the State Government concerned. There are, I may say, not many of such cases. Of the few cases to which I have just referred, some will require special treatment. They are the mines whose land titles were issued before 31st January, 1942 and provide for a royalty of less than 10%. In these cases the contract between the parties was such that there is an obligation on the part of the Government not to levy more than the rate of royalty stipulated in the title. That obligation will be observed, and the rate of duty will remain at the rate laid down in the royalty clause.

Apart from these special cases, it is proposed to introduce legislation which would provide that, with the duty at 15%, 10%, as at present, shall continue to be paid over to the States, while the Federal Government retains the difference. It is estimated that the increase in duty rate will bring in at least \$3 million next year.

The next change in duty rate affects wooden cases imported empty. Under the present tariff such cases, if

imported already assembled incur no duty, but if imported in parts attracts a duty of 20% *ad valorem*. This is a manifest anomaly, the reasons for which are historical. It is only fair that this anomaly should be rectified by imposing an identical duty on such cases if imported made up. It is not likely that the yield of revenue will be significant.

Next, a duty of \$2 per gallon will be imposed on methyl alcohol or methanol. Very little of this product was imported until a duty was placed on methylated spirit. Since then large quantities have been imported and used for purposes for which methylated spirit was formerly used. We have in the Federation one factory which is already producing methlated spirit and another is in course of being built. I am satisfied that these factories need some degree of protection to enable them to compete with imports of methylated spirit and its substitute, methanol. For this reason the duty on methylated spirit will be extended to cover methanol as well.

The last change in duties is a reduction. The import duty on watches and some types of small clocks will be reduced from 25% to 10% *ad valorem* (*Applause*) because the Government is concerned at the apparent large-scale smuggling of these articles. (*Laughter*). A comparatively high rate of duty on a small and easily concealed article such as a watch is undoubtedly an incentive to smuggling. We hope that by lowering the rate we might reduce the incentive to smuggle and that, as a result, the total yield of import duty on watches will not be significantly affected.

Before I leave the subject of customs duties, it may avoid misunderstanding if I mention that a further Customs Duties Amendment Order, the Customs Duties (Amendment) (No. 4) Order, 1961 will appear in a few days' time. This Order is no more than a technical device and will introduce no actual changes in duties. Hon'ble Members might remember that at its last meeting the House approved the

Customs Duties Order, 1961, a long order setting out the Customs tariff in a new form. That Order comes into force on 1st January, 1962.

Until then, duties are collected under the current Customs Duties Order, 1959, which has been amended from time to time, particularly by the Order which has introduced the changes in duty on iron-ore, boxes, methyl alcohol and watches which have just been dealt with. The purpose of the Customs Duties (Amendment) (No. 4) Order, is to introduce into the 1962 tariff the changes made to-day in the current tariff. The opportunity is also being taken to correct a few unintentional changes in duty rates and other errors which have been discovered since the Order was made. I shall be moving the confirmation of both the Customs Duties (Amendment) (No. 3) Order, 1961 and the Customs Duties (Amendment) (No. 4) Order, 1961 at a later sitting of the present session of the House.

As regards income tax, while I am making no proposals which will affect the general incidence of taxation, I intend to make certain changes which are in accordance with the Government's policy of encouraging the development of the country's natural resources.

As far as the development of the rural areas is concerned, I shall be introducing, early next year, an amending Bill which will provide, among other things, for an increase, from 10% to 50%, of the income tax deduction for capital expenditure incurred on new clearings and plantings. (*Applause*). The effect of this will be that where new land is cleared for the purpose of establishing a stand of rubber or other crops, the whole of the expenditure incurred in clearing the land and in the initial planting operation could be written off for tax purposes in two years instead of over the ten-year period which is at present in force.

In order to encourage the exploitation of tin-bearing land, I propose to increase the initial allowance in respect

of plant and machinery used in connection with mining operations from 20% to 60%. (*Applause*). This means that in future a tin producer will be able, for income tax purposes, to write off in the first year, in respect of newly-acquired plant and machinery, not only the normal depreciation allowance but also an additional amount of 60% of the cost of such plant and machinery.

In this connection, I would like to refer to the representations received by me in regard to what their authors have described as the over-taxation of the tin-mining industry. I have considered these representations carefully but regret to say that I am unable to accept the broad conclusion reached by them. It is difficult to feel that this industry is over-taxed when looking at the operating results of tin-mining companies, in particular the dividends declared and the record levels at which tin share prices are standing. I, however, agree that some incentive should be given to those who are prepared to take greater risks by working low grade land, i.e., land with a low ore content, and I hope the amendment proposed will provide the necessary incentive.

I shall also be introducing legislation to provide that tin producers could have the same favourable income tax treatment regarding their contributions to and repayments from the Second Buffer Stock as was accorded to them in connection with the First Buffer Stock. The position regarding the First Buffer Stock Scheme was that producers were permitted to have both contributions and repayments excluded from their income tax computations if they so opted. As the repayments exceeded the contributions by some 16%, representing the profit made by the Buffer Stock Manager, this amount of profit represented tax-free income as far as the tin producers were concerned. A similar opportunity will be provided under the legislation covering the Second Buffer Stock Scheme to enable tin producers to obtain what every taxpayer dreams about, namely some income which will be exempt from tax!

While we are on the subject of the Second Buffer Stock, I should also refer to the levy imposed on tin concentrates mined in this country in order to finance our contribution to the Second Buffer Stock. This levy, which was \$39 a picul for August and \$36 a picul for September, has been reduced to \$24 a picul for the third contribution period covering the last quarter of this year, in spite of the high prices prevailing for tin now. It cannot, therefore, be said that the Government, for its part, is not giving every possible encouragement to the industry, and in particular, to increase the production of tin at the present time.

In 1962, as a result of these changes, it is estimated that total revenue will amount to \$989 million as compared to the revised estimate of \$1,071 million for 1961, a drop of \$82 million. Here again, it might be of some value to refer to those revenue items which are likely to show marked changes. The yield from rubber export duty will only amount to \$86 million as compared with the estimated yield for this year of \$118 million. The reason is that this figure is based on an average annual price of only 75 cents a lb., judging from present indications, and a production for export of 733,000 tons. Tin export duty is estimated to yield \$57½ million compared with \$65 million expected this year. The duty yield has been based on a selling price of \$400 per picul and an export figure of nearly 56,000 tons. Honourable Members may perhaps feel that the base price for tin is rather low considering present prices. As I have stated previously, it has been our policy, for this purpose, to take a price which could safely be regarded as a long-term average price rather than try to prophesy, usually wrongly, the average price which is likely to prevail during any particular year.

As a result of the change in the duty rate of iron-ore, the yield from this source is expected, as I have said, to touch \$3 million in 1962, which will be a new source of revenue as far as the Federal Government is

concerned. Receipts from vehicle licences and fees are expected to yield \$64 million, compared with \$58 million this year, \$52 million for 1960, \$42 million for 1959 and \$37 million for 1958. It will be seen that this is a steeply rising curve and reflects the rapidly increasing number of vehicles on our public roads.

But the really spectacular increase is in the field of income tax. The estimate for 1962 has been put at \$200 million, but we hope to collect \$232 million this year compared with \$125 million collected in 1959. In other words, the yield from income tax has nearly doubled itself in two short years and this, I think, can be regarded as highly satisfactory. I think three factors have largely contributed to this happy picture. The broadening of the tax base in 1959, which resulted in the number of taxpayers rising from a mere 46,000 in 1959 to almost 90,000 to-day, is obviously a major factor. Another important factor has been the boom conditions prevailing in 1960, the harvest of which is being reaped during the year under review. Thirdly, the increasing success of the anti-evasion campaign has brought its share and will, I hope, continue to bring in an ever bigger share in the years to come.

It is not my intention in the course of a Budget speech to burden Honourable Members with too much detail, but I can assure the House that the systematic and intensive campaign which is being waged has resulted in some outstanding successes in a few individual cases. Honourable Members will also have observed that a number of cases have been brought to court with gratifying results. The Government will leave no stone unturned and is prepared to adopt even highly unorthodox methods in order that those residents who can afford to contribute, pay their fair share for the common good.

Postal receipts and the receipts from our telephone service are expected to show small increases in 1962 in conformity with the general expansion of the economy. The interest on our

sterling securities is expected to yield \$45 million in 1962 compared with \$40 million this year, largely owing to an increase of about \$130 million in the volume of our investments and to the effect of very high interest rates arising out of the credit squeeze in the U.K. We also expect to receive \$28 million in 1962, \$6 million more than the amount expected this year, as our share of the Currency Surplus Fund. This, of course, is a foreseeable increase as the amount available for distribution must necessarily reflect the rise in its investment income arising out of the increased cover for an expanding note circulation, which again is the result of an expanding economy.

It will therefore be seen that while ordinary Budget expenditure in 1962 will show a steep increase over that for 1961, revenue will not only be unable to keep pace with it, but might even fall by as much as \$82 million from the estimated 1961 figure. To put it in another way, we have to spend more on social services, particularly education, even when faced with contracting export prices for our main commodities, resulting in a deficit on current account estimated to amount to \$50 million.

Honourable Members may ask why in such case the Government has not seen fit to ask the House to approve higher levels of taxation. Higher rates of taxation which might be desirable for a national economy under certain circumstances, might in other cases either diminish the inclination to save or lead to an increase in prices and eventually wages, and thus upset the equilibrium of what has so far been a very stable economy and one which hitherto has not been dogged by that creeping inflation which is so common a feature of the post-war world, including the highly industrialised part of it. I think, therefore, that our position is unique and in this respect we have some cause for satisfaction.

Honourable Members will by now have noted that in spite of two good years, I have still chosen to paint a sombre picture of the future. The

reason is not far to seek. Our Budget surpluses in both 1960 and 1961—and it might be remembered that the surplus for this year would be turned into a deficit if development expenditure were included in full—came about largely as a result of fortuitous circumstances which are not likely to be repeated again. Rubber enjoyed a spectacular boom for most of 1960 and tin is now passing through one of its best periods in all its chequered history. While the tin price may continue at its present levels for some time more to come owing to progressively decreasing world supplies and the comparative lack of substitutes at present, the outlook for rubber is rather more uncertain. Production of natural is bound to increase steadily though slowly, but output of synthetic can be stepped up rapidly and the only limiting factor is the ability or willingness of other countries to provide the initial capital outlay. The writing is already on the wall and we may have to live with declining rubber prices sooner than we expect, and this will involve a speedy re-adjustment, bearing in mind that the proceeds from rubber comprise over 60% of our total export income and total export earnings comprise over 40% of our Gross National Product, while the export earnings of industrialised countries comprise only from 5 to 20% of G.N.P.

What is therefore the solution? In a speech before the former Legislative Council which I made a few years ago on the Annual Estimates of the Ministry of Commerce and Industry, I put forward the proposition that there are two broad courses open to us. In the first place, we clearly have to reduce, gradually but steadily, our almost total dependence on rubber and tin. As it is clear that our economy will have to be largely based on agriculture for perhaps another generation, we will have to diversify our agriculture. A number of possibilities are open to us. One of the most promising is probably that sector which yields edible fats and oils, such as palm oil and coconuts, which are

likely to be in increasingly short supply in view of rising world standards of living. Another might be the intensive and extensive cultivation of local fruits. There is every reason to believe that such cultivation is economically lucrative, if successful.

There are a few snags, however. One of them is our comparative lack of knowledge about the diseases which are liable to affect such forms of cultivation, another may be the designing of better methods of pest protection, and last but not least, the discovery of ways and means of canning fruit which cannot be immediately sold. This is a highly important consideration because fruits are highly perishable goods and fruit growers for this reason normally have to can a large proportion of the fruit they grow. This in turn would mean the development of export markets which might have to be preceded by adequate publicity designed to initiate potential customers into new tastes. It should be admitted that there is also a general lack of knowledge about the finer aspects of fruit cultivation in this country, though many people in the rural areas have cultivated small-holdings from time immemorial. If these difficulties can be overcome, and there is no reason why they should not, given time and adequate research, the fruit-growing industry in this country could well become a major one one day.

While the major part of this work will obviously have to be undertaken by the research and field sections of the Ministry of Agriculture, it would, I consider, be of advantage if the leading agency houses in this country could, as a matter of policy, undertake to experiment seriously along these lines. Only a few acres would be required for each form of cultivation, but the important thing is that each experimental plot should be nursed with great care so that the results obtained would be a reliable guide to future policy.

The eventual key, Sir, to continued prosperity would probably have to be

found in industrialisation. It has been suggested that large-scale industrialisation may not be so easy to achieve in a small country like ours with a limited domestic market and an uncertain export market. While there is a large measure of truth in this argument, it is also noteworthy that some of the most prosperous countries in Western Europe, notably the Scandinavian countries, have raised their living standards extremely successfully by switching to large-scale industrialisation. They are comparable to us in size of population, with one important difference—their numbers though small have high purchasing power. It does, however, prove that smallness of population should not be a deterrent to industrialisation provided the purchasing power is there. The answer to the future may well lie here.

Sir, I beg to move.

**The Deputy Prime Minister (Tun Haji Abdul Razak):** Sir, I beg to second the motion.

**Mr. Speaker:** Honourable Members, the debate on the second reading of the Supply Bill will stand adjourned under Standing Order 66 (2) to 8th January, 1962.

Honourable Members will have just received a copy each of an Order Paper Supplement containing a notice of motion by the Honourable the Minister of Finance relating to the two Customs Duties Orders which have also just been distributed to the House. The Minister has represented to me that the public interest requires that this motion should be debated as soon as possible, and has given me the requisite one day's notice necessary under S.O. 27 (3). The House will appreciate that, because of the need for maintaining secrecy in regard to the Government's Budget proposals for 1962, it has not been possible for any longer notice than this to be given to Members.

I now call upon the Minister of Finance to move the motion.

## MOTIONS

### CUSTOMS ORDINANCE, 1952— CUSTOMS DUTIES ORDERS

**Enche' Tan Siew Sin:** Mr. Speaker, Sir, I beg to move—

That this House, in pursuance of sub-section (2) of section 10 of the Customs Ordinance, 1952, directs that in relation to the Customs Duties (Amendment) (No. 3) Order, 1961, and the Customs Duties (Amendment) (No. 4) Order, 1961, the period within which orders under sub-section (1) of the said section 10 are required to be confirmed shall be a period of two months beginning with the date on which the said Orders were laid before the House.

In order to explain this motion, Sir, I should remind Honourable Members that Customs Duties Orders come into force as soon as made, but do not continue in force indefinitely unless confirmed by a resolution of this House. The law is to be found in sub-section (2) of section 10 of the Customs Ordinance, 1952. That sub-section requires confirmation to be given within 10 days of the laying of an Order, or such extended period as this House may by resolution direct. It seems to me that the most convenient course would be for us to extend the period, so that we do not have to debate the Orders to-day. During the Budget debate, and during the debate on the Orders themselves, Honourable Members will have an opportunity to discuss them, if they so wish, and I shall invite the House to confirm them after the Budget debate; or to put it in another way, I should explain that if this motion is not moved to-day the changes which I proposed in my speech will lapse 10 days from now. Honourable Members, I think, will therefore appreciate the desirability of this motion.

Sir, I beg to move.

**The Minister of Commerce and Industry (Enche' Mohamed Khir bin Johari):** Sir, I beg to second the motion.

**Mr. Speaker:** The motion is open to debate. If no Honourable Members wish to speak, I shall put the question.



Question put, and agreed to.

Resolved,

That this House, in pursuance of sub-section (2) of section 10 of the Customs Ordinance, 1952, directs that in relation to the Customs Duties (Amendment) (No. 3) Order, 1961, and the Customs Duties (Amendment) (No. 4) Order, 1961, the period within which orders under sub-section (1) of the said section 10 are required to be confirmed shall be a period of two months beginning with the date on which the said Orders were laid before the House.

### THE DEVELOPMENT ESTIMATES, 1962

*(Command Paper No. 53 of 1961)*

**Enche' Tan Siew Sin:** Mr. Speaker, Sir, I beg to move—

That, whereas the Statement of expenditure proposed to be met out of the Development Fund for the year 1962, which has been laid on the Table as Command Paper No. 53 of 1961, cannot conveniently be discussed and approved by this House before the commencement of the year 1962, and whereas the total expenditure of \$450,689,903 proposed in the said Statement includes amounts totalling \$3,850,000 which are required to continue certain of the purposes for which sums were appropriated by Resolution of this House on 29th April, 1961, in respect of the year 1961, and which will remain uncompleted at the end of the year, it is hereby resolved that a sum of \$3,850,000 being part of the expenditure shown in the Statement tabled as Command Paper No. 53 of 1961 and more particularly set out in the Appendix thereto be approved, and that the sums specified in the fourth column of said Appendix be appropriated to meet the purposes of the Heads and Sub-heads shown against them.

As Honourable Members are aware, it will not be possible this year for the Development Estimates for 1962 to be discussed and approved by this House before the year commences. In the case of the Ordinary Recurrent Estimates the House has already approved a Bill which has since become law to enable expenditure to be incurred on account prior to the passing of the 1962 Supply Bill. This will allow for the ordinary activities of the Government to be carried on in the New Year.

In the case of development expenditure it is essential that projects which have already been approved by the House in 1961 or past years and which are now under way should continue in January without any interruption due to lack of funds. It is particularly necessary on this occasion that funds should be available at the very beginning of 1962 because the Chinese New Year holiday falls at the beginning of February and contractors must be provided with money to pay their labour for wages due to them before this date.

Under sub-section (5) of section 4 of the Development Fund Ordinance I have powers to extend over the end of the year any unspent balances of appropriations which have already been approved by the House and which remain unspent as at 31st December. I am proposing to make use of this power to the extent of about \$140 million and to do this no reference to the House is required. There are, however, a number of projects which are required to continue into 1962 for which no money is available to be carried over from 1961 and for which the Federation Government is committed to make payments at the beginning of January. These items are set out in the Appendix slip which Honourable Members should have with their copies of the Development Estimates for 1962 and I do not feel it necessary to describe them in detail, all of which represent loan payments to State Governments in accordance with agreements which have been entered into between the Federation and the States concerned in respect of schemes which have already appeared in the 1961 Development Estimates. It is necessary for me to ask for this resolution of the House in order that these obligations totalling \$3,850,000 may be met and so that the State Governments in question should not be impeded in carrying out their share of the Second Five-Year Plan.

Sir, I beg to move.

**The Deputy Prime Minister (Tun Haji Abdul Razak):** Sir, I beg to second the motion.

Question put, and agreed to.

Resolved,

That, whereas the Statement of expenditure proposed to be met out of the Development Fund for the year 1962, which has been laid on the Table as Command Paper No. 53 of 1961, cannot conveniently be discussed and approved by this House before the commencement of the year 1962, and whereas the total expenditure of \$450,689,903 proposed in the said Statement includes amounts totalling \$3,850,000 which are required to continue certain of the purposes for

which sums were appropriated by Resolution of this House on 29th April, 1961, in respect of the year 1961, and which will remain uncompleted at the end of the year, it is hereby resolved that a sum of \$3,850,000 being part of the expenditure shown in the Statement tabled as Command Paper No. 53 of 1961 and more particularly set out in the Appendix thereto be approved, and that the sums specified in the fourth column of said Appendix be appropriated to meet the purposes of the Heads and Sub-heads shown against them.

**Mr. Speaker:** The House is adjourned to 8th January, 1962.

*Adjourned at 4.20 p.m.*