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Economic development in Sarawak, Malaysia: An overview¹

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Abstract

The state of Sarawak is situated on Borneo Island in East Malaysia. It is the largest state in Malaysia covering an area of approximately 124 thousand square kilometres. Sarawak's population is approximately 2.07 million people, which makes it the fourth most populous state in the country. There are several distinguished characteristics of the economic development process in Sarawak which highlight the contrast in economic development in Sarawak and the rest of Malaysia. On the whole, the Malaysian economy transformed itself from a primary commodity-based economy to a manufacturing and industry-based one. Until the 1970s, Malaysia was predominantly an exporter of rubber and tin. However, the country overcame the colonial heritage that shaped its economic structure based on primary commodity dependency and became an exporter of manufactured goods. Sarawak, on the other hand, did not follow suit and its economy remains being driven by export of primary commodities, such as liquefied natural gas (LNG) and crude petroleum.

Key words

Economic development, Sarawak, Malaysia

JEL codes

O53, O18, R11

¹ This paper is a modified version of the first chapter in Furuoka (2011).

1. Introduction

The state of Sarawak is situated on Borneo Island in East Malaysia.² It is the largest state in Malaysia covering an area of approximately 124 thousand square kilometres.³ Sarawak's population is approximately 2.07 million people, which makes it the fourth most populous state in the country.⁴

An interesting part of Sarawak's history is that it was formally ruled by three 'White Rajahs', namely, James Brooke, Charles Brooke and Charles Vyner Brooke. The 'White Rajahs' rule lasted from 1842 to 1946, except for a brief period of the Japanese occupation between 1941 and 1945.⁵ As Michael Leigh pointed out, economic development was not a priority issue for the three rajahs. They did not permit the European planters to extend their plantation business into Sarawak and did little to promote education or improve the transportation and communication in the state (Leigh, 1974, p.5). Ooi Keat Gin argued that the essence of the rajahs' economic development policy was a notion that "development should be a gradual process, and most importantly, the protection of native interests and the improvement of their welfare should be adhered to without compromise" (Ooi, 1997, p.19)

2. Economic development under "white rajahs"

The first white rajah, James Brooke, who ruled Sarawak from 1841 to 1869 concentrated on power consolidation and the territorial expansion. He had neither time nor sufficient resources to promote economic development of his domain. According to Baring-Gould and

² Other states in Malaysia are Perlis, Kedah, Pulau Pinang, Perak, Selangor, Negeri Sembilan, Melaka, Johor, Pahang, Terengganu, Kelantan, and Sabah. Malaysia's three federal territories are Putrajaya, Kuala Lumpur, and Labuan.

³ The second largest state is Sabah which covers approximately 73 thousand square kilometres. The third largest Malaysian state is Pahang with an area of 35 thousand square kilometres

⁴ Three most populous Malaysian states are Selangor (4.19 million), Johor (2.74 million), and Sabah (2.60 million).

⁵ Sultan of Brunei appointed James Brooke as Rajah in August 1842. After the first White Rajah's death, the title was succeeded by his nephew, Charles Brooke, in 1868. Then, after Charles Brooke's death, his son, Charles Vyner Brooke, became the third and the last White Rajah in 1917.

Bampfylde, there had been no noticeable commerce and finance activities in Sarawak during James Brooke rule. He left it to his successor to promote economic and financial development in Sarawak (Baring-Gould and Bampfylde, 1909, p.304).

The second white rajah, Charles Brooke, ruled the state from 1868 to 1917. He initiated “a gradual but steady process of economic development” in Sarawak and was directly involved in every aspect of the state’s economic activities. Charles Brooke focused on promotion of international trade and made efforts to make agriculture a mainstay of the Sarawak economy. For example, he promoted the sago export. As a result of his policies, the lucrative sago export to Singapore “brought prosperity to the Melanau sago producers, and to Chinese merchants of Kuching” (Ooi, 1997, p.35-39). To encourage agricultural activities in the state, Charles Brooke conducted liberal land policy and introduced new cash-crops. In order to increase the agricultural work force, he promoted the immigration of Chinese peasant farmers.

The rule of the third white rajah, Charles Vyner Brooke, lasted from 1917 to 1946, except for the period of Japanese occupation between 1941 and 1945. Though, just like his predecessor, Charles Vyner Brooke promoted land cultivation in order to ensure self-sufficiency in food in Sarawak he was more conservative in his economic policies. The third white rajah was especially reluctant to open up his domain to “Western capitalist enterprise” and the Chinese immigration. As Ooi observed, “He was not at all encouraging towards existing European companies, including the long-established BCL (Borneo Company Limited), and Chinese immigration was subjected to more vigilant control and stricter regulation” (Ooi, 1997, p. 47-48).

Under the three white rajahs, the Sarawak economy was stagnant. As Ooi concluded, “Brooke Sarawak was comparatively backward vis-à-vis other neighbouring British-owned territories like the Protected Western Malay States, the Crown Colonies of the Straits Settlements, and Lower Burma” (Ooi, 1997, p.318). However, there was another side to the lack of development noted by Leigh who observed that the result of these rather passive policies “was a lack of economic development and an absence of social problems accompanying foreign-sponsored growth” (Leigh, 1974, p.5).

During the white rajahs rule, five main ethnic groups inhabiting Sarawak engaged each in different kind of economic activities. The choice of these activities was influenced by the geographical factor. The Malays stayed in the delta areas of Kuching, Samarahan, and Sri Aman. The proximity to the rivers allowed the Malay community to engage in trade. The Malay traders brought to the inland areas of Sarawak various goods, such as cloth, iron, and salt in exchange for rice and jungle products. The Ibans who resided in the longhouses were engaged in shifting cultivation while the Bidayuhs who lived on the hilltops were hill-padi producers (Chow, 2004; Leigh 1974, Ooi, 1997). The Melanau were traditionally sago producers. They lived in longhouse-type of dwellings in the Mukah area and traded their produce with the Brunei Malay merchants who had a profitable export trade of this commodity with Singapore.

The Chinese settlers in Sarawak had come mainly from Kwangtung and Fukien provinces. They actively participated in various economic and commercial activities, such as mining, trading, and cash-cropping (Chow, 2004; Leigh, 1974; Ooi, 1997). The Hakka miners were involved in gold mining in Bau area near Kuching. Chow (2004) argued that the pioneering efforts of the Hakka gold-miner contributed to the economic transformation of the region. As

he pointed out, “The miners’ successful adaptation to their new economic and social milieu, and the subsequent transformation of the Bornean landscape that followed, was due primarily to their frontier organisation, the kongsi” (Chow, 2004, p.18).

The close-knit miners’ community – the ‘kongsi’ -- came into existence in the late half of the 18th century although less sophisticated forms of partnerships among the pioneer miners continued to exist. According to Chow (2004), the word “kongsi” emphasized the idea of extended mining partnership and brotherhood, symbolized by a “kongsi-house”. The kongsi had an elaborate system of government that attended to various administrative activities and needs, including toll collection, judicial control, tax levying, and immigration (Chow, 2004, p.20-21). For example, the confederation of kongsi in Bau was known as “twelve company” kongsi. It represented an autonomous and self-sufficient community whose economic activities combined mining and agriculture. The kongsi was so strong that at one point of Sarawak’s history it launched attack on Kuching and almost succeeded in toppling the white rajah government in 1857 (Ooi, 1997).

Besides the white rajahs rule of Sarawak, the Japanese military occupied the state for three years and eight months from December 1941 to September 1945. Although the military rule had many negative effects on socio-economic development of Sarawak, a notable exception was the achievement of self-sufficiency in food crop production. This was possible due to coercive measures by the Japanese military authority that forced local farmers to produce rice and other food crops. As a result, “The Japanese military administration did achieve its goal of food self-sufficiency” (Ooi, 1999, p.77). After World War Two, Sarawak became a British colony in 1946, before joining the federation of Malaysia on September 16, 1963. According to Leigh (1979), in the 1970s Sarawak was a relatively poor state. In 1974, its per capita

Gross Domestic Product (GDP) amounted to US\$442 (approximately RM1,237) compared to US\$576 (approximately RM1,612) per capita GDP in the whole Malaysia in the same year.

3. Economic development after the independence

The average growth rate of GDP in Sarawak for the period 1962-1974 was 8.7 percent per annum. Such a rapid pace of economic development was mainly due to the acceleration in petroleum production output accompanied by a four-fold increase in the price of petroleum. As Leigh observed, “The share of mining and quarrying in the state’s GDP rose from 0.4 percent in 1967 to 18 percent in 1973 and almost the whole of this rise is attributed to petroleum” (Leigh, 1979, p.339). According to Leigh, an urgent issue of economic development in the state in the 1970s was the structure of the employed workforce. Despite a fact that mining and quarrying sector occupied an important position in the Sarawak economy it employed only 0.4 percent of the state’s total workforce while “Agriculture, on the other hand, with its far slower rate of growth of output and its declining share of GDP, continued to absorb almost three-quarters of Sarawak’s employed population” (Leigh, 1979, p.340-341).

By the year 1990, the Sarawak economy was less diversified than that of Peninsular Malaysia and was heavily dependent on primary sector. In 1990, the sector’s share in total GDP of the state was 51 percent. The exports of saw logs, sawn timber, crude petroleum and LNG totalled RM5.2 billion or 70 percent of Sarawak’s GDP. To compare, the primary sector’s share in Peninsular Malaysia was only 20 percent while for the whole of Malaysia it was 28 percent (Wee, 1995, p.47-49). Manufacturing sector in Sarawak was less developed compared to Peninsular Malaysia. Thus, in 1989, the sector’s value-added in Sarawak was RM1.68 billion while for Peninsular Malaysia the figure reached RM17.8 billion. In 1990, the manufacturing sector contributed 17 percent to GDP in Sarawak, compared to 27 percent

in Peninsular Malaysia. The sector absorbed less than 10 percent of total work force in Sarawak, compared to 20 percent of total employment in Peninsular Malaysia (Wee, 1995, p.51-53).

Table 1: Per capita GDP in Malaysia, Sabah, and Sarawak (1970, 1980, and 1990)

	1970	1980	1990
Sarawak	881	2,292	3,883
Sabah	1,177	3,066	4,500
Malaysia	1,617	4,610	6,558

Notes: all values are indicated at 1978 constant prices (Malaysian Ringgit)

Source: Wee (1995, p.62)

Table 1 reports the per capita income in Malaysia, Sabah and Sarawak in 1970, 1980 and 1990. According Wee (1995), in terms of per capita GDP, Sarawak ranked in the bottom half among the Malaysian states since 1970. In that year, the state's per capita GDP amounted to RM881, and Sarawak was ranked the eighth among the 13 states in Malaysia. During the 1970s, the economic situation in Sarawak deteriorated. In 1980, the per capita GDP amounted to RM2,292, which was approximately half of the per capita GDP in Malaysia as a whole, and the state ranked the tenth among 13 Malaysian states. However, in the 1980s, the economic condition in Sarawak improved which led to an increase in the per capita GDP, which reached RM3,883 in 1990, when Sarawak ranked sixth among all Malaysian states (Wee, 1995).

As Okposin *et al.* (1999) report, Sarawak's real per capita GDP between 1963 and 1997 grew at an average rate of 7.8 percent per annum. The researchers argue that Sarawak's economic structure reflected the state's comparative advantage in the primary sector, which until 1995 accounted for 35 percent of the GDP. Also, Okposin *et al.* (1999) point out that the comparative advantage in natural resource depends not on the ownership of supply but on the architecture of supply, which includes the structure of the natural resource market and the

relationship among firms that supply and use these resources. Normally, the suppliers of natural resources are numerous and geographically dispersed. As the researchers argue, “Resource suppliers in this scenario are not powerful”, therefore, “It is not surprising that Sarawak, despite being world-class supplier of resource-based products has not clear international competitive advantage” (Okposin et al., 1999, p.156). Another pitfall of the dependence on primary sector is that like most tropical economies which depend on natural resources, the Sarawak economy is vulnerable to global commodity price fluctuations.

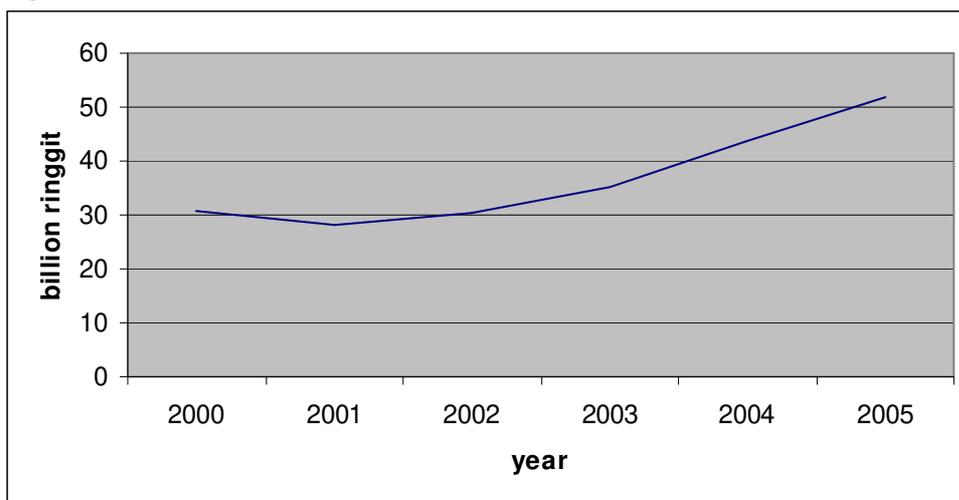
From 1991 to 1995, Sarawak’s GDP grew at a relatively rapid rate of 8 percent per annum. In 1990, per capita income in the state increased to RM3,927 from RM2,792 in 1981. More importantly, there was a reduction in poverty rate from 56.5 percent in 1976 to 17 percent in 1995 (Okposin et al., 1999). In terms of foreign direct investment (FDI), Sarawak was quite successful in attracting capital from abroad. Overall, between 1980 and 1995, Sarawak ranked the fifth largest Malaysian state-recipient of FDI with RM7 billion of the cumulative values of FDI. Sarawak’s share of FDI accounted for 7.5 percent share of the total approved FDI for the whole Malaysia over that period (Okposin et al., 1999).

4. Some main characteristics of Sarawak economy

Among important indicators of an economy’s well being are its Gross Domestic Product (GDP), volume exports and imports, and the situation in the labour market. First of all, with regard to Gross Domestic Product, Figure 1 shows Sarawak’s GDP from 2000 to 2005. According to the figure, GDP in Sarawak in the year 2000 amounted to RM30.7 billion, and its share in the total amount of GDP in Malaysia was 8.9 percent. The state’s GDP decreased to RM28.0 billion in 2001. It expanded again to RM30.8 billion in the following year (Department of Statistics, Sarawak, 2007; Department of Statistics, Malaysia, 2007a). It is

interesting to note that Sarawak experienced a remarkable GDP growth from 2003 to 2005. In 2003, the state's GDP increased to RM35.0 billion and its growth rate reached 13.6 percent. Furthermore, in the following year, Sarawak's GDP expanded to RM40 billion and recorded a highest growth rate of 19.8 percent per annum. In 2005, the GDP reached RM51.8 billion; its share in the total amount of Malaysia's GDP was 10.4 percent.

Figure 1: Sarawak's Gross Domestic Product



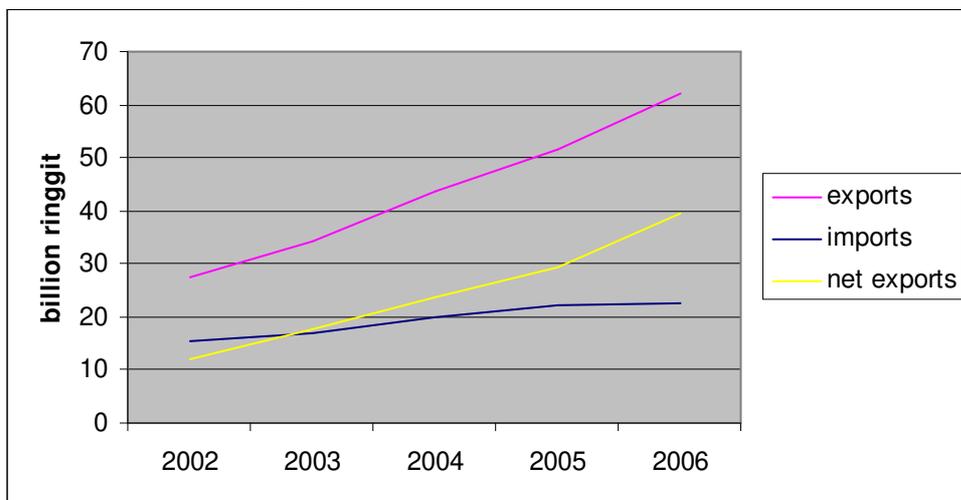
Source: Department of Statistics, Sarawak (2007)

Secondly, regarding the export and import activities, Sarawak's exports increased rapidly during the period 2002-2006 (see Figure 2). The total amount of exports in 2002 was RM27.4 billion. This figure increased to RM34.3 billion in 2003, and further expanded to RM43.4 billion in 2004. In 2005, the total volume of exports reached RM51.4 billion, and totalled RM61.9 billion in 2006. By contrast, during the same time span, the imports increased at a relatively moderate rate. In 2002, the total amount of Sarawak's imports was RM15.3 billion; it increased moderately to RM16.7 billion in 2003, and further expanded to RM19.9 billion in 2004. In 2005, the total value of Sarawak's imports reached RM22.2 billion, and slightly increased again to RM22.4 billion in 2006.

Due to the excellent performance of the export sector, Sarawak enjoyed a very healthy

balance of trade or so-called “net exports” (i.e. the value of exports minus the value of imports). The net exports recorded a positive value of RM12.9 billion in 2002; it increased to RM17.5 billion in 2003, and further expanded to RM23.5 billion in 2004. In 2005, the net exports remained positive at approximately RM30 billion, and further expanded to an approximately RM40 billion in 2006.

Figure 2: Exports, Imports and Net Exports in Sarawak



Source: Department of Statistics, Sarawak (2007)

As to the labour force in Sarawak, primary sector, namely, agriculture, forestry, and fishing, played an important role in providing job opportunities to the workers in the state (see Table 2) and together absorbed approximately 30 percent of Sarawak’s total labour force. The second largest job provider was the manufacturing sector where approximately 12 percent of the total labour force was employed. Other secondary industries, such as electricity, gas and water supply, and construction employed approximately 10 percent of the workers in Sarawak. As these figures attest, primary sector was the state’s leading employer.

Table 2: Employment by Industry in Sarawak from 2003 to 2006 (percentage)

	2003	2004	2005	2005
Primary	30.9	31.4	31.1	32.3
Manufacturing	12.7	12.3	11.8	12.3
Other secondary industries	11.0	9.8	9.7	10.2
Wholesale, Retail	13.9	13.7	14.5	14.5
Hotels, Restaurants	5.0	5.6	4.6	4.5
Transport, Communications	3.9	4.5	4.3	4.1
Other services industries	22.6	22.7	24.0	22.1

Source: Department of Statistics, Sarawak (2007)

Tertiary sector or services sector was another important job provider that absorbed more than 55 percent of Sarawak's total workforce. Within the sector, the wholesale and retail industries employed about 14 percent of the labour force, hotels and restaurant industries employed about 5 percent of workers while the transport and communication industries provided employment opportunities to approximately 4 percent of labour force.

Table 3 reports work force participation rate in Sarawak and the whole of Malaysia. According to the table, the labour force participation rate in Sarawak was 65.6 percent or 2.5 percent higher than the national average of 63.1 percent. This is mainly attributable to a very high labour participation of the workers with relatively low educational level; the labour force participation rate of workers without formal education in Sarawak was approximately 12 percent higher than the national average. Furthermore, the labour force participation rate of workers with primary education was approximately 7 percent above the national average.

Table 3: Labour Force Participation Rates in Sarawak and Malaysia (percentage)

	Total	Educational Attainment			
		No education	Primary	Secondary	Tertiary
Malaysia	63.1	51.3	64.9	63.0	64.7
Sarawak	65.6	63.0	72.0	62.8	66.5

Source: Department of Statistics, Malaysia (2007b)

5. Concluding remarks

There are several distinguished characteristics of the economic development process in Sarawak which highlight the contrast in economic development in Sarawak and the rest of Malaysia. On the whole, the Malaysian economy transformed itself from a primary commodity-based economy to a manufacturing and industry-based one. Until the 1970s, Malaysia was predominantly an exporter of rubber and tin. However, the country overcame the colonial heritage that shaped its economic structure based on primary commodity dependency and became an exporter of manufactured goods. Sarawak, on the other hand, did not follow suit and its economy remains being driven by export of primary commodities, such as liquefied natural gas (LNG) and crude petroleum.

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