

# The Advent of Capitalism and Malay Dilemma in Money Economy: The Foundation of Business Corporation and Cooperative Societies in Colonial Malaya

A Rahman Tang Abdullah  
Universiti Malaysia Sabaah, ✉ [art@ums.edu.my](mailto:art@ums.edu.my)

## Article history

Received : 2020-02-07  
Accepted : 2021-03-03  
Published : 2021-03-31

## Keywords

Rural credit  
Commercialism  
Money economy  
Cooperative societies  
Malay/Malaya

**Abstract:** This article discusses the Malay dilemma in facing the expansion of money economy in the Malay society in early 20th century Malaya. Historically, the advent of capitalism during this period instigated the growing importance of money economy. However, in the rural economy, the Malay commoners known as '*rakyat*' were not widely exposed to money economy. The prevalence of money economy in the Malay society was limited to the Malay upper class of royal kinsmen and nobles because of their dominance over the surplus, notably found in the form of taxation imposed on the *rakyat* who were mostly peasants. This situation began to change in the beginning of the 20th century when credit facilities for agricultural activities became available for the Malay commoners that eventually paved the way for the *rakyat* to gradually venture into small businesses and be exposed to money economy. In order to address the problem related to indebtedness, there were initiatives to establish cooperative societies for rural credits. However, these initiatives were always overshadowed by the imposition of interests on the loans. This is because such interests were perceived as '*riba*' or usury, which were regarded as haram or impermissible in Islam. Nevertheless, based on historical circumstances, it can be argued that the establishment of cooperative societies was regarded as the more viable means than business ventures in incorporating the Malay peasant community into money economy.

**Abstrak:** Artikel ini membahas dilema Melayu dalam menghadapi ekspansi ekonomi uang dalam masyarakat Melayu di Malaya awal abad ke-20. Secara historis, munculnya kapitalisme selama periode ini mendorong semakin pentingnya ekonomi uang. Namun, dalam perekonomian pedesaan, rakyat jelata Melayu yang dikenal sebagai '*rakyat*' tidak banyak terekspos pada ekonomi uang. Prevalensi ekonomi uang dalam masyarakat Melayu terbatas pada kelas atas Melayu dari kerabat dan bangsawan kerajaan karena dominasi mereka atas surplus, terutama ditemukan dalam bentuk pajak yang dikenakan pada rakyat yang sebagian besar adalah petani. Situasi ini mulai berubah pada awal abad ke-20 ketika fasilitas kredit untuk kegiatan pertanian tersedia bagi rakyat jelata Melayu yang pada akhirnya membuka jalan bagi rakyat untuk secara bertahap terjun ke bisnis kecil dan terpapar pada ekonomi uang. Untuk mengatasi permasalahan yang berkaitan dengan hutang tersebut, maka terdapat inisiatif untuk membentuk perkumpulan koperasi untuk kredit pedesaan. Namun, inisiatif ini selalu dibayangi oleh pengenaan bunga atas pinjaman. Sebab, kepentingan tersebut dianggap sebagai *riba* yang dianggap haram atau tidak diperbolehkan dalam Islam. Namun demikian, berdasarkan keadaan historis, dapat dikatakan bahwa pendirian koperasi dianggap sebagai cara yang lebih layak daripada usaha bisnis dalam memasukkan masyarakat petani Melayu ke dalam ekonomi uang.

**Cite this article:** Abdullah, A.R.T. (2021). The Advent of Capitalism and Malay Dilemma in Money Economy: The Foundation of Business Corporation and Cooperative Societies in Colonial Malaya. *Paramita: Historical Studies Journal*, 31(1), 33-44. <http://dx.doi.org/10.15294/paramita.v31i1.28926>



Available online at  
<http://journal.unnes.ac.id/nju/index.php/paramita>

## INTRODUCTION

In the late nineteenth and early twentieth century Malaya, the whole idea and manifestation of economic change were commonly associated with the transformation from subsistence to commercialism or capitalism. This process of transformation was reflected by the introduction and adaptation of new phenomena that resulted from the rapid economic changes in the second half of the 19th century (Puthuchery, 2004). These phenomena are undoubtedly associated with money economy that was mostly connected to capitalism (See, 2004). Thus, it is understandable that the prevalence of money economy in the Malay society was associated with the Malay upper class of royal kinsmen and nobles. Their involvements in economic activities were mainly related to trade and revenue farms in the form of commercial plantations and mining concessions. In fact, they were even able to enjoy economic advantages derived from their dominance in taxations imposed on the peasants. Moreover, they did have the privilege to establish collaborations with the immigrant mercantile communities of the Europeans, Chinese, Arabs and Indians in trade and business ventures (Sundaram, 1986).

In actuality, the prevalence of money economy among the Malay commoners, known as *rakyat*, was very marginal. In pre-capitalism, the Malay *rakyat* were not widely exposed to money economy. The *rakyat* were used to the conventional basic subsistence. Any surplus in agricultural productions minimally contributed to traditional economic activities. In fact, they were not able to enjoy much benefit from their productions since the burden of taxation was also imposed on them by the Malay aristocrats (Hashim, 1995; Austin, 2014). Nevertheless, this situation began to change in the beginning of the 20<sup>th</sup> century when the Malay *rakyat* began to be exposed to money economy with the provision of credit facilities for their agricultural activities. Furthermore, attempts were apparent to extend the involvement of the Malay commoners in the establishment of business enterprises and rural credit cooperative societies.

However, the attempt to involve the Malays into business ventures was not as successful as it was expected. In fact, it seems that the expansion of money economy among the Malay *rakyat* created a serious repercussion associated with the peasants being debt-ridden to money lenders, notably the *Chettiars* (Kratoska, 2013). In order to address the problems related to indebtedness, there were initiatives to establish cooperative societies for rural credits. However, these initiatives were always over-

shadowed by the imposition of interests on the loans. This is because such interests were perceived as *riba'* or usury, which were regarded as *haram* or impermissible in Islam.

Thus, this article discusses the dilemma faced by the Malays in Malaya in early 20<sup>th</sup> century. Problems that arose were not merely based on their marginal exposure to money economy and the unsuccessful attempt to include them into business corporations. More importantly, it will examine the problems related to the establishment of Malay cooperative societies in the 1920s as a practical means in money economic phenomenon in order to facilitate the transformation of economic practices of the Malays as a whole from subsistence to commercialism.

## MARGINAL DEGREE OF MONEY ECONOMY

Historically, the practice of money economy among the Malays was generally still marginal until the late nineteenth century Malaya. During the pre-capitalist era, money economy was mostly prevalent in trade and commerce. This is because most of the surplus was transformed into money through commerce and trade. However, these two sectors were only dominated by the upper class Malays and the immigrant communities. Undeniably, economic activities were more dominated by external trade than internal market activities within the members of a particular society (Hodgson, 2001). This economic orientation was attributed to mercantilism that preceded capitalism. Mercantilism is a doctrine, developed in the West after the decline of feudalism, whereby a nation's economy could be strengthened by governmental protection of home industries, by increased foreign exports, and by accumulating gold and silver (Vaggi & Groenewegen 2006; Ekelund & Hebert, 2007).

In reality, it is hard to imagine how the Malay commoners could be involved in commerce and trade through money economic transactions in an extensive manner due to the fact that the majority of them were largely peasants. Their participations in commerce and trade were very marginal since most deals were conducted through barter transactions, which constituted the sole means of exchanging goods and services during pre-capitalism. Under these circumstances, all surplus was mostly in non-monetary forms. Nevertheless, in due course, money was seen to offer considerable advantages over barter and gradually took over a larger and larger role (Davies, 2002). Thus, in the context of commercial economy with the advent of capitalism,

the Malay commoners were only engaged in money economy in the form of waged labour. However, Malay waged labourers were limited to small scale agricultural activities. Not many were interested in working in tin mines and plantations as regular coolies.

Therefore, the mercantile communities were more interested in bringing in the Chinese and Indian Tamil labourers even though those immigrant labourers were not accustomed to the tropical commercial plantations, such as pepper, gambier, tapioca, Liberian coffee and cocoa (*Straits Daily Times*, 1879). The Chinese mercantile community was only interested in bringing the Chinese coolies in the commercial plantations of pepper and gambier within the Kangchu System in Johor and *padi*/rice cultivations in Kedah (Personal Letter by Hamid, 1884; 1895). This was because those coolies also created additional financial gains under the revenue farm concessions, which was the revenue derived from consumption of liquor and opium, as well as gambling activities. From this revenue, the Chinese concessionaires were then able to offer the payment for the concessions to the Malay authorities Trocki, 1975).

It is understood that the orientation of capitalism did not only require the investors to be engaged in the activity that could generate income and profit, but they also had to be prepared to take the risks that could lead to failure and losses, until eventually they would obtain profit. To the immigrant communities, they had been accustomed to mercantilism and are very much aware of this view. For instance, it is narrated by Mohammed Ibrahim Munshi that a Chinese miner named Chu Ngo had worked on the tin mining in Padang, a notable settlement in the district of Muar, Johor. Initially, the activity generated losses, but he was determined and continued the operation until it eventually generated profit for him (Othman, 1980). Another example is, in June 1871, a Chinese named Lim Boon Toh, had borrowed \$3000 from Engku Abdul Rahman to sustain the outstanding payment of his revenue farming rent at Padang in Muar. The concession was extended until he managed to obtain profit two years later (*Surat Hutang Lim Toh*, 1873).

Consequently, it is notable that the existence of revenue farms created the foundation for the Chinese economic dominance in the Malay states. This is due to the dependence of the Malay authorities on the immigrant Chinese who generated revenue to the Malay chiefs. Moreover, it is generally known that the Malay dependence on the Chinese was manifested by the fact that most Malay chiefs

were inclined to become involved as associate members in their business ventures. This is possibly due to the assumption that it was safer to secure their interests and avoid major risks if they were merely the associate members in a joint venture since they would not be directly involved in the business operations. Even under this circumstance, they could still expect to generate the dividends from the concessions.

It can be observed that the revenue farm also provided new economic platforms for the Malays to strengthen their economic foundations. This is because it provided the platform for the Malay chiefs to penetrate into the mercantile economy. In fact, there were a few notable Malay chiefs who were not merely associate members in the joint ventures, but they also managed to become the principal concessionaires in the revenue farms in Kedah. Among them were concessions that belonged to Wan Mohammed Saman at Kulim and Kuala Muda, Mohammed Jasin at Krian and Mohammed Hassan bin Abdul Rahman at Kuala Kedah in the last decade of the nineteenth century. Most of their revenue farm concessions were related to the main products of animal husbandry, the cultivation of tapioca and sugar cane, the collection of *Nipah*, and the consumption of tobacco and salt. These concessions normally covered the period from two to six years (Personal Letter by Hamid, 1897; 1899).

Indeed, the mercantile economic opportunities generated from the revenue farms were effectually accessible to the upper class Malays, not the majority *rakyat*. Under the circumstances, the Malay economy was fully dominated by the Malay aristocrats and it was obscure to contemplate that the Malay *rakyat* could become the concessionaires or even only associate partners in the revenue farm concessions, which were the only form of joint business ventures during that period. It is evident that this circumstance was not adequate to address the main objective of improving the economic accomplishments of the Malays as a whole. This objective can only be attained by increasing the opportunities for more Malays to venture into money economic orientations at the elementary level. To actualise all these, the Malay *rakyat* could begin by getting involved in small scale businesses or trading sectors. In principle, even though they had to assume the financial risks of beginning and operating a business, small scale enterprise was regarded as the starting point for the Malay *rakyat* to become involved in the mercantile activities that could provide the opportunity for them to generate surplus. Then, the increase of the surplus could be achieved

by the increase of the scale of operation.

### THE ELUSIVE FOUNDATION OF BUSINESS CORPORATIONS

It is not always certain that the involvement of the Malay *rakyat* in mercantile activities would mean that their economic circumstances would improve because it could also be contrary if the business enterprise experienced losses rather than profits. However, the main primary concern was to establish the economic foundation for the Malay society as a whole. In fact, from the Islamic religious standpoint, the objective to improve the economic conditions of the Malays was highly encouraged and considered dignified by the society. In fact, the objective to improve the Malay economic conditions through business activities could be achieved through the introduction of business institutions that could reduce the risk of losses. Here, the most practical means for the Malays to achieve this objective was the establishment of a collective mercantile institution that required small private capital investments from individuals. This means could only be achieved through the establishment of business ventures joined by a large number of members as shareholders.

In the second decade of the twentieth century, the question of economic improvements and expansions of the Malay society as a whole had become a primary concern among the Malays who were involved in businesses and trading sectors. It was recorded in *Neraca*, a Jawi Malay magazine, that the importance of business activities as a means to pursue the economic improvements of the Malays should be emphasised. It was suggested that the formula of establishing a business company should be based on the model of *Sarekat Islam* (the corporation of Islam) (Kartodirdjo, 1973), which had been established in the Dutch Indies (*Neraca*, 1913). The establishment of a particular business corporation that comprised of a large number of petty shareholders was regarded as realistic in order to generate the surplus to individuals and distribute the risks and losses.

Thus, it can be said that a more constructive objective of the establishment of such business corporation or company was to attract a large number of Malays to participate in the company by collecting money as capital investments that could then be converted into shares. Therefore, the participation of the Malays through the contribution of their capital investments should include the whole members of the Malay society all over Malaya and could not be restricted only to the existing domain of the Ma-

lay political sphere of a particular state or kingdom (*kerajaan*). The main purpose of the foundation of the corporation was to assist the Malay race '*bangsa Melayu*' by attracting a massive number of members although their individual capital was small. However, in the context of most Malays who were still peasants in the rural areas, this dimension was still elusive because they clearly lack money from personal savings. Thus, it was impossible for them to contribute any amount for capital investments as the prerequisite of the foundation of a corporation or company.

Here, it could be construed that the more visible possibility of the Malays to be small investors were the artisans because they were more exposed to money economy than the peasants. This can be seen in the attempt to establish the first corporation for Malay businesses and craftsmen '*Syarikat Perniagaan dan Pertukangan Melayu*' in 1913. This company was initiated by Abdul Majid of Kuala Kangsar, Perak. The amount of individual capital investments was based on voluntary contributions and was not subjected to any minimal amount. The main purpose of the corporation was to promote and enhance the marketability of the products of Malay carpenters in Malaya. The company managed to attract 68 members and most of them were the Malay carpenters from the district of Sitiawan in Perak, Rawang and Kuala Kubu in Selangor, Muar, Melaka, Singapore and Negeri Sembilan. Among the prominent figures were Dato' Sri Adika and Raja Shahabudin bin Raja Bilah of Perak, Haji Abbas Taha, the editor of *Neraca* and Leftenan Hashim, the president of the Malay Association in Singapore, and Raja Sulaiman bin Raja Umar of Selangor. The company also received supports from the religious officials, notably Haji Muhammad Yasin (Kadi) and Othman bin Haji Muhammad (Imam) of Kuala Kubu. It also managed to attract an Indian Muslim named Kuna Muhammad Pasmim bin Gulam Maidin of Singapore (Personal Letter by Majid, 1913). Nevertheless, this company failed to collect adequate amount of capital injections because most of the members did not fulfil their commitments in contributing their initial capital investments to the company (*Neraca*, March 4, 1914).

Principally, the only Malays who were able to penetrate into the business sectors were still those of the upper class. This trend can be referred to the case of the Malays in Kelantan in the first and the second half of the twentieth century. As reported in *Neraca*, there were six Malay business companies founded in Kelantan in the years 1908-10. Four of

those corporations were engaged in the coconut plantation. The most important companies that had a large amount of capital were *Bukit Marak Estate*, which dealt with the plantation of coconut and rubber, with the capital of 105,800 Ringgit and *Pasir Puteh Syndicate*, which also dealt with the coconut plantation with the capital of 80,000 Ringgit. The other two coconut plantation companies were *Jerang Jelur Estate* and *Kuala Badang Estate*. There was also a company named *Bab-ul Akhir* that was engaged in the construction of houses for rental purposes. It was also found that another company, *Kelantan Trading Company* that was engaged in the supplies of wood and bricks, and had held the whole contract in the construction project of railways in the state. The magazine also reported that a company named *Syarikat Perniagaan Melayu* (The Malay Business Company) was to be established in Kelantan in 1914. This company would be involved with the supplies of food and clothes generally used by the Malays. The company was to generate the total capital of R100,000 in the form of 20,000 units of shares of R5 each. The payment of the capital was to be paid in four instalments within four years that was, R2 in the first year and R1 in the subsequent second, third and fourth years. The installation was to be paid on 1<sup>st</sup> January 1914. The company also gave the exclusive provision of becoming the honourable members in the company committee for those who subscribed 20 units of shares. Most of the honourable members in the committee of the company were the Malay aristocrats in Kelantan and the name of Sultan Muhammad IV, Sultan of Kelantan appeared on top in the list (*Neraca*, December 31, 1913).

It was explained by Muhammad Katib, one of the founding members of the company that the purpose of the company was to run the business and to obtain large profits from the business activities. He hoped that a large number of Malays would contribute by injecting more capital into the company (*Neraca*, February 4, 1914). He also notified that the manager was Haji Wan Muhammad bin Haji Wan Daud, the son of the former Mufti of Kelantan. He further advised that all payments for the first instalment of the shares should be made in March because the warehouse of the company was to be launched in April 1914 (*Neraca*, March 4, 1914).

The location of the company warehouse was at Jalan To' Hakim, Kota Bharu. This premise was formerly the residence of Tambi Umar, one of the honourable committee members. He had travelled to Singapore and other states in Malaya in order to

invite the Malays to join in the share of the company by contributing to the capital investment. This is because the collection of a large amount of capital investment would enable the company to operate and to expand in order to generate as much profit as possible for the shareholders. The company was seeking to establish relations with *Sarekat Islam* of Java but this matter was not certain because his intention to visit Java for the purpose was still in prospect (Personal Letter by Khatib, 1914). Eventually, the warehouse was officially inaugurated by the Sultan on 13 April 1914. Two of the committee members, Tengku Ahmad, the prince of the former raja of Pattani and Dato' Bentara Luar of the Kelantan palace was appointed as the financial assessor of the company (*Neraca*, April 29, 1914).

Here, it can be observed that the success and failure of the Malays to initiate the business institution and commence the operation were highly dependent on their ability to find the money as capital even though the amount is small. This reality was reflected in the less successful attempt to establish petty entrepreneurial group among the Malay craftsmen. The most constructive resources for this purpose were supposedly to be derived from personal savings. Other means of financial resources were from the mortgage of personal properties such as land, the pawning of jewellery or even by getting loans.

Although the practice of money economy had penetrated into the Malay society, the fundamental problem faced by the Malays especially in the rural areas was excessive spending. It was remarked by C. F. Strickland on this matter that in Malaya and Burma, the trouble was not that the peasants felt burdened by debts, but that they did not mind it at all. So, he was cautious when giving them money since they had the tendency to spend more and more (Strickland, 1932). The same view was also discussed by the editor of *Saudara*, one of the Malay newspapers, who touched on the issue of the Malays' economic problems in the early 1930s. In fact, The Malays were urged to settle their debts, not to increase their loans or making new ones.

This also gave the impression that it was hard for the Malays to preserve their revenue as capital. The Malay peasants had already succumbed to problems with debts. The fundamental question here was the general view that they were normally not thrifty or not prudent in spending. It was well known that rather than channelling their money to economic drives, there were tendencies among the Malays to spend their money in order to express their social status, especially in the village commu-

nities. Many would prefer to spend their money for festive occasions, especially wedding ceremonies and religious practices of performing *Hajj* pilgrimage in order to obtain the title of *Haji* (Swift, 1964). Moreover, generally, the Malays were not that eager to become rich because they were somewhat distrustful of their neighbours. It was commonplace for people who had come upon great fortune to be targeted by unsavoury characters who would rob them of their possessions. It was the stories of past evils that made some people felt reluctant. Another reason, perhaps quite naïve, was that some did struggle to accept the transition from what had been a self-sufficing domestic economy to a commercial money economy (*Report and Proceedings of the Committee appointed by the Chief Secretary, 1912*).

It could also be observed that the Malays gave less priority in preserving their surplus revenue in the form of savings. This is due to the fact that the practice of saving money was uncommon. Instead, if they had extra money, they preferred to buy jewellery with the hope that it could be sold or pawned if they faced financial difficulties. This way of deposit was considered more flexible than depositing money in banking institutions. In those days, the most available banking institution was the post office. It was reported that they were not interested in keeping their money in the post office because of the hassle that they had to go through when they wanted to make a withdrawal. The withdrawal process would entail filling in a form to be proceeded to the post office headquarters for further verifications. They would normally have to wait for several days for the completion of this process to get their money. It was also reported that another discouraging factor for the Malays to deposit their money into a banking institution was because the Muslims were not supposed to take any amount of interests from their savings. This is due to the fact that the bank interests were prohibited in Islam (Chief Secretary, 1920). However, it was interesting to note that if they really wanted to take up a loan, they apparently had a contrasting attitude and were not concerned with the prohibition of interests (Strickland, 1932).

Even though the above situations reflect a negative approach towards expenditure, one cannot dismiss the fact that the main reasons for the lack of funds among the peasants were the situations that brought them to that position. It started from the inability to sustain themselves that swallowed them in debts. Even though they could generate some income from their crops and pay off some of the

debts, it could not sustain them for long before they needed to take other loans. The vicious cycle continued and there was no easy way of breaking free. Hence, a solution was necessary to help the peasants break away from the cycle.

### COOPERATIVE SOCIETIES

Under these circumstances, the only constructive way to improve the economic conditions of the Malays was to cultivate a positive financial approach. To achieve this, a sensible method was needed in accordance with their situation. Therefore, the most practical way to attain this aim in those days was by establishing a cooperative loan society. Basically, the co-operative society originated from Rochdale society, which was established as a specialized economic organization for a group of people who voluntarily associated with other members on the basis of equality in promoting their common economic interests. The formation of a Co-operative Society was actually to establish an enterprise directed by an association of users, and also directly intended to serve its members and the community as its users. The principles mainly involved the utilisation of surpluses to cover the costs of management, to pay interests on borrowed capital and to limit the interests on shared capital, to pay for the depreciation, to build up reserves, to invest in business developments, and to pay for educational programmes. In addition, the remainder of the surpluses would be distributed as patronage refunds to members (Fairbairn, 1994).

Generally, most co-operative societies that were established in Malaya in the 1910s and 1920s were divided into two categories: agricultural and non-agricultural societies. Most agricultural co-operative societies were categorised as rural credit societies for the members who were involved in *padi* cultivations and rubber plantations. Non-agricultural co-operatives included thrifts and loan societies, co-operative store, general purpose co-operative society, marketing co-operative society and labour co-operative credit society. The main purpose of the cooperative institution in this way was to encourage the Malays to have more savings and to be thrifty in spending. A group of people who agreed to collectively deposit their money in the co-operative societies through this way could help themselves to promote cooperation. The target group was mostly members from a particular village that included peasants, craftsmen and others who shared the same economic background (*Report giving a Brief Account of the System of Co-operation in Burma, 1921*).

To paint a clearer picture of the situation surrounding the lives of the Malays, one example can be taken from the situation of the *padi* farmers at the district of Krian in Perak. The *padi* cultivation of Krian was newly established in the 1890s. This area was the largest *padi* cultivation area in Perak (Ghee, 1976). At that time, most farmers in the area did not have enough money to finance their *padi* cultivation, even for the duration of a single season. Thus, they had to put their land on mortgage to the *padi* factory owners, traders or professional money-lenders in order to obtain the money to finance their cultivation activities, apart from other essential family expenses for the period from the commencement of the cultivation activities to until the harvest season. The duration of this period was normally between six to nine months.

The circumstances that submitted the farmers in the Krian district to be tied to debts were reflected in the credit system practised at that time. The credit system was known as '*Padi Ratus*' or '*Padi Kunca*'. *Ratus* means 'hundred' due to the exorbitant rate of usury imposed on the debt repayment was more than 100 per cent from the original loan. *Kunca* refers to the quantity measurement of the *padi*. The same system was also practised in other large *padi* cultivation areas in the Province Wellesley and Kedah, the main producers of *padi* in Malaya. It had long been the custom for the *padi* planters to borrow comparatively small sums from the *Chetties* (*Chettiars*) or the Chinese at the time of planting or to tide them over until the harvest was reaped. Often, the condition of the loan was that the *padi* at harvest would be sold to the lender at a price that was usually far below the market price. This custom was one of the chief contributing causes of the general indebtedness and lack of prosperity amongst the peasants.

This system could be considered as a calculative way of robbing the farmers that had caused them to be in an impossible position. They had to mortgage their land to the creditors in order to get the cash money. Then, they were obliged to sell their products to their creditors at a very low price. In most occasions, their creditors would pay a very unfair price, of which some of the farmers only received 6 cents for a *gantang*, even though the market price was 12 cents or even 18 cents per *gantang*. This meant that the farmers only received 50 per cent or less from what they were due, and with the meagre income, they had to pay off the original debt at a 100 per cent interest. Under these unfair circumstances, it was impossible for the debtors to pay off their debts to their creditors and continued

to live as slaves. As a result of this system, in a particular village, most of the agricultural land was held by the creditors as mortgages. In this situation, most of the farmers who had formerly been the landlords became the tenants to their creditors who became the new landlords (*Annual Report on Co-operative Societies in the Straits Settlements and Federated Malay States*, 1927).

Thus, the solution for the problem was initiated when, in October 1921, the district officer of Krian organised a meeting with all headmen to discuss the possibilities of establishing cooperative societies for the *padi* farmers in their area. Nevertheless, the meeting had concluded that it was difficult to achieve this objective because the issue of '*riba*' incurred from the savings and loans from the cooperative societies had to be firstly resolved. The impermissibility of '*riba*' had long been identified as a hindrance to establish such institutions because it was regarded as fundamental by the Muslims (*Annual Report on Co-operative Societies in the Straits Settlements and Federated Malay States*, 1923).

Most Muslims equate all forms of interests with '*riba*' or usury as it was generally applied to earning money on cash deposits on the basis of fixed and predetermined rate of interest. Under this circumstance, it could be construed that the only way out of this problem was not to tie the deposit with a fixed interest on the basis of *mudharabah* partnership or shared profits or losses (Rosly, 2007). However, this provision can only be applied to the deposits in business oriented co-operative societies, such as co-operative store, general purpose co-operative society and marketing co-operative society. Nevertheless, the issue here was mostly on the interests charged on loans, thus making such provision inapplicable at all rural credit societies that were solely dependent on lending and borrowing to generate profit.

The issue appeared to be resolved when the idea to establish saving banks and credit cooperative societies was supported and endorsed by the Sultan of Perak in the State Council meeting held on 15 February 1922. It was stated by the Sultan that the main objectives of the cooperative societies were to eliminate '*riba*', to reduce the burden of debts and to encourage thriftiness among the members of the societies. It was hoped that the Muslims would participate in the scheme relating to the governmental saving banks and the loan cooperative societies. Those cooperative societies were to encourage savings and to provide loans to the peasants, craftsmen and civil servants. It is further reit-

erated that the extra payment on the loans and the profit generated by those institutions were not regarded as *riba*' and contrary to the prohibition stated in the *Sharia* or Islamic law. The view adopted was that the interests derived from the savings and incurred from loans by the cooperative societies were not similar to *riba*' as was proclaimed by the council of religious assembly (Majlis Ulama') of Perak on 26th June 1922 at the Perak Palace in Ipoh. This notion was also authorised by Sheikh Mohammed Salleh, the Sheikh al-Islam of Perak (Cavendish, 1922). Consequently, it was reported that the Malay *padi* cultivators in Krian and other places had attended the subsequent meetings for discussing the possibilities of establishing rural credit cooperative societies (*Annual Report on Co-operative Societies in the Straits Settlements and Federated Malay States*, 1923).

Certainly, this view is still subjected to dispute. However, in a broader context, in those days, the view was based on the main considerations to find the formula and mechanisms to improve the economic status of the Malays as a whole. This dimension was particularly focused on the situation in which the majority of them were struggling with debt problems. Here, it is evident that the issue of *riba*' was applicable to the extra payments that needed to be made on the actual amounts of debts charged by the individual moneylenders to individual borrowers. Under this circumstance, the extra payments were more appropriately understood as usury rather than interests (Cavendish, 1922). Moreover, the main issue here was not the interests but the need to establish cooperative societies as the relevant and constructive institutions to help improve the economic situations of the Malays during that period. In fact, there was also no alternative to the solution in the form of *Sharia* base or *Sharia* compliance institutions that could provide non-interest loans as highlighted by both the Malay elites and religious intellectuals in those days.

Considering the economic condition of the Malays in the second and third decades of the twentieth century, the criticism towards cooperative societies based on the question of *riba*' was not realistic enough to solve the main problem of debts that was also related to *riba*'. The majority of them who fell into this problem were those who were land owners and involved in agriculture. The fact that had been overlooked here was the accumulation of interests incurred from the outstanding debts to the moneylenders. This setback was related to the loans for the mortgage of land to the *Chettiars*. Thus, for this reason, most of the cooperative societies estab-

lished during this period were rural credit cooperative societies that provided loans to settle outstanding debts with lower interest rates than the rates charged by personal moneylenders. These cooperative societies were not similar to the conventional financial institutions, notably commercial banks, which were dependent on the charges of interests for their loans and other business financial activities. In reality, the establishment of these rural credit cooperative societies was practical because the rates of their interests charged on the borrowers were far less than the rates charged by private moneylenders, especially the *Chettiars*. It was reported that the interest rate of the loans from *Chettiars* were between 24 and 36 per cent per annum (*Memorandum from Lee Warner*, 1907). On the other hand, it was suggested that the interest rate charged by the cooperative societies was around 15 per cent per annum (Government Printing Department, 1922). This meant that such interest rate was even lower than that of the government loan. In those days, it was reported that the governmental loan interest rates were between 1 and 2 per cent per month, which meant that it could reach up to 24 per cent per annum. Even then, in most cases, it was hard for the farmers to obtain this loan because the government did not accept land as mortgages (*Agricultural Loan Fund Rules*, 1911).

Eventually, the government system of loans granted by Heads of Departments to subordinates in Perak, Selangor and Negri Sembilan to a large extent were to be replaced by co-operative societies. Accordingly, on June 1922, the Cooperative Societies Enactment was sanctioned by the Federated Malay States. It was stated in clause 4 (B) that the purpose of the cooperative society was to create fund for providing loans to the members who were mostly peasants. It was further stated in clause 6 that the number of the members for a single cooperative society must be 10 or more individual shareholders. Its members were derived from the individuals living in towns or villages. It was also to accommodate the members founded from the same race, social group or occupation. Since the cooperative societies were to be limited liability, it was stipulated in clause 7 that each member had limited liability based on the number or value of the shares that were not more than 20 per cent (Enactment No. 7 of 1922). Under the 42<sup>nd</sup> Clause of the enactment, the supplement regulations concerning the functioning and administration of the cooperative societies was ratified on 15 July 1922 (Supplement, FMSGG, 15 July 1922).

In principle, the aim of the establishment of



the cooperative societies was to attract participations from the Malays in rural areas. This is due to the fact that the ultimate function of the cooperative and loan societies was to acquire funds as capital resources from the rural inhabitants that would then be used to grant loans to the members of the cooperation. It was also aimed to develop a joint collaboration within a particular group or community because it was better than a separate one-man-show entity. The establishment of cooperative institutions was to provide loans with relatively low interests to the farmers as capital to finance their operation. This was hoped to be beneficial for them to improve their economic condition. To maximise the function of these cooperation societies, they would not provide loans for religious matters or other purposes that were related to excessive spending (Cavendish, 1922).

It can be observed that the concept and the aim of the co-operation were not merely to generate profit but more to fulfil their economic and social responsibilities. In the early stage, it was evident that the aim of the cooperative societies was to improve the life of their members, especially to those who wanted to settle their outstanding debts to the moneylenders, notably the *Chettiars*. It was hoped that the members would be free from high interest loans to enable them to save more money and increase their properties in order to have a better life. In those days, most Malays would keep all the money they have at home. Hence, by depositing the money as capital investments in the co-operation, the money would be safe from any risks of theft or fire. The co-operative societies were totally different from the *Chettiars* who were only concerned with profit making. Unlike the latter, the former would grant loans to facilitate the settlement of the whole amount of the outstanding debts to those *Chettiars* in order to ultimately help them live and work without the burden of debts.

Generally, there were three types of cooperative loans: for financing plantations, grains and animal husbandry, for financing agricultural equipment and transport for animal husbandry, and to settle outstanding debts. The loan for financing plantations, grains and animal husbandry was to be fully settled during the harvest season or the moment the income was gained after a harvest. The loans for financing agricultural equipment and transport for animal husbandry could be repaid in three instalments. Each instalment was to be paid once annually during the harvest season when the income was generated from the products. The loan to settle outstanding debts was normally granted for

the purpose of re-mortgaging or to purchase land. The repayment of this loan was to be made up to four instalments based on the annual income during the harvest or fruit season. The loan could also be granted to the poor who were industrious and with good behaviour. All the borrowers must not ignore their obligations to repay their loans to the cooperative societies according to the stipulated time (Government Printing Department, 1922).

After a period of time, those farmers took the initiatives to accumulate funds through their own savings and local contributions to be set up as capital for the establishment of the rural credit cooperative societies. It was reported that there were six societies formed amongst the Malay *padi* planters. Those societies really began to work after the harvest was reaped. Every member who borrowed 100 Ringgit was able to pay 10 Ringgit per year for each instalment within ten years. Therefore, they were able to generate their own capital for their work on the *bendang* (wet *padi* fields) without being burdened by excessive debts. There was also one instance, in order to save the land of one of the members from being sold by order of a money-lender, the Bagan Tiang Society borrowed 300 Ringgit from the Krian and Selama Gurus Co-operative Thrift and Loan Society, and added 700 Ringgit of its own and paid off the mortgage. A regular monthly instalment of the loan was repaid before the end of the year, the money borrowed from the Gurus society was repaid with interest. The same society was permitted to borrow 800 Ringgit at 8 per cent, per annum from the Government Rice Mill, Bagan Serai, to meet members' expenses at the time of planting and to enable them to carry on until the next harvest. The sum was repayable on or before 30 June, 1924, i.e., after the harvest (*Annual Report on the Working of Co-operative Societies in the Federated Malay States*, 1927).

The cooperation also managed to obtain loans from other cooperative societies, notably the department of post and telegraph that was known for having large capital resources and revenue. This rural credit cooperation had acquired the loan amounting to more than 40,000 Ringgit on 10 per cent interest per annum. Subsequently, by utilising its capital resources and loan, the cooperation provided the loan to its members on 15 per cent per annum. With this scheme, the cooperation had actually succeeded to meet the financial needs of its members by providing loans for financing the cost of cultivation, taking over their outstanding debts and paying off their mortgages (*Annual Report on the Working of Co-operative Societies in the Federat-*

ed Malay States, 1923).

In 1926, it was reported by a Malay officer in Krian that more than 550 *padi* farmers who became the members of rural credit cooperative societies in the district had left the old credit system in *padi* (paddy) cultivation. Those farmers had promised to comply with the by-laws of their respective co-operation societies in which they pledged that they would not borrow from other institutions except the rural credit cooperative societies without the consent from the managing committee of the societies. In 1926, it was reported that more than half of the members managed to sell their *padi* at 18 or 19 cents per *gantang*, more than triple the price of 6 cents for a *gantang* under the old system. Consequently, they managed to obtain the overall profit of up to 150 Ringgit per acre. The success of rural credit cooperative societies for *padi* (paddy) cultivation was a positive sign towards the prospect of making *padi* cultivation as a profitable industry in Malaya (*Annual Report on the Working of Co-operative Societies in the Federated Malay States*, 1927).

Although the establishment of the cooperative societies had shown a positive result, the Malays were still much concerned with the issue of *riba*' associated with the loans from the cooperative societies. The general view among the Malays was the contention that the interest charges should be considered as *riba*' and was totally forbidden in Islam. Nevertheless, the editor of *Saudara* had acknowledged the constructive role of those cooperative societies because they were successful in cultivating unity and had brought benefits to the Malays as a whole (*Saudara*, September 12, 1931). The editor of *Majlis* argued that the Malays should make the efforts to reduce and free themselves from debts, especially from the immigrants. It was further argued that although the cooperative societies practised *riba*', it was a great improvement compared to the *riba*' charged by the *Chettiars* and the old credit system. Furthermore, the editor of *Majlis* emphasised the reality that the safest way to escape from *riba*' was to avoid debts and to settle all outstanding debts (*Majlis*, February 1, 1932).

In essence, the development of the establishment of rural credit co-operative societies seemed justified. It was found that the interest rates were not much varied during the course of the year when the rural co-operative societies began to be established in 1922. The ordinary members in the rural credit societies paid at the rate of 15 per cent per annum on all loans contracted with their society, whilst the member of a thrift and loan society paid

the rate of 12 per cent per annum, and one per cent for any outstanding unpaid balances. This was, by far, better than the interests charged on loans from the *Chettiars*, which were about two or three per cent per month or equivalent to 24-36 per cent per annum (*General Committee of F.M.S. Chamber of Commerce*, 1918).

It was reported that there were members of many rural credit societies who had cleared themselves from their old debts and were most anxious to take up and develop more land. Nevertheless, the cooperative department could not give them much assistance in the matter. Wherever possible, the local officers did their best to assist them by introducing them to the Land Office authorities, but in some parts of the state, the amount of state land available was not large enough and often not what was desired. It was also reported that over 40 members of the Krian Co-operative Society had opened up over 2,000 rai or 800 acres of land in Siam (Perak Administration Report for The Year 1926).

## CONCLUSION

In general, it can be concluded that the main factor contributing to the stagnation and the slow pace of the Malays to be engaged in modern economy was the lack of financial resources and knowledge of money economy. The Malay commoners were largely peasants who were used to the subsistence rather than commercialism.

Basically, the Malay peasants were unfamiliar with the monetary system. As a result, when exposed to money economy, many developed counter-productive habits of excessive spending and borrowing, especially for non-economic drives. Apart from that, they were accustomed to the dependency on seasonal incomes, especially during the annual harvest season. Yet, the Malays paid less priority in preserving their money as savings that were crucial for the improvement of their economic condition. Unfortunately, this was seen to be retarded due to the mismanagement of funds. As a consequence, the Malays, especially the peasants, were forced to borrow from moneylenders to finance the coming cultivation season. Consequently, the majority of them had to face considerable debt problems during the first half of the twentieth century.

Thus, in this respect, the most practical means to solve the problem and to improve their economic circumstances, the Malays were encouraged to join the cooperative societies. This particular institution not only provided loans with lower interest rates than that of the moneylenders, but also became the channel for the Malays to save their

money in the form of shares. However, it was overshadowed by the issue of interests, which was regarded as *riba*, that was impermissible in Islam. With the absence of Islamic Banking, this issue became unsolved since there were no other alternatives to the solution in the form of *Sharia* base or *Sharia* compliance institutions.

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