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## A TALE OF TWO CRISES: GREAT DEPRESSION AND THE GREAT RECESSION

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Malaya's economic growth over the first four decades of the 20th century depended crucially on its exports of rubber and tin. Over the period as a whole, exports accounted for around 60 per cent of nominal GDP. The United States and the United Kingdom were Malaya's most important markets for these primary products, so major economic downturns in the US and UK, such as the Great Depression of 1929-1932, would inevitably have damaging effects on Malaya's economy.

Post-independence Malaysia is also highly dependent on international trade and the economic crises in the Northern Hemisphere in 2008-2009 could also be expected to have significant effects on Malaysia's economy.

How did Malaya and Malaysia fare following these two major disruptions to the world economy?

### **Malaya and the Great Depression**

The Great Depression was a severe downturn in economic activity throughout the international economy during the 1930s. It started in 1929, soon after the US stock market crash of October 1929 - Black Tuesday. Financial turbulence and bank failures had predictable effects on the real economy. Between 1929 and 1932, worldwide GDP fell by around 15 per cent.

A period of economic gloom permeated across the US and elsewhere. Urban economies were devastated as industries collapsed, and rural areas suffered as agricultural prices fell markedly. The middle classes lost their savings, unemployment levels were high and there was widespread destitution.

The US experienced a particularly severe downturn (Figure 1a). US real GDP per capita fell each year throughout 1930-1933 (Table 1) and it failed to reach its 1929 level before the outbreak of World War II. By 1939, US real GDP per capita was still 5 per cent short of the level it had reached ten years earlier.



### **Decline in living standards during the economic downturn in Malaya**

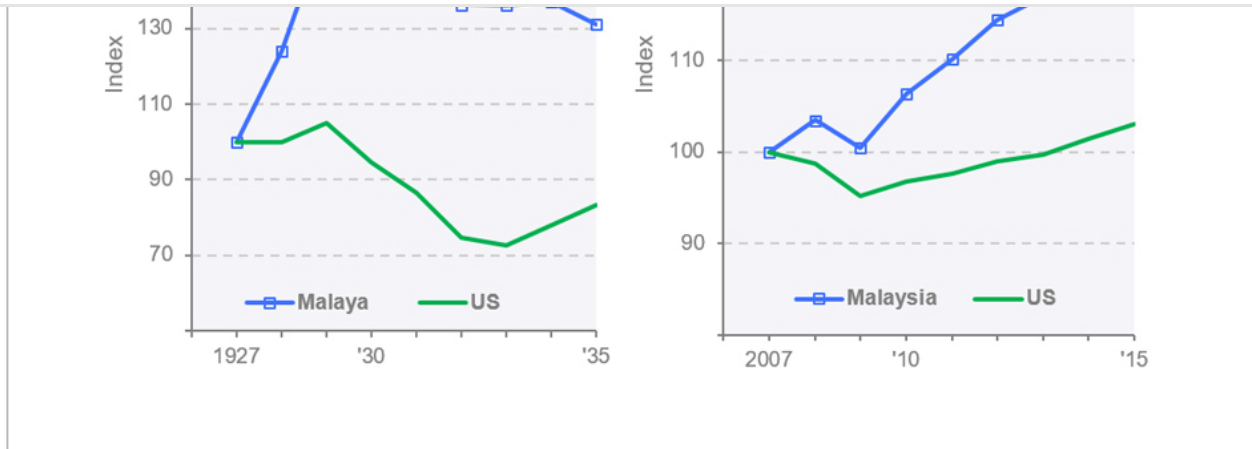
**Source:** National Archives Malaysia 2001/0042070g1

Given that the US was the most important of Malaya's export markets, the Depression had the expected dramatic effect on Malaya's economic growth. The sale of passenger cars in the US declined from 4.5 million in 1929 to 1.1 million in 1932, with predictable effects on the US demand for Malayan rubber which tumbled.

The scale of human suffering in Malaya during the Depression was immense, particularly in the west coast states. Workers were laid off, and many, especially Indian plantation labourers, were repatriated. Reductions in wages led to declines in living standards. Very high morbidity and mortality among all communities was another consequence.

In each of the four years following the Wall Street Crash, 1930-1933, Malaya's real GDP per capita fell and, following only modest growth in 1934, fell again in 1935. The recession in Malaya was even deeper and more protracted than that of the US. Malaya's experience in the 1930s was an excellent illustration of the well-known saying, 'when America sneezes the rest of the world catches cold'.

### **Figure 1 Economic impact of the Great Depression and the Great Recession**



**Table 1 Real GDP per capita annual growth**

	Annual growth (%), 1927–1935		Annual growth (%), 2007–2015		
	Malaya	US	Malaysia	US	
1928	23.8	-0.1	2008	3.5	-1.2
1929	26.9	5.0	2009	-2.9	-3.6
1930	-2.3	-9.9	2010	5.8	1.7
1931	-2.4	-8.4	2011	3.6	0.8
1932	-9.1	-13.8	2012	3.9	1.4
1933	-0.1	-2.7	2013	2.3	0.7
1934	0.5	7.0	2014	4.7	1.6
1935	-4.2	6.9	2015	3.6	1.6

## Malaysia and the Great Recession

In 2008, the US and Europe experienced another severe recession, again following turbulence in the US financial markets, with ‘contagious’ effects felt throughout world financial markets. The effects of this crisis on the real economy led to the Great Recession - a downturn in economic activity that again affected the world economy.

But the world-wide impact of the Great Recession was far less severe than that of the Great Depression. According to Barry Eichengreen (2015), the ‘more recent crisis was better managed than the earlier one, which resulted in widespread social distress and, in the worst case, the rise of fascism.’ Worldwide GDP fell by less than 1 per cent from 2008 to 2009, markedly less severe than the 15 per cent fall following the Great Depression.



per cent of Malaysia's exports, with Singapore, China and Japan also offering attractive markets for Malaysia's exports. The more Asian-based nature of Malaysia's trade meant that it acutely felt the effects of the Asian Financial Crisis of July 1997 - its real GDP per capita fell by 10 per cent in 1998. But the recession was short-lived and, through sound economic management, growth resumed in 1999.

Because of the very different patterns of its trade - both in its direction and product mix - the effects of the Great Recession on Malaysia were very different from those of the Great Depression (Figure 1b).

In 2008 and 2009 US real GDP per capita declined by 1.2 per cent and 3.6 per cent respectively (Table 1), and although growth was positive in the years that followed, it was sluggish. Indeed real GDP per head only passed its 2007 level in 2014, six years after the crisis hit.

Malaysia certainly felt the effects of the Great Recession, its real GDP per capita falling by over 3 per cent in 2009 (Figure 1b). But the recession was short and sharp, and in 2010 real GDP per capita grew by 5.8 per cent. In the 21st century, Malaysian growth is far less anchored to events in the US and Europe.

Malaya's dependence on a few primary products and the narrow geographical focus of its international trade made it extremely vulnerable to crises in the economies of its trading partners, a vulnerability that still afflicts many developing countries with an equally narrow range of primary-product exports.

With more diversified exports and a very much wider range of trading partners, Malaysia in the 21st century is better able to cope with dramatic events in the US and European economies.

**Sources of data:**

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Malaysia data for 2007-2015: Economic Planning Unit Malaysia and Worldbank databank.

**Further reading:**

Eichengreen, B. 2015. *Hall of Mirrors: The Great Depression, the Great Recession and the Uses and Misuses of History*. Oxford: Oxford University Press. <http://eml.berkeley.edu/~eichengr/>

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