CHAPTER I

INTRODUCTION

Background Information

The Malayan economy is based primarily on the production and export of raw materials. The export value of the two most important products, rubber and tin, accounts for about 80% of all the domestic exports of Malaya. The rubber industry is about 6 times as important as the tin industry. It has been rightfully given the name of the "hero" of the Malayan economy. It is the

(1) largest single crop by acreage - 63%

(2) largest source of employment - about 45% of the labour force in the Federation of Malaya (including government employees)

(3) largest item accounting for 63% of the total value of Malaya's exports[1]

(4) largest source of Federal Revenue and the largest source of export revenue, about 74%[2]

(5) largest single item in gross domestic product by industrial origin (26% in 1960)[3]

In 1964 rubber production was estimated to be 825.1 thousand tons.[4] Production from estate was 477.9 thousand tons and smallholdings produced about 347.2 thousand tons.

The rubber industry in Malaya is one of the few industries in the world which has enjoyed such great success, in so short a time.

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[1] Annual statistics of External Trade 1961

[2] Monthly Statistical Bulletin, Kuala Lumpur: Department of Statistics.

[3] Dorothy Walters. Report of the National Accounts of Federation of Malaya.

[4] Rubber Statistic Handbook.

Malaya is the largest producer of natural rubber and its future is closely linked to the international fortunes of rubber after 1915 when rubber replaced tin as the most important product of the country. Now, since rubber is produced entirely for export, the conditions of the countries to which rubber is sold have a direct effect upon the economic well being of the producing country.

Distribution of the Rubber Industry in Malaya

Most of the rubber holdings of Malaya are distributed along the coastal and foothill belt of Western Malaya from Perlis to Johore. There are two main zones of concentration. The first or the Northern Zone includes Central and South Kedah, parts of Province Wellesley and North Perak. The other zone lies roughly between Sungei Selangor and the southernmost tip of the Peninsular. This Southern Zone includes Selangor, Negri Sembilan, Malacca and Eastern Johore. Besides these two zones rubber is also grown in the Kelantan delta, in pockets along the Southern Selangor coast in the Kuantan area and in patches along the Pahang River.

The rubber industry is concentrated in this South West areas because of two basic facts:

(1) Since rubber is not domestically consumed and has to be exported, ease of communication will be a very great advantage.

(2) Besides exportation of rubber, capital, labour, consumer goods, etc. have to be imported into the rubber growing area.

This South Western area has good communication system, roads and rails link up the important towns. Besides, we have ports like Penang and Singapore which from the earliest times had connection with other centres of the world. This good communication system was established during the tin decade because of the impact of the tin industry. Although the present Malayan economy is dominated by the rubber industry, it must never be forgotten that the cultivation of rubber was made possible only by the revenue collected from the tin industry and applied to the roads and rails. Revenue derived from tin was used to build up the infrastructure of the areas where tin was found. So when rubber came it naturally came to areas that are already established. It was the existence of these excellent transport facilities which in large measures determined the location of the rubber plantation.

The History of the Rubber Industry

The birth of the rubber industry in British Malaya took place in a very humble way. One has some difficulties in associating the unpretentious character of that event with the fact that Malaya

is now the world's largest producer of rubber and her soil furnishes more than 1/3 of the world's supply today. In 1964 world production was estimated to be 2,240,000 tons of natural rubber and Malaya supplied 825,300 tons.5

In 1877 fifty rubber seedlings were brought to Singapore from Brazil via Kew Gardens. Except for Ridley, an eccentric, energetic curator of the Botanic Gardens of Singapore, nobody felt the slightest thrill over the arrival of the seedlings in Singapore. No one attached any significance to these fifty seedlings of foreign origin. Seven of these plants were enthrusted to the British Resident at Perak. They were planted in the garden of the Residency and were the first rubber trees from Brazil to grow in Malaya. In the fifty years since then more than 2 million acres of rubber trees had sprung from them. Ridley did his best to induce the people of Malaya to take up rubber planting but he met with very little success until the coffee estates, mainly in Selangor and Negri Sembilan, failed in 1890's. The coffee planters had come to Malaya in 1880's when disease ravaged their estates in Ceylon. In Malaya they established their plantations alongside the road and rail communication systems that were earlier established to serve the tin mines. For a time they prospered and by 1895 there were 38 coffee estates occupying 7,000 acres of land in Selangor. By 1897 the price of coffee fell by half and these coffee planters faced ruin. In desperation and looking for something to replace their coffee industry they turned to rubber cultivation. At about the same time the Chinese tapioca planters were compelled by Government regulation to interplant some permanent crop, be it rubber or coconuts as they preferred among their tapioca, so that when the soil was exhausted by tapioca it would not become abandoned waste land.

The opening of rubber plantations was therefore brought about with very small expense whereas millions of dollars would have been required if the interplanting idea had not been generally adopted. Eventually in the late 19th century it dawned on the plantation owners of Malaya that rubber was even more promising than coffee, tea or sugar-cane. So at this time they did a complete turn about and dropped coffee entirely in favour of the more profitable rubber. A strange thing was that at this time Brazil which was formerly the chief producer of rubber went for coffee planting and soon gained supremacy in that field.

Brazil was formerly the chief producer of rubber. Rubber was tapped discriminately from the wild jungles and exported through Para to Western Europe and America. At this time America and Western Europe were experiencing a higher standard of living with technical innovation taking place and rubber was one of the products which rose with them. The increase demand for the use of this gum led to higher prices. In 1830 the price of rubber was only 1s.3d. By 1900 the price rose to 2s. 6 d. Because of the steady rise in price of wild

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5 Rubber Statistical Handbook.

rubber entrepreneurs tried to find cheaper sources of supply. Africa, Nigeria and Eastern Congo were simultaneously approached by them.

The discovery of vulcanization by Charles Goodyear (1839) and the invention of pneumatic tyre by Dunlop (1888) revolutionised world consumption of rubber. Vulcanization is the treating of rubber with sulphur to increase its elasticity and strength, and pneumatic tyres are tyres inflated with air to give speed and comfort.

Because of these two discoveries the demand for rubber increased and the price of rubber began to rise. The price of rubber doubled by 1900. Brazil was not able to meet the demand and this forced the price of rubber sky high. Another reason that led to the shortage of supply was savage tapping which resulted in the death of many trees. This led to manufacturer of rubberised products to seek for a more stable source of supply. Since many Western European countries had colonies they turned to them. Of all the places South East Asia was the best. Malaya, although its soil is not very good for rubber cultivation had other advantages. Good communication and easy importation of labour led to the growth of the rubber industry in Malaya. The first ventures in rubber planting would have been limited to the small acreages if it had not been for the rising trend in the world demand for rubber in the decade 1900-10. In 1906 the price of rubber reached 6 sh. 3 d. per lb. and in 1910 it was 12 sh. 9 d. The Federation of Malaya government, in order to encourage rubber planting, offered blocks of 1,000 acres to planters for permanent cultivation. The government adopted a very liberal policy and land grants helped much towards the success of rubber planting in Malaya. There was no land tax and the British and Chinese capitalists benefitted from this policy.

In 1904 for the first time rubber found its place in the trade returns. Rubber acreage increased from 33,000 acres in 1905 to 100,000 acres in 1906 and 344,377 acres in 1911. The price of rubber was becoming more and more promising.

In 1910's and 1920's acreage under rubber still increased. In the 1910's the expansion of the motor car industry was the cause of the great absorption of rubber. Registration of cars rose from half million in 1910 to 8 millions in 1920. This increase was particularly spectacular after 1914 when Henry Ford invented a new system of producing car. From the production side Malaya had about 2 million acres of rubber by 1926. This was slightly more than half of the world total acreage.

The overall effects of this expansion of the industry were that it was responsible for the opening up of the country and reclaiming vast areas from jungle for cultivation. It has transferred the states from a little explored region to one of the best supplied with the means of communication ..... in the east."[6] The population also

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6. Mills, L.A. : Malaya - A political and economic appraisal, page 22.

increased with the influx of Chinese and Indian immigrant labour. The Straits Settlement, too, enjoyed the benefits from this country, as practically all the rubber was exported through Singapore and Penang.

The first setback suffered by the industry was during the world wide trade slump in 1920-22. By then world production of rubber had outstripped consumption and prices fell drastically. It fell to about 20s per lb. This was less than the cost of production in many estates. "Apparently the slump was due to over-production aggravated by the post war depression and by the extravagant methods of cultivation".[7] Thus in a way the industry was the cause of its own predicament, for the estates were only interested in annual profits rather than the economic management and production. As such the slump did a good turn to the Malayan rubber industry by making the producers pay more attention to cost of production which included growing of cover crops thus stopping soil erosion and overtapping of trees. Prior to this, there had not been any urgent need for economy and this had led to extravagant methods and expenditure. Moreover scientific research into problems of rubber cultivation was then carried on in a small way by the "Agricultural Department" (founded in 1905) and the "Rubber Growers Association "(1907). But these were inadequate. Besides they were handicapped by insufficient staff and fund. Thus, through the spur accorded by the slump the Rubber Research Institute of Malaya was established in 1926, which was financed by a cess levied on all rubber exported from Malaya. The main functions of the Institute were to conduct scientific breeding of rubber and to give assistance to planters and Malay smallholders.

But the immediate reaction to the slump was an appeal by the planters to the government to restrict production and export. The result was the Stevenson Scheme, 1922-23. The objectives of the Stevenson Scheme was to control export and raise price of rubber above the slump level and to stabilise it at about 54s per lb. (Ref. Chapter 4 on Stevenson Scheme)

In the 1930's rubber was one of the world's steady products. It took its place among the most important products of international trade like wool, coal and tobacco. Budded rubber was imported from the Netherlands Indies and planted in Malaya in large areas. By 1930 there were 70,000 acres in Federated Malay States under budded rubber.

The 1930's depression did hit Malaya. The price of rubber fell from 34½s per lb. to only 7s in 1932. The prices of imported goods did not fall in the same proportion. The foreign trade figure in the Federated Malay states showed a fall of 5% in the unit value of net exports. Standard of living fell and unemployment became widespread. Many of the imported labourers from China and India had to be sent back. Because of such a low price in rubber there was no

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[7] Col Jin Bee: Land, People and Economy of Malaya, page 20.

further expansion of the industry. The industry came to a standstill.

World consumption of rubber dropped by 9% between 1929-30. This was largely due to the decline in the U.S. import of rubber. But in other countries import of rubber did not fall, and as for Britain its demand for rubber actually increased during this period. But then, the demand from Western Europe was only a very small percentage compared to that of the U.S. The United States was responsible for 75-80% of the world's rubber. The fall in demand for rubber was mainly due to the fall in demand for cars. The output of cars declined from 5.4 million units in 1929 to only 1.4 million units in 1932. During this period the International Rubber Regulation scheme was enforced to control export and to raise the price of rubber. This scheme functioned between 1934-38 and was again renewed, when date of expiry arrived. (Reference Chapter 4 for International Rubber Regulation Scheme)

During the Japanese occupation, the rubber industry again suffered. There was practically no production from the industry. Besides that about 6% of the estate acreage and 4% of smallholdings acreage were destroyed during this period. The industry on the whole suffered from general neglect and labour were scattered considerably. During this period and the reoccupation period rubber replanting took place only very limitedly and this,we shall see,had detrimental effects on the industry itself. Another yet more important result was the greatest threat the industry had to face, that is the production of synthetic rubber. Cut off from the supplies of natural rubber, which was so important in the war effort, the Americans had developed their own synthetic rubber industry on a large scale such that it had generally affected the position of the natural rubber in the world economy.

To conclude this chapter we can say that although the fluctuation of prices in the rubber industry had been a disturbing factor in the Malayan economy it must be remembered that without rubber the economic development of the country, the setting up of social services on the present scales, the building up of public works and the completion of the present system of transport and communications would not have been possible.