INSTITUTE OF CURRENT WORLD AFFAIRS

GDN-9
Malayan "Pearl Harbor": Reactions to
U.S. Surplus Disposal

5 Lorong 9/5B
Petaling Jaya, Selangor
Malaya
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Mr. Richard H. Nolte
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366 Madison Avenue
New York 17, New York

Dear Mr. Nolte,

Twice in recent months the United States government has delivered heavy economic blows to the Federation of Malaya. Slightly over a month ago the General Services Administration (keeper of American stockpiles) announced that it would ask Congress for permission to dispose of about 50,000 tons of tin. Just a few days ago the G.S.A., following the lead of the British Board of Trade, announced that it would dispose of some stockpiled rubber. If the price is above 32¢ per pound no limit would be placed on sales. If the price falls below 32¢ (it is now about 27¢), sales will be limited to 5,000 tons per month. The British will limit their sales to 1,000 tons per month.

The first blow caused the share market to drop considerably, but the commodity market remained rather stable. Only the investors and speculators were really hit, but it was widely circulated in the newspapers that Malaya had been dealt a serious economic blow by the United States.

The second blow is far more serious and has resulted in an almost violent outburst of indignation against the U.S. This is called a stab in the back, an American brand of Pearl Harbor. We are accused of attacking Malaya's rice bowl and of dropping our own 50 megaton bomb on one of our best friends in Southeast Asia.

This reaction is not totally without reason. Together rubber and tin account for about 80% of Malaya's exports, about 40% of the Gross National Product, and about 30% of government revenues. Every 5¢ on the rubber price means M$ 20,000,000 (US$6,700,000) in the Federation's revenues. In 1957 30% of the economically active population was engaged in rubber and tin industries. These are only the direct measures, the importance of which is increased greatly by the multiplier effect. If the income of this 30% of the work force falls even slightly, shop keepers and all kinds of producers feel the pinch acutely. And, of course, government spending on development projects must be curtailed.

Malayan reactions are even more understandable in the light of the requests made to the U.S. government. The Malayans accepted the unrestricted sales at prices over 32¢ (an academic question anyway), and they also accepted the restriction of 5,000 tons per month at prices between 32¢ and 28¢. They only asked that at prices below 28¢ the G.S.A restrict its sales to 2,000 tons per month. These restrictions, the Malayans feel, would cover amounts that the international market could absorb without becoming unduly depressed.

The G.S.A. could not accept the validity of the Malayan claims. The state department argues that the sales will be beneficial to the aggregate interests of the producing and purchasing countries.

One can only ask what proportion each group is assigned in the "aggregate interests." The difference between selling 5,000 and 2,000 tons per month amounts to about US$ 18,000,000 per year, at a price of 25¢. This figure represents only 0.0002% of the U.S. Gross National Product (1959), but it represents 1% of Malaya's 1960 Gross National Product and over 5% of the Federation's 1960 revenues.

The chairman of the Singapore Chamber of Commerce Rubber Association called the G.S.A decision one of the worst blunders the U.S. has made in Southeast Asia. He argued that the economic injury done to Malaya would be all out of proportion to the benefits gained by the U.S. The figures make this appear not unreasonable.

The U.S. did make what will undoubtedly turn out to be an important qualification. In a note handed to the Malayan government here, the U.S. said that it would continue to exercise care and circumspection in its sales of rubber. Further, after the sale of 15,000 tons below 32¢, the U.S. would take the initiative to consult with the producing countries and would give serious consideration to their views. Whatever this means, the qualification is considered empty here because by the time any injury is felt, the damage would already have been done. Some damage has already been done by the announcement alone, which caused prices to drop.

The G.S.A undoubtedly has its own housekeeping problems, including fierce pressures to economize. It must also be true that any economizing measures will adversely affect some underdeveloped or developing country. The Malayans can be forgiven for placing the value of their own economic development above that of economy in the G.S.A.

The Malayans argue that their own economic development is far more valuable to the U.S. than any short term economies the G.S.A. may effect. Freshly emerging from a 12 years war with Communists terrorists, the government here sees economic development the only hope of remaining permanently free from Communists subversion. In this it is important to note that here Communism is seen not so much in its economic garb as in its political, totalitarian, garb. Malaya could also argue that she and the Philippines are the only two countries in Southeast Asia successfully attempting to attain political and economic maturity in a parliamentary democratic framework with a free market structure.

If the G.S.A. goes ahead with its plans, the Malayan economy will certainly be adversely affected. It is also probable that this will be of serious proportions. One always wonders if these possibilities are fully considered in Washington.

Sincerely yours,

Gayl D. Ness

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