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UNITED STATES SECURITY INTEREST IN RECENT DEVELOPMENTS AFFECTING THE SUPPLY OF RUBBER, WITH PARTICULAR REFERENCE TO SOUTHEAST ASIA*

A decline in world demand for natural rubber much below the current level would have adverse repercussions on the economic and political situation in Malaya and, to a lesser extent, on that of Indonesia. Such decline would result, for example, from a business recession in the US or from a widespread substitution of improved synthetic rubber, such as the recently developed cold process type, for natural rubber. The consequent depression in the natural rubber producing industry of those countries would have detrimental effects there upon wages and employment, earnings and new investments, political stability, and the susceptibility of those areas to western influence.

The recently developed "cold" synthetic rubber, which is coming into full production with rated annual productive capacity of 183,000 long tons, is claimed to give 30 percent greater mileage in passenger car tires than natural rubber. Some authorities are of the opinion that as its cost of production is further reduced and its quality improved, "cold" rubber will substantially replace natural rubber in transportation uses in the next ten years. Such a development would be highly unfavorable to natural rubber, as about 70 percent of US consumption of new rubber is in the transportation field. The United States, Canada, the Soviet Zone of Germany, and the USSR are the only countries which are producing synthetic rubber on a commercial basis.

* This paper is based on a more comprehensive report available as a D/Ec Working Paper.

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While the development of new markets and new uses for natural rubber will tend to support demand for the natural product, that support may not be sufficient to offset the possible decline in the use of natural rubber in transportation or to absorb the increased amount of natural rubber that could be produced under stable political and economic conditions.

The natural rubber industry is highly important to the economies of Southeast Asia, which area produces over 90 percent of world output. Malaya and Indonesia alone produce three-fourths of the world total. Natural rubber is the most important dollar-earning commodity of the sterling bloc and constitutes over one-half of the value of Malaya's exports and about one-third of Indonesia's. Investments in the rubber industries of the two areas total about 1½ billion dollars. During the war, however, considerable damage was inflicted on rubber lands and producing facilities in Malaya and to a lesser extent in Indonesia. Following the surrender, additional damage has been inflicted by the terrorists in Malaya and by the Republican guerrillas in Indonesia. The cost of rehabilitation has been considerable and the work is not entirely completed.

The rubber-producing interests in Southeast Asia attribute much of their post-war difficulties to the US policy of mandatory consumption of specific quantities of synthetic rubber in the transportation field. Consumption of synthetic rubber, however, is considerably higher than the mandatory requirements and includes substantial voluntary consumption in the non-transportation field, thus indicating preference for man-made rubber in many uses and a permanent inroad on future consumption of natural rubber. Competition from synthetic rubber in US markets has kept the price of natural rubber from rising much above prewar levels despite much higher wages and other costs of production in the natural rubber-producing countries. In the absence of synthetic rubber, supplies of natural rubber would have been very short and prices very much higher. As a result of US synthetic rubber policy, some ~~w~~ill-will toward the US has been aroused in that area.

During the first three quarters of 1949, declining sales to US markets contributed greatly to the decline of prices received by rubber producers to a level which tended to increase economic hardship, and consequently to aggravate political instability, in the rubber-producing areas. Sterling devaluation in September 1949 has helped to alleviate that situation for the present, as the sterling prices of rubber--the prices received by the producers--increased immediately and are now about 30 percent above the pre-devaluation level.

The Malayan economy is more vulnerable than the Indonesian to any marked decline in rubber prices by reason of its greater dependence on rubber. Its vulnerability is made more acute by the necessity for importing two-thirds of its rice supply--and at prices which, in contrast to rubber, are several times those prevailing before the war. It may be noted that Malaya's only other important export, tin, also faces declining prices. Although Indonesia is less vulnerable than Malaya, at least to a moderate drop in rubber prices, the economic viability of that emerging state would certainly be jeopardized should the return (?) from rubber, its second most important export, be greatly reduced.

Within the Malayan rubber industry the "European" estates are the most dependent upon maintenance of present prices. They employ large labor forces which are wholly dependent upon their wages.

Although the Communists in Malaya have to date acquired no mass following, attempts to prevent the depredations of Communist-led bands have taxed British capabilities. British resources are scarcely such that they could provide either greatly increased security forces or adequate economic relief in the event of widespread unemployment.

To lessen the dependence of Malaya on the rubber industry would obviously alleviate the vulnerability of its position, but drastic change in the structure of its economy can be accomplished only over a matter of decades. In contrast, a depression in its now basic rubber industry could occur over a short period.

It is evident, therefore, that: (1) the economic and political stability of Malaya and, to a somewhat lesser extent, that of Indonesia are dependent upon the prosperity of the natural rubber industry and the foreign exchange earnings from rubber exports; (2) a decline in the price of rubber substantially below that now obtaining will, other things being equal, aggravate instability in both areas, with the degree of instability dependent upon the magnitude of the decline.

At estimated current costs of producing natural and synthetic rubbers, natural rubber can, at least for the present, compete favorably on a price basis with the synthetic product. Prices received by producers are now at a level which should encourage natural rubber production. The principal threats to profitable natural rubber production are likely to come from (1) the development of a greatly improved synthetic product or (2) further reduction in the cost of producing the synthetic or (3) business recession in the principal rubber markets or (4) large increase in output of natural rubber in Indonesia. Increased competition from the synthetic, however, is not likely to be felt for at least another year.

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